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What deters labor-owned firm creation? Evidence from Italian manufacturing sectors

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ABSTRACT

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We analyze the determinants of labor-owned versus capital-owned firm creation. We match firm-level information on a large sample of new manufacturing firms with available industry-level proxies of the main determinants of ownership structures according to existing economic theories. We estimate a logit model and quantify the empirical contribution of each argument to explain labor-owned versus capital-owned firm entry. Our results show that human capital specificity and workers heterogeneity largely explain labor-owned firm entry, while other dimensions, such as limited worker wealth, have a weaker statistical relevance. These findings are robust to different estimation methods and are unlikely to be affected by endogeneity concerns. Our results contribute to the general understanding of the endogenous dynamics of ownership rights distribution in manufacturing firms and to the elaboration of policy initiatives aimed at supporting cooperative modes of firm organization. *Journal of Comparative Economics* 000 (2016) 1–15. Department of Economic Studies, University "G. d'Annunzio", Viale Pindaro 42, 65127, Pescara, Italy.

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1. Introduction

The question of what are the main determinants of the ownership of the firm is long-standing. Various types of ownership exist in market economies, but a broad distinction may be traced among the various forms according to whether ownership is shared among workers on a one member - one vote basis (i.e. worker cooperatives or labor-owned firms) or all control rights and rights to residual profits are allocated to capital suppliers (i.e. capitalist or capital-owned firms). An extensive and heterogeneous theoretical literature has analyzed the issue of endogenous ownership, pointing to several possibly relevant explanatory factors, including human capital and physical assets specificity, workers monitoring difficulties, decision-making costs, worker risk aversion and liquidity constraints (see [Dow and Putterman, 2000](#) for an extensive survey).

While the empirical literature so far has focused mainly on the relative performance of worker cooperatives (see, e.g., [Smith, 1994](#); [Doucouliagos, 1995](#); [Burdín and Dean, 2009](#) and [Burdín et al. \(2016\)](#)), empirical studies on the determinants of labor-owned ownership structures are scant and the empirical validity of alternative theories of ownership has never been tested systematically. As a result, there is still much we do not understand on the subject of why worker labor-owned firms

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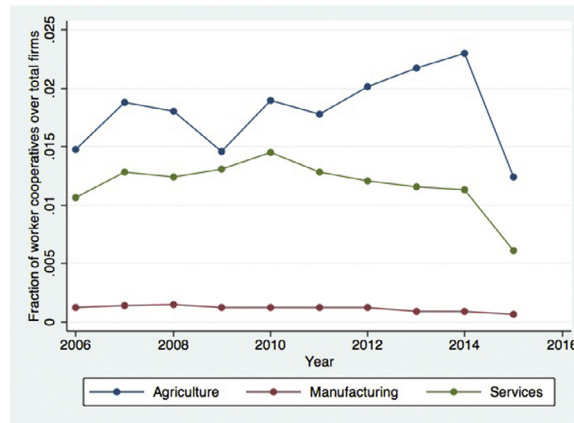


Fig. 1. Recent trends in macro-sectoral distribution of worker cooperatives fraction. The macro-sectoral distribution of worker cooperatives (as a fraction of total firms in each macro-sector) is calculated from a sample of 100,000 Italian active firms in the period 2006–2015 (source of the data: AIDA database - BvD, 2016).

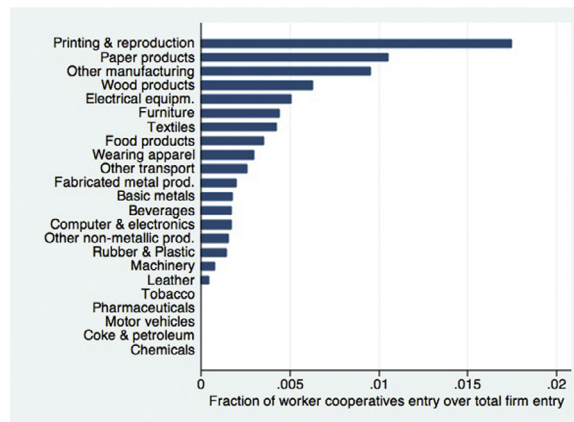


Fig. 2. Sectoral distribution of worker cooperatives entry fraction (manufacturing). The 2-digit (NACE classification) sectoral distribution of worker cooperatives entry (as a fraction of total firm entry) is calculated from a sample of 51,655 Italian new firms that entered the market in the period 2003–2007 (source of the data: AIDA database - BvD, 2013).

rarely exist in market economies and why they tend to be so heterogeneously distributed across sectors. We see this basic heterogeneity, in Italy, in Figs. 1 and 2. In Fig. 1 we show the recent trends - over the last 10 years - in the population of worker cooperatives in three macro-sectors (agriculture, manufacturing and services), while in Fig. 2 we focus on within-manufacturing heterogeneity across 2-digit industries over a 5-year window before the recent financial crisis.

This article aims at making a step toward addressing this puzzle empirically.

We first briefly summarize the main theories of firm ownership. Institutional economics literature proposes several plausible arguments that may explain ownership structures heterogeneity, ranging from agency and monitoring problems to hold-up issues, from collective decision-making costs to input access and relative bargaining powers (Alchian and Demsetz, 1972; Grossman and Hart, 1986; Hart and Moore, 1990; Hansmann, 1996; Rajan and Zingales, 1998a). We recall these arguments and explain how they are linked to labor-owned firm creation.

Then, we bring theory to data. We match firm-level information on a sample of 51,655 new manufacturing firms which entered the market in Italy in the period 2003–2007 with available measures of various industry characteristics, which can be considered relevant proxies of the main determinants of ownership according to existing theories. The analysis of the cross-sector heterogeneity of worker cooperatives entry rates allows us to identify the main obstacles to labor-ownership of firms at a sectoral level. We estimate a logit model and quantify the empirical contribution of each theory to explaining labor-owned versus capital-owned firm entry. Our results show that human capital specificity and workers heterogeneity largely explain labor-owned firm entry, while other dimensions, such as limited worker wealth, have a weaker statistical relevance. These findings are robust to different estimation methods and are unlikely to be affected by endogeneity concerns. In particular, we circumvent possible reverse causality by using both time-invariant US-based sectoral indicators to study Italian firms entry and time-variant indicators calculated from a sample of preexisting Italian firms (and, in an unreported robustness check, also from a sub-sample of only capital-owned firms), in order to have industry variables minimally

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