

PROGRAMME FOR RESEARCH AND ACTIONS
ON THE DEVELOPMENT OF THE LABOUR MARKET

**ANALYSIS OF THE EXPERIENCES OF
AND PROBLEMS ENCOUNTERED BY WORKER
TAKE-OVERS OF COMPANIES
IN DIFFICULTY OR BANKRUPT**

MAIN REPORT



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Main Report

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Document

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Summary

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Aims of the Study

The aims of the study were

- (i) to provide a comparative review of the experience of Worker Take-Overs (WTOs) and attempted WTOs, in 6 member states,
- (ii) to identify the factors that facilitate or restrict attempts to form rescue enterprises, with particular attention to
 - roles and attitude of Trade Union organisations
 - roles and attitude of employers' organisations
 - access to capital
 - national and local Government attitudes
 - legal frameworks
 - role and experience of support agencies (and their scale and distribution)
- (iii) to identify areas of agreement concerning common pitfalls, dilemmas and good practice in the support of WTOs as well as key policy issues concerning them.

Six countries were selected for the study.

Italy has had the most extensive, and the most successful, experience of WTOs, with perhaps 1000 cases over the last decade. These generally involve small or medium size enterprises, and usually employ, between say, 30 and 200 people in the re-established enterprises. This experience has been concentrated in particular areas of Northern Italy, creating a context in which WTOs have become a normal feature of economic life.

The industrialised regions of *Spain* have also seen very large numbers of WTOs, reflecting both the severity of the economic restructuring it has undergone and the extent of public support for WTOs over the last 10 years.

In *France* the incidence and reputation of WTOs have both fluctuated sharply over the last decade. More recently, between 50 and 100 WTOs per year have continued to occur, with the most promising results being achieved in sectors where co-operatives have traditionally had a presence.

British experience has been far more limited, with only about 80 cases in total. However, the number of WTOs has tended to increase in recent years, particularly through the efforts of local authorities in relation to local economic initiatives. More WTOs are beginning to emerge in certain areas; and Trade Union attitudes are being reconsidered.

In *Denmark* only 14 WTOs have occurred. The great majority of these have been commercially successful so the interesting question is why there have not been more. This highlights the importance of economic and cultural factors and the traditions of the labour movement in understanding the conditions which give rise to WTO and make it a realistic strategy.

In *West Germany*, there have been 13 WTOs in the last two decades, but well over 30 attempts, most occurring in the last few years. In general, the experience of and capacity to support WTOs has increased quite rapidly in the last few years - particularly around Bremen - but starting from a very limited base, so that the institutional obstacles remain considerable.

Attempts at WTO: Why, When and Where

The great majority of attempts at a WTO are a response to the threat of unemployment. As such, they tend to occur:

- in industries undergoing re-structuring
- where the workforce possesses industry-specific skills for which demand is limited
- where the threatened plant or enterprise is a major employer on which the locality is economically dependent.

Such enterprises may be badly run down with little, if any, prospect of commercial viability. However attempts at WTO do not only occur in such circumstances. The owners of a viable, or potentially viable, enterprise or plant may wish to dispose of it for a wide variety of reasons and yet they may fail to attract a purchaser. Such failures in the market for enterprises arise, essentially, because of the high transaction costs associated with the decision to purchase an economic unit, and the likely difficulties of managing the acquisition effectively. Hence the prospect of a high return will be necessary in order to justify the risks involved. In short, an enterprise or plant may be threatened with closure not because it is unprofitable but because it is not considered to be profitable enough.

Whether or not the threat of closure and unemployment stimulates an attempt at a WTO depends on the confidence of the workforce and the credibility of the WTO idea. In this respect the attitude of various external parties is crucial.

In general, mainstream Trade Union movements have been doubtful or hostile towards WTO. More recently, rising unemployment and the failure

of traditional strategies for saving jobs have prompted a reconsideration of the WTO option and the position is now more complex and fluid with, for example, differences between unions, and between national and local levels, in several countries.

In countries with worker co-operative sectors, the extent of support offered by movement bodies for WTOs has, on occasions, been a controversial issue. WTOs have been seen as offering great opportunities and also great dangers. But in general the stronger the worker co-operative sector in a country, the more credible is the WTO idea, and the more support for WTO attempts there is available.

The actions of governments - whether at national, regional or local level - have also influenced the number of WTO attempts occurring in different countries and areas. Though their reasons have differed somewhat, governments of both the right and left have on occasions provided support for WTO, and in other contexts, both have opposed WTOs. In general, government actions towards WTO are best understood in relation to political pressures for job preservation and to the prevailing reputation of WTO for that purpose.

Overall, it is clear that attempts at a WTO are no longer an entirely spontaneous initiative by the workforce. It is a response to the threat of closure which has variously been promoted or discouraged, - either explicitly or tacitly.

Success tends to breed success. The credibility of the WTO idea and the availability of support for WTO attempts is affected by the success or failure of previous attempts. Over the last ten years, this had lead to concentrations of WTO activity in particular localities. In a historical perspective such self-sustaining tendencies may explain the very different institutional and cultural patterns of the labour and co-operative movements that have developed in, for example, Denmark and Northern Italy. In any event, it seems that the WTO response is more readily undertaken and accepted where collective entrepreneurship and decentralised self-help are established within the labour movement and the wider society. Such cultural considerations provide a caution against assuming that the experience of one country or region can be easily reproduced elsewhere.

Achieving a WTO

When a workforce attempts to take over a business this involves the preparation of a business plan, the creation of a new organization, and the mobilization of external support. These three areas of activity are closely inter-related.

Planning the business

The willingness of the workforce to accept responsibility for ensuring viability is critical for the formulation of a realistic business plan - and the discussion and preparation of the plan by the workforce is the vehicle by which it starts to discover and come to terms with the implications of a WTO. Decisions over job losses present these implications most starkly. While a substantial reduction in employment is commonly required there are a number of ways in which the difficulties this poses can be handled without jeopardising the WTO - particularly where there is external support from public agencies and other worker co-operatives.

The preparation of a credible business plan also depends on whether the workforce can obtain the necessary information and advice. In this respect, the attitude of the existing owners or managers, the extent to which the new venture can adopt the products, markets etc of the old, and the availability of appropriate support agencies or networks, are particularly important.

The business plans for most WTOs can be understood as variants of two basic strategies. The 'rescue' strategy is more like a conventional recovery plan intended to cut costs and abandon unprofitable lines. It tries to avoid any break in production and hence has the advantages of preserving the customer base and maintaining continuity of employment. On the other hand, the time available may not be sufficient to assess business prospects in detail, or for the workforce to come to terms with commercial self-reliance.

A 'phoenix' strategy is more like starting up a new enterprise - except that it is based on some of the employees, assets and perhaps customers of the old business. Characteristically there is a break of several months before production re-starts. This can lead to problems if key workers seek employment elsewhere. On the other hand, the additional time often makes it easier to plan the business realistically, and allows for attitudes to change, training to be undertaken, and the self-selection of a committed and cohesive group of workers. In addition a selection of the assets can often be purchased comparatively cheaply from the liquidator, thus avoiding taking over the entire plant (which may be valued as a 'going concern', and carry with it some liabilities, in the case of a 'rescue').

In practice these two strategies are more or less appropriate in different circumstances and many WTOs develop schemes that fall somewhere between them. However the distinction does highlight the particular difficulties of achieving a viable WTO in the case of the 'large plant' closures that have often attracted considerable publicity and political

controversy. For a variety of reasons (e.g. parent company control of markets, obsolete but capital intensive production facilities, etc) a rescue strategy is unlikely to be viable; a phoenix strategy will only support a small fraction of those previously employed; and neither approach is likely to sustain the high cost of the new product development often required.

Organising a WTO

The organization of a WTO is a formative experience for the enterprise created. Although some WTOs are promoted by external parties and the leadership, with the workers themselves in a passive role, it is more common for many of the workers to be actively involved. Ensuring the effective involvement of the workforce in the direction of the project poses severe problems - for structural, cultural and contextual reasons. Hence the process may at times appear passionate, disorderly, and 'unprofessional'. Nevertheless this involvement is often essential for a number of very practical reasons - it generates the shared understanding and the commitment necessary for new patterns of work and organization to develop. Hence, too, the ideals of self-management often (but not always) associated with WTOs cannot be dismissed as being irrelevant in principle and damaging in practice, in relation to the primary objective of job preservation. These populist and radical ideologies of worker autonomy appear often to be highly functional - for example, in facilitating a change of attitudes (e.g. from opposition to management to the acceptance of (self-)management responsibilities); in encouraging individuals to come forward to fill the managerial vacuum that commonly exists.

These and other organizational issues are often highlighted by difficult choices over the legal constitution of the enterprise - choices which will express the individualism or collectivism of the enterprise's philosophy, affect its financial structure, and determine how it is to be controlled. The absence of appropriate legal frameworks has been a serious problem in several countries and contrasts with the situation in Italy where the legal status of a co-operative provides clear advantages over other forms.

Mobilising external support

Although attempts at a WTO must gain the support of a range of external parties - suppliers, customers, the receiver, etc - the financial support of a bank is generally most critical. To gain this means overcoming three problems *that are quite independent of the actual commercial prospects*.

- o the problem of capital structure (the workforce's resources provide insufficient security for loans - and if loans are obtained the financial gearing may be excessive).

- o the crucial question of the management capacity of the enterprise is more difficult to assess (and this cannot sensibly be done on a conventional basis)
- o in most countries the banks are unfamiliar with WTOs; this, quite apart from an ideological antipathy, often involves misconceptions and evokes excessive caution.

In practice these closely interrelated problems mean that WTOs must obtain a measure of public funding - e.g as loans or guarantees - to reduce their commercial borrowing requirement, or the risk associated with it. Hence WTO commonly seek political support as well.

The somewhat uneasy combination of political and commercial logics poses problems for the workforce and usually follows one of two courses. In the 'loosely-coupled' model, a political commitment to the WTO precedes the detailed planning of the WTO and its financial requirements. In the 'tightly-coupled' model, political support depends on the commercial appraisal, and vice versa, so the process is iterative rather than sequential. Each of these patterns can generate sound business plans, a committed workforce and adequate financial support - and each, too, has its own way of failing.

After the take-over: varieties of success and failure

Although the proportions seem to vary somewhat between countries, a rough estimate is that, overall, up to 25% of WTOs fail without ever achieving viability; up to 25% are able to consolidate as secure and competitive enterprises; the remainder become marginal enterprises with fluctuating profitability. In any year a number of these marginal ones will fail - but some will continue for many years.

Cost reductions are the principal source of improved performance following a WTO. These commonly arise from reductions in management overheads, reduced labour costs, and improved production methods. The productivity improvements associated with WTOs have regularly been very substantial. On the other hand, shortages of capital, obsolete equipment, a lack of financial and marketing expertise, and a neglect of strategic management, have meant that the underlying competitive position of many enterprises remains weak (marginality).

Where consolidation is achieved the infrastructure of the co-operative or worker-owned sector (support agencies, consortia, financial institutions) has usually played a vital role. The importance of a worker co-operative or worker-owned sector is also apparent in providing cultural and organizational support for WTO enterprises as they progress from the

intense commitment, solidarity and egalitarianism of the early days to more sustainable forms of collaborative management or self-management.

Policy issues

Rationales for the Support of WTO

Support for WTO may be intended to serve a number of rather different, if related, objectives.

Job saving. In the context of Local Employment Initiatives support for this purpose is likely to be realistic and well-justified. The number of WTOs in an area does respond to policy initiatives. Comparatively modest amounts of public funding is often able to facilitate substantial investment by the workforce, the banks and other parties. Compared to the jobs created in many other LEI projects, the number of jobs saved in WTOs is often high, and the time and resources committed to WTO support appear to generate more jobs than an equivalent effort spent on 'new starts'. The survival rates of WTO enterprises do not at all support the popular view that these enterprises soon fail. Finally, in terms of labour market management, it is clear that support for WTOs is entirely consonant with the trend towards supporting enterprise creation efforts by the unemployed that is apparent through the European Communities.

Managing Decline. It has been argued that in the case of 'large plant' closures support for a WTO will often be justified even if the prospects for viability are poor. In such cases an important objective for governments is simply to manage the decline of the large plant so as to minimise the adverse effects on the local economy and labour market. Where some intervention is inevitable for social or political reasons, then support for a WTO in the form of a co-operative or other worker owned enterprise would be the preferred instrument on strictly economic grounds. This rationale is economically sound but politically unrealistic. A policy whose declared intention is to create viable workers enterprises cannot result in a significant proportion of 'failures' without being seen as a waste of public funds - even if, in fact, such 'failures' fall within the range of acceptable outcomes.

Nevertheless these economic arguments may still justify a measure of public funding for workforce-based re-employment initiatives that combine a gradual run-down of the former activities, with the exploration and preparation of potential 'phoenix' enterprises based on different products.

Economic restructuring The rationale for this objective is based on two propositions:

- (i) Re-structuring that arises *within* a declining enterprise is very much preferable, both socially and fiscally, to restructuring that results from the closure of one enterprise and the opening of another, often in a different region.
- (ii) WTOs can succeed where others have failed or are unwilling to try. Even if (inevitably) WTO enterprises are marginal to begin with, they can consolidate and develop.

These two propositions are basically sound but this objective is more ambitious than simple job-saving. The financial resources, the expertise and the time required to achieve this are much greater. Hence this objective will not be achieved if it is not adequately resourced, and pilot projects will be the appropriate first step in countries and regions with limited WTO experience.

Promoting a worker co-operative sector and/or employee ownership. The very substantial contribution that WTO enterprises have made to the growth of the worker co-operative sector in Italy, and the emergence of the SAL phenomenon in Spain, demonstrate that support for WTO can be an effective means of promoting 'economic pluralism'. This objective is closely associated with that of promoting economic restructuring - a dynamic sector can hardly be based entirely on marginal enterprises. In addition, the development of a worker co-operative sector with its own infrastructure (or equivalent secondary organizations for employee-owned firms) increases the prospects for economic restructuring through the support of WTOs. Hence, like the objective of promoting economic restructuring through WTO, the pursuit of 'economic pluralism' is a longer-term objective that would have to be resourced accordingly.

Instruments, pitfalls and dilemmas

WTOs have been supported in a wide variety of different ways. Many of these initiatives have occurred as part of more general efforts to develop local economic strategies, to support the cooperative sector or to create employment. At least initially, however, support for WTOs has always been ad-hoc and as such it has been characterised by a number of common weaknesses:

- (i) *Expecting too much, too soon.*

Hastily prepared measures, limited time horizons, and over-ambitious policies have often resulted in an unacceptably and unnecessarily high proportion of failures.

- (ii) *Inadequate support measures.*

Common weaknesses in the form and extent of support provided for WTO include:

- o providing insufficient funds
- o providing funds on an inappropriate basis
- o providing funds, but no other support

(iii) *Insufficient attention to smaller WTOs*

Because of the greater political pressure created by the threat of large plant closures the greatest effort (and the largest financial and political investment) has been made in the most difficult cases. Much more straightforward opportunities have been neglected.

(iv) *No evaluation of support policies.*

The absence in any of the countries studied of any systematic efforts to assess policies of support for WTO is striking.

Dilemmas

The experience of WTOs also highlights a number of dilemmas that are inherent in any attempt to provide support:

- o *Realism versus encouragement.* Any policy to support WTO must avoid encouraging attempts on an inappropriate basis, or raising false hopes.
- o *Financial assistance versus financial dependence.* Where public funds (or guarantees) are provided for a WTO, the danger arises that the workforce may see itself as being rescued, rather than being the rescuers.
- o *The short-term versus the long-term.* Policy makers and agencies will be under strong pressure to achieve results. But where existing experience is limited, the cost of failure will be high and the infrastructure to support WTOs effectively cannot be created overnight.
- o *Support versus direction.* The nature of the support relationship is problematic. A reluctance to insist that particular problems are faced may lead to costly mistakes jeopardising the enterprise. But efforts to prevent failure may easily be counter-productive: insisting that

particular issues are tackled may undermine the relationship, leading to a rejection of the advisor; or it may lead to dependence, and an erosion of the psychological ownership of the project and the self-reliance that are so important for its success.

Some General Principles

- o Any support for WTO must recognise that the workforce are the central figures in the project. If the workforce is not interested in a WTO - and they may have good reasons for rejecting the option - then the idea cannot sensibly be pursued.
- o Financial support for a WTO should not be an entitlement. It must always be justified in relation to the prospects for developing a viable enterprise.
- o Advisory support for a WTO is not the same as normal business advice, nor is it effectively provided by conventional business advice agencies.
- o The financial support provided for WTOs should be commensurate with the other support services available, and vice versa.
- o Prolonged, close involvement by the Public Authorities and the Trade Unions in the support of WTO is undesirable and ineffective. Their general support, and occasional specific assistance, remain invaluable.
- o The secondary organizations representing WTO enterprises (Co-operative Associations, SAL federations etc) and agencies associated with them, should be the principal locus of support for WTO. Where such organizations do not yet exist, LEI and new social movement networks should be recognised as the primary source of support.
- o The state has three roles in relation to the support of WTO:-
 - (i) Guaranteeing equal access
 - (ii) Enabling not directing
 - (iii) Co-ordinating and reviewing support for WTO
- o Given the extreme urgency affecting most WTO, it is essential that the provisions of any government measures are clear, and that they can be effected quickly.

- o Rescues of larger (above say, 300-400 employees) and more capital-intensive plants and enterprises should be undertaken only under very favourable circumstances.
- o Some sectoral and geographic concentration of support for WTO is likely to be more cost-effective in the long run.

Priorities for enhancing the support of WTOs

The following issues deserve particular attention in any efforts to develop public policy in relation to WTO:

Removing obstacles to WTO

A range of administrative, legal and fiscal obstacles hinder attempts at WTOs. Some of these obstacles are specific to WTOs; others affect co-operatives more generally. Some are minor irritants; others are of major significance. A few might require significant legislative time because they involve fairly complex legal and other issues; many could be resolved by minor additions or amendments to existing provisions or even on a purely administrative basis. In no cases would removing such obstacles require additional financial commitments by governments, beyond those already committed to existing programmes.

The principle of equal access that justifies the removal of administrative legal and fiscal anomalies that obstruct WTOs may also justify measures of positive discrimination in favour of WTO. The workforce of a closing plant or enterprise is often so disadvantaged in its attempts to mount a WTO in relation to other interests (creditors, asset-strippers, mother company etc), and so obstructed by a general lack of understanding of WTO (among banks, suppliers, customers, Trade Unions, receivers etc) that only government measures to legitimise and facilitate WTO will prevent failures in the market for enterprises and allow the full benefits of this option to be realised. Such measures might include:

- o extensions to employee rights to information in the context of plant and company closures
- o modifications to receivership laws which are currently framed entirely in terms of creditors and shareholders rights
- o under specific conditions the introduction of a 'right to buy' for the workforce.

The Marginality Problem

A long-standing criticism of the WTO option is that it produces marginal enterprises with poor long-term prospects and unsatisfactory terms and conditions of employment. Since most WTO are undertaken and resourced with a limited, job-saving objective, criticism on the grounds that they have not also achieved restructuring and consolidation is rather severe. At any point, a substantial proportion of small and medium sized enterprises can be considered 'marginal' and they still contribute substantially to employment. Hence the problem is not one of 'marginality' as such. It is, firstly, that the worker co-operative and worker-owned sectors have a disproportionate number of marginal enterprises placing an undue burden on their resources and secondly, that those enterprises with the potential to escape their marginal status frequently lack access to appropriate finance and real services to allow this to happen.

Ensuring the capacity to provide selective support for this purpose will mean developing the infrastructure of the worker co-operative (or worker-owned) sectors, especially in such areas as:

- o Sectoral collaboration and joint ventures
- o Consulting and advisory services
- o Training and 'cultural' support for both workers and management
- o The development of institutions for co-operative financing

Public support for measures to address the marginality problem (through the development of the infrastructure of the worker co-operative and worker-owned sectors) would obviously have to be commensurate with the social benefits anticipated, but it appears well justified on employment grounds (both directly as regards the enterprises themselves, and indirectly, in maintaining the credibility of the WTO option with employees, Trade Unions, Co-operative Associations and other such bodies); as a socially and fiscally efficient contribution to restructuring; and as a longer term investment in 'economic pluralism'.

The 'Large Plant' Problem

New approaches to the 'large plant' problem are required.

It is important to explore the possibility of other frameworks within which workforce-based employment initiatives could be supported in such cases. The aim would be to gain the advantages of a WTO - in enlisting the skills and intelligence of the workforce, in cultivating an ethic of self help and self-reliance, in providing a resource and organizational base for product

and business development, in protecting the locality from complete and sudden closure - without the project becoming demoralized, or appearing as a failure because it was unable to achieve commercial viability, and unable to provide continuity of employment for all those involved in it.

Despite its many difficulties, the experience of the Bitteswell Employment Alliance (see UK country study) is suggestive of the scope for workforce based initiatives of this sort which, by being less individualistic and paternalistic, would seem to have considerable advantages over the usual employment advice services introduced in the context of large plant closures.

The Evaluation and Exchange of Experience

The following issues are seen as deserving particular attention in future studies and conferences, both nationally and internationally:

(i) Management training and development.

The role of management in WTOs and other LEIs is both crucial and problematic. A shortage of appropriate and competent managers is widely believed to be a major constraint on future development. Little is known about the profiles and career paths of those who do undertake managerial roles in such projects. Currently there are reports of a number of experimental management training and development initiatives underway, or being prepared, in several European countries. A comparative review of these initiatives would be timely.

(ii) Support methodologies.

WTOs and other enterprise creation projects require advice and support over a range of issues. Such support can only be provided by people with the requisite business know-how and with the appropriate counselling skills and approach. In practice, the latter skills are less well recognised and are more difficult to find and develop. A study of the different models and methodologies for providing such support in LEI contexts would raise awareness of this issue and help to disseminate good practice.

(iii) Cost-benefit studies.

Although many case studies exist, very few provide information helpful to policy-makers. The general case for supporting WTOs set out in this report needs to be tested against a few more rigorous studies of selected WTOs. The aim would be to enable comparisons with alternative measures for both job-saving and re-structuring.

(iv) Trade Union - co-operative relations.

A comparative study of recent developments in trade union - co-operative relations is needed to review and disseminate experience of the agreements that have been reached, the new initiatives that have been promoted (such as co-operative sector branches, courses for Trade Unionists in respect of WTOs, collaboration with the new social movements) and the extent to which the legitimate anxieties of both sides are actually borne out in practice.

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ANALYSIS OF THE EXPERIENCES OF AND PROBLEMS
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COMPANIES IN DIFFICULTY OR BANKRUPT

I. - Main Report

SUMMARY

This study examines the experiences of and problems encountered by worker take-overs of companies in difficulty or bankrupt, in the following member states: the United Kingdom, France, West Germany, Denmark, Italy and Spain. These countries provide a range of experience - from those where worker take-overs are rare, to those where they are an accepted feature of economic life.

The study reviews the similarities and differences among the experience of worker take-overs both within and between the member states in order to identify the factors affecting success and failure, the common pitfalls and dilemmas, and good practice concerning the support for such rescue enterprises. It considers the roles and attitudes of Trade Union organizations, national and local government policies, the availability of capital, legal frameworks, and the requirements of support agencies.

The study aims to identify the key policy issues concerning whether, in what circumstances, in what ways, and to what specific ends, it may be appropriate for the principal parties likely to be concerned, to support attempts at worker take-overs.

This study was financed by the Commission of the European Communities as part of its Programme of Research and Actions on the Development of the Labour Market. The analyses and the results presented do not necessarily reflect the views of the Commission nor do they commit it to a particular view of the labour market or on other policy matters.

The report has been made available for information only. It should not be quoted or referred to in published material without the authority of the Commission.

Enquiries relating to the study should be addressed to the Directorate General for Employment and Social Affairs - attention of Division V/8/2 - Commission of the European Communities - 200, rue de la Loi - 1049 - Bruxelles.

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1 Introduction

This report considers a phenomenon which, according to many conventional views of business, should scarcely exist. To the extent that Worker Take-Overs (WTOs) do occur, such views would expect a report on their experience to be "nasty, brutish and short". In fact, WTOs are no longer particularly rare events and their experience, though mixed, is certainly not a simple tale of failure - for example, in those regions where WTOs have become an accepted part of economic life, their numbers run in hundreds and the jobs saved in thousands. Indeed, the contrast between the quite definite achievements of WTOs and (in many countries) their publicly perceived failure, is striking.

Although WTOs raise a number of other important questions, it is in relation to public support for job-preservation and creation that they have attracted most controversy. Since attempts at WTO tend to occur in the areas of greatest need - where unemployment levels are particularly high - the pressure for public support is understandable. But whether policies of support for WTOs would tend to facilitate or to obstruct the processes of economic adjustment, and what costs and benefits they might contribute to other policy objectives, remain uncertain. Similarly, in countries where measures of support for WTOs have been explored, as additional instruments of labour market management and local economic strategy for example, it often remains unclear what the priorities should be and how such support may be most effectively implemented. Hence in terms both of general desirability and of appropriate measures, the issues surrounding support for WTOs are controversial. However, in the absence of any systematic, comparative review of what is a complex and varied phenomenon, the conflicting arguments are hard to evaluate.

1.1 Aims

The aims of the study were

(i) to provide a review of the experience of WTOs, and attempted WTOs, in 6 member states, that would incorporate

- simple descriptive statistics on the scale of the phenomenon,
- appropriate illustrative material
- an analysis of the main similarities and differences both between and within the designated member states;

(ii) to identify the factors that facilitate or restrict attempts to form enterprises, with particular attention to

- roles and attitude of Trade Union organisations
- roles and attitude of employers' organisations
- access to capital
- national and local Government attitudes
- legal frameworks
- role and experience of support agencies (and their scale and distribution).

(iii) to identify areas of agreement concerning common pitfalls dilemmas and good practice in the support of WTOs as well as key policy issues concerning them.

1.2 The Scope of the Study

The following member states were selected:

Denmark
 Federal Republic of Germany
 France
 Italy
 Spain.
 The United Kingdom

These countries range from those with very considerable experience of WTOs (Italy and Spain), to those with fairly limited experience (Denmark and West Germany).

Attempts at WTOs, and support for them, are one of a number of responses - including 'management buy-outs', 'community businesses' and other local economic initiatives - to company and plant closures under conditions of rising unemployment and economic restructuring. There is no clear demarcation between some of these developments and some WTOs. For example, some management buy-outs (that is, the purchase of an economic unit from its owners by a group of its managers) involve substantial and widespread employee shareholdings; and some community businesses utilise the premises, and some of the equipment and employees, of failed enterprises. For the purpose of this study a WTO is defined as a case in which a business is continued, or created, on the basis of the assets of a failing or bankrupt enterprise, by the workforce, or a part of it, within either a cooperative framework, or one satisfying the following conditions:

- (i) A substantial proportion of the voting shares are held by members of the workforce;
- (ii) A substantial proportion of the members of the workforce own voting shares (or are members of a corporate body owning the shares);
- (iii) The voting shares are fairly evenly distributed among those who own them, or in some other way it is ensured that ultimate control resides with the workforce.

Although many WTOs utilise co-operative legal frameworks to form workers' co-operatives, these conditions can be, and often are, satisfied by a wide range of structures using conventional company law. However, this definition does not include cases where an enterprise is purchased by a national Trade Union body and controlled by that body (as in Denmark).

While the better known cases of WTO have occurred where a company or plant was being closed down as uneconomic or, indeed, bankrupt, an increasing number of cases occur where a company, or part of it, is still profitable, if marginally so, but where its underlying competitive position is weak. Such cases have been included in the scope of the study.

Using these definitions, WTOs may occur at any of three points in the decline of an enterprise or plant:

(i) 'conversions' refer to WTO that are arranged before the unit ceases trading or goes into receivership.

(ii) 'rescues' refer to WTOs that are arranged generally with little or no loss of trading continuity, when the enterprise is under the control of the receiver.

(iii) 'phoenixes' refer to WTOs based on some of the residual assets of a liquidated enterprise after trading has ceased, sometimes many months later.

1.3 Approach.

The study did not undertake more than a very limited amount of original investigation or research. In general, very little systematic data has been gathered or is available on the numbers of WTOs, their characteristics and outcomes. The 'hard facts' simply do not exist and in the time available there was no question of being able to remedy such an extensive deficiency. For example, even the most rudimentary questions about the numbers of worker take-overs, the numbers of jobs involved or the proportions of WTO enterprises that collapse, survive or expand, are generally impossible to answer except with crude estimates based on the opinions of those in support organisations.

Nevertheless, although the amount of published material on WTOs is limited, and tends to be case-specific, work in this area is now increasing and unpublished documents, conference reports etc. were obtained. Given that the existing learning regarding WTOs is often poorly articulated and disseminated within member states - let alone between them - the study concentrated on drawing together and integrating the available information.

The study also refers to the views of various bodies, such as Trade Unions, and of leading practitioners, either as a result of discussions with them or their staff, or on the basis of documents or reports. It was not always realistic or possible to check these summary accounts of the perspectives of such bodies with them. Obviously the risk remains that they may be uneasy about particular emphases, or points omitted. Such procedures and risks are virtually inevitable in policy studies but it is most unlikely that any deficiencies, while

regretted, would be such as to materially affect the main thrust of this report. It should also be noted that the views of many of the parties referred to are currently changing in the light of experience and debate.

1.4 Introduction to the countries studied

Italy has had the most extensive, and the most successful, experience of WTOs, with perhaps 1000 cases over the last decade. These generally involve small or medium size enterprises, and usually employ, between say, 30 to 200 people in the re-established enterprises. This experience has been concentrated in particular areas of Northern Italy, creating a context in which WTOs have become a normal feature of economic life.

These developments have occurred in the context of an established and growing cooperative movement, which, although institutionally divided according to political orientation, nevertheless commands broad all party support. The cooperative movement has evolved sophisticated networks both of commercial consortia and of regional and sectoral support organisations, that ensure close collaboration with political authorities and Trade Unions. Such networks have been able to provide the financial, marketing and managerial assistance to re-orient failing and failed enterprises in a range of sectors. However, these efforts have put a considerable strain on the resources of the cooperative movement which is increasingly reluctant to accept responsibility for the failures of the private sector. While public funds have been provided to support the transformation of enterprises in crisis, this has sometimes been at the expense of efforts to promote longer-term developments of the cooperative movement in more dynamic sectors, and a range of legal institutional and policy issues remain to be resolved, particularly surrounding the long-delayed implementation of the potentially far-reaching measures provided in the 'Marcora' law.

The industrialised regions of Spain have also seen very large numbers of WTOs, reflecting both the severity of the economic restructuring it has undergone and the extent of public support for WTOs over the last 10 years. However, the particular instrument used to provide support initially took little account of commercial requirements and many of the WTO enterprises created by it fared badly. In the last few years new measures have been introduced to provide funds on a more realistic basis, as well as other support, and the situation has changed considerably. One unique feature of the Spanish experience is the large number of WTOs - a majority in fact - that have used the framework of conventional company law, forming Sociedades Anonimas Laborales, rather than cooperatives. Such SALs are now developing their own support organisations, and in general the institutional environment for WTOs is evolving quite rapidly at the present time.

In France the incidence and reputation of WTOs have both fluctuated sharply over the last decade. During the 1970s the number of WTO

increased gradually, to between 25 and 50 per year in the closing years of the decade, augmenting other changes in what had been a modest and homogenous worker cooperative sector. Between 1981 and 1983, following the election of a left government and a marked change in policy by major unions, the number of WTOs averaged about 100 per year, and included a greater number of larger enterprises. In 1984, however, these policies were abandoned at a national level, following the failure of a number of these WTO enterprises. Nevertheless between 50 and 100 WTOs per year have continued to occur since then, with the most promising results being achieved in sectors where cooperatives have traditionally had a presence. Throughout this period a number of changes in related national and local government policies, and the evolving expertise of CGSCOP (the representative body of the worker cooperative movement) have significantly increased the capacity for support for WTO, even if Trade Union support has been erratic.

British experience has been far more limited, with only about 80 cases in total. The poor publicity associated with the three large 'Benn' cooperatives in the mid-seventies, the weakness of the existing worker cooperative sector, and the considerable popularity of management buy-outs (both with finance houses and, it would seem, with Trade Unions) may have contributed to this, along with sceptical or negative attitudes among many trade union leaders. However, the number of WTOs has tended to increase in recent years, particularly through the efforts of local authorities in relation to local economic initiatives. More WTOs are beginning to emerge in certain areas; and Trade Union attitudes are being reconsidered. Hence the capacity to support WTOs is increasing and it is likely that their numbers will continue to increase.

In Denmark only 14 WTOs have occurred (with a higher proportion of 'conversions' and fewer 'rescues' and 'phoenixes'). The great majority of these have been commercially successful so the interesting questions are why there have not been more and why there is not an increasing trend. Answering these questions highlights the importance of economic and cultural factors, and the traditions of the labour movement in understanding the conditions which give rise to WTO and make it a realistic strategy. Nevertheless, the continuing recession, a strong alternative movement, and a renewed interest in worker ownership (in relation to debates about economic democracy) suggest that WTOs may not always be such a peripheral issue.

In West Germany, there have been 13 WTOs in the last two decades, but well over 30 attempts, most occurring in the last few years. Many of these, and have occurred where large plants have closed. These efforts have had to overcome a number of obstacles related to the highly centralised and formalised traditions of industrial relations in Germany, including a hostile attitude from many Trade Union leaders (though the metal workers union is becoming more sympathetic). In addition the traditional cooperative movement has been politically and culturally remote from these efforts, with support being provided instead through informal networks that have drawn on assistance from

the alternative and ecological movement. Perhaps partly as a result of this several German WTOs, and attempted WTOs, have explored the scope for converting to socially useful and ecologically sound products. In general, the experience of and capacity to support WTOs has increased quite rapidly in the last few years - particularly around Bremen - but starting from a very limited base, so that the institutional obstacles remain considerable.

1.5 Overview

Chapters 2, 3 and 4 summarise the main features of the experience of worker take-overs, from the conditions under which attempts are likely to be made, through the problems that have to be overcome if a WTO is to be achieved, to the eventual success or failure of those enterprises created. Considerable attention is paid to three aspects: the different types of WTO in terms of their size and economic circumstances; the social dynamics of the WTO in terms of the individual and organizational learning that is essential; and the role of support agencies and networks. These aspects are essential in order to appreciate what can realistically be expected from a policy of support for WTOs and the dilemmas any such policies will have to face.

The final chapter draws together the policy implications arising from this experience. It examines critically the different objectives that support for WTOs may be designed to achieve, it highlights some of the more common pitfalls and dilemmas in providing support, and it sets out a range of general principles concerning the nature and location of support services. Finally it identifies a number of issues that require particular attention if support for WTOs is to be enhanced.

Throughout the report reference is made to specific aspects of the WTO experience in the six countries studied. These 'country studies' are also available, and provide an account of the relevant legal, political and institutional context, recent trends and the extent of WTOs in each case. They also provide a range of illustrative material, exemplifying particular points made in this report in much more detail.

2. Attempts at WTO: Why, When and Where

Attempts by workers to take-over and revive companies in crisis have been a recurring response to the threat of closure, particularly in times of economic recession. In Italy, WTOs have occurred periodically throughout this century and a majority of the worker co-operatives in Italy today originated in this way. Similarly, in the United Kingdom, there are substantial and successful co-operatives that were formed through WTOs over 100 years ago. During the recession of the 1870s. Thus the current wave, beginning in the 1970s and manifest in varying degrees throughout the European Communities, conforms to a clear pattern. Nevertheless, while rising unemployment and economic restructuring provide the general context, the incidence of WTO still varies enormously both within and between countries. So other factors must be considered in order to understand the phenomenon. The aims of this section are to indicate the variety of circumstances in

which WTO have been attempted and to identify the underlying economic, institutional and cultural factors that seem to favour this response to the threat of enterprise closure rather than others. It offers a broad overview of the phenomenon as a context for later, more specific, discussions of WTO problems and policy options.

2.1 Varieties of closure and workforce response

Attempts at WTO are more common in industries - such as metal working, woodworking and textiles - that are currently in decline, or being restructured, whether as a result of cyclical down-turns, technological change, changes in tariff regulations (e.g. in Spain), or as part of wider changes in the international division of labour. In such cases, resisting closure of a plant or firm may be impossible because the owners see no scope for a return to profitable operations and no buyer is available. Hence unless the workers take it over, the plant will close and remain closed. If unemployment is already high or rising this may provide incentive enough to consider the WTO option.

Two factors accentuate this general tendency. First, where the failing business is a major employer in the locality, the consequences of closure are likely to be far more severe for the community. An extreme case of such circumstances is provided in areas of Spain where the threat of closure may effectively mean the de-industrialization of the locality in which the plant in question had provided the first significant step towards industrial development. In such cases Local authorities, suppliers and other business interests, and the regional trade union officials, are more likely to support (or even promote) a WTO - indeed the national government may come under strong political pressure.

Secondly, where many of the skills in the threatened plant or firm are industry-specific, the effect of closure on the local labour market will be severe, even if unemployment in general is not particularly high.

These two factors - local economic dependency and industry-specific skills - occur in many of the larger and better known cases of WTO, such as Manuest (France) Olympia (FRG) Clems (Italy) and the Scottish Daily News (UK). Such large scale attempts constitute a particular type of WTO and are discussed in some detail in due course. They are not, however, typical. Most attempts at WTO occur in enterprises of less than 200 employees, and often the number is between 10 and 50. But whether large or small, the WTO attempts arising in the circumstances outlined so far are usually characterised by three features:

- (i) they arise where the social need for job preservation is great,
- (ii) they arise in extremely adverse economic conditions.

(iii) they are undertaken 'as a last resort', when other ways of resisting closure have had to be abandoned.

Notwithstanding the prevalence of well-publicised WTO attempts in such circumstances, it is essential to realise that very many WTO do not conform to this pattern. In the first place, some WTOs occur where employment is not really a problem. For example, where a small or medium-sized enterprise with harmonious internal relationships becomes insolvent, a worker-takeover may be mounted in order to preserve and financially re-structure the business. This has occurred even in cases where the labour market for the skills concerned is comparatively buoyant and most employees are unlikely to face unemployment. The motivation in such cases is primarily firm-saving, rather than job-saving - the case of IKP in the Danish study provides an example and there have been others in the Italian newspaper industry. Although a pure firm-saving motivation is much less common, such a concern has often provided an important supplementary motivation for a WTO (for example, the strong desire of the Meriden workforce to continue producing the Triumph motorbike). Moreover, firm-saving WTO can and do occur in more dynamic sectors of the economy - a point of considerable significance for co-operative movements concerned to avoid marginalization in declining sectors.

Secondly, many attempts at WTOs although primarily aimed at job-preservation, are directed towards viable or potentially viable enterprises and plants. It is simply not the case that WTO only occur in economic units with no prospect of viability. If the owners and/or managers of an economic unit are unable or unwilling to arrange its profitable operation this does not necessarily mean the unit cannot be made viable; new owner/managers may succeed - as the considerable literature on business 'turn-arounds' testifies (1). However, if other purchasers for the business are not forthcoming it is commonly assumed that therefore the business has little if any prospect of profitability. Such an assumption may or may not be justified.

The general reason for questioning this assumption is that the market in firms, like other markets, has its imperfections. The transactions costs associated with the purchase of a plant or enterprise are very high. Considerable uncertainty usually exists regarding the status of human and capital assets and market trends - an uncertainty likely to be accentuated by doubts about the competence and motivations of those selling the unit. Such uncertainties may be accentuated by time pressures. In addition, the management of acquisitions is notoriously difficult, especially where the acquisition involves unfamiliar (if related) processes and is geographically distant. The difficulties, costs and uncertainties associated with reducing staffing levels (especially where the plant is strongly unionised or where employment protection legislation significantly reduces freedom of action) may be a particular disincentive, government industrial policy may make the alternative of opening a 'green field' site more attractive. Clearly, the greater the transaction costs and perceived

risks, the higher the return prospective purchasers will require to justify the investment. Hence, a marginally or potentially profitable unit may not attract purchasers.

Such circumstances can arise in a variety of ways. First, the number of possible purchasers may be very restricted for reasons that have nothing to do with the status of the threatened plant. For example, in regions where industrialization is just starting there may be very few entrepreneurs with anything approaching the necessary resources or experience. Or the location of the plant in region affected by political instability may deter purchasers from outside the region.

Second, there are cases where a group of companies has collapsed but contains profitable (or potentially profitable) units within it. Where the group's collapse is spectacular, possible purchasers may fail to appreciate the business opportunity available because they lack the inside information. Such circumstances have also provided the occasion for successful management-led buy-outs (2).

Third, there are cases of corporate divestment (usually of smaller units) that fail to find buyers. Such divestments may arise because a unit is insufficiently profitable, or may follow from changes in business strategy, or may be the result of conglomerate mismanagement and under-investment leading to poor results. A fairly typical example is provided by the supermarket chain in the UK that decided to concentrate on larger outlets in a more restricted geographical area. This meant closing a number of smaller outlets in North Wales, two of which were taken over as worker co-operatives and continue to trade successfully. Publications Elysee in Paris and the SWA case (see FRG study) are other examples. (Again, many management buy-outs have arisen in similar circumstance.) Such divestments have also occurred as part of strategies of productive decentralization; that is, particular production activities are closed down and contracted out to a smaller firm. In Italy the workers concerned have sometimes taken over the necessary equipment and formed a co-operative based initially on sub-contracting to their former employer. This has also occurred in Denmark where employers in the newspaper industry have wished to avoid being directly involved in managing industrial relations in a period of technological restructuring.

Fourth, there are the cases (again usually smaller units) where an older owner-manager dies or wishes to retire. If, despite being profitable, the competitive position of the firm is weak, it may be hard to interest prospective purchasers. Where management-worker relations have been harmonious, all concerned may consider a WTO the obvious solution, and it may be fairly straightforward to arrange. This has occurred in all the countries studied (with the possible exception of the UK).

Fifth, where a company is in some difficulty (because of e.g. high labour costs, obsolescent plant or products, financial mismanagement etc) its efforts to resolve the problems may be resisted by the

Unions, which can lead in due course to threats of closure and escalating conflict. As a result, possible purchasers of the enterprise, and private and public sources of finance, may be put off from investing by strikes, occupations and poor industrial relations - even though the underlying commercial problems are not particularly severe. Such situations have been quite common in Italy (the CLG case in the Italian study has many of these features). The usual pattern is for a prolonged period of uncertainty, and conflict during which production is suspended and demonstrations, and negotiations with a range of interested parties, take place in pursuit of a solution that will preserve the enterprise. In due course (perhaps after some of the workforce have drifted away and thus solved the redundancy problem) a WTO with the support of a Co-operative Association may be arranged. That such an outcome should result from the original difficulties is certainly not planned or intended - and sections of the workforce may at first be strongly opposed to a WTO.

Nevertheless, the underlying logic of such cases is clear: where industrial relations are a major factor in the enterprise's problems, then the strategy of a WTO and the formation of a co-operative is likely to have a competitive advantage, and to be viable where others would not be, - because it provides a different foundation to worker-management relations. This seems particularly to be the case in labour-intensive industries where performance is strongly affected by the cost and quality of labour. (Of course, the suggestion that the co-operative option will often possess a competitive advantage in such circumstances does not mean that all industrial relations problems disappear in a co-operative.)

Sixth, there are cases where the only prospective purchasers are unacceptable to the parties involved. This occurs when the purchasing company has a reputation for 'asset-stripping', or is openly proposing to run down the plant for short-term financial gains. In such cases, local political interests may join with the workforce in pressing the existing owners to reject the offer, and in preparing a counter-offer based on the maintenance of productive activities in the locality.

In all such cases, an offer by the workforce to purchase and run the unit prevents a failure in the market for enterprises and the closure of a profitable or potentially profitable unit. The fact that other purchasers are not available cannot therefore be taken as demonstrating that a WTO will not be viable. A worker's 'turn-around' may be perfectly possible. The impression generated by well-publicised cases, that WTO only occur in the most adverse economic circumstances, does not fit the facts and is seriously misleading.

Given that WTOs can be and are attempted in a variety of closure situations, it is, nevertheless, quite clear that the threat of closure and unemployment does not automatically lead to a WTO being considered. The WTO option is frequently ignored or overlooked. One explanation is that in countries that have a well-developed welfare state the 'costs' of unemployment for individuals are much less severe

than in countries where social security provisions are far more limited. It would be surprising if this fact did not contribute to the frequency and intensity of attempts at WTO. Thus Denmark, where generous earnings-related unemployment benefit is virtually guaranteed for many years, with normal social security thereafter, has had very few WTO. By contrast, Italy and Spain, where unemployment benefit is more limited, have seen many.

More fundamentally, however, WTO attempts arise from the beliefs of the workforce - that it will not be possible to resist closure in other ways; that the plant is capable of profitable operation (management claims notwithstanding); and that they will be capable of running it themselves. Above all, a WTO attempt is much more likely where the idea of WTO is available to the workforce and has credibility.

2.2 The Credibility of the WTO Option

Whether or not a WTO will be seriously considered by a particular workforce facing closure often depends on the credibility of the idea with a range of external bodies, - such as local government departments, trade unions and co-operative movement organizations. Where the WTO option is generally considered by one or more of these bodies to be worth exploring, then they are likely to support, or even promote, a WTO attempt by the workforce. By contrast, where the WTO option is widely discredited or distrusted, fewer WTO attempts tend to occur.

Hence the attitudes of these bodies are an essential factor in understanding the incidence of attempts at WTO. This section reviews the range of attitudes towards the WTO option that are held by these external parties and indicates some of the ways in which they can stimulate or undermine WTO attempts in particular countries or regions.

2.2.1 Trade Union Attitudes

The WTO option is not easily reconciled with many established trade union strategies and it is often dismissed for this reason. In Denmark the labour movement has traditionally adopted a centralised approach which is reflected both in the preference for Trade Union (rather than worker) buy-outs of enterprises in crisis, and in the current proposals for economic democracy based on central funds. Similarly, the ideological and institutional attachment of the labour movement in the Federal Republic of Germany to co-determination in industrial relations has been incompatible with strategies of self-management and autonomy. Likewise, the fundamental commitment of trade unions in the United Kingdom to collective bargaining has meant that a management buy-out has commonly been seen as preferable to a WTO which would threaten conventional collective bargaining. More specifically, common Trade Union arguments against WTOs are that:

- o Supporting attempts at WTO can undermine the fight against closure (and privatization).
- o WTOs can lead to splits in the labour movement - as when workers elsewhere in the same industry feel their jobs are being threatened by support for workers in a WTO (e.g. the response of workers at Small Heath, Birmingham to the Meriden cooperative; similar situations have occurred in Spain).
- o Support for a WTO will involve collaboration in job losses, wage reductions and the violation of other Trade Union principles (e.g. concerning craft skills and job demarcations); in general, WTO are seen as producing marginal enterprises in which market pressures force 'self-exploitation'.
- o Support for WTOs diverts scarce skills and financial resources away from trade unions' primary responsibilities; and diverts attention from the responsibility of governments to maintain employment.
- o Enterprises arising from WTO do not usually survive for long. Traditional approaches to the regulation of enterprises and the labour market have proved more effective, historically.

Such arguments have generally ensured that mainstream Trade Union movements are at best doubtful or indifferent, and at worst hostile, towards WTO. However rising levels of unemployment and the failure of traditional strategies for saving jobs have prompted a reconsideration of the WTO option within the labour movements of all the countries studies (except, so far, Denmark). The main arguments for Trade Union support for WTOs are:

- o Self-management and producer initiatives are closely related to traditional labour movement aspirations.
- o The enterprises created through a WTO can and do survive for many years.
- o The membership in threatened plants frequently calls for Trade Union support.
- o Unrealistic attempts to resist closure (and privatization) can seriously jeopardize the prospects for a WTO and continued employment by Trade Union members.
- o Trade Union involvement is essential to prevent declining standards of employment, or to contain any modest or temporary reductions if these are genuinely necessary.
- o Even if it does not like it, the labour movement cannot ignore the growth of the social economy, nor the increasing trend towards wider employee involvement in the ownership of enterprises, nor the

trend away from large enterprises in heavy industry towards smaller organizations in service sectors. By becoming involved in these developments it may influence them; it is bound to lose influence if it simply ignores them.

Hence although WTOs are still considered mainly as a 'last resort' strategy Trade Union attitudes towards this option have become more varied and complex. Considerable differences exist between Unions (e.g. in France, in the Federal Republic, in the UK) but also within the same Union - local officials, for example may actively support WTO although the national policy is hostile or equivocal (e.g. IG Metal in the Federal Republic). Likewise, Union attitudes can vary between regions - as in Spain, where the experience of WTO varies very considerably in different parts of the country. The Italian Trade Unions have had the greatest involvement with WTO and have probably come closest to a serious endorsement of the WTO option - in the form of agreements reached with the Co-operative Associations. But even here local trade union attitudes vary widely.

In any event, such variations in the legitimacy and support which Trade Unions provide for the idea of WTOs help to explain the marked variations in the number of attempts at WTO that occur in different regions and countries, and for the general increase in WTOs during the 80s. This is most sharply illustrated in the statistics for WTOs in France where the CGT union changed from opposing WTOs to supporting them - and then changed back again, a few years later. These shifts in the unions position were one important factor generating a marked but temporary increase in the numbers of WTOs occurring during this period.

2.2.2 Co-operative Movement Attitudes

The presence of successful worker co-operatives in the region or sector in which a closure is threatened greatly increases the likelihood that the WTO option will be considered by the workforce. In general, when the worker co-operative sector is broadly based and integrated into an established co-operative movement - as in Italy and parts of Spain - WTO attempts are much more common. By contrast, where established co-operative movements do not include worker co-operatives and are distanced (for cultural and historic reasons) from the labour movement - as in Denmark, Germany and the UK - then a WTO is rarely attempted. More recently, however, the new social movements based on alternative and ecological concerns in Germany, and an embryonic 'new wave' worker co-operative movement in the UK, have promoted the idea of WTOs and provided practical support. This has contributed to the increased incidence of WTOs in these countries, though the numbers remain small in comparison with Italy and Spain. Finally, France has an established worker co-operative movement, but one that has been concentrated in particular industrial sectors and that is not closely tied to the wider co-operative movement. The incidence of WTO has fluctuated but it is higher than in the UK and less than in Italy.

Thus it provides an intermediate case that confirms the general pattern.

While it is likely that the presence of worker co-operatives and worker-owned firms in itself lends credibility to the idea of a WTO, the actions and attitude of co-operative movement bodies are very important. This is most obvious in Italy where some WTO have occurred as a result of interventions by the Co-operative Associations: the closure or divestment of an economic unit may be seen as providing an opportunity to make a strategic investment at a low price. Thus, if the enterprise in question can be readily integrated into a network, strengthening the market or geographical position of the Association, it may encourage and support the workforce in mounting a take-over. In general, however, support for WTOs is a controversial issue within worker co-operative movements. The main arguments for actively supporting WTO are:

- o WTOs, despite the difficulties, provide the most promising means for rapidly extending the size, range and capital intensity of the cooperative sector. If WTOs are neglected the cooperative sector will be largely restricted to a few traditional and marginal sectors.
- o Support for WTOs provides an opportunity to demonstrate practical solidarity and build up links with the Trade Union movement that will be important in the long term. In particular, it may provide an occasion to promote alternative and ecological ideas within the labour movement, especially regarding socially-useful production.
- o A great deal has been learnt about when and how to support WTOs. A greater proportion of successes can realistically be anticipated in the future.
- o Collaboration with local and national governments in relation to policies for supporting WTO provides an opportunity to gain political support and promote long over-due legal and fiscal reforms of benefit to co-operatives generally.

The arguments for more limited, cautious, and selective support for WTOs are:

- o The workers in enterprises subject to a WTO are often reluctant cooperators for whom other (temporary) forms of worker ownership are more appropriate. In addition cultural differences between the trade union and cooperative movements make collaboration extremely difficult.
- o The publicity associated with many WTOs and their subsequent failure discredits the cooperative movement.
- o The risks of failure are considerable; hence support for WTO will jeopardise the limited financial resources available to cooperatives.

- o Support for WTOs will mean the co-operative movement providing care to the geriatric survivors of declining sectors. It will not provide a basis for future growth. The government and the private sector should take responsibility for their own failures.

Not surprisingly, the position of co-operative movement bodies on this issue tends to be influenced by the perceived success of those enterprises formed through WTOs - as the policy reversals of the French federation (CG-SCOP) exemplify very clearly. Hence the degree of support which co-operative movements have provided for WTOs has varied at different times and in different areas. And this, too, helps to explain when and where WTO are more likely to occur.

2.2.3 Government Attitudes and Policies

Attempts to mount a WTO commonly include appeals to governments - whether local, regional or national - for support. Where this is provided it constitutes a tacit invitation to others to request similar support. In consequence, questions concerning whether, in what ways, and to what extent public support should be given to WTO have arisen in most of the European communities. Moreover, it is clear that governments do not simply respond to pressure - they have also, on occasions, adopted measures that have more or less explicitly encouraged and supported WTO. The clearest example is provided by the instrument used by the Spanish Ministry of Labour to make funds available to workers to enable WTOs to be established. Although this instrument has since been redesigned to provide commercially more appropriate support, its existence encouraged numerous attempts at WTO and induced the formation of hundreds of 'Labour Companies' in the 10 years from 1976. Hence one cannot explain the current wave of WTOs without considering the attitudes and actions of governments.

The extent of government support, and the reasons for providing it vary enormously. Apart from a concern to preserve employment for political reasons, governments of the right have provided support for WTO on the grounds that:

- o wider employee ownership will in due course contribute to improved industrial performance;
- o WTO are a form of economic self-help that will help in the development of an 'enterprise culture';
- o where practical pressure makes intervention necessary, support for a WTO is preferable to other forms of government intervention (e.g. subsidies, tariffs etc)

On the other hand, right wing governments have opposed support for WTOs, or restricted the extent of support provided, on the grounds that:

- o government support for 'lame ducks' wastes public money and hinders the process of economic adjustment
- o support for WTO will discriminate against other firms in the industry
- o WTO are generally unsuccessful and support for them encourages unrealistic expectations concerning the ability of a workforce to run an enterprise.
- o governments should not provide support for a work force that has occupied a factory and engaged in legally questionable forms of industrial conflict.

When governments of the left have supported WTO it is usually for such reasons as:

- o other measures to preserve employment are inadequate or inefficient; the net cost of support for WTO is very limited.
- o WTO can form part of a broader strategy to preserve the local economy
- o WTOs create new forms of social ownership and provide useful experiments in industrial democracy, self management and socially-useful production.
- o WTO are a means of supporting the growth of the co-operative movement and the social economy.

However left-wing parties and governments do not always support WTO. Support may be withheld for some or all of the reasons that Trade Unions have withheld support (see section 2.2.1, above).

In general, however, the political orientation of the party in power is less important in understanding its stance than the experience and reputation of WTOs in that country or locality. For example, in Italy, where the co-operative movement has all-party support, and is organised in separate politically-oriented associations, the principle of providing public funds to assist WTO has long been accepted; in Denmark there is all-party agreement not to promote WTO; and in France the left government which was initially sympathetic to WTO when it came to power in 1981, withdrew its support partly because of the publicly perceived failure of WTO enterprises.

The picture is further complicated by differences in attitude towards WTO between national and local or regional government. For example, in the UK and the Federal Republic of Germany the national governments have not been sympathetic to WTO, while various local authorities and State governments have taken steps to support them, or have introduced Local Employment measures from which WTO have been able to benefit. Such local and regional initiatives are reflected in the number of

actual and attempted WTO reported from those areas. Similar variations in regional and local government support for WTO have occurred in Spain, France and Italy.

Overall, then, many WTO are no longer an entirely spontaneous phenomenon: whether the idea of a WTO is likely to arise among the workforce, and whether it will be seriously considered, is affected by government actions and policies - whether governments like it or not.

