

3. Examine the advantages and challenges of worker cooperatives as an alternative business model.

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Introduction

This paper delves into worker cooperatives, introducing them as a promising alternative to traditional business models by examining the advantages and challenges these cooperatives face. Firstly, this paper will lay down the theoretical frameworks key to progressing further into this examination, before presenting the advantages of worker cooperatives, supported by case studies such as the Mondragon Corporation and the John Lewis Partnership. Subsequently, we will take a look at the contrasting challenges these cooperatives face, supported by a case study of Fagor, in order to then highlight the key takeaways and future steps needed for cooperatives to thrive as an alternative business model. By addressing these steps, the paper aims to discover the potential of worker cooperatives in contemporary economics.

1. Theoretical Framework

Worker Cooperatives are firms “democratically owned and managed by their workers,” (Jackall & Levin, 2020). In other words, it is the employees of the firm that dictate operations and policies -, from employment, production to innovation - via a democratic vote. In contrast, traditional capitalist business models place the dictating power in the hands of the owners of the firms’ capital assets.

As is often argued, the emergence and rise of worker cooperatives as an alternative model is attributed to “classic struggles between workers and employers” and harsh conditions in the capitalistic 19th century (Jackall & Levin, 2020), reflecting classic Communist and neo-liberal economic frameworks, pushing for “equity in distribution and decision-making” (Restakis, 2010). Economists Gabriel Burdin and Andreas Dean reflect on the contemporary theoretical discussion of Worker cooperatives originating from Ward’s 1958 model, to which WCs aim to “maximise net income per worker, instead of maximising total profits like capitalist counterparts” (Burdín & Dean, 2009).

2. Worker Cooperatives; Advantages

In order to elaborate on key points presented throughout, this section will touch on data-driven results collected from over 1,000 employees across the US by research analysts Laura Schlachter and Olga Prushinskaya.

2.1 Economic Empowerment and Equality

Firstly, the democratic nature of worker cooperatives and the direct equal involvement of each employee within the firm allow for higher income distribution equality. As each employee holds an equal stake within the firm and equal influence in decision-making, income is naturally spread out more evenly. To illustrate, in 2018 the Enterprise Census found that “86 per cent of co-ops had a 2:1 or 1:1 top-to-bottom pay ratio,” a major difference from the average US CEO-to-worker pay ratio of 303:1 (Schlachter & Prushinskaya, 2017).

Adding on, the data suggests workers in cooperatives made above the living wage and recorded an increase in benefits after switching from traditional firms to their current worker cooperative business model (Schlachter & Prushinskaya, 2017). The data also suggests worker cooperative firms are more resilient to economic shocks, with higher job retention largely attributed to collective decision-making.

Lastly, on the economic front, it is without saying that equity ownership enabled by worker cooperatives allows for new opportunities to grow wealth accumulation in the form of dividends. The same data set concluded that within the US, worker cooperatives “increased access to wealth and asset building for those traditionally locked out of the economy”(Schlachter & Prushinskaya, 2017).

2.2 Social and Psychological Benefits

Beyond an economic standpoint, worker cooperatives bring great benefits to social and psychological aspects, not only to the individuals but also to their community.

To begin with, worker cooperatives allow for greater communication and integration within a firm. The democratic nature and equal distribution of governance allow for every employee’s voice to be heard. With a far greater say in the business and direct influence over the success

or failure of the business, the average worker will experience a more prominent feeling of value and purpose for their job. Furthermore, with shared control over employment, worker cooperatives will experience significantly lower turnover rates, even in the event of economic shocks. For example, in the homecare industry, worker cooperatives only have a 38% turnover in comparison to the 82% industry average (Leadem, 2022).

Combining the increased feeling of self-value within a firm and the high job security, one can argue worker cooperatives increase job satisfaction. In fact, within the data collected by Schlachter and Prushinskaya, over 70% of participants reported “somewhat or much better” job satisfaction than their previous job, when switching from a traditional firm to worker cooperatives (Schlachter & Prushinskaya, 2017).

2.3 Real-World Successful Case Studies

It is also notable to point out the ability of worker cooperatives to find success in the real world.

In the US, the Cooperative Home Care Associates has shown promise ever since its founding in 1985, staying profitable nearly every year ever since. It now holds 2,300 employees of which 1,100 are employee-owners (Welsh, 2018). To add to its success, CHCA generates \$65 million in annual revenue (Welsh, 2018).

Adding on, Spain’s Mondragon Corporation figures as the world’s largest worker cooperative since the 1940s, with a collection of 96 cooperative enterprises (Wellbeing Economy Alliance, 2020). Not only a large cooperative, Mondragon Corporation figures as one of the nation’s biggest, with over 70,000 employees and an annual revenue of \$15 billion annually, which includes one of the nation’s biggest supermarkets, ‘Eroski’ (Wellbeing Economy Alliance, 2020).

Closer to home, UK’s John Lewis Partnership is another example of a successful cooperative, with 76,500 staff-partners within 35 stores and 272 Waitrose supermarkets, which all rack up a staggering £8bn annually (Lewis, 2012).

