

# THE ROLE OF LOCAL CO-OPERATIVE DEVELOPMENT AGENCIES IN PROMOTING WORKER CO-OPERATIVES \*

by

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## Introduction

In recent years the number of worker co-operatives in the UK has grown rapidly. In the early 1970s there were approximately 20 worker co-operatives, mainly consisting of long established co-operatives formed at the turn of the century, but by 1980 this number had increased to about 300, again to nearly 500 by 1982, and to 900 by 1984, (CDA, 1980, 1982, 1984b). Initially this growth was stimulated by the promotional efforts of the Industrial Common Ownership Movement (ICOM) which produced model rules for worker co-operatives, and by the passing of the Industrial Common Ownership Act in 1976 which provided £250,000 to promote co-operatives and establish a revolving loan fund. Further impetus was given when in 1978 the Government set up the national Co-operative Development Agency (CDA) to act as a national body for the co-operative movement. This was followed by a rapid growth in local Co-operative Development Agencies (CDAs) usually with the sole purpose of promoting and assisting worker co-operatives. The first local CDA was set up in Scotland in 1977, since when the number has increased to about 100 (CDA, 1984a) of which approximately half employ full time development officers.

Local Co-operative Development Agencies are of considerable interest to those concerned with the theory and practice of worker co-operation. It has been argued in the literature on worker

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co-operatives that a healthy worker co-operative sector is unlikely to develop without the establishment of secondary support organisations (Vanek 1975, Campbell *et al.* 1977, Horvat 1980). In the UK context local CDAs represent the major form of support and assistance available to the worker co-operative sector. However, to date there has been very little done to try to assess the theoretical or practical significance of these developments. This paper aims to contribute to that task.

The paper presents some preliminary findings from research being undertaken by the Co-operatives Research Unit at the Open University which is examining the role of local CDAs in creating and sustaining worker co-operatives.<sup>(1)</sup> It draws primarily upon the results of a pilot study of five local CDAs, (reported more fully in Cornforth and Stott, 1984). Information on each CDA was gathered from written reports produced by the agencies, and from an in depth structured interview carried out with an officer of each agency. Further information about the wider population of CDAs was gathered through discussion and talks with other CDA workers, from the Newsletter of the Network of local CDAs,<sup>(2)</sup> and from other secondary sources.

The paper has three main aims:

1. To provide some basic descriptive information on the organisation and performance of CDAs that will be of use to both practitioners and academics.
2. To raise questions and issues that we feel require further consideration by policy workers and practitioners.
3. To relate the findings to existing literature on co-operative development and suggest future avenues for research.

### **The Origins and Funding of Local CDAs**

The period during which local CDAs have been established has been dominated by economic recession and very high levels of unemployment. Undoubtedly this has been of prime importance in the growth of co-operatives and local CDAs. The potential of local CDAs to create jobs has been a major factor in their ability to

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<sup>(2)</sup> Local Co-operative Development Agencies have formed a network in order to share information and experience. The network holds regular meetings and publishes a newsletter.

attract local support and funding and the hope of creating their own jobs has been a source of motivation for many co-operators.

The impetus for setting up local CDAs has often come from grass-roots initiatives. This is particularly true of the older CDAs. It is striking that all the CDAs in the pilot study were formed in similar ways. All five agencies started off as voluntary bodies set up as the result of meetings involving organisations and individuals interested in some way with employment and the co-operative movement. These might include the W.E.A., the local consumer co-operative, local councillors, local worker co-operatives, people involved in local community and voluntary organisations and the like. In all cases a steering committee of activists was formed which saw its prime role as acting as a pressure group to obtain funding for full-time development workers. More recently as co-operative development has become a more established part of local Labour Parties' employment policies, some CDAs have been set up directly at the initiative of the local authorities. In some cases they have chosen to establish independent agencies, as in the West Midlands, in other cases co-operative development officers have been employed as part of local authority employment development units. In July 1984 approximately half of the 100 CDAs nationally had managed to obtain funding to employ full-time staff (CDA 1984a). The vast majority are small, employing less than 5 people.

