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SOME ISSUES CONCERNING THE FOUNDING OF LABOUR-DIRECTED FIRMS

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The increasing number of firms going out of business, the accompanying toll of redundancies, and the liklihood that many persons so affected will never work again makes the examination of alternative forms of business organization an urgent necessity. In such circumstances workers taking over their firm is often considered as a means by which the business might be returned to profitability and employment maintained. There is a long history of interest in these types of firms which are generally called 'worker coops'. Although, they have never been a relativley important type of business organization or noted for their commercial success there has, in fact, been a large number of successful cases outside Ireland. The most significant is probably the Mondragon system in Spain but there was, and still is, a very large number scattered across the United States, France, Italy and many other countries. The sustained recession affecting the western economies has resulted in a significant expansion in these countries but as yet, however, there have been no significant developments in Ireland. These cases have proved highly instructive and, over the last decade or so, extensive analysis of these types of firms has provided an understanding of many of the reasons which contributed to their lack of success in the past. Using this knowledge, the organization of such businesses, which are referred to as labour-directed firms, can be arranged so as to avoid repeating old mistakes and to facilitate their survival and growth.

Part of the difficulty in the past, and an element in the negative attitude to them at present, is that it was not always clear what was being sought from establishing a 'worker cooperative'. A contributing factor in this is the use of the term 'cooperative' which is so broad as to be meaningless as a term of description in itself. After all, capitalist, or investor owned and directed, firms are cooperatives of capital owners. Examples of this include not only the conventional joint stock corporation, the nationalized semi-state companies, but also the giant agricultural cooperatives. In contrast professional partnerships which are common in accountancy, legal, and medical trades are, to varying degrees, cooperatives of labour owners.

The label 'worker cooperative' is used indiscriminately to characterise firms which are cooperatives of capital, labour, or a mixture of both. There are two aspects which must be clearly distinguished: worker-(capital) ownership and worker-direction. Worker ownership may be necessary, in some circumstances, to obtain worker-direction, but it is the latter which gives the behavioural advantages which are claimed for 'worker cooperatives'. However, while it is often worker-direction which is intended, it is usually worker ownership which is implemented and this results in many of the difficulties for worker cooperatives . The conflict of interest between investor-direction and worker-direction is a major factor in the failure of worker cooperatives . It is necessary, therefore, at the outset to be clear about what is being sought, and why, and to organize the business appropriately.

A labour-directed firm is a business which is set up (or taken over) and run by the people who work in the firm. Two main features distinguish it from an investor-directed firm:

- direction of the business is exercised by all the worker-members, and only by them, on the democratic basis of one-person, one-vote;
- the net income (i.e. revenue less contractual expenses) is owned by the worker-members and is shared by them according to some agreed rules.

Three elements are essential for the success of any type of business venture. These are knowledge of the market, finance (capital), and good policy-making and management. Worker-directed firms are, obviously, not expected from these requirements. But, in addition to these, a number of specific factors have been identified as important for the survival of the labour-directed firm. These refer to funding and investment, membership, supporting structure, pensions, trade union, and community, and are outlined briefly under these seven headings.

FUNDING

All firms need finance in order to set up and continue in business. However, because it is a business venture and subject to much uncertainty, there can be no advance guarantee that the outcome will be a successful one. This affects how firms are financed. Broadly, there are two methods available: dividend earning shares (equity finance) and interest bearing debts (loan finance). Equity finance, which carries no guarantee of fixed return or even recovery in the event of liquidation, is necessary so that contracts with those having relations with the firm can be underwritten. Otherwise outsiders, e.g. suppliers of materials and working capital, would be reluctant to enter into loan and credit agreements because of the risks involved for them. This risk capital is provided by the ordinary shareholders in investor-directed firms who retain ultimate control over directing the firm in order to reduce their risks as much as possible.

In the labour-directed firm, control of the business cannot be given to those who provide the capital. This is retained by those who actually work in the business. Therefore, workers may have to provide equity finance as, first, a source of capital and, second, as an assurance and indication of commitment to outside providers of finance and other resources. It is also an incentive for aligning personal interests with the long-term interests of the firm. The extent to which such funding is necessary, and the amount per worker, will depend on many different aspects of a particular business and the circumstances of its operation. New members may also be asked to make a payment to the capital fund and, while this should be a significant amount, it should not be such as to prevent interested and needed persons from joining. The firm could loan an applicant the membership contribution, deduct it from earnings over a reasonable period of time, or use some combination of down-payment, loan, and earnings deduction.

An agreed portion of members' capital contribution is assigned to an indivisible reserve account of the firm. Each individual has a personal capital account in the firm to which the remainder of the capital contribution is assigned, and on which a fixed interest adjusted payment for inflation is made annually. Since it is vital to keep the capital of a firm intact these personal balances may not be withdrawn except on departure or retirement from the firm. In that situation repayment may be made in debentures or non-voting shares which may carry certain priviliges, such as observation or consultation rights at the workers' assembly, provided they are not transferred. This also serves the dual purpose of maintaining a retired member's active interest and emotional ties with the community in which an important part of active life has been spent and provides the business with the continuing benefit of that person's expertise, experience, and support.

A high level of investment per worker is required to finance the capital-intensive technology, product development, etc. which are necessary for survival in competitive markets. Such investment is an on-going process and members' contributions are unlikely to be sufficient to meet these needs. Therefore it will be necessary to plough-back a substantial part of net profits (say, 20 per cent of normal profits and all windfall gains) each year and this is apportioned to the indivisible reserve account and personal accounts as with the original membership contributions. (The remainder of profits is distributed as additional wages, used to promote educational and social projects, and, if there is still a balance, assigned to personal accounts.) It will also be necessary to use some external sources of finance of the usual kinds (e.g. loans, bonds, non-voting stock, equipment leasing). But the extent to which these can be used is limited as too heavy a commitment to external sources of funding can jeopardise the survival of the firm.