2.3 WTO as a cultural phenomenon

The preceding sections have considered, in turn, the role of Trade Unions, co-operative movements and governments in promoting (or not) the idea of WTOs. However, the attitudes and measures of these various bodies do not develop in isolation. They affect each other, and, moreover, they arise from and embody broader cultural and institutional traditions. For example, it is striking that the concentrations of WTO are highest in Catalonia and Emilia-Romagna, regions that have a strong cultural tradition of mutual aid and self-reliance (apparent in their strong anarchist movements earlier this century). From this perspective, the sharply contrasting socio-economic structures of Denmark and Italy can be seen as different 'historic solutions' to the labour movement's search for greater economic security. Such differences both express and reinforce significant cultural differences - for example, the strong tradition of a well-developed welfare state and of individualist entrepreneurs in Denmark, compared to the more collective entrepreneurialism of Italy, in which labour solidarity can be achieved through the market, not only in opposition to it.

In these terms, recent developments in the labour movements in France the UK, and parts of Spain and Germany, can be seen as tentative exploration of possible new 'solutions', given the perceived inadequacy of older strategies. As such, the WTOs in these countries are not just a desperate and temporary expedient to preserve employment, but the seeds of possible cultural developments. Whether and to what extent WTOs and worker co-operative or worker owned sectors will in due course become an established element in the socio-economic landscapes of these countries obviously remains to be seen - it is by no means certain. But if this does happen, the way in which it will gradually come about can be suggested from the limited developments that have taken place so far: in essence, success breeds success.

A successful WTO tends to stimulate others to consider the WTO option seriously, just as the failure of a WTO, or the absence of any recent or local WTO, makes it more likely the option will be over-looked or discarded. At the same time, successful WTOs tend to legitimise support by the co-operative movement, trade unions and governments and their agencies (and failure undermines such support). In addition, as later sections demonstrate, the more extensive and widely based the support for WTO attempts, the more likely they are to succeed, and the

more likely the enterprises created are to survive and to consolidate. Thus, in due course, the enterprises created from WTO can strengthen the worker co-operative and worker-owned sectors, - which are then better able to support other WTOs in the future.

Needless to say, these self-reinforcing tendencies either in favour of or against the WTO phenomenon do not operate invariably and automatically. There are numerous cases of isolated WTOs. Nevertheless, the distribution of WTOs and attempted WTOs is far from random: over the last ten years marked concentrations of WTO activity have emerged in particular regions and localities. For example about one third of the WTO attempts, and about two thirds of the successful attempts, in the Federal Republic of Germany in the last five years have occurred in the city-state of Bremen, where an effective support network linking the 'alternative' groupings, labour movement organizations, and government agencies, has developed. Similar networks and concentrations of WTO activity seem to be developing within the UK in Scotland, Yorkshire and London. Likewise, the political and economic strength of the co-operative movement in Andalusia has increased considerably in recent years and it has had considerable involvement with WTOs.

However, if this longer-term cultural perspective offers some inspiration to nascent worker cooperative movements and to those involved in supporting WTOs, it also provides a caution against assuming that the experience of one country can be readily reproduced in another.

If ideas and practices are transferred it will always be in relation to existing institutions and traditions, and so considerable variation is to be expected. For example, in Spain, the legal framework for Labour Companies provided the vehicle for the initial rudimentary scheme of state support for WTOs. In consequence hundreds of such companies (and they are not co-operatives) were created, and they have now established their own secondary organization - a development that has no parallels in any of the other countries studied. Moreover, to the extent that institutionalising the practice of WTOs involves a cultural change, it is not something that can be easily or quickly engineered. For example, many situations which in Spain or Italy would prompt a WTO, have in the UK in recent years, prompted a management buy-out - usually with the blessing of the Trade Unions involved. Although this is a recent phenomenon, the practice is already well established and has even stimulated the emergence of specialist financial institutions. In effect, management buy-outs have fitted easily into the existing cultural pattern. Even if WTOs were given more support and the number increased, it is hard to imagine, in the foreseeable future, the WTO option being preferred in many of the sorts of context in which management buy-outs are now occurring and seen to be successful.

2.4 Summary

The great majority of attempts at a WTO are a response to the threat of unemployment. As such, they tend to occur:

- o in industries undergoing re-structuring
- o where the workforce possesses industry-specific skills for which demand is limited
- o where the threatened plant or enterprise is a major employer on which the locality is economically dependent.

Such enterprises may be badly run down with little, if any, prospect of commercial viability. However attempts at WTO do not only occur in such circumstances. The owners of a viable, or potentially viable, enterprise or plant may wish to dispose of it for a wide variety of reasons and yet they may fail to attract a purchaser. Such failures in the market for enterprises arise, essentially, because of the high transaction costs associated with the decision to purchase an economic unit, and the likely difficulties of managing the acquisition effectively. Hence the prospect of a high return will be necessary in order to justify the risks involved. In short, an enterprise or plant may be threatened with closure not because it is unprofitable but because it is not considered to be profitable enough.

Whether or not the threat of closure and unemployment stimulates an attempt at a WTO depends on the confidence of the workforce and the credibility of the WTO idea. In this respect the attitude of various external parties is crucial.

In general, mainstream Trade Union movements have been doubtful or hostile towards WTO. More recently, rising unemployment and the failure of traditional strategies for saving jobs have prompted a reconsideration of the WTO option and the position is now more complex and fluid with, for example, differences between unions, and between national and local levels, in several countries.

In countries with worker co-operative sectors, the extent of support offered by movement bodies for WTOs has, on occasions, been a controversial issue. WTOs have been seen as offering great opportunities and also great dangers. But in general the stronger the worker co-operative sector in a country, the more credible is the WTO idea, and the more support for WTO attempts there is available.

The actions of governments - whether at national, regional or local level - have also influenced the number of WTO attempts occurring in different countries and areas. Though their reasons have differed somewhat, governments of both the right and the left have on occasions provided support for WTO, and in other contexts, both have opposed WTOs. In general, government actions towards WTO are best understood in relation to political pressures for job preservation and to the prevailing reputation of WTO for that purpose.

Overall, it is clear that attempts at a WTO are no longer an entirely spontaneous initiative by the workforce. It is a response to the threat of closure which has variously been promoted or discouraged, - either explicitly or tacitly.

Success tends to breed success. The credibility of the WTO idea and the availability of support for WTO attempts is affected by the success or failure of previous attempts. Over the last ten years, this has led to concentrations of WTO activity in particular localities. In a historical perspective such self-sustaining tendencies may explain the very different institutional and cultural patterns of the labour and co-operative movements that have developed in, for example, Denmark and Northern Italy. In any event, it seems that the WTO response is more readily undertaken and accepted where collective entrepreneurship and decentralised self-help are established within the labour movement and the wider society. Such cultural considerations provide a caution against assuming that the experience of one country or region can be easily reproduced elsewhere.

3 Achieving A Worker Take-Over

To be successful any attempt at a WTO must resolve a number of interrelated and complex issues concerning legal, financial, marketing, production and organizational questions. These questions will be unfamiliar to the workforce and its leadership, and tackling them commonly requires access to external advice as well as political support, especially regarding negotiations with third parties. These difficulties involve conflicting economic and social imperatives, and may be compounded by severe time pressure. Moreover, for a number of very practical reasons it is important that as far as possible these issues are addressed by the workforce as a whole - and not just by leaders or advisors on behalf of the workforce. The aim of this section is to highlight the problems that characteristically arise in this complex and very uncertain process.

It is not possible to provide figures on the proportion of WTO attempts that succeed, or to provide any kind of quantitative analysis. Those involved with the support of WTOs find it difficult even to make estimates since a WTO may be considered but discarded without a serious attempt being mounted (often for very good reasons, of course). Hence there is a problem over what constitutes an 'attempt'. It also seems that the proportion of unsuccessful attempts varies considerably between countries. Thus, in Denmark there seem to have been very few unsuccessful attempts - but this almost certainly reflects the fact that the idea is so uncommon that it only arises and is seriously pursued in quite favourable circumstances. Where the idea is better known but the support for WTOs is still limited and lacking experience, then there are far more unsuccessful attempts - an estimate for the UK, for example, was that only one WTO is achieved for every five occasions when the option is quite seriously explored. This is comparable with the one in four success rate in the FRG over the last five years. Finally, there are countries like Italy (and to a

lesser extent France and Spain) where there is much more experience of WTOs. In such cases the proportion of successful attempts seems, once again, to be much higher - partly because WTOs are more accepted and there is effective support for them; but perhaps also because the support agencies are more ready to discourage the idea in contexts that they recognise as having poor prospects.

3.1 Formulating the Business Plan

Any attempt at a WTO is based on a conception of what the enterprise may become. To begin with this conception will be vague, unrealistic and held by only a few of those involved. But it must develop rapidly into a scheme that is tolerably specific, realistic and widely shared. The essence of such a business plan is a cash-flow forecast which indicates the outgoings and income anticipated in the early months and years. Such forecasts must be based on credible proposals for who the customers will be and how they will be reached; the quantity, quality and price of the goods or services to be provided; the facilities, equipment and labour of different categories that will be needed; the borrowings, repayments and interest charges required to finance these activities; how the effective monitoring and co-ordination of operations will be achieved - and so on. Clearly, to develop these proposals in any detail may require a considerable amount of time. Of course every question cannot be answered, not all the aspirations will be proved realistic, and everyone will not agree on everything - in a WTO as in any other business plan. But the more definite the proposals, the clearer the grounds on which they are based and the greater the consensus on priorities, then the greater the confidence and unity of the workforce, and the more credible the plan will be with external bodies.

There are two general requirements for the formulation of a credible business plan for a WTO. The first is that the workforce should come to appreciate the need for viability and all that this implies; the second is that the work force is able to obtain the information needed to prepare the plan. These requirements are discussed in turn before considering the advantages and disadvantages of the two main strategies for WTOs.

3.1.1 Viability, Job losses and Workforce Attitudes.

The first requirement for developing a credible business plan is that the workforce should start to embrace the implications of their own responsibility for achieving viability. This is true even if the workforce is not directly involved in preparing the plan - because otherwise they may reject a well-considered plan prepared by others. In smaller units with good management-worker and worker-worker relations this appreciation of commercial realities may develop quickly. Needless to say, in some larger units especially in Britain, France and Italy, the situation is very different. In these cases a very fundamental re-orientation on the part of the workforce is required. Indeed, this re-orientation may not be achieved so that the pursuit of

a WTO and external support for it, is in reality another means to preserve the existing enterprise, rather than a means of transforming it.

The clearest indication of the extent to which this re-orientation is occurring is provided by the attitude of the workforce towards staffing levels. Since the rationale for the attempt is the preservation of jobs, and given the pre-eminence of solidarity as a trade union value, the reluctance to countenance substantial reductions in the numbers employed is utterly understandable. Nevertheless, substantial reductions will often be required. In strictly commercial terms, most WTO are typical cases of the business 'turn-around' situation - and, in varying degrees depending on circumstances, the usual 'turn-around' strategies will be required (3). Indeed, one of the reasons for the crisis may have been a reluctance to cut back the business to a profitable core, soon enough. At the extreme, a large economic unit may contain only the basis for one or two quite small businesses, based on particular skills, assets, or local markets. More normally, a substantial part of the enterprise may have prospects for viability, based on cost reductions and a reorientation towards more specific market segments.

It is not surprising, therefore, that insofar as figures are available (see e.g. the Italian and German Studies) substantially fewer workers are employed after a WTO than in the same enterprise before the WTO. Moreover, a reluctance to grapple with this issue may prevent the attempt succeeding (quite apart from prejudicing its longer term success). For example, a refusal by the workers' leadership to contemplate the job losses required for any chance of viability contributed to the collapse of discussions on a WTO before the closure of a large factory in Clydebank, Scotland. Moreover it should not be assumed that in such cases the leaders are really hoping to maintain employment but have miscalculated the prospects for external support: more likely their decisions represent an informed choice reflecting both the view that closure is better than an abandonment of deeply held principles and a pragmatic assessment of the financial risks and complications in respect of redundancy payments etc. Which is another way of saying that, in the event, a WTO is not an option that everyone will choose, however dire the circumstances.

On the other hand it often happens that steps are taken, more or less deliberately, by the workforce or by external parties, to accommodate the conflicting economic and social imperatives. That is, involuntary job losses are minimised in ways that are compatible with the workforce's acceptance of the need for enterprise viability. This can occur in one or a combination of the following ways:

First, some of the older workers, appreciating the need for job losses, may volunteer for redundancy to assist the WTO. Government early retirement schemes, where they exist, have certainly made this easier; but the fact that redundancy or retirement in these circumstances directly assists the other workers in their struggle appears to make this drastic step a bit easier for some.

Second, the issue is not strictly one of job losses, but of cost reduction. Although not popular with Trade Unions, short-time and part-time work are options that have been chosen, usually as temporary devices. The Public Labour Administration in the Federal Republic of Germany has on occasions collaborated in such arrangements and paid unemployment benefit to those working less than a certain number of hours. It should also be noted that where jobs are lost, this may only be temporary. There are cases where some or all of those who lost their jobs have been offered the chance of re-employment later, when the business improved.

Third, where the enterprise in crisis has ceased trading but the WTO attempt is subject to delay and uncertainty, workers may drift away - for example, to take other jobs, or because they do not believe the project will succeed. This is one reason why some co-operative support agencies (e.g. in the UK) consider the 'phoenix' strategy to be preferable to attempts at a 'rescue', an issue discussed further below.

Fourth, the need to plan a viable operation does not necessarily mean the attempt is completely determined by existing market forces. As experience in the Federal Republic demonstrates, public funding may be available for specific services - such as industrial training, the production of particular non-market goods or the development of socially useful products - even though such schemes may be difficult to arrange. Likewise, the purchasing arrangements of local government can be used to assist a WTO. The point is simply that anticipated outgoings must not exceed the anticipated income - wherever it comes from.

Fifth, the extreme difficulty of the 'jobs issue' is most easily tackled in the context of an established co-operative movement, - as in Italy, where other co-operatives may assist the rescue either by taking on some of the redundant workers, or by placing orders with the new enterprise. As yet there are limits to the scope for such assistance. But numerous instances exist, and they suggest that the labour and cooperative movements may create conditions in which they can pursue solidarity more effectively among enterprises rather than simply within them. Such a model, mid-way between plan and market, overcomes the traditional dilemma between universalist and particularist solutions. Cooperatives need not always remain tiny 'islands in a sea of capitalism'.

3.1.2 Obtaining Information and Advice

A credible business plan is based on information - in particular, information on markets and costs. In this respect the attitude of the existing owners and management, or of the receiver, is likely to be critical. Where there is a positive attitude, the necessary business information is readily provided - indeed, contracts may be offered to the new enterprise and the transfer of fixed assets, stocks etc, may be negotiated on reasonable terms (in some cases, as part of a redun-

dancy settlement). Such assistance may be prompted by sympathy, a desire to maintain good public relations, a concern to manage the closure smoothly, or for other reasons (see especially the Danish study).

By contrast, a negative attitude can result in even the most basic information being withheld, obstruction regarding the purchase of assets, or unrealistic valuations being placed on them. The extent of such obstruction, and the reasons for it, vary considerably, - from simple conservatism and the desire to avoid complications on the part of receivers, to an ideological or personal hostility to the attempt and its leadership. Whatever the reasons, such negativity often prevents WTO from proceeding, and it is often one reason why external political support is so important: such support can be used to put pressure on the owners to provide information to the workforce. In addition, the problems of obtaining the necessary information - be it formally or informally - are accentuated when:

- o the members of the workforce attempting the take-over do not include any managerial or senior office staff;
- o the plant is purely a production unit with marketing design and finance functions located elsewhere;
- o the WTO cannot be based on the existing product or service, so information about these will be less relevant;
- o the WTO has to develop a new customer base;
- o the imminent closure of the plant, or auctioning of assets, creates acute time pressure.

The more of these conditions hold - as, for instance, in the case of many large plant closures - the more difficult it will be to prepare a credible plan. Moreover, the problem is not simply one of obtaining information: the very concept of a business plan is likely to be unfamiliar to those involved in the WTO, who will also have to make difficult decisions on a legal and organizational framework for the venture. Hence the workforce will require quite extensive support and advice in grappling with these issues. In practice, many WTO attempts have difficulty in obtaining the sort of competent, sympathetic and sustained advice that they require, for the following reasons:

- o the leaders of the workforce will not be aware of all that they need to know, - and they may even be reluctant to acknowledge their need for assistance. Hence they may fail to seek out, or to accept, offers of assistance from those with relevant expertise. Instead, they may rely on the efforts of union or co-operative association officials who may have more time, but still lack vital experience.
- o Conventional business advice agencies are generally quite unsuitable: they are unfamiliar with co-operative or self-managed legal fra-

meworks; they usually do not identify socially or politically with a WTO project; and, above all, their conception of the consultant-client relationship is too restrictive for the requirements of a WTO.

- o Advice from more appropriate sources may be unavailable because:
 - no support agencies or networks exist in the locality
 - the support agencies or networks lack relevant experience or expertise
 - the support agencies or networks lack the time and resources (they may even be working voluntarily) to support an uncertain venture over a prolonged period.
- o there may be cultural or other differences between those who might provide the support and trade union oriented attempts at WTO. For example, in Germany and the UK, the established co-operative movements have sometimes been unsympathetic to attempts at WTO; and the marked cultural differences between the alternative or new co-operative movements on the one hand, and industrial workers on the other, have proved an obstacle (though not insoluble) in some cases.
- o A wide range of expertise will often be required, including industry-specific knowledge of market trends or production technology, expertise in business planning and financial appraisal, familiarity with company law and procedure regarding receivership and bankruptcy, negotiating experience and expertise, and familiarity with the numerous questions concerning legal frameworks. In addition, such potential advisors must have the credibility and 'consulting skills' to work effectively with the workforce and its leadership during an intense, even traumatic, period.

Some of these reasons also help to explain the difficulties that have sometimes arisen in the relationship between the workforce and the advisors. The advisors may become impatient with the reluctance of the workforce to accept the realities of the situation or to follow their advice. The leadership of the workforce may feel their position is being undermined by the suggestion of new ways of involving the workforce; or that the aims of the WTO (and their position) are being subverted by managerial approaches. Or it may be that different advisors are involved in respect of different issues, but their approaches and suggestions are incompatible. (Cases in which splits have developed between the political and the technical leaders and their associated advisors are reported from France and Italy).

3.1.3 'Rescue' and 'Phoenix' Strategies - and the Large Plant Problem

Some WTOs ("conversions") are prompted by internal events (e.g. the retirement of the owner-manager) before the difficulties of the com-

pany have produced a crisis. Most, however, are a response to closure or the threat of closure. In such cases the business plans for the new enterprise must be based on either a 'rescue' or a 'phoenix' strategy. Each has its advantages and disadvantages, and is more suitable in particular circumstances. Hence they provide a convenient way of analysing some of the key dilemmas in the preparation of business plans for WTOs of failed enterprises.

A 'rescue' strategy is directed towards reaching agreement with the owners or receiver for a transfer of control of the business assets and activities to the workforce in such a way that there is little or no break in production and trading. Where it is possible, this strategy has the advantages of providing continuity of employment and of protecting the existing customer base. It also avoids a number of problems that may arise when the plant is allowed to close without a definite plan for it to re-open - such as the loss of key workers, and the difficulty of maintaining the organization of the workforce after the closure. Moreover, a workforce whose planning for a WTO is sufficiently well advanced to arrange a 'rescue' may be well placed to negotiate the transfer of equipment and stocks on good terms as part of a redundancy settlement.

On the other hand, the 'rescue' strategy also has some severe disadvantages. First, there will often be insufficient time for a thorough appraisal of business prospects or for the workforce to come to terms with the implications of commercial self-reliance. This may lead to the new enterprise losing money and having to make further reductions in labour in its early months. Secondly, in several countries the continuity of employment may compromise employees entitlement to redundancy benefit (even though this may be needed to finance the new venture). Thirdly, the workforce may have to pay a high price for the assets - because they are valued as a 'going concern', or because they are transferred in total, whereas not all are required for the new enterprise; or because some of the liabilities of the old business (e.g. to suppliers) must also be accepted.

The 'phoenix' strategy is marked by a clear break in production and trading. It is adopted when a take-over of the existing business without interruption is either impossible or undesirable. Characteristically, a group of former employees tries to purchase a selection of the residual assets from a receiver or liquidator to provide the basis for a new, and generally much smaller, enterprise. Hence, following a 'phoenix' strategy to form a workers' co-operative or worker-owned enterprise will be much more like starting up a new enterprise 'from scratch' - except that those involved will already know each other, having worked together in the old business; they may be able to obtain equipment and stocks cheaply; and they may already have a range of personal contacts among potential customers.

This approach has a number of advantages: because there is usually more time it is easier to plan the business on a realistic basis (for instance by obtaining more suitable premises). The problem of job

losses becomes rather more tractable. Everyone has already lost their jobs - so the question is no longer 'who will be made redundant?', but instead 'who are suitable and willing to join the project?' As a result, selection and self-selection seem to ensure a more committed workforce, an effect often enhanced by the delay which allows time for attitudes to change and for additional training to be undertaken. On the other hand, the proportion of jobs saved in a 'phoenix' is usually much smaller; and too much uncertainty and delay may undermine commitment and lead to workers drifting away vital skills seeking employment elsewhere.

Each of the strategies will be more appropriate in particular circumstances. Thus a 'rescue' is more likely to be attempted where the workforce has advance warning of closure, where the existing owners are not obstructing the WTO, where trading continuity is important, and where the new enterprise will provide a similar, or somewhat reduced range of goods or services. A 'phoenix' strategy will be more appropriate where the activity of the business must be more radically reduced or redirected, where trading continuity is less important, and where a smaller (and more coherent) group of workers is involved.

In practice, of course, a workforce may set out to achieve a 'rescue', but in the end only a 'phoenix' may be realised. Or the result may fall somewhere between the two strategies. Nevertheless, the distinction is useful because it highlights the different commercial logics on which a WTO may be based. Moreover, the collective dynamic and organizational problems and processes associated with these strategies are usually very different. Finally, the distinction throws further light on the particular problems of 'large plant' closures, which, as the previous section noted, are often marked by conditions that make it difficult to prepare a business plan in the time available. In many cases key workers will have been transferred elsewhere, and the plant and equipment is obsolete, so the prospects for an enterprise of any size being salvaged will be extremely poor. However, it is not uncommon for plants with many skilled workers and containing quite modern equipment to be shut down. When this has happened it has been reasonable to consider whether a new range of products could be developed or introduced to provide the commercial basis for a WTO, thereby protecting the local community from the full impact of the closure.

The obvious problem, however, is that the identification, development and introduction of new products requires time facilities and resources. Hence, it seems this can only be undertaken, if at all, by first achieving a WTO on the basis of some existing products (a 'rescue'), or on the basis of some niche in other markets, such as sub-contracting (a 'phoenix'), thereby providing a financial, technical and organizational basis for the development of new products. But in practice this approach is precisely what is so difficult in the case of large plant closures. A rescue, for example, will often be impossible because of e.g. parent company control of existing markets, the fact that the plant is solely a production unit lacking other management functions, over-capacity in the sector, etc. (and

where 'rescues' of large plants have been achieved by the workforce, it has proved very difficult to undertake product development thereafter - for reasons discussed later). A 'phoenix' strategy, on the other hand may well generate one or more viable businesses, but generally these will only involve a fraction of the workforce and will be too small to sustain the facilities and costs of product development.

Hence, even if there is an efficient production unit and a desperate need to maintain employment, the development of new products has proved very hard to undertake within either a 'rescue' or a 'phoenix' strategy. This serious limitation on the scope of WTOs may perhaps be reduced by the growth of 'product development networks' (based on the labour and alternative movements and their sympathisers in Universities etc). However, other strategies clearly need to be developed for workforce initiatives in the context of 'large plant' closures. In this respect the experience of the Bitteswell Employment Alliance - formed out of the closure of an aero-space factory - is interesting (see the UK study). Although B.E.A's achievements have been fairly limited, the underlying approach was novel - in effect, a radical extension of the phoenix strategy. These issues are considered further in a later section.

3.2 Getting Organized

The planning activities discussed in the last section require the creation of an organization - who is included in the project and on what terms? Who is entitled to negotiate with other parties? how are the contents of the plan decided? What legal entity will take-over the assets? Hence the planning process is simultaneously an organizing process. Moreover, the forms and style of organization that emerge will have enormous implications for the success, or otherwise, of the WTO - for instance:

- o the extent to which the organization is initiated and steered by the work-force itself affects their understanding of and commitment to the project.
- o the emerging organization will be expressed in a choice of legal framework, and in a constitution and structure that will constrain many future developments.
- o the planning, negotiation and preparation for the take-over are a formative experience for the enterprise that emerges - its precedents, un-written rules and myths are being created, its character and identity are taking shape. This process continues into the period after the take-over, but even if they have to be re-assessed later, these initial assumptions, practices and norms will profoundly affect the development of the enterprise.

It is this organizing process - the urgent creation of a business organization of, by and for the workforce - that gives a WTO its special character (and distinguishes it from conventional 'turn-arounds', management buy-outs, 'new start' co-operatives, and other employment initiatives). Hence an appreciation of the distinctive organizational

dimensions of a WTO is essential in understanding the WTO phenomenon and is an absolute precondition for any consideration of measures and strategies to support WTOs.

3.2.1 The importance and difficulty of workforce involvement.

WTOs have on occasions been stimulated and guided by external parties - Trade Unions, Co-operative Associations, or agents of the local state. They may also be initiated, directed and executed by a comparatively small group of established leaders (shop stewards, technical or administrative staff) on behalf of the workforce and with their acquiescence. In such cases the WTO itself may be achieved in a very orderly fashion. More commonly, however, a WTO is a somewhat desperate collective undertaking in which a substantial proportion of the workforce is, for varying periods, actively involved. In these cases it is not uncommon for the process to be marked by confusion, uncertainty and conflict. Which, then, of these types of WTO tends to be more successful in the longer run - the orderly, directed and "well-organised"; or the disorderly, improvised and self-organised?

Allowing that the question is simplistic - most WTO have elements of both patterns and fall between the pure cases - it could certainly be argued, on the basis of available case material, that those WTO achieved through a "disorderly" process perform at least as well if not better than their "orderly" counterparts. A more cautious answer, in the absence of anything like adequate data, is that both patterns may succeed or fail - depending on circumstances.

Thus, it is clear, especially from the French experience, that directed WTO often run into commercial difficulties - they fail to achieve the necessary improvements in performance. On the other hand, where, for example, a re-capitalising of the enterprise is the main requirement for viability without a need for far-reaching changes in production activities and organization; or where the workforce does not wish to take on management responsibility as well as ownership; then the "orderly" WTO process is likely to provide a very appropriate foundation for the new enterprise. In a comparable way, it is clear, especially from the Italian experience (eg, the case of CLG), that a "disorderly" process need not be debilitating and doomed to failure - though these certainly can be the effects. It seems that a good measure of disorder can often be creative and lead to more effective forms of organisation in due course.

Apart from indicating some of the variety in the organizational process of WTOs, these observations point to the fact that a WTO is often a moment of rapid organisational change - and hence it is not surprising if it often appears passionate, untidy, and incoherent. In such circumstances, static and conventional conceptions of "proper organization" are quite inappropriate. In particular, the widespread and active involvement of the workforce in the organisation of the WTO is often essential for the following reasons:

(i) Substantial cost reductions in the production area are usually required and may involve reduced wages, reduced staffing levels, new

working practices and a changed approach to management-worker relations. Attempting to impose such changes on the workforce achieves, at best, far less than is possible when the workforce themselves identify the problems and formulate their own solutions.

(ii) the workforce will usually need to make a financial contribution in one way or another through individual loans or shares, or the negotiation of redundancy terms that partly substitute collective compensation in the form of assets for individual payments. Again, this is only likely - and, indeed, proper - if the workforce has debated the problems and possibilities in sufficient depth to appreciate the risks involved.

(iii) The sheer range of tasks to be undertaken in order to formulate a credible scheme requires the time and effort of a wide number of 'activists'. Such tasks may include enlisting community and political support as well as working on business, organizational and legal issues.

(iv) A significant proportion of the workforce will expect to be closely involved in mounting the attempt at a WTO. Especially when the failing enterprise has a history of poor industrial relations, a WTO is likely to become a vehicle for aspirations towards worker's management and democratic control. For a minority, such views are an expression of an explicit political ideology and commitment; more commonly these aspirations are less specific and reflect a populist ethos of collective self-reliance. The extent of the greater influence desired, and its significance for individuals, usually varies greatly. Many will not be interested; and others because of their personal economic prospects will consider it entirely secondary to the primary concern of saving jobs. Such differences in orientation may be hard to reconcile and they have on occasion contributed to severe conflicts between political and technical leaders. Hence, occasions that enable a widespread involvement in preparing the WTO are needed not just to satisfy the expectations of some workers, but also because it is important to generate a shared understanding of the philosophy of the project - this will usually be needed for the constitution of the enterprise as a legal entity, quite apart from other reasons.

In short, it is through their involvement in the take-over process that the workforce take on the psychological ownership of the project and evolve a shared appreciation of its meaning and priorities. It is from this psychological ownership and common understanding that the determination and willingness to change established patterns of work arises. Nevertheless, the difficulties in achieving and sustaining such involvement are formidable.

In the first place, the complexity, uncertainty and unfamiliarity of the issues involved in preparing a WTO may be intimidating and overwhelming for many of the workforce. Passivity, fatalism and a sense of powerlessness are understandable reactions. Hence, even if

workers attend meetings they remain spectators. This is partly a problem of understanding - arising from the difficulty of grappling with unfamiliar issues and ideas (legal questions, cash flow, market trends etc.). More fundamentally, however, the social process of the WTO is actually rather threatening: a WTO undermines established occupational roles - e.g. of clerk, supervisor, trade unionist. But these are a large element in our social and personal identities. Hence especially for those who have over many years become accustomed to restricted roles, the demands of a WTO are often unsettling: it offers the anxiety of autonomy in place of the security of dependence. For example, at the end of long conference to plan a WTO one shopfloor worker expressed outright fury at the proceedings: he had come to hear what he as an ordinary machinist would have to produce, and he had heard nothing concrete all week - only vague talk about problems and possibilities that he considered were nothing to do with him. Because he had expressed his frustration, it could be discussed and the underlying assumptions about his role in the WTO explored. The person concerned went on to play a leading part in the rescue and enterprise created.

In short, involvement in a WTO often changes people's lives - and partly for this reason it may be very stressful. Thus, because of the demands it makes on them, many of the workforce maybe very hesitant or reluctant to become involved.

Such reluctance may co-exist with the diffuse expectations of greater influence and control mentioned above, and hence the attitudes of the workforce will often be varied and complex. Some will be determined to be closely involved; some will refuse to become involved insisting that the leadership should be trusted and widespread participation is unnecessary and dangerous; many will be ambivalent, uncertain and on occasions inconsistent. How many of the workforce respond in these different ways obviously varies greatly, but in general it seems that the older and less skilled the employees, the more hesitant or reluctant they are likely to be about becoming actively involved in the WTO.

A second obstacle to widespread active involvement may be provided by the social divisions among the workforce. For example, traditional tensions between different occupational groups (skilled and unskilled; manual and non-manual) may generate distrust, tension and defensiveness. Or existing authority relations may be carried over into the organization of the WTO so that participation is inhibited. Or the presence of different Trade Unions with rival strategies and philosophies may generate conflicts which deter some workers from becoming involved and restrict the accepted contribution of others. By contrast, it is noticeable that when only a fairly homogenous group of the manual workers remains to attempt the WTO, it is usually far more cohesive and effective - though obviously the absence of other types of worker creates other problems. Thus it seems to be the case that more people become more effectively involved in a 'safe' social setting. Such an atmosphere is more difficult to achieve where the

social divisions run deep - which is, of course, more common in larger enterprises.

A third obstacle is often provided, paradoxically, by the very trade union organization through which most WTO attempts arise and are pursued. The structure of a Trade Union branch is strongly hierarchical and unitary: decision-making and consent is achieved through representatives, mass meetings and a heavy emphasis on the norm of solidarity. These generally provide appropriate mechanisms for democracy in the adversary contexts of industrial relations, where decisions can be reduced to simple binary choices (accept the offer or not; take industrial action or not; etc). In planning a WTO, however, the business and organizational issues involved cannot be sensibly handled as if they are binary choices. This is because by the time the issues have been structured and simplified to this point, most of the key decisions will already have been resolved. In reality, the decision-making process in preparing a WTO involves a multiplicity of options, great uncertainty and considerable ambiguity. As the discussions proceed, as the external situation changes, as more information becomes available, as attitudes change, the issues are continually reformulated. At particular points, important strategic choices sometimes become, or appear, evident. But the process is iterative, as much concerned with re-defining options as with choosing between them. Hence those who are not involved in this process and the learning associated with it are often unable to appreciate the options that result from it.

Different ways of organizing participation are therefore necessary in order to facilitate involvement and promote cohesion - mass meetings, single representative channels and appeals for solidarity, are insufficient. Such problems are accentuated where the initiative for a WTO arises externally from Union or Cooperative Association officials adopting a 'top-down' approach (France, Italy). They are also accentuated where there is conflict between unions or groups of workers: in such situations wider participation may be seen as a threat to unity and the leadership's control.

The inadequacies of conventional Trade Union organization as a vehicle for a WTO and self-management are shown most clearly in cases of 'trade union management' - where the leaders attempt to combine their trade union position with that of senior day-to-day management. This pattern has occurred quite often in both France and the UK and it is usually disastrous - both commercially and in terms of worker participation and influence. However, there is nothing at all inevitable about such developments and trade unionists have on occasions abandoned their traditional practices and experimented with much more open and flexible forms (the cases of AN in the German study and CLG in the Italian study, are relevant).

Fourthly, external pressures commonly provide a further obstacle to widespread participation. The shortage of time - sometimes a very few days - may mean that the WTO has to be arranged by a small group of leaders and external advisers, even if their own preferences are for wider involvement and self-management (e.g. Barnsley Metal Finishers). Likewise, the need for continuity of personnel in negotiations with external parties tends to concentrate information, decision-making and authority in a few hands.

Indeed it is probable that the more the WTO depends on achieving the support of one particular external body (e.g. a bank or state agency) the more centralised and decisive the organization of the WTO becomes. Where a larger group of activists is engaged in a range of external contacts, both commercial and political, this obviously increases involvement; but maintaining the co-ordination and cohesion of this group then becomes a priority, and a gulf may arise between it and the workforce at large.

In summary, despite its importance, the widespread participation of the workforce in mounting a WTO will often be hard to achieve and maintain. This is likely to be true even if the workforce, its leaders and its advisers are committed in principle to workforce involvement and self-management - because the obstacles are structural, cultural and contextual. As such, the problems of developing effective self-management of the WTO attempt to anticipate many of the problems of self-management that arise after a WTO has been achieved. Hence, the importance of the process of organizing the WTO as a formative experience and a learning process for the enterprise that is created.

Given these obstacles, it is not surprising that the workforce sometimes allows a take-over to be managed on their behalf, or that the numbers who become involved and the extent of their participation are both fairly limited. On the other hand, the threat that the workforce faces, and the simple desire to do something to protect themselves, can generate a powerful collective dynamic towards action and involvement. Hence, despite the obstacles, it is not unusual for substantial numbers of workers to become fully involved in the discussions and preparations leading up to the take-over. In such cases the same factors that tended to restrict involvement become reasons why the organizational process is often conflict ridden and disorderly.

Thus the complexity and uncertainty of the issues can lead to confusion and rumours and sharply fluctuating attendance at meetings. The social divisions in the workforce can give rise to distrust and power struggles as different groups try to exercise control or protect their positions. Trade union structures may reflect and polarise these divisions, or become a base for the political leadership in conflict with the technical/managerial leadership and its advisors. The centralization of authority required by urgent and vital external negotiations makes it difficult for the workforce to feel it can influence the process, and may undermine trust - or alternatively, the preparation of the WTO becomes unco-ordinated and inconsistent because many of those involved feel entitled to act and speak on behalf of the project.

Such problems can be severe and they raise serious questions about the feasibility of widespread workforce involvement. Thus many commentators and some of those who have tried to advise WTOs, consider such 'politicization' and 'radicalization' of the process to be an unfortunate and damaging perversion of the real purpose of the project - the preservation of employment in a credible commercial undertaking. In these terms, the excitement, rhetoric, controversy and confusion

are at best an understandable consequence of the tension and anxiety the workforce is experiencing; and at worst the seeds of conflict and disillusion for the future when, after the WTO has succeeded, the commercial requirements for 'proper management' must reassert itself.

Such views generally appreciate that there are real commercial advantages in improved worker-management relations and a more committed workforce. What they criticise is the undermining of management and the underestimation of its importance which they see as the consequences of attempts to develop participative forms of self-management.

In general, it is clear that participation in WTOs as in other contexts can have costs as well as benefits. However, as a general comment on the organization of WTOs such views are unduly negative towards ideals of self-management and co-operation. Two considerations, in particular, suggest that these ideals can play a crucial role in the success of WTOs.

First, aspirations for democratic organization and workers control can provide an important bridge between a pre-existing workforce culture of opposition to management on the one hand, and a responsible attitude towards (self-)management, on the other. In other words, apparently populist or radical ideologies of worker autonomy can be functional in facilitating a change of attitudes; they help maintain self-respect and consistent identifications when long-standing assumptions and roles are being transformed.

Second, self-management may be a necessity, because a managerial vacuum exists that cannot realistically be filled by recruitment. It is quite clear that many attempts at WTOs fail or are abandoned because no-one is available or willing to take on management roles. To the extent that a commitment to self-management encourages individuals to take on new roles and responsibilities - and thereby discover and develop new abilities - it makes a crucial contribution to the success of WTOs.

3.2.2 Legal Issues in the Formation of a Workers' Enterprise.

Any attempt at a WTO must choose or devise a legal framework for the proposed enterprise. The basic options are as follows:

- o a workers co-operative, under co-operative legislation.
- o a (single) worker-owned enterprise, under conventional company law.
- o a 'two-tier' structure, in which the workforce as a whole controls an organization that owns (in whole or in part) the operating company (registered under conventional company law).

Each of these options covers a wide range of possibilities generated by two underlying issues:

- o who will exercise ultimate and day-to-day control of the enterprise;
- o who will provide capital for the enterprise and on what terms.

Hence the choice of legal framework must produce feasible and acceptable answers to the questions of management accountability and financial structure. In addressing such questions, the workforce must resolve issues like:

- o the underlying philosophy of the enterprise - whether 'cooperative', radical or 'worker-capitalist', collectivist or individualist.
- o the equity base required to obtain loans
- o the extent of individual financial contributions expected (lower and perhaps upper limits) and the terms of such loans/shares, particularly as regards withdrawals of capital.
- o the terms for external contributors as regards both financial returns and control.
- o the voting rights, transferability, redemption rights etc of shares
- o the structure of control as regards directors, managers, members and employees.
- o the distribution of benefits, including residual assets, especially if the workers decide later to revert to an ordinary firm.

In addition, the choice of legal framework must take account of complex taxation rules in order to minimise liability, and of the funding criteria used in local or national government policies (e.g. concerning greater than 50% employee ownership in Labour Companies, in Spain)

The implications of these points are as follows:

- o the underlying issues are of considerable importance. Although the work-force may be impatient just to establish "some kind of legal framework", these matters do need to be carefully addressed if the attempt is to succeed and if problems for the future are to be avoided. Nevertheless, there are occasions where it is more important that some framework is chosen quickly, than that the 'best' framework is chosen; and compromises between what is desired and what is feasible will often be needed.
- o Often the decisions on a legal framework cannot be made unilaterally by the workforce, let alone by a group within it. Negotiations with external parties commonly affect decisions over the constitution of the enterprise.
- o The complexity of legal and taxation possibilities, constraints and language make sympathetic expert advice essential. Such advice may

not be available, - and may not be best provided by a lawyer. Given the uncertainties, conflicting views, and time available, the workforce maybe unable to reach an informed agreement on a legal framework. In such cases a transitional form may be desirable though these are not readily available either (but see below).

In general, practically any organizational and financial structure is possible in principle. The problem for a WTO attempt is to establish a match between its requirements as these are progressively clarified, and the terms of appropriate legislation, in a way that minimises delays and uncertainties for the future.

As regards the three basic options listed at the start of this Section, each has its characteristic advantages and disadvantages:

- o The choice of a co-operative structure virtually ensures support from the secondary organizations (associations) of worker cooperatives, where these exist. However, co-operative principles require that there is a limited return on capital and that ultimate control lies with the membership on a one person one vote basis. This normally excludes the possibility of external equity capital (but see below). Arranging finance thus becomes much more difficult. On the other hand, it has been argued (4) that because co-operatives hold most of their assets collectively, as social capital which cannot be appropriated privately, they are the appropriate form for the investment of public funds. In some countries the option of a workers co-operative does not exist - Danish law does not allow for such a form, and in the FRG the compulsory economic examinations associated with co-operative membership render this form inappropriate. By contrast, in Italy the advantages of a co-operative legal framework are considerable so it is very rare for any other form to be chosen. The co-operative framework is also widely used in France and the UK.
- o Conventional (single-tier) companies are generally easy to set up and offer considerable flexibility. However, complicated provisions regarding voting rights, redeemability and transferability must be devised if there is any concern to prevent the firm gradually reverting to conventional external ownership (e.g. as employees leave, sell shares etc). Where radical or co-operative motivations exists, the individualist basis of such a framework is generally viewed with suspicion, and in the FRG this form is also disliked because it obligates shareholders to provide additional capital under certain circumstances. On the other hand, it is clear that in some cases the ease with which the enterprise may revert to being a conventionally owned firm, and the possibility of the shares eventually appreciating in value, are attractions for the workforce or sections of it. This is the more common form for WTOs in Spain and it has also been used in Denmark and occasionally in the UK.
- o Two-tier structures cover a wide range of possibilities for partnership between the workforce as a collectivity and external

bodies. The principal draw-back is the additional complexity involved and the fact that each one has to be devised almost from scratch. This is the preferred form in the FRG where it is seen as administratively more simple and as providing a useful vehicle for maintaining the organization and morale of the workforce even if the WTO is abandoned.

In practice, the choices between and within these three options are often greatly simplified - for better or for worse - by the personal preferences or established positions of the support personnel and agencies. In addition, it should be emphasised that in several countries this is an aspect of WTOs that is receiving considerable attention. For example, a proper legal basis for Labour Companies has recently been introduced in Spain; and in the UK model rules have been devised for "Equity Participation Co-operatives". It is too early to evaluate how these work in practice, but it is hoped they will provide both a transitional framework and a solution to some of the problems in achieving a satisfactory capital structure.

Finally, it should be pointed out that other legal issues may also have to be considered in the course of a WTO (for example, a WTO, or the form it takes, may affect employees entitlement to unemployment benefit or redundancy payments). This is particularly true in Germany, where the law plays a major role in defining rights and responsibilities in industrial relations: thus certain activities are forbidden to the leaders if they hold positions in the works council; in addition, a works council cannot negotiate with a state body (and hence the need for a new organization of the workforce to be created will be particularly urgent). This contrasts starkly with Italy, where WTO are so normal, that the parties involved are often content to proceed in negotiations on the basis of informal agreements while trusting that legal niceties can be resolved in due course.

3.3 Securing External Support

No amount of careful planning and organising will achieve a take-over if the workforce is not also able to secure the support of a number of external parties. Suppliers must be persuaded to supply materials - and preferably on normal credit terms, or better. Customers must be found - and preferably ones who will give undertakings or sign contracts that will demonstrate to others that a market exists. Premises may have to be arranged and equipment purchased or leased - again, on the most favourable terms possible. The receiver and major creditors may have to be persuaded to allow more time while preparation for the WTO are completed. But above all, a bank must be persuaded to provide loans - either for working capital, or additionally, to assist in purchasing the fixed assets. An analysis of the problems that WTOs face in obtaining finance from banks helps to explain why often they must also secure a significant measure of political support.

3.3.1 WTOs and the banks

Not all attempted WTOs have the potential to develop as viable businesses. But those that do are still likely to have trouble in obtaining the finance they require from commercial banks. The reasons for this concern the capital structure of WTO enterprises; the problems of assessing the commercial prospects of a WTO; and the fact that financial institutions are unfamiliar with WTOs. These points are dealt with in turn.

Capital structure

Where substantial finance for the start of a new and unproven business is being sought the normal practice would be for a financial institution to take an equity stake in the enterprise - thereby allowing some supervision of the conduct of the business as well as ensuring a much higher return in the event of the risk being rewarded with success. However, external equity participation is seen as violating at least two of the basic co-operative principles (limited return on capital; one member one vote) and is therefore generally not an option for WTOs choosing a co-operative legal framework. Moreover, if a co-operative framework is not being used the workforce may still wish to retain ultimate control - and whether or not this is so, financial institutions may be very reluctant (for reasons given below) to take an equity stake in such a venture.

Hence WTOs normally seek to obtain loans to meet their financial requirements. This is immediately problematic, however, because of the need to provide security for the loans. Even if redundancy payments and savings are invested in the enterprise, the workforce will often be unable to provide sufficient collateral. Moreover, even if a third party (e.g. the local state) is prepared to guarantee the loans or provide some unsecured loans itself, the financial structure of the enterprise will be weak. The high gearing ratio (of loans to equity) will burden the enterprise with disproportionately high interest payments. Especially in the early years, the need to service high levels of borrowing may raise doubts over the viability of the enterprise.

Assessing the commercial prospects.

When financial institutions assess a business proposal they basically consider two aspects - the idea, and the people. Assessment of the idea concerns the 'hard' business aspects - costs, prices, the extent of the market and so on. Such aspects will usually be subject to considerable uncertainty, and this is almost always the case for a WTO. Some proposals are obviously sound and others are obviously unsound. But most are not obviously one or the other. For example, how does one judge the prospects of an enterprise that has been offered considerable sub-contracting work from one or a few major companies? - a common situation for WTOs. Such work may be profitable in the short-term, while leaving the enterprise dependent and vulnerable in

the medium and longer-term. Nevertheless, in principle, assessing the basic business idea of a WTO is no more (and no less) difficult than assessing the business idea of other more conventional enterprises.

Assessment of the people in the project is, however, quite a different matter in the context of a WTO. Normally, banks make judgements about the competence and experience of the person or persons in charge of the project - because without effective management even good ideas will fail, while with effective management even uninspired ideas may be made to work. In the context of a WTO, however, this otherwise reasonable approach is quite inappropriate. This is not because the management of the project (in a broad sense) is any less important, but because control of the project is likely to be more fluid and dispersed; and because those playing leading roles are likely to be learning very rapidly - for all the reasons discussed in Section 3.2.

It must be emphasized that judgements about the capacity of those involved to run the enterprise effectively must still be made - commitment and determination are not in themselves sufficient. Table 1 lists the sorts of factors that are relevant in forming such judgements, and which those who have been closely involved in supporting WTOs would normally take into account. Clearly, it is hardly surprising if a banker used to assessing conventional small businessmen finds it difficult to assess these factors instead, or even to recognise their importance.

Table 1: Factors affecting the management capacity of proposed WTOs

Internal

- o The capacity of the workers leadership
 - ability and willingness to involve the workforce (e.g. frequency and type of meetings; attention given to informing them etc)
 - ability to respect the commercial as well as the social concerns of the project (e.g. attitude to job losses).
 - attitude to management (e.g. recognition of importance of managerial functions even if former structure is rejected).
- o The workforce
 - adaptability (e.g. age; skill; division of labour; willingness to undertake additional responsibility or training)
 - solidarity and commitment (e.g. homogeneity; shared priorities; attendance at meetings; financial contributions etc)
 - appreciation of commercial requirements (e.g. willingness to modify working practices etc)
- o The management
 - commercial abilities (e.g. role in failure of source company; skills and experience etc)
 - suitability for and commitment to the WTO (e.g. management style, financial contribution)

External

- o Advisory support
 - suitable advisors available on a continuing basis.
 - relationship with the workforce and its leaders.
- o Trade Union support
 - attitude and experience of local officials regarding WTO
- o Co-operative movement (or equivalent) support
 - technical or managerial expertise
 - cultural support for management and workers (e.g. training; transfer of relevant experience)
 - possibility for commercial support (e.g. contacts, joint ventures with other enterprises etc)

The unfamiliarity of WTOs

A WTO is usually an unconventional proposition which is likely to challenge numerous widely held preconceptions about the capacities of workers to direct their own enterprise. While this may result in an outright ideological rejection of the very possibility, a more common problem is simply excessive caution. As was pointed out above the 'facts' of any business proposal are usually ambiguous and uncertain and different consultants or experts may produce quite different judgements about the same situation. The 'mental set' of the persons making the appraisal (which is likely to be sceptical with regard to WTO) is therefore an inescapable element in the social definition of 'commercial prospects'. Such considerations do not rest easily with conventional notions of expertise and objectivity. Nevertheless, they are taken for granted in many commercial circles, to the extent that they are the basis for much professional practice in the area of public relations.

These observations about the frailty of human judgement are not offered as an argument for the view that the matter of commercial prospects should simply be treated as a game or ritual. But they do mean that WTOs face peculiar difficulties in securing the support from banks. Even if "in principle" the evaluation of the business idea is no more difficult in the case of WTOs, in practice it seems that the unconventional nature of the undertaking evokes more cautious and critical judgements than would normally be expected.

These three separate problems - of capital structure, of assessing viability (particularly regarding the people involved and their capacities) and of the attitude of banks towards WTOs - have been explained separately. In practice they are very closely intertwined and it is very difficult to judge their relative importance. For example, the lack of familiarity with WTOs adversely affects the assessment of the management capacity; and it often exaggerates the problem of capital structure (for example, in many contexts members loans are far more sensibly considered as part of the equity base - during the critical years of the enterprise neither they nor the interest they earn can really be withdrawn, and guarantees to this effect can be easily arranged.) Likewise, the perceived risks associated with an untried and unfamiliar form of management will increase the concern that any loans are well secured... and the fact that an enterprise is being proposed with such high financial gearing will confirm the reservations about the competence of those running it, and the wisdom of the whole idea.

Hence, taken together, these three factors mean that WTOs face uniquely difficult problems in obtaining adequate finance - regardless of the actual commercial prospects. Moreover, since the amount of finance available to an enterprise and the terms on which it is provided, are important in affecting its viability, the whole question can easily become circular and judgements about commercial prospects can be self-fulfilling prophecies.

In consequence, and in the absence of specialist funds for LEIs or co-operatives, WTOs have to seek capital from other sources. Sometimes significant amounts of 'sympathy capital' have been raised - from Trade Unions, the Co-operative movement, or by public subscription within the local community. But commonly a WTO has to turn to the state, either locally or nationally, for support.

3.3.2 Patterns of Political Support.

The scope for obtaining political support for a WTO, and the form that such support takes depend on a wide range of factors: the scale of the impending closure, the previous experience of WTOs, whether appropriate instruments exist through which funds can be obtained, and the extent of the financial or other assistance sought, - not to mention the proximity of elections (see the German study, for example). Nevertheless, two different patterns can be broadly distinguished. In one, the political and the commercial support for the WTO are loosely coupled; in the other they are tightly-coupled.

The 'loosely-coupled' model has been common in Italy where it was described by Rossi in 1980 as "the ritual for companies in crisis." The elements of this are:

- o Public meetings promoted by the workers' council in association with the political parties and other bodies. These discuss the causes of the Italian industrial crisis and call on the authorities to act to safeguard employment in the factory in question.
- o The owners and the workers' representatives are summoned to meetings with the prefect where both sides agree to discharge their responsibilities, the problems of the industrial sector are recounted, the desire for a new buyer is expressed, inquiries to Rome are prepared, and so on.
- o Messages of encouragement, sympathy, solidarity etc are received from social institutions, other workers' councils, trade unions etc.

The result of all this activity - which may take some time - is a gradual acceptance that the only way to preserve the enterprise and its employment is through a WTO - and a public commitment for this course has by this time been built up. It is only at this stage that the Co-operative Associations and advisors can begin serious work on preparing a business proposal.

Hence the political commitment to support the WTO, based on a rather loose appreciation of the commercial possibilities, precedes the detailed technical planning, the calculation of financial requirements and so on.

By contrast, in the 'tightly-coupled' model, the political support is dependent on the apparent viability of the project as represented in a detailed plan. But since, for the reasons set out in the previous

section, the commercial prospects of the WTO are likely to depend on the extent of a political commitment, this means that efforts to obtain the support of the banks and the public authorities are iterative, and proceed together in close conjunction. Thus, an initial proposal for the WTO is discussed with both banks and government officials. The responses are cautious but indicate the sorts of conditions that will have to be met, the additional information required, and so on. In due course a revised proposal is prepared and presented, and if it is seen as showing sufficient promise, the extent of support that may be provided is discussed along with a more detailed set of conditions regarding the further modification and elaborations of the plan that will be expected. This process continues until agreement is reached - or until it is clear agreement cannot be reached.

Both these models can work effectively, though the 'loosely-coupled' one may depend on the existence of strong Co-operative Associations that have the desire and the capacity to support the new enterprise, and the right and duty to step in and take over trusteeship if it is in serious difficulty. Where this expertise and experience is lacking, the 'loosely-coupled' model is often disastrous. For example, in France, Spain and the UK there have been cases where a strong political commitment to rescue an enterprise has been made, and as a result WTOs were achieved. But the enterprises quickly ran into difficulties because important commercial considerations had been neglected.

On the other hand, the 'tightly-coupled' model can also be abused. This happens when in the end the public authorities effectively use the unwillingness of the banks to support the project on a normal commercial basis as grounds for denying its viability and thus for withholding support (see the FRG study for an example). This position ignores the particular problems that WTOs face with the banking system. It also overlooks the possibility that a project may appear insufficiently profitable to justify the risks if funded on a normal commercial basis while still having sufficient prospects of profitability to justify a measure of public support - in other words, that it may very well be appropriate for public authorities to use a less demanding standard of viability than a commercial bank in assessing such projects (which is certainly not to suggest that viability is unimportant).

3.4 Summary

When a workforce attempts to take over a business this involves the preparation of a business plan, the creation of a new organization, and the mobilization of external support. These three areas of activity are closely inter-related.

The willingness of the workforce to accept responsibility for ensuring viability is critical for the formulation of a realistic business plan

- and the discussion and preparation of the plan by the workforce is the vehicle by which it starts to discover and come to terms with the implications of a WTO. Decisions over job losses present these implications most starkly. While a substantial reduction in employment is commonly required there are a number of ways in which the difficulties this poses can be handled without jeopardising the WTO - particularly where there is external support from public agencies and other worker co-operatives.

The preparation of a credible business plan also depends on whether the workforce can obtain the necessary information and advice. In this respect, the attitude of the existing owners or managers, the extent to which the new venture can adopt the products, markets etc of the old, and the availability of appropriate support agencies or networks, are particularly important.

The business plans for most WTOs can be understood as variants of two basic strategies. The 'rescue' strategy is more like a conventional recovery plan intended to cut costs and abandon unprofitable lines. It tries to avoid any break in production and hence has the advantages of preserving the customer base and maintaining continuity of employment. On the other hand, the time available may not be sufficient to assess business prospects in detail, or for the workforce to come to terms with commercial self-reliance.

A 'phoenix' strategy is more like starting up a new enterprise - except that it is based on some of the employees, assets and perhaps customers of the old business. Characteristically there is a break of several months before production re-starts. This can lead to problems if key workers seek employment elsewhere. On the other hand, the additional time often makes it easier to plan the business realistically, and allows for attitudes to change, training to be undertaken, and the self-selection of a committed and cohesive group of workers. In addition a selection of the assets can often be purchased comparatively cheaply from the liquidator, thus avoiding taking over the entire plant (which may be valued as a 'going concern', and carry with it some liabilities, in the case of a 'rescue').