The money for local CDAs comes almost entirely from public funds. The support of local Government is particularly important if CDAs are to get funding. The two most common ways in which CDAs are financed are either directly from the local authority, or from central Government grants, such as Urban Aid and Inner City Partnership money, which also require the backing of the local authority. Other funding has come from regional development agencies, the Manpower Services Commission and the EEC.

All five of the CDAs in the pilot study receive support from their own local authority, all of whom are controlled by Labour. Nationally most CDAs that have received funding are in areas with Labour controlled councils, where they are seen as a way of promoting jobs in keeping with socialist values.

Given the fact that the co-operative sector is still very small and has few spare resources it is likely that CDAs will remain dependent on public funding for some time. This dependence on grants from central and local Government has a number of implications for the way they function and their future. First, there are almost as many CDAs that exist on a voluntary basis as are funded either because they have not been able to get support from

local Government, or because their grant applications have been turned down. Secondly, the case studies suggest that CDAs feel that they are going to be judged by the number of jobs they create rather than how successfully they promote co-operative development and the idea of co-operation. Thirdly, and perhaps most importantly for the future of the co-operative movement, many CDAs have no guarantee of long term funding and in consequence their future remains uncertain. In particular a good many CDAs receive at least some funding from the Metropolitan authorities that are due to be abolished.

### The Size and Area Covered by CDAs

The majority of CDAs that have received funding are based in the Urban areas of the Midlands, South Wales, the North East, the North West, Scotland and London. The size and area covered by a CDA varies quite largely. This is reflected in the CDAs examined in the pilot study (Figure 1).

Case Study	Location	Initial Staffing Level	Current Staffing (1983)	Future Level (if known)	Area Covered
1	London	1	4	10	Borough Part of County
2	Wales	1	1.5		
3	Scotland	1	7		
4	Northern England	3	4 1/2		Three Counties Borough
5	London	2	5		
	Average size	1.6	4.4		

Figure 1. The size and area covered by CDAs in the pilot study

The agency in Scotland is currently the largest CDA in the UK. It also covers the largest area, the whole of Scotland. Its main base is in Glasgow but has expanded by appointing workers located in different parts of Scotland. The majority of CDAs employ between 1 and 5 staff, with the average size probably being in between 3 and 4 workers. The area covered by a CDA usually corresponds to the area covered by the local authority from which it has obtained funding.

The research suggests that much development work is best carried out on a local level, i.e. where the CDA is within easy travelling distance of the co-operatives it serves. There are a

number of reasons for this. First, many potential co-operators have little experience of setting up a business and require regular contact with a development worker in order to plan their business, develop skills and learn about co-operation. Secondly, the CDA worker will need to develop and sustain a working relationship with a variety of local bodies, for example, the local authority, banks, trade unions, colleges and people who can offer expertise on various aspects of business. However, there are also some disadvantages in having a structure which mainly consists of small local organisations. Two examples illustrate this point. First, some development issues are best addressed by working with co-operatives in the same industrial sector rather than on an area basis, for instance to develop joint marketing. Secondly small local agencies may not be able to provide all the specialist help co-operatives require.

We feel that it is important for policy makers and practitioners to examine how these weaknesses can be overcome. A possible solution is for some resources and specialist help to be organised on a regional or national basis. Some regional initiatives have begun to emerge. Many CDAs have got together to form regional networks to share information and coordinate activities, and a few joint initiatives have been started, for example producing regional trade directories. In London a more comprehensive regional structure is beginning to be developed with the assistance of the Greater London Enterprise Board (GLEB). GLEB has set up the London Co-operative Enterprise Board to provide finance for co-operatives. It is developing a training strategy and has identified marketing as an area of skill shortage where it will provide special assistance. It is also working to assess investment and development opportunities on a sectoral basis (GLEB, 1983). It is important that the effectiveness of these new initiatives is monitored so that future policies in this area may be firmly based.

### **Characteristics and Skills of Development Workers**

A recent report on marketing in worker co-operatives concluded that most CDAs "have a policy of recruiting staff with general skills and experience". This general picture was supported by our pilot study of CDAs. The majority of staff that were interviewed felt that development workers need to be generalists, in sympathy with the principles of worker co-operatives and with experience and understanding of how they worked. The ability to communicate well and work with people was also stressed as an important skill. Skills in accountancy and marketing were seen as very useful but of secondary importance. A number of reasons can be put forward to

support this approach towards recruiting development workers. First, a knowledge of co-operative theory and practice is vital as many people thinking about setting up worker co-operatives have little or no experience of working in a co-operative themselves. It is also vital if technical advice and assistance is going to be given in a way that reinforces rather than contradicts co-operative working. Secondly, CDAs have to be able to respond to any problem that a co-operative may bring to them be it commercial, legal or organisational. Perhaps an appropriate analogy is with a general practitioner in the medical profession. Thirdly, development workers must be able to help co-operators acquire skills for themselves if they are going to set up viable independent co-operatives, in consequence CDA workers need to be good communicators, facilitators and teachers.

However, the policy of recruiting people for their knowledge of co-operatives and general skills can have drawbacks. The CAG report (1984:46) points out that in the field of marketing many CDAs do not have the specialist expertise to offer all the help that co-operatives require. This was recognised by the staff themselves who expressed a desire for more training in marketing. In order to help overcome this problem a number of CDAs are appointing specialist staff as they expand. Other CDAs have used outside specialists on a consultancy basis. However, many CDAs were not happy with the quality or nature of the assistance provided. The CAG report revealed three main criticisms:

1. These agencies and consultants often offered inappropriate advice because they did not understand co-operatives. For instance one co-operative was told it should not go ahead unless it appointed a strong external manager.
2. They tended not to work closely with co-operative members, and were prescriptive in style. In consequence workers learnt little that would help them solve problems for themselves in future.
3. They were poor value for money.

It is difficult to gauge accurately from the CAG report or our research the seriousness of these skill shortages, but it is an area which deserves further consideration by policy makers. In particular we feel that policy makers should try to improve the opportunities for training for development workers. In addition CDA workers should consider how they can improve relationships with other business advice agencies or consultants so that the advice they give co-operatives is based on a better understanding of co-operative practice.

### Developing New Co-operatives

The major task of all the CDAs in the pilot study, particularly in their early years, was working with groups to form new co-operatives. Co-operatives can be formed in three ways. 'New Start' co-operatives are set up from scratch as new businesses. 'Rescue' co-operatives are formed to try to save all or part of a business that is due to close down. 'Conversions' are formed when the owner(s) of an existing business decide to hand the business over to the workforce. With the exception of the Scottish CDA, all the CDAs in the pilot study had mainly been involved with 'new start' cooperatives. The Scottish CDA has also devoted a lot of effort to working with 'rescue' co-operatives. None of the CDAs had experienced much demand for help with 'conversions'. The development process for 'new start' and 'rescue' co-operatives will be examined in more detail below, but first different styles of development work will be discussed.

Development work can be characterised on two dimensions. The first dimension is concerned with where the initial idea and impetus for setting up the co-operative comes from. The idea and impetus may come from the potential members of the co-operative who then approach the CDA for help, which will be called 'initiated from below', or the idea and impetus may come from the CDA staff who identify a business opportunity and then try to recruit members of the co-operative to put the idea in practice, which will be called 'initiated from above'. The second dimension is concerned with the type of relationship the CDA workers have with the potential members of the co-operative. At one end of the spectrum they may have a facilitative and educational role, advising members of the co-operative on what they need to do to set up the co-operative and helping to develop the skills the co-operators need. At the other end of the spectrum they may have a very direct involvement in setting up the co-operative, undertaking themselves many of the tasks involved in the formation process and providing the skills that the co-operators lack until members of the co-operative can be trained to take over from them.

These different styles of development work can be represented by a two-by-two matrix as shown in Figure 2.

	Facilitative involvement	Direct involvement
Initiated by (from co-operators below)	'bottom up'	
Initiated by development worker (from above)		'top down'

Figure 2. *Styles of development work*

Development workers themselves often loosely divide development work into two types: 'bottom up' and 'top down'. These two categories can be mapped on to the matrix. In 'bottom up' development work the co-operative is initiated from below by the co-operators themselves and the development worker has a facilitative involvement in setting it up. In 'top down' development work the co-operative is initiated from above by the development worker who has a direct involvement in setting up. The dominant philosophy among development workers clearly favours a bottom up approach towards development work. It is argued that the success of a co-operative depends vitally on the commitment and involvement of its members, and that this is unlikely to be developed in a co-operative which is set up mainly by the development worker (see for example Mahoney and Taylor, 1981).

The vast majority of the development work undertaken by the agencies in the pilot study was initiated from below by the potential co-operators. Only two agencies had tried to initiate co-operatives from above. The London CDA (Case Study 5) had started work on three projects but none had progressed to a stage where a co-operative was set up and, because of these poor experiences, had made a policy decision not to undertake any projects of this type in the future. The CDA in Scotland had successfully set up a cleaning co-operative from above, but experienced some difficulties in getting the workers to take responsibility for managing the co-operative themselves.

The philosophy towards and style of involvement with 'new start' co-operatives was similar in all the agencies studied apart from the Scottish CDA. All four agencies have a facilitative approach to development work. They operate through a series of regular meetings with the group of people wanting to set up the co-operative. The purpose of the meetings is to guide the group through the various stages of planning and forming the co-operative such as assessing the market, developing a business plan, arranging finance, acquiring premises, registering the co-operative etc. Although the development worker guides the process the emphasis is put on the members of the co-operative to carry out much of the work between meetings. Although the CDA in Scotland works in this way with some groups, it is also prepared to take a much more direct involvement in forming new co-operatives. The agency believes that many potential co-operators lack entrepreneurial and management skills and its development workers are prepared to supply these skills while the co-operative gets off the ground. This may mean that a development worker works as an acting manager during the formation and initial trading period of the co-operative while he or she trains the members of the co-operative in the appropriate skills.



Development work with 'new-start' co-operatives progresses until a co-operative is set up or the participants drop out either because they lack commitment or because they realise their idea is not feasible. Four of the agencies had kept records, or could estimate, the percentage of groups that they started development with that eventually set up a co-operative. These figures ranged from 17% to 33% and are shown below:

	% of groups with whom development work was undertaken that eventually set up co-operatives
case study 1 (London)	17%
case study 2 (Wales)	20%
case study 4 (Northern England)	33% (estimate)
case study 5 (London)	33%

Three agencies were involved in setting up 'rescue' co-operatives. The CDAs in Wales and the North of England both helped to set up one 'rescue' co-operative, and both were small employing less than ten people. The CDA in Scotland helped four rescue co-operatives, all employing more than ten people and with the largest employing forty four workers. The Scottish experience suggests that working with rescue co-operative presents the development worker with additional problems and constraints which affect the process of development. In contrast to 'new start' co-operatives 'rescues' have usually to be set up very quickly before the business closes, customers are lost, the workforce disperses and the premises and equipment are sold or dismantled. The larger size is likely to mean that the development worker has to work mainly with workers' leaders or representatives. In addition setting up the co-operative may involve substantial and complex negotiations with the owners of the business, and with outside bodies in order to raise finance. The reduced time scale in particular is likely to mean that the development worker has to have a direct involvement in forming the co-operative and carrying out related negotiations. Typically a development worker will have to:

- i) Assist workers' leaders to draw up plans for the co-operative.
- ii) Undertake, or commission someone to undertake, a feasibility study to see whether all or part of the business is viable. In Scotland they have found that usually only part of the business can be saved.
- iii) Help negotiate with the owners of the business over terms and conditions for the co-operative taking over part of the business.

- iv) Possibly mobilise public support for the co-operative.
- v) Help the co-operative register and develop its internal organisation.
- vi) Ensure the co-operative has the necessary skills to function effectively (in Scotland the development officers have sometimes taken on the management's jobs in the early stages of the co-operative).
- vii) Help raise external finance.
- viii) Help secure orders for the co-operative to start trading.

Rescue co-operatives, particularly if they are large can be very demanding in terms of the development workers time and skills. As well as the problems of producing a viable business, the development worker also has to try to introduce co-operative working practices within a short period of time. The greater resources rescue co-operatives require from a CDA represents a concentration of risk in comparison to work with 'new starts'. In addition rescue co-operatives often attract the interest of the media and public with the attendant danger of bad publicity if they fail. These difficulties and risks need to be carefully weighed against the number of jobs that can be saved. In a few areas such as Scotland and Sheffield which have tried to promote rescue co-operatives there have been both successes and failures. It is important that the co-operative movement tries to learn from these experiences. This would allow other CDAs to make a more informed choice whether to devote more resources to promoting rescue co-operatives.

Given the intensive nature of much development work we feel that it is likely to have a significant impact on the way a co-operative develops. This is an important area for future research. There are a number of important questions and issues which such an inquiry might pursue. So far we have identified two dimensions on which styles of development work vary. Are there other significant dimensions? How do differences in style affect the way that co-operatives develop? For example, does a more direct involvement by the development worker lead to co-operatives that are dependent on the CDA for continuing support and assistance. Does a direct involvement undermine commitment and democracy within the co-operative? Do different sizes and types of co-operative require different styles of development work?

### **Servicing Existing Co-operatives**

All the CDAs that were studied had as part of their objectives to provide services to existing co-operatives. All but one of the CDAs

in the pilot study spend a significant amount of time working with existing co-operatives, and two of the CDAs saw the provision of these services as becoming increasingly important as the number of co-operatives in their area increased. One of the London CDAs (Case Study 1) felt that there was a danger that a number of co-operatives in the area might fail without this support. Generally, the CDAs provided support on demand from the co-operatives, although often they would try to maintain some informal contact with the co-operatives so that they might get early warning of any problems arising. The CDA in Scotland takes their involvement a stage further and is prepared to put a development worker into a new co-operative for up to six months to sort out problems and help train staff.

The issue of what type and level of service local CDAs should provide existing co-operatives is likely to become of greater significance in coming years and raises a number of interesting questions for policy maker and practitioners. First, are CDAs creating co-operatives that are dependent on them for managerial and technical skills in the longer term? Secondly, as the number of co-operatives in their areas grow will CDAs be able to meet the increasing demand for services? Thirdly, should CDAs play a more positive role in helping existing co-operatives consolidate their businesses and grow? For example, one CDA we examined felt that more and better jobs could be created by working to expand some of their existing co-operatives rather than by devoting resources to starting new co-operatives.

### **Creating an Environment and Infrastructure to Support Co-operative Development**

As well as direct development work with co-operatives all the CDAs we have examined were also concerned to create a better environment for co-operatives in their area. This work can be divided into three main areas: i) changing public attitudes and those of key individuals and institutions in the co-operatives' environment, ii) creating links between co-operatives and iii) setting up a new infrastructure to meet their particular needs. Each of these areas will be discussed in turn.

A major aim of the promotional work of most agencies, as well as trying to attract potential co-operators is to increase public awareness of co-operatives and improve attitudes towards them. In particular many development workers have devoted considerable efforts towards generating favourable attitudes and policies towards co-operatives in key institutions such as banks, local authorities, trade unions, educational establishments and careers advisory

services. For example a number of CDAs have persuaded Councils to give start up grants, or loans to co-operatives or to include co-operatives in tender lists for contracts.

Many CDA workers feel that an important part of their work is to try to strengthen the social and economic links between co-operatives. The reasons for this are both ideological and practical. They believe that only if the co-operative sector becomes a movement is it likely to have any chance of furthering the spread of co-operative principles and practices within society. More pragmatically they also see it as a way of strengthening individual co-operatives through mutual aid. These arguments are supported by various theorists on co-operative development, (Horvat 1980, Jordan 1981). Both writers argue that an integrated co-operative sector is much more likely to survive and become of economic significance in a capitalist setting. There are two main strands to these arguments. First, that mutual support and aid will decrease the dependence of co-operatives on an essential hostile capitalist environment. Secondly, that co-operatives will be able to achieve some of the economies of scale and some degree of horizontal and vertical integration that large capitalist companies achieve without individual co-operatives growing so large that their democracy is undermined. Practical experience from the successful co-operative movements in Italy and Mondragon lend support to these arguments (Thornley 1981 Campbell et al. 1977). So far developments in this area in the UK have been fairly small scale and piecemeal. A number of examples illustrate the point. Some CDAs refer new co-operatives to a more established co-operative in their area in order to see how a co-operative works or to pick up useful tips on some aspect of running a business. Others have tried to encourage intertrading between co-operatives. The Greater London Enterprise Board is helping some printing co-operatives to develop a joint marketing initiative. A number of co-operative trade fairs have been organised in different parts of the country.

We feel that it is important for the success of the sector that policy makers and practitioners consider how such initiatives can be extended and strengthened in the future.

Finally, some CDAs have tried to develop new infrastructure for co-operatives in order to overcome particular problems they face. The three main areas for these initiatives concern premises, finance and education. Each will be considered in turn.

In common with many small businesses new co-operatives often face considerable problems finding suitable premises (Wilson 1982). For this reason the two London CDAs in the pilot study had both acquired funding in order to convert buildings into a series of

workshops for co-operatives. As well as helping to overcome the acute shortage of suitable premises for small co-operatives they also felt that having co-operatives work in close proximity to one another would enable them help each other, develop a common identity and share common services. It is likely, given the small number of co-operatives, that shared workspace schemes are one of the best means of developing a more integrated co-operative sector.

It has been argued in the literature on worker co-operatives that they will suffer from shortages of finance because they cannot raise capital through issuing external shares and because they are likely to be discriminated against by financial institutions (Fanning and McCarthy 1983). Partly to overcome these problems Vanek (1975) and Horvat (1980) have argued that some form of co-operative bank, to promote and finance co-operatives, will be an essential part of the infrastructure needed to support a viable co-operative sector. Many of the CDA workers interviewed reported that co-operatives did indeed experience problems in raising finance (although it was not possible to tell whether their experiences are worse than other small businesses). A particular problem facing many potential co-operators, who may often be unemployed, is that they have few resources of their own to invest in their co-operative, or to use as security to raise loans. In order to overcome these problems two of the CDAs in the pilot study examined the possibility of establishing independent loan funds for co-operatives. However, they ran into difficulties getting them off the ground because of the strict Government regulations surrounding deposit taking institutions. Instead they, and various other CDAs, have persuaded their local Councils to give grants and loans to co-operatives. The amount of money available in these loan funds varies between the authorities, but usually is only suitable for funding small businesses. The success with which these schemes operate varies between authorities. The two London CDAs in the pilot study both had some problems with their schemes. In one agency the development worker felt that council officials were obstructing the efficient use of the scheme, the other agency felt that the bureaucratic processes involved in obtaining a grant were far too long and costly. Other CDA workers we talked to were more positive about their schemes, nevertheless it does raise the question whether local authorities are the most appropriate bodies to administer such grants. It may be more effective for grants to be administered through independent organisations that have greater expertise in financing co-operative businesses, and are less bound by bureaucratic regulations. One example of this approach is in the West Midlands where the Council have used Industrial Common Ownership Finance to run their scheme.

Of the 5 CDAs in the pilot study all but the Scottish CDA have provided formal courses for co-operators. The Welsh CDA has run one course on book-keeping. The other three CDAs run regular courses on how to start and run a co-operative. Attitudes towards courses varies between the CDAs. One London CDA (Case Study 5) sees the purpose of its course as to raise consciousness about co-operatives, but generally does not regard them as very useful. The other London CDA (Case Study 1) sees its annual course as providing a useful introduction to worker co-operatives and to techniques such as book-keeping. The Northern CDA intends to make the most use of courses. Their courses are to be run three times a year for people wanting to set up co-operatives. Their first course had 25 people on it about 70 % of whom were in the process of setting up a co-operative in early 1983.

From our wider contact with other development workers it would appear that generally courses play a relatively small role in the process of developing new co-operatives in most CDAs. However, there are some notable exceptions. Coventry CDA (1984:22) regard their course as pivotal to their development work. They felt that their original style of development work, which was based around a series of weekly or fortnightly meetings with members of a potential co-operative, was resulting in some co-ops « becoming established without having done the ground work to understand co-operation in practice and too dependent on (development) workers making management decisions about their business ». In order to try to overcome these problems they developed their own course which runs one day a week over ten weeks and revolves around activity based exercises. They believe that this approach reduces dependency on the development worker and gives co-operators a better grounding in how to work co-operatively and in basic business skills. In addition they feel that it is a more effective use of time because they can teach a number of groups at the same time rather than just one at a time as in the past.

There is no general consensus between agencies concerning the scope, role and effectiveness of providing educational and training courses. We feel that this is an important area which is worthy of further consideration and experimentation by CDAs. As CDAs face increasing demands on their time they will need to look for less labour intensive ways of approaching development work than working exclusively on a one to one basis with each co-operative. The approach adopted by Coventry offers one possible solution to this problem.

### **Characteristics of the Co-operatives Being Formed**

The vast majority of worker co-operatives are very small. A detailed breakdown of the distribution of co-operatives by size in the four areas covered by the pilot study (excluding Scotland) and with national figures for 1982 is shown in figure 3. These show that in the pilot study areas 87 % of co-operatives employed between 1-10 people. This compares with national figures for 1982 when 77 % of the co-operatives employed between 1-10 people. The largest co-operative in the pilot study employed 60 people and was converted from a successful private company.

Figure 4 shows the distribution of co-operatives in each area of the pilot study (excluding Scotland) by trading sector, and compares the overall results with a national survey. The figures show that the most popular sector for co-operatives to trade in is the service sector, followed by manufacturing and the retailing, although there are considerable variations between areas of the country. These aggregate figures mask a number of common features between the co-operatives. Perhaps the most striking is that most co-operatives are set up in businesses which are labour rather than capital intensive. In the manufacturing sector many of the co-operatives are in craft production or in traditional industries such as clothing. In the service sector, professional services such as design and computing are quite important, and other types of manual service such as cleaning and repair work. The retail sector is dominated by wholefood shops and bookshops.

Probably over 90 % of the new co-operatives formed in the UK are 'new starts' and it has been estimated that 60 % of co-operatives are less than 4 years old (CAG, 1984:15). This partly explains the small size of most co-operatives. Another important factor is that people setting up co-operatives often have few capital resources of their own to invest in their business, and are often without a business track record making it difficult to secure external finance.

Broadly speaking the people setting up 'new start' co-operatives can be split into two types. The first group want to set up co-operatives because it is in keeping with their social values and life-style. The spontaneous growth of co-operatives in the mid-1970s was mainly of this type and many of the people involved had links with the 'alternative' movement. These co-operatives were set up in areas such as wholefoods, publishing printing and bookselling reflecting the social concerns of their members. More recently there has been a growth in co-operatives in the professional

Case Study	Date	Size of Co-operative				
		1-5	6-10	11-20	21	
1. London	July 1983	11 (55 %)	7 (35 %)	1 (5 %)	1 (5 %)	
2. