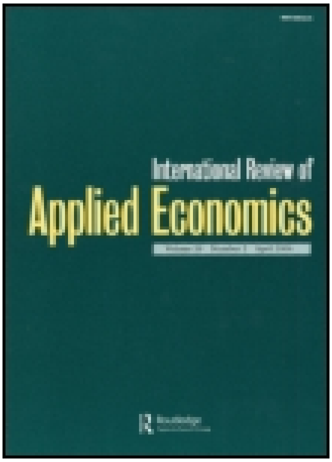

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Producer cooperatives: the British experience

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Producer cooperatives: the British experience

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The British producer coop movement, though small, is of particular interest because of its rapid current growth and its unusual variety of organizational forms. In this paper, the history, institutional structure, recent development and economic performance of the sector are discussed and policy implications drawn. It is concluded that coops should be particularly aware of problems in management, finance and internal democracy. There remains considerable scope for further public intervention including the formation of specialized support agencies for activities like marketing and training, and to assist in the creation of new coops.

I Introduction

As the first country to face the problems thrown up by the industrial revolution, it is unsurprising that Britain should offer one of the richest histories of responses by working people to the resulting poverty and deprivation. One such response was the creation, from as early as the end of the eighteenth century, it is reported, of various types of worker cooperatives, along with a wide array of other self-help organizations. The nineteenth century saw some consolidation but by the twentieth century, the main thrust of the labour movement was directed to public ownership of the means of production rather than cooperation and worker participation. Only since the second world war has interest in producer cooperatives again emerged, with some important developments from the 1950s and public intervention and legislation to aid the growth of the sector during the 1970s and 1980s. However, although of considerable interest intellectually and for the long historical experience, it is important to realize that the producer cooperative sector in Britain has never comprised more than a tiny proportion of the total economy.

What makes the British coop movement of particular interest to students of participatory institutions is the unusual variety of organisational forms. Whereas for example in France, coops broadly conform to a single institutional structure (see Vienney, 1980: 82; Demoustier, 1984), by the 1980s there are at least four types of coops co-existing in Britain. The British experience is also unusual for the extent and nature of legislation and public intervention. For example, in Italy, which contains the largest coop sector in the western world (see Estrin, 1985), there are three coop federations (see Zevi, 1982) but these are all membership based organizations, and there has not been comparable government intervention.

II A brief history of the producer cooperative movement

By the middle to late nineteenth century, systematic organizations and supporting structures for coops were developed, in large part guided by the example of key innovators such as Robert Owen and the Rochdale Pioneers. Owen was a philanthropic businessman who helped create cooperative communities in Britain, Ireland and the United States. His social experiments began in his cotton mills at New Lanark in 1800, and communities such as New Harmony (1824), the Rahaline Community (1831–33) and Queenswood (1839–45) were founded on his concepts of social equality.[1] Though the communities were all disastrous economic failures, Owen contributed an important utopian strand to the cooperative movement, which still has echoes today in communitarian organizations such as the Israeli kibbutzim.

The first consumer cooperative, which incorporated a textile producer coop as well, was opened in Rochdale in 1844; a system of cooperation emerging from contemporary local working class needs rather than middle class philanthropy. The Pioneers' cooperative store, in Toad Lane, Rochdale, was organized around particular ideas which became formalized as the 'cooperative principles' most recently formulated by the International Cooperative Alliance (ICA) as,

1 Membership of a cooperative society should be voluntary and available without artificial restriction or any social, political or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.
2 Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.
3 Share capital should only receive a strictly limited rate of interest, if any.
4 Surplus or savings, if any, arising out of the operations of a society belong

[1]See his book, *A new view of society*, published in 1814, or more contemporary references such as J. Butt (1971), or E.J. Hobsbawm (1978).

to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others.
This may be done by decision of the members as follows:
a) by provision for development of the business of the co-operative;
b) by provision of commons services; or
c) by distribution among the members in proportion to their transactions with the society.

5 All cooperative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of cooperation, both economic and democratic.

6 All cooperative organizations, in order to best serve the interests of their members and their communities, should actively cooperate in every practical way with other cooperatives at local, national and international levels.[2]

The retail coop sector grew steadily in Britain from 1844, maintaining a position as the largest consumer cooperative movement in western Europe, though since the 1960s it has suffered some decline. The growth was in part due to the fact that, until the 1930s, their trading surpluses were not liable to tax, giving them a competitive advantage. The consumer coop movement had 1.75 million members in 1901, 6.5 million in 1931, nearly 13 million in 1961 but only 10.2 million in 1980, by which time its market share had declined to 6.4%.

The mid to late nineteenth century was a period of erratic but significant consolidation for the producer cooperative movement. In the 1850s, a group of Christian Socialists, influenced by the 'associations ouvrières' encouraged by Louis Blanc and Charles Fourier in France, revived interest in producer cooperatives. Under their influence, coops were for the first time given a proper legal standing and limited liability under the Industrial and Provident Societies Acts of 1852 and 1862. They also helped to form cooperative workshops for artisans and numerous small cooperative businesses, all of which collapsed during the next recession. However, a further 200 coops were formed between 1852 and 1880, mainly in Glasgow, Newcastle, Lancashire and the West Riding of Yorkshire, and producing on a fairly large scale textiles, heavy engineering goods and coal. All but around 20 of these coops went bankrupt during the recession of 1878–80.