NON-MEMBERS

An important reason for the degeneration or collapse of labour-directed firms is the hiring of'second-class' labour, i.e. non-members, to work in the firm. Each worker should have a vote and no one should have more than one vote in the process of deciding overall policy for the firm. Two exceptions may be necessary. First, is the case of seasonal production, where non-members may be hired to smooth over genuine temporary variations. Second, and more important, is the case of ensuring good management. In a cpaitalist environment earnings differentials are usually much greater than those within labour-directed firms which, again for survival, are usually quite compressed. This may be a source of difficulty in obtaining and retaining high quality managers. If that is the situation it may be necessary to reserve a number of managerial posts for non-members who are hired as employees by the worker-members. Managers are then agents of the worker-directors much the same as they are agents of the investor-directors in capitalist firms. However, in a number of successful cases, labour-directed firms have been able to develop high quality management internally and to retain it because of the overall benefits from working in a business of that type. Further management, under conditions of worker-direction, becomes what it really should be - the exercise of professional expertise to implement policy decisions - and such technical implementation can be conducted on a much more decentralized basis than in a capitalist firm. Evidence in support of this comes,for example, from various types of worker participation schemes that have given rise to the so-called 'paradox of successful failure': employees have shown that they can undertake such tasks so competently that the coercive position of <u>the management</u> in a capitalist firm is undermined with the result that such 'experiments' are cancelled and styled as 'failures'. In a labour-directed firm management is more concerned with managing things than with managing people.

SUPPORTING STRUCTURE

An isolated labour-directed firm faces particular difficulties due to the fact that the business environment (legal, financial etc.) in which it operates is totally geared towards investor owned and directed, whether private or nationalised, firms. To overcome disadvantages arising from this, as well as to provide themselves with other advantages, labour-directed firms need an 'umbrella' sheltering organisation or <u>supporting structure</u>. The most important part of this is a financing agency, because labour-directed firms have often found it difficult to get funds from the traditional capital market. It does this by providing long-term capital, short-term credit, loan guarantees, and a market for the shares and debentures of labour directed firms. Even if they have access to such funds there is still a need for such an agency to provide advice and services appropriate for labour-directed businesses in the financial, legal, and managerial areas, which also include assistance in ensuring access to the various services provided by government departments and agencies. Under the umbrella of a supporting organisation (of which there may be many in an economy) a growing labour-directed sector can guarantee productive employment for members by being able to provide for transfer among firms.

PENSIONS AND INSURANCE

If all members' savings are put into their own firm there is a severe concentration of the burden of risk; with 'all-eggs-in-one-basket' members would stand to lose, not only their employment, but also their savings if the venture failed. Therefore, pension and insurance schemes should be operated separately and, once gain, the supporting organisation can play an important role in spreading the risk across different activities and, as the labour-directed sector grows, across different firms in the sector. This also, and significantly, increases the availability of investment capital and credit for the development of labour-directed businesses.

TRADE UNIONS

Frequently held views of the relationship between trade unions and 'workers' cooperatives are that at best they have little in common and more likely that they are seen as a threat to each other. The reasons for this are many and complex but include the previously mentioned confusion about what objectives a worker cooperative was meant to achieve. Also contributing to the present misunderstanding is the fact that the circumstances in which many worker cooperatives had to be established were quite different from contemporary circumstances. For example, labour unions often didn't exist, were barred by state laws, or were in the early stages of organization. However, sometimes worker cooperatives were also promoted to undermine worker unionisation.

There is no doubt that trade unions today have a vital role to fulfill in the development of labour-directed firms. Obviously, because the business is owned and directed by those working in trade union organizations must adapt their traditional approach to looking after their members' pay and working conditions to the different circumstances in labour-directed firms. First, there is a whole range of services, such as those relating to the supportunt structure, which labour-directed firms require. Second, conflicts will always arise in situations of personal and group relations and, while 'industrial relations' will be quite different in labour-directed from those in investor-directed and managerialist organizations, there will be a need for appropriate processes of arbitration, adjudication, advice andeeducation.

As well as continuing to provide services to their members employed in investor-directed firms, trade unions must also expand and develop in order to be able to provide the new services required by members in worker-directed business-organizations. In the context of the apparently endless increase in unemployment trade unions - as organizations representing workers interests - will have to devise new approaches and re-think their policies if they are to serve the interests of past, present, and future potential members.

COMMUNITY

The labour-directed firm is a community of workers who are also members of the community. It is natural, therefore, that the barriers separating individual investor-directed businesses from the community should be overcome and that members of labour-directed enterprises should take an active interest in communal affairs. This is facilitated and promoted by the fact that members of labour-directed firms expand their expertise and

and experience by the very process of directing their own work in a manner that is precluded in other types of firms and organisations and in a manner that strengthens decision making in a democracy. The artificial distinction between the roles of the hire employee, who has little involvement in decision-making process in a most important part of daily activity, and the citizen, who is then supposed to contribute to decision-making at the local, national, and international levels, is removed. Furthermore, a strong base of thriving businesses obviously contributes to the financial and social wellbeing of a community. But the local community is also an important source of support (financial, expertise, and encouragement), particularly when labour-directed firms have had to be founded amidst the crisis of shut-down and redundancy. Therefore the relationship between the community and labour-directed firms in it is of mutual benefit and should be recognized and built-on at the outset in both social and commercial terms.