



US worker co-operatives and their spans of management, decision making, and governance: An exploratory analysis

Thomas E. Lambert

Economics Department, University of Louisville, Louisville, KY 40292, United States

ARTICLE INFO

JEL Classification:

P13
R11

Keywords:

Entrepreneurship
Degeneration
Small business
Span of management
US worker co-operatives,

ABSTRACT

Much has been written over the years about worker co-operatives as an alternative to traditional forms of business organization and ownership. The literature has mostly covered the issues of whether worker co-ops are more productive, more profitable, have trouble with accessing capital and growing, and/or have a longer existence than traditional firms. This paper tries to fill some gaps in the literature by covering topics rarely if ever mentioned in writings on US worker co-ops by exploring their spans of management, their decision making with respect to investment and hiring/firing decisions, and their use of employees who are not also owners of the firm. The results from a recent survey are interesting from an organizational behavior or institutional perspective in that worker co-ops show themselves generally to be different from and yet in some ways similar to many of their traditional, capital-managed counterparts.

1. Introduction

There is a vast literature on worker co-operatives and their presence in different nations over time. Worker co-operatives as a business organization are probably as old as many other traditional, legal forms of business (proprietorships, partnerships, and corporations, for example)¹ and yet comprise only a small portion of most businesses in most countries (Pencavel, Pistaferri, & Schivardi 2006; Ranis, 2016; Wolff, 2012). This is especially true in the United States where co-ops have their smallest numbers in the developed world.² There are estimated to be only around 200–300 or so in existence in the US (Democracy at Work Institute, 2015; Ranis, 2016).

There are divergent theoretical views of how worker cooperatives should be organized and perform with regards to production, management, ownership, and incentives. These views are important to some of the issues addressed in this paper and are used to derive the hypotheses that will be tested in this paper.

1.1. Agency problems

Alchian and Demsetz (1972) express a conceptually dim view of worker co-op (or “team production” as they state it) success in that they believe there are incentives for team members to “shirk” or free ride off their co-workers because everyone faces the same incentives and pay

within the organization due to the fact that, according to them, individual productivity should be hard to assess in team production. They also claim that without some form of separate capital ownership (i.e., if workers mostly have no ownership) and rewards to capital ownership, it should be difficult to monitor shirking and for a worker co-op to grow and expand. Capital owners perform the monitoring function of employee shirking and productivity since they have an incentive to do so by being “residual claimants” to profits (Alchian and Demsetz, 1972). Therefore, if this view is correct, one would expect that worker co-ops are typically self-limiting and small due to high employee monitoring costs in larger firms and due to a lack of separate capital ownership, which by the same token provide an incentive to capital-managed firms to engage in employee monitoring and allows firm growth. Whether most US co-ops are small is one topic explored in this paper.

It is also implied by Alchian and Demsetz (1972) and discussed by Meade (1972) and others (Rothschild and Whitt, 1986) that even though the workers in co-ops are also owners, their ownership is not enough to prevent shirking of work responsibilities by some worker-owners, and therefore collective capital ownership does not necessarily insure the monitoring of work performance as well as the efficient use of capital and labor. One would expect that the latter aspect of worker co-ops, the problems of the collective ownership of capital and the efficient use of capital, could explain some claims of underinvestment in worker co-ops and their small sizes. However, Alchian and Demsetz

E-mail address: Thomas.Lambert@Louisville.edu.

¹ Marcuse (2015) writes that co-ops have long been viewed as a form of true socialism and an alternative to capitalism, although the pursuit of profit is often an explicit goal of many cooperatives. However, although capitalist in nature, profit seeking cooperatives supposedly avoid worker exploitation in that the workers are also owners most of the time.

² It should be made clear that this paper's focus is on US *worker* co-operatives and not US *farm* co-operatives, which is also a topic about which much has been written.

(1972) never explicitly mention whether team production settings or worker cooperatives may limit their capital growth due to team or co-op members choosing to forego the introduction to and use by the firm of new labor-saving plant and equipment. Whether this phenomenon actually happens in worker co-ops is one topic examined in this paper.

On the other hand, Bowles and Gintis (1986) and Bowles (1998) point out that conformist preferences in many people are strong, which implies the theory that self as well as peer monitoring effects in team production can have positive effects on group productivity and can reduce “shirking” and thereby monitoring costs in firms. Additionally, along the lines of the principal-agent concept covered in many economics textbooks, one would expect that worker ownership of a firm would prevent at least some shirking and align employee and firm goals. Hansmann (1996) postulates that the more stakeholders there are in a collective organization, the more complex and time consuming the decision making can be, although a set of stakeholders with homogeneous preferences and roughly equal ownership shares make decision making easier and make management and monitoring costs lower. On the surface, using these lines of thinking, it would appear that self and peer monitoring would be easier in smaller rather than larger firms, and so it would be interesting to see what the typical size is for most US worker co-ops. A corollary to this, and another hypothesis examined in the paper, would be that with larger co-ops, some type of management with monitoring and other supervisory tasks assigned to it possibly could/would have to evolve, especially if new employees hired were not also owners.³ The hiring of new employees who are not also owners is often referred to as “degeneration” in a worker co-op, although degeneration also can refer to how a co-op’s governance structure can become more like that of a capital-managed firm. In general, degeneration can refer to how co-ops become more like their capital-managed counterparts in many different respects. In hiring employees who are not also owners of the firm, the worker co-op is supposedly degenerating into or moving closer in form to a capital-managed firm in one respect (Pencavel, 2001, 2012). A lack or absence of capital ownership by some workers would imply a need for greater monitoring and signify a less heterogeneous group of stakeholders in the firm with some workers also being owners and yet other workers not being owners. Larger co-ops would also have the constraint of even more difficulty in making collective decisions when compared to their smaller counterparts, and so the need to expedite decisions and actions could be another reason for the development of a management team within a co-operative.