The period from 1880 provides the first links to the present day. In 1882, the Cooperative Producers Federation (CPF), was set up as an umbrella organization for British coops, aiding in finance and marketing and acting as a pressure group on their behalf. The CPF created a set of Model Rules, to which member coops adhere. New coop formation was centred on the East Midlands, in small scale manufacturing activities like printing, clothing and

[2]These principles derive from the recommendations of the ICA Commission on Cooperative Principles to the 23rd Congress in Vienna, September 1966.

boots and shoes. There were around one hundred coops by 1900, of which a reasonable proportion survived a considerable time, such as *Equity Shoes Ltd.*, founded in 1887 and employing 305 full and part-time workers in 1983, and *Walsall Locks*, founded in 1873 and with 398 members in 1984 (this coop has since finally closed). According to the Coop Union, there were 119 'productive societies' in 1890, with more than 27,000 members and sales of around 2.2 million pounds. There were still 86 societies in 1910 (see Board of Trade Report, 1912) with a membership of 21,000. Since then, there has been a slow but steady decline in the number of firms affiliated to the CPF and no new societies have been founded since the 1930s in the main CPF industries. Thus by 1944 there were only 41 affiliated societies, 17 by 1970 with 1600 workers and in 1981 only 9 survived.

By the turn of the twentieth century, the producer cooperative movement had in fact become a fairly minor strand of the broader labour movement, whose efforts were largely directed towards furthering workers' interests via public ownership of the means of production. Key intellectual figures on the left were in fact highly critical of producer cooperatives, in particular Beatrice Webb.[3]

Between 1900 and 1960s, workers' cooperation only caught the public imagination briefly again in the 1920s under the influence of Guild Socialism, a plan to appropriate industry and services into public hands, and to pass their management to 'guilds' of workers and community representatives (see G.D.H. Cole, 1944). A spurt in the formation of building coops led to the creation of a National Building Guild in 1920, but it folded in 1922.

There were two further significant events with long term significance for the coop movement over this period. In 1929, John Spedan Lewis sold a majority interest in his department store company for £1 million to a partnership of the workers, to form the John Lewis Partnership, now the largest employee-owned firm in Britain. The internal arrangements of the partnership, themselves the result of considerable experimentation to balance managerial authority against democratic decision-making, are complicated. The firm is run by a chairman who is responsible for day to day decisions and appoints a majority of the executive board. However, his power is balanced by a central council, 80% of which is elected by the worker-partners in secret ballot, with the remainder appointed by the chairman. The council appoints the remaining board members and can, in the limit, remove the chairman from his post, though only with a two-thirds majority (see Bradley and Estrin, 1986). On this basis, John Lewis has grown to employ some 26,000 people producing turnover in excess of £1.2 billion in 1986.

The second event occurred in 1951, when Mr Ernest Bader, a Christian Socialist, handed over 90% of his chemical company, to a communal trust

[3]See also Catherine Webb (1929). Jones (1976) offers a more optimistic account of the historical record of CPF coops.

for his workers – the Scott Bader Commonwealth (SBC) (see Bader, 1975). The Commonwealth was limited by guarantee without share capital and it held the shares of the operating company. The workers became members of the SBC, thus owning the firm collectively. They were able to elect a community council which appointed some of the members of the board of the operating company. In 1951, Scott Bader employed 161 staff and had a turnover of £625,000. By 1971, the figures had grown to 379 and £5 million respectively although in 1985 there were only 300 worker-members, generating sales of £49 million. John Lewis, though an important example of collective ownership, has maintained a low profile, but Scott Bader has spearheaded many of the recent developments in the cooperative movement.

In 1958, Mr Bader helped to form the Society for Democratic Integration in Industry (SDII), and in part under its influence, interest in producer coops began to increase, with at least a dozen being formed during the 1960s. There was also at this time a renewal of interest in participatory organizations within the traditional labour movement, for example in the Welsh TUC (see Vanek, 1975) and with the founding of the Institute for Workers' Control in 1968. The 1960s and 1970s are also the era when 'alternative cooperatives', in for example wholefoods, bookshops and restaurants, first appear on the scene. In 1971, SDII changed its name to the *Industrial Common Ownership Movement* (ICOM) which became for a few years the foremost promotional agency for coops in the United Kingdom (see Thornley, 1981). In addition to stimulating new coops, ICOM developed its own set of model rules for coops, which as we shall see differed significantly from those of the CPF. A second important agency created more recently is Job Ownership Limited (JOL), set up in 1978 to promote Mondragon-type coops (see Thomas and Logan, 1982) with particular stress on conversions by existing small or medium-sized firms (see Job Ownership, 1978; or Oakeshott, 1978).

The two key periods of public intervention in British coop development were in the mid-nineteenth century, with the Industrial and Provident Societies Acts, and in the 1970s and 1980s, with the Industrial Common Ownership and Coop Development Agency Acts and significant local government interest.[4]

The Industrial and Provident Society Acts of 1852 and 1862 gave common ownership companies a legal status for the first time, but did not attempt to define a cooperative. Such decisions are left to the Registrar of Friendly Societies. There was little other significant public or legislative intervention until 1976, when the Industrial and Common Ownership Act provided the legal definition of a coop, though one which ignored the traditional

[4]There was also considerable interest in the 1960s and 1970s in workers' representation on company boards, culminating in the Bullock Commission Report of 1978, which proposed legislation along West German lines to create a supervisory board containing significant employee representation for all large companies.

cooperative principles enumerated above ('a body controlled by a majority of the people working for it whose income is applied to the benefit of its members'). The Act also provided public finance to the Industrial Common Ownership Fund (ICOF), initially set up with the aid of the Scott Bader Commonwealth in 1973 as a revolving loan fund for coops. £150,000 was made available to organizations, such as ICOM, which acted to promote coops and £250,000 to ICOF to stimulate investment in them. Between 1973 and 1979, ICOF made 49 loans totalling £256,979, typically at interest rates well below market levels but the government then failed to roll over its funding.

