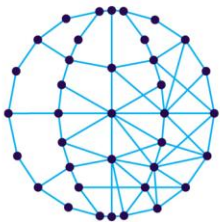


*Cooperatives : The Power to Act*

Texts selected for the international calls of paper

# MITIGATING THE DEMOCRATIC ENTROPY OF WORKER COOPERATIVES: A HOLOCRATIC APPROACH

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## Abstract

As worker cooperatives grow in size and membership, they are said to be subject to the 'iron law of oligarchy' and the 'irony of consensus', whereby the organization simultaneously experiences managerial entrenchment and member-worker apathy. While small and medium-sized cooperatives retain the vestiges of democratic practice through extended general assemblies and voting for member-directors, they lose the effective participatory qualities that are emblematic of the organizational form. In this article, we use the example of a fictitious furniture-making worker cooperative to illustrate the internal, democratic conflicts that may arise as the organization expands. We then make the suggestion that implementing innovative management structures, like Holacracy™, may be one mechanism for mitigating these conflicts in a manner that both empowers individual worker-members and is in line with cooperative principles.

## Résumé

À mesure que les coopératives gagnent en taille et en quantité de membres, elles deviennent, dit-on, soumises à « la loi de fer de l'oligarchie » et à « l'ironie du consensus », suivant lesquelles l'organisation connaît simultanément l'enracinement managérial des dirigeants et l'apathie des membres-salariés. Bien que les petites et moyennes coopératives conservent les vestiges de leurs pratiques démocratiques par le maintien des assemblées générales et du droit de vote conféré aux membres administrateurs, elles perdent dans les faits leurs qualités participatives, emblématiques de leur forme organisationnelle. Dans cet article, nous illustrons, à partir de l'exemple d'une coopérative de menuiserie, les conflits internes de nature démocratique qui peuvent surgir à mesure que l'organisation prend de l'expansion. Nous proposons ensuite que la mise en œuvre de structures managériales novatrices, comme l'holocratie™, pourrait s'avérer un mécanisme d'atténuation des conflits produisant l'encapacitation des membres salariés en synchronie avec les principes coopératifs.

## Resumen

A medida que las cooperativas de trabajadores crecen en dimensión y en cantidad de afiliados, se dice que están sujetas a la «ley de hierro de la oligarquía» y a la «ironía del consenso» debido a las cuales la organización experimenta el afianzamiento de la gestión y la apatía del miembro-trabajador. Mientras que las cooperativas de trabajadores pequeñas y medianas conservan los vestigios de las prácticas democráticas —mediante asambleas generales ampliadas y la votación de sus miembros-directores— pierden las cualidades participativas efectivas emblemáticas de la forma de organización. En este artículo, utilizamos el ejemplo de una cooperativa ficticia de trabajadores muebleros para ilustrar los conflictos internos y democráticos que pueden surgir a medida que aumenta la organización. Luego, sugerimos que la implementación de estructuras de gestión innovadoras, como la holocracia (Holacracy™) puede ser uno de los mecanismos para mitigar estos conflictos de manera de empoderar a los miembros-trabajadores y, al mismo tiempo, mantenerse en línea con los principios cooperativos.

## Introduction

A workers' cooperative is an autonomous legal person, governed by private law, which undertakes economic activities in the interest of its worker-members (Section 1.1, Draft Principles of European Cooperative Law (PECOL), May 2015; Lehmann, 2014: 36; Henry, 2012).<sup>1</sup> In general, worker-members democratically participate in the management and control of the cooperative in exchange for a capital and labour contribution. Members are entitled to elect a board of directors on a 'one member, one vote' basis and to freely express their views on management (ICA, n.d.; Lehmann, 2014: 50).<sup>2</sup> While profit is not their sole purpose, members often receive a portion of the surplus revenue of the firm in proportion to their labour input. In the 20th century, such firms mainly developed in geographical and industrial 'clusters' (Dow, 2003: 230ff), with worker cooperatives becoming prominent in the Basque region of Spain, Northern Italy and the Northwest USA for manufacturing and providing construction, taxicab, scavenging and cleaning services.<sup>3</sup> In recent decades, professional organizations and firms that are part of the 'knowledge' economy have also embraced the worker cooperative model.<sup>4</sup> They have arisen, along with many other reasons, out of workers' desire to have greater control over their working life.