In practice these two strategies are more or less appropriate in different circumstances and many WTOs develop schemes that fall somewhere between them. However the distinction does highlight the particular difficulties of achieving a viable WTO in the case of the 'large plant' closures that have often attracted considerable publicity and political controversy. For a variety of reasons (e.g. parent company control of markets, obsolete but capital intensive production facilities, etc) a rescue strategy is unlikely to be viable; a phoenix strategy will only support a small fraction of those previously employed; and neither approach is likely to sustain the high cost of the new product development often required.

The organization of a WTO is a formative experience for the enterprise created. Although some WTO are promoted by external parties and the

leadership, with the workers themselves in a passive role, it is more common for many of the workers to be actively involved. Ensuring the effective involvement of the workforce in the direction of the project poses severe problems - for structural, cultural and contextual reasons. Hence the process may at times appear passionate, disorderly, and 'unprofessional'. Nevertheless this involvement is often essential for a number of very practical reasons - it generates the shared understanding and the commitment necessary for new patterns of work and organization to develop. Hence, too, the ideals of self-management often (but not always) associated with WTOs cannot be dismissed as being irrelevant in principle and damaging in practice, in relation to the primary objective of job preservation. These populist and radical ideologies of worker autonomy appear often to be highly functional - for example, in facilitating a change of attitudes (e.g. from opposition to management to the acceptance of (self-)management responsibilities); in encouraging individuals to come forward to fill the managerial vacuum that commonly exists.

These and other organizational issues are often highlighted by difficult choices over the legal constitution of the enterprise - choices which will express the individualism or collectivism of the enterprise's philosophy, affect its financial structure, and determine how it is to be controlled. The absence of appropriate legal frameworks has been a serious problem in several countries and contrasts with the situation in Italy where the legal status of a co-operative provides clear advantages over other forms.

Although attempts at a WTO must gain the support of a range of external parties - suppliers, customers, the receiver, etc - the financial support of a bank is generally most critical. To do so means overcoming three problems that are quite independent of the actual commercial prospects:

- o the problem of capital structure (the workforce's resources provide insufficient security for loans - and if loans are obtained the financial gearing may be excessive).
- o the crucial question of the management capacity of the enterprise is more difficult to assess (and this cannot sensibly be done on a conventional basis)
- o in most countries the banks are unfamiliar with WTOs; this, quite apart from an ideological antipathy, often involves misconceptions and evokes excessive caution.

In practice these closely interrelated problems mean that WTOs must obtain a measure of public funding - eg as loans or guarantees - to reduce their commercial borrowing requirement, or the risk associated with it. Hence WTOs commonly seek political support as well.

The somewhat uneasy combination of political and commercial logics poses problems for the workforce and usually follows one of two cour-

ses. In the 'loosely-coupled' model, a political commitment to the WTO precedes the detailed planning of the WTO and its financial requirements. In the 'tightly-coupled' model, political support depends on the commercial appraisal, and vice versa, so the process is iterative rather than sequential. Each of these patterns can generate sound business plans, a committed workforce and adequate financial support - and each, too, has its own way of failing.

4 After the Take-Over: Varieties of Success and Failure

4.1 Overview: Collapse, Marginality and Consolidation.

This chapter reviews the experience of the enterprises established as a result of WTO attempts that were successful. Such enterprises commonly start in a mood of optimism or even exhilaration, with the workforce feeling (justifiably) that affecting the take-over was itself a substantial achievement. Nevertheless, the commercial situation of the enterprise will often be precarious, with enormous and unfamiliar problems needing to be tackled. Before considering the commoner organizational processes that arise in grappling with these problems it is helpful to distinguish a number of characteristic outcomes:

Collapse. This refers to cases that never look like achieving viability. The failure may occur relatively quickly - as when an expected major contract is suddenly withdrawn. Or it may happen progressively. A particularly important case is that of the large plant in a declining industry established under the most severe conditions: the rescued enterprise gradually contracts before finally becoming bankrupt. Such cases make little sense when considered as attempts at a business 'turn-around'. Nevertheless, the social and economic functions they perform, often in areas of acute need, may be considerable: in effect, they provide a vehicle for managing the decline of a major employer and may deserve support simply on this basis.

Marginality. Like many other small and medium-sized enterprises, many WTO enterprises achieve a marginal status in their sector. They are trapped in a poor competitive position with precarious profitability (e.g. as sub-contractors, or because of obsolete equipment, or because they produce 'mature' products with declining markets). In any year a proportion fail; but many continue for years.

Consolidation. A minority of cases effect a 'workers turn-around' - profitable, competitive and expanding businesses are developed.

Although some WTO provide clear examples of these types (see the country studies) the categories are not clear-cut and many cases are hard to classify. Hence it is hard even to estimate the proportions of WTOs that are of each type. In addition, the proportions vary between countries - for example Denmark appears to have had an unusually high proportion achieving 'consolidation', and in Italy 'collapse' is much less common because of the strong role of the Co-operative

Associations. As a rough indication, however, it seems that generally up to 25% of WTOs result in 'collapse', and likewise up to 25% achieve 'consolidation'. The remainder can be classified as 'marginal' (even if some of these fail after a number of years). Of course, such proportions reflect the extent of the continuing support available for the enterprises, as much as their 'inherent' potential.

It should also be pointed out that in some cases of marginality and consolidation, the rescued enterprises may cease to be worker owned. Both weakness and success can provide the conditions under which ownership and control are surrendered to another company or entrepreneur.

The remainder of this section addresses some of the characteristic social and commercial processes, and the circumstances surrounding them, that generate these outcomes.

4.2 Reducing Costs

Cost reductions tend to be achieved in two main areas: management overhead costs, and production costs. Savings in the former are particularly significant where the unit has been subject to standard head office charges. It is not uncommon, too, for the enterprise to benefit considerably from the ending of inappropriate central policies on e.g. purchasing and pricing (Red Dragon stores in North Wales illustrates this point; similar advantages are reported for management buy-outs).

As regards production costs, it seems that WTOs may have a potential comparative advantage in this area (in relation to other takeovers or buy-outs). This is the area about which the workforce have the most knowledge and experience, and where the achievement of improvements depends critically on their active involvement. The scope for such cost reductions will depend on the quality of the previous management and on technological limits but may be considered under two headings:

o reduced labour costs: these will often be attendant on changes in production methods and organization. In general they can arise in two ways:

- reductions in manning levels, consequent on e.g. the closure of unprofitable lines, increased labour flexibility, increased work rates, a reduction in supervisory staff (with self and peer monitoring being substituted), and the 'screening out' by the workforce of less motivated and productive workers.

- wage reductions, often as a result of, or in conjunction with, reduced wage differentials.

o improved working methods: most conventional enterprises, especially larger ones, fail to enlist the intelligence and knowledge of the

workforce in devising production methods. A WTO provides the motivational and organizational context for this latent ability to be realised - and the results may be spectacular. Well documented cases include productivity improvements at Manuest and the conversion of the presses at the Scottish Daily News, from broadsheet to tabloid (this was achieved quickly without any losses of production against expert predictions that it would be impossible without them being out of commission for at least a month.) These and a wide number of other examples, along with a review of the reductions in unit labour costs achieved (generally between 35% and 50%) are provided in Bradley and Gelb (5)

The means of reducing labour costs listed above are the basis for Trade Union anxieties about 'self-exploitation' and the undermining of established terms and conditions in the industry. However it seems that objections to WTO on this basis are more common where Trade Unionists have little direct experience of WTO. Where trade unions have more experience, and are informed and consulted, any problems are more likely to be quickly resolved, and flexible arrangements for a transitional period can generally be agreed (eg France, Spain.)

It must be emphasised however that the potential comparative advantage of a WTO in relation to reducing production costs may not be realised. This depends entirely on the extent to which the workforce have accepted both psychological ownership of the enterprise and the realities of its commercial situation and are prepared to collaborate in tackling intensely difficult decisions. Hence, the crucial importance of involving the workforce fully from the beginning of the take-over process, and ensuring that a climate favourable to continued learning is maintained.

4.3 Implementing New Product-Market Strategies

If WTO enterprises have a comparative advantage as regards production management and costs, this is rarely the case in other areas of management, for the following reasons:

- o key managers may have left, and those that remain may be ineffective (poor quality management is a common feature of firms that have been in decline over a period of years - being both cause and effect)
- o sympathetic and suitable managers may be hard to recruit (especially given the uncertainty, and perhaps an egalitarian wages policy)
- o the workforce will commonly underestimate the importance of skills and activities they are unfamiliar with. At worst, there will be widespread hostility towards any conventional managerial roles or personnel, on grounds both of cost and ideology.

Hence, rescued enterprises tend to be 'under-managed' in terms both of quantity and quality, particularly in the areas of marketing and finance. Such problems are not uncommon among small and medium-sized enterprises. (There is a sense in which only the most successful can afford to be well-managed.) However they tend to be more severe after a WTO, and the low status and role ambiguity of managers may accentuate the difficulties.

One common pattern is for a former shop steward to assume the role of general manager or managing director. While there are cases of this succeeding, it is prone to failure - the role change (or combination of roles) is hard to accommodate and the individual has too much to learn, too quickly. In larger units this can result in a further undermining of the position of management (6). In smaller units it may mean a managerial vacuum - an example is provided by the WTO bakery in Scotland which traded profitably for 6 months on the basis of a particular hot pie. Advisors persistently warned that a summer-time product was needed. This problem was ignored as the leader worked very long hours with his colleagues producing the pies. When the warmer weather came, demand fell away sharply, it was too late to identify a suitable alternative, and the co-operative collapsed a few months later.

In any event, a rescued enterprise must attempt to evolve new product-market strategies - a new 'entrepreneurial formula'. Such attempts commonly experience the following difficulties:

- o inadequate systems of financial information and control mean that available resources may be draining away, the profitability of different activities may be unclear, and agreement on difficult decisions may be hard to achieve.
- o the enterprise may be so under-capitalised that the costs of entering new markets, re-investing to reduce the cost advantages of competitors, or developing new products are prohibitive. More commonly, some funds will be available, but these are insufficient.
- o management adopt a series of desperate stop-gap measures in order to ensure some work is available and in the hope of 'buying time'. For example, small sub-contract orders, or selling goods through Trade Union branches. At best such measures may make a contribution to overheads; at worst, they generate a pattern of short-term and ineffective management which makes any attempt to tackle the strategic problems even more difficult.

By contrast, where consolidation is achieved the following conditions commonly exist, often in combination:

- o the combination of financial restructuring and cost reductions is sufficient to ensure profitable operation; the competitive position is basically sound and any modifications to the product-market strategy of the old firm are limited and obvious.

- o an up-turn in demand restores profitability and the additional resources that become available are directed towards improving the enterprise's competitive position.
- o the initial basis of the enterprise, or the improvements achieved shortly after the WTO, ensure survival for a number of years during which a more effective management team develops within the enterprise - e.g. young junior staff develop abilities they never expected to possess.
- o the enterprise receives and accepts continuing advice and support from a competent advisor associated with the co-operative movement, and gradually evolves a focussed and effective product-market strategy
- o the rescued enterprise receives advice, orders, finance and managerial personnel from other co-operatives, or co-operative consortia. On occasions, in Italy and France, the enterprise may be merged into another co-operative either permanently, or in order to build it up again for a secure and independent future.
- o the enterprise attracts the investment (either from commercial banks or from co-operative or public sources) needed to re-equip and increase productivity.
- o the workforce's ability to manage day to day production is matched with external management of marketing and strategic considerations, within a policy framework determined by the workforce (the case of TCS in the French study has some of these features).

4.4 The Problems of Institutionalising Collaborative Management

In the early days, the management and workers in a rescued enterprise commonly display high levels of solidarity and commitment. The achievement of the take-over, the experience of successful collaboration in devising new production methods, the uncertain economic prospects along with hopes of greater rewards in the future, may all combine to create an exhilarating climate. Not suprisingly, such an atmosphere cannot be sustained for long and it gradually subsides to some more 'normal' level. What is crucial, however, is the degree of commitment and the quality of relationships that become 'normal' in the enterprise. High levels of individual commitment, personal responsibility and trust between management and workers (and between different groups of workers) are not just a commercial asset; they are also a source of pride and satisfaction for many workers, compensating for a lower wage and vindicating the philosophy of the enterprise.

However, WTO enterprises face a number of problems in institutionalising new values and a collaborative form of management:

- o Intense production pressures and long hours of work may undermine

morale. More seriously, they make it difficult to afford the time for the meetings required to resolve disagreements consensually, and to ensure a continuing appreciation of other people's views and circumstances.

- o The 'old' values may still be embedded in the production technology and organization, in the form of repetitive highly routinised work and a clear separation between those who plan and control, and those who are operators. To the extent that the experience of responsibility, discretion problem-solving and control at the level of the work group provide a foundation for an involvement in enterprise decision-making, this constrains the scope for institutionalising the new values - especially if the capital and training costs of a more progressive production system are high. Moreover, the social divisions associated with fragmented labour generate conflict and undermine the cohesion of the workforce.
- o With employees often expecting much greater influence in day to day decision-making, the role and responsibility of managers can become confused. While it may be accepted in principle that 'managers must manage', they are usually accountable to the workforce and they may be unclear as to the extent of their authority (this is especially true when the worker's leader effectively combines the roles of shop steward's convenor and managing director). Such problems tend to be particularly acute in larger enterprises with a history of an authoritarian style of management and poor industrial relations. In such cases, old suspicions and stereotypes are likely to reassert themselves and those involved may lack any model or experience of a more participative style of management.

At worst, these factors will combine with a deteriorating financial situation to produce a vicious circle of decline. Morale and commitment collapse, decision-making is paralysed, and disputes break out as further sacrifices are called for, in order to reduce costs still further. Amid the bitterness and mutual recriminations, anyone with a prospect of work elsewhere (often key personnel) leave.

Happily, such extreme cases seem fairly rare. More commonly, there is a gradual or partial reversion to some more traditional pattern of management. The workers expectations of influence are progressively reduced; various practices and bodies designed to express worker concerns cease to function; the authority of newly appointed or internally developed managers increases; the commercial stabilisation of the enterprises both reduces the need for major change and provides greater material rewards to compensate for reduced social satisfactions; staff turn-over and recruitment dilutes the body of workers who remember the 'great days'; memories fade. The need to promote more participation may even be recognised as a problem.

Such tendencies are neither inevitable nor irreversible. A significant minority of rescued enterprises succeed in institutionalising new values - in quite considerable measure, even if not to the extent that

some had hoped. In other cases, deliberate efforts are made to arrest or reverse the processes of 'degeneration' (see especially the Danish and Italian studies for a discussion of some typical patterns). The conditions which appear to favour such developments are as follows:

- o integration of the WTO enterprise in the networks and associations of an established co-operative movement. Such integration can provide
 - realistic models of participative management
 - a chance to recruit capable and committed managers
 - support for the social ideals of the enterprise
 - advice and training in co-operative organization
 - the opportunity to learn from peers who have faced similar experiences.
- o a leadership which is competently committed to both social and commercial objectives and which can balance short and long-term considerations. This may be provided by a single individual, or by a coherent group. What must be avoided is an (other than temporary) dominance by either type of objective; or a failure to integrate the different objectives (which leads to conflict and inconsistency). A common pattern in Italy is for an older generation of worker's leaders to make up a board of management, to whom managers are accountable. These leaders then negotiate terms and conditions of employment and any disputes with a fresh generation of shop stewards. The former group effectively argues for longer term commercial interests of members; the latter represents their immediate or sectional concerns. But both groups share a common experience in and commitment to the labour movement.

4.5 Summary

Although the proportions seem to vary somewhat between countries, a rough estimate is that, overall, up to 25% of WTO fail without ever achieving viability; up to 25% are able to consolidate as secure and competitive enterprises; the remainder become marginal enterprises with fluctuating profitability. In any year a number of these marginal ones will fail - but some will continue for many years.

Cost reductions are the principal source of improved performance following a WTO. These commonly arise from reductions in management overheads, reduced labour costs, and improved production methods. The productivity improvements associated with WTOs have regularly been very substantial. On the other hand, shortages of capital, obsolete equipment, a lack of financial and marketing expertise, and a neglect of strategic management, have meant that the underlying competitive position of many enterprises remains weak (marginality).

Where consolidation is achieved the infrastructure of the co-operative or worker-owned sector (support agencies, consortia, financial institutions) has usually played a vital role. The importance of a worker co-operative or worker-owned sector is also apparent in providing cultural and organizational support for WTO enterprises as they progress from the intense commitment, solidarity and egalitarianism of the early days to more sustainable forms of collaborative management or self-management.

5 Policy issues

It is obvious that WTOs, and a policy of support for them, do not offer more than a modest contribution towards the solution of the problems of mass unemployment. Nevertheless, considered as one policy instrument among others, support for WTO deserves consideration on its merits in the particular circumstances of different countries and regions. In the light of the preceding analysis of the problems and achievements of WTOs, this chapter considers the different purposes that may be served by policies and instruments enabling WTOs; it reviews the experience so far of efforts by public authorities to support WTOs; it sets out some general principles covering the nature and extent of government support in respect of WTOs; and it highlights a number of key areas for the attention of those who consider the WTO option warrants additional recognition and support.

5.1 Rationales for the Support of WTO.

Support for WTO may be intended to serve a number of rather different, if related, objectives. Policies and instruments that will achieve some of these objectives will be inappropriate or inadequate for others. Hence clarity over the reasons for providing support is essential. This section reviews the principal aims and justifications for the support of WTOs, in the light of the experience of WTOs so far.

Job saving. This is the first, the simplest, and the most important reason for providing support. In the context of Local Employment Initiatives support for this purpose is likely to be realistic and well-justified. The number of WTOs in an area does respond to policy initiatives. Comparatively modest amounts of public funding is often able to facilitate substantial investment by the workforce, the banks and other parties. Compared to the jobs created in many other LEI projects, the number of jobs saved in WTOs is often high. In general, the time and resources committed to WTO support appear to generate more jobs than an equivalent effort spent on 'new starts'. The survival rates of WTO enterprises, as far as they can be estimated, do not support the popular view that these enterprises soon fail. Finally, in terms of labour market management, it is clear that support for WTOs is entirely consonant with the trend towards supporting enterprise creation efforts by the unemployed that is apparent through the European Communities.

Managing Decline Bradley (7) has argued that in the case of 'large plant' closures support for a WTO will often be justified even if the prospects for viability are poor. In such cases an important objective for governments is simply to manage the decline of the large plant so as to minimise the adverse effects on the local economy and labour market. Bradley presents a detailed economic analysis to justify this view and detail the conditions under which such support will be economically justified. The argument is not one in favour of economic intervention as such; it simply demonstrate that where some intervention is inevitable for social or political reasons, then support for a WTO in the form of a co-operative or other worker owned enterprise will normally be the preferred instrument on strictly economic grounds.

These arguments are important. They highlight the need and the scope for managing the decline of large plants on which a locality or a workforce with industry specific skills, is dependent; and they provide a rigorous justification for a somewhat more relaxed attitude to the commercial appraisal of job-saving projects in such contexts. On the other hand, this rationale has the severe shortcoming that in practice it cannot really be admitted. To maximise the efficiency gains under workers ownership and management there must be a widespread belief - founded, ultimately, on actual possibilities - that economic recovery can be achieved. But to support a WTO while admitting one does not believe this actually to be the case, would seriously undermine it. For example, it is hard to imagine such a venture attracting significant financial contributions from employees and the local community; or stimulating a willingness to adopt labour saving production measures. Nor would it be endorsed by cooperative associations whose support is so important; it would risk draining their resources in the most adverse circumstances, with the inevitably high proportion of failures attracting adverse publicity. But if the rationale for the policy is not made explicit, then it is likely to be politically unrealistic. A policy whose declared intention is to facilitate 'workers turn-arounds' cannot result in a significant proportion of 'failures' without being seen as a waste of public funds - even if, in fact, such 'failures' fall within the range of acceptable outcomes. Such seems to be the lesson from the UK in the mid 70s and France in the early 80s.

Nevertheless Bradley's economic arguments may still justify a measure of public funding for workforce-based re-employment initiatives that combine a gradual run-down of the former activities, with the exploration and preparation of potential 'phoenix' enterprises based on different products.

Economic re-structuring. The rationale for this objective is based on two propositions:

- (i) Re-structuring that arises within a declining enterprise is very much preferable, both socially and fiscally, to restructuring that results from the closure of one enterprise and the opening of another, often in a different region.
- (ii) WTOs can succeed where others have failed or are unwilling to try. Even if (inevitably) WTO enterprises are marginal to begin with, they can consolidate and develop.

These two propositions are basically sound - all the countries studied provide examples of WTOs that have achieved economic success of this sort. So this objective deserves serious consideration.

On the other hand, this objective is far more ambitious than simple job-saving. A job-saving policy might have a time horizon of, say, 3-7 years, and be considered successful even if the enterprises created were economically 'marginal'. But support efforts intended to promote economic restructuring would aim to ensure that wherever

possible WTO enterprises were able to escape their marginal status and secure a longer-term future. It is clear especially from the Italian Study that the financial resources, the expertise and the experience required to achieve this are very much greater. Hence it is unlikely that this is an objective that could be both widely and cost-effectively pursued in the short-term, in countries and regions with limited WTO experience - pilot projects will be necessary first.

Promoting a Worker Co-operative sector and/or employee ownership A cooperative sector and/or more widespread employee ownership are widely considered to be desirable for a variety of reasons (see, e.g. Section 2.2 above). The very substantial contribution that WTO enterprises have made to growth of the worker co-operative sector in Italy, and the emergence of the SAL phenomenon in Spain, demonstrate that support for WTO can be an effective means of promoting 'economic pluralism'. Hence this rationale is reasonably well-founded.

However, this objective is closely associated with that of promoting economic restructuring. Achieving the latter will also contribute to achieving the former - a dynamic sector can hardly be based entirely on marginal enterprises. In addition, the development of a worker co-operative sector with its own infrastructure (or equivalent secondary organizations for employee-owned firms) increases the prospects for economic restructuring through the support of WTOs. Hence, like the objective of promoting economic restructuring through WTO, the pursuit of 'economic pluralism' is a longer-term objective and subject to the same caveats concerning the additional resources required (for example, some public investment in the infrastructure of employee-owned sectors will be needed - as has recently been acknowledged in Spain). In general, although support for WTO may contribute to the growth of worker co-operative and/or employee owned sectors, it is not, on its own, an adequate means to this end - additional measures will also be appropriate (the Italian experience is particularly instructive).

Overall, then, in broad terms and with some important qualifications, the main rationales for supporting WTOs are well-founded. The appropriate scope means and extent of support for WTOs will obviously depend on the context and on the relative priority given to the different objectives. But judicious support for WTOs should be considered no more controversial than other forms of support for enterprise creation or recovery and employment preservation.

5.2 Instruments, pitfalls and dilemmas

At different times and in different places, WTOs have been supported in a wide variety of different ways. The principal initiatives and measures are listed under various headings in Table 2. It must be stressed first, that many of these initiatives have occurred as part of more general efforts to develop local economic strategies or to support the cooperative sector; secondly that many measures have occurred, whether appropriately or not, only at local or regional (rather than national) level; and thirdly, that in very few areas

indeed have significant proportion of these measures and practices become effectively institutionalised. At least initially support for WTOs has always been ad-hoc - it has usually been accidental (as when WTOs have been able to use measures designed for rather different purposes), or reluctant (as when an administration was giving way to political pressure), or impromptu (hastily devised and implemented).

Table 2 Policy measures and initiatives to support Worker Take-Overs

Pro-active Initiatives and Measures:

- o Publicity and information dissemination
- o 'Early warning' systems to give notice of firms that are in difficulty
- o Promoting dialogue with and between TUs and Coop movements
- o Formulation of policy guidelines and strategies

Initial Enabling Support:

- o Funding for feasibility studies, advisors and other preparatory expenses
- o Assistance with premises
- o Funding and facilities for preparatory courses and meetings
- o Assistance with negotiation and lobbying of third parties

Financial Measures:

- o Enabling the capitalisation of unemployment benefit
- o Adaptation of other industrial and regional policies to include WTOs
- o Ad-hoc loans and grants
- o Providing financial guarantees
- o Purchase and lease-back of assets
- o Block loan or grant to coop financial institution
- o Creation of special loan fund

On-going Support:

- o Training courses for members and managers
- o Facilitating secondment/recruitment of managers
- o Purchasing contracts for products or services (including training, work experience, etc)
- o Rate relief
- o Tax relief
- o Reinvestment tax incentives

Infrastructural enhancement:

- o 'Standing arrangements' with independent agencies for funding feasibility studies when required
 - o Regular financial support for independent agencies
 - o Creation of roles/departments for WTO and coop support
 - o Creation of semi-independent agencies
 - o Procedural changes to speed up WTO support
 - o Training for WTO support workers
 - o Research and dissemination on new model rules, taxation practices etc
 - o Research and dissemination on 'good practice' in WTO support
 - o Promotion of coop support networks (conferences etc)
 - o Promotion of networks between sources of product ideas and unemployed/coop and labour movements
-

As such the efforts to support WTO have been characterised by a number of common weaknesses:

(i) Expecting too much, too soon.

Hastily prepared measures, limited time horizons, and over-ambitious policies have resulted in what is seen as an unacceptably high proportion of failures. This was the experience at a national level in France between 1982 and 1984, after which the policy on WTO was reversed. The underlying misconception in such cases is the failure to appreciate the essential social dynamics of a successful WTO and the commercial pressures to which they are subject. Thus the short term concern to preserve employment has undermined longer-term prospects for self reliance and economic regeneration. Local authorities in both France and Britain have also intervened in this way. Similarly in Britain WTOs have been seen as a vehicle for pursuing a range of other social objectives - for example, concerning equal opportunities and model employment practices - with insufficient regard to the commercial constraints and pressures affecting the enterprises, or the time and support required to institutionalise such values in an effective way.

(ii) Inadequate support measures.

Common weaknesses in the form and extent of support provided for WTO include:

- o providing insufficient funds - as with the Benn Co-ops in the UK, when the government was divided.
- o providing funds on an inappropriate basis - i.e. as grants in Italy; on a per capita basis, as in Spain.
- o providing funds, but no other support - failing to invest in support agencies and networks, because access to appropriate information and advice was not seen as problematic (Spain).

(iii) Insufficient attention to smaller WTOs.

The greater political pressure created by the threat of large plant closures provides an obvious explanation for the attention and support they have attracted. But the results have been perverse with the greatest effort (and the largest financial and political investment) being made in the most difficult cases, while the much more straightforward opportunities have been neglected. Simply in terms of job years preserved, and the investment required, it seems likely that a number of small or medium sized WTOs will fare better than one large and capital intensive WTO. Moreover small and medium-sized WTOs provide a valuable pool of experience in assisting more substantial attempts at a later date.

(iv) No evaluation of support policies.

The absence in any of the countries studied of any systematic efforts to assess policies of support for WTO is striking. Even where the support was explicitly provided on an 'experimental' basis - as with the 'Benn' cooperatives in the UK - there was no requirement for any documentation and dissemination of experience. In consequence, it seems that only one serious study (8) has ever been conducted on the direct and indirect costs and benefits of measures to support a WTO. As a result, it is not possible to compare the cost-effectiveness of support for WTOs either with other measures, or with doing nothing; and major errors in support for WTOs have had to be painfully re-discovered even when firms in the same industry were involved.

These weaknesses have been increasingly recognised and in areas with considerable WTO activity the support policies and instruments have been, and still are, evolving steadily (e.g. Italy, Spain, parts of UK and the FRG).

Apart from the common weaknesses of initial or existing policy instruments, the experience of WTOs also highlights a number of dilemmas that are inherent in any attempt to support WTOs. A clear appreciation of these dilemmas is important in considering the feasibility, and possible consequences, of different means of support. These dilemmas include the following:

- o Realism versus encouragement. Any policy to support WTO is likely to have the unintended consequence of encouraging attempts on an inappropriate basis, or of raising false hopes, where the prospects are poor. Conversely, it is essential for those who assist the workforce in a WTO attempt to confront them with the requirements of pursuing such a course. But this must not be done in a way that is unnecessarily discouraging. Such a balance may be particularly hard to strike if those concerned are under politically derived pressures to 'do something'.
- o Financial assistance versus financial dependence. Where public funds (or guarantees) are provided for a WTO, the danger arises that the workforce may see itself as being rescued, rather than being the rescuers. The ethic of self help may only extend to the engineering of political support, and not to commercial reconstruction. The obvious solution is for such support to be provided on unambiguous terms, either as a once and for all contribution, or in relation to pre-determined performance targets. Thus the workforce will know where they stand, and any further assistance must be earned. In practice, however, the uncertainties associated with a WTO may make it difficult to develop sufficient contractual clarity on a realistic basis - and so the door maybe left open for further assistance, and thus dependence.
- o The short-term versus the long term; The extent of unemployment, pressure from particular closure situations, and the need to justify policies in support of WTO in relation to competing alter-

natives, will all generate strong pressures on policy makers and agencies to achieve results. On the other hand where existing experience is limited, the cost of failure will be high and the infrastructure to support WTOs effectively cannot be created overnight: the expertise, institutional changes, local networks and social climate for significant results can only build up gradually.

- o Support versus direction. A WTO is a collective learning experience whose success depends significantly on an ethic of self-reliance. While a great deal can be learned from sympathetic advisors, there are limits to how far and how fast it is possible to develop a practical understanding simply on this basis. Moreover, the scope for that most vital of all forms of learning - learning by the correction of errors - is likely to be strictly limited by the precarious financial situation. The nature of the support relationship is therefore problematic. On the one hand a reluctance to insist that particular problems are faced may lead to costly mistakes jeopardising the enterprise. On the other hand, efforts to prevent failure may easily be counterproductive: insisting that particular issues are tackled may undermine the relationship, leading to a rejection of the advisor; or it may lead to dependence, and an erosion of the psychological ownership of the project and self-reliance, that are so important for its success.

5.3 Some General Principles

- o Any support for WTO must recognise that the workforce are the central figures in the project. WTO are achieved through and because of the workforce. If the workforce is not interested in a WTO - and they may have good reasons for rejecting the option - then the idea cannot sensibly be pursued. Their perspectives, concerns, needs and potential contribution must central be throughout the planning and negotiations to support the project. Likewise, they are responsible for the success or failure of any adequately funded venture.
- o Financial support for a WTO should not be an entitlement. It must always be justified in relation to the prospects for developing a viable enterprise. It should be provided as far as possible on a contractual basis that allow additional support to be obtained where past results and future prospects warrant it.
- o Advisory support for a WTO is not the same as normal business advice, nor is it effectively provided by conventional business advice agencies. Such agencies may well have a contribution to make in providing specialist back-up to a WTO and its advisors. But they commonly lack or fail to appreciate the social commitment, specialist information and extent and style of involvement required.
- o The financial support provided for WTOs should be commensurate with the other support services available, and vice versa. Money without real services is foolhardy; support agencies without access to finance are pointless.

- o Close state involvement in the provision of support is undesirable because of the dangers of bureaucratization, of a shortage of appropriate skills and expertise, of short-term considerations or political patronage, and of imposing additional social requirements on the WTO without providing the resources to achieve them (See especially the UK study where, e.g. the Greater London Enterprise Board expected it to take four months for funds to be made available after a loan request was approved).
- o While the backing of the relevant trade unions is important, the trade union movement and officials should not be the main source of support and advice for a WTO, - unless this is provided through a separate agency free from day-to-day pressures and able to develop the necessary expertise (as has happened in Wales).
- o The secondary organizations representing WTO enterprises (Co-operative Associations, SAL federations etc) and agencies associated with them, should be the principal locus of support for WTO. The staff of these organizations are most likely to have the information, expertise and experience needed, and their interests - in achieving successful long-term outcomes - are most likely to ensure poor prospects are not encouraged. Where such organizations do not yet exist, LEI and new social movement networks should be recognised as the primary source of support.
- o The state has three roles in relation to the support of WTO.
 - (i) Guaranteeing equal access - e.g. in relation to information, government programmes, etc.
 - (ii) Enabling not directing - e.g. providing resources to support those who choose the WTO option and can meet its requirements (revolving loan funds, capitalising unemployment benefit, as in France and Spain, etc)
 - (iii) Co-ordinating and reviewing support for WTO - e.g. promoting networks and collaboration among the interested parties, the evaluation of policies and practices etc.
- o Given the extreme urgency affecting most WTO, it is essential that the provisions of any government measures are clear, and that they can be effected quickly. A complicated generous programme will be less useful than a simple strict programme.
- o Support for WTO should be focused on small and medium-sized enterprises. Rescues of larger (above say, 300-400 employees) and more capital-intensive plants and enterprises should be considered exceptional and undertaken only under very favourable circumstances.
- o Some sectoral and geographic concentration of support for WTO will assist in building commercially and culturally integrated networks of enterprises and hence is likely to be more cost-effective in the long run.

5.4 Priorities for enhancing the support of WTOs.

Within the broad framework provided by the preceding section the following issues deserve particular attention in any efforts to develop public policy in relation to WTO.

5.4.1 Removing unwarranted obstacles

As the country studies illustrate, a range of administrative, legal and fiscal obstacles hinder attempts at WTOs. These obstacles are unwarranted in the sense that they can be neither explained nor justified as deliberate decisions intended to produce the effects they have. Commonly they are the unintended consequences of legal, policy or administrative decisions which were formulated, quite understandably, without regard to the peculiar circumstances of WTOs. For example, in Germany some receivers have refused the workforce access to company information to which they would normally be entitled on the grounds that the relevant laws did not apply to companies under the control of a receiver. Likewise, in several countries regulations covering entitlement to social security, pensions, redundancy payments and unemployment benefits may be framed in ways that effectively penalise those that undertake a WTO. Similarly, the absence of appropriate co-operative law (in Denmark and the FRG), deficiencies within co-operative law (e.g. the strict limit on the proportion of non-manual members of worker co-operatives in Italy) and restrictions on the development of co-operative financing (e.g. regulations governing deposit-taking institutions in the UK) all present unnecessary difficulties for WTOs and their support networks.

Some of these obstacles are specific to WTOs; others affect cooperatives more generally. Some are minor irritants; others are of major significance. A few might require significant legislative time because they involve fairly complex legal and other issues; many could be resolved by minor additions or amendments to existing provisions or even on a purely administrative basis. In no cases would removing such obstacles require additional financial commitments by governments, beyond those already committed to existing programmes.

For each of the countries studied a considerable number of such obstacles can be identified. However they are often difficult to describe briefly to those unfamiliar with the legal, fiscal or institutional context of the country in question. Hence it is beyond the scope of this report to provide a comprehensive inventory - and in any case many of these obstacles have been discussed in earlier reports in this series.

The principle of equal access that justifies the removal of administrative legal and fiscal anomalies that obstruct WTOs may also justify measures of positive discrimination in favour of WTO. The argument in this case is that the workforce of a closing plant or enterprise is so disadvantaged in its attempts to mount a WTO in relation to other interests (creditors, asset-strippers, mother company etc), and so obstructed by a general lack of understanding of WTO

(among banks, suppliers, customers, Trade Unions, receivers etc) that only government measures to legitimise and facilitate WTO will prevent failures in the market for enterprises and allow the full benefits of this option to be realised. Such measures might include:

- o extensions to employee rights to information in the context of plant and company closures.
- o modifications to receivership law which are currently framed entirely in terms of creditors and shareholders rights
- o under specific conditions the introduction of a 'right to buy' for the workforce. (A possible model in this context is provided by the provisions under Danish law that give tenants an option to buy a house that their landlord has arranged to sell to a third party: if within a specified period the tenants can raise the finance to match the third party's price, they are entitled to purchase it at that price).

5.4.2 The Marginality Problem

A long-standing criticism of the WTO option is that it produces marginal enterprises with poor long-term prospects and unsatisfactory terms and conditions of employment. Since most WTO are undertaken and supported with a limited, job-saving objective, criticism on the grounds that they have not also achieved restructuring and consolidation is rather severe. Nevertheless, this criticism points to a serious issue for worker co-operative and worker-owned sectors. Of course, at any point, a substantial proportion of small and medium sized enterprises can be considered 'marginal' - any economy, or sector, is bound to have some - and they will still contribute substantially to employment. Hence the problem is not one of 'marginality' as such. Rather, it is, firstly, that the worker co-operative and worker-owned sectors have a disproportionate number of marginal enterprises placing an undue burden on their resources; and secondly, that those enterprises with the potential to escape their marginal status frequently lack access to appropriate finance and real services to allow this to happen (for reasons discussed in Chapter 3 and 4). Hence it is important that the marginality problem is recognised and correctly understood - the problems of WTO do not end when they have started trading, or even when they have stayed in business and made a profit for a year.

Support to escape marginality should be provided selectively to the most promising cases. But having the capacity to do this will mean developing the infrastructure of the worker co-operative (or worker-owned) sectors in general, especially in such areas as:

- o Sectoral collaboration and joint ventures
- o Consulting and advisory services
- o Training and 'cultural' support for both workers and management
- o The development of institutions for co-operative financing

Although a detailed discussion of co-operative financing is beyond the scope of this report, two comments are worthwhile. The 'Marcora' law in Italy illustrates one important point. It recognised the need for a fund to assist selected enterprises in escaping a marginal status. This fund was intended to be quite distinct from other funds provided to support WTO in their initial efforts to preserve employment in enterprises in crisis. Although the implementation of the 'Marcora law' remains problematic (see Italian Study), the proposed arrangements were based on a sound appreciation of the short and the longer-term requirements and problems of WTO enterprises.

Secondly, it is clear that co-operative movements and their financial institutions must devise ways of sharing more substantially in the success of co-operatives that they have supported, and not just bear the burden of the losses among those that fail (as some inevitably, will). The co-operative principle of a limited return on capital does not require that the return be either low or invariable regardless of performance. If public or co-operative movement funds are being risked to support a WTO, or to develop a marginal enterprise, the workforce must be expected to make some payment for that risk. Indeed this is essential if revolving loan funds are not gradually to run down. Hence, the need to adapt financial principles and practices to the particular context of WTOs does not mean that they should be abandoned.

Public support for measures to address the marginality problem (through the development of the infrastructure of the worker co-operative and worker-owned sectors) would obviously have to be commensurate with the social benefits anticipated, but it appears well justified on employment grounds (both directly as regards the enterprises themselves, and indirectly, in maintaining the credibility of the WTO option with employees, Trade Unions, Co-operative Associations and other such bodies); as a socially and fiscally efficient contribution to restructuring; and as a longer term investment in 'economic pluralism'.

5.4.3 The 'Large Plant' Problem

New approaches to the 'large plant' problem are required. On the one hand, the social need and pressure for action is particularly great in such contexts and there are good grounds for providing public support with a view to managing the decline of the plant and creating new enterprises and employment. On the other hand WTOs based on a rescue strategy have a poor record and the publicity surrounding them has discredited the idea. They have generally been commercially unsuccessful, and further support for them is probably politically unrealistic.

As an alternative it is important to explore the possibility of other frameworks within which workforce-based employment initiatives could be supported in such cases. The sort of contractual framework within which interim funding would be provided, and the appropriate means of administering it, would require detailed discussion in relation to

particular circumstances. But the basic rationale for trying to devise more appropriate arrangements in such cases is clear and it would have to be reflected in those arrangements. The aim would be to gain the advantages of a WTO - in enlisting the skills and intelligence of the workforce, in cultivating an ethic of self help and self-reliance, in providing a resource and organizational base for product and business development, in protecting the locality from complete and sudden closure - without the project becoming demoralized, or appearing as a failure because it was unable to achieve commercial viability, and unable to provide continuity of employment for all those involved in it.

Despite its difficulties, the experience of the Bitteswell Employment Alliance (see UK country study) is suggestive of the scope for work-based initiatives of this sort which, by being less individualistic and paternalistic, would seem to have considerable advantages over the usual employment advice services introduced in the context of large plant closures (limited to employment counselling, re-training guidance, business advice, etc).

5.4.4 The Evaluation and Exchange of Experience

The following issues are seen as deserving particular attention in future studies and conferences, both nationally and internationally:

(i) Management training and development.

The role of management in WTOs and other LEIs is both crucial and problematic. A shortage of appropriate and competent managers is widely believed to be a major constraint on future development. Little is known about the profiles and career paths of those who do undertake managerial roles in such projects. Currently there are reports of a number of experimental management training and development initiatives underway, or being prepared, in several European countries. A comparative review of these initiatives would be timely.

(ii) Support methodologies.

WTOs and other enterprise creation projects require advice and support over a range of issues. Such support can only be provided by people with the requisite business know-how and with the appropriate counselling skills and approach. In practice, the latter skills are less well recognised and are more difficult to find and develop. A study of the different models and methodologies for providing such support in LEI contexts would raise awareness of this issue and help to disseminate good practice.

(iii) Cost-benefit studies.

Although many case studies exist, very few provide information helpful to policy-makers. The general case for supporting WTOs set out in this report needs to be tested against a few more rigorous studies of selected WTOs. The aim would be to enable comparisons with alternative measures for both job-saving and re-structuring.

(iv) Trade Union - co-operative relations.

A comparative study of recent developments in trade union - cooperative relations is needed to review and disseminate experience of the agreements that have been reached, the new initiatives that have been promoted (such as co-operative sector branches, courses for Trade Unionists in respect of WTOs, collaboration with the new social movements) and the extent to which the legitimate anxieties of both sides are actually borne out in practice.

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II. - WORKER TAKE-OVERS IN DENMARK

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1 CHARACTERISTICS OF WORKER TAKE-OVERS IN DENMARK

1.1 Number, ownership form and product range

During the last 15-20 years in Denmark there have been 14 recorded worker take-overs involving five or more employees and in which there has been some sort of threat of company closure (1). There have also been a few attempts, which never succeeded - primarily because the workers could not raise sufficient capital, or because they were doubtful about the possibility of keeping their jobs even if they contributed capital to the firm (2). Besides these defensive worker take-overs there have also been a few offensive ones, where the firms were prosperous at the time of the take-over. These have not been included within the scope of this study, but an example is provided in Case A Appendix 1. Such offensive WTO are generally promoted by a concern to prevent the sale of the firm to a third party.

In all of these enterprises the staff own at least half of the share capital. Within this broad boundary we have differentiated as to whether the enterprise are:

Fully employee-owned

Partly employee-owned

The fully employee-owned enterprises are those in which the "intensity of employee ownership" (3) is more than 67 per cent. There are seven enterprises of this type. The partly employee-owned enterprises are those in which the intensity of employee-ownership is between 33 and 67 per cent. There are seven of this type (see Case B in the Appendix).

The definitions of "fully and partly employee-owned" have been invented by Danish researchers, because in Denmark there are no official or legal demarcations pertaining to such an enterprise form. This lack of legislation has meant that these enterprises have had to adapt themselves to existing company legislation, and we thus find several different company forms represented - limited companies, private foundations etc. In the case of fully employee-owned enterprises in particular, the legislation is considered to be unsatisfactory because the ideology of these enterprises has led to expectations of a more democratic ownership form, which is not really provided for in law. In the meantime they have solved their problems by using an existing company form and appending regulations that define the democratic element.

These enterprises employ a negligible part of the workforce: 500 employees in all. The largest enterprise has 150 employees. The lower limit is five employees. If the limit had been lower, there would have been many more worker take-overs in Denmark. (4)

The enterprises' activities range from mechanical-industrial tasks, to craft production, to simple services, and to more complicated intellectual service tasks.

This rather small number of worker take-overs raises the simple question; why are there so few in Denmark? Before attempting to answer this question the conditions in the existing worker take-overs are briefly outlined.

1.2 The establishment phase

At the time of establishment of employee ownership, all the enterprises were at the point of closure for one reason or another.

- o some were in an economic crisis
- o some were economically sound but upon the death of the previous owner could not find a new owner to keep them running
- o some were a sound part of a concern that was itself in an economic crisis
- o some were a sound part of a larger concern but did not fit into managements' chosen product - market strategy, so they wanted to close the enterprise.

The employees' motivation for taking over the enterprise can be divided into two categories;

- o Job-saving
- o Enterprise-saving

In the job-saving enterprises the individual employees have faced a real threat of unemployment, whereas employees in the enterprise-saving enterprises could have found other jobs on the labour market but wanted to preserve the particular work entity that the enterprise provided. (See Cases B and C in the Appendix).

The previous owner's attitude towards a worker take-over has been an important factor. Table 1 provides a categorization of such attitudes on which the following discussion is based.

Attitude based on:	Attitude is:	
	positive	negative
Economic considerations	1	2
Ideological considerations	3	4

Table 1: Former owner's attitudes towards WTO

Type 1 - These previous owners were usually facing an economic crisis in which the employees' offer was the only one, or the employee had simply outbid the other offers. In these cases the previous owners had been positive and often supported the employees in the first chaotic establishment period.

Type 2 - These owners considered that they could get a better offer from elsewhere or that it was economically unsure whether the employees would be able to run the enterprise and pay back outstanding debts. They, therefore, sought other solutions, which led to a real conflict between the owner and employees. The result has usually been that the employees have had to form a new company in order to keep the enterprise running.

Type 3 - These owners "donated" the enterprise to the employees because of a positive ideological attitude, believing it was now the turn of the employees to prove that they could keep the enterprise running. However, for these owners, the economic loss was bearable because the enterprise had all been in some economic difficulties anyway.

Type 4 - These owners have had a negative attitude towards worker management/ownership and this attitude has actually strengthened the employees' desire to take over the enterprise, especially since they had a quite reasonable fear that the previous owner would close down their part of the enterprise.

The sort of support and advice network that has been used in the establishment phase is characterised by its informality. As indicated above, the previous owner has played a large role in some cases. In addition workers have contacted family and friends who had a professional knowledge of business. A third source of advice has been customers and suppliers - in a few cases they have provided considerable assistance. More formal contact to public institutions is virtually absent.

It is usually the case, especially in the partly employee-owned enterprises, that the employees themselves have contributed a con-

siderable amount of the equity capital. On average, it has been equivalent to 20 per cent of a skilled industrial worker's annual salary. In the fully employee-owned enterprise the employees investment has often been of a more symbolic nature. The reason is partly that the previous owner has sold the enterprise to the employees under favourable conditions, or that the capital intensity is low.

The establishment phase has been especially difficult for several of the enterprises, for a variety of reasons such as:

1 For the fully employee-owned enterprises, as mentioned earlier, company law has been considered imprecise - but these firms have been able to devise their own solutions to that problem.

2 Time has been a problem because, in the nature of these things, it took longer to arrange the support for an employee purchase than for a single person to make such a decision. This problem is accentuated where the owner has not been positive.

3 In Denmark regulations concerning the possibility of remaining entitled to unemployment benefit as an employee-owner are unclear. As several of the enterprises started in difficult economic circumstances this has been an acute problem for the employees (see case C).

4 For some of the enterprises there have also been problems with bank demands concerning collective liability for loans.

1.3 Management Forms

The employees have used their democratic voice in different ways, that can be differentiated as follows (5):

- o Talking-democracy
- o Voting-democracy
- o Electing-democracy

In talking-democracy, the employees attempt to arrive at a consensus as to problem definition and solution. In voting-democracy, most of the decisions are reached by voting among the employees. Both forms are direct in the sense that the employees personally participate. This is in contrast to the third form, in which the employees elect representatives as management, directors, etc. to look after their interests.

In the fully employee-owned enterprise there is usually a combination of these three forms, the weight attached to each varying. In every case there is an employee assembly which often meets several times a year (up to once a week). Attendance is often greater than 50 per cent - up to 100 per cent - and important problems such as capital expansion, new investment, hiring and firing of staff, and long-term policies are discussed. The management and board of directors are also elected here, which provides the element of representative democracy.

The partly employee-owned enterprises have a much more traditional management form. In this case the decision making authority as regards important matters lies with the management and board of directors. Because the ownership is only partial, only a limited number of employees participate in the election of the day to day management. In most cases, however, there are information and discussion meetings approximately every second month. Thus even though these forums do not have any decision-making authority, the daily management is influenced by what takes place at these meetings.

If the way management forms develop with time, after the worker take-over is considered, one can differentiate between four patterns of development (6):

- o Degeneration of democracy
- o Regeneration of democracy
- o Growth of democracy
- o Stable democracy

The degeneration of democracy has taken place in six cases. In the establishment phase of the worker take-over they all developed a degree of democracy which was later abandoned in favour of a traditional management. However, this transformation happened, in all six cases, because the ownership degenerated. The firms either needed capital or employees - and the problems were solved by attracting either external capital (and control, or new employees (who did not become owners). Thus the degeneration process did not follow the life cycle-model developed by Meister which stresses the contradictions between democratic management and the efficiency requirements of the market (7).

There is only one example of a regeneration process. In this case the workers developed a direct democracy immediately after the take-over (about 10-12 employees were involved). They all meet once a week. However the meetings seemed to produce more problems and conflicts than they solved, and after a year or so they appointed three people to take care of the management in collaboration with the board. They had heavy economic problems. The direct democratic element disappeared - old members left the firm - and new ones were taken in without involving them in the decision-making process. Some of the new members were not even told that the firm was more or less collectively owned by the employees. But after two or three years they decided again to introduce meetings for all employees, while still keeping the element of the representative democracy. Hence the process in some way resembles the life cycle-model developed by Batstone (8).

The growth process is represented by two cases. (One of which is case B). These enterprises start at a moderately democratic level, but then through various learning processes develop and improve the employees' capacity to manage the enterprise. This requires that the sub-cultures found in enterprises that have existed for several years, are altered and 'softened up' so that the employees can move from 'political' decision processes towards more dialogue-based processes,

in which they can learn from each other. This improved capacity makes them able to gradually to take over a greater and greater part of the traditional managements power without the enterprise's survival being jeopardised, and without them forgetting their more idealistic aspirations e.g. for greater equality amongst the employees. As there is seldom agreement as to how far one can go with democracy, the process does not occur without some use of various power bases.

There are two cases of stable democracy. The workers have choosen a form of democracy which suits their aspirations and which has a rather good fit to the demands of the production process. This means that there are few contradictions between the ideals and the requirements from the market. Those contradictions which always show up are tackled by learning processes by the workers so that in the long run they are able to maintain a stable democracy.

1.4 The role of trade unions

The trade union movement as such has not played an active role in connection with the formation of worker take-over enterprises. However, the local shop stewards at the enterprises have often played an important role in the establishment phase, because they had a good understanding of the enterprise's problems, and had a broad-based contact with the employees.

Employee-ownership has resulted in a reduced role for the union in opposition to day-to-day management. Trade unions have largely come to function as a guide for acceptable working conditions. The future role in the enterprises seems to be unclear because the employees become involved in new problems and groupings that the trade unions are not used to tackling.

After the take-over all union members have continued their membership, and there is a small trend in the direction of becoming a member of trade unions. The reason for this has been either ideological, or to protect ones interests against other groups in the firm.

1.5 Efficiency

Of the total number of worker take-overs (14 in all) in the past 15-20 years, two have closed down and six have gone over to traditional ownership (9). Of the two closures one did so as one of the last in that sector after the market all but disappeared, and the other collapsed shortly after being established when it was in deep economic crisis. The six who degenerated did so, either because they needed an injection of capital which the workers could not contribute, or because the firm grew rapidly and the new employees did not become owners.

Mygind (10) has analysed the efficiency of Danish employee-owned firms. Unfortunately for our purpose he has not made a separate analysis for the worker take-over cases. His conclusions cover these

firms together with the more offensive examples, and it is not possible in any easy way to separate the data. Therefore, we can only refer to the total population of employee-owned firms in Denmark in 1983. His analysis covers 18 examples.

An important aspect of Mygind's analysis was to test the so-called 'Illyrian hypothesis' which has been the subject of considerable debate in the literature on the economics of self-management. In essence, the suggestion is that in a perfect market of collectively owned and financed firms pursuing the objective of maximum income per worker, such firms will operate at lower levels of output and employment than comparable conventional firms, and, moreover, they will respond perversely to an increase in the price of their output by reducing, rather than increasing, output. (11). However, the assumptions on which the 'Illyrian Hypothesis' are based are extremely narrow, and even minor amendments can lead to major changes in predicted behaviour (12).

Mygind concludes on the basis of the Danish data that, in contrast to the Illyrian hypothesis, the fully employee-owned enterprises with the greatest degree of democracy actually have the lowest degree of "perverse" adjustments of production and employment. The tendency was, in fact, for output and employment to increase, especially for the fully employee-owned firms. The explanation could be that changes in the cost-relations are less important than changes in demand; the response to greater demand may entail greater production, employment, wages and surplus per worker, all together. Surprisingly, the frequency of Illyrian adjustments was highest for the capitalist firms, indicating that the workers in these firms, just as in the Illyrian model, receive wage-increases when the firms' net income per worker increases. Furthermore, the fully employee-owned firms have the lowest degree of Illyrian adjustment and this may indicate collective objectives at work.

All the employee-owned firms have a relatively low net worth. This is, however, not because of Illyrian self-extinction, but because of low initial net worth. Contrary to the Illyrian predictions, the fully employee-owned and collectively-owned firms have a relatively high rate of accumulation. This strongly suggests that (contrary to 'Illyrian' assumptions) the workers in these firms have collective rather than individual objectives.

Both the fully and partly employee-owned firms have relatively low capital intensity, measured by total assets per worker. But measured by machines per worker and by investment divided by production, they lie near the average for their industries.

The productivity of both labour and capital are quite high especially for the fully employee-owned firms. Only the newly established firms have relatively low productivity. The wage level follows the same pattern. Most of the workers receive relatively high pay in the employee-owned firms. However, some professional managers are paid quite low salaries, because of the equalization of wages among the

workers in nearly all of the employee-owned firms. More than half of the fully employee-owned firms have equal wages. This radical equalization further supports the theory that the fully employee-owned firms, in particular, are driven by collective objectives. None of the partly employee-owned firms have perfectly equalized wages.

Profitability is about the same for the fully employee-owned firms as for other in their industries, and a little lower for the partly employee-owned. But again the newly established firms have quite low results.

The equalization of wages can be taken as one example of the workers' preference for alternative means of organising production. The specific preferences of the workers lead to choices different from those in capitalist firms. This view receives support from interviews, and concrete instances of job-rotation, as well as from choices of products and technology. This active participation and the high degree of satisfaction expressed in interviews both indicate that the self-managed firms have a high degree of internal efficiency.

2 WHY ARE THERE SO FEW WORKER TAKE-OVERS IN DENMARK?

The low number of employee-owned enterprises in Denmark is not a result of their being less competitive. In fact, the existing ones are doing rather well according to most measures. Why then are there so few of them in Denmark? There is no easy answer to this question, but I will draw attention to four factors which may be interrelated and complementary:

- o The absence of a positive political and institutional climate for worker take-overs.
- o The level of unemployment benefit in the Danish welfare state.
- o The tradition of centralisation in the labour movement
- o The tradition of individual entrepreneurship.

2.1 The political and institutional climate in the 1980s

Danish politicians have a very limited knowledge of actual examples of employee-owned enterprises, which is hardly surprising as this form of enterprise is so difficult to find in the Danish business structure. Such knowledge as the politicians themselves claim to have, stems from enterprises which are publicly, but mistakenly, referred to as being employee-owned. These are usually trade union owned enterprises where the employees only own a small part of the capital (see also below). These enterprises have often gone bankrupt and this has formed the basis for rumours of poor management in such enterprises.

Both rightwing and leftwing politicians believe that employee ownership will increase the motivation of the employees, and they believe that economic efficiency will be more or less the same as in traditionally owned firms.

The leftwing politicians are all ideologically opposed to individual employee-ownership. However, some of the leftwing politicians see collective employee-ownership as an element in a strategy for the future - but they are far from unanimous about this because others prefer trade union-owned cooperatives or municipally-owned enterprises.

The rightwing expresses an indifference concerning business ownership conditions, seeing it as a question that should be decided locally between previous owners and employees, which is what has happened in Denmark (see also below). In addition, they consider the existing measures for industrial democracy to be far more desirable than developments of centralised economic democracy.

In Denmark there have not been any policies adopted with the direct aim of furthering employee-owned enterprises. However, the leftwing has put forward proposals concerning advisory and economic support, and they are positive towards legislation on a special company form for this type of enterprise. In addition they support workers having the first option to buy the enterprises where they work.