The National Coop Development Agency (CDA) was founded by legislation in 1978, passed with all-party support, as an advisory, promotional and research body. It receives its funds from central government but these only finance staff; it has no resources to directly aid coops, for example with loans or grants. It has instead concentrated on pressure group activities, and done considerable work in formulating model rules and providing advice on coop formation, alternatives modes of finance, marketing and sales. It also keeps records of the development of the British coop movement, and stimulates innovations such as various forms of equity finance. While ICOM has tended towards highly egalitarian types of coops, the CDA has stressed commercial viability in the context of cooperative principles. Finally, in recent years local authorities have also been involved in the formation of producer coops as a counter to rising unemployment. These activities have been coordinated by local Coop Development Agencies, of which there were around 40 in 1983, many in London. These activities have been supported by the national CDA and in London, until recently, the Greater London Enterprise Board (see Cornforth, 1983; 1984).

These new agencies and the rising educational and aspiration levels at the heart of the 'alternative coop' movement are associated with a dramatic growth in the British coop sector since the start of the 1970s. In the mid-1970s, there were three highly publicized rescues of bankrupt private firms, all of which were helped by the then Minister of Industry, Tony Benn, to become producer coops: Meriden Motorcycles, Kirkby Manufacturing and the Scottish Daily News (see Coates, 1976). Despite substantial government grants and loans, all three coops failed (see Bradley and Gelb, 1983). On the other hand, the number of coops set up with the ICOM rules ('ICOM coops') began to rise rapidly, from 30 in 1975 to 400 in 1982, and there have been a number of important conversions of existing firms, most spectacularly the Baxi conversion organized by Phillip Baxendale, currently chairman of JOL.

The size of the British coop sector and its rapid growth are documented in Table 1. In terms of number of firms, though not members, the coop sector is the largest that it has ever been, and the growth is continuing at an accelerating rate. However, to put these figures into perspective, we should note

Table 1 Numerical significance of cooperatives, UK

Year	No. coops	No. workers
1970	17	1,600
1975	19	2,500
1976	47	3,000
1977	78	3,500
1978	150	5,000
1979	201	5,400
1980	330	6,000
1981	468	7,000
mid-1984	911	8,773
1985	1400	

Source: Estrin (1985); CDA Annual Report (1986).

that the 330 producer coops in 1980 made up but a minute fraction of the 1.3 million business registered in the UK at that date. Indeed, out of a labour force in excess of 20 million workers in Britain in 1985, only some 10,000 were employed in producer coops.

II The British coop sector today

The distribution of coops across size categories is described in Table 2, which reveals that most coops in 1980 employed fewer than ten workers. Indeed there were only ten coops employing more than one hundred workers, and only one with more than five hundred workers. Thus though the average size in terms of employment, was around 250 in the 1890s and 100 in the 1960s, it was only 9.6 in 1984. In terms of turnover, in 1981 only ten coops had sales in excess of £1 million per year, and a further twelve more than £500,000 per year. The number of coops with a turnover in excess of £100,000 was only 50.

The reasons for the changes in the average size of coops include a major reorientation in sector of activity. The traditional CPF coops were concentrated in printing, textiles and footwear but the new coops have emerged

Table 2 Size distribution of British coops, 1980

Number of workers	% Coops
<10	71
10–19	16
20–49	8
50–99	2
100–249	2
250–500 } >500	1

Source: CECOP Annex 2 (reported in Estrin, 1985).

Table 3

Trading activities	1980 No. of coops	% of total	1982 No. of coops	% of total
1 Advisory, consultative and educational (including computer software, insurance, language schools)	21	6.4	33	6.6
2 Building, house renovations, and house decorations; cleaning; waste recycling	33	10.0	69	13.8
3 Crafts, carpentry, furniture-making and joinery.	19	5.8	40	8.0
4 Engineering, electronics, chemicals	26	7.9	41	8.2
5 Footwear, clothing, and textile manufacture	19	5.8	32	6.4
6 Printing and publishing	61	18.5	75	15.0
7 Provision and hire of transport; bicycle and motor vehicle repairs	11	3.3	13	2.6
8 Record, film and music making; theatre (including actors' agencies)	28	8.5	46	9.2
9 Retail, distributive, catering and food processing	112	33.9	151	30.4
Total:	330		500	
Total no. of coops (adjusted to take account of those with more than one trading activity)	304		483[1]	

[1] This figure includes a small number of community cooperatives (i.e. less than 20). A community cooperative is owned and controlled by members of a local community.
Source: Adapted from CDA (1980; 1982); Cornforth (1983).

particularly in services.[5] Table 3 gives the distribution of coops by sector in 1980 and 1982. It shows the significance of retail, distributive and record/film coops in the upsurge of new coops. However, there were still some 41 coops in heavy manufacturing in 1982, and manufacturing including printing still provided some 40% of the total number of coops in Britain.

Most coops are very young, which may also help to explain their relatively small size. According to a Greater London Enterprise Board survey of 217 coops in 1983 (some 34% of the total number of UK coops), some 37% of coops are engaged in more than one trading activity, always in the same broad industrial sector. The average age of coops in the sample was 5.5 years, though over 60% of coops questioned were less than a few years old. If coops set up before 1945 are excluded, the average age of British coops in the sample falls to 3.1 years in 1983.

