Should your business 'go mutual' to survive the downturn?

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(PhysOrg.com) -- Wisdom has it that employee-owned firms are small, undercapitalised and less efficient than conventional firms. The success of the John Lewis Partnership, the story goes, must be the exception.

But the first comprehensive study on the subject has found that employee-owned firms in Europe are often larger than conventional businesses and at least as productive.

A team led by Virginie Pérotin, Professor of Economics at Leeds University Business School, found, that traditionally-run companies could often be more efficient if they operated more like co-operatives.

Employee-owned companies differ from conventional businesses in a variety of ways. Staff typically elect senior management and vote at AGMs, and receive the profits that are not re-invested in the company.

They normally have a say in how the business operates, by proposing ways to improve production or being involved in strategic decisions.

Economists at Leeds University Business School, Panthéon-Assas Paris-II University and Spain's Mondragon University looked at 7,000 French companies, including around 500 workers' cooperatives, from 10 different industries in manufacturing, construction and services.

The report, Productivity, capital and labour in labour-managed and conventional firms, compared productivity, company size, investment and growth at the businesses during a period of moderate growth, 1987-1990, and another that included the 1990s recession, 1989-1996.

The team found substantial differences in how the businesses organise production of goods and services, but that overall productivity was better in employee-owned firms.

Pérotin said: "In the UK, employee-owned firms such as John Lewis are making political as well as business headlines, with Labour and the Conservatives both recently proposing that some public services could be provided by companies owned and managed by their employees and other social enterprises.

"But the success of John Lewis aside, there's generally a widespread view that because workers' co-operatives are managed by employees, they must be generally small, messy affairs that cannot possibly compete with 'real' businesses. There's extensive evidence that companies which share some profit and capital with their employees perform at least as well as other companies in the UK and elsewhere, but we wanted to know whether businesses that are entirely owned and run by employees are as efficient as conventional firms.

"In many ways, what we found goes against the image most people have

of workers' co-operatives - in some industries, co-operatives are larger, on average, than conventional companies, and in all the industries we studied they invest at least as much. Co-operatives also preserved jobs better during the 1990s recession.

"Employee-owned firms are at least as productive as conventional businesses in all the industries we studied, and on average across industries the way employee-owned firms organise production is more productive. In fact, in several industries conventional firms could increase their effectiveness if they did things the co-operative way. For example, workers' co-operatives have less supervisors and managers than other businesses of the same size. They have worker directors. In employee-owned companies, people don't just work hard, but are also interested in improving the way the business works-ultimately, it's their company."

A copy of *Productivity, capital and labour in labour-managed and conventional firms*, has been accepted for publication by the *Industrial and Labor Relations Review*. The paper is written by Fathi Fakhfakh of ERMES at Panthéon-Assas Paris II University, Virginie Pérotin of Leeds University Business School and Mónica Gago, of Mondragon University, part of Mondragon Cooperative Corporation (MCC), which is thought to be the largest workers' co-operative in the world, with 85,000 employees worldwide.

Provided by University of Leeds

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