Several of the rightwing parties are positive towards parliamentary regulations which secure employee-owners the status of wage-earners (so that they can obtain unemployment benefit). In addition they will support regulations for tax-subsidised employee share-holding schemes and support the establishment of special consultant expertise within the present public consulting service.

That the parties across the political spectrum from left to right have not been able to agree on concrete policies is explained by their disagreement on whether a collective or individual form of ownership is to be preferred. In addition the area does not have a very high priority in relation to other strategies and issues.

As regards the institutional environment, there are no existing public arrangements for advisory, financial or legal support specially aimed at employee-owned enterprises. This also applies to private bodies. Hence such enterprises would only have access to the normal business advisory services available in Denmark.

In Denmark, state-supported business advice (both economic and technical) is provided by the technological service institutes. None of these institutes have been used by the employee-owned enterprises. This is partly because of a lack of knowledge of the possibilities, and partly because business advice aimed at "founders" is to a large extent aimed at the individual. Cooperatively orientated advice has not been pursued administratively, either by the Ministry of Industry or by the regional technological service institutes.

The advisory possibilities at a local level (i.e. business consultants employed by the local government, business councils etc.) have only been involved in the establishment of one employee-owned enterprise. The reason for such limited involvement is that no experience of the

employee-owned alternative exists at the local level. Thus employee-ownership does not figure in the spectrum of advisory alternatives that the local government commercial officials or business councils usually have at their disposal.

As far as other interested parties are concerned, the employers side has never been involved in a single case. On the other hand, particular worker organisations have given both financial and legal advice to a few of the employee-owned enterprises. The local trade unions usually become involved in connection with contractual agreements.

The financial institutions advisory services are usually limited to narrow commercial appraisal in connection with the granting of a specific service (overdraft, loan etc.). The financial institutions do not have any special information or instructions concerning employee-ownership. Even though the financial institutions do not consider themselves to be particularly negative towards employee-ownership, it is the experience of such enterprises that they are too sceptical. Thus very few enterprises have used the financial institutions as advisors in a broader way.

The traditional branch organizations and larger enterprises of the consumer cooperative movement have not been involved in supporting WTO. On the other hand, a less traditional source of advice, namely the secretariat of the the society of production collectives (SAPA) has been used in one case (13).

As mentioned above the employee-owned enterprises almost always relied on informal networks for support. In this respect they do not differ from many other small enterprises - and this raises a general problem with respect to how one establishes a connection between the enterprises and the support bodies.

As can be seen in this section neither the political nor the institutional climate has been at all favourable towards worker take-overs. It can be characterised as rather indifferent towards this phenomenon and the lack of support may be part of the explanation why there are so few. But of course, it can not explain this completely.

2.2 Unemployment benefit in the Danish Welfare State

An additional explanation may be found in the higher unemployment benefit in Denmark, compared to most other European countries (except the other Nordic countries).

There are a little under 3 million wage-earners in Denmark. In recent years unemployment has hovered around 10 per cent, but it has decreased to about 7 per cent in the last year. When the crisis started in the early seventies, it was about 3.5 per cent.

An unemployed person receives unemployment benefit for 2.5 years. For an unskilled worker this is about 80-90 per cent of the previous

wages, whereas for a person with a higher education it is about 50-65 per cent. After the 2.5 years receiving unemployment benefit, you have to be offered a job for a period of 7-9 months. If the job does not continue after that period, you can receive unemployment benefit for a further 2.5 years. In this period the unemployed can choose a 2 year education program. If that does not result in a job, then unemployment benefit is reduced to 70 per cent and some years later to 50 per cent.

As can be seen, Denmark certainly has an unemployment problem, but the consequences of being unemployed are not the same as in some other countries. This may offer a part of an explanation why fewer workers take over their firms: there is some sort of alternative even if this alternative is very problematic.

However this factor should not be overemphasised. In a Nordic research project recent data has shown that Sweden has 70 WTOs in the industrial sector only, established in the last few years (12). This is nearly as many as Great Britain has in the entire economy, and Great Britain has about 5-6 times as great a population! At the same time Sweden has a low rate of unemployment, and an unemployment benefit similar to the Danish! This suggests that worker take-overs may also occur in a well-developed welfare state, where some sort of support structure has been developed (as in Sweden). But the reasons for WTOs and the economic conditions under which they occur may be somewhat different in welfare states than in other countries with a less developed social security system. One possibility is that firm-saving worker take-overs are more frequent in a welfare state than the job-saving enterprises which will be more common in a class-society.

2.3 The tradition of centralisation in the labour movement

As in other European countries some producer cooperatives existed in Denmark in the second half of the last century. There were very few and they all disappeared at the end of the 1870s. The reasons are unknown today, but the result was that a strategy of decentralised self-help was abandoned by the labour movement. In the years that followed, the political and professional organisation and centralisation of the Danish labour movement took place.

At the turn of the century a widespread lock-out took place on the job market and this once again opened the eyes of the workers to the cooperative form of enterprise. Several were set up in close cooperation with the trade unions as a means of struggle. Since then the number has increased, especially in the baking, dairy, brewing and building sectors.

These enterprises, which today employ about 7,500 employees, are called workers' production cooperatives. They are predominantly owned by the labour movement's organisations, and thus cannot be considered as employee-owned, even if they are often mixed with that category of enterprise. There has, as far as can be judged, never been any desire to limit ownership to just the enterprises' employees. Such a solu-

tion has been considered unnecessary, one that should not be imposed on the individual worker, and one which, in the worst case, could divide the labour movement and undermine its solidarity.

For a number of years after the second world war the labour movement concentrated on the introduction of various measures of industrial democracy in order to secure for the workers a moderate influence in their enterprises. Cooperation agreements were entered into in 1947; later there followed a law on working conditions and safety, together with employee representation on the board of directors (today one third of the board members are elected by the employees).

The results of such measures for industrial democracy were strongly questioned in the labour movement. This led, in the middle of the 1960s to the movements interest being directed towards the introduction of economic democracy, in which the workers would gradually acquire the ownership of capital (rather than trying to undermine ownership rights, which is the idea with the industrial democracy).

Economic democracy was at first formulated as an offensive demand during a boom period. The intention was (a) to change the ownership relations, (b) to ensure industrial democracy at the individual work places, (c) to ensure social control of the capital growth and economic conditions in general. The funds were to be raised through obligatory wage deductions and placed into a central fund. The fund was to invest in shares and in that way form the basis for changed power relations in the enterprises. The workers (represented by officials of the trade union movement) would then appear at the general assembly and at board meetings with capital behind them.

The central fund was especially important. It was to ensure that solidarity among the workers would not be jeopardised for the benefit of individual enterprise ambitions. At the same time it would be an important instrument for the control of capital; and finally it would redistribute capital earnings within society. All workers would thus have an equal share in the fund, independent of whether they were employed in the public sector in a badly running private enterprise or in an enterprise giving a large profit.

At the same time democracy at the enterprise level would be established on the basis of retained earnings held on behalf of the work force. This, together with the capitalists' capital and the central funds' investment, would form the total capital mass of individual enterprises. The wage earners at the individual enterprises would, therefore, be represented at the general assemblies and in the boards, in relation to that share of the capital that was saved up in the enterprise. In short, it was a solution that had the ingredients of something that, with time, could have led to partial employee-ownership and a form for representative democracy such as is found in the workers' production cooperative enterprises.

The original proposal from the labour movement provoked a great hostility among employers. In addition since the proposal was first put

forward, the prosperity of the 1960s has been replaced by the crisis of the 1970s. These two conditions have together made conditions difficult for ideas of economic-democracy. On top of this, the leftwing parties have not supported the proposal. In brief, the employers are against (a) every type of obligatory arrangement, (b) every type of central fund, (c) collective ownership of enterprises, (d) the individual ownership conditions being separated from the individual profit from the enterprises. Operation and profit should go together. Some of the leftwing parties do not like the idea that the proposal strengthens the central organisations at the expense of the rank and file members and instead demand a return to more militant forms of struggle.

Resistance and the changed economic situation have meant that the labour movement has not had any of its economic-democracy demands met, despite the fact that during the last 15 years they have changed and modified their proposal several times. The latest initiative from the Social Democrats and the trade union movement has just been made public: they have kept obligatory saving, but the investment of it at the individual enterprise is voluntary. The central fund has been supplemented with regional funds. Interestingly the fund is also intended to be used to support take-overs of enterprises when it is the employees who are the buyers. That will usually mean the labour movement placing risk capital in the enterprises, i.e. that they will have an influence in relation to the capital invested. The whole proposal was immediately punctured by opponents, who amongst other things, rejected the obligatory arrangements, rejected the funds, and rejected the collective ownership of enterprises. So once again the debate is treading water.

In recent years there thus seems to have been a slight softening up of the labour movements position on what can be called decentralised collective entrepreneurship (which the establishment of an employee-owned enterprise represents).

But decentralised collective entrepreneurship certainly does not yet fall within what the labour movement would actively support (see also Case C).

To summarise: there is within the Danish labour movement a tradition of owning firms centrally, and a strong tendency for centralisation in solving problems. This tradition is of course not very favourable towards support of decentralised worker take-overs. This is an essential explanation why the political and institutional climate is so indifferent towards WTO in Denmark, and at the same time it tells us a great deal about how the "ordinary" worker thinks about the way problems (such as unemployment) should be solved, - or rather, how they should not be solved. To the extent that one can talk about a work-culture of decentralised collective entrepreneurship, this would be an alien phenomenon within the Danish labour movement.

2.4 The tradition of individual entrepreneurs

In 1981 there were rather more than 360,000 private enterprises. Of these, 75 per cent were small enterprises with under 50 employees. These enterprises employ only 1/4 of the workforce, however, while 1/2 are employed in larger enterprises with 50-499 employees and the last 1/4 of the work-force work in large enterprises with over 500 employees. Each year new enterprises corresponding to 8.5 per cent of the total number are opened, but these are counterbalanced by a slightly greater number of closures. All these new firms are established by individual entrepreneurs. They have a quite different lifestyle from traditional wage-earners: their daily working hours are long, their holidays are shorter, the economic risks are greater and their futureless secure. For these people there are no differences between ownership and management and elements of their ideology are clearly at odds with a worker take-over process: they want to keep control for themselves and they do not believe that the employees are able to manage the firm. The consequences of this ideology are that individual entrepreneurs are sceptical towards either selling their firm to the employees or buying a firm with other employees. They prefer to do it alone.

3 CONCLUSIONS AND PROSPECTS

The small number of worker take-overs in Denmark which arose where the firms were threatened with closure are interesting because they show that the employees were able to develop democratic management forms without jeopardising survival. The most interesting question, however, is why there are so few cases in Denmark.

There is no easy answer to what turns out to be a complicated question, and this article has only been able to point to four factors which may be interrelated and complementary.

First of all there is no positive political and institutional climate for worker take-overs. A specific support structure is lacking.

This is partly so because of the traditions of the labour movement: the party and the unions have long favoured centralised approaches to social problems. One aspect of this is a tradition in Denmark for union-owned firms, and the labour movement has until now been in favour of supporting this type of ownership structure instead of employee-owned companies.

Besides these factors the development of the welfare state in Denmark has ensured an unemployment benefit which is better than in many other European countries. This does not mean that there is no unemployment problem in Denmark. At about 10 per cent there certainly is; but the situation for the unemployed is not as economically desperate as in other countries. This factor should not be over-emphasised however. As was shown, Sweden has quite a few WTOs and they also have unemployment benefit similar to Denmark. This led to the suggestion that WTO may have a rather different character in a welfare state: more firm-saving than job-saving.

As the last factor it was pointed out the entrepreneurial (and take-over) processes are common in Denmark, but they are done by people with a strong individualist ideology.

Does this imply that there is no future for worker take-overs in Denmark? This question is even harder to answer than the question about why there are so few.

It seems most unlikely that there will be an increase in worker take-overs in situations where the commercial prospects are poor. The risk of "self-exploitation" has no appeal either for the workers involved or for the unions, or for left wing politicians who could promote a support structure for that type of take over.

However, when a firm is threatened by closure but still has reasonable market prospects and good industrial relations, the situation may be treated differently. As it becomes known in Denmark that worker take-overs can be supported successfully, as in Sweden, it is possible that some sort of support structure will develop. At the same time, this might persuade more employees that it is possible for them to resist closure. The combination of these two factors might lead to an increase in successful worker take-overs, even if it remains a marginal phenomenon in the Danish business structure overall.

Appendix: Three cases of Worker Take-Overs

Case A - A/S SAMFUNDSTEKNIK

Samfundsteknik was started in 1970 owned on an equal basis by two consulting engineering firms. It produces consultative services concerning sewerage, planning of development areas, road construction etc. to the Danish local authorities. The firm expanded in spite of hard times for firms of this kind in Denmark. The economic success led to a conflict between the two owners. One wanted to withdraw capital and invest it elsewhere, the other wanted to consolidate the firm. The conflict turned into a dead-lock in which each of the owners wanted to get rid of the other. The employees, especially the departmental managers, were very frustrated, as no constructive decisions could be made. They formed a group with the intention of taking over the firm. This was not easy, as one of the owners was unwilling to sell his shares. By a series of complicated legal transactions the group succeeded in buying the firm in 1977.

At that time the firm had 60 employees, and 20 of them, who were mainly professionals, bought the shares in joint-ownership, each owning 5 per cent. Thus the firm may be characterized as being only partly employee-owned. The take-over had nothing to do with a traditional job or firm-saving action, as Samfundsteknik was financially successful. Neither was it rooted in the labour-movement cooperative tradition or in the alternative grass-root movement of the late 1960s. It may be described as a middle class action with the intention of securing the independence of the professionals, enabling them to do their job as it was defined by themselves and their clients.

To reach their goal they had to get rid of any external control, at the same time as ensuring that none of the employees, nor a small group of them, took over control. As a consequence two principles were instituted: (1) any employee-owner who left the firm should sell his/her shares to the firm, and (2) the employee-owners should have equal shareholding.

In the following years the firm continued to expand and in 1979 - two years after the take-over - the employee-owners decided to increase the share capital as well as the number of owners by 50 per cent. As a result of this, new owners bought equal amounts of shares. The financial success continued in the 1980s. This, however, caused some problems: (a) how could the owners enjoy the return on their shares without developing too sharp a difference between the two groups of employees, owners and non-owners: and (b) how could new owners be found who could afford to buy shares, the value of which had increased six times within the last years?

New owners were wanted not only because the number of employees had expanded, but also because some owners had left, selling their shares back to the firm, and in Denmark a firm is only allowed to own 10 per cent of the shares - a fact which meant that some of the employees had to buy shares at a certain time.

In 1982 they tried to solve some of the problems by giving up the principle of equal share-holding, thus making it easier to find new owners. Then in 1984 the firm expanded the share capital for a second time, inviting new owners to buy. At the same time it was decided that all owners had one vote, without regard to the size of the shareholding. This was primarily a management action with the intention of encouraging the most attractive among the professionals to buy. But a small 'revolution' took place as non-professionals, with lower status, bought shares in the firm. This 'revolution' was not only supported by the non-professionals, but also by some of the professionals and should be regarded as something else than the middle class drive, described above, which was the background of the take-over in 1977.

However, the importance of this 'revolution' should not be overestimated. The general idea of this employee-owned firms is still to enable the employee-owners to continue their professional activities without external or internal control.

Today (1985) the number of employees has risen to 230, spread all over the country in small independent departments. 62 of the 230 are owners, a slightly smaller proportion than at the time of the take-over. However, the firm is still concerned about counteracting this trend towards degeneration, caused by the financial success of the firm.

Case B - INSTITUT FOR KOMMUNAL PLANNING (I.K.P)

In 1959 a consulting firm providing shopping-centre-planning was established in Copenhagen by two very big chain-stores. In the 1960s and in the early 1970s the firm increased its staff to about 40 employees developing new complex planning services for local authorities. At the same time the structure of the firm developed towards collective leadership, and the influence of the board was drastically reduced.

In 1974, however, the firm experienced a drop in orders which re-activated the members of the board. The situation turned into a matter of principle concerning the future of the firm. The board wanted to return to the original services and a hierarchic structure. A minority of the employees accepted this, whereas the majority resisted, as it would imply going back to more boring tasks, or looking for new jobs elsewhere, (which would have been very easy at that time). However, they felt that it was worth while saving their firm, as they assumed that the market would require their type of complex services in the future, and for such tasks a collective leadership was considered more suitable than a hierarchical structure. They also preferred the democratic structure for ideological reasons, and it would be hard to find that elsewhere.

After many hard negotiations (lasting nine months) among the employees themselves, and between the majority and the board, it was decided to divide the firm into two separate firms, and in 1974 IKP was established as a collectively owned and managed independent institution.

This meant that new members did not have to contribute capital to the firm and that members who left could not withdraw capital from the firm. The employees transferred the complex tasks to the new firm, and capital was provided without problems by overdraft facilities. The need for capital was rather low.

The following eight years were financially successful. The net capital of the firm increased, the number of employees grew to 21, who received reasonably good salaries. They developed and provided services that earned a high reputation, and new technology was introduced.

During this period they developed the collective leadership structure so that, among many other things, nobody could be elected to a management committee for a period longer than four years.

In 1982 there was a shortage of new contracts, and the problem was aggravated by very strong cuts in public spending, which sapped the market. This was the beginning of an economic crisis which led to the closure of the firm in 1984. At first they tried to solve the problems by reducing working hours and wages and salaries for all employees. At the same time they tried hard to switch over to new services, but they did not succeed. Further economic reductions were

necessary, and they decided now to dismiss some members, as a solidary reduction was no longer possible without losing some of the financially most efficient consultants. The decisions were made by all members or decentralized to the groups that were most heavily affected by the problems. It was a very debilitating period, which was not only characterized by discussions about the problems, but also about the procedures, a fact that sometimes prevented the problems from being solved. As a consequence of this the members decided to consolidate the daily management by allocating more resources to this function, and by appointing one of the consultants as the day to day leader of the firm.

Until the very last months it remained uncertain whether they would be able to survive with a reduced staff. They did not - not just because they had no money left for wages and salaries - but also because they had chosen not to keep the firm alive on the basis of the type of services which were required by the market at that moment. They could have done that, but it would have meant jobs for very few - and jobs with very little challenge.

Instead they applied for jobs elsewhere and almost everyone has a new job today, either in more traditional firms or in public institutions. Finally, compared with traditionally owned consulting firms, producing the same services, and that it competed with, IKP succeeded in surviving for a longer period.

Case C - L. H. REKLAME

L. H. Reklame is situated in a Danish provincial town called Kolding. It is an advertising agency producing a large variety of advertisements.

It was established some years ago by an entrepreneur who died suddenly in 1980. This was a great shock for the six employees, all women. The firm was doing well, and the employees had harmonious relationships, and very good and independent jobs.

The day after the death of the owner the employees heard that two or three local competitors each planned to take over the firm. The employees could not accept any of these potential buyers as they found that it would not be possible to continue under the management of any of them.

They had the alternatives of either finding jobs elsewhere or taking over the firm themselves. The job opportunities were uncertain, and they decided to try the second alternative. The two heirs of the deceased founder approved of the idea of a workers' take-over and agreed that the capital be divided into eight equal shares, thus creating a cooperative society with pro rata liability for the six female employees and the two heirs.

They had no problems in raising the money - each of them was liable for an amount of 40,000 D.Kr. (about #3,300). The greatest support in

the phase of establishment came from the customers. They encouraged the six women to continue on their own and placed many orders with them, so in the first year of the take-over the six owners had a large order-intake and little spare time. They also received strong support from their families. But still, the first years were difficult, and they had to work very hard. First of all they had no experience in running a firm. The financial administration in particular was a great problem. During the early years this was placed in the hands of an accountant who, however, did not take sufficient care of the finances. Today, five years later, they are able to handle the financial administration themselves.

They also needed legal expertise but succeeded in finding a good lawyer. The trade union, of which they were all members took a negative attitude, expelling them from the union as they were now looked upon as employers, not as wage earners. This was not legal, but the women did not know that until later. So they joined the unemployment insurance fund of owner-managers instead. As a further complication it turned out that three of the women were pregnant and one was ill. Despite all these problems they took over the firm. After five years of financial instability they are now in a safe position. They have employed four new people, who are not meant to be owners. This question has not been discussed, and until now it does not seem to have any effect on the way in which the firm is managed. Everybody - owners and non-owners - have an informal discussion each day of problems and coordination questions. The financial administration is being taken care of by one of the new employees. The climate of the firm is characterized by a great flexibility and a readiness to help one another; in particular there is a great consideration for the care of the children.

Nine of the workers are young women, and they think that it would be difficult for a 'traditional' man to fit into this type of flexibility. They earn equal pay in accordance with collective agreements.

Notes

1 There is no formal registrations of worker takeovers, and there might be more that are not known to us. In particular, some which no longer exist, or which were attempted but never succeeded, might have escaped our attention. On the other hand we have investigated these firms very intensively since 1980, and we certainly know the great majority of the population. The 14 known worker take-overs are (1) Ajour-klip Aps; (2) Akselstads Vinduespolering Ads; (3) Atheneum; (4) IKP (See case B; (5) Information A/S; (6) J.K. Portfabrikken Aps; (7) SKA Storkokkener Aps; (8) Granada A/S; (9) BOMA Aps; (10) J. P. S. El-Teknik A/ S; (11) J. H. Reklame Aps. (See Case C); (12) M.E.C. A/S; (13) Skagen Emballagefabrik A/S; (14) Fyns Tryk A/S.

Some of these are discussed in Ingerslev, P. (et al): Producer Cooperatives in Demark, Copenhagen School of Economics and Social Science, 1985.

2 The 4 known attempts at worker take-overs which did not succeed are: (1) Frichs A/S, (2) Helsingør Dagblad A/S, (3) Skarriðsoe Huse og Kokkener A/S, (4) Orum Passat Aps.

3 The intensity of employee ownership is a combination of (1) how much of the total capital the employees own, (2) how many of the employees are owners, (3) how evenly the capital is distributed among the employee owners. For a further discussion see, Mygind, Niels: "Are self-managed firms efficient? The experiences of Danish fully and partly self-managed firms". In: Economics of Labour Managed and Participation Firms. No. 2, 1986, eds. D. Jones and J. Svejnar, Jai Press.

4 We have chosen not to include firms with less than five employees. This is because in Denmark there are many small firms which are bankrupted every year, and then rescued by new entrepreneurs that are sometimes former employees. This would not in Denmark be considered as anything special, and certainly not as a worker take-over.

5 Westenholz, A, and N. Mygind : Information. Virksomhedsbeskrivelse no. 3. Institute of Organisation and Industrial Sociology,. Copenhagen, 1982.

6 For more information see Westenholz, A and L. Lidkvist (ed): Medarbejdereje? -styre i Norden (forthcoming) 1986.

The 14 worker take-overs can be roughly categorized as follows:

Degeneration of democracy	J.K. Portfabrik SKA Storkokkener Granada JPS El-teknik MEC A/S Skagen Emballagfabrik
Regeneration of democracy	Atheneum (?)
Growth of democracy	IKP Information
Stable democracy	Akselstads Vinduespolering J. H. Reklame
Too short a period of observation (less than 3 years)	Ajour-Klip BOMA Fyns Tryk

7 There are four stages in Meister's life-cycle model. In the establishment phase a conflict developed between direct democracy and badly developed economic functions. In the second phase some conventional organisational principles are developed to secure the survival of the cooperative. The conflict between the idealists and practitioners is still present. In the third phase a form of representative democracy is introduced instead of the direct form. This is because of the market pressure on the management system and this pressure is no longer resisted. This leads to a greater gap between management and the others. In the fourth phase the management gains full control of the enterprise and the degeneration process is completed. See Meister, A.: La Participation dans les Associations, Ouvrieres, Paris, 1974.

8 In Batstone's life cycle-model there are three phases. In the beginning the cooperative is small, the motivation is great and a primitive (direct) democracy is used. In the second phase the cooperative has existed for some years. It is growing and some members have specialised in management functions. New employees are not becoming members (owners) and direct democracy is decreasing. In the third phase the members want to reinforce democracy and they develop a form of collective representative system besides the management system. (In the Danish cases the regeneration did not develop a representative form but a direct one.) See Batstone, E.: "France" in Stephens, F. (ed.): The Performance of Labour Managed firms. London MacMillan, 1982.

9 Ajour-Klip, Akselstads Vinduespolering, Atheneum, information, J. H. Reklame and Fyns Tryk are still employee-owned, Portfabrikken, SKA Storkokkener, Granada, J. P. S. El-Teknik, MEC and Skagen Emballagefabrik have degenerated. IKP and BOMA have closed down.

10 Mygind, N. (1986) op cit.

11 Such results are predicted because, under self-management, income per worker is, in effect, the sum of the wage and the average profit per worker. Thus, whereas a conventional firm aims to maximise total profits (and will expand production to the point where marginal revenue equals marginal cost) the self-managed firm (for a given wage rate) aims to maximise profits per worker. This occurs by expanding production to the point where the profit earned by the 'last', or marginal, worker equals the average profit per worker and it is simple to show that this will occur at lower levels of output and employment. Moreover, if the price of the output increases, the marginal product of labour will increase proportionally - but profits (and hence profits per worker) will increase to a greater extent, because fixed costs remain the same. The average profit per worker will then exceed the profit earned by the 'last' worker, and the other workers can maximise their individual income by firing him or her and reducing production. By contrast, if the market wage is unaffected, the equivalent capitalist firm will increase employment and production.

12 Stephen, F. *The Economic Analysis of Producers' Co-operatives* MacMillan, 1984.

13 SAPA is a small organization created in 1982 by about 100 small collectives. Its members are production collectives, social pedagogical collectives and educational collectives. It is organized in six regions, and has one secretariat which employes two people, paid by public money. The role of SAPA is helping to create new collectives and to spread information among existing collectives. The two employees are involved in consultancy work, arranging seminars, producing handbooks, and in ideas for marketing and the development of collectives.

14 Westenholz and Lindquist (1986) *op. cit.*

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III. - WORKER TAKE-OVERS IN THE FEDERAL REPUBLIC OF GERMANY

by

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 Appendix III - State support for Local Employment Initiatives

Footnotes

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1 Introduction

Workers' initiatives to take over their employer's firm or plant in order to prevent its closure have been rare in the Federal Republic of Germany. Quite often these initiatives failed even before the workers could set up their own company. Appendix I lists the 34 known cases of WTO, and attempted WTO, over the last 20 years along with information on the numbers of employees involved. Although there has been a significant increase in such attempts in the 80's, they are still in quantitative terms, without any importance for labour market developments (the picture can change dramatically, however, if particular local situations are considered).

Yet a real possibility of saving jobs through a WTO could arise much more frequently, since most factories that are closing down (for whatever reason) have a healthy core which could be the basis for a continuing business. A central problem, however, is that owners, competitors, customers and creditors are usually all trying to get as much as they can out of the closure - by seeking to sell, obtain or retain valuable equipment, selling patents or the right to use them, enticing away key employees, selling stocks, and so on. Before this happens it may be uncertain whether the plant or enterprise can be reconstructed; but once underway, this process can quickly make reconstruction impossible.

The wide public attention which often accompanies a WTO indicates that such events are seen as actions with a significance pointing beyond purely economic or labour market considerations. They seem to call in question elements of the established social and political culture: for example, WTO represent a refusal to accept impending economic disaster and a willingness to try and prevent it; such autonomous action is unusual for working class people in Germany - especially when it takes the form of direct democracy and justifies itself on that basis. More generally, the willingness to attempt a WTO may signify a certain disenchantment with the role provided by an established system that is no longer seen as reliable; and hence a readiness to embrace new perspectives and roles.

In addition, some WTO have explicitly endorsed concerns that are rather different from those found in traditional businesses, by, for example:

- . declaring that profit making is not what they have struggled for and what they aim at with their new enterprise;
- . restricting their product range to "socially useful and ecologically acceptable" goods;
- . making every effort to build up effective self-management covering all relevant aspects, from company decision making to work place organisation.

Nevertheless, WTO are not - as some people in Germany hope, and even more people fear - a first step to overcome capitalism. They clearly

aim at preserving work places, and are usually the last resort of employees, after everything else has failed. Given a situation of long lasting mass-unemployment with employers closing down firms, with trade unions lacking any effective defensive strategy, and with passive state, it is almost inevitable that those in danger should start to consider possible self-help solutions. Hence the reasons why WTO do not occur more often in Germany are worth considering. They certainly include:

- o the tradition of a labour movement characterized by rather centralized and hierarchical trade unions and by a policy conception of 'co-determination' with state and capital as against 'autonomous' perspectives;
- o a system and philosophy of social security provided by a welfare state, rather than by solidarity and collective action;
- o a tradition and framework of industrial and labour law that strictly regulates industrial relations and that controls or prevents collective action. In particular there are all sorts of procedural and substantive legal provisions to ensure an 'orderly' company closure, including compensation and benefit payments for the employees;
- o a bankruptcy law which is mainly conceived for the creditors' (financial) interests and usually fully applied against the employees' (job) interests;
- o the lack of a strong workers cooperative movement or sector, with all the related infrastructure;
- o a general scepticism concerning the ability of workers to manage, which quite often results in serious difficulties in obtaining the capital needed to achieve a WTO.

Moreover, there are industry-specific conditions which seem to favour other than collective answers to the threat of closure or mass dismissals. In the building industry, for example, it is not unusual for foremen to take over smaller firms, or viable parts of a business, as private entrepreneurs (and there are also rather good opportunities in the 'black economy'). By contrast with these conservative craft-based rescues there are an increasing number of cases in the printing industry of employers offering financial help and work contracts to promote a separate enterprise based on e.g. graphics facilities. For larger companies this has repeatedly proved advantageous as a method of indirectly reducing labour costs and of avoiding future redundancy problems and payments, which can be anticipated due to further technological change or market developments. Such a policy of separating out parts of the company's activities (and employees) because of actual or expected difficulties, and offering it to one or two competent employees, mostly junior or middle management, is known in other sectors as well.

Finally, it should be mentioned that various initiatives aimed at rescuing jobs or firms or looking for more participative or coopera-

tive business structures but which are not 'genuine' WTO, are not included in this report. These related initiatives include:

- o employees financially supporting the old company or a buyer in order to prevent a closure (including indirect methods such as accepting lower wages, unpaid overtime work, etc);
- o work-force initiatives aiming at or leading to management buy-outs or trying to find an external buyer;
- o rescues with the employees as (main) share-holders without having significantly more rights or influence (1);
- o labour participation in company reconstruction by banks acting on behalf of the creditors;
- o all employers' initiatives towards a higher degree of labour participation (in financing and/or decision making).

The report starts by considering the broad social, political and institutional context that WTO have to contend with, and then goes on to consider various aspects of the WTO process, and the companies so created, in more detail. At various points reference is made to four cases, referred to as case A, case B etc. which are presented in Appendix II.

2 The economic-political context

2.1 Labour market crisis

From a labour point of view the long lasting mass unemployment is the most significant characteristic of the 80's. The consistently high figures of companies going bankrupt (2) indicate joint cyclical and structural problems. In spite of clear upward trends in the economy, unemployment figures (3) remain at an almost unchanged and high level, pointing at a development - mainly caused by the wide-spread use of new technology - where economic recovery does not lead to a recovery in the labour market. Labour productivity has grown faster than the demand for the goods produced; the quantity of socially required labour has decreased. An end to this development is not to be foreseen.

Under such circumstances a closure can lead to permanent unemployment or very inferior future job opportunities, especially for those in depressed areas or for other specific 'problem' groups on the labour market. It is little comfort when those responsible for employment policies which have failed point instead at the rather favourable demographic figures in the 90's.

2.2 Trade unions and WTO

The trade unions not only lack the power to develop and apply effective strategies to save jobs, they are also having great difficulties in finding adequate policy responses to the challenge presented by the present scale and patterns of unemployment and its causes. Nevertheless, they are hesitant in backing those who have pursued less conventional solutions, such as a WTO, even if they are part of their memberships.

Such hesitancy has to do with deep-rooted traditions and practices, such as

- o the difficult relationship between the trade union movement and worker cooperatives;
- o the leading union policy conception of "Mitbestimmung" (co-determination) which differs fundamentally from all 'autonomous' concepts of self-determination or self-management;
- o the objections of rather centralized industrial unions to anything which could be looked at as 'the great syndicalist mistake';
- o the immobility caused by the large size of union organizations (they tend to fall into a bureaucratic conservatism, and become very cautious);
- o the highly legalized structures of industrial relations in the Federal Republic. Not only has this elaborate regulatory framework become a way of life for officials, but it appears to restrict the activities that may be undertaken by e.g. members of a works council contemplating a WTO.

So far at least 6 out of the 17 member unions of the German Trade Union Federation (DGB) have had to deal with WTO in sectors controlled by them (4). But neither DGB nor member unions have produced anything near a clear policy statement: most of them have, officially, ignored the subject. The same is true for unions outside the DGB.

Only the metal workers union (IGM), with about 50% of the known WTO cases occurring in their organizing areas, has considered the problem. IGM head office was instructed by the 1983 Union Conference to produce a policy statement on the subject which was concluded and published in March 1985 (5). It is so well balanced "that those in favour of and those against WTO can refer to it" (an IGM official). This policy statement is based on the understanding that the worsening employment crisis must lead to unconventional trade union responses; and that resisting further job losses in an effective way will not be possible within the terms of the present (industrial relations) law.

Essentials of the statement are:

- o support for WTO must not absolve either the 'mother' company (in the case of plants and subsidiaries) or the state from their

responsibility to provide employment. Hence the state should provide financial support for WTO on the grounds that it makes more sense to invest money to create (or save) jobs than to finance unemployment;

- o WTO should lead to long-term job savings. This requires that company purposes are defined differently, "stressing labour market and socio-political points of view and not paying excessive attention to company profitability". (6) This aims at a new kind of overall economic budgeting, and at dealing with WTO attempts as elements of regional and structural policies;
- o the financial position of employees must not be jeopardised, for example, by employees providing money to the old company to prevent a closure; or by employees investing large sums in their own WTO enterprise at considerable personal risk;
- o certain trade union standards concerning payment, holidays, working conditions, etc., shall be observed (no union support for "self-exploitation");
- o more work-force influence, in the sense of extending co-determination rights;
- o trade union support of WTO shall take account of the chances of success or failure and this requires a close study to discover what has really caused the closure.

What trade unions actually do is not always consistent with their official pronouncements (or silences). In practice, almost no take-over initiative has been developed without trade union support, mainly provided by local or regional officials. Head offices, usually, are more cautious and certainly more "diplomatic"; they prefer to observe developments while providing no more than tacit consent. The main areas of trade union activities in relation to WTO attempts are:

- o advising and elaborating (or financing) expert opinions;
- o legal assistance;
- o organizing;
- o taking part in (or taking over) negotiations with politicians, potential creditors etc.;

The role of the trade union owned Bank für Gemeinwirtschaft (BfG), one of the leading banks in West Germany, is worth mentioning. The BfG's role in dealing with WTO has been problematic mainly because they react no differently from any other bank. Their credit granting principles do not incorporate any 'solidarity' component whatsoever, even if only a modest credit is requested (7). This has frequently led to considerable frustration since trade unionists naturally include 'their' bank in their financial considerations, which the BfG does not

discourage, thus raising false hopes. This regularly leads to disappointment and mistrust of union support in general.

2.3 Employers and their organisations

Their official policies are easily described: there are none.

But there is a very wide range of attitudes and responses to particular WTO when they take place: from plain efforts to obstruct any success (by means of e.g. asset stripping, selling patents, defaming the initiative internally and in the public as incompetent, irresponsible or Communist): to simple non-cooperation (such as keeping back vital company and business information, refusing to negotiate any take-over matters); through to limited and/or conditional support (either a permissive attitude or one making any support subject to certain restrictions - as in case D when the rescue company was not allowed to continue the old production) and finally to fairly generous support (such as sufficient information, generous conditions to take over the means of production, offer of contract work, market agreement - case B).

A specific role is sometimes played by institutions under public law or registered associations closely associated with the employers, such as the Industrie und Handelskammer/IHK or the Rationalisierungskuratorium der Deutschen Wirtschaft e.V./RKW. In some cases they have offered consultation, expert opinions and other support. They are, however, so much based on conventional company thinking that they tend to become useless (and irritating) in as much as a take-over initiative tries to realize something rather different. Support by such institutions can prove to be damaging to a WTO if they try to become a recognized participator in the take-over process and/or negotiations, and then attempt - commonly with some success - to have their recommendation accepted by the banks or by the state (in part this is what happened in case A).

Finally, a rather small number of company owners and senior management, due to their participative or humanitarian philosophies, support various reformist ideas and activities, inclusive of WTO. They are politically represented by a registered association (Arbeitsgemeinschaft zur Förderung der Partnerschaft in der Wirtschaft AGP) of about 450 members, mostly medium sized firms, which strive for more participation of employees to company decision making, profit sharing and share holding: they do not however re-define company purposes nor do they look for new economic structures. Some enterprises arising from WTO have become members of the AGP.

2.4 Political and state activities

The state has very few employment policy instruments (in any strict sense) let alone anything specifically to support WTO. In essence, and simplifying considerably, state policies concerning employment include:

- o different instruments to stimulate economic growth, regional and structural developments or to attract the formation of new firms in certain areas. These tend to be expensive programs without guaranteed employment effects. They are capital oriented.
- o the Public Labour Administration (primarily based on the Arbeitsförderungsgesetz/AFG = labour promotion act) with some instruments to advance employment, but mainly directed to the administration of unemployment. The AFG of 1969 was conceived as a preventive act against unemployment, to complement Keynesian economic policies in the labour administration field. Its intended anti-cyclic effects were severely undermined, from the mid-seventies onward, because the financial provisions of the act linked the range of its application very closely to the overall economic situation: when badly needed, during depression and mass-unemployment, the money available has been quite limited. It has been compared with an umbrella that only functions when the sun shines. Nevertheless, the AFG allows some specific support to WTO as will be mentioned below.
- o activities to overcome (supposed) employment obstacles, e.g. by the 1985 Beschäftigungsförderungsgesetz (= employment promotion act) which, among other things, allows employers more flexibility in dealing with labour in order to revive labour markets. It is not at all clear that jobs are either created or secured by this.

It seems remarkable that labour law, which has soaked into all cracks and chinks of industrial relations in Germany, does not provide any tools for securing or defending jobs. The general abstinence, in relation to employment measures, of legislative bodies contrasts with the apparent readiness of parliamentarians of all political backgrounds, whenever possible, to utilize workers' rescue actions for improving their electoral images. And it leaves such matters largely at the discretion of executive bodies. However, state activity which is not based on clear legislation tend to be erratic. WTO initiatives have had to learn this lesson more than once (case A).

State activity also varies according to the level of government concerned. Public authorities at local levels usually want a WTO attempt to be successful; but they often lack the means to secure a favourable outcome (not so, however, in case C with very effective communal support). State or federal level of government have the means; but no-one seems to be particularly interested in successful WTO (Again there is one clear exception - the city-state of Bremen. See also case D.) (8)

As can be expected the Social Democratic Party/SPD (from their tradition and with regard to their voters' electoral base) as well as the Greens (with their creed of 'grass root democracy') are much more open-minded concerning WTO than the more conservative Christian Democrats/CDU + CSU and the Liberal Party/FDP. In practice, however, it has not been of great importance - again with the exception of the

SPD-governed state of Bremen - which party is in power at local or state level. All tend to become involved with WTO attempts in due course.

Worker Take-over initiatives usually turn to the state for financial assistance, for support to get money elsewhere, or for securing bank credits. The state is sometimes a key negotiator with a 'mother' company (cases A and D). Other forms of state support include securing large scale orders, financing 'unproductive' activities such as market analyses, research, product development; help in purchasing or renting premises and machinery.

The Public Labour Administration must be mentioned as a source of state support which can be quite important, primarily in the difficult transitional and starting phase of a take-over:

- o officials can considerably contribute to reduced wage costs by officially keeping the employees - as long as their earnings do not supersede certain limits - on the unemployment list and paying unemployment benefits;
- o the AFG was amended in 1986 by a paragraph (AFG Para. 55a) saying that, under certain conditions, unemployment benefits may be paid for up to 13 weeks to those who have been entitled to such payments when they set up their own business (which may be a WTO); it is officially meant to be a bridging grant;
- o by means of the labour administration any necessary training of the employees involved in the WTO can be organized and financed;
- o officials can also help to realize a WTO by supporting proposals which include setting up, within the company's premises, both a productive company and a vocational training centre financed by labour administration money (case A); this can significantly reduce fixed costs.
- o officials can also subsidize the creation of jobs in the new enterprise (and each preserved work-place can be considered to be a newly created one).

According to WTO experience labour administration offices have proved to be fairly flexible and inclined to collaborate if a realistic take-over conception is being presented.

Recently, first steps have been taken by the state to advance local employment initiatives. So far, only limited resources are available and little in terms of the necessary advisory services. Yet, the steps taken could mean that further calls for state support may lead to more extensive responses in the near future. Moreover, some of the measures currently planned or in operation represent more significant innovations. For example, the scheme for supporting co-operatives in the State of Hessen; and the 'FIBEG' consulting and financial institution proposed by Network Self-Help and currently being negotiated

with the state government of Bremen. Further information on these is provided in Appendix III which also gives an overview of current LEI and co-operative support measures in the different regions.

This is, at least, a topic that is receiving some public attention. Central issues and demands in the current debate are:

- o Something more than a mere extension of the instruments and financial measures of existing economic promotion policies is required.
- o Revolving funds must be developed which can take account of the requirements of an economy including its regional and social needs (and not just the standards of profitability determined on the world market).
- o Financial channels must be developed that are independent of the existing banking system.
- o There must be a re-evaluation of factors and efficiency criteria on which economic support is currently provided, in order to consider values such as social innovation and environmental protection, development of democratic structures, balanced regional and sectoral economies, and the quality of working life.
- o Particular 'project'-related and labour as well as consumer oriented subsidies should be introduced instead of, or in addition to traditional investment-related economic promotion policies which are primarily process-oriented, thus advancing technology and industrial rationalization (and making the unemployment problems worse).
- o Whether or not to favour 'private' support agencies (controlled by the new co-op movement, e.g.) or state controlled, or joint bodies, as distributors and administrators of support money and venture capital.

Presently, however, it is still clearly the rule that state bodies dealing with WTO act in line with traditional commercial appraisal criteria, which means that in the end they "let the banks have the last word... thus bringing criteria of conservative economic policies into the game through the back-door, so to speak, policies which we cannot expect to favour such initiatives, although there may be substantially good prospects for specific cases." (9)

2.5 Take-over initiatives, co-operatives and the 'alternative sector'

It appears that none of the traditional co-operative associations (Genossenschaftsverbände), with their central, regional and sectoral organisations, have, so far, supported WTO. Nor does it seem likely that they would support them. The existing co-operative associations are mainly based in wholesale and retail trading in banking, in agricultural marketing and in building, and they stand in a rather conser-

vative 'petty bourgeois' tradition. There are only very few producer co-operatives (22, according to the 1983 statistics). New membership, which is compulsory for each co-operative choosing the legal frameworks of co-operative law, is impeded by restrictive procedures and an examination of applicants and members by the associations which (Genossenschaftsgesetz) are set up by the Co-operative Act (10).

However, there seems to be a new renaissance of co-operative ideas and practice, fertilized by the 'alternative scene' and explicitly including producer co-operatives. New organisations and other support structures have been developed besides numerous co-operatively organised projects with commercial, social, educational, ecological, cultural and other purposes (11). Politically, this 'scene' is loosely associated with the Greens and the SPD. Hence more impulses for WTO support can be expected from these parties. In particular, an SPD commitment could help to bring together the (traditional) labour movement and (new) approaches to co-operative forms of working (and living) (12). In 1984 SPD head-office established a commission to promote co-operative ideas and practice: "In co-operation with the traditional cooperative societies and new initiatives (unemployed initiatives, self-help projects, alternative-economic projects, 'new' co-operatives, employment initiatives and labour owned companies) we will point out concretely where political activities on different levels - local, state and federal government - is demanded to support those projects already in existence as well as the new starters. In this respect we think in terms of advisory services and financial instruments, working on a co-operative basis, which can react quickly and unbureaucratically. Moreover, we will examine whether legislative steps are necessary to improve starting conditions of new projects." (13)

Such political orientations have been nourished by the 'new social movements', including the peace movement and numerous projects of the alternative economic sector. The questioning of present work procedures and life styles, and, increasingly, a concern with urgent social problems (particularly youth and mass-unemployment, and the perceived ecological and military threats to the very existence of life on the planet) have led these groups to reject conventional economic forms and to seek to create new ones. Some are satisfied with finding for themselves a niche to survive in economic terms - others look for more fundamental alternatives to the dominant patterns and values.

The same spectrum is also true for worker take-over initiatives. The 'economic survival' rescue may be represented by case C, while Case D is a WTO quite strongly influenced by ideas and reflections of the new social movements. Parts of their conception are

- consistent self-administration (following the traditional principle "one person - one vote");
- an experimental form of work-organisation, as wholistic and non-alienating as possible;

- renunciation of profit making as an intended company purpose;
- commitment to produce socially useful and ecologically acceptable goods only (14).

The alternative scene has not only delivered ideas. With its infrastructure (15) and the expertise of many individuals closely connected or co-operating with the new co-op movement, they have been able to offer substantial support, often in a quite competent manner. While their financial means have been very limited, they sometimes played a key role in giving advice and organisational support as well as informing the public - usually in close collaboration with committed union officials.

Of course, the relationship between the workers involved in a takeover and those from the new social movements who were offering support did not develop without conflicts - quite different worlds, ideologically and socially, were trying to collaborate. All those concerned have had to learn a great deal about each others concerns and views. And this far reaching learning process continues, though the areas of contact have become wider and more varied, for example, including new contacts between the 'scene' and the political establishment, trade unionists and activists of the self-help movement, officials of the European Communities with local projects, - utopia with real money. It seems clear that in the longer term these years of experience and experiments will benefit WTO by developing a climate and institutional context that is far more favourable towards such initiatives.

3 Essential questions to be dealt with by WTO(16)

3.1 Initial phase and company information

There are many reasons to close down a firm. The true causes influence the chances for WTO to fail or to succeed. In addition, the form of the closure threat is important - whether the firm is under the control of a receiver, or not.

3.1.1 Closure under receivership (17)

This occurs when an enterprise is bankrupt - in itself, not a very good starting condition for a take-over. Moreover, bankruptcy law in Germany essentially serves the interests of the creditors, not the employees (18). However, bankruptcy procedures are a barrier to uncontrolled asset stripping (- though not to asset stripping, as such). Sometimes, this chance can be used to influence what happens later to the firm (e.g. by taking action to prevent dismantling of machines). Since all employer's functions are transferred to the receiver he or she can decide whether or not to dismiss employees, to take up production again, to restart trading and so on. This can allow negotiation and even collaboration between the receiver and the work force with a view to avoiding immediate closure of the business; and thereafter to preserving it (case C). The chances for the workers to take over a company in co-operation with the receiver are not very

good, but it can be done and they have not been sufficiently examined. In general, the receivers office has considerable discretion which may be used to support or to obstruct a WTO initiative.

An additional difficulty is that a petition in bankruptcy is normally filed without any previous announcement - thus producing enormous time pressure for a WTO initiative.

3.1.2 Closure for reasons other than bankruptcy

Time pressure is a common problem here, too. But there are more and more cases of the closure being announced 12 to 18 months in advance, or of the final date of closure proving to be negotiable.

It appears that only initiatives considering a WTO at the earliest possible time have a realistic chance to develop a feasible conception: Such considerations may run parallel to looking for other solutions, even opposite ones, such as negotiations with the company, the state, creditors or others about continuing (some of) the business or entering "Socialplan" negotiations (compulsory negotiations about redundancy payments in case of closure, according to German labour law: Betriebsverfassungsgesetz - Works Constitution Act).

It can be very advantageous if the company is still intact - and hence vulnerable - during the take-over preparations: in particular a large 'mother' company may be inclined to co-operate with the workers because of a concern for its reputation with the public (case B); it may make concessions because it wants a quiet workforce in other plants of the company (case D); or it may be generous because it still has to meet production deadlines in the plant it is closing.

Moreover, a trading company is no 'breakers yard' for impatient creditors. So the take-over initiative can try to preserve the core of the assets. An intact workshop has repeatedly proven to be a good argument to legitimate the workers' case in public.

3.1.3 Company information.

For the complex process of developing a WTO proposal and, in advance of this, of producing a well based feasibility study, works council employees and their advisors need immediate access to all relevant company data (balances, profits and losses, marketing data, manufacturing procedures and organisation, costings, etc.) In practice, however, information which a bank can easily obtain is often handled as top secret when asked for by the works council. This can lead to enormous problems for a WTO initiative when it is asked by a bank or government officials to produce detailed plans to support an application for funds. Usually, there is intensive fighting between the old company or the receiver, and the works council (and its advisors) representing the new management, about rights to receive and obligations to give information. Even when information is given, there remains the problem that part of company information must, according

to the law, be treated confidentially - but just which parts is not clear. It appears that quite often this uncertainty prevents the workforce from using the information effectively. On top of all this, liquidators often declare that, under receivership, normal employee information rights according to the 'Betriebsverfassungsgesetz' are inoperative.

There is a need for legal improvements, but also for better use of existing rights and for developing the ability of employees and their representatives to see and to understand early warning signs which precede closures.

3.2 The organisational structure of take-over initiatives and the question of support by external advisors

3.2.1 Works council

Up to this point works councils officials or individual members will usually have played important roles in the WTO attempt, as initiators and negotiators as well as in promoting the idea at every opportunity continuously. In the beginning, their legal position favours these roles. But as the initiative advances it appears more and more as a restriction. For example, they are not allowed to do anything detrimental to the (old) firm; they are required to keep industrial peace which strictly forbids them from calling for or organizing industrial action; they must obey the principle of political abstinence and neutrality; they have no right to act in public on behalf of the workforce. Hence, such an initiative must create its own organisation.

3.2.2 Staff assembly and working groups

In the beginning simple forms of direct democracy are common: the "plenary assembly" for general information, discussion and decision making; and specific working groups set up by and responsible to the assembly. A more or less informal leading group, usually the most committed works council members, co-ordinates the process. These organs sometimes develop into the first basic structures of self-management later on, and at any rate they appear to be a good preparation for it. Thus their working methods are no less important than the results they achieve, - something which external advisors often fail to realize.

3.2.3 Staff associations

Most WTO attempts have created a formally constituted staff association which usually plays an important role. The essential advantage of an association is that a take-over initiative gains a legal status (as an incorporated society) which means that both internally and externally it can negotiate, sign agreements, and so on. Sometimes, this has also helped an initiative to develop a more binding internal structure.

The association can also be an appropriate vehicle for aspirations concerning democratic self-management, since it can become the collective shareholder in the trading company formed to run the business. In such cases the staff association is usually represented by elected trustees.

But even if the WTO attempt finally fails, such associations have proved to be valuable for their members in uniting and supporting them after dismissal.

3.2.4 External advisors

WTO, quite clearly, need to be advised by outside experts, right from the early phase of forming ideas and initial planning. There is always a lack of legal and economic expertise, and quite often of management know-how in other areas, including technology and engineering. WTO need comprehensive plans covering production and marketing, finance and personnel requirements, organisation and legal structures of the proposed company. Banks or state authorities often ask for these in considerable detail before they decide to grant or secure loans (case B). But outside support is not only required for these commercial aspects. The processes which, hopefully, enable the employees to become competent in self-management also need to be supported by external advisors in most cases.

Difficulties and problems that occur include:

- o Advisors must not only be experts. They must be able to co-operate with workers; they must understand what it means to change over to self-management; they must engage themselves in a process of mutual learning and teaching. This, more or less, excludes conventional management consultants; others, however, quite often lack industrial experience.
- o Advisors must be trustworthy to all concerned: the workers, the bankers, state officials, trade union officials (~ how could you trust such a person!)
- o They cost money (unless they work without pay, as has happened on occasions). Some initiatives have successfully negotiated such payments with their company, having made good use of the Works Constitution Act, (111/112) which prescribes that, in case of closure, redundancy payment negotiations must be preceded by efforts to balance divergent interests. This has been utilized as a legal basis for negotiating money specifically for the costs of planning and preparing the WTO (Cases A, D).

Developments in the alternative and co-operative sector and, generally, of local employment initiatives, seem to be promoting a supportive infrastructure which is stimulating further development. This will also be useful for WTO.

3.3 Financing

A key problem is how and where to get enough money. the legally required minimum contribution to start a limited company (GmbH) - most WTO choose this form - is 50,000 DM which is usually collected without great difficulty. This minimum - which, incidentally is not required by the legal form of a co-operative - does not in fact lead anywhere, since the stock of equity capital has to serve two functions: it is the basis to get loans, and it is part of the money to finance the day to day business. In practice, and with the exception of rather small WTO, the needs for equity have ranged between about 1 and 10 million DM (19).

The following sources of finance tend to be used:

- o The employees invest their own money - personal loans or, more often, some or all of their redundancy payments (case C). This is usually opposed by Trade Unions saying that the concentration of financial risks on top of employment risks cannot be tolerated. There are good reasons, however, to argue that collectively negotiated compensation might just as well be used collectively in taking over the company (if its prospects are promising). This line of argument has been strengthened by cases of illiquid companies where financial compensation was just not negotiable. Taking over the assets instead, would provide an alternative form of compensation, which could be used collectively.
- o A WTO initiative tries to collect the capital needed through a solidarity campaign, addressing individuals as well as alternative financing institutions (case D). Obviously, on its own this does not produce the required sums.
- o Very commonly, efforts are made to obtain the assets as the core of the equity base. In case A an innovative scheme was developed: the state acquires all assets and hands them over to a (non-profit) foundation (e.g. the former registered staff association). The foundation becomes a shareholder (20) in the rescue company, with the assets as its equity contribution. This solution has many advantages. However, the problem of how to raise money is shifted to that of how to obtain the assets. In case D the state of Bremen has chosen a comparatively simple procedure: they have rented the fixed assets from the mother company and leased them to the rescue firm, and they have bought tools and machines which can be used by the new workers' company for the first 3 years without pay. The advantage of this solution is that the rescue needs much less capital in the difficult start-up phase. However, since the new firm does not own the fixed assets it cannot use them as security when it seeks loans to provide working capital.
- o The state is asked for the necessary capital. There are two essential arguments: first, employment promotion is part of government responsibilities (a strong Trade Union position); and, second, the

simple calculation is based on general experience that it will be more expensive for the government not to support the WTO. So far, no case is known in which the follow-up costs of unemployment (including subsidies to create completely new jobs) would not significantly exceed the financial support which is demanded by a WTO from the state. However since anything like comprehensive public budgeting, accounting or auditing does not exist, such claims cannot be rigorously demonstrated, refuted or tested, so they tend to be ignored by politicians and governments.

Having raised enough equity does not mean that all financial problems are resolved. Working capital and further investment funds need to be obtained. To some extent, conventional state subsidies and all sorts of promotion schemes can be utilized. The bulk, however, has to come from the banks. This is when WTO usually meet their most persistent adversary. The problem is that the whole idea of a WTO is hard to reconcile with the assumptions on which day to day banking activity is conducted. In essence a closed enterprise is devalued capital. Those ignoring this (e.g. by trying to revitalize it) either show a lack of understanding - which disqualifies them as entrepreneurs - or they are out to try something different. But if their primary purpose is not to make money this appears to disqualify them quite fundamentally. In the end, bank conditions for granting loans to a WTO tend to be so specified that they cannot be met (for example - case B). More recently, however, bankers have begun saying that a committed workforce is likely to be more reliable than many plausible industrial fortune hunters. Motivation and solidarity may yet be considered in credit ratings.

The demand to set up new types of financing (and advisory) institutions under public or state control and supplied with adequately controlled money has therefore become stronger. "Financing institutions need to be set up which are oriented by the social benefit of such take-over companies. It is self-evident, therefore, that they must have a public status." (21)

3.4 Legal forms of WTO and other legal questions concerning WTO

3.4.1 Legal forms

Which form to choose depends on, e.g. the size of an enterprise, the amount of capital needed, how the capital is to be acquired, exclusion or limitation of liability wanted, the structure and effectiveness of self-administration.

Remarkably, no WTO has chosen the legal form of a co-operative society (Genossenschaft). This may be due mainly to the fact that co-operative law is rather unsuitable for WTO's without offering clear advantages; to restrictive and sometimes long-lasting economic examinations carried through by the co-op associations; and to the reluctance of the associations to accept WTO's as members. (22)

Usually, the form of a capital company is chosen, with a limited company (GmbH) as its core. Essential advantages are:

- the limitation of liability, and
- a wide scope in shaping the internal structure of the company, thus creating a legal base for self-administration, since statutes and articles can be formulated quite freely.

Form and structure of the company, around and within this GmbH-core, can vary according to what purposes they shall serve, e.g.

- more public support and participation may be achieved by opening membership of the staff association to representatives of the public if, the association functions as (main) shareholder;
- if autonomous self-administration is to be secured then it may be useful to add a company of sleeping partners to the company structure (GmbH & CoKG); this form may also be suitable if shareholders wish a personal liability limitation which the CoKG guarantees;
- easier access to business capital may be achieved by giving each shareholder, inclusive those from outside, voting rights corresponding with his proportion of shares.

Recently, conceptions have been favoured which represent the employees, organized as staff association, in the shareholders meetings through trustees. The association is the decision making body and the trustees, fully responsible to it, act on its behalf only.

3.4.2 Other legal problems

Legal questions accompany a rescue initiative from the beginning. German law is prepared neither to deal adequately with the factual identity of employers and employees, nor to recognise the specific interests and conflicts which are actualized by WTO. This touches many areas of the law which ought to be checked to see which changes - sometimes only very little ones - would be required to create a legal framework favourable to WTO. In contrast to the provision of material support, which easily comes under attack because of unfair competition, changing the law, in many instances, could be done in a way detrimental to no-one. At least the following areas of law ought to be examined:

- works constitution act (Betriebsverfassungsgesetz) and protection against dismissal act (Kündigungsschutzgesetz)
- labour promotion act (Arbeitsförderungsgesetz) and employment promotion act (Beschäftigungsförderungsgesetz)
- bankruptcy law
- parts of company and tax law and, possibly, association law

- co-operative law (Genossenschaftsgesetz)
- economic and industrial promotion schemes and regulations.

3.5 Self-management

A WTO does not guarantee self-management in a firm that is created - even if the employees hold the bulk of the shares (case C). Even if a WTO initiative decides to pursue self-management they should adopt the view that "self-administration is a problem and no solution to existing problems" (23).

It appears that the main threats to effective and continuing self-management are:

- o The employees themselves.

After years of being tied up by the company's command structure, by competitive work and pay conditions, by work-organisation which disconnects everyone from the over-all process, by a works council and the Trade Union system which is based on representation and delegation much more than on grass-root and individual initiative - developing the capacity for self-management is a difficult and often tiresome learning process. Vital elements of this learning process appear to be:

- (i) organising all WTO activities in a way that enables as many as possible to use them as a first course to learn a responsible way of acting;
- (ii) preparing working methods that support individual and collective production controls;
- (iii) devising payment systems which underline the fact that production results from collective and not just individual efforts;
- (iv) in general, looking for new ways of doing things wherever it is possible, in order not to fall back into the old patterns, but without trying to change so much that anxiety starts to paralyse the initiative.

- o New management.

If the new managers are efficient and clever, or if their personal behaviour does not differ much from the old management's, this may tempt workers to return to old attitudes of "leave it all up to them". On the other hand, managers who identify themselves with co-operative ideas usually lack industrial experience and are inclined to make mistakes, or at least to be less successful. This can undermine the workforce's belief in self-management.

- o A need for large sums of capital.

This can be a key problem, not only in the initial phase but also after years of successful trading. The precondition for any access to loans is the prospect of a good return for the creditor. To make sure that the money is safeguarded and used properly, such loans are usually conditional on a certain degree of participation in governing and controlling the company. In this way, work-force influence may slowly fade away.

- o Brilliant success

In the last century Franz Oppenheimer formulated the iron law of transformation": "It is extremely rare that a producers co-operative reaches prosperity. But when it comes to this point, it ceases to be a producers co-operative." (24)

3.6 The products

There are many reasons why a WTO initiative may consider new products: they do not have permission to continue with the old products; there is no market for the old products; the existing products are not in line with their political beliefs (military production, for instance); additional money may be available for certain new products, or more attractive markets may exist for them.

Whatever the reasons behind it, new product development has to deal with the following problems:

- o to develop a new product and to find markets for it is a long and costly undertaking; a WTO is usually not able to finance its own research and development department.
- o royalty payments in respect of products developed elsewhere and produced under license can be quite expensive.
- o the marketing of really new products can be very difficult. AN/Bremen (case D) are trying to do this, but have gained nothing but experience, so far.
- o state technology promotion schemes mainly favour high, hard and large technology (and large companies).
- o the development of "technology exchanges" is in its infancy and those exchanges, so far, can hardly respond to the needs of WTO.

In practice, WTO must often turn to contract work to secure their economic survival. As case D shows, such an interim solution may last for a long time; AN/Bremen, after more than two years in trading, are now slowly reaching some consolidation of their contract work activity (which is still by far their most important activity).

Parallel to such contract work several other activities must be sustained over long periods, i.e.:

- o setting up working groups which, in co-operation with management, look for and develop new product ideas and, eventually, build prototypes;
- o seeking and obtaining all possible subsidies for new products, and new product development;
- o generating public attention (and pressure) to get state orders, e.g. to realize pilot projects or to support a production which may be of special regional importance.

4 Limits and chances of WTO

Few WTO have been successful so far in the Federal Republic of Germany. The infrastructure, however, is tending to become more favourable for future attempts - and the need to save jobs will certainly not come to a sudden end.

An evaluation of present experience should not only consider what is measurable, such as the number of job savings. Their value as the focus for new social alignments, as signals of new currents and possibilities, as experiments that provided those involved with a positive alternative to resignation and passivity - all these should also be borne in mind. Doors have been pushed open leading in new directions. They have reinforced calls for the state to give up laissez-faire attitudes in areas where these only lead to the weak becoming weaker - and in this regard WTO provide a strongly democratic (and thus a rare and maybe precious) element in support of policies that might otherwise develop in paternalistic ways.

The experience so far clearly demonstrates that only improvements to the economic, legal and political environment of WTO will prevent many more failures. Success will be dependent on positive answers to questions such as: will there be a growing readiness of the state to give more financial support? Can the banks be persuaded to be more flexible and realistic (or be replaced by new types of financing institutions in this sector)? Will the trade unions come off the fence and offer active practical and political support? Only if the trade union fully recognise WTO as an element of their fight against job destruction, will an individual workforce be able to move the state and other institutions to give more support.

WTO are certainly no element in an anti-capitalist strategy. But they could become a substantial part of an economic formation that is complementary to the main-stream economy. The reason why they are born symbolizes this complementary function: they start where capital closes down and retreats. Their opportunity lies exactly there: to unfold as elements of decentralizing economic and social policies for areas where profit-oriented capital has lost its interest and abandoned the workforce, leaving basic needs unsatisfied; or where it is not yet sufficiently confident of a high return to be willing to invest in a new idea. WTO serving such purposes need to be supported by a socially controlled environment, otherwise they cannot survive:

in a competitive economy, dominated by very large companies they soon become short of breath - sometimes even before they have begun to breath.

Appendix 1 Summary listing of WTO initiatives

The known cases are presented in Table N. on the following pages.

There must certainly be a number of unknown cases, especially among small and very small firms- and there are cases in between a WTO and a different rescue form - some of them are included in the list, some are excluded. One can only guess why the proportion of successful WTO initiatives in the 70s was relatively high: - perhaps the failures have been forgotten; or perhaps it reflects the better overall economic situation; or perhaps because most of them were prepared to be quite conventional companies with employee share-holding or ownership, thus making banks and state more inclined to help.

The reasons for failure in the final column of Table N are indicated by letters. (The categories are neither systematic nor complete).

The upper case letters stand for the following reported reasons for the end of a WTO which started trading:

- A = lack of capital
- B = managerial mistakes
- X = ceased to be a WTO; business however goes on - which is usually the case when more capital is needed and new shareholders change the WTO character of the company

The lower cases indicate the reported reasons for failure before a WTO started trading:

- a = old company too deeply in debt
- b = lack of capital (often this also indicates that the state has not been willing to help)
- c = obstruction or lack of collaboration by the old company
- d = reasons lying within the workforce (e.g. lack of unity, feeling that the task is too difficult, agreeing with a different solution including acceptance of redundancy compensation payments, etc.)
- e = no promising market
- f = too much time pressure (time pressure, quite often, also lies behind b + d)
- g = new products required but not possible to develop them
- h = insufficient or wrong advice (may be a reason which, in reality, occurs far more often than in the list).
- i = initiative was brought to an end because of a different solution (such as purchase of the old company by an external buyer).

Table N WTO Initiatives in FRG 1969-1986 (Sept.)

company (state)	year of		WTO began trading	sector/ production	number of employees		when WTO started trading	main rea- sons for failure	what happened to the new company (other notes)
	WTO- initiative	failure			when closure announced	at closure			
Glashutte SuB- muth GmbH (Hessen)	1969	-	1970	glass blowing	280	255 ?	255	X	c.120 empl.now; 50% of shares taken over in 1978 by a foundation - rather trad.firm with a bit more industr.democracy
Mitarbeiterges. BEKU GmbH (Bayern)	1973	-	1973	building material	90 ?	90 ?	90	A + B	failed in 1978
Walther Electro- nic (Bad.-Württ.)	1974	-	1974 ?	Office ma- chinery	1200	1200 ?	1200 ?	X	not a genuine WTO; work- force was main shareholder; now: minority shares
Emag Masch.fabrik (Ba-WU)	1974 ?	-	1975	mechanical engineering	160	?	90		? (still existing)
Bammelsberger Maschinenfabrik (Ba-WU)	1975	1975	-	mechanical engineering	800	800	-	a + b	240 employees had raised 2.1 mill. DM, but the state and a state bank refused to support the rescue.
Glashutte Hirsch- berg (Hessen)	1975	1975	-	glass works	?	?	-	?	
Boseler Metall- bau (Nieders.?)	1975	-	1975 ?	metal work- ing	105	105	105	X	was sold to a private entrepreneur in 1978
Fussener Textil AG (Bayern)	1976	-	1976	textile	900	?	550	(X)	(more a participation mo- del than a WTO)

company (state)	year of		WTO began trading	sector/ production	number of employees		when WTO started trading	main rea- sons for failure	what happened to the new company (other notes)
	WTO- initiative	failure			when closure announced	at closure			
Spinnerei u. We- berei Augsburg/ SWA (Bayern)	1976	-	1984	textile	1050	900 ?	550		cont. trading under recei- vership 1976-84; more trad. than co-op type of company; is now training 45 apprent.
Mattfelder Möbel teile GmbH (NRW)	1981	-	1982/3	furniture	352	35	10		? (still existing)
Kaffee HAG Olden- butteln (Hieders.)	1982	1982	-	coffee roast- ing	115	100	-	c + g	(mother co., did not allow any potential competitor to take over)
AEG-Brunnenstr. (Berlin)	1982	1982	-	mechanical engineering	2200	?	-	b, c, d	(WTO was planned to rescue part of co. with 1000 jobs)
Olympia Leer (Nieders.)	1982	1983	-	typewriters	700	?	-	b + d	
AN Maschinenbau u. Umweltschutz- anlagen GmbH (Bremen)	1982		1984	mechanical engineering	170				
Agfa München (Bayern)	1983	1983	-	photo indust.	4000	(2300 were to be dismissed)		d	(3 employees took over a dept. of 90 empl. and cont. trading with 30 of them)
Lindner (Berlin)	1982/3	1983	-	machine tools	260	90	-	b	
Arendt (Ba-Wu)	1983	1983	-	laundry ma- chines	100	100	-	b + c	
AG Weser (Bremen)	1983	1983	-	ship building	c2000	?	-	b + d	(WTO plans included only parts of the ship yard)

company (state)	year of		WTO began trading	sector/ production	number of employees		when WTO started trading	main rea- sons for failure	what happened to the new company (other notes)
	WTO- initiative	failure			when closure announced	at closure			
Richard Adam & Co.GmbH (NRW)	1983	-	1983	printing	4	4	4		critical lack of capital
Tabbert Wohnwagen Werke (Bayern)	1983	1983	-	caravans	120	?	-	b + ?	
Geffken Druck-u. Verlags-GmbH (Bremen)	1983	-	1983	printing	14	14	12		10 employees = shareholders now; difficult economic situation, only reduced wages
Scheel & Jonck (Hamburg)	1983	1984	-	ship build- ing	90	?	-	d + ?	(firm is trading again as a private company)
Schmalbach-Lube- ca (NRW)	1983	1984	-	plastics	130	?	-	b	
Masch.fabrik Gebr.Hofmann (Bayern)	1983/4	1984	-	mechanical engineering	130	?	-	b	(part of the co. with 20 employees was sold to a private entrepreneur
Monninghoff GmbH (NRW)	1984	1984		metal working	800	800	-	b	
Engelhardt & Forster/EFMA (Bremen)	1984	-	1984	laundry ma- chines	210	?	18 ?		18 empl.now; half of the co. had been taken over in 1984; WTO was rescue of the leftover
NEA Lindberg (Schleswe.-H.)	1984	1984	-	mechanical engineering	41	41 ?	-		
Krupp Industrie- Technik (Bremen)	1984/5	1985	-	developm.+ de- sign (for mech.)	190	?	-	b + d	(2 or 3 small engineering offices have been set up

company (state)	year of		WTO began trading	sector/ production	number of employees		when WTO started trading	main rea- sons for failure	what happened to the new company (other notes)
	WTO- initiative	failure			when closure announced	at closure			
Jakob Hauser GmbH/Hennefer Ing.Bau (NRW)	1984/5	1985	-	building (de- sign)	120	120	-	b + f	
Sulzer (Bremen)	1985	1985	-	sanitary fac.	75	?	-	d + e	
Profilia (NRW)	1985	1985	-	upholstery	?	?	-	d	
Litho-Thungen (Bayern)	1985	-	1985	printing	40 ?	c.40	40 ?		? (still existing)
Fensterfabrik Petri (Saarl.)	1986	1986	-	windows	?	74	-	?	
Heinertz Drucke- rei (Bremen)	1986	1986	-	printing	44	44	-	b, h, i	(purchased by another co.; controversial take-over procedures at present)

Appendix II - Case Studies

Case A - Olympia-Werke AG, Leer.

Founded in 1957 by the Olympia-Werke AG, part of the large electric concern AEG and situated in a very poor region in Northern Germany, the plant is the largest employer in the small town of Leer. The maximum of 2,400 employees has been reduced by rationalization and production transfers to 1,300 in 1980/81, when closure is announced for the first time. The regional unemployment rate is about 20%.

Strikes and other industrial action lead to modifications of the company's plans: the plant shall be preserved with 770 employees; the works council, in return, shall agree to 500 dismissals. Three months later, the company says that because of insufficient state subsidy they must reduce employment to 450. More industrial action and public demonstration. The (conservative) state government grants loans of 23 million DM on condition employment is kept at a level of 600. After more industrial action, an agreement, based on this figure, is signed between the company and the works council.

The company fails to bring new production (as agreed) into the plant. (Production, so far, is mainly based on small mechanical typewriters and some spares for electronic ones.) In June 1982, the first dismantling of machines takes place - and more industrial action. Employment by now is down to about 700. Then bad news: AEG goes bankrupt which is a serious blow to Olympia AG as well. In November 1982 the company announces that the Leer plant will be closed on June 30, 1983.

More action by the workers and their union (IG Metall) follows, with growing participation of the public. Politicians of all parties, and the churches, appeal to the state government to make every effort to preserve Olympia Leer. Works council members begin to think about mounting their own rescue attempt. They and local union leaders present a paper outlining a possible labour-controlled production unit, based on continued production of small mechanical typewriters, contract work, and new "socially useful" products. The company refuses to accept these plans and continues to try to dismantle machines.

In due course a better developed scheme is put forward. This comprises a productive business and a vocational training centre for about 150-200 trainees (paid for by public unemployment administration - which agree to the plan), together taking care of 400 to 500 employees. In December the company signs an agreement ("Interessenausgleich") with the works council which gives some support to the workers initiative (e.g. 75,000DM to pay external advisors). Employees are intensively engaged in looking for and developing new products. In January, they found the association "Jobs for Leer" (with employee and external membership) as an organ to prepare and co-ordinate the take-over process and to negotiate financial and other support from the State. The State government, having favoured the closure so far, now agree in principle to the workers proposals, but wish more detailed plans.

In March 1983 the association presents detailed proposals for the rescue firm "Ostfriesische Metall- und Kunststoffzeugnisse GmbH & CoKG", envisaging up to about 300 jobs and company self-management.

At the same time, there are state elections which are won once again by the CDU. Now, a different wind is blowing:

- o state government are still willing to acquire the fixed assets (in lieu of repayment for financial support provided) and to hand them over to a foundation which is shareholder of the rescue company on behalf of the employees;
- o they strictly refuse to grant a loan to the rescue firm, knowing perfectly well that this money is a pre-condition for obtaining bank loans and although only 1 million DM is required.
- o they declare that any further commitment will be linked to a "private solution" (a normal buy-out).

The last condition helps to split the negotiating team; the majority of traditional works council members agree with government to favour a private solution.

- ! No buyer is found, and the plant is closed down as planned, accompanied by trade union and public demonstration. Workers carry balloons showing promises of management and politicians - and burst them. A few months later, the assets are sold by auction.

Case B - Schmalbach-Lubeca GmbH/Velbert

A plant of Schmalbach Lubeca GmbH, situated in the highly industrialized Ruhr area, had a peak employment of 350 in the 70's. This had reduced to 130 in summer 1983, when closure was announced, to take place in July 1984. The product was small plastic containers of up to 5 litres. The main reasons for closure: reduced markets for the product and an overall rationalisation and restructuring of the company and production.

Surprisingly, there was not much reaction from the highly unionized and experienced work-force; but there were immediate ideas for a WTO, initiated by some works council members and supported by the local trade union, IG Chemie-Papier-Keramik. Talks and consultation followed with the main company board in Braunschweig, with economists of a nearby university and with representatives of the trade union owned Bank für Gemeinwirtschaft (BfG) to clarify the feasibility of, and further develop the plan for, the workers take-over. Further development was in co-operation and/or consultation with State and local governments, public labour administration and the local IG Chemie; the RKW gave additional economic advice.

First results were encouraging: positive commercial assessments by experts; generous support by the company (handing over large parts of the assets at little or no cost; implicit market agreements; promi-

ses for contract work during the first 6 months of trading); an encouraging response by BfG; continuation of the old production; and solid contacts to old and new clients. By the beginning of 1984, a carefully elaborated plan to re-start the business 3 months after closure at the latest, with about 50 employees who would also own the company had been prepared. It also considered new activities such as container-recycling, and new products. The new company, "Velberter Kunststoff Verpackung GmbH", was formally founded and registered in January 1984.

Self-management was not very strongly instituted in the legal structure of the new company: the employees, represented by 3 trustees of the registered association (called "workers take over their firm") were only sleeping partners in the company beside the 2 managing directors as active ones. A lot of consideration, however, was given by the employees to the shaping of future production and work organisation, payment systems and structures of decision making.

All this was difficult, tiresome, and many of the employees did not really feel qualified to realize such a project, and they were sometimes near to giving up. Nevertheless, the initiative was never seriously endangered by these difficulties. The main problem, and this became clearer and clearer, was that of financing. An estimated 3 million DM in total was needed, with a much smaller proportion of share capital which was to be paid in by the employees, from their redundancy compensation payments.

In spite of two independently produced and positive commercial assessments by experts (one of them by an RKW member) the SPD state government decided to postpone their support decision until after the banks had made up their minds. And they (in return) asked the initiative for proof of profitable business during the next 5 years(!) - which of course could not be provided. By the end of February, BfG categorically refused any loans because they believe that there is no security for part of the capital needed (a risk, at most, of 1 million DM). The second potential creditor, a State bank (Westdeutsche Landesbank) produced an efficiency analysis, resulting in a negative forecast, and used this to justify not granting any loans. This was the signal for state government to declare officially, in April 1984, that they had decided not to support this WTO - one of those cases in which death took place before birth.

Case C SWA - Spinnerei und Weberei Augsburg GmbH

The company (Mechanische Baumwollspinnerei und Weberei Augsburg AG/SWA) was part of the Gloggler concern. This was a group privately owned by Hans Gloggler who, between 1969 and 75, bought numerous companies, thus pushing his concern into a leading position in West German textile manufacturing. By 1975, it was a multinational empire, co-operating with 38 inland and foreign banks, with the trade union bank BfG as one of the main creditors. It was a total surprise to the employees, as well as to the public, when this concern went bankrupt in December 1975. While some parts of the concern could be saved

without great difficulties, SWA had to file a petition in bankruptcy; management, state government (Conservative/CSU) and BfG, among others, did not see a realistic rescue chance.

The receiver, taking over a company with 1050 employees and with 60 million DM in debts, dismisses 300. Clever negotiations with suppliers and customers enable him to continue production with the remaining workforce. He succeeds in consolidating the business, though there is no chance of reducing the burden of debts. An extraordinary thing has begun: production, by a company under receivership, is continued until the rescue company is registered, finally, in February 1984, - 8 years later, having produced profits for the last 3 years.

The rescue proposal was presented in mid-1983. The new firm was to be supplied with 10.6 million DM of equity - 89% of which was to be provided by the employees (c.6 million D.M from compensation payments and c. 3 million DM was a type of labour administration grant) the remaining 11% by suppliers and customers. The scheme was worked out by the receiver, in co-operation with the local authorities, the regional trade union organisation (Gew.Textil-Bekleidung) and the works council.

Once again, it was the BfG which almost caused a sudden end to this hopeful under-taking, this time indirectly. In order to reduce the extent of their funds at risk, they sold the freehold to the site which they held as security, thus giving away a very important element with which they could have supported a rescue quite decisively. The buyer, the owner of a building company, used the acquired rights for speculation and asked, instead of the 8 million DM which he had had to pay, for 16 million DM to sell it back to the new company - which would have made them bankrupt before they started. After long and delicate negotiations, a solution was found: a group of banks (BfG, the communal Augsburg Sparkasse, and a state development bank/Landesanstalt fur Wiederaufbau) gave credits to SWA, including 15 million DM to the speculator. Local government (SPD) secured the total, which was quite unusual.

Today there are some 500 employees, inclusive of 45 apprentices. They are represented in the limited company by a senior official of their union who acts as trustee. Once a year he has to report to them on the economic situation of the company. Apart from that he makes his own decisions and politics. On the board the workers hold 3 out of 9 seats. There is no more workforce influence or workforce protection than in any conventional enterprise.

This means that the workers, though primarily owning the company, do not control company policy. This is done by a general manager with industry background who is neither in favour of trade unions nor of workers' self-management. On top of this, work conditions are such that real motivation or qualification to develop more of a self-managed firm are very unlikely to emerge. The workers appear to have accepted that they work in a company where they had to pay for their

jobs. Obviously, they 'bought' nothing else with their financial involvement.

Case D - AN Maschinenbau - und Umweltschutzanlagen GmbH/Bremen

AN was rescued from the Bremen plant of J.M.Voith GmbH, a South German company with a good name in mechanical engineering. The Bremen plant was established in 1941 as part of war industry, with civil production after 1945. In the 1970s employment peaked at 320. Closure of the plant was announced in October 1982, to take place in 1983. After negotiations, the date of closure was postponed to March 31, 1984. When closure was first announced, employment was down to 170. Preceding the announcement, the mother company had invested huge sums in new technology (thus avoiding taxes on much of their profits). The central production capacities created thereby had to be used, so orders were shifted from Bremen to South Germany, piecemeal, even though the Bremen plant was still an effective production unit.

However, the works council had become aware of these early signs of plant closure, and its chairman, supported by some other workers, was well prepared. A few weeks before the closure was announced they had set up a "new products" working group, knowing that if the company should withdraw from Bremen they needed to have some product ideas as a precondition for saving the firm. Nevertheless, negotiations after closure was announced failed. Instead of becoming unemployed the workers decided to take over the firm. The first step was to set up an "economy (and legal questions) commission" and to transform the new product working group into a "technology commission", serving as basic managerial organs of the rescue initiative and as basis for the co-operation of worker activists and external advisers and experts. Plenary meetings every 2 weeks, open to staff and supporters, completed the basic structure and was co-ordinated by the works council chairman.

The worker take-over initiative successfully negotiated support from the state government which, in the end, rented the premises, using part of it for a youth training centre and sub-letting the rest to AN. The state also bought the machinery and let it to the workers' initiative. The company was moved to provide some minor support which helped to make it possible to continue with the old business and to prepare the new company at the same time. "This necessary bit of co-operation was, last not least, secured by the workforce of the company's main plant when they threatened to take industrial action unless the company would show a supportive attitude towards the take-over initiative in the Bremen plant." It was made clear, however, that the workers' company would not be allowed to continue with the old production.

The new company, AN, officially started trading in April 1984, one day after the Voith plant had been closed. It used the legal structure of a GmbH (limited company). 50 of the employees had formed an association, open to supporters, which is the collective shareholder (with

contributions by the employees of 1,000 DM each); some sympathy capital had multiplied the available sum of money a few times. However, the new enterprise was severely under-capitalised. The workers decided not to seek bank loans. Instead, initial wage costs were heavily reduced by unemployment benefits and other labour administration payments, as well as by employing few members at the start - only 5 full-time. By September, 1986 employment was up to 43. The first larger sum of outside money came in in 1985 when the federal government complemented by a regional government grant, reacted positively to an AN application for research and development money for a new product (an-aerobic fermenting facilities) totalling 1.5 million DM.

The company still relies on contract work - which is quite different from what the workforce had intended when they decided to produce new products which had to be "socially useful, ecologically sound and not related to any military production". They have achieved the first step towards economic consolidation, but there is still a long way to go to realize the central ideas in their plan.

This is also true for their ideas of a co-operative self-management. Unprofessional management, lack of discipline, of social awareness and responsibility, among other things, have led to a partial (and temporary?) retreat from ideas like equal pay, individual autonomy within collectively agreed frameworks of work organisation, and other 'grass roots reforms'. At present, there is a tendency by the majority of the work-force to go back to more traditional ways of managing the company and organising production and labour processes. They insist, however, on the plenary assembly, with meetings at least once a month, as the basic organ for decision making and management control.

Appendix 3 - State support for Local Employment Initiatives.

The Commission of the European Communities recently presented a questionnaire to member governments concerning state support directed towards advancing local employment initiatives. The answer of the Government of the Federal Republic, in March 1986, is summarised in Table 2. (25)

Table 2 - Forms and location of State support for L.E.I

METHODS/INSTRUMENTS	LEVEL
financial support, such as credits, grants, investment capital/shares	regional government (5 out of 11 states, i.e. all states with SPD majority); a few local schemes
advisory boards	regional government (there are only a few - some are subsidized by the federal government; some closely collaborate with 'private' organisations and networks.)
research and pilot projects related to new employment initiatives	federal and regional government
youth training schemes and other instruments to improve job opportunities of 'problem' groups of the labour market	mainly financed by the federal government.
premises, shops and other facilities	local government
public contracts, orders	(if at all:) local government.

Further information on the provision of financial support by the five regional governments that have developed schemes is given in Table 3. However WTO exceed the average (small) size of these projects and so cannot really profit from most of these support schemes. They are

totally insufficient to meet the requirements of a medium-sized company. On the other hand, the Hessen scheme has many interesting features: special grants are available for research and development of new products and production processes, to improve environmental conditions, and to improve training and job opportunities for young and long-term unemployed people to be integrated into co-operatives.

Finally, the FIBEG initiative currently being negotiated with the government of the state of Bremen is worth describing. This is one of several proposals to create regional institutions as the backbone of a state-financed support infrastructure offering financial, advisory, training and other support. This initiative was prepared by the regional organization of Network Self-Help and the local association of self managed firms and cooperatives (BiS). As the outline below indicates it should considerably enhance the existing support scheme in Bremen (shown in table 3).

Bremische Finanzierungs-, Beratungs - und Entwicklungsgesellschaft mbH
(FIBEG)

Purpose

supporting self-managed firms and co-operatives by financing, consulting and training

Tools of financial support

- share capital: to increase the stock of the firms' own capital and to improve their credit-worthiness
- credit fund: to allow cheap credits
- grants: to subsidize social innovations in the starting period
- securities: for credits granted to co-ops by individual persons

Advisory services

Comprising

- any business consultation from setting up a co-op to looking for new markets
- vocational training and qualification;
- research and development of new products and services

Organisational structure

FIBEG is planned to be a limited company with 3 decision making bodies:

- general meeting (Gesellschafterversammlung): all shareholders (anyone agreeing with democratic shareholding can become an associate and has one vote); the general meeting is responsible for

appointing management and for elaborating guide-lines of how to use the supportive tools

- Council (Beirat): decides where the money goes to; council members are:
 - o representatives of the ministries of labour, economy, social affairs 3 votes
 - o representatives of co-ops and Network self-help 3 "
 - o other representatives of the general meeting 2 "
 - o management 0 "
- board (Aufsichtsrat): controls council and management (6 members: 2 government representatives, 2 co-op/Network representatives, 2 other representatives of the general meeting)

Financial structure and re-financing

- capital stock: 100.000 DM (to be paid in by the state of Bremen, 50% of which shall be ceded to co-op and Network share-holders)
- the 1.8 mill.DM funds of the LEI state support scheme are transformed into assets of FIBEG
- 2 mill.DM/year are contributed by the Bremen state budget
- backflow of credits and returns from share holding
- subsidies provided by specific schemes of the federal government.

Footnotes

1. Case C, (in Appendix II), is an exception; although it is not a 'genuine' WTO, it is a remarkable example of what a receiver can do - and still be in accordance with the law - to save jobs. Therefore it is included in the report.
2. The growth rate of insolvencies has slowed down, but it has reached a new peak with 9,515 in the first 6 months in 1986, including 6,931 firms (fig. by Statist. Bundesamt, Wiesbaden)
3. Unemployment has been going down slightly, reaching an unemployment rate of 8.5% (= 2,120,234) in August 1986 (fig. by Bundesanstalt für Arbeit, Nürnberg)
4. IG Metall (metalworkers union), IG Chemie-Papier-Keramik (chemical workers union), Gewerkschaft Textil-Bekleidung (textile workers union), IG Druck and Papier (printing union), Gewerkschaft Holz & Kunststoff (wood and plastics workers union), IG Bau Steine Erden (building union)
5. Source: Der Gewerkschafter, 4+5/85 - IG Metall has also produced a documentation on WTO in the IGM organizing areas: Heinz Bierbaum, Dokumentation Betriebsübernahme, Frankfurt/M, 8/85 published in: Hauptvorstand der IG Metall (ed.), Handlungsanleitung für gewerkschaftliche Funktionsträger bei drohenden Betriebsstillegungen, Graue Reihe der Hans-Böckler-Stiftung, Düsseldorf 1986"
6. From the IGM policy statement in: Der Gewerkschafter - Dokumentation 5/85, II
7. One of the reasons why case B failed was the refusal of the BfG to grant credits because of an unsecured risk of 1 million DM
8. 3 out of a total of 6 successful WTO in Germany in the 80's have taken place there, as against 1.2% of the employed population living there.
9. Helmut Martens, Belegschaftsinitiativen zur Fortführung von Betrieben. Eine Herausforderung für Gewerkschaften und sozialdemokratische Wirtschaftspolitik, in: W.Fricke u.a. (ed.), Jahrbuch Arbeit und Technik in Nordrhein-Westfalen 1985, Bonn, 1985, p.383f
- 10 for more detailed information see

Armin Holand, Recht und Rechtspraxis als Hindernisse für örtliche Beschäftigungsinitiativen, in: Kommission der Europäischen Gemeinschaften (ed.), Forschungs- und Aktionsprogramm zur Entwicklung des Arbeitsmarktes. Rechtliche, steuerliche, soziale und administrative Hindernisse für die Entwicklung örtlicher Beschäftigungsinitiativen, Vol.I, Luxemburg 1986, pp.22-36

and

Burghard Flieger (ed), Produktivgenossenschaften oder der Hindernislauf zur Selbstverwaltung (AG SPAK M 61), Munchen 1984, 3rd section: "Grundungshilfen", pp.253ff

Although Flieger describes difficulties and obstacles caused by German cooperative law and associations he pleads for more use to be made of this legal structure.

The gap between the traditional and the new co-op movement may be seen from the following quotation. The president of the (traditional) 'Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V.' (national co-op bank association) publicly declared that he was unwilling to accept the "Okobank" (new co-op movement bank to be founded next year) as a member in his organisation; saying "the political elements of the Öko-Bank, such as collective working, co-determination and self-management, don't fit into the traditions of the co-operative banks". (Quoted in: Weser-Kurier, 19.9.1986, p.3)

- 11 the best known and strongest support organisation is Netzwerk Selbsthilfe (self help network, a registered association) with some 32 regional branches. There are also some local associations of self-managed firms/co-ops, as well as first steps of co-operation on a larger scale in areas like purchasing, electronic accounting, distribution, advertising, etc. Part of the infrastructure is a monthly periodical, 'Contraste'. Moreover, some independent (mainly regionally operating) financing co-ops (for crediting and credit securing) have been established; the first bank of the new co-op movement (Ökobank) will be founded in 1987.

Several attempts were made to obtain a quantitative estimate of the expansion of the new co-op scene. The figures differ quite a bit. Here is one version:

c.14,000 projects and co-ops in the Federal Republic; c.4,000 of them are commercial and producer co-ops, employing some 24,000 people (not all of them fully paid); the other 10,000 projects (with about 80,000 people working there, many of them without, or with only very little, pay) belong to the socio-cultural sector.

(ref: Marlene Kück, Neue Finanzierungsstrategien für selbstverwaltete Betriebe, N.Y./Frankfurt 1985)

Empirical studies and the difficulties of quantitative approaches are discussed in:

J.Berger, V.Domeyer, M. Funder, L.Voigt-Weber, Alternativen zur Lohnarbeit? Selbstverwaltete Betriebe zwischen Anspruch und Realität, Bielefeld 1985, pp 23-34

and

Jürgen Daviter, Zum Bestand und zur Entwicklungsfähigkeit der Selbstverwaltungswirtschaft, in: Kommission der Europäischen Gemeinschaften, op.cit. (in fn 12), Vol.3

- 12 An interesting signal for this is the publication of an article "Self-help as employment policy" in the well-known official periodical 'Der Gewerkschafter' of the IG Metall (Heinz Bierbaum, Selbsthilfe als Beschäftigungspolitik, in: Der Gewerkschafter 4/86 p.40f)
- 13 Statement by the SPD-commission, see Selbstbestimmt arbeiten. Materialien zum Genossenschaftswesen und zur Selbstverwaltungswirtschaft, ed.by SPD, Bonn 1985, p.3
- 14 The campaign for 'alternative production' - kindled by the activities of the Combine Committee of shop stewards of Lucas Aerospace in Britain - has been widely supported by IG Metall and has spread across companies throughout the Federal Republic.
- 15 See discussion in note 11 above.
- 16 Parts of chapters 3.1, 3.2 and 3.4 are based on: Michael Grauvogel, Betriebsübernahmen durch Belegschaften bei Betriebsstillegungen und Insolvenzen, in: J.Mehrings/R.Meyke (ed.), Wirtschaftsrechtliche Vorträge, Vol.I, Oldenburg 1986, pp 246ff
- 17 In Germany the roles of receiver and liquidator are not usually separated.
- 18 Further elaborated in: Volkmar Gessner, Betriebsfortführungen durch die Belegschaften von Krisenunternehmen in der Bundesrepublik Deutschland, in: Kommission der Europäischen Gemeinschaften, op. cit. (in fn 12), Vol.II, (ch.IV + V)
- 19 The average proportion of equity in enterprises in Germany is 20-25% of the total capital.
- 20 Or limited partner (within the expanded form of a GmbH & CoKG/ limited co.& limited partnership)
- 21 Heinz Bierbaum, Toni Engberding, Finanzierungsfragen bei der Betriebsfortführung durch die Belegschaft, in: O.König u.a. (ed.), "Unser Beispiel könnte ja Schule machen!" Das 'Hattinger Modell' - Existenzkampf an der Ruhr, Köln 1985, p.209

- such institutions could be incorporated into the schemes described in App. III if more money and industrial expertise are made available.
- 22 see notes 12 and 18; there are informative comparisons of different legal company forms and synoptic tables in: Flieger, op.cit., pp 2517-259, 272-277

- 23 Martens, op. cit., p.383
- 24 Franz Oppenheimer, Die Siedlungsgenossenschaft. Versuch einer positiven Überwindung des Kommunismus durch Lösung des Genossenschaftsproblems und der Agrarfrage, Leipzig 1896, p.45
- 25 Source: Der Bundesminister für Arbeit und Sozialordnung (IIa 1 - 21 908), Fragebogen der EG-Kommission/Antwort an die EG - Betr.: Folgeaktionen - Ratsentschliessung vom 7. Juni 1984 über den Beitrag der örtlichen Beschäftigungsinitiativen zur Bekämpfung der Arbeitslosigkeit.

IV. - WORKER TAKE-OVERS: THE FRENCH EXPERIENCE

by

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1. Introduction

The comparatively widespread occurrence of WTOs is a quite recent phenomenon. There were, nevertheless, many previous attempts (especially during recessions) at creating these type of cooperatives. A notable example is the failed "mine to the miners" movement at the end of the 19th century; another is the creation during the 1930s depression of ACOME (1932), still referred to as one of the cornerstones of the movement.

The mid 60's marked the revival of WTO with the creation in 1965 of SADAG (a printing works confronted by technical change and the development of European competition). Ten years later, Manuest - "Lip of the Vosges" - was established from a furniture-making company which had failed to adapt itself to a changing market. From 1978 WTO enjoyed a booming expansion, which peaked in 1982, declined in 1984, and in 1985, appeared once again to be on the rise.

However, at the same time as WTO were increasing, the co-operative sector into which they integrated was itself undergoing major changes. Until 1978 the cooperative sector was stable and homogenous (traditionally rooted in activities related to construction and printing). After 1978, it experienced an unprecedented expansion (rising from 571 workers-coops in 1978 to 1,269 in 1983) and also diversification: it expanded into various industrial sectors and achieved openings into material and intellectual service sectors. This created problems within the movement concerning, for example, its cohesion, its capacity to renew itself, and the need to adapt its structure to new circumstances. (The representative body of worker co-operatives in France is the General Confederation of worker co-operatives - CGSCOP). See Appendix 1 for details of its organization).

1.1 Statistical Trends concerning WTOs since 1978

The available figures on WTO and the number of jobs associated with them are given in table 1. These figures are based on the categories used by CGSCOP which distinguish between WTO and 'conversions'. The latter are, in general, viable enterprises that are changed into co-operatives on the initiative of the owner (who may be retiring). In practice, however, a number of these 'viable' enterprises are marginal businesses with somewhat obsolete equipment that would not easily attract a private purchaser (if at all). Some cases of 'conversions', therefore, are almost certainly better understood as WTO in the terms of this study; and hence the figures in table 1 probably underestimate the incidence of WTO in France (Appendix II gives figures for the number of 'conversions' for 1985 and 1986).

Table 1: Annual rate of creation of workers coops and employment between 1978 - 1986

YEAR	NEW CO-OPS		NET INCREASE (additions less deletions)*		NO. OF WTOs (approx.)	% WTO in total of new co-ops	% of new co-op employment occur- ing in WTO co-ops
	Co-ops	Employment	Coops	Employment			
1978	97	1747	49	99	26	27	37
1979	137	1765	92	1028	29	21	39
1980	158	2780	97	1851	39	21	53
1981	255	3538	163	1279	74	29	54
1982	311	4887	210	2336	109	35	59
1983	245	4008	113	2175	95	39	61
1984** CGSCOP only:	190	2310	-39	-4128	n.a	n.a	n.a
all coops:	230	2577	1	-3861	69	30	n.a.
1985	280	2265	160	n.a	96	34	48
1986 (6 months)	73	894	n.a.	n.a	24	33	66

Source: CG SCOP

*Note that resignation or exclusion of co-ops (both listed under "deletions") had an impact upon the employment register. For example, when 3 taxi companies crossed themselves off the coop list in 1984, but continued to exist, this accounted for 1080 fewer jobs on the register.

** The data is not homogenous. From 1985 the figures provided by the CG SCOP represent not only their own member-companies, but all co-ops formed. The change was introduced in 1984, for which both sets of figures are available - hence the two entries for that year.

On the whole the rate of coop founding slowed down in 1983 after the acceleration in 1979 and 1981. Since this time (1983) the rate would appear to have stabilized around 200.

The decline is especially significant considering the employment figures for 1984 which saw a slackening of coop creation and a considerable increase in failures. It should be mentioned, however, that since most co-operatives are fairly small, the failure of a few large co-operatives is sufficient to cause a significant drop in the overall employment figures.

As we have no figures on job losses for 1985 we can simply state that the number of employees in the entire sector is stagnant (36,600 workers at the end of 1985).

The rise in the number of WTOs was especially noticeable in 1981 and 1982. When they made a particular impact both on the number of new coops and on employment (these enterprises start off larger than 'new-start' co-operatives). In 1984, these proportions dropped.

As for the loss of employment in the entire sector, in the absence of more detailed figures, the only thing we know is that 50% of lost employment was due to companies founded in 1981, 82, 83 (2/3 of the coops formed in these years disappeared in 1984); 23% of the lost employment was due to coops started before 1977, (12% of the 1984 bankruptcies were among these older co-ops) and 64% arose in the industrial and construction sectors. It is obvious that the WTO co-ops played an important role in job losses, but they were not its sole cause.

Moreover, their failure rate over the first few years seems to be quite low: according to CG SCOP (1), 63% of WTOs founded in 1981 (figures for subsequent years are not available) are still viable in 1986. This figure is higher than that for 'new-start' coops (only 46% of those founded in 1981 are still operative in 1986), and significantly higher than the estimates for small and medium sized companies (2/3 of such companies are thought to fail within their first three years). This indication of the vitality of WTOs and young coops is still too vague to permit a detailed interpretation; it does, however, challenge the widely accepted idea that this kind of company is particularly unstable.

The decline in the creation of WTOs in 1984 and its recovery in 1985 seems to be accompanied by a reduction in the size of the companies in which WTOs occur. At any rate, this is a tendency that experts on the movement have remarked on, a tendency confirmed by the figures for 1985 (though not by those for the first six months of 1986). More information on the recent incidence of WTO, their average size, regional distribution, etc. is given in Appendix II.

Overall, then, the pattern is one in which the years 1978-83 saw a surge in the number of WTOs, but this trend was checked in 1984 in the context of substantial difficulties within the co-operative movement. Hence the development of the WTO phenomenon falls into two clear phases. An examination of the political and institutional developments

associated with these two phases helps to account for the mixed results that have been achieved, and for the currently more cautious, but by no means negative, stance of many of those involved. These two phases are therefore discussed in Sections 2 and 3 before turning in section 4 to consider some of the characteristic problems and issues that have occurred in the course of WTO.

2. The development of WTOs from 1978-1983

The overall economic context is the predominant factor in the development of the WTO phenomenon. That context is characterized firstly by the rise in unemployment (which began slowly in 1964 and gradually quickened its pace) and secondly, by the closing down of companies, due to the restructuring of the system of production. Most WTOs occurred in the printing, textile and leather, furniture and mechanical engineering industries. But the incidence of WTOs was also affected by the attitude of various other actors.

2.1 Government attitude and measures

Since 1978, the attitude of the national authorities (although it has always been changeable) has been relatively supportive of the cooperative movement. This change materialized with the passing of a law relating to coops (unanimously adopted by both assemblies); this law facilitates, in particular, the conversion of enterprises into co-operatives. It also authorizes local communities to give direct grants to co-operatives.

These measures, together with other indirect forms of support (such as buying or renting of premises/land, bank guarantees, etc) favoured a larger investment by local communities. More and more they felt obliged to defend the employment and industrial structure of their region. The development of the subsidies system, for creating either new jobs or enterprises (not specifically oriented towards the cooperatives) also facilitated the creation of WTOs. For example, the 1980 law permits an unemployed person, who wants to start an enterprise, to contribute a part of his or her unemployment allowances (limited to the equivalent of six months) to the capital of the business.

As a direct result of this law all wage-earning shareholders in a new business were enabled to contribute capital and this proved a powerful instrument; its importance would seem to be indicated by the fact that in 1984 (when the law could not be applied due to a redefinition of norms in unemployment insurance) there was a clear drop in the number of companies formed.

With the change of the government in 1981, the social economy and cooperation acquired a more important place within the political agenda. The social economy became recognized as an independent sector of the "mixed economy", while cooperation received more official recognition. Gradually, a whole institutional machine evolved

(Delegation interministerielle a l'economie sociale in 1981, Institut de developpement de l'economie sociale (IDES) in 1983; Secretariat d'Etat in 1984).

These bodies did not become directly involved with particular co-ops; their role was more that of a 'go-between' and stimulus. As regards funding, the financial body which was set up specifically for the social economy (IDES created in 1983 with the direct support of the civil authorities and of the social economy organisms) has had very limited results. On the one hand it was set up too late to be credited with a significant role in the development of coops; on the other hand, due to it's limited means it did not bring it's mission (which was to trigger off other means of financing) to a successful conclusion. In fact, the support measures for WTOs owed much more to public financing through normal industrial policy measures (this is also the case for other forms of company).

Whatever the case, the significant increase in the number of WTOs from 1981 onwards remains an indisputable fact; but it was not the result of an intentional policy. It appears to be due, rather, to the impact of a political change that played in favour of a growing demand coming from the grass roots, the unions, the cooperative movement, and elected, representatives at local and national levels.

The rise in WTOs can partly also be attributed to the fact that Mr. Mauroy's government, at that time (1981-83), gave its benevolent approval to applications for support it was presented with. In CG SCOP, this resulted in a substantial increase in state funding, and later, in the signing of an agreement in 1985 ("contrat de plan") for a plan by which CG SCOP undertook to create 50% of the new jobs in co-operatives through WTO.

2.2 The attitude of CG SCOP

Following the passing of the 1978 law, "The implementation of the national policy for development of the workers' cooperation" became the declared goal of the movement. In 1981 CG SCOP emphasised that this goal had been reached but drew attention to the fact that this development was only minimally due to it's own policy - the 1978 law had been an important factor in the growth of the number of coops formed (2).

Confronted with the growth in the number of coops the movement then began to stress (particularly in it's policy for the establishment of new co-ops) the importance of the organization of systematic support for medium sized and industrial projects. In this way, during the "feverent and innovative" Congress of 1981, the movement acknowledged WTOs as important for its strategy of development. (3)

2.3 The attitude of the Trade Unions

The difference between the strategies of the cooperative and union movement still exist. However, unemployment problems, the closing down of factories and the increasing number of the cooperatives, attracted a renewal of interest in these ventures) on the part of the two main unions (CFDT, a socialist oriented union, CGT a communist oriented union). Depending on the specific situation, this interest was accompanied by hesitation and considerable differences in attitude.

CFDT

Although the CFDT was deeply involved in the formative experiences of the 70s (such as LIP), its impact on WTO was felt only in the cases supported by sections of its membership or local officials. No particular strategy concerning WTO was ever handed down from the national level, either before or after 1981. Instead, actions were implemented on the local level, as each situation arose.

CFDT is in favour of self-management, but it approves of a change to a coop status only if it leads to social progress within the enterprise, (working conditions, work relations, implementation of democratic structures, etc).

In its analysis of the reform of society and of the role of the trade union movement, CFDT's interest in the social economy was as a potential ground for alternative employment initiatives (this concept is similar to the one formulated by M. Rocard in 1981): create jobs from local initiative, satisfy the needs, and transform work relations. Within the framework of a "third sector", the future of the coop movement lies not so much in the direction of WTO, but primarily in 'new starts' where one "acts differently". However, it remained unclear what guidelines or support the trade union could provide for members involved in particular but very diverse situations.

CGT

The CGT firmly rejects the "illusion of this third sector". But it changed its analysis and attitude toward the social economy (particularly regarding cooperatives) mainly as a result of the changes (such as nationalization, decentralization, new employee's rights) that occurred in France after the arrival of the left wing government. "This new situation modified the balance of power in favour of the workers."

Cooperation (in production) was a means by which the CGT tried to find a solution to the general economic crisis, by implementing social changes that it considered to be appropriate. In the long term, this cooperation was seen as offering a "possibility of enlarging a particular form of socialization within the framework of a mixed economy", (3) In this perspective, the development of the cooperative sector became a part of the industrial strategy of the trade union in the following ways: it was a means of struggle to maintain and deve-

lop employment, in spite of the employers' failures; it strengthened the industrial structure and preserved the domestic market; it contributed to a modification of social relations; it expanded the consciousness of the workers and developed their management skills.

On this basis, the CGT searched for "the best possible method and means to start a systematic and vast action" (4) This was done by creating first, a Trade Union sector for the social economy; and secondly ADITES, "a technico-political structure." ADITES was a small agency charged with participating in the actual operations of relaunching and starting enterprises of a cooperative or similar form.

The CGT considered that the difficulties arising during a WTO required judgement and special consideration for each individual case: the cooperative solution was not the only one. The objective was to create "authentic and efficient enterprises which would be well managed and based on democratic principles" (5). The CGT held the view that a three-cornered power struggle usually existed within such enterprises - between the elected management bodies, the appointed managers and technical experts, and the trade unions. However, although recognising that these three power bases existed, the CGT was reluctant to accept such a situation and explicitly aimed to place the Union in overall control - organizing the workforce and supervising management activities. Moreover, the CGT was opposed to any of the attempts to introduce more radical forms of organization that often arise in WTO - elements of direct democracy, or efforts to transform social relations within the enterprise

Without doubt, the CGT put pressure on both government bodies and the cooperative movement. During the first 3 years of the socialist government, the CGT took a number of initiatives to help small and medium sized companies. The exact number is difficult to establish - probably around 50 had the support of ADITES (the CGT's claims to be established in one third of existing coops is arrived at by including older coops - predating the wave of WTOs - whose workers had kept up their union affiliation through solidarity and a sense of tradition.) However these interventions were not without their problems. Often the CGT was the first body to become involved with the workforce and it acted on its own to prepare a plan for a WTO and the creation of a worker co-operative. The plan was then passed on to the experts from CGSCOP to implement. Since CGSCOP were keen to maintain good relations with the CGT but were reluctant simply to implement a plan prepared by others this put their staff in a difficult position.

All things considered, the support of the CGT for WTOs during this period is inseparable from the development of it's strategy in the new climate created by the arrival in power of the left. Clearly, this political dimension was often allowed to overshadow the concrete problems posed by particular WTOs, with political considerations overriding a more reasoned approach to particular situations.

In general, during this period WTOs aroused high expectations which were, unfortunately, not always matched by the results that followed.

As the economic circumstances became more complicated, the results registered after 1983, aggravated by the well publicised difficulties of cases such as Manufrance, meant that the attitude of various actors became more reserved. Nevertheless, factors other than a concern for public opinion contributed to the change in attitude.

3. Since 1984: Decline in support for WTOs

The national authorities change of orientation towards WTOs evolved with the change of overall governmental policy - initially the adoption of austerity measures, but then more strongly with the arrival of the Fabius government in 1984. This change in overall governmental policy was accompanied by modifications to its thinking on the social economy. The ideology of the "third sector" was abandoned in favour of a more pragmatic program. With this change in approach, cooperatives received support only if they presented an "economically viable project". Consequently, the state reduced its support of WTOs.

These changes in the political circumstances (the governmental austerity program, the confrontation between the socialist party, in government, and the communist party which abandoned the government) did not facilitate collaboration between the CGT and government bodies over WTO. In fact, this collaboration was directly questioned during particular operations, such as Manufrance. Hence the CGT curtailed its policy of support for WTO and sought instead more classical solutions (e.g. purchase by another company). The CGT justified this shift by blaming the failure of WTO co-operatives on financial and governmental bodies (despite the fact that the analysis of particular cases clearly indicated that more rigorous commercial activity had been required).

Meanwhile, having considered the problems, the CG SCOP adopted a more selective attitude towards WTO and the conditions required for their success - covering, e.g. the quality of equipment, market forecasts and the capacity of management. Appendix 3 illustrates CG SCOP's thinking with an extract from a report of this period.

By its 1984 report CG SCOP's attitude had hardened further. Although acknowledging that its growth was largely due to WTOs, it said "Many of the WTOs occurred under unreasonable circumstances, and often without consulting the movement. The inevitable and expensive failures did and will continue to affect the image of the movement".
(7)

CG SCOP subsequently shifted its strategy primarily toward the consolidation and development of already existing coops, and toward the transformation of healthy enterprises - though it did not completely abandon the promotion of 'new starts' and "well prepared take-overs of failing enterprises".

In practice this new strategy encompasses a much more rigorous policy towards WTO projects involving a large number of employees. It also

means that WTO projects involving less than 30 persons are treated like 'new starts' (i.e. starting with a small number of employees and building up employment gradually). In addition some other methods are also to be explored, such as merging WTOs into an already existing coop.

The experts of CG SCOP report a diminishing demand for WTOs from employees, in comparison with the great popularity that WTOs enjoyed in 1982-84. In 1986, it appears that the movement is even more oriented towards 'new starts' than it was in previous years.

In retrospect this brief account suggests that the cooperative movement, confronted with an unprecedented expansion and diversification, did not succeed in clearly defining its strategy. It tried to take advantage of every apparent trend or opportunity to build itself up (variously, 'new starts' associated with local employment initiatives, WTOs, and laterly 'mutations' - the conversion of existing business into co-operatives). But it had no clear analysis of the role of co-operatives in the French economic structure. Hence its reactive attitude effectively prevented it from opposing, in due time and with sufficient firmness, some of the pressures brought to bear by other actors.

The strategies of the other main parties involved, combined with differences between these strategies, influenced the WTO's movement. In practice, poor coordination, inappropriate support, and a lack of experience resulted in unfulfilled expectations. At the same time many other factors contributed to these results - such as, the difficulties experienced by older and larger cooperatives that were appealing for public funds, as well as consuming the energy of CG SCOP (and thereby tarnishing their reputation as "model coops"); campaigns against the economic interventions of local authorities (based on criticisms of the agreements reached, the absence of proper controls etc); the employers campaign against the transformation of small and medium size enterprises into coops - part of a wider opposition by the National Union of Employers to the social economy(8).

In general, the years of growth which the co-op movement experienced after 1978 were followed by a crisis. This crisis was concentrated among larger industrial cooperatives - whether or not they were created from WTOs.

4. Main Characteristics of WTOs

The lack of coherent information makes it difficult to present a broad picture of WTOs. In addition the extreme diversity of cases makes it difficult to draw up a typology. It is, however, possible to discover some common features.

WTOs occur in small and medium sized enterprises in a range of different industrial sectors. The incidence of WTO is greatly affected by the type of rationalization or restructuring occurring within particular industrial sectors. WTOs are usually formed from

enterprises that are undergoing problems of modernising their production methods in line with the evolving market and new technology. For example, there are numerous WTOs in the clothing and shoe industry, mechanical engineering industries, metal, furniture and printing.

When they are formed, these enterprises have a relatively large number of employees in comparison with the entire cooperative sector (where 90% of coops have less than 50 employees and 45% have less than 10). Of course, their size is reduced if we compare them to the old units of production from which they are formed.

Very often, these enterprises consist of less skilled labour than the enterprises of the traditional activities of the coop sector. Thus, they contribute to a heterogeneity of the cooperative population - but in addition workers in such enterprises are less prepared to cope with the responsibilities incumbent upon the cooperators.

WTOs are a result either of a spontaneous reaction by the workers, or of new thinking by actors in the environment. They represent a measure devised at a local level (though, occasionally, at national level) in order to maintain employment and preserve the industrial fabric.

But the specific form of a worker co-operative (which does not correspond to the predominant model of a company) often provokes a polarisation of positions (for or against) on the part of the various economic, social and political actors involved. In such cases the climate thereby created makes the normal progression of negotiations and demands, which is essential to the establishment of such an enterprise, more difficult.

Another common problem concerns the large amount of capital needed by WTO co-operatives. In order to avoid the difficulties that led to the closure and to relaunch the enterprise on a sound basis, the product line and production system may have to be re-vamped and the distribution and management systems strengthened.

WTOs share the weaknesses of most small and medium size enterprises, and in addition, have all the problems characteristic of their sectors of activity. In as much as they are forming companies of a cooperative type and relaunching their activity, WTOs are confronted with the need for rapid transformation that poses numerous detailed problems. These problems are much more complex and varied than simple financial problems.

4.1 The organization and duration of the takeover

Apart from the concrete problems of a legal or financial type, the organization of the WTO (in terms of leadership, conflicts, the mobilization of the employees, etc) is a crucial factor in the collective dynamism that precedes the launching of the enterprise. This collective dynamism determines whether or not the idea of the

takeover will gradually mature and take hold among the workers. It determines, too, whether the workers, who think of the cooperative as a last resort, will be prepared for their new role. The following are some of the pitfalls that may occur:

- o a stifling of the developing collective dynamic by a dominating leader;
- o the mobilization of environmental support having a reverse effect to that intended - because it takes the project out of the hands of the workers;
- o a lack of external support leading to a failure of the project.

On the commercial side the re-establishment of certain networks (clients, suppliers) is made more difficult, the longer the period of inactivity. According to CG SCOP experts, enterprises that restart after a closure of more than 3 months tend to fail. The discrepancy between the sales forecast and the sales actually achieved is considered the principal factor in the failure of WTOs.

4.2 Financing

In general, this is based on the capital derived from the members (personal contributions, application of the law concerning unemployed workers wishing to create an enterprise, deductions from salary etc.), with the balance coming from public sources and the banks (there are no clear patterns here - each case is different).

Some of the difficulties encountered in financing WTO projects are the reluctance of banks to lend; shifts in policy on the part of the government and the local communities; the negative impact of some subsidies; and a mismatch between the type of funding provided and the economic requirements of the enterprise.

As pointed out above, the law concerning "unemployed and creators of enterprise" provided the most important lever for acquiring the initial capital. Since the capital provided in this way is based on the number employed, it might have led to maximising the number employed. However such a dangerous trend seems not to have occurred, perhaps because coops are formed in sectors of relatively low capital intensity and therefore the capital need proves to be proportional to the number of employees.

4.3 The quality of the management team

The management team of the previous enterprise is seldom present at the takeover, and a new management team is not always easy to find. No executive likes to enter a WTO which is susceptible to problems related to operational difficulties (- and hence the difficulties of the CG SCOP in organizing a pool of "relay managers"). Yet, a solution may be found among the workers themselves. A leader sometimes evolves, through the struggle to achieve the WTO, towards a management position.

This may pose problems of adaptation for the leader personally and also problems in changing the organization's culture. The problem is one of transition from being a leader in the struggle to becoming a co-ordinator of the general management of the company. As far as the collective body of wage-earners is concerned such a position evokes contradictory reactions: the leader enjoys a certain gratitude for services previously rendered, but the change in his role can also be considered by the other wage-earners as a kind of betrayal, and lead to serious conflict (everything depends on the form of collective management established).

4.4 Recouping the market and increasing productivity

Many failures originate from plans that are too optimistic especially in commercial terms. In the sectors and conditions in which the WTOs arise, problems of production organization are caused by the inevitable redefinition of the products, and of production methods. Productivity levels result as much from work organization and work relations (atmosphere, form of organization, skills etc) as it does from difficult choices that have to be made in the field of investment, training, wages and salary structure.

4.5 The potential role of the Trade Unions

The Trade Unions have a problem in defining their role in the new structure: this requires a transition from the phase of demands, to the phase of management; it requires participation in management and the decision-making process, while maintaining its independent position regarding employment, salaries, work conditions and so on. Whether the Trade Union becomes directly involved in running the enterprise, or on the contrary, it tries to impose control over "technical" executives (the CGT model), its shift in position is always accompanied by certain conflicts. That is, perhaps, why the debate within the unions concerning WTOs is so difficult.

4.6 External Relations

All these changes take place in an environment that is ambivalent towards a WTO - both acceding to some of its demands, but also making demands on it. The successful outcome of a WTO depends both on the way these changes are introduced and on the dynamics created between the internal decision-making and the external pressures.

As regards these external pressures, the environments of WTO are extremely variable and a multiplicity of bodies may be involved: commercial courts; local or national unions; local or national public authorities; local community organizations; banks; suppliers, clients and competitors; the cooperative movement (CG SCOP, either through its regional organization or, through its Confederal Expansion Fund; other Coops); business advice and training agencies (chamber of commerce, consultants, 'management shops' etc). Generally, while the local employers and institutions related to them and the banks

(including the financial institutions of the wider co-operative movement) do not lend a kindly ear to WTOs, the State administrators and the elected representatives, particularly of the depressed regions suffering high unemployment, have often been attentive to the demands and appeals of WTO initiative. When this happens the co-operative movement becomes involved, essentially providing advice, guidelines and support.

5. Conclusions: the opportunities and limitations of WTO

While experts in this field agree that one could draw up an a long list of propositions about WTOs, they emphasise that every case is different. There is no one answer, but, in fact, several.

The criteria and the methods currently applied in the support of WTO's insist upon necessary conditions being met in the fields of equipment, market research and management "In order to avoid creations based on out-dated equipment and on a fanciful commercial hypothesis without technical know-how" (8)

However, even if all these required conditions are fulfilled, it is still difficult to take preventive action regarding the cultural dimension of the transformation, and the transition from the struggle for employment to a search of the possible ways of cooperative management. It has always been hard to reconcile the inevitable period of apprenticeship with the urgency that characterizes the first steps of any new enterprise. Is it possible that the existence of a "period of neutralization in production, a period of training prior to the beginning of the activity", would permit a closer integration between the economic and the cultural projects? - as CG SCOP's representatives suggest. Perhaps, but the cultural project must remain rooted in the concrete practices of the work of the enterprise (the organization of work, decision-making and so on -) otherwise it will wither.

In concluding, we could suggest the following general hypothesis concerning WTO and companies in crisis: the cooperative form is inappropriate for capital-intensive activities involving a very large number of employees. However it can certainly be a solution for a small and medium-sized industrial enterprises (up to, say, 50 employees). The pre-requisite is to find a sufficient balance among several elements product-market possibilities in relation to production equipment, financial resources, the members abilities, management systems and so on) and to be able to rely on a certain level of professional competence among the employees.

APPENDIX 1

Structure and role ofthe General Federation of Worker Cooperatives (CG SCOP)

The constitution, at the end of the 19th Century, of a federation of industrial co-ops has without doubt been an element conducive to the continuation of the movement and to its growth at certain times. Its structure is one of a federation at the national, regional and professional levels.

The work of the General Federation of Workers' Co-ops (Fr. CG SCOP), of which the majority of existing workers' co-ops are members - membership is not obligatory, but it opens the way to the 'co-operative quarter' of the public markets - has the job of disseminating information to co-ops, organising and representing them, and supporting their internal and external development. It comprises:

- a classic structure of representation: every 3 years in a national conference, workers' co-ops vote on policy and elect the members of the national council, who in turn elect the Federal Bureau* and appoint the General Secretary of the Federation.
- national and regional services, co-ordinated by the General Secretary, whose job is to disseminate information, give technical assistance and organise training. Of a more specialised nature, there is also the Federal Expansion Fund (Fonds d'expansion confederal), set up in 1975, which provides financial assistance in the setting-up, development or rescue of co-ops (funded by 1/3 of subscriptions paid to the Federation by co-ops); set up more recently, in 1981, the Development and Support Office does work requiring specific skills and 'relief managers'; lastly, there is a Promotions and Exports Office.
- At the regional level, since 1975, the progressive establishment of regional 'technical' delegations with paid workers alongside the regional 'political' unions - which are notably responsible for selecting candidates from the co-ops for the national council. The 'technical' delegations respond to the local development needs of co-ops and assist their growth. As at the national level, the main work of these delegates is to support the creation of co-ops and to assure continuous technical assistance to those already in existence.

At the local level, co-ops are trying to set up exchange networks. This is hindered by the diversity of their activities and preoccupations.

On the other hand, shared skills constitute a basis for co-ops to come together in both traditional sectors and in growth areas. There are federations of co-ops in the building and graphics industries, and in metallurgy, whilst groupings are being formed in information processing and in the furniture trade. This co-operation between co-ops is mainly based on the development of their commercial and technical potentials and on consideration of the trends within the sectors in which these co-ops operate.

The means of support provided by the movement have been reinforced in recent years by a substantial assistance given by the state since 1982, but this is still not sufficient given the size of the movement and the diversity of co-ops.

On a more ideological level, the revitalisation of co-operation has led to questions and debates illustrated by the very recent establishment of a network of small co-ops affiliated to the Federation: faced with the institutionalisation of a movement where democracy is not a major issue, and with a pyramid structure which does not fit their needs, these co-ops advocate co-operative militancy, springing from actual co-operative practice (information, training, facilitation), and more horizontal, decentralised forms of organisation, based on the establishment of local groups, the proliferation of interco-op exchanges and the opening up of co-ops to their environment.

In the realm of relations between industrial co-ops and the other families of co-ops (agriculture, consumer co-ops), co-operation is still in its embryonic stages, since the development of co-ops in France occurred primarily within the different sectors. Interco-operation manifests itself primarily on the political level, through the National Co-operative Group and the Higher Council for Co-operation, which has a mixed structure including state bodies. At the level of the Co-ops themselves, however, this does not prevent them having privileged relations of clientele and support with each other, as on a wider basis they do with the social economy.

As far as the banking organisations of the co-operative sector are concerned, they seem to take little account of the specificity of worker co-ops and take no more risks than other banks.

Appendix 2 The size of WTO Cooperatives

Table 2 presents the average size of WTO and 'new start' co-operatives since 1978. However, because of the considerable variation in size, the 'average' figures are of limited use.

Table 2: Average number of employees in new cooperatives, by type of co-operative, since 1978

<u>YEAR</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
WTO COOPS	21	23.6	44.7	25.8	26.6	26	n.a	11.4	24.6
'NEW START' COOPS	8.9	8.6	6.7	7.5	7.4	7	n.a	5.7	5.6

*Six months only.

Source: Calculated from CG SCOP figures

Tables 3 and 4 show the number of co-ops formed and jobs created in 1985 and 1986, based on their origin and region. They show very clearly the wide variation in the size of WTO co-operatives, and also provide an indication of the number and size of 'conversions' (some of which may be WTO in the terms of this study) that are occurring.

Table 3 Workers co-ops and employment by type of formation, 1985

Regions	New starts		W.T.O.		Conversions		TOTAL		Average size of W.T.O.
	No. Emp.	No. of Coops	No. Emp.	No. of Coops	No. Emp.	No. of Coops	No. Emp.	No. of Coops	
Paris	311	45	89	11	16	1	416	57	8
Nord	83	18	82	7	-	-	165	25	12
Burgogne	35	7	27	3	34	1	96	11	9
Est	48	10	39	2	19	1	106	13	19
Rhone Alpes	155	21	34	4	55	3	244	28	8
Provence	73	14	74	9	-	-	147	23	8
Sud-Ouest	67	14	169	9	16	1	252	24	19
Centre	55	12	44	4	37	4	136	20	11
P/Charentes	56	8	106	12	6	1	168	21	9
Ouest	61	14	296	25	4	1	361	40	12
Aquitaine	37	8	137	10	-	-	174	18	14
TOTAL	981	171	1,097	96	187	13	2,265	280	11

Table 4: Workers co-ops and employment, January to May 1986, by type of formation.

Regions	New starts		W.T.O.		Conversions		TOTAL		Average size of W.T.O.
	No. Emp	No. of Coops	No. Emp.	No. of Coops	No. Emp	No. of Coops	No. Emp	No. of coops	
Paris	67	13	271	4	4	1	342	18	68
Nord	45	5	76	5	7	1	128	11	15
Bourgogne	5	1	-	-	-	-	5	1	
Est	-	-	-	-	-	-	-	-	
Rhone Alpes	20	3	15	2	-	-	35	5	7
Provence	35	8	10	1	-	-	45	9	10
Sud-Ouest	18	3	9	1	-	-	27	4	9
Centre	13	2	81	4	33	1	127	7	20
P/Charentes	-	-	82	5	-	-	82	5	16
Ouest	43	7	13	1	4	1	60	9	13
Aquitaine	9	3	34	1	-	-	43	4	34
TOTAL	225	45	591	24	48	4	894	73	25

APPENDIX 3: Extract from CG SCOP Report on WTO, 1984

"The analysis of disasters met with soon after their launch by co-operatives formed to take over failed businesses leads us to pose three problems:

a) the problem of the criteria and methods of creation

This was discussed by the National Council in June 1983 and several guidelines were laid down concerning in particular the conditions to be met in terms of quality of plant, adequacy of market research and quality of management teams, in order to avoid the formation of co-operatives that are operating outdated equipment which will prove too expensive to replace, or ones that are based on quite unfounded commercial suppositions or enterprises without the necessary expertise.

b) Modes of intervention of the FEC (Confederal Expansion Fund)

A decision by the National Council in December 1983 has reorientated the FEC's interventions as regards the creation of co-operatives. Too often, such intervention has only been requested in order to shift responsibility for the case on to the Co-operative movement and only marginally contribute to the creation of adequate financial arrangements.

From now on, the financial plan will have to include a reference to the funds required to reinforce its management, together with its financial needs in relation to its initial launch and training, and the FEC's contribution ought to deal, to some extent at least, with these costs.

c) The Reconstitution of a company's capital

In certain cases, perhaps because an enterprise suffered from an initial lack of finance or because hopes of increased sales or of improved productivity have proved too optimistic, some large co-operatives have used up all their starting capital in the early stages of their operations. When the reasons for these losses have been identified and eliminated, sometimes at the cost of difficult surgery, the business can only get going again if equivalent new capital is injected. This problem has been identified but no adequate solution has as yet been found."

APPENDIX 4

THREE CASE STUDIES

1. The case of MANUFRANCE

1. The Manufrance Co-operative Production and Distribution Company (SCOPD Manufrance), which has become a celebrated example of a resounding failure to convert a conventionally managed company into a co-operative, was born in December 1980 after a long dispute. This had seen the workforce - and in particular CGT trade unionists, with

the active support of their national union - ranged first against the local bosses, then against a variety of industrialists interested in re-floating it and finally against the Public Authorities, before it was liquidated in 1985.

This case, which involved between 400 and 800 jobs (over different periods) and production on a national scale (especially for hunting weapons - 60% of French production - and, to a lesser extent, cycles and sewing machines) poses a number of questions regarding the conditions for transforming a bankrupt business into a production co-operative: - some of these concern the market: is it possible to pursue as a co-operative lines of production that have very strong competition on the international market (from Czech guns, for example)? Can the initial bankruptcy simply be explained in terms of bad management by the former bosses? What modes of distribution should be adopted? Who should one choose as partners? How should growth be managed?

- other questions centre on the organisation of production. Can it remain as it is? Should there not be - over and above the essential modernisation of the plant - a review of the way in which work and workforce are organised, in order to raise productivity?

- yet other questions bear on how the company is financed: when the banks are reluctant to become involved, should the State step in to fill the gap? Doesn't this give it a right to monitor the company's progress? If so, what form should that take?

- lastly, some questions concern the way in which power is organised. How much of it is to be held by the shop-floor workers, by their local or national trade unions, by local councillors, by the State through its various ministries, and possibly even by external shareholders?

The history of SCOPD Manufrance casts some light on the conditions which caused it to fail.

The Story

Manufrance, a large company created at the end of the nineteenth century and based in St.-Etienne in the Loire department (an area known for its coalfields), began to decline in the 1960's; as early as 1969, the managerial staff published a 'white paper' criticizing the low level of investment relative to the age of the machinery. Between 1977 (when it employed 4,000 workers) and 1978, several re-structuring plans were attempted. These ended in a petition for bankruptcy being filed in 1979 and in the enterprise being bought out and transformed into the Nouvelle Societe Manufrance [the New Manufrance Company] by Bernard Tapie in June 1979.

The refusal by the unions and the city council, which at that point was Communist controlled, to countenance what was considered a dismantling of the company (selling off shops with 350 staff,

separating off the cycle-manufacture and mail order divisions) led to a new petition for bankruptcy being filed a year later.

The enterprise was at that stage occupied by between six and eight hundred of the 1800 workers. As the occupation was intended to last indefinitely if there was no solution, the idea of a co-operative was brought up by the CGT. Twenty union members (affiliated to the UGICT-CGT), who were middle managers in the company, requested that the proposal be given a proper legal formulation. This scheme split the unions. The minority CFDT, which was reluctant to support such a course of action, was gradually left out of the proceedings.

The rules governing the co-operative were lodged at the end of December 1980.

A campaign for support and financial contributions (mainly through the CGT, the Works Committees and the friendly societies under its control...) brought in some 3,000 outside shareholders. The town of St. Etienne showed its commitment to the SCOPD by guaranteeing a loan (of 16 million francs in Swiss currency). The National Confederation of Co-operative Production Companies [CG SCOP], was hardly consulted at all and took no part in the launch. The survival of the SCOPD, however, became a national and not just a local issue, the CGT wishing to make it an example, not only of the strength of the workers' struggle, but also of their ability to manage in the general interest. In March 1981, when the new [Mitterand] government came to power, the 500 worker-co-operators set all the machines running as a symbolic gesture. The local legislative elections also marked a victory for the Socialist/Communist Left and the SCOPD expected that financial help would be forthcoming from the new majority.

An agreement was signed with Bernard Tapie and, in May 1981, SCOPD was up and running, after a 225-day occupation. Its hope was, in the long term, to create 1,000 jobs.

170 million francs were needed to make the required new investment and provide working capital, while the co-operators provided 20 million francs (9 million of which came from State allowances for job-creation). In April '82, a finance and development plan was adopted: the State was to provide 80 million francs, half in subsidies, half in loans over a fifteen-year period; a group of banks and other organisations undertook long and medium-term loans amounting to 70 million francs.

The good commercial prospects for 1983 (particularly the opening up of markets in Algeria) led SCOPD to increase the workforce to 800. When these prospects did not materialise, the number was reduced again to 400 in 1984.

Moreover, the age of the plant (and especially its location in the centre of St. Etienne) necessitated rapid modernisation. The local authority had to buy and renovate a factory on an industrial estate to cope with the production work (20,000 sq. m.; robots, computer-

controlled machines; an investment of some 47 million francs). But because of long delays in financing and building, the new production unit only became operational at the point when the SCOPD was forced to declare itself insolvent. At that point it had huge over-capacity: the new plant had been built to meet an annual production forecast of 70,000 guns; by then, only 25,000 had been ordered and 14,000 produced.

The articles of association chosen for the company meant that its management was not entrusted to a Directory assisted by a Supervisory Council. This Directory initially comprised seven persons and was chaired by a retired former National Electricity Board [E.D.F.] employee proposed by the UGICT in Paris. In the course of time, this body shrank to two members, both of them outsiders, while the Supervisory Council had eleven members, two of them from outside, but only played a limited role. At the beginning of 1984, under pressure from the banks and the State, the SCOPD adopted a structure with a Board of Directors and Chairman.

The short life of the SCOPD was beset with numerous difficulties. It had problems over production (the difficulty of deciding what options to select, problems posed by promised foreign sales not materialising) until it abandoned sewing-machine production; it had productivity problems (the number of non-productive workers continued to grow until, in 1985, it was 240 out of 407); there were also conflicts between the different political parties (Socialists and Communists) and between the trade unions; the involvement of the workers also fell off and they refused, for example, to put their thirteenth month's wages back into the business in 1982.

In spite of a total of 257 million francs of State aid, profitability problems simply continued to grow: 170 million francs were lost in three years, including 65 million in long-term debts:

- in 1982, the trading deficit rose to 34 million francs;
- in 1983, it rose to 76 million francs (with a turnover of 60 million and a wage bill of 80 million)
- in 1984, the loss was 62 million (turnover: 40; wages: 60 million).

Support for the SCOPD crumbled away:

- employees dismissed in 1983 wanted back the money they had invested;
- the new (Social-Democratic) local council, elected in 1983, abandoned the co-operative;
- early in 1984, the Ministry of Social Security forced the company into liquidation over 4 million francs' worth of unpaid contributions;

- at the request of the New Company, the owners of the factory buildings, the Commercial Court ordered SCOPD to pay 2.8 million francs in rent arrears;

- finally, early in 1985, the Government (through the Secretary of State for Social Economy, J. Gatel, and the Prime Minister, Laurent Fabius) refused any further financial involvement.

On 10 April 1985, SCOPD was in liquidation and looking for someone to take it over. About fifty of the workers who had been laid off subsequently occupied the premises and continued the installation and maintenance of the machines in the new factory.

2. The Case of T.C.S.

The T.C.S co-operative (Tolerie cablage de Seyssinet [Seysinnet sheet-metal and cables] in the Isere) was established after the Rabillond company, which employed 74 people, filed a petition for bankruptcy in 1981.

After a four-and-a-half month occupation, the worker co-op was started up by 19 people, on the initiative of C.G.T. union officials (the former owner set up a rival non-co-operative business not long after).

The idea of a co-operative had first been advanced by an engineer who was to have become its managing director, but who left over a disagreement on salary before the enterprise got under way. The workers were, however, sustained in their efforts by the many contacts they had made within the civil service and among local councillors. They were able to raise a large initial capital (800,000 frs. out of their redundancy money and loans from the regional council) and received assistance from the local authority, which bought the buildings and lease-purchased them back to the company.

Although there were difficulties with the receiver, who over-valued the stock, the main problem encountered was over leadership of the co-operative. At first, the union leader who had directed the take-over operation established himself as Chairperson/Managing Director, but he turned out to be authoritarian and incompetent. The functions of Chairperson and Managing Director were then split, but things eventually got so bad that the original Chair/M.D. had to be dismissed. Another problem was the desperate lack of commercial expertise. After making an unfortunate mistake with one appointment, the co-operative took on a commercial manager who was better paid than the other employees but efficient. Thanks to him, the co-operative passed from craft production methods to small-scale mass production. They also engaged an accountant to complete the administrative team. She became Chairperson of the Board, while a shopfloor worker performed the Managing Director's role.

The co-operative abandoned the polyester activities of the old company in order to concentrate on sheet metals and cables. It invested in computerised machinery and increased its workforce to more than 30.

Its financial position is sound and its commercial prospects are good.

We may say that after some difficult patches, T.C.S has achieved a balance both in its functioning as a co-operative and in its production. Without doubt, one of the keys to this success lies in the cohesiveness and motivation of the workforce. All have had training in management; five of the six members of the Board are shopfloor workers; they are able to combine prudence in decision-making, particularly about growth (workers have only been taken on very gradually), with determined action in the interests of the co-operative (dismissal of the former leader, employing managers from outside, product specialisation etc.)

3. THE CASE OF AIRE HABITAT

This article was written following an enquiry by a team of consultants coordinated by J.L. Laville comprising members of a management shop (Boutique de Gestion) and of CRIDA. For the complete text see: Trames, le fait co-operatif et mutualiste, 'Actes du colloque' [Conference Proceedings], Limoges, 1981)

1. Bankruptcy of the Prudhomme Enterprise

In December 1980, M. Prudhomme's companies were put into liquidation following the owner's arrest for a previous case of fraud.

Most of these companies were based at Nozay in the Paris region (though two small branches had also been set up at Lyon and at Rouen). The first production unit dates from 1974, since when there had been a remarkable expansion from a mere half-dozen employees to 280.

These businesses specialised in the conversion of attics, a gap in the market that M. Prudhomme had been able to exploit, perfecting a technique that he had patented. Conversion of lofts was negotiated on the basis of an inclusive price per square metre.

The enterprise enjoyed quite a good reputation as regards working conditions. There was a wide range of salaries; but a large part of the workforce earned between 6,000 and 8,000 Frs. The executives were generally on 12,000 to 15,000 Frs. There were no unions in these companies, which always had fewer than 50 employees in order to avoid having work committees.

In December 1980, these companies had already been in difficulties for several months. In fact, weak management was leading to bankruptcy. In a continuous state of expansion, the Prudhomme companies were kept going by some clever accountancy. The annual accounts were 'balanced' by juggling figures between companies. However, in September 1980, when a shortage of orders caused financial difficulties, a receiver was appointed and plans for restructuring were agreed with M.

Prudhomme; this meant dismissing 120 staff. There was no reaction to this news, because the employer saw each one individually to tell him that he would be re-engaged at a higher wage later on.

That was the position when M. Prudhomme was arrested (for other reasons) and the companies were put into liquidation.

The premises at Nozay were quickly occupied. People could not understand why a business that was doing so well (its order book was full, amounting to 800,000 Frs.) should be closed. Eight workers started a CGT union branch; local authorities, councillors and trade unions, supported the movement and began to study the possibility of a take-over. There was no mention of a Cooperative at that stage. All efforts were directed to finding a new owner who would take back most of the employees. In fact, losses were assessed at between 50 to 60 million francs, and no one was in a hurry to buy the company.

Gradually the movement fell to pieces. Some of the executives started their own small business, the client file disappearing, most inopportunistly, at this moment.

In the end it was a group of only ten people (shopfloor workers and supervisors), who were rather bewildered and somewhat sceptical about the experts they had met up to that point, that came to a meeting with a group of advisers in March 1981 on the initiative of a local councillor.

2. Emergence of the Cooperative Project at Nozay

After this first contact with the leaders of the occupation, a framework for the involvement of the advisory group was quickly established. It took over the arrangements for a joint study of the case. That is to say that 11 the workers interested in resuming work agreed to collaborate with a group of advisers (one commercial and two management consultants) with a view to starting up a new business.

In fact the term 'take-over' is generally wrong. Legally such arrangements are difficult and, in addition, would mean taking over a liability for which the workers were not responsible. So it is usual to form a new legal entity and 'resume activities'. That is what the advisers proposed; and they also considered that co-operative status would be perfectly suitable in the circumstances.

The demand that the whole of the group should be involved in this process itself reveals the dual objective of the advisers' exercise:

1. To provide the technical management skills (in the widest sense of the word 'management') that people starting a business must have in order to exercise the real power over the future of their project. In this regard, they participated in a normalisation of the proposed production plans.

2. That they chose to seek to equip everyone with those skills followed from another consideration - the desire to lay down what I shall call, in lapidary fashion, the conditions for real democracy in the enterprise. In this, the collective were engaging in a project aimed at emancipating the producers by their Association (in the strong 19th century sense of the word).

I won't pretend that these objectives were fully achieved, if by that we mean that all the group participated unanimously and to an equal extent in the programme proposed. However, the dynamic that was set in motion was not aimed at creating a whole host of bosses in the same company, but at creating the condition for collective management, which is not at all the same thing. In the event, it was a matter of breaking the existing legitimacy on which exploitative relationships are based and from which they are reproduced. This legitimacy is inscribed in the established division of labour. It follows that getting all the members to participate in the financial and commercial arrangements involved in setting up a new business is, first and foremost, a break with the prevailing divisions.

3. 'Aire Habitat' Five Months after Starting the Cooperative

Getting the collective established took fifteen days training (over a 3 month period) during which were accomplished:

- informing the members about co-operation and arriving at the definitive constitution of the group (all shareholders except for a secretary and a commercial manager, who were taken on later);
- production decisions, feasibility study (market research);
- setting up the finances of the project (based mainly on a capital of 280,000 Frs., each co-operator acquiring 20,000 Frs. worth of shares, the money being drawn against the sum of their unemployment benefit under the Act of December 22 1980);
- the legal framework of the Co-op;
- organisation of work, including administration and advertising; negotiating the first contracts.

The 'Air Habitat' Co-operative' was formed on June 1 1981. At that point, the following seemed to be the company's strong points:

1. the gap in the market;
2. the amount of starting capital;
3. the quality of workmanship provided by a group of good skilled workers;
4. awareness of the need for strong management.

Some points remained critical:

1. the difficulties inherent in any new enterprise (the time required to reach the point of profitability; possible mistakes in assessment of the market; suppliers' terms for settlement);
2. unwillingness of some of the group to remain attentive to management problems;
3. difficulties of obtaining credit for potential customers.

How do they stand after five months of operation?

Economically 'Aire Habitat' has on the whole achieved its forecasts. The order book is now full, and the wages are paid (6,000 Frs. net for all the worker-shareholders; 7,100 Frs. for the managing director; 5,000 Frs for the secretary). This state is essential for continued operation. Of course it is still too soon to take things for granted. It is a long way to the two-year point beyond which one usually reckons that a business is established. But one can show a certain optimism over the way in which this group has already proved its management qualities; that is to say that these results are not the blind application of a set business plan but its considered application to the situation which actually arose, by cooperators showing a remarkable tactical intelligence.

Socially this initial phase has proved very rich.

To appreciate it one must remember the position of these employees a year before. They were then in a business dominated by the whim of the owner and his paternalism. They were without any responsibility, had no means of expressing their collective identity, were part of a hierarchical system which set shopfloor against office workers, productive worker against non-productive, French, North African and Portuguese, executives, foremen, skilled workers and unskilled. The period of occupation of the premises, and the joining of a union, are elements which have helped to bring about a 'transversality' that breaks entirely with these models. Their 'formative' role is certain, although it is difficult to assess. By way of example of what is happening on this level at 'Aire Habitat', we can highlight a few facts:

1. At first the group itself took on the work of door-to-door selling. Because of the difficulties they encountered, they decided in July to take on a salesman; but that was not a return to the old methods. This salesman works to a catalogue prepared by the co-operators; and they have also given up the idea of a price based on square metreage.
2. It would take too long to describe here in detail the development of the 'inegalitarian compromise' by which certain elements (family ties, for example) which threatened to upset the balance if the group were neutralised. One would see how, during an initial phase, a collective finds ways of regulating itself. The question is to know

how this situation will evolve since, though it may be justified in the short term, in the long term it would be evidence of failure.

3. A group of 'non-productives' got together following a dispute with the 'productives'. This dispute, which was overcome in September, marks an advance in the life of the group because, until then, most of the 'productives' had preferred to leave matters of management to the rest. By threatening not to pay their share of the capital, some shareholders created a situation in which roles could be redefined. From then on there was to be a profound change with regard to the technique inherited from the previous business which, let us remember, had been considered as one of the project's essential assets. Realising their power, the 'productives' were able to apply their knowledge and gradually modify the pattern that had until then been imposed on them; and they could review, with the customers, certain projects which they considered from experience to be badly conceived. The 'Aire Habitat' image developed as part of a process in which the cooperators were able to regain their autonomy.

These few points may seem of limited importance. However in our view there is no doubt they at least show that there has been a transformation in relations of production within this young co-operative. The cooperative project must not be regarded simply as a way to protect jobs. A Co-operative artificially set up with this sole objective and organised on the capitalist model is especially vulnerable to the economic difficulties which any business meets. Co-operation in production stems from the emancipation of those who produce. This supposes a long-term effort aimed at developing the groups' ability to use the means at their disposal, so that members can more and more control their environment.¹

Works councils can play a part in bringing about this kind of process. On one fundamental condition however; that they themselves are included in a scheme for collective review where their attitude towards the division of labour is subjected to continual practical questioning.²

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¹According to the view of Daniel Mothe, *L'autogestion goutte à goutte*, ed. du Centurion, 1980

²We should mention that on June 1 1986, five years after it had started, the cooperative Aire Habitat employs 20 workers; and its turnover has quadrupled.

Notes

1. Interview with CGSCOP expert on industrial policy
2. Report of Activities CG SCOP, 1981
3. A Veronese, Secretaire Confederal, Journees d'etudes CGT, 1983
4. H Kasucki, Journees d'etudes CGT
5. Ibid
6. CG SCOP National Council, June 1983
7. CG SCOP Report on Orietnation 1984
8. REport of Activities, CG SCOP, 1984. Se further, Appendix 3.

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V. - WORKER TAKE-OVERS: THE ITALIAN EXPERIENCE

by

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1. Introduction

For more than 10 years worker take-overs of failing and bankrupt enterprises have been a comparatively common occurrence in Italy and many worker co-operatives have been formed in these circumstances. They have both received assistance from other co-operative organizations, and, in due course, contributed considerably to the size and strength of the co-operative movement. Moreover, the enterprises rescued in this way have been sufficiently successful for this response to the threat of company closure to have become widely accepted among Trade Unions, local authorities and policy makers.

Such extensive experience of WTO prompts two main questions:

First, what were the political, economic and institutional circumstances that gave rise to this phenomenon?

Second, what are the characteristic longer-term problems and possibilities associated with enterprises created in this way?

These questions provide the focus for this study and are addressed in sections 2 and 3 respectively.

When WTO began to occur in increasing numbers in the early to mid seventies they were primarily an extension of industrial struggle. But from about 1976 onwards, and with the deepening economic crisis, the orientation shifted towards preserving businesses, and hence employment. As this happened the role of the co-operative movement in relation to WTO became increasingly significant. Section 2 therefore describes the scope and organization of this movement whose rapid growth and vitality have made it an important third sector in the Italian economy. This leads into a discussion of the constitutional position of co-operatives in Italy, for this has clearly facilitated the growth of the movement. As regards WTO, for example, the fiscal and other advantages allowed to co-operatives are one reason why other forms of worker ownership are very rarely adopted. Nevertheless, despite state recognition, and some measures of support for co-operatives, the legal framework and statutory instruments for worker co-operatives also have several major limitations. These problems, and the controversy surrounding the implementation of the 'Mancini Law' - which includes measures to increase the capacity of the co-operative movement to assist WTO - provide the agenda for the contemporary Italian debate on co-operatives and WTO, and these are briefly described.

Section 3 starts by distinguishing between the different circumstances in which WTO can occur, emphasising the influence this can have on subsequent developments. The process of re-building the enterprise is then discussed in terms of a 'recovery' phase and a later 'development' phase. Although the two phases usually overlap the distinction highlights the problems that co-operatives formed from a WTO have in escaping a situation of commercial marginality and dependence. Finally, two longer-term patterns of development are distinguished,

one associated with larger WTO co-operatives the other with smaller ones.

2. The Political and Institutional Context of WTO

2.1 Dimensions of the Phenomenon

Unfortunately, Italian statistics on co-operatives are incomplete and unsatisfactory. The main source of statistics is the Ministry of Labour, which keeps a register of all co-operatives that have been formed. However, these figures are unreliable because many co-operatives are not active and, moreover, the Ministry's statistical sources cover only 70% of those that are. Despite these difficulties Table 1 provides an indication of the scale and growth of the Co-operative Movement in Italy.

Table 1 - Numbers of Registered Co-operatives by Sector for Selected Years.

Year	1951	1961	1971	1976	1981	1982	1983	1984
Consumer Co-operatives	2,930	4,686	4,423	4,212	4,442	4,969	4905	4,874
Production and worker co-operatives	4,572	4,684	4,626	5,893	11,203	12,536	13,716	14,563
Agricultural co-operatives	1,891	4,960	9,282	11,287	14,808	15,622	16,062	16,136
Housing co-operatives	3,602	16,659	28,983	38,684	48,794	50,873	51,427	51,278
Transport co-operatives	154	288	458	732	984	1,018	1,055	1,079
Fishing co-operatives	164	433	494	564	725	716	780	794
Mixed co-operatives	1,018	1,790	2,066	2,980	7,027	7,566	8,857	9,519
Totals	14,331	33,500	50,332	64,352	88,383	93,671	96,802	98,353

Source: Ministry of Labour.

The categories in Table 1 are those used by the Ministry and they preclude any disaggregated analysis of the economic sectors in which the co-operatives operate. Moreover, the category of 'mixed co-operative' is ambiguous, since it includes not only service co-operatives, but also banks and those producer and worker co-operatives that mediate between industry and the services (and which constitute the 'new co-operatives').

Table 2 shows the geographical distribution of co-operatives. While it is clear that the movement is generally stronger in the North of the country, the regional variations are striking with Lazio, Lombardy, Sicily and Campania showing particular concentrations of co-operative activity. The significance of the co-operative movement being strong in particular areas is discussed below.

Table 2

Distribution of Co-operative Societies in 1984, by Region

	No.	%
Piemonte	4,466	4.5
Valle D'Aosta	176	0.2
Lombardia	12,300	12.5
Trentino A.A	1,847	1.9
Veneto	4,636	4.7
Friuli V.G.	1,822	1.8
Liguria	2,026	2.1
Emilia Romagna	7,449	7.6
NORTHERN ITALY.	<u>34,722</u>	<u>35.3</u>
Toscana	6,147	6.2
Umbria	1,284	1.3
Marche	2,495	2.5
Lazio	14,120	14.4
CENTRAL ITALY	<u>24,046</u>	<u>24.4</u>
Abuzzo	2,190	2.2
Molise	487	0.5
Campania	10,399	10.6
Puglia	7,735	7.9
Basilicata	1,676	1.7
Calabria	2,721	2.7
SOUTHERN ITALY	<u>25,208</u>	<u>25.6</u>
Sicilia	11,477	11.7
Sardegna	2,900	2.9
ITALIAN ISLANDS	<u>14,377</u>	<u>14.6</u>
TOTAL	<u>98,353</u>	<u>100.0</u>

As far as WTO are concerned, it is not possible to provide any statistics at all because the phenomenon has never been explicitly surveyed. However, since the majority of Italian co-operatives have been set up as a result of the crisis of companies in the various sectors of production, WTO are a feature of all the categories listed above (except consumer and housing co-operatives), and are especially evident in the category of worker and producer co-operatives. In

fact, so many worker co-operatives have been formed in this way that the phenomenon of a WTO is a 'normal' event and generally attracts no particular public interest.

Despite the absence of statistics it is clear that WTO co-operatives are concentrated in the more labour-intensive sectors. WTO have occurred frequently in the textiles, garments, graphic, newspaper, light mechanical, wood and transport sectors, and to some extent also in the service sector.

Given the absence of figures on the number of WTOs, it follows that none exist on the number that subsequently succeed and fail. But once again some general points are clear. First, both the public acceptance of WTO and their continued occurrence in considerable numbers (with the support of the co-operative movement and the political authorities), suggest that the co-operatives so formed are generally quite successful. It is, of course, accepted that WTO have definite problems to overcome, but WTO do not have the reputation of being a futile exercise, as is the case in some other countries. Secondly it is generally accepted that WTO cooperatives are most successful in those economic activities dependent on the quality of work (flexibility and regularity of work performance, motivated and skilled work); vice versa, the most disappointing results occur in those activities whose economical running depends especially on factors such as management, technology and capital. Finally, given that a large proportion of worker co-operatives were originally formed as a result of WTO, the performance of worker co-operatives in general can give an indication of how WTO co-operatives perform. In this respect a research study by Cespe (1), which is comparing data from a sample of the larger co-operatives belonging to the Lega, with data on private firms, is potentially important. Despite the exploratory nature of this study, and the difficulties of comparison and interpretation that the authors warn against, it can be argued that the figures are quite sufficient to disprove any claims that co-operative enterprises are less efficient, productive or profitable than other enterprises.

2.2 The Co-operative Network

The Italian economy is characterised by a substantial and very dynamic small-firm sector and by the common occurrence of collaborative commercial arrangements between small firms. Where both these features are most marked, as in Emilia-Romagna, the result is a rather distinctive economic formation (2) which appears to achieve many of the economies of scale while avoiding the diseconomies. The organization of the Italian Co-operative Movement should be considered against this background of productive decentralization and inter-organizational collaboration.

The co-operative movement is most easily described as a network which is comprised of three different types of organization:

- o the individual co-operative,

- o the co-operative consortium,
- o the co-operative association.

The individual co-operative may operate on the market without necessarily being enrolled in a Co-operative Association, and without having relationship with other co-operatives.

The Co-operative Consortia are formed by a number of individual co-operatives which together carry out one or more shared activities. Here the term used is 'consortium-enterprise' insofar as it manages at first hand its productive activity. By contrast, the 'service consortium' does not act on its own behalf but only and exclusively in the name of, and in the interests of, its associate co-operatives, and in activities designed to obtain better services rather than profit (purchasing or marketing consortia, for example). A consortium may group together a number of co-operatives in a small area, or at a regional or even national level (3).

These consortia may belong to the Co-operative Association, which represent, protect, assist, control and guide the individual co-operatives that belong to them. There also exist a number of national organizations, which take the form of limited companies and whose stock is owned by co-operatives and other economic entities.

Thus, a co-operative is organized on at least five different levels:

- individually at a provincial sectorial level,
- individually at a regional sectorial level,
- individually, at a national sectorial level,
- jointly with all other co-operatives at a regional level,
- jointly with all other co-operatives at a national level.

It should be remembered that these various levels are not only concerned to represent the interests of the individual co-operatives; today, they have increasingly come to assume the role of providing coordination and strategy formation for a 'grid-iron' organization: an organization whose main strength is its ability to establish or re-establish enterprises extremely rapidly, and to plan their growth by means of operations involving linking, contact and networking among various economic structures (4).

The political, economic-organizational and sectorial interests of the individual co-operatives are looked after by the co-operative associations, of which there are four officially recognised by the Ministry:

1. the Lega Nazionale delle Cooperative Mutue (Lega), which represents the Communist, Socialist and Republican sector

2. the Confederazione delle Cooperative Italiane (CCI), which represents the Christian Democrat sector
3. the Associazione Generale delle Cooperative Italiane (AGCI), which represents the Republican and Social Democrat sector
4. the Unione Nazionale delle Cooperative Italiane (UNCI), set up in 1982.

Table 3 indicates the relative size of these associations based on the 1983 figures provided by the associations. (However the same difficulties of reliability and classification that impede analysis of the figures provided by the Ministry of Labour apply also to those supplied by the Associations. Note, too, that depending on the type of co-operative and the area of the country concerned, between 30% and 60% of registered co-operatives are members of co-operative associations. It is presumed that these 'member co-operatives' represent a significantly higher proportion of the active co-operatives.)

Table 3 - Membership of Co-operative Associations by Sector, 1983.

	Cons.	Worker	Agric.	Housing	Trans.	Fishing	Mixed	Total	%
CCI	1776	2677	6423	8654	223	422	2140	22315	50.5
LEGA	2206	3538	2693	5302	215	134	1537	15625	35.4
AGCI	188	978	628	2539	93	68	295	4789	10.9
UNCI	34	58	182	1054	4	4	81	1417	3.2
Total	4204	7251	9926	17594	535	628	4053	44146	100

The Co-operative Associations have the following functions: 1) representing and protecting their members; 2) providing assistance, including administrative and fiscal advice; advice on how to obtain outside credit, or on self financing through the Associations' own finance company or banks; vocational training; 3) checking the requirements for access to legal facilities; 4) promoting and developing new co-operatives; 5) providing co-ordination and

guidance for internal economic-social policies and handling external relations.

This organizational mechanism serves simultaneously both particularistic interests (the welfare of its members) and the universalistic interests (of the movement more widely) by means of a system of progressively integrated levels, which it mediates, coordinates and guides.

Today, the Italian co-operative movement is the third sector in the national economy together with the public and private sectors, and has assumed the role of a policy maker with respect to the state.

The co-operative movement continues to increase in importance and size in the most traditional geographical areas of co-operative activity, where the organizational network is most firmly established, and where it possesses sufficient autonomous assets to be able to provide guarantees for bank loans. The strength of the movement in such areas should be emphasised: for example in Italy, there is actually a continuum between worker and co-operative take-overs. In many cases a company in crisis is rescued by the direct intervention of other co-operatives. This increases the economic coherence of the movement. But it can also be seen as an "aggressive" strategy, uncomfortably similar to the capitalistic one. An example of this (5) is provided by Consorzio Produttori Laterizi (CPL), which arose when a company in crisis was saved by the setting up of a company comprising natural persons (the workers) and juridical persons (six producer and worker co-operatives in the same sector and in the same geographical area). A manufacturing consortium was thus constituted. Further evidence of this trend is provided by the concern shown in the Cespe report (6) over the tendency to be found in the larger co-operatives to purchase or to set up limited companies when "this proved convenient".

Thus WTO co-operatives form part of a defensive strategy when they occur as individual cases. But they can be part of a more aggressive strategy when the co-operative associations act according to a commercial logic (aiming for vertical or horizontal integration) or a territorial logic (aiming to strengthen their position in an area where the co-operatives are widespread).

The strength of the movement is also evidenced by the ability of the Co-operative Associations often to arrange the transfer of workers from a co-operative in crisis or that is closing, to other co-operatives in the sector or locality, thus avoiding having to make them redundant.

However the Co-operative Associations do not possess such economic strength throughout Italy. In other areas, where it might be considered important for the movement to gain ground in order to slow down a situation of socio-economic disintegration, a lack of consolidated financial resources has hampered its development. The reasons for this are:

- o the historical, institutional and legal conception of co-operatives as an aggregation of manpower rather than of capital;

- o the limited availability of autonomous financing (social capital, loans from members, self-financing and consortium financial instruments);
- o the necessity to resort to outside credit, both to meet running costs and for investments.

The problem of financing for co-operatives represents, in fact, a crucial factor in the encouragement, restructuring and growth of the third sector of the economy. Indeed, access to credit, according to current banking laws, is strictly dependent on the provision of financial guarantees, which the co-operatives have difficulties in providing because their financial resources are usually bound up in joint stock which, for legal reasons and by its very nature, is limited. This problem is exacerbated, especially in cases of WTO, by the high cost of money and requests for financial guarantees. This places the co-operatives at a disadvantage with respect to large-scale enterprises, who are often granted financial facilities and frequent "aid" by the public authorities.

For some time now the co-operative movement and the legal authorities have complained about the lack of coherence between the constitutional principle of favouring co-operatives and a credit system which is not adapted to the special nature and function of co-operative enterprise. It is against this background that the debate over the Act of 27 February 1985, No.49 (The Marcora Law) has developed. Before considering this debate the constitutional position of co-operatives in Italy, the principal legal requirements for co-operatives, and the existing statutory financial instruments for co-operatives, must be briefly described.

2.3 The legal framework

The important social function of co-operative and mutual enterprise was recognized by the Italian Constitution in the first post-war law to reorganize the co-operative sector after the demise of Fascism, and by regional statutes in 1970.

The regional statutes reconfirmed in a particular fashion the importance for the public interest of the Co-operative Associations (as already provided for by the law on the re-organization of the sector) and set the objective of general and sectoral promotion of co-operatives.

The constitutive legal features of co-operatives, as set out by national laws, distinguish them from other forms of corporate enterprise by:

- a minimum limit set to the number of members (at least 9 persons)
- a limit to the amount of social capital held by each member (only recently raised to 30 million Lire per person);

- democratic management: assemblies must adhere to the principle of "one person, one vote";
- new members may be admitted on the decision of the Administrative Board of the co-operative;
- the number of technical and administrative members may not exceed 12% of the total membership (only recently, with the passing of Law 49/85, has this number been raised to 20% for rescue-cooperatives; with the passing of Law 44/86, it has been abolished completely for co-operatives of young people in the South of Italy);
- the principle of mutual enterprise, which is based on: profit reinvestment, setting limits on its distribution among the members; the prohibition on distribution of the legal reserves; the devolution to the public purse of the co-operatives assets in the case of winding up of the co-operative.

National legislation designed to promote the co-operative movement assigns a public promotional and supervisory function to the various Co-operative Associations, under the terms laid down by the Ministry of Labour. To assist in their carrying out of this function, the Ministry grants financial help to the Associations for their promotional activities and for their vocational training programmes. Similar financial aid is also provided by the legislatures of each region (7). The incentives and facilities made available to the co-operatives may be of general (tax relief, vocational training, etc.), sectoral, state or regional character. Within the context of regional aid to co-operatives (more concerning its qualitative than its quantitative nature), there exist a variety of legal instruments designed to help them obtain credit, build up joint stock, organize vocational training; and to provide "real services" and revolving funds aimed at specific sectors or types of co-operative (of young people, of people who have lost their previous jobs, of unemployed workers, etc.) Particular attention is paid to cases of WTO by the legislation of some regions (Lazio, Piedmont, Sardinia, etc.), but the present tendency is towards co-ordinating existing aid instruments by means of a legal framework, and directing economic resources towards co-ordinated projects.

Law No. 49/85 - the Marcora Law - was designed to meet simultaneously requirements of a conjunctural nature (the maintenance of employment levels in cases of companies undergoing crisis) and of a structural nature (the reform of the co-operative sector and the provision of a secure credit system in order to facilitate the setting-up and support of co-operatives).

The first aspect is dealt with by the Law in the form of the 'Fondo Speciale per gli Investimenti' (Special Investments Fund); the second in the 'Fondo di Rotazione per la promozione e lo sviluppo della co-operativazione' (Foncooper) - a special revolving fund for the encouragement and development of co-operatives.

The Fondo Speciale was intended to be available to:

- o producer or worker co-operatives comprising workers in Cassa Integrazione Guadagni¹ or redundant workers. In order to set up these co-operatives, the workers involved must invest a part or all of their severance pay, and they receive in return a maximum of three years of wages from the Cassa Integrazione Guadagni. Such grants, which are non-repayable, have been particularly criticised.
- o finance companies, set up by the Co-operative Associations, at least 80% of whose capital is owned by producer and worker co-operatives. This financial measure is designed to support, encourage and develop the setting-up of rescue co-ops.

Foncooper was intended to be available to:

- o all co-operatives who initiate projects designed to increase productivity, employment, or technological and organizational innovation, to give greater competitiveness to their products or to restructure or reconvert their plant;
- o producer and worker co-operatives comprising workers in Cassa Integrazione Guadagni or redundant workers and which present schemes similar to those outlined above.

Three points about the Marcora Law must be stressed: first, the finance provided is very limited: 180 billion Lire have been set aside for both funds. Second, it is the WTO producer and worker co-operatives that have been given priority in receiving this financing (to a total of 110 billion Lire), and this has hampered the carrying out of a more general reform and strengthening of the co-operative economy. Third, the Law shows contradictory elements with respect to its long-term goals, the extent of the finance provided, and in its operating criteria. Partly as a result of this, and despite the fact that parliamentary, social and economic debate began in 1977, the normative instruments required to render the Law operable are still lacking.

In conclusion, compared with the economic importance of the co-operative sector and the politico-social role that it performs, the present legal framework appears particularly antiquated and unable to measure up to the dynamism and flexibility that characterizes the co-operative movement in present-day Italy. Moreover the main features of the Marcora Law seems to lie in a belief that what is required is financial relief, rather than the provision of those structures that will meet the needs of the third sector of the economy.

¹This is an instrument providing guaranteed wages in situations of temporary company crisis and is paid by the Istituto Nazionale di Previdenza Sociale to the order of 80% of the worker's last wage and for the temporary period during which it is assumed that the company will recover and be able to take all or some of its workers back on again.

2.4 The Current Political Debate

To illustrate the expectations that the various social, economic and political actors have for the co-operative movement, and more specifically, for WTO, the positions adopted by the Employers Associations, by the trade unions and by the Co-operative Associations most widely represented at a national level will be briefly described. Thereafter an analysis of the behaviour and organization of the interest groups with the application of Law 49/1985 is presented (8). The analysis will not include the positions taken by the Italian political parties; apart from some internal differences of opinion shown occasionally, they share a practically unanimous point of view, - one which sees the co-operative movement as playing an important role in the country's economy. This unanimity derives from the fact that all political parties have been directly or indirectly involved in the co-operative experience. The differences of policy among the parties concern the role that the individual Co-operative Associations may occupy within the legal framework governing the co-operative sector.

The public and private world of Italian entrepreneurialism is variously represented by sectoral and area employers organizations. Here we will consider the position of the largest private entrepreneurial association (Confindustria) and the association that most represents small and medium size industry (Confapi).

Confindustria has always regarded the co-operative phenomenon as occupying a marginal economic and social position: an attitude which has turned into outright hostility when the State has intervened in various ways in favour of the sector. Confindustria has seen this State intervention as 'welfare' and as a factor in the creation on the market of a disequilibrium which penalizes "healthy" enterprise. In fact, Confindustria has expressed itself as being in disagreement with national legislation in support of co-operatives, and also with Law 49/1985, which inhibits the free play of market forces.

The position of Confapi is rather more moderate and recognizes that the co-operatives are at a disadvantage with respect to private companies, especially as far as their access to credit is concerned. Confapi accepts the spirit in which Law 49/1985 is written, but asks that financial aid should be directed towards the smaller-sized companies and that it should be linked to the effective state of undercapitalization of the co-operative (through Foncooper). Confapi also underlines the risk that the use of the Fondo Speciale may artificially prolong the life of individual companies in crisis, and expresses its perplexity over the role of the Co-operative Associations in its management of the non-repayable grants to the co-operatives.

The principal Co-operative Associations (CCI, Lega, AGCI) concentrate their efforts on the reform of the legislative framework for co-operatives. They claim that the legal framework, while guaranteeing as

it does the principle of mutuality, social function and a new process of accumulation, should be reformed to place co-operatives in a position of parity with respect to the public and private sectors of the economy. To this end, they argue that a suitable instrument of financial aid is required in the form of a proper credit institution for the co-operatives. This would overcome their problems in gaining access to the capital market, problems deriving from the fact that co-operative may not issue debentures, shares or operate on the stock market.

The Co-operative Associations are not in favour of the system of non-repayable grants. Rather they would prefer to see a system of revolving funds designed to overcome the problem of under-capitalization (caused by the fact that co-operative members possess only limited capital), or temporary endowment funds, which the rescue co-operatives would be obliged to repay as their situations improved and which would thus become available for other co-operatives. Financial aid paid out in this way should be based on feasibility plans providing guarantees for the future of the enterprise. In particular, the expectations of the Co-operative Associations with respect to the recent Law 49 are:

- o State support (to be regulated by law for the first time in Italy) for the creation of self-managed enterprises able to compete in conditions of potential parity with the rest of the economic system;
- o the effective implementation by the Co-operative Associations of the Law, in order to prevent it from being rendered ineffectual because of its internal contradictions: contradictions arising mostly from a confusion of the roles of Foncooper (for the development of new co-operatives) and the Fondo Speciale (for WTO co-ops)
- o an exclusive role for the Co-operative Associations in the management of the Fondo Speciale: a role in which they would act as the only public agency supplying aid and "real services" to all co-operatives. In this manner, the three main Co-operative Associations have constituted a single finance company, in order to participate in the formation of the WTO cooperatives' social capital (as provided by the Law) and to provide the WTO co-operatives with the necessary "real" aid. (UNCI has set up its own finance company.)

The general principles underlying the position of the Co-operative Associations are also shared by the most representative trade unions (CGIL, CISL, UIL). Indeed, in October 1985, agreement was reached between trade union and Co-operative Associations over joint action to exert pressure for the passing of national and regional legal norms concerning aid for the development of co-operatives, especially in the industrial sector and the advanced tertiary sector. In concrete terms, such action would take the form of identifying the most suitable instruments for the development of new co-operative entrepreneurialism, raising the professional levels of the members of co-operatives, increasing employment by creating job opportunities for

young people, developing "real services" and developing new forms of participation (economic and industrial democracy).

This agreement also referred specifically to the implementation of the Marcora law, especially regarding worker take-overs, and endorsed:

- o the setting up of a single finance company, including the guaranteed presence of the three trade union organizations, to act in a controlling capacity;
- o the setting up of a joint committee to manage programmes designed to encourage new forms of collective entrepreneurialism;
- o the Co-operative Associations' function as the provider of assistance to groups of workers intending to start co-operatives utilizing the provisions of the Law.

It is beyond the scope of this report to describe the vicissitudes of this Law and its long delayed implementation. Suffice to say that its 'conjunctural' aspect (action for WTO co-ops) has prevailed over other structural measures involving all co-operatives. Since 1977, the Co-operative Associations have openly voiced the demands outlined above and have on several occasions expressed their fears of being relegated to the role of 'managing decline', with all their energies being devoted to coping with problems unloaded onto them from the private and public sectors.

In conclusion, the passing of Law 49/1985 had led to a wide variety of different, often high, expectations: for example, solely for the Lega, a requirement of 80 billion Lire for 60 existing or nascent co-operatives has been estimated. The ambiguities in the interpretation of the Law, and the limited managerial horizons of the workers (who favour non-repayable grants) make it difficult for the Co-operative Associations to satisfy all these different expectations. The Associations, in fact, tend to think in global terms (revolving funds, temporary endowment funds, the overall development of the co-operative sector), and thus they occasionally find themselves in conflict with spokesmen for particularized interests (individual co-operatives, or the private sector, which tries to avoid the costs of restructuring). In short, the situation is currently quite fluid and it is likely to remain so until more of the uncertainties surrounding the implementation of Law 49 have been resolved.

3. The Commercial and Social Dynamics of Worker Take-Overs

This section aims to highlight the characteristic features of the WTO process as it occurs in Italy. Despite the absence of statistics, the Italian literature on co-operatives contains numerous case studies of the 'healing' of 'companies in crisis' through their transformation into co-operatives (9). Appendix I provides an account of one such case - that of CLG, a highly successful co-operative in the graphics sector (it illustrates both the combatative industrial relations prac-

tices in larger Italian firms, and the important role of the Italian courts with respect to 'companies in crisis'). The following analysis reflects the common features and problems of WTO, and the co-operatives that result from them, as these appear in such studies. In particular, seven cases were chosen for closer study. These cases are summarised and contrasted in Appendix II; and they illustrate some of the diversity of the WTO experience in terms of size, sector, outcomes etc.

3.1 The WTO Process

Co-operatives arising from a worker take-over inherit from the previous enterprise:

- o its organizational framework,
- o its technological plant,
- o its position on the product and capital markets
- o its organizational and professional cultures.

Moreover, the way in which a W.T.O co-operative is born has an influence over its subsequent life, shaping the social contract that binds together those concerned, and influencing the decision-making dynamics internal and external to the co-operative.

Generally speaking, in the Italian experience, a WTO takes place in one of the following ways:

Type A: The initiative for transforming an enterprise into a co-operative comes from the existing entrepreneur: he suggests to the employees that they should form a co-operative, either to divide the risks or to avoid conflict and its consequent cost. The initiative is usually supported by a paternalist culture, either with artisan origin or deriving from a culture originating in advanced industrial relations. Alternatively, the entrepreneur may propose to his employees that they take over part of the production cycle as a co-operative, guaranteeing their continued links with the company through work orders and various fundamental logistic-administrative services. In this situation, co-operation and dependence are interwoven.

Type B: The initiative is taken autonomously by the workers, who buy into all or part of the productive activity and run it for themselves. This they may do by depending exclusively on their already existing internal trade union structure, or by finding an external partner, who may be, depending on the situation, the external trade union organization, the local, municipal, provincial or regional authority or the political parties. The predominant ethos here is of self-management as an expression of the workforce's own ability.

Type C: The initiative involves a number (usually large) of actors representing various interests, such as the Co-operative Associations,

an already existing Consortium, banks, entrepreneurial associations, as well as trade unions, the political parties and local government. Generally, this pool looks for the most practicable solution - a new entrepreneur, a co-operative, or a mixture of the two. This situation normally concerns cases of particular importance for the local economy. It can give rise to a mixture of demands, concerns and proposals internal and external to the company, with these generally being mediated by the local government. The saving of jobs and the containment of the costs of the crisis are central to the social contract established between the various actors. The particular solutions adopted and the subject who plays the dominant role in the recovery process determine which of a diversity of social and decision-making dynamics, will develop.

These three types are all represented in the cases summarised in Appendix II which also prompt the following observations about the WTO process:

- o The size of the firm is an important factor in the manner of its rescue: the greater the threat to employment in the area, the more outside bodies participate in the start-up of the co-operative. In the case of smaller-sized firms, initiative comes more from within the factory; the situation is more manageable, since the future members of the co-operatives are able to handle its complexities.
- o In smaller-sized firms the social, cultural and relational distance between the owner and workforce may help to make the transformation into a co-operative less traumatic, and ensure that manufacturing and managerial know-how stays in the firm.
- o Some WTO occur in enterprises with a history of union-management conflict. In such cases it appears that the more intense the confrontation leading to the WTO, the more beneficial its effects - insofar as the unity of the workers is strengthened and the period of trade union struggles becomes the period of maturation of a collective desire for self-management, of technical and socio-psychological preparation for the introduction of alternative management, and the fostering of a commitment to the new co-operative.
- o The social base for the impulse to rescue the firm in crisis is almost always to be found among the workers. It is usually the case that both the managerial staff and most of the office workers abandon the firm. The hierarchical order that differentiates such 'white collar' staff not only impedes the formation of personal relationships with the workers but also gives rise to conflicts within the group promoting the co-operative.
- o The lack of professional expertise, apart from the 'inherited' manufacturing skills of the workforce, raises the problem of the recruitment of skilled personnel from outside (preferably of individuals already socialized to co-operation) or of in-company training (adopted by CLG - see Appendix I). In general, those who participate directly in the leadership of the transformation process also embark

on a career within the co-operative based on the development of their technical skills, and many cadres in the co-operative movement are of worker origin. Class antagonism and the need for managerial expertise are two major problems.

- o A significant proportion of jobs saved are in women's employment. This is because rescue co-operatives are more common in older, labour-intensive sectors of industry employing unskilled or semi-skilled workers. The characteristics of the female labour force make the search for another job a difficult one, especially at a distance from the home. Thus the co-operative also often represents a last chance for equal employment opportunities between men and women.
- o The outside trade union is generally present in all the cases examined here, although its role varies between being the protagonist in bargaining with the local authorities and the proprietors, providing support for the workers' council, or expressing its opposition to an initiative it does not believe in. Generally speaking, the trade union is active only during the early stages of struggle and setting up of the co-operative. As long as the union represents the workers in struggle it has a definite role to play, but once the workers have transformed themselves into members of a co-operative, into a 'collective entrepreneur', the role of the trade union becomes less clear and forceful. In general, the trade unions lack the cultural and material instruments to be able to continue to sustain the co-operative undertaking and this role is undertaken by the Co-operative Associations. Hence the Trade Unions appear to have evolved a distinctive important but circumscribed role in relation to WTO, one that is complementary to the contribution of the Co-operative Associations.

3.2 The Two Phases of Re-building

It should be remembered that WTO take place in situations of company crisis, - that is, in situations where private capital is abandoning an activity for reasons of economic unprofitability; or where private capital is undergoing a phase of restructuring. It is therefore of fundamental importance that a WTO co-operative should diagnose the weaknesses of the company that preceded it, in order to develop feasible plans for ensuring the health of the new enterprise. To this end it is useful to distinguish between:

- a) factors internal to the company, such as bad management, a reduction in profit margins, loss of competitiveness of the product;
- b) factors external to the company, such as crisis in the productive sector, a more general crisis in the economic-geographical area in which the company operates, changes at the level of the international division of labour creating disequilibria in relations between markets.

In whatever way it is conducted, the results of such an analysis will be reflected in the choice of business strategy that the newly formed co-operative makes - for example,

- o whether to continue with the same product/market position, relying on the advantages to be derived from the greater productivity of co-operative work;
- o whether to change partially the product/market mix, concentrating on research and development and the consequent increase in competitiveness;
- o whether to convert, to a quite radical extent, the activities of the company by renewing the product, the market, the production technology, and so on.

Needless to say, the evolution of an effective "entrepreneurial formula" (10) for the co-operative usually takes some time - and it is seldom a tidy sequence of diagnosis, planning and implementation. This process of re-building the enterprise can be usefully understood in terms of two stages.

- a) a period of recovery dominated by the need for capitalization, the purchase of equipment and premises, the search for customers and thus for a balance between carrying on manufacturing as before and diversifying production into other readily accessible markets
- b) a period of development distinguished by the search for greater autonomy on the market and for greater internal efficiency.

In practice, of course, these two phases will often overlap considerably.

3.2.1 The Recovery Phase

Given the importance of re-starting production, decisions to proceed with, and to support, a WTO are usually made on the basis of a general appraisal of the commercial situation of the enterprise and are not based on detailed business plans. Hence the recovery stage often displays the following pattern:

- o Initially, soon after the arrangements for the start-up have been completed, the major preoccupation is restarting production and making the co-op's presence felt on the market. At a symbolic level this means that the co-operative is a reality. Commercial issues seem to prevail over productive ones (filling the order-book, finding customers). Often agreements are made with the previous management concerning subcontracts, percentages on sales, sharing the market, etc.
- o Thereafter, problems concerning the amount of financing move to the forefront, insofar as access to credit is of primary importance during the first years of the company's activities (at least until the break-even point has been passed), since it enables it to restructure and wait for a return to profit. During this phase, it is of great advantage to have stocks of raw materials, of semi-finished articles purchased from the previous company or any other sort of "reserve".

- o In due course more specifically "organizational" problems become important: functional specialization, the introduction of methods of management control, the search for increased productivity, and the need for social cohesion (concerning wages, decision-making etc)

It must be emphasised that these activities will be carried out in collaboration with the external 'actors' supporting the WTO and taking advantage of the measures that have been developed to aid the setting up of WTO co-operatives. These range from provision of facilities for renting premises or purchasing plant and equipment, to facilitating access to credit, to service centres (if they exist) providing planning, marketing, administration, and so on. Hence these instruments are not only financial in nature, but also offer "real services" which facilitate the acquisition of managerial and organizational skills - absolutely essential given the intense learning process that WTO co-operatives undergo. These real services may be provided by public or private organizations of various kinds, but in the Italian case the most important factor in the success of WTO has been the organizational network of the Co-operative Associations as described above.

In general, the recovery phase is dominated by the urgent need to restore profitability - or, at least, to break even. Hence a series of short-term or tactical steps are taken which have the effect of exploring the more immediate possibilities in terms of both the market and the production system. In doing so, a rudimentary management team also evolves.

This stage may continue for several years - indeed, there is a sense in which many co-operatives never go beyond the recovery stage. This is not so much because they fail - they can generally rely on the safety net provided by the co-operative movement. Rather, the problem is that they may be quite successful in terms of profitability, while continuing to occupy a marginal position on the market. This arises because, by their very nature, they possess characteristics that make them competitive in areas of little interest to private capital (where profit margins are too narrow or uncertain). In consequence, a significant proportion of WTO co-operatives, especially those of small or medium size, are not able to escape from a situation of marginality, from a half-hidden 'shadow' economy, and from their economic and political dependence on the medium-large size companies for which they perform ancillary functions.

3.2.2 The Development Phase

The development phase is marked by a recognition of the need to strengthen the co-operative's market position and the formulation of longer-term strategies to achieve this - whether through plant modernization, new product development, direct marketing (rather than subcontracting) or by other means. The crucial starting point for any such development plans is a realistic assessment of the 'entrepreneurial formula' of the existing business. Such an

assessment poses considerable theoretical and practical problems: for example, the labour factor cannot be considered as being part of the production costs (to be minimized, according to conventional principles), or as a negative component in the profit and loss picture; rather, it represents the 'profit' itself. Moreover, the assessment of the co-operative's position and prospects must take account of its social and organizational developments as well, its progress as a co-operative. And a shared idea of what the co-operative should be like may well influence the choice of product-market strategy. What is at issue therefore is formulation, or re-formulation, of a coherent and credible co-op-business idea (11), and its subsequent implementation.

The variety of business conditions in which WTO occur make it hard to generalise about the activities and problems associated with the development phase. However, some of the problems that arise and the responses they require can be considered by distinguishing between the following different aspects of a co-operative's situation:

- (i) its profitability
- (ii) its underlying competitiveness
- (iii) its social performance

When a co-operative is considered in these terms one of the following patterns tend to emerge:

- o Both profitability and competitiveness are satisfactory, and the social interests of the co-operative members have been satisfied. In this case, the co-operative idea is deemed adequate and may be consolidated. At the same time other parallel undertakings may be considered.
- o Profitability is satisfactory but the co-operative's underlying competitiveness is weak. This case is very widespread and drives in part from poor entrepreneurial skills. In the long term the favourable situation of the co-operative may deteriorate due to its dependence on external facilitating conditions such as a temporary increase in demand, artificially high price levels, ecological niches, non-repayable grants, or the self-exploitation of the members of the co-operative (low salaries, overtime, or a temporary increase in productivity due to the initial enthusiasm of the members). The product, too, may be uncompetitive: perhaps because it is easily imitated, or because it is manufactured with antiquated or obsolete machinery, or because there are scant prospects of its future development, or because it is not designed for a specific market segment. In this case, even if the social performance is positive, the co-operative is in state of precarious equilibrium. At worst, there may be a pathological refusal to face up to reality. Here the co-operative idea must be reorientated by measures to strengthen the managerial skills.

- o Profitability is unsatisfactory, but the co-operative is basically very competitive. This may be because its product is the only one of its kind or aimed at a restricted market, or because of the use of competitive technology, or because of a combination of the two. The low profitability of the co-operative is therefore due to its inability to exploit the profit potential that the combination of market and product permit. Generally speaking, low and precarious profitability tends to lead to dissatisfaction among the members of the co-operative, and this, in turn, manifests itself in a low commitment to the co-operative, leading to both internal conflict and people leaving. In such cases the co-operative idea must be re-oriented by means of action taken on its organizational structure, the achieving of greater coherence between the resources employed in the manufacturing process and their economic results.
- o Profitability, competitiveness and social success are all unsatisfactory. Thus the co-operative cannot survive for very long in a market economy: the co-operative idea requires a radical overhauling both in terms of its structure (economic and organizational), its strategy, and its social objectives.

These four common situations are summarised in Table 4.

<u>Profitability</u>	<u>Competitiveness</u>	<u>Social performance</u>	Assessment of the coop-business idea	Response/ intervention
Yes	Yes	Yes	Successful	Consolidation, expansion
Yes	No	Yes/no	Weak	Managerial support
No	Yes	Yes/no	Weak	Organizational support
No	No	Yes/no	Unsuccessful	Thorough reorientation of the enterprise

Table 4 Assessing the viability of a co-operative-business idea

It should also be mentioned that occasionally where the social performance is poor, the co-operative maybe 'privatised' (see the case of Zetronic in Appendix II). When this occurs it is usually with larger enterprises (presumably because in these cases it is more difficult to achieve meaningful and widespread involvement by the workforce). In such cases the effect of the WTO has been to preserve employment by rationalising the activities to a point where they are again attractive to private capital.

Finally, it must be emphasised once again that the discussion and decision-making associated with this development phase does not only occur within the co-operative. It also involves, and almost to the same extent, all those who have combined to set up the WTO co-op. These are 'morally' committed to the successful outcome of the undertaking, but insofar as they are engaged in supplying technical-organizational-financial assistance, they also have a voice in monitoring and improving its performance.

3.3 Two logics of development

The size of the enterprise taken over has considerable bearing on its subsequent development - simply because size is so important for the division of labour and functional organization. As a result one can distinguish two quite different logics of development underlying the larger and smaller WTO co-operatives. These two logics are outlined below, drawing on the cases summarised in Appendix II.

Logic A : Larger co-operatives (eg Zetronic and Nuova Reguitti in Appendix II), right from the beginning, preserve their previous functional organization, and their economic decisions are dictated by a desire to maintain employment levels. This often makes major investments necessary in order to optimize the labour resource. Such co-operatives have direct access to the market and seek to increase their share of it by keeping to the same product even if it is relatively mature (through careful marketing and by keeping costs down), and at the same time by diversifying production (from metal smallware to electronic components, at Zetronic), or by extending the new product range (to compensate for the seasonal nature of its garden furniture, Nuova Reguitti began production of household and nursery furniture). These co-operatives function in the main like conventional companies insofar as they delegate to a group of skilled administrators (consultants or career managers) the task of defining company strategy. However, the fundamental basis for the strategy is fixed: employment levels should be maintained. Hence, company strategy is not based on seeking out potentially the most profitable investments, given the state of the market; it is based on the selection of markets and policies capable of making the existing human resources and other available assets productive.

Logic B: In medium-sized co-operatives (and even more so in those of smaller size) a rejection of the previous functional organization, and a search for as much parity in the division of work as possible, tend to occur. However, it is recognised that functional specialization is indispensable, and the evolution of the management and organization reflects decisions regarding the market and the pressures it imposes. The organizational patterns are therefore more complex.

Subcontracting to a limited number of large firms is initially vital to the rescue of almost all those co-operatives that base their strategy on the price factor. However, once subcontracting work is well established the co-operative concentrates either on gaining direct access to the market or on increasing the number of its customers,

although still subcontracting. The production range may also be increased. Examples (from Appendix II) of these processes are:

- o Pellicciai Riuniti was unable to meet the costs of purchasing raw materials (mink) and of maintaining an autonomous marketing network. Consequently, the co-operative moved into the subcontracting market providing a high quality service. At the same time, as profitability increased, it started up the manufacture and marketing on its own account of reversible sheepskin suede coats (where the cost of skins is lower).
- o Didial passed from mass production with little added value, to the specialized subcontracting of garments in small to medium batches. These required a shorter manufacturing process but with better workmanship and the provision of a personalized service, as, for example, in the preparation of sample collections.
- o Cabel soon abandoned the assembly of television sets and consolidated its own market for electronics equipment. It developed its internal professional skills and brought in skilled personnel from outside.
- o Cierre initially followed the recommendation made by the local association for the coordination of co-operatives in the area. They carried out a major investment programme in order to be able to manufacture a wide range of products for the publishing industry. However, demand was not sufficient to meet either production or quality capacity, they were unable to reach the break-even point, and after two years the co-operative was obliged to revise its calculations and to convert its production.

What is common to all the situations described here is the sporadic nature of the recovery process, conducted by trial and error and strictly dependent on internal social dynamics that lead directly to the growth of a managerial system drawing upon the human resources of the most motivated members of the co-operative. This is augmented or diversified in some cases by specific skills recruited from outside.

The maturation process of these co-operatives seems to be the following:

- o The co-operative's relationship with its market, in terms of its dependence on a limited number of customers, ensures initial survival and competitiveness based on
 - a) the quality of both the product and the service provided;
 - b) productive efficiency, with a consequent need to improve professional skills;
 - c) increasing the size of the market catered for.
- o The search for greater autonomy directs the co-operative's strategy towards product diversification and finding a wider range of customers

for its diversified products and services, and also towards gaining direct access to its own market.

- o In this way, organizational and managerial complexity increases, and the limitations of the members' expertise and of their being production-oriented become increasingly apparent.
- o Functional organization is adopted for technical reasons, although idealistic elements oppose the internal hierarchy (introduced to improve coordination), direct control and graduated pay scales.
- o In order to meet its requirements for personnel with specific skills, the co-operative may either seek external consultation, hire personnel more or less in sympathy with its aims, or develop the professional skills of its members in a relatively organized fashion.
- o Economic success acts in a certain way as the driving force behind this process, which sooner or later moves Logic B closer to Logic A.

In summary, therefore, larger WTO co-operatives tend to maintain a more conventional form of business organization but direct it at least initially, towards maintaining employment, rather than profit maximisation. By contrast smaller WTO co-operatives adopt less hierarchical forms of organization which may evolve in a number of different ways depending on the internal social dynamics, and the demands of the evolving business strategy.

Appendix 1

CLG - A WTO Co-operative in the Graphics Sector

The case of CLG (12) provides an illustration of many quite typical features of WTOs in Italy.

CLG was born out of the Salgraf Company of Verona, which was engaged in photolithographic work, mainly for Mondadori (a colossus in the sector). The firm had a good volume of work, was well-equipped and in 1975 had 80 employees. Salgraf owned two other firms as well and had become involved in a number of complex large-scale deals and operations. However, in 1974 it found itself faced with a liquidity crisis and it tried to cope with this by dismantling the group and winding up one of the three firms. The trade unions resisted this move and management undertook to restructure the company's finances in other ways instead. However, a year later in 1975, and with no prior warning and no negotiation with the trade union, the owners placed the entire workforce in Cassa Integrazione, (see footnote above), despite the fact that the firm had a full order book and was having to resort to overtime. The workers reacted with determination against what seemed to them to be a non-existent crisis deliberately created in order to shift capital towards more profitable undertakings. A strike was called to force the owners to negotiate. However, production did not start up again and the conflict escalated: the workers occupied the factory and took their case to the courts, where an order was issued for the confiscation of the factory and the owner's house in order to provide a guarantee for wages owed to his employees.

After three months, about half the workforce, worn down by uncertainty, intimidation and false promises, left the factory for employment elsewhere, and the owner applied to the courts for the introduction of 'amministrazione controllata' of the firm (a system whereby debt repayment is temporarily suspended in order to enable the entrepreneur to overcome his economic problems). However, his application was rejected on the grounds that absolutely no plan for overcoming the crisis had been forthcoming. Thus two more months passed until the remaining workers applied to the courts to have the firm declared bankrupt. And, in fact, five months later, Salgraf was declared bankrupt.

The employees of Salgraf were mainly young people with good school educations and professional training. They were also more unionized in comparison with small firms in the sector. During the months of factory occupation, the idea had begun to grow of forming a cooperative in order to save their jobs, and a heated debate ensued between the two main trade unions (CISL and CGL) over the relationship between self-management and trade unionism. However, although two trade unionists came into the factory to join the co-operative's administration while it was being set up, the unions were usually conspicuous by their absence.

On the other hand, local political forces had been involved right from the start, by the workers' council, which orchestrated the complex

Italian ritual for the rescue of firms in crisis: public meetings and the involvement of the press and political, cultural and social associations. The search for a purchaser for the company was conducted half-heartedly, since it was thought that the particular situation of Salgraf was not one that would attract a suitable entrepreneur. In the permanent assembly the workers began to discuss the idea of self-management, but with serious misgivings: how could a workers' co-operative be set up in a sector with such special characteristics as the graphics sector, without financing, with the market lost, the firm's image ruined in the eyes of its customers and so many workers with irreplaceable skills lost? Nevertheless, at the end of February 1976 the assembly decided on self-management. At the beginning of March the co-operative was legally constituted and applied to the courts for the factory premises to be leased to them. This raised a number of legal questions, since bankruptcy law is either oriented towards the dismantling of failed firms to pay off their creditors or, in exceptional and limited circumstances, towards temporary management by the official receiver while warehouse stocks, perishable goods etc. are cleared. The workers' council rallied public support and organized sufficient pressure to 'persuade' the court to grant them the lease of the premises. At the end of March the contract was drawn up, and at the beginning of April the co-operative started up with 25 member-workers.

The first months were extremely difficult: without customers, after months of idleness, without capital and without managerial staff, recovery seemed impossible. At first the workers regarded this as a period of sacrifice to be borne to keep the firm going until a new owner could be found. But after the first positive results were achieved, the idea of self-management as the prosecution of workers' struggle and as an alternative to working for an employer, gained ground.

Particular attention was paid to factory democracy, of which various experimental forms were tried out. In general, it was organized as follows: the workers' assembly acted as the body that effectively ran the co-operative. It comprised five work groups, each made up of members representing all the production departments and each dealing with a particular problem. The administrative board had no decision-making powers but was merely an instrument for coordination and implementation, and in each production department the co-operative members were responsible for their own work organization. This was subjected to a number of changes over time. Initially, the departments stayed as they had been under the previous management, and managerial duties were carried out by a co-operative member acting as coordinator of the workers in his department, but with no decision-making powers of his own. This system of factory organization lasted for three years and was then changed because, although it directly involved the individual members in the running of their departments, it did not provide them with a global overview of problems concerning the production process in its entirety.

From 1979 work was organized into a 'planning and technical unit' and two 'production units', each responsible for the management of the

complete production cycle. Each of these three units was coordinated by a highly experienced member of the co-operative.

Members' wages were fixed by the assembly on the basis of the collective labour contract, which set out three wage levels according to age. There were no other increments: wages were the same for both workers and office staff. Only a small number of co-operative members with managerial responsibilities were paid a special fixed allowance for their hours of overtime.

The previous firm had employed 80 people. About 60 people are now working in the co-operative; a reduction resulting from the introduction of new technology, mostly during the first four years of activity. A heavy investment programme was embarked on (with leasing operations) strategically aimed at shifting production to medium-high quality, for which there is a solid and steady market, and at replacing traditional photography with electronic apparatus.

As always, the co-operative faced considerable difficulties in finding finance, but support from other workers and public opinion helped to attenuate the problem: the buildings were leased, the restructuring programme was set in motion by a number of leasing operations, a local bank granted a loan on favourable terms to provide working capital, the co-operative members postponed their wage payments for the first eight months and the co-operative's most important customer (Mondadori), thanks to the intervention of its workers' council and the graphic workers' trade union, agreed to monthly cash payments for major orders.

In the years that followed, CLG relied on bank financing, loans from co-operative members, finance from the Lega and various reserve funds set up with its own means. Since 1979 wages have been paid regularly and the co-operative's initial problems seem to have been overcome.

At present (1984), CLG has a sales volume of 3 billion lire. In its field it may be described as a 'large scale company', since the specific nature of its product (photographic separation) requires a large amount of work in a very short time (something that smaller sized firms are not able to do). Moreover, the high quality of its product has given the co-operative direct access to the market, of which it now control a good 50% at home and broad, and the high profitability of the product has permitted such speedy recapitalization that in 6 years the firm has been able to buy both the factory plant and the buildings.

Appendix II

Seven WTO Co-operatives Compared

Choosing illustrative examples of workers' takeovers in Italy is a difficult task because every case of WTO arises from a particular set of circumstances in which a variety of factors play a determining role: the economic and cultural context of the region, the characteristics of the workers as individuals, the size of the rescued firm and the type of 'co-operative idea' that the group of founder members has elaborated collectively and sought to put into practice.

In order to illustrate the similarities and differences among the strategies adopted by WTO co-operatives in their first years of activity, a partial elaboration of recent research data (13) has been carried out extrapolating only that information that relates to the sub-sample of 7 co-operatives that originated from the bankruptcy or crisis of the firms that preceded them, or from their transformation into cooperatives as a result of financial difficulties. This selection was also made with the aim of drawing comparisons between the case of CLG (Appendix I) and other co-operatives in the same region (Veneto) or in neighbouring Lombardia. Table 5 sets out the principal features of the rescue co-operatives and also reveals their heterogeneity.

Cierre was converted into a co-operative on the joint initiative of the entrepreneur and a small group of young people and an agency for the co-ordination of co-operatives in Verona. By means of a major programme of innovative investment Cierre tried to acquire new markets. However, it was not able to identify areas of the market suited to its new machinery. It was forced to operate in conditions of plant under-utilization and after a short time had to embark on a recovery programme.

Cabel was born on the initiative of the ex-owner, who put forward the idea to his employees (all very young) to set up a co-operative, since the firm's sole customer for its assembled television sets was beginning to show signs of crisis. It seemed, therefore, more sensible to look for new markets and new products. The entrepreneur wanted to share the risks involved and to avoid the costs of industrial conflict. The work-force was sceptical, and it was only by the efforts of a trade union leader that the conversion was made possible. Production changed over to videos, video games and monitors, with great success, and the entrepreneur took on the responsibility of training the young technicians himself.

Didial arose out of the bankruptcy of a clothes factory operating in an unprofitable sector of the market (low quality garments). The firm was too large for its market, at a time when the entire garments sector was in the process of restructuring. The firm's bankruptcy had been preceded by a period of major trade union effort aimed at saving jobs and recovering productivity: this led to the formation of an 'organizing group' of workers which subsequently promoted the co-

operative. During the ten months of official receivership, a purchaser was sought in vain. The receiver pronounced himself against the winding-up of the firm and proposed the idea of a co-operative to the workers. A permanent assembly was set up with the task of analysing the production cycle, costs and work organization, and of drawing up a detailed plan for the rescue of the firm and its transformation into a co-operative.

Pellicciai Riuniti arose from a large firm in the furs sector with 520 employees in 1976 and a sales volume of 20 billion lire. Its situation became critical and in 1980 its staff had dwindled to 138. During this period the trade union was severely hampered by conflicts among the workers. While the union contemplated self-management, a group of office workers set up a co-operative. The shop-floor workers, however, remained sceptical and were unable to decide whether to commit themselves to the co-operative. In time, though, the workers were forced to make up their minds: they joined the co-operative, and negotiations started over the assignation of the firm. The owner leased the trademark and the buildings, the management assisted in the setting up of the new administration, and a recently-formed company (in which the ex-owner had interests) made a large order.

Nuova Riguitti arose out of a crisis caused both by the maturity of the product and by its seasonal nature (garden furniture), as well as various errors of strategy. After two years of amministrazione controllata, mainly on the initiative of external political and trade union bodies a co-operative was set up which kept the firm's trademark and widened its production range with two new lines (household and nursery furniture).

Zetronic was born after seven years of company crisis when the shareholders decided to liquidate the firm. Self-management began shortly afterwards because the trade union and the political parties were concerned about the impact on employment in the area (750 people were employed by the firm). Production was maintained because orders had not been cancelled, and also to keep the firm in production. The trade unions and political parties, in agreement with the previous owners, set up a limited company until a definitive solution could be found. The limited company's capital was formed out of earnings accrued during the period of self-management and capital from the Associazione Industriale of Padova, thus demonstrating that the intention was to find a new owner for the firm and that the workers' takeover was merely a temporary solution. After more than a year of waiting for the appearance of an entrepreneur willing to accept the employment guarantees required by the trade union, the idea began to grow of a co-operative that would take over most of the social capital of the limited company administering the old firm. In this way, it was not necessary to declare the firm bankrupt, and a buyer could still be found. The old managerial staff left the firm, and new managerial resources were brought in from outside to begin the process of restructuring and conversion to electronics.

These efforts were generally successful and the commercial position of the enterprise gradually strengthened, with employment output and sales increasing sharply in 1982. In 1984 a private buyer was finally found for the enterprise.

Notes

(1) Cespe, "Il ruolo della imprese cooperative di fronte al mutamento tecnologico-industriale. Opportunita e vincoli connessi ai problemi economico finanziari e istituzionali", Seminario di studio, Bologna, aprile, 1986.

(2) Brusco, S., "The Emilian Model: Productive Decentralization and Social Integration" *Cambridge Journal of Economics* 1982, 6 167-184.

(3) For an analysis of the organizational articulation of the Italian co-operative movement, its willingness to become an economic group which democratically coordinates the strategies of the single associated firms, see: S. Zan, "Il movimento cooperativo come organizzazione complessa", *Studi Organizzativi*, no. 1, 1980.

(4) An up to date description of the Italian co-operative movement is in: S. Zan, La cooperazione in Italia, Bari, De Donato, 1982, G. Sapelli (ed.), Il movimento cooperativo in Italia, Torino, Einaudi, 1981.

(5) Taken from Regione Toscana (1985), see note 9, below.

(6) Cespe, op. cit.

(7) F. Strati, "Gli strumenti di politica attiva del lavoro aventi per oggetto l'autogestione", dattiloscritto, Firenze, 1986.

(8) The discussion is based on the analysis of the parliamentary debate on Law 49/85 and from a series of interviews given by representatives of political and trade union forces.

(9) Despite the widespread nature of the rescue co-operative in Italy, there is a general lack of awareness of the phenomenon. This is demonstrated by the fact that there is no generally current term in Italian to differentiate between rescue co-ops and other co-ops and by the fact that in the specialized literature there is only one book exclusively devoted to the subject, published after a colloquium held in Milan in 1984: Irecoop (ed), I problemi delle cooperative industriali nate da aziende in crisi, Milano, Cens, 1985. Unfortunately data from empirical research are not provided. On the other hand, in almost all research studies on co-operatives, a large number of rescue co-ops form part of the sample. The remarks made in this section have been taken from the comparative analysis of the case studies described in:

A.A.V.V., L'autogestione nell'industria, Bari, De Donato, 1978,
 A.A.V.V., Oggi l'autogestione, Roma, Edizioni Lavoro, 1980, Regione Toscana, Cooperazione in Toscana, 1977-1982, Flashlavoro, n. 1, 1985,
 M. Carbognin, A. Masiero, Organizzare l'autogestione, Roma Edizioni Lavoro, 1985, S. Gherardi, A. Masiero, "The impact of organizational culture on life-cycle and decision-making processes of newborn co-operatives", paper presented at VI Egos Colloquium, Stockholm, 1985.

Unfortunately a more detailed comparative examination of these case-studies (about 70 co-ops) is impossible because of piece-meal data.

(10) A. Tessitore, "Il potenziale di risanamento della formula cooperativa nelle crisi aziendali", in Irecoop (1985), develops and applies to co-operatives the analysis of V. Coda, "Evaluation of the entrepreneurial formula", *Economia Aziendale*, n. 1, 1984.

(11) The 'co-op business idea' is derived from R. Normann, Management for Growth, Chichester, Wiley, 1977. His concept of business-idea refers to the specific logic of action in the interplay between the organization and the environment. This has the merit of focussing on the idealised elements in the particular structure/strategy relationship. Since for a co-operative organization, the choice of its position in the market is likely to influence, and be influenced by, the shared idea about what a co-op is like, the term 'Co-op business idea' includes these elements as they are embodied and reflected in concrete economic choices.

(12) The case-study of CLG is contained in A.A.V.V. (1978) and in A.A.V.V. (1980); this co-op is also part of the sample of the research Carbognin-Masiero (1985) see note 9 above.

(13) These illustrative materials are taken from a sub-sample of the research Carbognin-Masiero and are directly known by the author who elaborated them jointly with Masiero: Gherardi, and Masiero (1985).

VI. - WORKER TAKE-OVERS IN SPAIN

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1 Introduction

WTO in Spain are carried out in two different ways - by the formation of workers' co-operatives, and by the formation of *Sociedades Anonima Laborales* ('Labour Companies' known by the acronym SAL). In Spain, these take-overs have been, and continue to be, made possible by financial assistance obtained from public funds administered through yearly programs under the supervision of the Ministry of Labor.

This report focuses on the experience of WTOs that have used the SAL framework. There are basically two reasons for this:

First, far more information is available. Although the statistics for SALs in the period 1975-1985 have many deficiencies, they do all refer to instances of WTO, because no 'new-start' SALs were formed during this period. By contrast, the aggregate statistics for worker co-operatives do not distinguish between those originating from WTOs and those formed in other contexts, and hence it is more difficult to judge the extent of the phenomenon. There is no doubt that co-operatives arising from WTOs have been significant historically in the development of the worker co-operative sector in Spain, particularly in Catalonia, with its tradition of self-management. For example, the oldest producer co-operative in Spain - the Mataro Glassworks formed in 1920 - was the result of a WTO. Nevertheless, it is widely held that only a minority of co-operatives have arisen in these circumstances - perhaps 30% of the co-operatives in industrialised areas like Catalonia. Moreover most of these have been followed by a 'phoenix' rather than a 'rescue' strategy, often following a lengthy period of closure. Hence they have often been more comparable with 'new starts'. In consequence, the question of WTOs has not been so important for the co-operative federations who have provided rather less of the public analysis and debate of the issues than has been provided by those involved with the SALs.

Secondly, regardless of the precise numbers of WTOs of each type, it is clear that the SALs are economically more significant because more WTO have chosen this form and they tend to be much larger. Most of the WTO that have given rise to worker co-operatives have involved less than 15 workers, whereas SALs are generally medium-sized firms of 50-100 workers, and sometimes more.

Before describing the evolution of the SAL phenomenon a number of general points must be made about the political and economic conditions in Spain over the last 12 years. The development of the economic crisis from 1976 coincided with a period of enormous political change. Since 1976, Spain has been involved in a transition from a dictatorship to a democracy, and from a centralist state to one with 17 parliaments and 17 regional governments. This prolonged institutional upheaval has been accompanied by a highly politicised climate of opinion which has affected business organizations and the whole of Spanish life. During this process there have been times when political priorities prevailed over economic ones - consider the attempted coup in February, 1982 - as a result of which one can speak of the

economic costs of the transition toward democracy. Thus, for example, Spain has the highest rates of strikes and industrial disputes in Europe during the period 1977-82, which also saw intense inter-union conflict.

During this period, unemployment rates were the highest in Europe - and they remain so - as well as showing the fastest yearly growth. Moreover the opportunities for emigration, which had been an important means of finding work during the years before the crisis, were closed off.

In addition, unemployment and social security benefits have been very limited for several reasons. First, most businesses based their contributions to the social security fund on wages that were lower than those actually paid to their workforce. These contributions were supposed to finance unemployment compensation at 75% of the employees wage. But since lower, notional wage levels had been used it was quite normal for compensation to be no more than 50% of the actual wage. This unemployment compensation system was significantly changed by Law 31/1984. Secondly, the maximum period for drawing unemployment compensation was 18 months. Once this period had expired, benefits were strictly limited to healthcare.

Finally, while unemployment compensation was being drawn, its purchasing power was being progressively reduced by the high rate of inflation (14.7% annually, on average, in the period 1976-1983)

In summary, the Spanish experience of worker take-overs must be understood against a background of political upheaval, economic crisis, rising unemployment and poorly developed system of social security.

2. The Nature and Extent of the SAL Phenomenon.

2.1 Origins

The first SAL officially began operating in Valencia in July of 1964 (SAL TUV). It consisted of workers from the firm that had been given the public-transport concession by the administration in that city.

This case, analysed in detail by Salabert Parramon R. (1), was made possible due to the political wishes of the highest officials in the labour unions and the Ministry of Labour. According to its official promoters, it was an instance of creating a type of national-union enterprise, in keeping with governmental ideology, that would be capable of overcoming the Marxist-capitalist dialectic. The regime did not want cooperatives. It was trying to stamp them out by integrating them into the official system and placing them under its control, because it understood them to have been a part of left-wing organizations during the Republican period.

Four years later in January, 1968 the Palma de Mallorca transport company was converted into a SAL. Subsequently, transport companies in

Almeria and Las Palmas de Gran Canaria became SALs. All of these companies were monopolies in the market, since in order to operate they needed an administrative concession from the municipality.

The process of transformation into SALs was the same in all cases:

- The non-renewal of administrative authorization granted to the concessionaire.
- Intervention by official union representatives in order to convince workers and facilitate the creation of SALs.
- Granting of loans with public funds under advantageous conditions to purchase the company, which involved no payments by workers.

In these SALs, worker participation took place through a Foundation that held the company's shares and to which the public funds were paid. Thus both the company and the Foundation had separate legal status. This arrangement kept the workers from freely managing their shares. Only workers could be shareholders, and the condition of worker-shareholder (with no payment by the worker) was a factor of the labour relationship. The Foundation always maintained control over the shares because once the labour contract was terminated, the rights to these shares would pass on to other workers through the Foundation. The Foundation also administered the resources earmarked by the company for social and cultural purposes. The company was managed through a conventional management structure, with the managing director accountable in principle to those elected representatives of the workforce on the governing body of the foundation. Workforce representation was also supposed to occur through an elected enterprise

committee whose role was to negotiate day to day matters with management. These representatives were members of the National Syndicates, not of independent unions.

Nowadays, from the standpoint of the labour movement, this belated initiative - after more than 20 years of "national unionism" - was an attempt to pre-empt the new workers' organizations that were then springing up outside of the official framework.

2.2 The Development of the SAL system.

The purchase of businesses by workers was made possible through the granting of loans by the Ministry of Labour through the "Fondo Nacional de Protection al Trabajo" (FNPT) - the National Labour Protection Fund, an agency that operated between 1960-85 under a system that was supposed to be similar to that of a commercial bank, (but it is uncertain to what extent these loans have actually been repayed to the FNPT).

The loans were of the following nature:

- They were personal loans not granted to the SAL. For this reason, the workers had to provide individual guarantees in order to answer to the FNPT in case of default.

- They established a maximum amount per worker, which was adjusted annually by the Ministry of Labour.
- They offered advantageous conditions regarding interest and amortization periods (5-8% and 8-10 years).

It is important to appreciate three features of this scheme:

First the terms of this programme were modified on several occasions and in 1985 - 1986 it was substantially redesigned. Assistance is now arranged through a newly created Directorate of Labour Co-operatives and SALs, within the Ministry of Labour. Loans are now granted to companies (rather than individuals) and on the basis of their financial needs (rather than the number of worker-owners), and they are provided by banks who have signed agreements with the Ministry of Labour. However, it is too early to evaluate the impact of these reforms and so the discussion that follows concentrates on the arrangements during the period 1979-1985 when the SALs first came to prominence.

Second funds from the FNPT were not the only source of finance for these WTOs. The workforce commonly made use of redundancy payments and back payments of wages (provided by the 'Fondo de Garantia Salarial' (FOGASA), a public fund that exists to provide these payments in cases where a bankrupt firm is unable to meet its obligations). In addition, further funds would be obtained from banks on normal terms.

Third, until the passing of Law 15/1986 the SALs did not actually exist under Spanish law, but were instead completely governed by normal Company Laws. However, in order to benefit from official assistance provided by the FNPT, the Ministry of Labour required specific conditions to be reflected in the statutes of SALs. Between 1979 and Law 15/1986 the requirements were:

- o A minimum of 50% capital had to belong to the workers. (Before 1979, 100% of capital had to be held by workers; law 15/1986 requires that this percentage be at least 51%).
- o No worker-owner could hold more than 25% of share capital (previously it could be as much as 35%).
- o Shares had to be registered and could only be transferred to other workers in the company (the two-tier framework using a Foundation was no longer required).
- o Modifications to the above statutory conditions could only be made upon authorization by the FNPT.

Hence the existence of the FNPT and the evolution of the terms under which it operated enabled large number of WTOs to take place. Many of these adopted the SAL framework, which ensures a form of worker ownership. How these arrangements have worked in practice, in terms

of management and control, remains somewhat unclear, partly because no detailed research has been done, and partly because the way the basic SAL framework is used depends very much on those involved. The key differences between SALs and worker co-operatives are obviously first that SALs allow for external shareholding, and second that in SALs voting is proportional to shareholding (rather than one member one vote). In practice, these differences appear less significant since the workers generally own equal numbers of shares. Moreover, differences in the management practices of SALs and worker co-operatives may have more to do with the larger size of the former, rather than the constitutional differences.

2.3 The Preference for SALs.

The measures made available by the Ministry of Labour in order to create SALs and co-operatives in the context of WTO are practically the same. There are however more tax incentives for worker co-operatives than for SALs. So the question arises as to why workers in businesses undergoing crisis have preferred to adopt the SAL rather than the co-operative form?

An initial answer can be found in the negative opinion that workers in mid-sized businesses had of Spanish producer cooperatives - excepting of course Mondragon - during the Franco government. These cooperatives were usually small, with elementary technical processes, existing under precarious conditions, with many of them benefitting from governmental assistance because of their ties to the government.

Nevertheless, this negative image of industrial cooperativism during the dictatorship does not really explain the preference of workers in mid-sized businesses for the SAL plan. Given that the workforce lacked co-operative ideals and the SALs lacked any clear ideology, the main reasons must be sought in the fact that workers value the economic advantages of the rights that Spanish legal laws grant them as workers and as shareholders.

SAL workers continue to be considered as hired workers, maintaining all rights they originally had under the Spanish labour system, which are basically as follows:

- o The power to appeal to a court for their work rights from a company in which they are shareholders, as well as workers.
- o The right to receive benefits from FOGASA, the Wage Guarantee Fund.
- o The right to receive financial and assistance benefits provided by law for jobless workers. This is a point of enormous importance, because until June 15, 1985, the date on which Royal Decree 1043 extended unemployment protection to working partners of producer co-operatives, had no right to unemployment insurance, due to the fact that the recognized legal relationship between the co-operative member and the co-operative was of a corporate, and not a labour, nature. Bearing in mind the birth pangs of a new enterprise and its

uncertain future, it appears logical that in WTO's prior to June of 1985, this was an element that would greatly affect the choice of legal framework.

Another set of arguments seen as favourable by workers, lies in the fact that the SAL form allows third parties to hold share capital in the businesses. So it is possible for a part of the capital to be lawfully held by non-working partners. This is an important aspect for two reasons:

- o The need to raise capital for the recently-acquired business. This cannot be on the basis of short-term profit forecasts - for obvious reasons. Investors must be prepared to take a longer term view and will wish to have some influence on company policy.
- o The interest in sharing risks that any business activity has, since the primary objective of the workers is always that of keeping a job, and not the possible profit - or loss - resulting from acting as a company shareholder.

Owing to the great restrictiveness of Spanish cooperative legislation, which does not allow for external shareholding (though this is currently being revised under bill in Parliament) workers see the above arguments as an advantage of the SAL over the Co-operative.

Two other facts also seem to influence the workers' preference for the SAL plan, though to a lesser degree:

- o There are fewer restrictions on the transfer of shares under the SAL form.
- o With a SAL, partners have rather less responsibility vis-a-vis third parties.

2.4 The Growth and Distribution of SALs

SALs are enterprises that are constituted in a manner so as to benefit from loans and subsidies granted by the FNPT. Their growth has therefore been proportional to the yearly budget assignment made by the FNPT, a result of governmental policy.

Although some SALs were formed in the 1960s and early 1970s their numbers began to increase after 1975 and took off sharply in 1979, when 78 SALs were formed employing a total of 7038 people (average size: 90). The following year 104 SALs were formed giving jobs to 10,782 workers (average size: 104). Thereafter SALs have continued to be formed in large though very variable numbers that seem to average about 150/year in the period 1981-1985. However, their size measured by the average number employed, seems to have fallen sharply which probably reflects changes in the terms and policies of the FNPT.

Table 1 prepared by the Ministry of Labour, shows the

AUTONOMOUS COMMUNITIES	SAL		WORKERS	
	No	%	No.	%
Andalucia	174	14.23	3,636	7.84
Aragon	20	1.64	811	1.75
Asturias	39	3.19	2,188	4.72
Baleares	10	0.82	1,242	2.68
Canarias	2	0.16	382	0.82
Cantabria	18	1.47	620	1.34
Castilla-Leon	86	7.03	1,233	2.66
Castilla-La Mancha	63	5.15	1,107	2.39
Cataluna	132	10.79	9,421	20.31
Comunidad Valenciana	54	4.41	5,071	10.93
Extremadura	23	1.88	403	0.87
Galicia	55	4.50	2,972	6.36
Madrid	142	11.61	2,796	6.03
Murcia	73	5.97	647	1.39
Navarra	102	8.34	3,244	6.99
La Rioja	3	0.25	327	0.71
Pais Vasco	227	18.56	10,304	22.21
Ceuta-Melilla	2	-	29	
	1,225	100.00	46,413	100.00

Table 1: No. and Distribution of SALs, and employees in SALs, 1985

total number of SALs and their distribution, as of 1985. However the accuracy of the figures is open to question partly because some of these SALs may no longer be trading. Thus, when Law 15/1986 was introduced in Parliament, the same Ministry calculated the number of SALs to be around 600, but estimated they employed 60,000 workers. On the other hand, the Catalonian Federation of Labour Companies (FESALC), in a census carried out in 1985, counted 190 SALs in Catalonia, with 8,835 workers, contrasting with the 132 SALs and 9,421 workers according to the figures in Table 1.

It should also be emphasised that the size of SALs varies very considerably - from those with less than 10 workers, to those with several hundred. Ministry of Labour figures also indicate a heavy concentration of SALs formed in 1983, only 1 was in agriculture and 26 were in the service sector. It is clear, too, that most SALs work for the local and domestic markets.

Overall, however, it is clear that upwards of 50,000 jobs have been saved through WTOs facilitated by the FNPT and utilising the SAL form.

3 Problems and Performance of SALs.

There is no doubt that the SALs have experienced severe problems, that a significant proportion have failed, and that many are having to struggle to stay in existence. However the support provided to SALs has evolved quite rapidly in response to these problems, so the current position is rather more promising.

3.1 Organizational and Management Problems.

Like other WTOs, the SALs have often had to improvise as regards management, especially since most of the more senior and qualified managers leave when the firm is taken over. A lack of training and experience on the part of the remaining managers and supervisors has led to poor planning and control. In addition, like other WTOs, most SALs are using old and obsolete equipment which has made it difficult to achieve the productivity required to be competitive. These problems have become particularly serious with Spain's entry into the E.E.C. Domestic Spanish industries (not the multinationals) generally have a lower productivity than European ones. Hence, in the medium-term, the SALs will have to compete with firms that have higher productivity than their present competitors in the domestic market. For the same reason, the SALs will have to increase productivity very considerably indeed if they are to be able to export. In short, many SALs are marginal enterprises and vulnerable to current economic trends and changes.

However some specific features of the FNPT scheme and the SAL form have created particular problems.

First, although SALs have always employed fewer workers than the source company the workforce is normally above requirements. One of the reasons for this is that the loans were being granted according to the number of employees in the company. Hence the number of workers to be recruited upon the incorporation of a SAL was determined more by the initial financial requirements than by production needs.

Second, the fact that SALs were not legally recognised until the passing of Law 15/1986 meant that there were conflicts between the Company Laws under which they were registered and the limitations placed on their statutes by the Ministry of Labour. According to Company Law, limits such as the FNPT required could not be applied to share sales or transfers. These ambiguities were often a source of some conflict and uncertainty.

3.2 Financial Problems

The financial problems of the SALs have been particularly acute. Some of the reasons for this are to be expected in the context of WTOs (e.g. the need to replace obsolete equipment; the initial business plans being over-optimistic; shortages of working capital arising from difficulties in obtaining loans from banks and credit from suppliers). However some of the problems have been particular to the Spanish context.

First, as noted previously, the financial provisions of the FNPT scheme were not based on the business requirements of the enterprise but on the number employed. Hence under-capitalization, from the start, was common.

Second, it was not uncommon for the source company's assets to be purchased at a value considerably below what they would be worth in the context of a viable business. Once a SAL was trading however, it would wish to value the assets more realistically to provide security for additional loans. Unfortunately, to do this left the SAL liable to increased tax, in line with the usual provisions of Company law.

Third, in the early years the procedure for incorporating SALs was through the issuing of new shares and their sale to the workforce. This had the effect of underwriting the company's debts to Social Security and tax agencies, which were still carried by the re-structured enterprise. More recently incorporated SALs form a separate company which purchases the trading activities of the source company - and the source company then goes into liquidation. The workforce thus acquires the assets of the company but not its debts. This method of SAL incorporation is known as the 'Catalonian path' and since its development some of the older SALs have been allowed to overcome their difficulties by cancelling their debts to the Social Security and Tax agencies.

Furthermore, the 'Catalonian Path' has given rise to the creation of the so-called re-SAL, that is, the dissolution of a SAL as a result of the bankruptcy of the company, followed immediately by the creation of a new SAL. This can happen if the workers are owed wages by their company. This means that legally they have preference over other credit.

tors with respect to the assets of the company - which they then use to set up the new SAL.

3.3. Survival rates

An important number of re-SALs have been created from the SALs set up in the period 1976-1981. This creates problems in estimating the number of failures of SALs during the quoted period because legally the re-SAL is another enterprise, although most of its assets and workers come from the former one. If the re-SALs are not considered as new enterprises then those closely associated with the SALs estimate that 50% of SALs formed during the period 1976-1981 have survived.

Since 1981 an estimated 70% are surviving despite the increasingly severe economic trends mentioned above. This improvement if it persists can be put down to two factors:

- o the improved support provided by the Ministry of Labour. Apart from the revision, and eventual replacement, of the FNPT scheme, already described, the Ministry has developed additional measures to subsidise the recruitment of general managers for SALs, and to subsidise the preparation of feasibility studies. Hence the workforce is now able to prepare and carry through the rescue of a firm on the basis of a more professional evaluation of the possibilities.
- o the formation of the SAL federations which provide an increasingly important source of support and advice.

Overall, then, the picture is one of rapid change which, along with the absence of reliable information, makes the evaluation of the SALs performance very difficult. On the one hand, the SALs do appear to be surviving despite the difficult circumstances in which they arise. Indeed, their survival rates are probably comparable with those for other small and medium-sized enterprises. On the other hand, the position of many SALs is still thought to be precarious, especially in the face of increased competition.

4. Prospects for the SALs

This section considers briefly the attitudes of other parties towards the SALs, and some current trends developments that are likely to influence the development of the SALs.

4.1 Attitudes of other bodies towards the SALs

4.1.1 Trade Unions.

Initially (between, say, 1975 and 1981) the attitude of the main trade unions - the UGT and CCOO, as well as ELA-SIV in the Basque Country - was to totally reject the policy which allowed the formation of SALs.

Trade unions felt that the formation of SALs entailed the transfer of an increasingly heavy responsibility to workers during an economic slump. If the company purchased by workers was subsequently forced to close, the workers could not join together to resist the closure since it would be seen as their own failure. At times, too, the SAL policy was seen as an attempt by the government to divide workers and put an end to the socio-political problem of worker unity when a medium-sized enterprise is closed. However these attitudes were not always shared by trade union members.

The Trade Unions also had complaints about the way SALs were run. Often there were confrontations between trade unions and the workers who created SALs, since some of the latter were requesting backpay owed them in order to leave the company. In many cases, too, there have been confrontations between workers on the Company Committee and management reflecting continuing tensions in the labour relationship.

Nevertheless the CCOO Confederal Congress held in 1982 entailed a change in the attitude of this union toward the SALs, in which they were shortly joined by the UGT. Hence nowadays, their attitude is favourable, but they have no clearcut policy: their position is basically pragmatic - to evaluate each case on its merits.

4.1.2 Employers' organizations

These organizations have always rejected the SALs. In their view the failure of an enterprise also means the failure of the workers and hence a WTO is misconceived. In addition employers think that the failure of an entrepreneur mainly results from:

- Legal difficulties in cutting down the company workforce.
- The high cost of workforce reductions, the redundancy payments that firms must make amount to 45 days salary for each year on the company payroll.
- The high cost of Social Security (27 - 32% of salary), the highest rate in Europe, which makes companies less competitive.

Therefore, the justification of SALs as a policy aimed toward creating jobs is not accepted by employers who have other priorities for such purposes:

- Making firms more competitive and the labour market more flexible by reducing the cost of dismissals.
- Reducing of employer's contributions to Social Security.

In spite of the above, some small companies have become SALs on the employers' initiative. The employer has proposed that workers purchase shares through loans granted by the FNPT, because this was the only way he could find to obtain finance after commercial banks had refused loans directed towards maintaining operations.

4.1.3 The Co-operative Federations

Although the worker's co-operative movement shares some common interests and perspectives with the SALs, the relationship between the two groupings is characterised by considerable mistrust. At one level, the co-operative federations criticise the SALs on ideological grounds. Thus, it is argued that the SALs preserve the structure of capitalist enterprise: the distribution of at least 51% of the shares among SAL worker-owners is no guarantee that in practice they will control the business, since external shareholders can act in such a manner as to control some of the worker-owners and consequently the company's Board of Directors. For the co-operative federations, therefore, the SALs are only justifiable when they are formed as a step towards conversion into a workers' co-operative.

However the attitude of the co-operative federations must also reflect some more pragmatic considerations. Both the SALs and the co-operatives receive public funds. In both cases these are administered from the General Office of Labour Co-operatives and Companies within the Ministry of Labour and Social Security. As a result, there is a problem of fund distribution: an improvement in the allocations for SALs would be detrimental to co-operatives, and viceversa.

4.2 Consolidation and new trends

Although SALs were the outcome of a national policy, the continuing economic slump has driven them to become organized in federations within those areas in which they are concentrated. The first of these was FESALC, the Catalonian federation set up in 1981. Later, ASLE, ANEL and ASATA were formed, being the SAL (FESAL) federations of the Basque Country, Navarre and Asturias, respectively. More recently ASALMA, the federation for Madrid, has been formed. These federations, although obtaining a part of their financing through contributions from their SALs, are supported by public funds granted by the Ministry of Labour.

These federations are an important development in allowing the consolidation of SALs. They advise associated companies on their contacts with the government, explaining the various schemes available. They also provide SALs with negotiating leverage with the government in regard to common problems they could not resolve on an individual basis.

Another aspect of SAL consolidation is their political support. There is now talk of the SALs providing Spain with 'the socialism of the 21st century'. The management committee of FESALC (the Catalonian Federation) is linked to the left political parties and the nomination of candidates to FESALC management positions undergoes preliminary negotiations with political parties.

Overall, it appears that SAL consolidation is a fact, and in rural areas (particularly Andalusia) the maintenance of industrial companies is not only a matter of saving jobs. It has prevented the dein-

dustrialization of the area, by maintaining certain industrial capacities that otherwise would have disappeared with the company. Moreover, the formation of the SAL federations and recent measures to support enterprise creation (particularly the right to capitalise unemployment benefit) have meant that the SAL phenomenon is no longer based entirely on WTOs. Large numbers of new enterprises are being created using the SAL framework - one source at the Ministry of Labour has suggested that three SALs are registered each day. A provisional report by FESALC in 1986 suggested that these SALs are being formed mainly in the service sector and are, understandably, rather smaller, with less than 15 workers on average. Nevertheless, this is another indication that the SALs are likely to become an established and significant in the Spanish economy.

VII. - WORKER TAKE-OVERS IN BRITAIN

by

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- 1 Introduction
- 2 Political and economic context
 - 2.1 Attitudes of the main political parties
 - 2.2 Economic trends and policies
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References

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1. Introduction

In 1971 following the inspirational example of Upper Clyde Shipbuilders, over 100 factory sit-ins and work-ins took place in the United Kingdom. One of these, in Norfolk, led to the formation of Fakenham Enterprises - the first in the recent wave of WTO. Nine women, made redundant when a medium sized shoe company closed a small branch factory, set up their own cooperative. With considerable financial help and advice from Scott Bader (the largest worker co-op in the UK) and others, they grew to a peak of 30 women and worked for several years making parts of shoes and other leather goods (1).

Then in 1974 Tony Benn became Secretary of State for Industry. Against the advice of his civil servants he provided Government finance for three of the major sit-ins to set up as cooperatives. The Scottish Daily News lasted only six months. But Kirkby Manufacturing and Engineering Ltd continued with 750 workers till it closed in May 1979; and Triumph Meriden struggled on, employing over 400 people, even longer (2).

These 'Benn coops' were repeatedly attacked in the media. As a result they are usually dubbed failures, a waste of Government money, or not 'proper' coops. But they suffered from seriously inadequate financing, and insufficient preparation for organizing cooperatively on a large scale. In the circumstances it can be considered a major achievement that so many jobs were preserved for so long. Although trade union attitudes are still influenced by this experience there are clear lessons from the 'Benn coops': for example, it takes time, specialist skills, finance and planning with all those involved, to make it work, before and after restructuring; the reasons for company's failure need to be closely examined; and usually only part of a business can be saved.

Since then, there has been a steady trickle of smaller 'rescue' and 'phoenix' WTOs', these have been less overtly political than the Benn Coops, have received no national state funds (or support) and many have not received local funds, yet their total now stands at about 90. Around 70 of these are still trading. Appendix I provides a list of those for which some information is available. In contrast to problems of the 'Benn co-operatives' which were widely publicised, the greatly improved performance of WTO co-ops since then has gone largely unnoticed.

This quiet development of the WTO phenomenon has to be understood first, in relation to the broader political and economic context (outlined in the next section); and second, in relation to the growth of the worker co-operative sector and its improved standing in the labour movement. In 1970 there were only about 30 worker coops, mainly long established businesses formed at the turn of the century. It is only in the past few years that there has been a substantial rise in numbers, from about 300 worker coops in 1980 to 600 in 1982 and about 1000 by the end of 1985. Though WTO numerically are a small proportion of all coops formed, because of their higher capitalisation

and greater number of workers, they are a more significant part of the coop movement. This big upsurge in 1983 and 1984 was of very small "new start" co-ops. This rapid development was greatly facilitated by the creation of numerous local Co-operative Support Organizations (CSOs). While most of the effort of CSOs has been directed towards 'new-start' co-ops, it is clear that they have also played a significant role in relation to many WTOs, particularly the more established CSOs. In addition, during this period a fitful re-appraisal of the co-operative option within the Trade Union movement was taking place - both a cause and an effect of local TU Involvement in WTO and other co-ops. These two developments provide the focus for much of the discussion in section 3 which considers the roles of external actors in WTOs.

Another way in which the environment has become somewhat more favourable for WTOs in the last ten years is in relation to legal questions. A number of standard legal frameworks now exist within which a WTO co-operative may be readily constituted. Most have a collective ownership structure with financial structures that have nominal individual equity, and almost all of the finance provided through loans; this tends to produce serious problems in their gearing ratios (low equity/high loan); in their financial demands on workers, and in their limited access to outside finance (4). In general, outside shareholding is not allowed, and members have to make substantial personal contributions - either immediately, or through low wages and the accumulation of retained earnings - if they are to attract significant amounts of external loan capital (which, of course, may not be forthcoming).

Only very recently have people begun to address this issue - some people are investigating the possibility of making use of non-voting preference shares, which would be taken up by sympathetic investors such as local government or the local community; debentures are being issued to increase co-operative loan funds, the US originated Employee Stock Ownership Plans (ESOPS) are being actively promoted, and despite opposition from most sections of the coop movement model rules, have been drawn up for Equity Participation Cooperatives (EPC) - a transitional form of co-operative that allows external shareholding (and external representation on the board). There is also growing pressure to liberalise banking restrictions. However, so far there is very little experience of any of these schemes.

In any event, access to venture capital is impossible under most cooperatives legal structures, and WTO generally rely on loans and members' own finances.

Overall, the support networks for co-operatives have developed considerably over the last 10 years, raising the visibility of WTOs and improving their prospects. Nevertheless, a closer examination of the experience of WTO to date (in section 4 and in the case studies in Appendix 3) demonstrates that these networks are highly localised and that a number of important issues still need to be addressed.

2 Political and Economic Context

2.1 Attitudes of the main political parties.

Cooperatives attract support from political parties for different reasons. The Conservative party is largely indifferent: in the context of employment creation they may praise them as a form of self-help, but in general they are treated as another form of small business, and supported so long as they do not require state support and so long as they have not challenged conventional industrial relations practices through illegal actions such as sit-ins. Opposition to co-operatives within the Conservative Party arises from the perceived folly of expecting workers to be able to manage, and in general conservatives prefer to extend the 'property owning/share owning democracy' through employee shareholding schemes that do not have any effect on the system of management.

As far as WTO are concerned, conservatives are against subsidies to prevent business failures, and since they now have a stronger belief in market forces than earlier conservative governments, they are less susceptible to political pressure to intervene to preserve employment. Hence the Bradley and Gelb thesis - that judicious support for WTO co-ops provides an economically acceptable alternative to other forms of intervention in cases where some state action is politically necessary (3) - lacks relevance for them. (Interestingly, right wing members of the business world may agree with Bradley and Gelb: recently Rupert Murdoch offered his sacked striking print workers their old printing presses to produce a labour movement newspaper as a worker cooperative.)

The attitude of the Liberal/SDP Alliance is well formulated but since their rise in popularity is so recent there is less evidence of practical commitment. However it is clear that they see coops as reconciling the interests of labour and capital and possibly reducing the strength of (or need for) trade unions. Their firm belief in the market is tempered by old fashioned liberal democratic values and a community orientation; this renders them more open to the political conflicts that Bradley & Gelb suggest would be resolved through the WTO option. The sources of opposition to coops and WTO are unclear, though they may derive from a belief in the greater efficiency of traditional labour market and industrial development policies.

The Labour party's position has become more positive after the setback of the failures of the Benn coops. The growth of coops in the '80s was largely due to the work of local labour movement activists in establishing a network of state funded coop support organisations (CSOs). The mainstream Labour party bases its support for coops on the egalitarianism of coops, their organisational form (where the workers own the means of production), and especially their policy relevance (and publicity value) for creating jobs. To the extent that the left of the Labour party supports co-ops, it is as a route to 'workers' control' and a socialist economy. Opposition stems from two sources; the 'hard' left who are still wedded to paternalistic state

socialism and the rhetoric of nationalisation; and sections of the mainstream who view co-operatives as islands of socialism in a sea of capitalism, and doomed to degenerate.

2.2 Economic trends and policies.

The government's monetarist policies, the world recession, an over-valued exchange rate, and new technology have resulted in massive economic restructuring. The collapse of manufacturing industry has been most apparent in the North, on Merseyside and in the Midlands. Growth of new sectors has taken place primarily in the South and outside metropolitan areas (excepting the development of new commercial services).

The UK official unemployment rate is currently between 14 and 15%. There are considerable regional disparities with certain regions (North, Wales, Scotland, Northern Ireland, West Midlands, Merseyside) suffering far more than the South. In addition unskilled workers suffer more, particularly in inner city areas, and if they are young and black.

Traditionally there have been a range of policies and financial provisions to help redress imbalances in regional industrial development. Such policies are directed mainly towards large and medium size firms, - providing investment, tax and rent subsidies to move into an area - and are generally thought to have produced very limited benefits. The latest measures of this type - the creation of 'Enterprise Zones' - do not appear noticeably more successful. However WTOs are sometimes able to take advantage of these measures - for example the one Sewing Co-operative was set up in an Enterprise Zone established after the closure of a major steel works.

As regards labour market management, more extensive efforts are now being made to provide industrial training and retraining. However, the infrastructure has been savaged and now lags further behind many other European countries and such provision is of limited value without either jobs in the local area, or opportunities for labour mobility. The former requires a far more effective regional policy, while the latter would require very positive measures to counter well-established trends in the housing market which have substantially restricted the mobility of ordinary workers (i.e. the stock of public housing - and hence the possibility for transfers - is being reduced through privatization; tenant protection legislation has reduced the supply of private sector rented accommodation; a very substantial and increasing differential exists between house prices in the north and in the south of the country).

Overall, the development of effective and co-ordinated regional development, housing, retraining and mobility policies is an enormous task that has never been successfully addressed even by more interventionist governments. But the considerable inadequacy of current policy has been a major factor in developing and reinforcing extreme regional disparities of jobs. The result is a lot of high paid jobs

in the South pushing up house prices, increasing labour market inefficiencies/inflexibility, and the reverse situation elsewhere. This increases demand for jobs in peoples own communities and consequently favours WTOs. The only direct benefit of these national policies for WTOs has been the occasional use of training provisions (e.g. MSC support for training initiatives at the Lettering Centre).

It is in this general context that Local Authorities (local state), especially in the north, have taken up the challenge of high unemployment by developing a range of local economic initiatives including enterprise boards and coop development agencies, thereby creating a more supportive environment for WTOs.

Finally, it should be emphasised that the UK small firm sector is the smallest in Europe - this is due partly to the concentrated nature of the economy (limiting market entry prospects), and partly to the nature of UK financial institutions which are strongly oriented to institutional investors and overseas capital markets. The result has been a shortage of venture capital, a conservative banking attitude to small firms, and a reluctance to go beyond short term secured loans. This is currently changing dramatically but the effects are felt almost exclusively by larger small firms and medium size firms.

3. The Role of External Actors in WTO

3.1 Local Government

Recent years have seen a great variety of policy initiatives by local governments to promote industrial development and create jobs. The measures adopted range from conventional subsidies on rents and reduced local rates (taxes), to more innovative local economic initiatives such as those pursued by the metropolitan county councils where direct intervention in the local economy was attempted. The Greater London Enterprise Board created by the Greater London Council is an example of these more interventionist measures. Besides direct investment in coops, it has backed initiatives for coops in strategic industrial sectors, promoted joint marketing initiatives, and set up a subsidiary organization (the London Co-operative Enterprise Board) to provide financial and other support for co-operatives. Similar Enterprise Boards were created by other metropolitan county councils and some of this infrastructure remains even though these particular councils have since been abolished.

Local Government support for co-ops and WTOs has also been provided in two other ways. Either the Local Government has funded a local and formally autonomous, Co-operative Support Organization (see next section) or it has included co-operative promotion in the activities of economic development departments. In the latter cases the scale of activity varies considerably, but assistance in obtaining premises, small start-up grants, low-interest loans and some advisory support have variously been provided Appendix 2 provides more detailed information on the financial provision for co-operative support by local authorities.

It is clear that WTO have tended to benefit more from the initiatives of the major enterprise boards than from other forms of direct local government support, not least because of the greater resources available to the enterprise boards. For example, GLEB was prepared to finance strategic investment that enabled Lithosphere (See Appendix 3), several years after it became a WTO, to establish itself in a much more profitable segment of the market. Nevertheless, in either case two problems have often arisen. First, there has been a tendency to use coops to help meet the social objectives of the local government while insisting that they compete openly in the market. For example, the implications of equal opportunity policies (regarding race and gender) and the aim of rehabilitating disadvantaged groups into the labour market have not always been considered in terms of appropriate training provision and adequate financial support.

Secondly, the procedures for appraisal of new business proposals, and for providing assistance to them, have often been inappropriate or inadequate. This has happened for a number of reasons - the secondment of local government staff (without appropriate skills and with little or no retraining) to newly created or expanding Economic Development Departments; the failure to recognise that new procedures (e.g. in relation to financial approval) were required to match the new tasks being undertaken; the overloading of internal processes due to understaffing and the high level of applications leads to a bureaucratisation of provisions that runs counter to the quick integrated response required for WTOs.

Overall, however, the capacity of local authorities (or their enterprise boards) to support co-ops and other local economic initiatives seems to be steadily increasing, and it can be expected that WTO initiatives will benefit in consequence, even if the particular requirements of WTO are not normally given particular attention or priority.

3.2 Co-op Support Organisations

Local activists, particularly from the labour movement and community groups, have been the major force in setting up cooperative support organisations. (Many but by no means all of these CSOs are formally autonomous and are called local Co-operative Development Agencies (CDAs)) others are part of local state machinery. The first of these, The Scottish Cooperative Development Committee (SCDC), was formed in 1976. Since then over a hundred local CSO have been set up, about half of which have obtained money to employ development workers. Some CSOs have also been allocated resources to provide comparatively cheap loans to co-operative. (However the sums involved are generally limited - see Appendix 2 for details). Such developments have mainly occurred in inner city areas, metropolitan counties and other Labour Party controlled areas where in some cases they form part of alternative local economic strategies. However, CSOs have also received support at a local level from Conservative, Social Democratic and Liberal councils.

CSO workers generally target their efforts at the unemployed by creating small new co-ops ("new starts") and assisting them through the crucial early years, many also give priority to disadvantaged groups such as women and ethnic minorities. They favour an in-depth, participative ("bottom up") approach towards helping groups of unemployed people form co-ops (rather than a more distant, 'expert advisor' or directive role; or taking a lead themselves in preparing new ventures). As a result a fairly widespread network for creating co-ops now exists and it is clear (4) that the increase in the number of co-ops has been greatest in areas served by local CSOs - even if many of these new co-ops remain small and economically vulnerable for obvious reasons.

Most of the more recent cases of WTOs have been formed with some assistance from CSOs, though this forms a relatively small part of their overall workload. In a survey of Coop Support organisations in 1984 (5) only three had more than 2 WTO cooperatives in their area: these were the Scottish Cooperative Development Committee (SCDC), Sheffield Cooperative Development Agency CDA and Northern Region CDA (NRCDA). One reason for this limited involvement of CSOs in WTO is obviously the limited number of occasions where a workforce considers the WTO option and seeks assistance. But as Cairns Campbell, a highly experienced CSO worker, has suggested on the basis of his own experience, the issues surrounding WTO can appear very formidable. This, and fear of failure with bad publicity similar to that which surrounded the failure of 'rescue' cooperative such as KME and Scottish Daily News, has probably put off many development workers from actively promoting rescue co-operatives. In addition some of the development workers we surveyed were concerned about whether it would be possible to develop cooperative working in such difficult circumstances, and felt that there was a danger that 'rescue' cooperatives would be too dependent on them for their survival. However, when development workers were asked the priority they would, hypothetically, give to various types of potential cooperative, 17 out of 25 gave first or second priority to "helping a group of 80 workers in a rescue situation". This suggests that more CSOs may be willing to get involved with 'rescue' co-operatives in the future.

Sheffield and SCDC have deliberately tried to support WTO cooperatives. Both have promoted the idea to trade union leaders as a strategy for dealing with threatened business closures if more traditional methods of defence fail. In particular, Sheffield has tried to develop close relations with trade unions, and gives unemployed workers with traditional local skills and 'rescue' or 'phoenix'* cooperatives very high priority. The Scottish Co-operative Development Committee has also promoted the idea to the Scottish Development Authority, and to local government, so that several of these bodies now frequently contract SCDC to investigate the scope for a WTO whenever the idea is raised in their area (see Appendix 3 for more information on the SCDC strategy towards WTO).

*A phoenix is a WTO that requires far more restructuring and scaling down than a rescue.

Experience in Scotland and Sheffield suggests that working to form WTO cooperatives presents the development worker with additional problems and constraints to those found with 'new starts'. It requires a different process of development. In Sheffield for instance several rescue attempts have failed because the CDA had inadequate warning and was unable to get the cooperative organised before the liquidator sold valuable assets. In addition setting up 'rescue' or 'phoenix' cooperatives may involve substantial and complex negotiations with the owners of the business, or the liquidator, over the assets that the new cooperative would need. External finance also has to be negotiated, and for large 'rescues' or 'phoenixes' this can be very substantial. As well as the problems of trying to identify and plan a viable business, the development officer also has to introduce cooperative working practices within a very short period of time. However, with larger WTO he or she has to work more through workers' leaders and representatives than with the group of workers as a whole. Thus the shortage of time, and the large size of the cooperative, may mean that the development worker has to be much more directive in setting up the cooperative than he or she would in 'bottom-up' development work with a small new cooperative.

In summary, rescue and phoenix cooperatives, particularly if they are large, can be very demanding in terms of the development workers' time and skills and they represent a concentration of risk (political as well as financial) in comparison to work with 'new start' co-operatives. The experience to date has highlighted several weaknesses of existing CSO support for rescues. They tend to be small agencies; and their method of development work is intensive, local and medium term, designed for creating small 'new starts'. In consequence, they lack resources of staff, expert advice and finance to assist large WTO co-ops that have to be set up fast.

3.3 Trade Unions.

For many years the trade unions were overwhelmingly indifferent or suspicious towards co-operatives and WTO. Such attitudes are still widespread but in recent years the questions raised by these initiatives have received much more attention and it is clear that attitudes are now changing. Three large Unions (the AUEW, TGWU and GMBATU) have produced policy statements supporting co-operatives under appropriate conditions - with 'new starts' receiving a stronger endorsement than WTO. The first two of these unions have special branches in London for workers in co-operatives - a development that would have been practically unthinkable even five years ago. In addition the Trade Union Congress (TUC - federal organization of Trade Unions in the UK) has produced a policy statement, though its position is more cautious. Its main reservations are:

- low wages undermining other TUC wage agreements
- recognition of the need to restructure the business (and not save all the jobs)

- recognition of the need to acquire sound financial/marketing information on the business
- a wariness of parent companies trying to sell unprofitable companies that have no 'turnaround' prospects
- possible loss of redundancy payments and other rights.
- a concern that coops may be used as a strategy to ease the path of privatisation; they discourage using the coop option in such situations, even as a last resort.

However, the statement did recognise the importance of working with co-operative support organizations in promoting WTO and other co-operatives.

Such policy statements are more a reflection of changing attitudes and the continuing debate than an indication of current Trade Union activity. In practice there are considerable differences both between unions, and within unions, with the attitudes and policies at national level tending to be more conservative than at district/regional level. This is especially clear where unemployment and local economic initiatives have stimulated new thinking in particular localities - for example, the involvement of AUEW and TASS in co-operatives and WTO in Sheffield.

A steadily increasing number of occasions of Union involvement with co-operatives and WTO has been both cause and effect of these changing attitudes and policies. However the very limited experience of WTO among Trade Unionists favourably disposed towards them has meant that the results have been mixed, with many mistakes being made. Some of the more notable occasions of Trade Union involvement with WTO have been:

- o the three 'Benn' coops (Formed in 1974) are still prominent in the minds of many trade unionists, who may not have drawn appropriate conclusions; such very large scale WTO are no longer typical.
- o The Transport and General Workers Union was closely involved with the "Taunton Shirt Coop" which eventually failed. This failure exemplifies many of the classic traps Trade Unions may fall into in a WTO - for example the centralisation of control in a manager/shop steward alliance to preserve the Trade Union investment at the expense of member involvement; inadequate business skills (in particular, in this case, marketing).
- o The experience of the Wales TUC in setting up a Co-operative Development and Training Centre. This was originally intended for 'new starts' and was not in favour of WTOs. However it became involved with them as a result of local trade union pressure and this is now an accepted part of its work -indeed,

it has a training programme for local officials aimed at preparing them to be able to support WTO. This whole initiative and its subsequent development may provide important lessons not just on the way attitudes can be expected to change as a result of greater involvement, but also on the appropriate means for providing Trade Union support: the creation of a specialist body provides Trade Union legitimacy and resources for rescues in a competent manner, while maintaining some distance between their dominant concern for job preservation on the one hand, and the need for difficult economic decisions on the other.

A detailed study of trade union attitudes towards, and involvement in, WTO on Merseyside (6) provides a picture that is probably typical of more conservative trade union attitudes in many other parts of the country. The views and experience of local trade union officials regarding co-operatives were generally limited and there were clear differences between the unions in their views due to different circumstances (public employees, large business orientation, etc). In addition, views were not consistent between different officials in the same unions. In general, however, co-operatives were simply not an issue - 50% of trade union members were in public employment with a strong commitment to public ownership and nationalisation; despite increasing privatisation it is such an emotional issue that WTOs are rarely considered. Co-operatives were commonly regarded as a distraction from 'major problems.' The officials had a firm belief in the value of collective bargaining (which many of them hoped could be extended to include additional decision areas) and they doubted that collective bargaining could be effectively pursued within a co-operative framework. There appeared to be an inverse relationship between strength of belief in collective bargaining and degree of support for co-operatives.

Whether or not one shares the officials preference for 'adversary democracy' (i.e. collective bargaining) over co-operative democracy, there are clearly problems over how and to what extent the two can be combined. Scott Bader, Britain's largest worker co-operative, bought from another company a smaller and unprofitable factory on Merseyside with a strongly unionised workforce displaying traditionally defensive and oppositional attitudes. The attempt to run it as a co-operative and to improve its economic performance foundered on just this clash over different cultures and traditions of industrial democracy, and eventually Scott Bader closed the factory. In general, an appreciation of the commitment of British Trade Unionists to 'collective bargaining' is essential for an understanding of the debate on co-operatives within Trade Unions. For example, it helps to explain the fact that Trade Union attitudes towards management buy-outs - of which there have been many in the U.K. - have been generally favourable (7) at the same time as they have tended to ignore WTO.

The officials' attitude to WTO was also affected by much more pragmatic considerations: they were under considerable time pressures with large work loads. Unionisation in any small firm is problematic, but

the effort/return ratio for coops was not seen as worthwhile, particularly since the learning required for this new strategy was considerable, the risk of failure significant, and the costs of failure substantial.

Despite the generally negative or indifferent attitudes, WTOs were still considered as an option in the face of plant or company closures. And although local officials usually had to operate in isolation without national union guidelines, and without adequate resources and skills to carry out the feasibility studies, and the negotiations for a takeover, once they became seriously involved the experience was often fruitful, for example:

- o USDAW negotiated with the large supermarket chain Fine Fare over their divestment of several small retail stores. Eventually 3 coops were set up and Fine Fare gave the coops better terms than they offered for stores divested to management buyouts.
- o TGWU negotiated with Dunlop in setting up Bootle Co-operative Installations
- o NGA were prominent in setting up Parados Graphics Co-operative
- o TGWU gave considerable support to the setting up of Liverpool Boatment Ltd to carry out dockwork.

Overall, therefore, Trade Union attitudes towards WTO are changing with considerable variations within and between unions, and in different parts of the country. In general, it appears that the more direct experience of WTO that Trade Unionists have, the more positive their attitudes tend to be - but this is not always the case. The perceived advantages and disadvantages of WTO for trade unions are summarised in Table 1.

ADVANTAGES AND HOPES

- o Strategy against closures
- o Strategy against unemployment
- o Extension of Industrial Democracy
(Challenge to managerial perogatives)
- o Extension of work reform
- o Extension of Labour movement presence in small firm sector

DISADVANTAGES AND FEARS

- o Low wages and poor terms and conditions
- o Possible undercutting of prices in conventional firms (and consequent threat to other jobs)
- o Only some jobs saved
- o Clash with traditional principles - unfamiliar strategy demanding new skills
- o Financial risk - where loans are made
- o May undermine opposition to privatisation
- o Incompatible with occupational base of trade unions
- o Greater administrative problems of organising in small firms/co-operatives.
- o Undermines collective bargaining and protection of workers
- o Cultural clashes with co-op movement - e.g. demands for reform of TU sexist and racist practices
- o Diversion from class struggle against capitalism
- o Collaboration with different class interests associated with co-op movement.

Table 1 Principle Reasons for Trade Unionists support or rejecting an involvement with WTO and co-operatives.

3.4 Co-operative Movement

The worker co-operative sector in the UK does not have strong social or commercial links with the other more strongly developed sectors of the co-operative movement. The (national) Co-operative Development Agency (CDA) set up by an Act of Parliament in 1978, is making some efforts to promote inter-sectoral collaboration, but this is a long-term project. The CDA itself is only loosely linked to the rest of the co-operative movement and its existence may actually have made it more difficult for the worker co-operative sector to secure funds for its own infrastructure. (i.e. co-op owned and controlled).

The Industrial Common Ownership Movement (ICOM) is the national member organization of the worker co-operative sector. By comparison with the representative bodies in e.g. France and Italy it is very weak and poorly resourced. Co-operative activists and expert advisory personnel are generally based in co-operative support organizations or in

autonomous co-operatives. Nevertheless, ICOM provides an essential forum and source of information on developments, and it has been successful in promoting training initiatives (for Women starting and working in co-operatives; for larger co-operatives) using money from the European Social Fund. In addition, ICOM has its own revolving loan fund, Industrial Common Ownership Finance (ICOF), which has built up considerable experience of co-operative financing even though the resources it has available are very limited. Finally, co-operatives in a few sectors are now forming federations.

The UK workers co-operative movement exhibits a broad range of views, and this is certainly the case in respect of relations with Trade Unions. Overall there is support for Trade Unions but in practice many coops don't see the need for them, and may only join for solidarity reasons, or to help secure radical niches in the market. The role of shop stewards within co-operatives is unclear. The main arguments expressed within the worker co-operative movement on both sides of the debate regarding the contribution of Trade Unions to co-operatives are summarised in Table 2.

FOR TRADE UNION INVOLVEMENT

- o Protection for worker interests, and in particular a safeguard against self exploitation (pay, terms and conditions)
- o Representation of interests of minorities or individuals (particularly in case of disputes)
- o Counterbalance for isolationist tendencies - closer links with the labour movement
- o Defence against degeneration, and in particular a check on managerialism
- o Source of outside skills, finance and assistance (e.g. arbitration)
- o Political support
- o Protection against unfair economic practices
- o Broaden base of appeal and support

AGAINST TRADE UNION INVOLVEMENT

- o Workers see no need for a union
- o Undemocratic and divisive; or incompatible concept of democracy
- o Clash of cultures and class (where coop is middle class or alternativist)
- o Centralising and bureaucratic tendencies
- o Sexist and racist tendencies in unions

Table 2 Views within the Worker Cooperative Movement regarding Trade Union involvement in worker co-operatives

As regards WTO more specifically, the same spread of views is apparent - from those who welcome WTO as an opportunity to broaden rapidly the economic and political base of the movement (through more, and larger co-operatives, and closer links with the labour movement); to those

who are more cautious and fear the problems of 'reluctant co-operators' and adverse publicity; through to a smaller proportion who see WTO as so fraught with difficulties - commercial, social and political - that they consider them bound to compromise, discredit, and weaken the movement.

So far these varying attitudes have not threatened coop/TU collaboration in setting up WTO as the financial resources available to the coop movement are the main constraint. However, as the movement grows this may change and ICOM has attempted to improve relations with Trade Unions through, for example, publications on Trade Unions and coops, and setting up a TU sub-committee.

3.5 Other Actors - Receivers and Liquidators

Receivership is not the only route to a worker takeover, but it is the more difficult route, due to time reasons and the doubtful viability of the business.

An official receiver is appointed on petition by a creditor or other party to a court if there is 'good reason' i.e.

- o the company is unable to pay its debts;
- o it has been decided and resolved in the company's meeting that the company should be wound up by the court;
- o if the court is of the opinion that it is just and equitable that the company should be wound up.

A receiver looks into the running of a business in an attempt to save it if he or she thinks it can be saved. A receiver can either continue the business or decide to close it down. Consequently negotiations have to be carried through fast. Creditors lower down the ranking order stand to lose if it's not sold as a going concern, but those first in the ranking order may have to be persuaded to wait whilst finance is raised by the workers. In the meantime other buyers (companies and managers) may be sought by the receiver.

Receivers therefore have some discretion over how they choose to exercise their obligations. Those appointed as receivers are usually qualified accountants specialising in this work and the general feeling is that they tend to be unsympathetic towards workers 'rescue' initiatives - out of a combination of rank scepticism and a desire to avoid unfamiliar complications.

When a company is clearly unable to settle its debts and be preserved as a trading entity, it may be put into liquidation. Control then passes to a liquidator responsible for the sale of physical assets. At this stage, if the finance has been arranged, a WTO initiative may well be able to secure a chosen selection of the assets and start a 'phoenix' co-operative. Staff of the Scottish Co-operative Development Committee consider this route, generally, to be preferable

to attempts for form 'rescue' co-operatives (-see Appendix 3 for more details of their approach).

4 The Experience of WTOs.

4.1 An Analysis of the Figures

The memory of the failed Benn coops lingers on in the minds of many people when they think of WTOs. Yet there have been many successful cases during the intervening 10 years with relatively little publicity - over 80 rescues have been formed, many of which are doing well. Sectors well represented include engineering, clothing, newspapers and printing.

Data on the known cases of WTO is presented in Appendix 1. The figures are most sensibly analysed by excluding the Benn co-operatives. Their size (average number of workers >700, compared to 26 in other WTOs), and circumstances of formation, make them completely atypical, and it is hard to imagine such 'experiments' being repeated in the foreseeable future. (See the case of the Bitteswell Employment Alliance in Appendix 3, for a more recent workers' initiative in the context of a large plant closure; despite the limited success of the BEA initiative the underlying strategy may have a great deal to recommend it, both economically and politically, compared with 'Benn-style' attempts to rescue large plants.)

Excluding the 'Benn' co-operatives, therefore, about 65 out of 85 WTO co-ops are surviving, 19 have failed and 1 has been privatised. The sparse data make it difficult to analyse these in terms of sectors. However, the survival rates by year of formation suggest that in common with other small business, many are economically weaker than large firms with a more limited life expectancy. Thus, only seven of the fifteen WTO co-ops formed before 1981 are still trading; whereas 19 of the 26 formed in 1981 and 82 have survived; and 29 of the 31 formed in 83-84 still exist. Since the expertise in supporting WTO has developed to some extent, there is hope for improvements in later years particularly as we are emerging from the recession. Nevertheless, if these figures are compared with failure rates for small businesses (40% fail in 5 years) the picture is actually fairly good.

The fact that many of the WTO co-operatives have to struggle to overcome their origins - under-capitalised in marginal sectors - underlines the importance for the co-operative movement of funding being available to support strategic investments in those co-operatives whose market position, and record of recovery and internal development, present an opportunity for consolidation or expansion (the Lithosphere case in Appendix 3 illustrates what can be achieved in such circumstances).

One other point is very clear from the data: the WTO co-ops that failed had an average of 47.5 workers; the average size of those that survive is 21. (Nevertheless, the variation in the size of both survivors and failures is considerable).

4.2 The Organizational Process of WTOs.

Generally, WTO arise after all other options have been explored i.e. as a last resort. Inadequate and inaccurate information is undoubtedly a problem as rumours fly before a closure. There have been some attempts (with limited success) to set up trade union early warning systems to provide support agencies with sufficient time to plan and organise a rescue. (Trade Union rights of access to company information are weak in the UK.) Also receivers can be obstructive - some of them have never even heard of coops. In general the attitude of the current owners can make an enormous difference - as the case of Lithosphere also illustrates. Paradoxically the 'last resort' attitude of trade unionists increases the risk that rescues will only be formed in marginal situations since it is a substantial barrier to worker take-overs of the more viable business. First outside buyers, then management, are given the option to purchase, and only thereafter do the workers get their chance. This considerably reduces the prospects of organising sufficiently fast for continuous trading without losing suppliers and customers, as well as the more skilled workers.

Where a business is viable, time is vital but where substantial restructuring and reduction of the workforce is required than a delay can be functional in allowing a period of self selection, retraining for new skills and cooperative working, and new product development, as well as the development of commitment.

The shop stewards are usually key figures particularly in the area of organising and campaigning. Their knowledge of the production process and of the work of individuals can also be invaluable, and they may have had to acquire financial expertise in their negotiating work. However they do seem to lack other managerial skills and knowledge, particularly in marketing. In both multi-union and single union plants the internal union structure will often be the organising vehicle for a rescue. External organising will usually be through a CSO often with close collaboration of the local state and labour movement activists (including local state democratic representatives).

A close working relationship between shop stewards and cooperative development workers is important from an early stage but an appropriate division of roles between the two has yet to emerge. Similarly, further work is required to develop criteria and tools for assessing rapidly which rescue candidates have the better changes of succeeding so that assistance can be concentrated there; and what business restructuring strategies and styles are most appropriate to cooperatives.

Two crucial problems that have been noted repeatedly in UK rescues are the development of sound management and the development of democratic decision-making.

Management skills tend to be lacking either because management has

left, or because important management activities were undertaken in head office rather than at plant level. One experienced consultant to WTO believes that where a market and the productive capacity are available the absence of a suitable general manager or management team is the commonest single obstacle to achieving a WTO. Even if members of the workforce have the potential to undertake these functions they may lack the confidence, or they may need to work alongside an experienced manager initially. Often, however, the shortage of management skills is accentuated because managerial activity is undervalued. A chronic distrust of 'management' may arise during the period of deterioration of the previous business. Often this attitude extends to white collar work and to meetings - both are regarded as not being real work. The importance of these areas of work has to be appreciated and they have to be established as legitimate activities.

In consequence it may take some time for a co-operative to evolve effective management roles and practices, in forms appropriate to the values of the co-operative - as the case of the Lake School of English in Appendix 3 illustrates.

The second problem, the development of democratic practices within the co-operative, has a number of aspects. The traditional adversarial collective bargaining model of industrial democracy fits uneasily within the participative structure of a worker cooperative. The latter is more unitarist and requires more active participation by workers. The result is often a confusion over the role of shop stewards and a tendency for them to take on managerial roles thereby severely restricting the scope for active participation by worker members. In other contexts, where managers from the former business are involved in the WTO, not only is there a major question over their competence (after all it was probably their decisions that led to the business failing) but there may be worker distrust of them, and the risk that once the co-operative is trading things may revert to the 'old ways', with the membership no longer involved in or understanding the decisions that have to be made. One solution to such problems is for the funding body to make a programme of training for members a condition of funding (and to include provision for this in the loan). This appears to have been successful at Barnsley Metal Finishers where an experienced co-operative training consultant helped members of the co-operative evolve new forums for democratic oversight of and participation in management (8). Also as the co-operative sector grows its managerial labour market will develop so that new managers are available to WTOs.

It is clear that in the years since the 'Benn' Co-operative an enormous amount has been learned by groups of workers and by agencies about slimming down a business and restructuring it on a co-operative basis. Compare, for example, GLEB's support of Custom Shoes in 1983, with its support of the Lettering Centre a year or so later: Custom Shoes was established under strong political pressure; most of the jobs in the old firm were preserved in the Co-operative; no proper market analysis was undertaken; the previous management was retained; and the time needed to achieve a turn around was underestimated. In

the case of The Lettering Centre the work force was initially cut back sharply to 10, though it rose to 15 again fairly soon; the previous owners were excluded from involvement and a new management team developed; a thorough study of the market was undertaken; there was no expectation of an early return to profitability (15 months to break even); resources were budgeted for training in business and co-operative skills; an interim control structure was devised to allow financial supervision by GLEB. Custom Shoes collapsed, while the Lettering Centre now has plans for a workforce of 25.

The problem is that the accumulation and dissemination of this expertise is still extremely piecemeal. It does take place within CSO networks to some extent; but the insights and experience of the activist members themselves are an asset of great potential value for other WTO attempts, and one that the movement has so far been unable to utilise effectively.

5. Conclusions: Some Policy Questions

A WTO attempt must, in essence, acquire financial resources and a range of skills - to negotiate the rescue, plan the business, develop co-operative decision-making, and so on. Where, then, can it obtain these resources and skills? - given the lending policies of financial institutions, and the extremely limited supply of co-operative managers on the labour market (which means that advisory support must be committed over some considerable period). The main external sources are Trade Unions, existing Co-operatives and co-operative movement organizations, the local state, (enterprise boards), and Co-operative Support Organizations.

While the Trade Unions have an important if still problematic role in WTO and they have some financial resources, they lack important skills. Existing co-operatives and the co-operative movement have the skills and experience but lack resources. The local state has resources, but in practice often lacks many of the skills. CSOs may also lack specialist skills, and often also lack resources. However, in combination, the local state and the CSOs currently represent the best possibility of assisting WTOs. Their experience so far has been reasonable, particularly when organised as a "specialised team" on a regional basis. The important question is: what could they have done if they were adequately resourced?

Such a question does, however, raise the whole issue of co-operative financing since a simple increase in the level of resources available to co-operatives through the sorts of loan funds currently operating would not be without its difficulties. In the first place, finance provided by the local state is often aimed at creating as many jobs as possible, with the attendant risk that its use will be biased away from WTO towards low capital, labour-intensive 'new starts'. Secondly, and more fundamentally, there are important questions over the appropriate mix of 'equity' and loan capital (gearing) which already cause major problems for WTO.

At issue, here, is the vital bar on external shareholdings in worker co-operatives. If coops should consider external shareholding there

are increasing numbers of venture capital organisations involved in management buyouts that might be a contributory source of finance for particular WTOs. In addition there are some sympathetic investors who could buy equity, such as Unity Trust - a new coop/TU investment fund. To be compatible with co-operative principles such shareholding would have to be preferential non-voting and not involve board representation. But there may be enough sympathetic investors for this to be possible. Note that there are implications of a particular co-operative legal structures for the relevant form of external finance. For example a collective ownership structure (most UK co-operatives) is compatible with a system of loan finance. Substantial external equity would, only be possible lead to with a legal structure allowing greater individual shareholding to co-operative members.

In summary, then, if more and more successful WTOs are to be achieved, the following issues must be addressed:

- . How can WTO expertise be better promoted and utilised within support organisations (coop and local/regional state)?
- . How can the experience of more effective WTO strategies (avoiding 'last resort' efforts, shop steward management, etc) be properly disseminated in the Trade Union movement?
- . What is the appropriate location for state support? - for example, should it be used to resource the coop movement's own development infrastructure, or administered directly by agencies of the local (or regional) state (e.g. enterprise boards), or through hybrid bodies (such as many CSOs)?
- . How may learning resources and opportunities best be provided to develop the skills of those taking on managerial responsibilities, and of the membership at large, in WTOs?
- . What innovations in co-operative financing can be developed to allow more WTO attempts to secure support and to do so with more appropriate capital structures?

Appendix 1

Rescue Coops in UK since 1972 - as of June 1986

Name of Coop	Region/County	CDA present at set-up?	No. empl (+p/t) 1985	Sector	Dates
Bardrec	Scotland	NO	42	Engineering	1976
Craighton Bakery	Scotland		28(+2)	Bakery	1981
Fife Fashions Ltd(?)	Scotland		10	Clothing	1983
Fife Sewing Coop Ltd	Scotland			Clothing	1984?
Grange Carpets	Scotland		CEASED (14)	Textiles	1981-84
Highland Holiday Boats	Scotland				1984?
Inchinnan Engineering	Scotland		CEASED (57)	Engineering	1982-83
Randolph Leisurewear	Scotland		35	Clothing	1981
Scottish Daily News	Scotland	NO	CEASED (700)	Newspaper	1975-75
St. James Clock Co Ltd	Scotland			Mnfturing	1984
Haydown Engineering (?)	N Ireland			Engineering?	
Cleator Moor (?)	Cumbria			Engineering?	
Altepak Services Ltd	N Region		7	(Services)	1983
Chirton Motor Services Lt	N Region		3	(Services)	1983
Claremont Nursery Coop	N Region			(Services)	1984?
Class One Ltd	N Region		18(+1)	Clothing	1983
Consett Community Enterprises	N Region	?	4	(Services)	1981
Louise Argyle	N Region	?	20	Clothing	1981
Northern Pattern Makers	N Region	?	6(+1)	Engineering	1981
Orly Company Ltd?	N Region	?	3(+2)	Engineering?	1981
Phoenix Fabrication Ltd?	N Region		4	Engineering	1983
Kedhead Ship Repair Yard Ltd	N Region			PRIVATISED	Ship Repair 1984-84?
Other (details uncertain)	N Region				
Other (details uncertain)	N Region				
Other (details uncertain)	N Region				
Wilshaw Rainwear	Bradford	NO	37(+3)	Clothing	1981
Other (details uncertain)	Leeds				
Other (details uncertain)	Leeds				
A.R.M	Sheffield	LA	8	Engineering	1982
Hona	Sheffield	LA	11	Engineering	1982
Parkway	Sheffield	LA	15	Engineering	1982
Procon Builders Merchants	Sheffield	LA		Build Mercha	1984?
Traffic Systems	Sheffield	LA	7	Engineering	1982
Raven of Barnsley	Barnsley	LA	91(+1)	Clothing	1982
Barnsley Metal Finishing	Barnsley	LA	16	Engineering	1984?
Hoyle Mill Engineering	Barnsley	? LA	6	Engineering	1981
Manchester Cold Rollers?	Gt Manchester	?	8(+2)	Engineering	1981
Fourways, Bury?	Gt Manchester		4?	Retail	1984
Bootle Installations	Merseyside		6	Mnfturing	1984
K.M.E	Merseyside	NO	CEASED (700)	Mnfturing	1975-79
Liverpool Boat Men (buyout)	Merseyside			Services	1984?
Parados Graphics	Merseyside			Printing	1984?
McKenzie & Brown	N Wales		(15 p/t)	Engineering	1984
Red Dragon Stores	N Wales		5	Retail	1984
Ty Newydd (comm Coop)	N Wales			Pu.	1983?
Aberystwyth Engineering	Mid Wales	NO	CEASED	Engineering	1981-81?
Bargoed Blouse	Mid Glam	NO	32	Clothing	1980?
Dowlais Knitwear	Mid Glam	NO	CEASED (23)	Clothing	1977-79?
? Other clothing	Mid Glam			Clothing	1984?
Kame Coop	West Glam		CEASED (10)	Furniture Mfc	1980-81?
Cum Catering	West Glam		6(+2)	Catering	1984
Tee Gee	Birmingham		13	Clothing	1984
New Springvale Ltd	Black Country	?	25(+10)	Club etc (Services)	1981
Community Print	Black Country		CEASED(5(+4))	Printing	1982-84
Warley Independent News (Wolverhampton)	Black Country		CEASED	Newspaper	1982-83?
Reel Print	Black Country			Print	1983
A H Engineering	Coventry			Engineering	
BEAUT	Coventry		?	Mnfturing	1983
Meriden	Coventry	NO	CEASED (800)	Mnfturing	1975-82?
Forward Drains	Birmingham		9	Service	1985

Whistans (1984)					
Ltd (buyout)	Derbyshire				1984
Trio Ltd	Leicestershire		4	Clothing	1982
Other (details uncertain)Leicestershire					
Grantham Enterprises	Lincolnshire	NO	4	Clothing	1978
Castle Engineering	Northants		12(+1)	Engineering	1983
Ventura	Northants		18	Clothing	1984
Nottingham News (lockout)	Nottingham	NO	CEASED	Newspaper	1980-82?
Fakenham Enterprises	Norfolk	NO	CEASED (14)	Shoes	1972-75?
(Clothing)					
Other (details uncertain)Norfolk					
Lake School of English	Oxford	NO	6	Ed. Services	1980?
Minehead Shoes	Somerset	NO	14	Shoes (clthg)	1982?
Unicorn					
(Taunton Shirts)	Somerset	NO	CEASED(50)	Clothing	1982-84?
Brenco engineering	London(Brent)		12	Engineering	1982?
Third Sector	London(Brent)	(GLEB)	CEASED (180)	Mnfturing	1982-83?
Pregnancy Adv Services (defensive conversion)	"(Camden/Richmond)	NO	170	Services	1980
Inter-Action Trust Ltd (defensive conversion)	"(Camden)	NO	55	Ed. Services	1984?
Custom Shoes	"(Hackney)		CEASED(100)	Shoes (clthg)	1983-85?
Goldstein Engineers	"(Hackney)			Engineering	1984?
City Limits (defensive conversion)	"(Islington)	NO	10(+40)	Magazine	1982
Lithosphere (defensive conversion)	"(Islington)	NO	32	Printing	1980
Calvert's North Star Press?	"(?)	NO	10	Printing	1977?
The Lettering Centre?	"(Southwark)	GLEB	20	Printing etc	1984
Marble Arch School of English	"(?)	NO	CEASED(20)	Services	1978-82?
Hillside Co Day Nursery	"(?)	?		Services	

This listing is indicative, not authoritative. Some WTO will have been overlooked and some of those listed may be cases where the attempt at a WTO collapsed after a co-operative was registered, but before trading could start (a number of such cases have been excluded).

NAME OF FUND	AMOUNT	INTEREST RATE	SOURCE	DECISION MAKING AND MANAGEMENT	INDEPENDENT FUND	COMMENTS
CLEVELAND CDA	£100000	Not more than 1% above base rate	County Council	A panel has been formed from the CDA, the County Council and local banks	Yes	The panel advises the CDA who control the fund
CAMBRIDGE CDA	£ 20000	5%	City Council	The CDA makes recommendations to the chair, vice-chair and treasurer of the Council	Not at present	The fund provides "pump primary" loans of up to £3000. When loan repayments are made the CDA retains control of the funds generated
DERBYSHIRE CDA	£ 25000 with top up each year	3% below base rate	County Council	The CDA makes recommendations to the City Council	No	The Council hold the fund but take very little part in decision making
LEICESTER CDA	£100000 with top up each year from the Urban Programme	5%	Urban Programme (City Council) and £50000 grant from the Council	The CDA workers make a recommendation to the CDA General Council which takes the decision	Yes	Grants may also be made from the fund - often limited to premises development. Funds are held by the CDA
LONDON CO-OPERATIVE ENTERPRISE BOARD (covers all London CDAs)	£1000000	5%	Greater London Enterprise Board	Separate Company Limited by Guarantee with representation from London co-ops	Yes	The LCEB can make loans of up to £25000. Applications for large amounts are referred to GLEB. An "enterprise plan" is agreed with the applicant which is reviewed annually
NOTTINGHAMSHIRE CDA	£100000 for first year and £50000 for second year	3% below base rate	City Council	Administered by a finance sub-committee of the CDA with representatives from the Council. The decision taking body is the CDA	Yes	Applications are accepted for loans of up to £8000. Larger loans are processed jointly with the Industry and Employment Committee of the Council
SUNDERLAND REVOLVING LOAN FUND	Currently 40000 with annual increments of 20000	3% below base rate	Urban Programme (Borough Council)	A committee convened by ICOM North make recommendations to the Borough Council	No	Funds are held by the Council
WANSBECK COMMON OWNERSHIP FUND	30000 (from lottery fund)	Less than 10%, reviewed quarterly	District Council	Administered by trustees with recommendations from the CDA	No	Funds are held by the Council. Start up grants and loan guarantees are also available.
MANCHESTER CITY CDA (MANCODA)	£25000	not known	City Council	not known	not known	
WEST MIDLANDS (covers, B'ham Coventry, Black Country CDAs)	1. £500,000 2.	not known free or 5%	West Midland County Council	2. Loans appraised by co-op officers of the Councils Economic Development Unit. Decisions made by Board of WMCOP.		1. The fund is administered by Industrial Common Ownership Finance for West Midlands C.C. 2. The second fund is called the West Midland Common Ownership Fund (WMCOP).

Source: Survey and from report by Avon CDA.

TABLE 18: LOCAL CO-OPERATIVE LOAN FUNDS

Appendix 3 - Case Studies

CASE 1: Lithosphere Printing Cooperative Ltd

Lithosphere is an example of a WTO of a successful business, it became a printing coop in April 1980. Prior to that it had operated as the 'in-house' printing service for the campaigning charity War on Want. In 1979 the operation was adjudged 'commercial' by the Charity Commissioners and War on Want was instructed to dispose of it. The department was closed and the staff of six made redundant, but the assets were sold to the workers, and their redundancy pay provided the initial working capital. It has since grown to over 30 members and relocated with the aid of local government and GLEB finance. Its substantial investment in a 4 colour press has extended its market from trade unions and community groups to education and publishing. The coop is fully unionised (NGA and SOGAT), pay is on a grade system with a 4% differential between grades; terms and conditions of employment are at least as good as union guidelines. Sales are expected to increase from £350,000 in the year to January 1985 to between £660,000 and £1 million by 1986-7.

The coop operates a management/coordination Committee comprising elected departmental representatives and union representatives, which meets monthly.

CASE 2: Lake School of English

Lake School of English is based in Oxford where they teach English as a Foreign Language (EFL). They employ five full-time teachers and a full-time administrator, and have just moved to smart new offices that they had specially converted to serve the needs of the school. The founder members of the co-operative all worked for the EFL department of a large tutorial college. In 1977 the college closed down its department because it was said that it was not making enough money, and they decided to set up their own co-operative.

For two years they ran the business from a small office in the town centre, and put on their courses in an old church hall on the outskirts of town. Then in '81 they acquired new premises and British Council recognition with its scholarships.

In the early years the job of administrator had been rotated on a yearly basis between the members of the co-op who were all teachers. Administration at Lake is a big job, and eventually the members decided that it would be better and more efficient if they employed a full-time specialist-administrator. This greatly improved efficiency. However the teaching staff all spend some time in the office.

Regular meetings of the co-op take place on Friday afternoons. This is where the information is exchanged and decisions are made. It's also something of a social event as they wind down at the end of the week. Decisions are nearly all made by consensus.

CASE 3: The Bitteswell Employment Alliance

BEA was established by workers made redundant following the closure of the Bitteswell factory of British Aerospace in Spring 1983. Of the 2000 made redundant, about 250 formed BEA with the aim of creating their own employment. Initially they elected a Committee, consisting mostly of the members of the joint staff and works shop stewards committee, then they gradually developed a suitable structure - a company consisting of all the individual members of BEA, organised in project groups while they are still unemployed. A project group aims to employ members in a work group and eventually to register as a co-op, establishing a permanent relationship with BEA through a contract of association. All BEA members employed in work groups (or by BEA itself centrally) have a workers' council to safeguard their interests as workers. The BEA Committee (the Company's Board of Directors) was made up of elected representatives from these various bodies and groups.

The Coventry Co-op Development Agency first made contact with the Bitteswell Employment Alliance in the Summer of 1982 following the announced factory closure. They were introduced to the Alliance through Coventry Workshop and the Unit for the Development of Alternative Products (UDAP) to examine the potential for creating employment with the highly skilled redundant workforce.

The CDA has worked with BEA providing assistance with the legal structure, fund raising, support for the management committee, education and training, and business development advice to project groups.

Numerous project groups developed promising and innovative prototypes (among others, Lok-a-bike based on a secure cycle locker; Community Aid Products, developing a variety of aids for the disabled; Powergen working on electronic equipment for schools; Beagas based on a gas detector). However, BEA drew its membership overwhelmingly from skilled production staff who, quite understandably, and despite the efforts of advisors, tended to concentrate on the engineering aspects of product development at the expense of more general business planning, and marketing in particular. It took the failure in 1985 of the first and most ambitious trading cooperative to emerge from BEA (it assembled 'Jiffy' vehicles, a light commercial vehicle kit, and manufactured custom-built van bodies) and also prolonged difficulties in moving other projects from the stage of prototypes and customer interest, to that of securing orders, financial support, and premises, to bring this home to those involved. During this period the financial support provided to BEA (mainly from the local state) was largely consumed, and the number of active members declined.

Hence, although a small number of jobs have been created and efforts on several projects continue, BEA as a whole has not really succeeded in achieving its aim. Nevertheless, the BEA experience may prove important both for the novel strategy that it expressed, and for the lessons for future attempts that can be derived from it.

CASE 4: The SCDC Strategy for supporting WTO

The Scottish Co-operative Development Committee has given priority to the support of WTO over a number of years and has the most extensive experience of this work of any of the CSOs. Its approach has three elements: (i) measures to obtain early contact with enterprise closures, (ii) providing assistance to the work force in considering the WTO option and in trying to achieve a WTO; (iii) supporting the new enterprise in a variety of ways after the take-over, often for a prolonged period.

Apart from some general publicity and contact with Trade Union officials, SCDC has promoted the idea of WTO with a range of economic development officials in local government and in the Scottish Development Agency. These officials often hear of impending closures and notify SCDC when a WTO may be an option. In some cases standing arrangements have evolved whereby SCDC staff are contracted to investigate the WTO possibilities, and then contracted to work with the work force if they decide to pursue the option. These arrangements operate informally by telephone agreement at standard rates, so that there is no delay.

As regards assisting the workforce, the development worker's role includes:

- i) Informing workers and their leaders about the cooperative option. This is a frank description of what they can expect - it is not a matter of 'selling' the idea, which may be abandoned at this point.
- ii) Working with potential members of the cooperative to assess the feasibility of the cooperative. This will involve cycling through the following activities in progressively greater detail:
 - a) analysing why the business closed.
 - b) searching for products/services for the cooperative and identifying customers.
 - c) identifying whether the necessary factors of production are present or could be acquired. This will frequently involve negotiations with the previous owner, or the liquidator if the business has gone into liquidation.
 - d) assessing the human resources of the cooperative. Identifying how many people the new business can employ, whether people have the necessary skills and commitment, and working out how the cooperative will be managed.
 - e) working out the financial resources that the cooperative will need to get off the ground, and identifying ways it can be raised.

- iii) On occasions, mobilising public support for the cooperative in order to help persuade the previous owner or other relevant organisations to help the cooperative.
- iv) Preparing a business plan in order to raise external finance and backing.
- v) If successful, helping to implement the plan and getting the cooperative off the ground.

Because of the need to slim the business down, and the additional time for planning and preparation that is available, SCDC generally favour 'phoenix' co-operatives to 'rescues'. One very experienced former staff member has estimated that for every 10 occasions when they make contact with the workforce of an enterprise that is being closed, on roughly 5 occasions the discussions will be very quickly abandoned (usually because of a combination of poor prospects and workforce reservations); on a further 4 occasions the option will be seriously explored but will not in the end be achieved; and on only one occasion will a co-operative start trading. When a WTO cannot be achieved it is usually for a combination of reasons, but the absence of people able - or with the confidence - to undertake managerial roles commonly contributes. On occasions, SCDC has attempted to overcome this problem by seconding one of its own staff into the co-operative on an interim basis.

Once the new co-operative is established SCDC development officers will stay in close touch and provide further advice and assistance for the crucial early years. For example, in recent years SCDC has encouraged such co-operatives to lease from them (at a very modest charge) a simple micro-computer with a basic accounting package prepared to their requirements, for which initial training is provided. Not only does this ensure that the co-operative has the financial information it needs, but it means that when SCDC staff visit they too can be kept well informed.

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Rob Paton, Cooperative research unit, The Open University, UK

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