Finally turning to regional distribution, workers cooperatives are distri-

[5]This partly reflects structural changes in the economy. Coop creations may represent a response to these changes. Services are in a large part new sectors, often employing a low-paid, non-unionized workforce with poor working conditions. Coops have been formed in some service activities, such as cleaning and laundry services, that fit these characteristics.

buted throughout Great Britain. Greater London has the largest share, some 29% of the total in 1983, with some 10% in both the northwest and in the southwest respectively and a further 10% in the north of England.[6] Table 4 shows the distribution of coops by region and by sector and region combined. It can be seen that London has significantly fewer manufacturing coops and rather more service coops, a situation which is reversed in Scotland, whilst the East Midlands and East Anglia most closely reflect the national profile.

III Typology of British producer cooperatives

The first typology of British coops that can be established focuses on ownership, financing and control arrangements. It is important to bring out the peculiar characteristics of the coop organization in these respects, particularly since in recent years the proportion of workers owning shares in their employers' company but along non-cooperative lines has been rising. This is partly due to the British government's privatization campaign. For example, encouraged by special discounts, some 4.6% of British Telecom shares were purchased by workers at the time of the privatization in 1984 (see Yarrow, 1986), though the proportion has doubtless fallen since then, and the government has repeated its success giving priority status to share bids from workers in TSB and British Gas. Workers have sometimes instead received shares tradeable in internal pseudo-markets, as was done with the privatization of the National Freight Corporation (NFC). Though NFC is entirely owned by its labour force, the bulk of the shares are held by management (initially around 85% and now rather more) so the company is probably more legitimately treated as a management buyout. The number of workers holding their employers' shares has also been swollen by tax relief offered in the 1978 and 1980 Finance Acts for corporate profit-sharing and savings-related share option schemes respectively. By December 1985, the Inland Revenue had approved 510 out of the 708 submissions to it under the 1978 Act, and 403 out of the 516 proposals under the 1980 Act. According to Blanchflower and Oswald (1986), some 14% of UK private sector establishments had introduced a share ownership scheme by 1980, and the proportion had swollen to 25% by 1984.

These arrangements differ from those of real producer coops because the ownership stake in the hands of workers is typically miniscule and confers no real power to influence company decisions. Workers are in exactly the same position as any other small shareholder, receiving a share of profits via dividends according to their capital holding and able to influence decisions in

[6]ICOM has its own regional classification. The north comprises Northumberland, Durham, Cleveland, Cumbria and Tyne and Wear. The north-west contains Merseyside and Greater Manchester, as well as Lancashire and Cheshire. Yorks and Humber contain West Yorkshire and South Yorkshire, as well as Humberside and North Yorkshire. The remaining classifications are standard, and summarized in Luyster (1984).

Table 4 Distribution of worker cooperatives: regional profiles

Region	Percent of cooperatives	Building and construction[a]	Manufacture	Services	Transport and distribution	Retail	Community services	All
Greater London	29	8	16	59	3	14		100
Home counties	9	–	43	43	14	–	–	100
S. Wales & Southwest	11	8	8	38	15	23	8	100
W. midlands	7	10	30	20	–	40	–	100
E. midlands East Anglia	7	9	36	36	–	18	–	100
North	10	6	13	44	13	25	–	100
Northeast	6	–	42	42	–	17	–	100
Northwest & N. Wales	11	–	25	25	8	42	–	100
Scotland	8	7	43	7	–	43	–	100
N. Ireland	1	–	14	57	–	29	–	100
All		6	25	39	6	23	1	100

[a] Number of cooperatives in each activity expressed as percentage of total cooperatives by region.

Source: Survey results (1983)

Notes

1 A nil entry indicates that there are no cooperatives in this category or that they are less than 1% of the total.

2 All columns may not add to 100% due to rounding.

shareholders meetings on the basis of one-share, one-vote.[7] The fact that in most cases shares are tradeable outside the company also makes this limited participation unstable as workers sell their stake.

In contrast, producer coops are either owned or controlled by their own labour forces. There are a myriad of types, but the key distinctions are illustrated in the differences between the ICOM and CPF model rules. ICOM stresses the role of collective rather than individual ownership, allowing no external equity finance and fixing an individual shareholding of £1. All the remaining assets, or the vast majority, are owned collectively. The firm must grow by loans or plough back of profits ('collective saving'). If the coop ceases trading, individuals have no individual claim on the net assets. ICOM rules are therefore sometimes regarded as utopian and they may lead to financial problems. The CPF rules are more flexible but less 'cooperative'. Members must own at least one share but there is no maximum limit. Shares are paid back at par but the coop can issue more as its value increases, and limited interest is paid on them. However, the surplus is distributed according to work. Assets can be accumulated individually or collectively, the former via the issuing of bonus shares to members, and the CPF rules permit the raising of outside equity finance. If the coop ceases trading, net assets are disposed of in proportion to capital holdings. Job Ownership coops also encourage individual equity holdings on Mondragon lines, with shares which appreciate with net worth, though the dividend is paid according to labour effort.

In coops, members have one vote each regardless of their shareholdings. Beyond this principle, however, there is considerable divergence on rules in this area, which many consider to be one of the most important for the formation of coops. The key issues are whether non-workers can be involved in decision-making, for example via outside ownership of equity or through consumer or state representatives on management boards, and whether workers can be non-members, namely whether the coop employs labour hired from the market place, in addition to worker-members, in the production process. CPF rules permit both external control via outside shareholding and the use of hired labour; ICOM rules do not permit either.