Many scholars have implied to one degree or another the notion that because worker co-ops practice democratic decision making, the span of management or number of managers per employees at a co-op should be less than that of comparable firms (Wolff 2012). Campbell (2011) notes the major principles of worker participation that characterize the large Mondragon conglomerate in which all employees have a say in management through a culture of participation and the elections of managers.⁴ In fact, some have criticized the private sector in the US as having too many managers when compared to other nations (Gordon, 1996) and/or have argued that the main reason for so many managers

is that owners do not have enough confidence in the employees in their firms, and so managers are hired to oversee and monitor workers (Braverman, 1974; Gordon, 1996; Marglin, 1974). This paper looks at the average span of management in US worker co-ops in different industries and compares them to industry averages of similar firms since no literature has been found that really looks at this topic.

1.2. Horizon problems

Along the lines of Alchian and Demsetz (1972), worker co-ops are claimed to have challenges with regards to obtaining financing and capital from banks and usually have policies that do not allow them to take on outside investors, and they can have risk averse employees. Therefore, co-ops supposedly can suffer from under investment (Adder, 2010; Jossa, 2015; Pencavel, 2001; US Small Business Administration n.d.). Furubotn and Pejovich (1970) note that a goal of worker co-operatives in a socialist state should be wealth maximization rather than wage maximization. However, they and Vanek (1970, 1977) write that worker cooperatives or labor managed firms are difficult to self-finance and have too short of time horizons compared to traditional enterprises when it comes to investment decisions because most worker-owners eventually plan to retire and take their investments with them, if possible. How to maximize labor wealth is theoretically problematic if assets are collectively and/or state owned as in a socialist state. If redeeming investment shares in their entirety at a later point is not possible or prohibited, then worker-owners have reduced incentives to work as hard and should be tempted to underinvest in the enterprise. Even if worker-owners are allowed to sell their shares to new worker-owners coming to the firm, there are the problems of finding someone who has an interest in joining and has the money to invest in the co-op. Also, there is the problem of existing co-op members approving of new co-op members. With a traditional firm, or with what some call a capital-managed firm, longer term investments can be made through raising capital through equity financing from outside investors, and this can be an infinite time horizon. On the other hand, since outside ownership is often not permitted by most worker cooperatives, and since conceptually the firm should be owned by its workers, this is often not possible, and so investment time horizons are often seen from the perspective of the finite work careers and lives of worker-owners. The latter can theoretically cause misallocation of funds to their best long term uses as the previously cited writers note.⁵ At the same time, these theoretical pieces never explore whether another limitation of worker co-ops is whether employee retention is more important than investment in labor-saving plant and equipment, or whether employee retention is more important than profitability, whether in good or bad economic times. Consistently favoring employee and job retentions over enhanced productivity and profitability could also be a limiting feature of co-ops, and these issues are looked at in this paper.

1.3. Other cooperative issues and considerations

The worker co-op literature is filled with many empirical studies and policy recommendations that touch upon some of the theoretical considerations. In an older set of studies, Thornley (1981) finds mixed results with respect to the success of worker co-ops in the UK, France and Italy and writes that many of the longer lasting ones are confined to

³ Sabatini, Modena, and Tortia (2014) find through their surveys and analysis that a worker cooperative form of enterprise boosts social trust among cooperative workers and raises local community social capital in the locale in which the co-op is located. If this is true, then perhaps most worker co-ops, no matter how large, do not need any form of management.

⁴ Ranis (2016), however, points out that over the last few years, Mondragon has experienced some forms of degeneration and has taken on more employees who are not owners and who have less say in the corporation than worker-owners. Cheney (1999) notes the competitive pressures on Mondragon and how these have changed the corporate culture there over the years. In an earlier study, Thomas and Logan (1982) found that the benefits of the Mondragon form of organization as a worker co-op outweighed any costs with respect to efficiency and firm growth, which would refute the Alchian and Demsetz (1972) arguments, especially because of Mondragon’s large size and because many of its sub-units are capital intensive.

⁵ Tortia (2007) proposes a market of cooperative bonds wherein co-ops can raise the funds necessary to expand and offer these bonds in lieu of co-op shares to departing co-op members. This would possibly solve the problems of limited expansion and risk avoidance on the part of co-ops. Meanwhile, Hansmann (1996) disputes the entire notion of the “horizon” problem as an impediment to worker co-ops. He believes that worker-owners have long enough time horizons for investment decisions. Finally, at the aggregate level and from a theoretical perspective, Vanek (1970, 1971) believes that an economy of mostly labor-managed firms would be superior to one with mostly capital-managed firms despite the limitations of labor-managed firms.

Download English Version:

<https://daneshyari.com/en/article/7426167>

Download Persian Version:

<https://daneshyari.com/article/7426167>

[Daneshyari.com](https://daneshyari.com)