3. Worker Cooperatives; Challenges

Thus, it is clear there is some room for success when it comes to worker cooperatives as an alternative business model. However, success is not always guaranteed, and cooperatives face many significant challenges which alter success.

3.1 Capital Accumulation and Financing

The first of those challenges is the inability to receive adequate funding and lending, due to cooperatives' often "thin margins" (Noor, 2022). Despite organising their own revolving loan to facilitate expansion, financial support in cooperatives remains "pale in comparison" to larger traditional companies due to riskier profit models (Noor, 2022). Unfortunately, this can prevent expansion, halt economic prowess or even prevent access to startup costs altogether.

3.2 Governance Issues and Organisational Democracy

Despite a more open-minded and equal approach to business models, cooperatives tend to struggle with authority and effectiveness due to the lack of governance. Without a true leader or secluded part of ownership, decision-making takes a significantly longer amount of time when having to involve every member, which can affect cooperatives' ability to cope with sudden market shocks. Furthermore, the larger the number of partners, the wider the array of opinions, and thus the harder or longer the time for a global consensus to be reached. This opens the door to potential internal conflict (Semuels, 2015)..

Thus, democratic organisations must be set up adequately to obtain effective decision-making, as well as conflict management of some sort will need to be implemented in order to deal with potential internal conflict caused by the variety of opinions and individuals debating for a decision to be made. This, however, requires in turn authoritative and leadership roles to set up systems in place. Additionally, conflict management requires training for all employees, which demands time and leadership.

Hence, organisation and decision-making within worker cooperatives may become very quickly ineffective and prove to be a challenge to overcome in comparison to traditional business models.

3.3 External Market Pressure and Competitive Disadvantage

Worker cooperatives only form a rarer case of business models in the market, thus competing against competitive firms with a strong focus on profit and a greater disregard for a social focus. Thus, competing against cost-minimizing and profit-oriented firms can naturally put worker cooperatives at a disadvantage, unable to keep up with the high margins and exponential growth.

Such a capitalist approach does not favour worker cooperatives, which will have to accept those embedded challenges or hope for a societal change in attitude and ideology to distance from the profit-oriented business models towards a cooperative approach.

Thus, it is clear that despite the advantages worker cooperatives may inherit, on top of the successful cases proven hopeful, they face considerable challenges that damage financial growth, cooperation and effectiveness.

3.4 Fagor Case Study and Challenges in the Global Marketplace

In 2013, Spanish Fagor Electrodomesticos went bankrupt after almost sixty years in business. Despite being a once highly successful worker cooperative, this case study serves as a good example of how worker cooperatives can be obstructed by the challenges presented in the previous section, Researcher Bradley C. Williams provides a detailed analysis of Fagor's failures using game-theory models to pinpoint the cause of bankruptcy to be that of poor "internal decision-making process", "competition from other firms" and "poor market conditions" (Williams, 2022). The paper highlights Fagor's struggles in maintaining cooperative principles and keeping up with competition in the growing international markets, consistent with the challenges highlighted within this paper. Thus, serves as a reminder of the importance of keeping up with global market shifts, which is rather complicated with the lack of governance in worker cooperatives, suggesting worker cooperatives may need new strategies to take on success on a global scale.

Thus, while worker cooperatives can serve as an optimistic alternative business model, success on a global scale is not promised. The Fagor case study is a good example of the challenges worker cooperatives may not only face nationally but also internationally.

4. The Next Step; Role of Policies and Education

To help worker cooperations overcome the challenges presented within this paper, a good solution may be that introduce new public policies in support of worker cooperatives. Public policies, such as grants, tax incentives or the introduction of specialised legislature may help worker cooperatives grow and overcome the lack of proper funding that most WCs will face. Furthermore, educational services can be provided to existing or upcoming worker cooperatives to help overcome organisational, managerial and structural challenges faced during growth.

An example of a successful public policy for worker cooperatives is that of the Worker Cooperative Business Development Initiative (WCBDI) in New York, which offers specialised and one-to-one aid for WCs. In 2020, WCBDI partners received \$3.6 million, 3332 educational services and helped with the creation of ten new worker cooperatives (The Worker Cooperative, 2020). Considering the benefits brought upon the workforce by cooperative approaches, it is crucial to look into new ways of overcoming these challenges in order to reap the benefits of a cooperative business model.

Conclusion

To conclude, worker cooperatives arguably present themselves as a legitimate alternative to traditional business models in the form of higher job satisfaction, increased equality of income distribution, and resilience to economic shocks. However, it is clear that in the present economic environment, worker cooperatives face great challenges in financial constraints, lack of governance and inequitable competition from profit-driven traditional business models. The case of Fagor presents itself as a reminder of what is missing in worker cooperatives' path to success; effective decision-making and increased adaptability. Future research should focus on public policies and educational programs to enhance the performance and success of worker cooperatives, such as those from the WCBDI. Doing so will help address the challenges currently obstructing worker cooperatives from having a true global impact.

Word Count: 1,961

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