External ownership, for example by union representatives or ex-workers, may ease financial pressures but of course can dilute or undermine cooperative principles and damage the general atmosphere. The use of hired labour is also a serious problem since, according to Ben-Ner (1984) and Miyazaki (1984), this is a major way in which western producer coops degenerate. They argue that, particularly with tradeable individual equity stakes, existing members in profitable coops will prefer to use cheap hired workers than expensive members as the coop expands, so that the organiza-

[7]However, the employees schemes may be held in a trust, and used as a 'block vote', in which case workers can collectively have a small influence over decisions.

tion will ultimately degenerate to the capitalist form. It is certainly the case that this type of degeneration is possible within the CPF structure but not within the ICOM one. Other theories of degeneration stress managerial problems, capital shortages and collective ownership (see Vanek, 1975).

Estrin (1985) has suggested that the mode of creation of producer coops may also be important in understanding their later productivity and performance. He proposes a tripartite typology,

1 Coops created by rescues of bankrupt or declining capitalist firms, such as the Benn coops.
2 Coops created as conversions of successful private firms, such as Scott Bader or Baxi Conversion.
3 Coops created as such from scratch, including the majority of recent ICOM coops.

The proportions in each of the three categories between 1975 and 1981 are reported in Table 5. As one might expect given the poor record of rescues and the key role of ICOM and the local CDAs, the bulk of coop creations are actually from scratch, on average some 90% of firms employing some 80% of workers. This runs counter to the view (see Miyazaki, 1984) that most coops are formed as a last ditch attempt by about-to-be-redundant workers in bankrupt factories to save their jobs. However, there is little doubt that the pace of coop creation is stimulated by the high levels of unemployment, which have largely been behind the emergence of the supportive agencies.

A more detailed typology has been proposed by Paton (1978) to cover objectives of the membership as well as the mode of creation. Conversions he calls 'endowed coops' which are given away by their owners who have typically been following Christian Socialist ideals, or 'worker buyouts', where the employees buy the firm as a commercial transaction. The former type has predominated in practice. Rescues he calls 'defensive coops', formed to preserve jobs, but he divides creation from scratch into two

Table 5 Mode of cooperative formation in the UK

	From scratch		Conversions from other firm types		Rescues	
	% coops	% workers	% coops	% workers	% coops	% workers
1975	0	0	0	0	100	100
1976	88	63	6	20	6	17
1977	92	92	0	0	8	8
1978	96	98	0	0	4	2
1979	97	96	0	0	3	4
1980	86	69	1	1	13	30
1981	82	80	1	–	17	20
Total, 1975–81	88	77	0.8	0.6	12	23

Source: CECOP Annex 2 reported in Estrin (1985) categories based on the reason for creation; 'alternative coops', formed to produce for social needs rather than profits and 'job creation coops' formed by local authorities or groups of unemployed workers. In the 1970s the former category dominated but now the latter has assumed considerable importance. The two are not of course necessarily exclusive.

IV The economic performance of coops

Cooperative performance is hard to evaluate without reference to the objectives of the organization, which, as we have seen, may not be primarily commercial or economic. Apart from 'social production', most coops have been created to stimulate or preserve employment, so the sector can be evaluated from that perspective (see Table 1).

The fact that coop members have chosen to set up for-profit market organizations in pursuit of these objectives also warrants some examination of their market performance. Conventional measures that emphasize, for example, the remuneration of capital are not well suited to coops, whose operation typically represents a way for workers to achieve labour-oriented goals rather than an investment for a return. However, we may legitimately be concerned with the productivity and viability of the coop sector. Examination of coop productivity has to focus mostly on intra-sectoral differences, since the significance of productivity comparisons with conventional firms is limited by the fact that cooperatives may choose different, less control-oriented technologies (see Cable, 1986). As Jones (1976) has pointed out, the fact that CPF coops survived successfully for so long establishes that at least some producer coops have been viable economic organizations in the United Kingdom. The point of looking at viability is therefore not to ask whether cooperation is a feasible organization form,[8] but to examine the nature of its difficulties in the marketplace, and what might be done to help.

With respect to employment, the three large rescues in the mid-1970s were the best publicized attempts to preserve jobs via the cooperative form, but all failed within a few years. There are therefore reasons to doubt the long-term effectiveness of rescues in declining sectors, though they may of course offer a stop gap solution until new opportunities arise. However, coops have had a small but significant role in employment creation in recent years, generating between 500 and 1000 new jobs in each year between 1977 and 1981 and rather more since then.

As regards productivity, case studies suggest that labour productivity increases significantly, at least initially, when bankrupt private firms are converted into producer coops. Thus according to Bradley and Gelb (1983), productivity in Meriden motorcycles increased by 30%–40% after the rescue while in Kirkby the production of radiators rose from 7,000 to 13,000 despite

[8]For a survey of hypotheses to the contrary, see Fanning and McCarthy (1983).

decreases in the labour force. More formal analysis also indicates that productivity is an increasing function of the degree of workers' participation in the CPF coops (see Jones and Backus, 1977; Estrin, Jones and Svejnar, 1986).

The approach in these papers has been to estimate production functions augmented by variables which indicate the formal degree of participation in the enterprise. These proxies include the income paid out to workers from profits (bonus), the average capital stake per worker member and the proportion of workers who are members of the firm. The preferred functional specification was log-linear (Cobb-Douglas) and tests reject fixed effects in favour of random effects, though the age of the firm was included in quadratic form to pick up life cycle effects. Production functions were estimated on 146 observations for CPF coops between 1948 and 1968 for each of three sectors, printing, clothing and footwear, with instrumental variable methods being used to control for potential endogeneity of the regressors. It was found that output in the CPF coops was an increasing function of the bonus, significantly so for printing and footwear, though none of the other participatory variables were statistically significant. Though positive productivity effects were therefore established, for the CPF coops it should be noted that they were significantly weaker than for the more robust coop sectors of Italy and France (see Estrin, Jones and Svejnar, 1986).

The bulk of the UK coop sector is so new that there has not been enough time to collect convincing evidence on growth, investment and profitability. The experience of CPF coops, however, suggests that such firms often fail to grow beyond the minimum size required to operate the machinery (see Table 2, which shows that there are almost no coops with more than 500 employees). Moreover, though such firms may survive for many years, they have never developed into market leaders in sales or innovation and ultimately most have closed or degenerated into private firms. John Lewis and Scott Bader stand as counter examples, coops able to grow and develop at least as successfully as their capitalist competitors – although it should be noted that both were conversions, rather than rescues or coops founded from scratch.

Recent research in business schools has focused on the key problems faced by new coops, leading to their typically poor economic performance. Wilson (1982) found that in a sample of 72 coops in 1980, the four most difficult problems faced were: i) obtaining finance, ii) finding and keeping a sales outlet, iii) finding and keeping workers with appropriate skills, and iv) finding and keeping people willing to join the cooperative. He concludes that the new coops face many of the problems of all small businesses, and in addition problems caused by the coops' internal structure and democratic decision-making.

Evidence on economic performance has been collected by Aston (1980) and is reproduced in Tables 6 and 7. Although judgement must be tempered

Table 6 Average annual profit and loss figures for alternative cooperatives in different industrial sectors

Industry	Nos making profit	Average profit (net) (£)	(SD) (£)	Nos making loss	Average loss (£)	(SD) (£)	Total sample size (£)	Total grants donations subsidies (£)
Printers Publishers	7	1224	(964)	7	1268	(1048)	14	34,888
Builders	4	582	(979)	4	4530	(4354)	8	0
Wholefoods	29	1145	(1145)	14	757	(981)	43	6,015
Bookshops	12	1866	(2304)	7	1584	(1608)	19	4,907
Human capital intensive	2	280	(166)	1	1751	–	4	573
Low human capital	2	255	(162)					160

Source: Aston (1980: 27)

Table 7 Average liquidity ratios for alternative cooperatives in different industrial sectors

Industry	Average liquidity[a] ratio	Sample size	(SD)
Wholefoods	0.457	40	0.509
Bookshops	0.4242	18	0.3918
Printers	0.995	14	1.014
Building	0.785	9	0.4686
Services	0.887	11	0.0604

[a] $\text{Liquidity} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$

Source: Aston (1980: 30)

because many of the new coops were explicity created for non-commercial, or even anti-commercial, reasons, it can be seen that a significant proportion of the sample (33 out of 69) are loss makers and the liquidity ratios are on average extremely low. In the absence of public subsidy or inadequately rewarded members' effort, it seems unlikely that many of the new coops could have survived in the marketplace in 1980. Informal discussions with observers suggest that things have improved in recent years.

Wilson's findings are echoed in the Greater London Enterprise Board sample, which is reproduced in Table 8. The survey also covered the national CDA and 20 local ones (47% of the total at that time) so the views of outside experts can be compared against those of insiders. Once again, problems of finance, marketing, employment and internal decision-making are stressed, the first three of which are typical of small businesses in all market economies.

Table 8 Problems encountered in worker cooperatives

Problem/issue	Cooperators' responses[1]	Opinions of CDA staff[2]
Lack of finance	58	40
Marketing/selling	37	55
Member relations/dynamics	19	30
Staffing/recruitment	17	15
Premises	15	–
Production speed/capacity	9	–
Planning	11	15
Financial control	5	30
Design/identity of product or services being supplied	4	–
Pricing	4	5
Other	26	30
No problems	2	–

Notes
1 Percentage of cooperatives.
2 Percentage who think these are major problems in trading cooperatives.

According to the report, the survival rate among coops may actually be better than that among conventional businesses, some 50% of which are argued to fail in the first five years as against 30% of coops in the first four years. However, this may also reflect the effectiveness of public support agencies and subsidy. Though coop members appear to be aware of the financial problem, the report suggests that they seem to underestimate its seriousness in comparison with CDA advisors.

Still on the subject of survival, an important study by Alan Thomas (1986) using the ICOM database is less optimistic than the GLEB report. It uses as base the figure of 6%–11% per year as the failure rate for small private businesses, derived from Department of Trade and Industry returns, with survival rates over a five year period in Scotland of around 60%. Thomas reports that of the 1205 coops registered between 1975 and 1984, the overall survival rate was high, at 73%. However as the number of coops increases, the annual failure rate though varying a lot from year to year, shows a secular upward trend with figures as high as 20% in 1983 and 1984. More work is needed to ensure consistency of comparison, for example with respect to sector and region, but overall the data suggest that the coops' ability to survive in the market environment is not on average greatly different to that of other types of small businesses.

As we have noted, the recent growth of the British coop sector has been helped by the creation of supporting agencies at the national and local levels. In the light of the British experience, one can envisage four roles for supporting agencies, concerning coop creation, finance, advice and training. Although there have been many improvements in recent years, there is still space for significant further development. According to Ben-Ner (1985), in a capitalist system coops must mostly be formed through collective intervention[9] - either by the government (local or national), by groups of workers organized in a group such as a trade union or an association, or by individual philanthropists. ICOF and the local CDAs have already undertaken an entrepreneurial role, either by providing seed corn funding to already formed groups of workers attempting to create coops, or by actively seeking to form new coops. A particularly important feature of their policy has been the deliberate encouragement of minority group - Afro-Caribbean and Indian - and feminist coops, using the coop form to counter various aspects of discrimination. But there is still scope for further public intervention and insufficient attention has been paid to the encouragement of conversions via tax policy (see Estrin, 1985).

After formation, one of the most serious problems for coops in Britain is their access to finance for growth and investment. Recent developments with supporting agencies have done little to solve this problem, since the funds available to ICOF were fairly small and the national CDA has no resources to provide loans or grants to coops. The main source of funds other than self-finance and loans from the conventional capital market in recent years has been the local CDAs. There is a serious need for an overall coop financing body, perhaps along the lines of the Caja Laboral Popular in Mondragon.[10]

All the British coop support agencies, from the CPF and ICOM to the CDAs, have offered practical advice and information. Since coops frequently lack managerial expertise, evidence suggests that they need aid on issues as diverse as:

- marketing and sales
- research and development
- technical innovation
- financial control
- managerial structures
- labour incentives
- legal affairs and accounting
- model rules
- internal democracy
- recruitment and training of labour.

The provision of advice to coops in the UK remains very patchy depending on subject and region, because despite the proliferation of bodies, they have tended to overlap rather than to specialize and perhaps also to compete on

[9]It is rarely to the advantage of individual entrepreneurs to form producer coops in a capitalist system, since they must then share the profits from their idea with all the workers in the firm. They will prefer to form conventional companies with themselves as owner-managers and to keep all the profits for themselves.

[10]A specialized agency providing technical assistance together with funds is more likely to provide adequate finance, as it can monitor the recipient coops' performance.

ideological grounds. The Greater London Enterprise Board report stresses the potential for national agencies to sponsor coop sales promotion and marketing, perhaps along the lines of the Italian consortia (see Zevi, 1982), and there is little doubt that parallel opportunities exist for specialist national agencies in coop R&D, training and management.

Surveys have suggested that the most serious problem faced by coops in addition to those common in all small businesses concerns the balance between efficient management and the operation of democratic decision-making. For the cooperative type of organization to work, management must forego many of their traditional prerogatives whilst workers must take responsibilities and learn how to understand financial and marketing information in order to evaluate competing business choices. Moreover, the coop must provide far more business information than private firms, along the lines of John Lewis, so that decisions can be based on a maximum of information. Democratic decision-making implies free flows of information. If management is unsympathetic or unable to operate in a democratic environment, or if there is too much inertia among the workforce, the coop may rapidly degenerate into a managerial firm. If, on the other hand, workers attempt to direct the firm with inadequate skills and knowledge, the coop will be inefficient and probably will ultimately fail. As Vanek (1971) notes, one must not underestimate the role of education in building a participatory sector. This problem has been perceived for many years, and has led to the formation of several training institutions, including the Cooperative College, Beechwood College and the London Cooperative Training Agency, but more is still needed, with public aid, on this front.

V Policy implications

Our study of British coops has found that, despite a recent resurgence in the number of coops because of renewed public interest and government policy, such enterprises have faced the following problems in the marketplace:

- in formation
- in raising capital
- in management
- in maintaining internal democracy
- in survival as a cooperative organization

These problems are of course not unrelated – finance and managerial problems go together in explaining commercial non-viability while weakening internal democracy frequently presages degeneration to the capitalist form. We will conclude by examining various dimensions of these problems from the perspective of British institutional arrangements and organizations.

Commencing with how to finance a coop, though there are some serious problems with the CPF model rules, the general approach offers a flexible balance between individual and collective ownership as financing needs develop, and is probably more capable of sustaining a coop sector in the long term. Workers are permitted to hold significant equity stakes, tradeable upon quitting or retirement, and perhaps accumulating with the capital value of the firm. Their extra shareholdings offer no additional decision-making authority – the cooperative uses the one-person one-vote principle – but do provide appropriate incentives for workers to save in the company and to vote for profit retention to finance investment.

The same cannot be said for the ICOM model rules on this score. ICOM rules prevent significant individual shareholdings and any non-member equity stakes. While this restricts the spread of inegalitarianism or outside control, it causes problems for capital accumulation, since the entire burden of financing investment must fall on self-finance or external loans. But the incentives created by these rules mitigate against self-financing because if workers reinvest profits in the coop rather than take the money out in the form of higher wages, they cannot cash in their accumulated holdings when they retire; they merely get back their minimum stake. This may not be a problem for enthusiastic founding members seeking above all to build a collective enterprise. However, unless some collective saving is mandatory, in future generations coop members may choose to finance investment externally. Capital markets may be unsympathetic if the company fails to generate matching funds, and may indeed regard the low levels of self-financing as indicative of the management's evaluation of the company's prospects.

One solution is to permit individual shareholdings to be tradeable and to grow with the capital value, as occurs to some extent in Mondragon or the American plywood coops. But this may create difficulties of its own. It may be difficult to find workers with sufficient funds to replace departing members as the net worth of the organization increases. Moreover, problems of decapitalization may be caused when departures are grouped together; for example, when a first generation of members retire simultaneously.[11] One possible solution would be a form of tradeable stock issued by one or several agencies, each financing a diversified group of coops. Such agencies could pool some of the cooperative's capital risks and provide access to outside finance, while allowing workers in the individual coops to retain control over their company.

The key problems with the CPF model rules are the way that they permit assets to devolve to members upon dissolution of the cooperative – encouraging premature wind-up – and the use of hired labour. The typical CPF story is therefore of formation by an initial highly motivated group, who increasingly rely on hired labour rather than addi-

[11]This problem has led the Caja Laboral Popular in Mondragon to increase the level of collective savings, or plough-back.

tional members for employment growth since sufficient funds can be raised from existing members or from profits. As the founders draw near to retirement, the coop is wound up so that the members can realize their accumulated savings. This problem does not of course arise under ICOM rules. If one wishes the coop as an organization to survive beyond the lifetime of its founders or their children, one could institute instead the rule that the net worth of the coop will devolve to a central coop agency or bank upon dissolution.[12]

With respect to the use of hired labour, it has long been argued that the prolonged use of non-member employees runs counter to cooperative principles, undermines the prospects for internal democracy and contributes to the long-term degeneration of the cooperative form. The contrast between the CPF and ICOM experiences suggests that ICOM was correct in ruling out the use of hired labour.

The British experience also suggests that there may be some trade-off between democracy in decision-making and internal efficiency. The ICOM model rules are specifically oriented to ensuring the maintenance of democratic control while the CPF rules are less egalitarian in this respect, permitting the group of decision-makers and workers to be very different in some firms. While such rules act to undermine internal democracy they do little to promote improved managerial efficiency in its stead. Neither set of rules deal with the competing needs of employee control and managerial decisiveness and flexibility. While this difficulty can be dealt with informally in small homogeneous groups, it must be resolved institutionally when enterprises grow. Many organizations have experimented with structures to solve these problems. For example, John Lewis and Scott Bader both maintain significant managerial prerogatives in short-run decision making, while employees exert influence over long-run strategies via their collective voice on advisory or steering bodies. Experimentation to find the appropriate balance between managerial authority and internal democracy started far over on the side of autocracy in both organizations, as one might expect in coops established by the paternal philanthropy of private owners.

More generally it seems likely that when coops are created by conversions of existing organizations, be they private firms or nationalized corporations, the key problem will be to establish any real form of democratic control, with its potential for improving employee morale and raising labour productivity. When on the other hand coops are created from scratch, the reverse problem holds – to persuade the committed new membership that egalitarianism and democracy do not automatically exclude professional management skills. Such differences need to be noted by supporting agencies.

Coops created by the rescue of bankrupt capitalist firms or in declining

[12]Perhaps to the central coop holding agency if such an institution has been created – individual workers could of course still sell their equity stakes on the market upon retirement.

sectors have played an important role in Britain, creating awareness of the cooperative option and preserving jobs in areas of high unemployment. There is little doubt that the formation of a coop in these circumstances often releases hitherto unknown sources of workers' energy, which can keep apparently non-viable companies afloat for some years. However, the British experience suggests that this initial fervour does ultimately begin to dissipate, so that unless the long-term picture alters appreciably, the coop will ultimately fold. Firms created in this way may, therefore, be a valid stop-gap policy measure, but cannot form the basis for a commercially viable coop sector.[13]

The British experience also does not auger well for a large scale manufacturing coop sector founded from scratch. As Estrin (1985) shows, there are few sectors in which cooperatives have emerged simply of their own accord, and these are characterized by low initial capital requirements, technologies in which the role of labour skills is important relative to capital intensity, and with simple sales possibilities (see also Vienney, 1980;82). Examples include textiles, footwear, building trades and printing. Outside these types of industries, it is unlikely that coops will be formed unaided. Moreover, if they are started from scratch in more capital-intensive and large scale industries, they are likely to suffer more seriously than their capitalist counterparts from problems of capital accumulation and inefficient management, particularly at the time when democratic fervour has to come to grips with the reality of the marketplace. In addition to current policy, for example in local CDAs, it may be useful to encourage more conversions of already viable companies, perhaps by providing significant tax advantages to owners who sell their firms to their employees, along with cooperative education to management and workforce.

VI Summary

The British coop sector has a long and rich history which has highlighted many of the key issues for participatory and employee owned firms in a market economy. In recent years, primarily because of legislation creating support agencies and local government sponsorship, the number of coops has begun to grow significantly, particularly in the large cities and areas of high unemployment. However, those new coops are typically small, concentrated in labour-intensive activities, and, for some, economic viability and long-run survival are in question.

The British experience suggests coops should be particularly aware of problems of finance, management (especially for marketing and in

[13]Rescues can be viable in cases where a parent company plans to close a plant for strategies reasons (in non-declining sectors). However, such plants have typically been bought up by management rather than the workforce, and have not been turned into cooperatives.

organizing appropriate skill mixes) and internal democracy. The long-term survival of such firms is particularly sensitive to rules concerning individual equity shareholding and accumulation, the use of hired labour, the devolution of assets upon dissolution and the balance between managerial authority and internal democracy. No model rules or organizations seem to have got this mixture right, although some of the new coops as well as Scott Bader and John Lewis have made important contributions.

Recent years also suggest that the role of public policy is crucial - the rise of the UK coop sector conforms almost exactly to the legislation creating ICOM and then the CDA. There remains considerable scope for further intervention in creating national or local coop agencies, in the formation of specialized support agencies for activities like marketing, sales, promotion, exports and R&D, and in training for coop workers and managers. Finally, legislation is needed to encourage more conversions of viable private companies, and, perhaps also some denationalizations of public corporations into cooperative hands rather than a simple extension of employee share-ownership.

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