"Summary of article by Will Bartlett, John Cable, Saul Estrin, Derek C. Jones, and Stephen C. Smith: Labor-Managed Cooperatives and Private Firms in North Central Italy: An Empirical Comparison" in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 252-255

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There has been extensive theoretical discussion of the expected performance of private businesses which are owned and managed by their workers. At the same time, there have been many empirical analyses, usually case studies, of cooperative enterprises in practice. This article attempts to bridge the gap between the two bodies of literature, first reviewing the theoretical discussion and then testing it against a survey of the actual comparative performance of worker coops and traditional companies in two regions of Italy in 1986-87.

PREDICTIONS FROM THEORY

The academic literature begins with the assumption that worker-owned enterprises will attempt to maximize average earnings per worker, rather than conventional profit maximization. As a result, the theory predicts that cooperatives will tend to decrease employment following an upward demand shift, both in the short run and possibly in the long run. On the other hand, some authors argue that coops tend to have ties to the local labor market and will thus seek to maximize employment as well as income per employed worker.

Regarding wages, some have argued that coops will pay higher wages than private companies whenever profits are high, since worker-owners will be quick to reward themselves. However, especially in young coops, worker-owners may also choose to limit wages in the short-term in order to invest for future growth. Coops may also choose to insure that employment is stable by sacrificing current income in order to prevent layoffs.

Economic theory seems to suggest that how many hours of work each worker chooses to do should depend on the reward systems within the cooperative. If all workers share equally in the enterprise profits, then average hours worked will be relatively low because of the "free-rider" problem -- everyone gets the benefits of extra work by any individual.

Some writers argue that coops which finance their investment with internal funds will be under-capitalized, for two reasons. First, workers will only want to tie up their capital internally for as long as they expect to be with the coop. Second, workers will not want to invest if they can get a higher rate of return through alternative investments.

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Authors disagree over the level of efficiency of worker coops versus traditional companies. Some believe they will be less efficient because there is no one with an incentive to monitor work performance. Others argue that employee participation can reduce socially wasteful conflict in the workplace, reducing supervision costs and higher levels of worker commitment, leading to higher productivity. In addition, coops may also yield gains in other social objectives, such as work satisfaction for their employees and responsibility to their communities in terms of social and environmental impacts.

CHARACTERISTICS OF THE SAMPLE FIRMS

Worker coops are spread throughout Italy, both geographically and across industries. For this study, the geographic area was limited to two regions, Emilia-Romagna and Tuscany, which between them have 14 percent of the nation's coops. The sample was limited to companies involved in light manufacturing, and included 49 cooperative and 35 private firms. Companies were selected by matching coop and private firm characteristics in terms of size and sector (mainly metalworking, clothing, and woodworking). Coops averaged 92 employees each, private firms 118 employees.

Among the coops there were 18 firms in metalworking, 11 in textiles and clothing, 13 in woodworking, and seven in other fields. About two-thirds of the coops had been founded from scratch, with the remainder formed from failed private companies. The coops formed from scratch tended to be older and bigger, and paid slightly higher wages, than those that were conversions.

Arrangements for members' investment and repayment differed from one coop to another. However, contrary to the expectations in some of the theoretical literature, very little of the profits were paid out as dividends (only 7%, on average, in Tuscany, and 5% in Emilia-Romagna). Most profits were reinvested, perhaps in part because dividends are taxed more heavily than reinvested profits.

One of the clearest contrasts between the coops and the profit-making firms is in their customer base. The coops had a much higher share of their sales going to local governments. Meanwhile, the privates were far more export-oriented, selling about 40% of their output outside of Italy, compared to 16% for the coops.

EMPIRICAL FINDINGS

The survey included both a questionnaire, completed during a face-to-face interview at each firm, and collection of economic and financial data from company records for the prior five years (1981-85). In the survey, companies reported on their own perceived objectives. They were asked to rate the importance of increased sales, creating jobs, and increased incomes (profits) on a scale of one to five, with one being "not important" and five "very important." The mean scores showed no significant differences between the coops and private firms in their rankings of sales (4.5 for both groups) and job creation (3.2 for both). Only on increasing incomes was there a statistically significant difference, with rankings of 3.7 for coops and 4.2 for privates.

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Differences in wages and salaries between the two types of firms were not statistically significant for unskilled and skilled workers, nor for supervisors. Most firms operated in fairly competitive markets, so that hypotheses about the distribution of excess profits in coops were not relevant to this study. Both coops and private firms tended to follow the well-established union wage rates for their industries. Salary differences for white-collar workers were slightly significant, averaging 14 percent higher in the private firms. However, the salary differences for managers were large and significant, averaging 60 percent higher in private enterprises. Overall hourly labor costs did not differ significantly between the two groups.

Employment was slightly more stable in the coops. This was shown both by usage of the government employment insurance system, which was lower for coops; and by variation in actual employment levels over time. From 1981 through 1985, employment in the coops fell by about seven percent while dropping by 20 percent in the private firms. The survey provided no support for the theoretical hypothesis that due to the "free rider" problem, levels of work effort might be lower in coops; instead, coop workers averaged four percent more hours than those in private firms.

The labor force structure of the two groups differed in significant ways. The proportions of men and women were similar on both, as was the average length of tenure with the firm. But there was a substantially higher proportion of unskilled workers in the coops, and a much lower percentage of managers (3.9% for coops and 8.9% for private firms).

Surprisingly in terms of theory, coops and privates had similar attitudes toward investment criteria, with just over half of both using a simple "payback period" as the criterion for evaluating investments, and using approximately the same number of years for payback (4.5 years). The two types also did not differ significantly in their sources of finance, with of each relying on internal sources for about half of total funding. Balance sheet data does show a substantially higher level of fixed assets per employee for privates than coops.

Several measures of productivity showed results greatly favoring the coops. The ratio of value added per employee and value added per hour were both about one-third higher in the coops; the ratio of value added to fixed assets was more than 50 percent higher in the coops. The higher labor productivity did not result in the payment of higher wages, but may have benefitted the worker-owners through payment of dividends and interest on loans made by members to the coops.

Industrial relations measures favored the coops, which had no strike activity, compared to 40% of the private firms which experienced strikes during the five years. Coop quit rates were significantly lower, and absenteeism was only half as high, as in the private firms. Coops also tended to provide more training opportunities, with the proportion of workers in training courses twice that in the privates (2.7% versus 1.1%). Private firms took no advantage of training opportunities offered by local governments and the European Community, while 1.2% of coop workers were involved in such programs.

In summary, the coops in this study, compared to private firms, provided more tranquil labor relations, with no strikes, low quit rates, and fewer and lower-paid managers. The coops offered

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greater employment stability, paid comparable wages, and achieved higher productivity despite lower capital-labor ratios. These findings confirm some theoretical predictions, while contradicting others; of course, they remain somewhat speculative since they are based on a single study.

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