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The Resilience of Employee-Owned Firms.
Statistical evidence and implications for turbulent times

Virginie Pérotin, University of Leeds (UK)

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Introduction

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Descriptive evidence that fully employee-owned firms in Italy, Spain, France preserved jobs better during recession

Several reasons for resilience can be found in

Recent international statistical evidence on fully employee-owned firms from **Italy, France, Spain, Uruguay & US** with consistent findings

Outline

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- What are we talking about--background
- Firm creation
- Productivity
- Employment stability
- Survival
- Implications for communities
- Key factors
- Issues and implications for public policy

Background

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Employee-owned firm

- All or most capital owned by employees (individually and/or collectively or via a trust)
- All categories of employees can become owners/members
- Most employees are owners
- In most cases we'll look at each employee-owner has one vote regardless of capital invested
- For profit

Background

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Incidence and stylized facts

- > 25,000 fully employee-owned firms in **Italy** (worker cooperatives) employing several 100,000s people

  28,000 in **Spain** (17,000 worker co-ops + 11,000 majority employee-owned firms *sociedades laborales*) empl. 200-300,000 people

  2,800 in **France** (worker cooperatives) empl. about 50,000
- In **Italy, France, Spain, Uruguay**, employee-owned firms are larger than other firms on average
- And are present in most industries

Firm creation

- Creations of employee-owned firms are **more clearly counter-cyclical** than conventional firm creations, all else being equal, in the US, Israel, France and Spain (Conte and Jones 1991, Russell and Hanneman 1992, Russell 1995, Pérotin 2006, Arando et al 2009, Díaz-Foncea and Marcuello 2015). This is not due to rescue buy-outs:
- Creation of employee-owned firms more likely to be from scratch than from transformation of a conventional firm (evidence for France—Pérotin 2016)
- Employee-owned firms born in recessions don’t close down in recoveries any more than conventional firms (Pérotin 2006)

Productivity

Five studies estimate whether employee-owned firms produce more with their current inputs, controlling for industry, etc:

- Berman & Berman 1989 on the **US** plywood industry in the Pacific Northwest, Estrin 1991 on **Italy**, Craig & Pencavel 1995 on 35 **US** plywood firms in 1968-86, Jones 2007 on **Italy**,
- Fakhfakh Pérotin Gago 2012 on **France**:10 years of data on 6,500 French firms with ≥ 20 employees incl. 550 worker co-ops in10 industries.
- US plywood cooperatives set up differently

Productivity (continued)

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Findings:

- All studies find employee-owned firms ***organise production differently*** from other firms
- Craig and Pencavel (1995), and Fakhfakh Pérotin Gago (2012) find that on average all firms can ***produce more with the co-op technology***
- Fakhfakh Pérotin Gago (2012): in several industries conventional firms would produce more with their current inputs if they adopted the co-ops' way of organising production

Employment stability

Three studies compare the responses of employee-owned firms and other firms to changes in market conditions

- Craig & Pencavel (1992, 1994) on **US** plywood firms
- Pencavel, Pistaferri and Schivardi (2006) on 2,000 worker co-ops,150,000 conv. firms and 13,000 workers observed in 1982-94 in **Italy**
- Burdín and Dean (2009) monthly observations on 200 worker co-ops and 14,000 conv. firms in **Uruguay** in 1996-2005

Employment stability

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Findings:

- ***Conventional firms*** adjust ***employment*** in response to changes in product prices and to demand shocks (in the Uruguayan study they also adjust pay)
- ***Employee-owned firms (worker co-ops)*** adjust ***pay*** and ***not employmen***t in response to product price changes (Uruguay: change>> adjustment in conventional firms)
- ***Worker co-ops adjust pay much more than employment*** in response to demand shocks, and employment adjustment is slower and smaller than conventional firms'.
- ***Co-ops' pay need not be lower than other firms' in downturns***: Pay includes profit.

Firm survival

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- Burdín (2010) on Uruguay Cox proportional hazard on 22,300 firms including 243 worker co-ops, monthly obs. April 1996 – Dec 2005:
  - **co-ops survive much better**
  - and survival is not associated with increased pay flexibility
- Consistent with findings that employee-owned firms have **lower or similar closure rates compared with other firms** elsewhere
- In France, annual rates of closure identical for employee-owned and other firms in France (1979-1998: 11%); worker co-ops survive better in early years (Pérotin 2004)

Implications for communities

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Employee-owned firms seem to create more sustainable jobs

Potential implications:

- Public finance effects of better job preservation in recessions (though less growth in recoveries?)
- Spillover effects
- Public health effects of reduced unemployment
- And perhaps for employee-owners (Whitehall studies on health effects of control in high demand jobs)?
- Jobs less likely to be moved if firm profitable

Key factors

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All the employee-owned firms in the studies are also employee managed

The key role of employee involvement in governance

- Employee-owned firm internalises employees' interests in its decisions
- Employment in an employee-run firm is more valuable than a job in a conventional firm:

  Employee-owners have a say in working conditions, etc and **in decisions affecting employment risk**

Key factors (continued)

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Focus on job security may explain why employee-owned firms in Italy, Mondragon, France keep more profit in the firm

- In all 3 cases bulk of K is owned collectively and co-op must plough back at least a certain % of profit annually (into reserves)
- But in all three cases **co-ops plough back considerably more than required**
- Plough-back may be a form of insurance (Zevi 2005, Navarra 2009): in I (and in F) members draw on collectively-owned reserves in downturns in order to **preserve both jobs and pay**

Issues & policy implications

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International research findings indicate that fully employee-owned firms create more sustainable jobs than other firms

There may be beneficial effects on communities' public finances and health

Job preservation alone would warrant public support for durable forms of employee-owned firms with same advantages

Issues & policy implications (cont'd)

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For firms with employee ownership in general, employee involvement in governance (including for new employees) may be essential to the productivity advantage, long-term outlook and job preservation

Not just good survival but longevity is observed in Italy and France but not among the US plywood cooperatives, due to demutualisation. Two different conceptions of the employee-owned firm?

Support is particularly important for new employee-owned firm creations and conversions from existing firms