Though these firms are managed by and in the interest of labour, empirical studies have shown that there are encouraging signs that they can be as efficient and productive as conventional limited liability companies that are managed in the interest of shareholders (Kruse, Blasi and Park, 2010: 44; Bayo-Moriones, Galilea-Salvatierra and de Cerio, 2003).<sup>5</sup> As workers use their own savings to provide the cooperative's capital, they are driven to see the organization become self-sufficient and as they collectively participate in a revenue-sharing model, they are sensitive to the quality of each other's work (Levin and Tadelis, 2005; Dow, 2003; Hansmann, 1990: 1762). They often pay more than the minimum wage and offer better working conditions (Dobrusin, 2013: 198). Moreover, there is strong empirical evidence that such organizations are resilient and in some industries, they have proven to be more resistant to failure than conventionally organized firms (Arando et al., 2010: 11, 13). They attempt to insulate their members from market shocks to a greater degree than archetypical companies in several ways such as lowering earnings per member-worker rather than making a group of them redundant (Pencavel, Pistaferri and Schivardi, 2006). As a form of organization, it has an intuitive appeal to social theorists on both sides of the political spectrum due to its potential to nurture democratic values and solidarity as well as its capacity to encourage free enterprise (Jossa, 2014; Jorman, 2010: 172-176; Burrows, 2008: 278; Bradley, 1986: 52; Münkner, 1994: 165; Marx, 1981: 513-514; Marx, 1975-2001: 335; Lenin, 1923). Its participatory nature has led some academics to postulate that it acts as a form of 'self-realization' (Elster, 1986) and diminishes the alienation experienced by workers in capitalist enterprises (Jossa, 2014: 9).

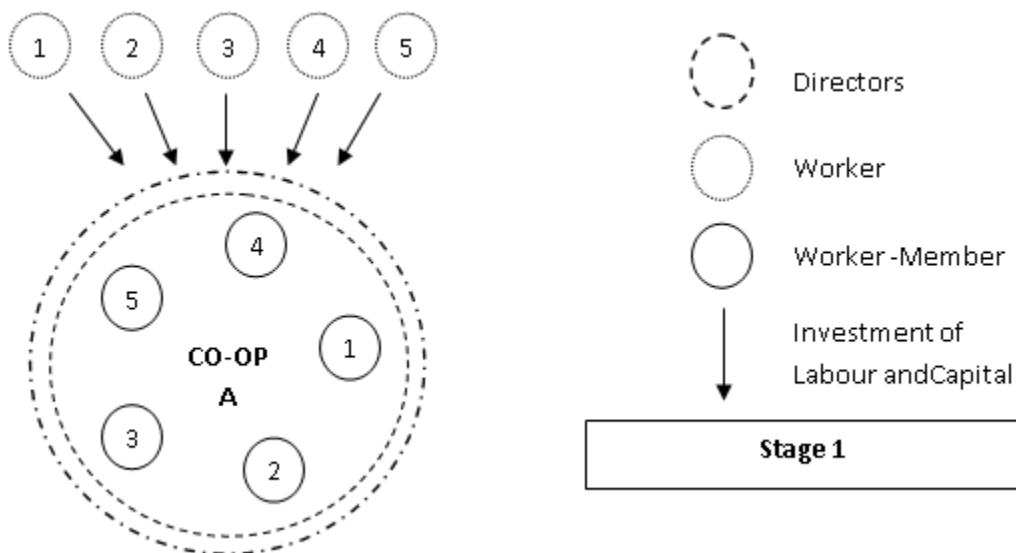
While there are a number of impediments to the formation of a labour-managed firm (Schwartz, 2012), once they do form they confront a series of endogenous conflicts. Some theorists argue that these internal conflicts can lead to the conversion (or 'degeneration') of a labour-managed firm into one dominated by a managerial elite and controlled in the interests of capital (Spear, 2004; Meister, 1984; Webb and Webb, 1914; Potter, 1891), as was the case with the 20th century plywood cooperatives in the Northwest USA (Bowles, 2006; Plywood Pioneers Association, 1967).<sup>6</sup>

In the remainder of this paper, we will focus on the factors that stifle the democratic and self-determining qualities of worker cooperatives as they reach a certain level of maturity and develop a complex governance structure, and explore how these important features can be rejuvenated. To do so, we will first illustrate the life cycle of de novo workers' cooperatives using a simple example (Cooperative UK, 2012; Batstone, 1983). We describe a set of development stages of worker cooperatives. The evolution of cooperatives may follow different paths and may deviate from the illustration described below. However, this example demonstrates the evolving complexity of the governance system that may give rise to internal conflicts. As we focus on the internal factors that cause this, we have not considered external stakeholders such as cooperative federations, trade unions, financial creditors, the government, outside investors, political parties and social movements. While a number of financing issues may also arise, it falls outside of the scope of this article.

## The Life Cycle of a Workers' Cooperative

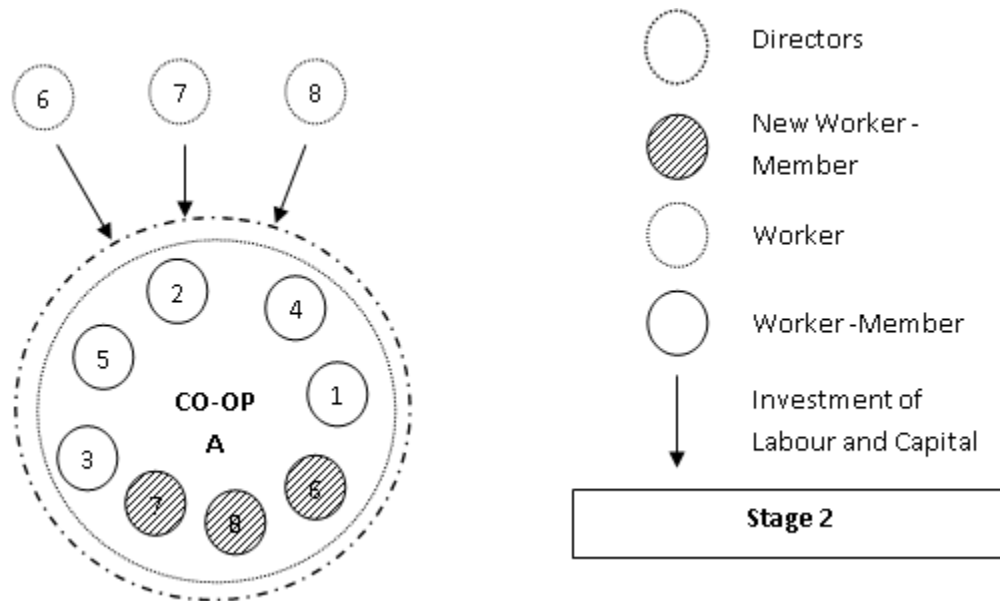
1, 2, 3, 4 and 5 are friends who live in a mid-sized town and have experience in making artisanal wooden furniture. Given their shared interest and expertise, they decide to start a cooperative furniture business and name it 'Co-op A'. They pool their limited savings to rent a small shop, purchase tools, procure the initial supplies and obtain the necessary licenses to start a manufacturing business. At the outset, they set out their vision for the business, distribute tasks and agree that both managerial and operational tasks will be rotated amongst themselves periodically. Given their small size, they decide that they will all be directors of the cooperative, on a one member, one vote basis, and that an external accountant will be hired to audit their accounts and help prepare annual financial reports.

The first stage of their cooperative will therefore look like this:

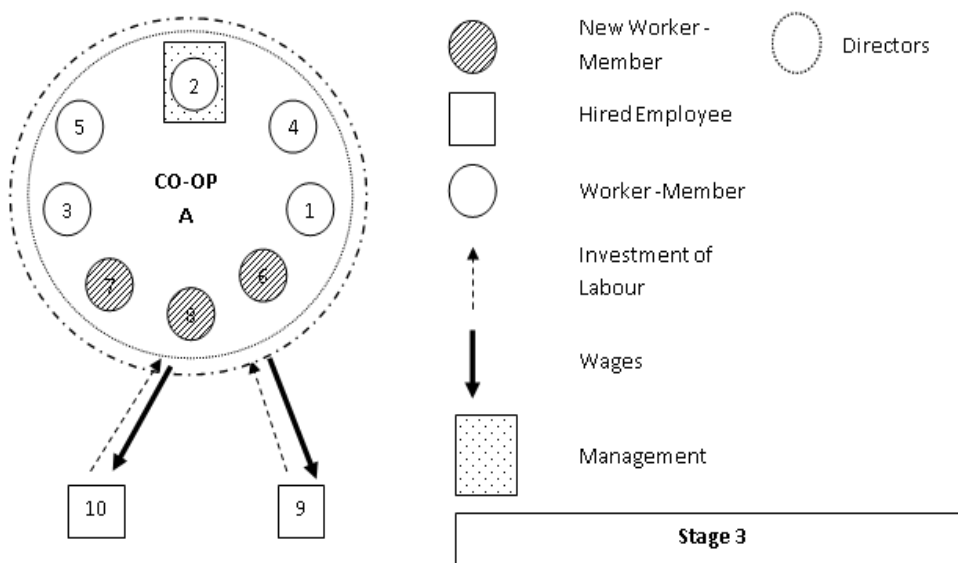


After a while, Co-op A's business begins to pick up. Through word-of-mouth, news about the furniture cooperative spreads across town. One day, three people, 6, 7 and 8, arrive at the shop and express their desire to be members of Co-op A. Two of them have experience in delivering goods and the youngest has a marketing degree from the local university. After some discussion, the members agree

to include 6, 7 and 8 in the cooperative, in exchange for a capital contribution of €10,000 each and the use of their specific skill sets. At this stage, Co-op A will look like this:



A local tabloid photographs a celebrity shopping in the cooperative and Co-op A's sales skyrocket. They are unable to cope with demand, supplies run short and each member is working several hours overtime. They also find that the original approach of all the workers doing a bit of everything on a rotational basis was inefficient, unsatisfying and not necessary to be equal. They therefore decide to specialise and put each member in charge of what they do best. During a weekly meeting, they agree that they need to hire carpenters, 9 and 10, on a contractual basis and that the member with the university degree has to act as a manager for one year to oversee all of the orders and the business's day-to-day operations. 2 is appointed as the first manager:





most productive members leaving (“brain drain”) (Abramitzky, 2012; Burrows, 2008: 286).<sup>7</sup> Thus, while members do feel included in the decision-making process of the firm they work for, each decision could leave at least one member dissatisfied.

In stage 2, when new worker-members apply to join the cooperative there may be disputes between current members about allowing new members to enter the cooperative, and between new members and old members once the former have joined. Old members may not want to take on new members as they could hamper future decision-making. It will also invariably exacerbate the problem of dividing tasks. They will still have an equal say in management even if they do not work as efficiently, partake in necessary trainings or embrace the cooperative ethos. This could create fundamental disagreements over the direction the cooperative should take. Some members may want to start a new line of furniture or move away from their ‘artisanal’ brand in a more commercial direction. This could lead to ill will among all workers as well as production delays. This occurred with the growth of the Burley Design Cooperative (Schoening, 2010), Mondragon, and many other large-scale cooperatives (Rotschild and Whitt, 1986: 96).<sup>8</sup> While they will be sensitive to the fact that the cooperative provides everyone’s livelihood and thus wary of imposing harsh sanctions (Gulati, Isaac and Klein, 2002: 1423), some co-operators may feel more disinterested in the cooperatives’ activities as a result of trying to achieve consensus.

### The Emergence of Oligarchy

By stage 3 of Co-op A’s life cycle, hired employees have been taken on and a member-manager has been appointed. The challenge presented by this new organizational configuration is that the manager, for the duration of his tenure, has a monopoly of information regarding the daily operations of the cooperative and may have to be relied upon by other worker-members to resolve organizational problems. In turn, additional tensions may be generated by the hired employees who feel unsure about their chances of obtaining membership to the cooperative.

It is at around stage 3 and 4 that mature worker cooperatives begin to experience degeneration and suffer from two correlated, adverse trends: concentration of managerial power and a drop in worker motivation and active involvement in decision-making (Hernandez, 2006: 124-127; Meister, 1961; Michels, 1958).<sup>9</sup> The examples of the Olympia Veneer Cooperative, the Nir Taxi Station (Darr, 1999: 283) and many others indicate that, as with corporations, cooperatives have an oligarchic tendency, whereby a charismatic, elite group emerges over time and dominates the organization.<sup>10</sup> The need for technical expertise, leadership and quick decision-making may lead to certain members, especially managers, becoming entrenched in their positions. Appointment of the management by representative directors, and subsequent monitoring by them, should motivate management to act as effective stewards (Cornforth, 2004: 15), rather than in their own interests (Euwema, 2016).<sup>11</sup> However, directors elected by the members will find it difficult to hold management accountable, as they will need to balance their representative function with their duty to ensure the strong performance of the cooperative as a business (Sivertsen, 1996: 35). This will be accentuated if the directors are laymen and lack the specialised skills possessed by the managers or if they do not have a unifying vision for the cooperative. At the same time, employees and newer members may feel emotionally indebted to upper management and older members and may become apathetic as a result of cumbersome participation processes. This could engender feelings of indispensability and potentially allow management to exploit

their dominant positions to their personal advantage (Cornforth, 1995: 490). In some countries, these problems have been exacerbated by the specter of corruption (Shaw, 2007: 24; Hernandez, 2006: 117-118).

Broadly speaking, the interrelated tensions that hamper democracy over the course of the cooperative's lifecycle concern managerial opportunism, difficulty in building consensus, heeding minority voices and member apathy. It is arguable that such conflicts are part and parcel of a democratic workplace but they should be constructively managed (Gamson and Levin, 1984: 235-236). If not, they can leave worker-members feeling alienated, confused, insecure and with a 'vague sense of loss' (Hunt, 1992: 35) regarding the transformation of the cooperative's identity. It may even lead the cooperative to no longer be a labour-managed firm.

### **Reviving Democracy and Self-Determination: A Holacratic Approach**

In a large co-oplike Co-op A, the task of addressing minor grievances will fall on the management (and fellow members), major grievances will be processed by a grievance committee of the board of directors and substantial tensions, like managerial opportunism, extending membership and other governance issues will be deliberated upon by the general assembly.

Some argue that as members are formally equal and experience feelings of 'ownership', they should feel empowered to raise their concerns and actively utilize the mechanisms available for them to do so in cases of conflict (Hoffmann, 2005: 53-54). Hoffmann reasons that this occurs more often in non-hierarchical workplaces because members perceive greater 'procedural justice' in the system, as they have trust in authorities (Hyde, 1991: 191-194) and equal standing with other disputants and they believe they will receive non-discriminatory, neutral treatment (Hoffmann, 2001: 560; Tyler and Lind, 2000: 65-92). If they feel that procedural justice exists in their cooperative, they will generally favour collective fairness over individual interests (Hoffmann, 2001: 569). However, these are post facto remedies to an existing problem rather than a means to institutionalize democratic principles.

A survey of the (empirical) research reveals that many cooperatives have sought to resolve tensions between members by establishing a scheme where management responsibilities are rotated (Burrows, 2008: 279, 280, 283) and training is provided on cooperative and participative values (Sections 3.4(2)(a), 3.4(8), Draft PECOL, May 2015; Monaco and Pastorelli, 2013: 242-245; Snaith: 2013).<sup>12</sup> To avoid 'free rider' problems, rewards have been given to active participants and high-performing workers (Hammer, n.d.: 24) and remuneration has been partially tied to individual and group performance, thereby requiring less managerial monitoring and more self- and mutual-monitoring (Dow, 2003: 175; Gulati, Isaac and Klein, 2002: 1439-1440; Jones and Kato, 1995; Kruse, 1993; Wadhvani and Wall, 1990; Holmstrom, 1982).<sup>13</sup> In relation to professional non-member management, it is generally suggested that management should receive cooperative education upon appointment to ensure that the cooperative identity is respected (Section 2.5(8), Draft PECOL, May 2015). However, it is important that co-operators are aware of the potential for domination and have a 'cycle of vigilance' (Lodahl and Mitchell, 1980) to avert managerial opportunism. The cooperative could consider using role-reversal exercises or appointing external mediators that have a thorough understanding of group dynamics and can help strengthen worker teams (Euwema, 2016; Part 11, Henrÿ, 2012). To assert direct member control over management, Co-op A could follow the example of other cooperatives and enact

organizational changes that require managers to take on certain operational tasks and regularly disseminate information regarding their activities (Section 2.6(1), Draft PECOL, May 2015; Hammer, n.d.: 22-23).<sup>14</sup> In line with ubiquitous (but contested) corporate governance practices, they could establish ‘advisory councils’ or supervisory committees to enhance member oversight (Parts 5.1, 5.4, Henrÿ, 2012), vote on director remuneration (Section 2.5(1), Draft PECOL, May 2015; Gulati, Isaac and Klein, 2002: 1443) and appoint independent, professional directors (Part 5.3.3., Henrÿ, 2012; Section 2.5(6), Draft PECOL, May 2015) These directors could be vetted by the supervisory committee, have maximum term periods and not be allowed to stand for re-election (Hernandez, 2006: 116).

However, the challenge is institutionalising these aforementioned practices in a cooperative’s management structure. In our view, lessons could be learned from other social enterprises outside the cooperative sector. One approach worth considering is the adoption of Holacracy™ as a governance system (“Holacracy”) in worker cooperatives (Robertson, 2015: 38-39; HolacracyOne LLC, n.d.: 7; Koestler, 1968).<sup>15</sup> Holacracy is a managerial approach that distributes authority, decision-making power and roles in an organization in a different manner than conventional firms. Holacratic enterprises are not flat organizations but rather, they comprise a number of roles that are bound together, like a Matryoshka doll, in a ‘nest’ of circles. Its history dates back to the early years of the 21st century and grew out of the ‘sociocracy’, ‘agile software development’ and ‘lean’ movements, which prioritised self-organization and delivering results with minimum managerial interference (Robertson, 2014; Endenburg, 1998).<sup>16</sup> By giving ‘role-fillers’ complete authority over their domain, and not requiring consensus in all decisions, individuals have an incentive to be creative and leave their mark (Articles 1.3, 1.4, 2.1.2, Holacracy Constitution, Version 4.1.). Most importantly addressing governance gaps through regular meetings enables Holacracy to engage workers in the decision-making process and clarify the roles and responsibilities of the members, board and management team (Hammer, n.d.: 16-22; Cornforth, 2004; Cornforth and Edwards, 1998; Harris, 1993). Participants in this organizational structure may feel more in control over issues that directly influence their work life. Its proponents, like the billion dollar online clothing retailer Zappos, valorize the system’s encouragement of self-help, its transparency and agility, and its capacity to be responsive to demands for a sustainable economy (Robertson, 2015: 194; HolacracyOne LLC, n.d.: 1).

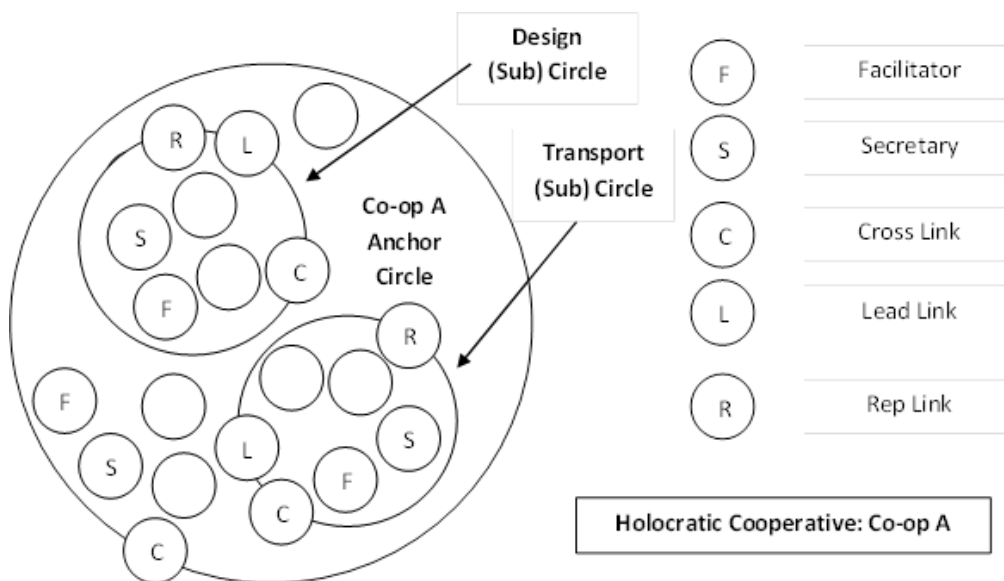
### Holacracy and Co-op A

The structure of Holacracy and its potential to revive flagging democratic practices is best illustrated through the example of Co-op A. If the cooperative ratifies Holacracy’s constitution (“Constitution”) in its articles of association or bylaws, each worker will fill a role in the organization. This role will have certain functions (its ‘domain’) that it is responsible for (its ‘accountabilities’) in order to achieve its team’s purpose(‘circle’) (Article 2.1, Holacracy Constitution, Version 4.1.) and organization (as determined in the Constitution) (Article 5.2.3, Holacracy Constitution, Version 4.1.).<sup>17</sup> The role comes with the authority to control and regulate the domain that is connected to the role. Each ‘role-filler’ can also establish role policies that describe how others may impact their domain. These policies have to be put forward in a forum that is convenient for those impacted by the domain and may not violate the policies of the circle. As a result, the role-filler has considerable influence on the realisation of his/her tasks, without having the brand of uninhibited freedom that could harm the interest of involved parties and without a manager as the authority who decides how things should be done.

There can be many circles and different levels of circles may exist. A circle may have (a) sub-circle(s) thereby being a 'super-circle' in relation to the narrower circle. A driver, for example, could have a 'transport' role, with the accountability of transporting raw materials to the workplace on time. The role he or she fills would be part of the transport circle, along with other drivers and loaders, and the transport circle would be a sub-circle of the Co-op A super-circle 'logistics'. (For simplicity's sake, we identify only one sub-circle and super-circle relationship but there can be levels inbetween).

There are, of course, multiple circles involved in the multi-faceted activities of the Co-op. One circle would be responsible for logistics, another for design, another for manufacturing and so on. Each circle would have a leading person called the 'lead link' that assigns roles, monitors individual suitability to fulfil a role, assesses performance, strategizes and allocates resources (Article 2.2.2 and Appendix A, Holacracy Constitution, Version 4.1.). Alongside this lead link role, each circle would have an elected facilitator, and secretary and rep link roles to address governance challenges and effectively act as a check to the lead link's authority (Article 2.5 and Appendix A, Holacracy Constitution, Version 4.1.). The facilitator will ensure adherence to the organization's process and constitution during meetings, the secretary will undertake the administrative and record-keeping tasks of the circles, as well as constitutional interpretation, and the rep link will pass on the circle's concerns to broader circles and vice versa. Collectively, these four roles are the core circle members in an archetypical holacratic organization. In addition, there is scope for having 'cross links', representatives from external actors or from other circles, in a 'target' circle so as to play a policy-shaping role similar to a skilled, independent director (Article 2.7, 2.7.3, Holacracy Constitution, Version 4.1.). Any worker-member will be eligible for elections, which will, in turn, be organized on a regular basis (Article 2.5.1, 2.5.2, Holacracy Constitution, Version 4.1.). 'Anchor circles' that have similar qualities to a board of directors, can either have a lead link or a number of cross links from constituent circles and external actors (Articles 5.2.1-5.2.4, Holacracy Constitution, Version 4.1.).

Thus, a cooperative that adopts a Holacratic managerial structure can look something like this:



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Although the anchor circle appoints the lead link, it should be noted that the lead link is not identical to a conventional firm or cooperative's manager. Managerial 'power', in terms of role(s) and accountabilities may be distributed among the lead link, rep link, facilitator, secretary and the workers themselves (Article 1.1, Operating Agreement of Holacracy One LLC), rather than concentrated in one role. While the lead link is responsible for allocating roles and accountabilities (Article 2.4, Holacracy Constitution, Version 4.1.), the core circle members have the power to propose an amendment to the role of the lead link through the governance process discussed below (Article 2.2.3, Holacracy Constitution, Version 4.1.). In our example, if the lead links' appointers at the anchor circle level (the cross links) are themselves elected by the workers pursuant to the articles of association or bylaws of the cooperative, then accountability and ultimate direct member control is assured.

Thus, instead of a managerial 'hero' (or despot!), Holacracy requires members to be hands-on in the governance of the organization and trouble-shooting problems that may arise at its source (Article 3.5, Holacracy Constitution, Version 4.1.; Stryjan, Y, 1994: 68-69; Weick, 1979).

### The governance meeting

The model's Constitution acknowledges the 'tensions' (Article 1.2.1, Holacracy Constitution, Version 4.1.) that arise in any workplace and provides for their resolution through well-coordinated meetings.<sup>18</sup> The governance meeting of a circle is premised on achieving workable solutions to tensions, rather than trying to achieve 'ideal' solutions that please everyone, which could be both time-consuming and impracticable. (Hernandez, 2006: 122, 125) There is no quorum or fixed agenda to meetings and those that do not attend are presumed to agree to the decisions made (Articles 3.3.2, 3.3.4, Holacracy Constitution, Version 4.1.). Role-fillers who are core circle members may raise proposals for resolving tensions that they sense during their work, to which other core circle members can raise objections in a structured manner. There is initially a 'check-in round' for individuals to express their state of mind and a short 'administrative concerns' round to set a framework for the meeting. The facilitator then allows the members to very briefly raise the tensions they have noted as a means to build an agenda. These items are then considered in the order they have been expressed through 'integrative decision making' (Articles 3.3.5, Holacracy Constitution, Version 4.1.), while the members present their proposals for resolving a tension and the others are given an opportunity to ask for clarifications, suggest amendments and potentially raise objections from the perspective of the roles they fill. The facilitator ensures that everyone gets an opportunity to speak, but without allowing it to devolve into an open discussion. The facilitator also tests the practicality and validity of both the proposals and objections (Articles 3.2.3, 3.2.5, Holacracy Constitution, Version 4.1.) in terms of whether they will harm the circle or push its activities backwards. If both are found to be valid, then a proposal will usually integrate the objections so far as it can still resolve the highlighted tension. This strikes a balance between listening to minority voices and considering majority concerns. If such a governance process is adopted in a cooperative's managerial structure, co-operators can get through many agenda items in a brief period of time, address tensions and avoid the deadlock that can often arise when seeking consensus (Robertson, 2015: 25).



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## Holacracy and worker cooperatives

While Holacracy was developed with orthodox hierarchical organizations in mind where workers do not have a (substantial) say in how the work is done or the overall direction the organization takes, it provides a model that is flexible enough to extend to worker cooperatives (Article 5.5, Holacracy Constitution, Version 4.1.). This is because considerable discretion is left to the decisions of ratifying members and key decisions can be made at governance meetings. As it is simply an 'operating system' for an organization, it allows for policies (e.g. compensation, dismissal) to be transitioned from the earlier form of organization, as long as they are first adopted using the governance process (Article 5.5, Holacracy Constitution, Version 4.1.). Other important changes can also be made by the ratifying members. For instance, instead of only core circle members participating in the governance process, all worker-members can be entitled to participate in meetings and raise proposals and objections.

Though self-managing teams can already be found in some cooperatives (Cooperatives UK, 2012), Holacracy's chief contribution may be the nudge it gives co-operators to rethink the scope of their roles, reconsider the manner in which they holds meetings and redefine the extent of managerial authority. By adopting the Holacracy constitution in a cooperative's articles of association or bylaws, co-operators will entrench 'participatory consciousness' (Bernstein, 1980: 93; Bernstein, 1976) as a practice, considering that it fosters a process of conscientization, confrontation, negotiation and settlement (Curle, 1971). Moreover, creating interlocked circles mirrors the practice of large cooperatives like Mondragon that encourage their constituent cooperatives to splinter into subordinate sections or new self-sustaining ventures in a bid to retain workplace democracy and improve financial performance (Gutierrez-Johnson, 1984: 35-41; Sun, 2005: 186).

Holacracy is still in its formative years and is not without its detractors. Some contend that it will only work in small, creative and fast-growing companies, rather than larger, orthodox firms (Schumpeter, 2014). Whether this is true or not remains to be seen. However, worker cooperatives are not founded with the objective of replicating the practices and culture of conventional firms. Ultimately, worker cooperatives seek to create a workplace environment that cannot be found elsewhere (Berner et al., 2015: 11-12; Hoffmann, 2006: 165, 176) and are both 'nicer and better' (Storey, Basterretxea and Salaman, 2014: 633) than rival companies.<sup>19</sup> A holacratic cooperative could potentially create just such an environment.

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<sup>1</sup> Precisely defining cooperatives and distinguishing them from stock companies and other forms of business organization is a difficult task and we have used a generalised definition of worker cooperatives. We also acknowledge that the ILO Recommendation No. 193 of 2002 emphasizes the cooperatives are 'jointly owned'.

<sup>2</sup> Lehmann makes the less ideological, contractual argument that as "the cooperative stands in the middle between the market and the firm", equality of voting (democracy) is similar to equality between parties during offer and acceptance.

<sup>3</sup> More recently, cooperatives are enjoying a renaissance in the United States, with the passage of a Worker Cooperative Act in California and the investment of US\$ 1.2 million by the New York City Government to fund the development of worker cooperatives.

<sup>4</sup> There are a number of such cooperatives represented in the North American 'Tech Co-op Network'.

<sup>5</sup> Bayo-Moriones, Galilea-Salvatierra and de Cerio conducted a study of 965 Spanish manufacturing plants where it was revealed that the level of performance of capital-managed firms and cooperatives was similar. Kruse, Blasi and Park found that the evidence of sixty empirical studies reveals a positive association between 'shared capitalism' programmes and company performance, with an average increased productivity of 4.5% as a result of employee ownership and profit sharing.

<sup>6</sup> The Olympia Veneer Cooperative began operating a plywood mill in the state of Washington, USA in 1921 with 125 worker-members, each of whom owned shares worth US\$ 500. As the business prospered, some of the original worker-members left the company and non-member workers were hired. By the time the cooperative was sold to the United States Plywood Corporation, there were 1000 non-member workers and 69 member-workers. Of the 69, 23 of them received a return of US\$652,000 for their share in the cooperative.

<sup>7</sup> Abramitzky's study of communes reveals that collective groups united by a 'social' ideology, like socialism, is more prone to brain drain than those unified by religious dogma. Hoffmann's comparative studies on loyalty to cooperatives indicate that the same logic could be applied to the relatively weak bonding effect of cooperative ideology. This was also evident in the Mondragon Bookstore and Coffee House Collective mentioned by Burrows.

<sup>8</sup> The Burley Design Cooperative was formed in 1978 to manufacture bicycle panniers (touring bags) and other accessories, with worker-members being granted equal voting power and share in the business in exchange for an initial investment of US\$ 2500. Over a thirty-year period, Burley expanded considerably to include 100 worker-members and earned revenue of US\$ 10 million per annum. While it tried to retain its participatory culture, new and old members clashed over what the core commitments of the cooperative should be. While some viewed democracy and social causes as being essential to the cooperative, others stressed financial performance and product diversification.

<sup>9</sup> For a more contemporary example see Hernandez's study of Sociedad Cooperativa de Trabajadores Pascual (Pascual) in Mexico for an illustration of member apathy at a general meeting.

<sup>10</sup> 'Nir' Taxi Station (name changed to protect confidentiality) is a taxi cooperative in Tel Aviv, Israel that was established in 1931 with the ambition of providing the cleanest and most punctual taxi service in the country. Taxi drivers could become members of the station if they owned a taxi, possessed a public license to drive it and bought a share in the station for US\$ 10,000. The number of members grew slowly over the years but from the late 1950s onwards, an increasing number were



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hired drivers, rather than full members. Darr found that 38% of the station's workforce consisted of non-members, who either rented taxis from members for night shifts or rented the use public licenses.

- <sup>11</sup> Euwema discusses the impact that personality and management-style clashes can have on decisions to govern the company, strategize and allocate resources.
- <sup>12</sup> Formula Servizi, a large Italian worker cooperative that provides a range of high-quality services, gives potential members 2 years of training while Cooperative Muratori e Braccianti (CMB), a workers cooperative in the construction sector, gives bonuses on the basis of training participation. For this purpose it may be necessary to build a training reserve fund and in the future, such training may become increasingly digitalised.
- <sup>13</sup> The Kerala Dinesh Beedi cooperative has such a system in place. Crucially, mutual monitoring has been seen to improve the performance of those who fall behind in production and wages remained above the market average. Though it is important to consider Dow's argument that certain free rider problems are inevitable. Research also shows the beneficial impact of profit-sharing, group bonuses and penalties on 'total labour productivity'.
- <sup>14</sup> Many scholars have attributed managerial entrenchment to the informational advantage they have. To be able to make informed democratic decisions, it is suggested that they are given ready, transparent access to information. This could be done by summarising information in a newsletter, posting regular bulletins or establishing a website. Important governance documents should also be available in an easily accessible information file.
- <sup>15</sup> This derives from the term holarchy. According to Koestler, a holon is a 'whole that is a part of a larger whole' while holarchy is the 'connection between these holons'. Drawing inspiration from how nature organizes itself (i.e. cells are a holon and they collective comprise an organ which is another holon, etc.), holarchies seek to 'simultaneously honour autonomy and collaboration at every level of scale'.
- <sup>16</sup> The idea of teams as circles, elected representatives and structured decision making was inspired by Gerard Endenburg's conception of sociocracy in the Netherlands in 1960s and 1970s. Holacracy is distinguished from sociocracy in the manner it distinguishes roles from persons and eschews a formal manager.
- <sup>17</sup> The 'anchor circle', the broadest circle in Holacracy, is responsible for defining the organization's overall purpose. Article 5.2.3, Holacracy Constitution, Version 4.1, states that "[t]he Purpose of the Organization is the deepest creative potential it can sustainably express in the word, given all of the constraints acting upon it and everything available to it. That includes its history, current capacities, available resources, Partners, characters, culture, business structure, brand market awareness and all other relevant resources or factors'.
- <sup>18</sup> Tensions being defined as the gap between real/current results and potential results. In the case of the transport sub circle, for example, this can range from clarifying which driver has to pick up a consignment of mahogany wood to creating new roles altogether. Aside from governance meetings, there are also tactical meetings for circle member to keep abreast of different projects and move forward with new actions, meetings for strategy and inter-circle meetings for significant tensions that need to be addressed at a super circle or anchor circle level.
- <sup>19</sup> See the committee established to plan 'fun' activities in the South Mountain Company (SMC), a well-established and prosperous architecture and building cooperative in Wisconsin, mentioned in Berner et al.,

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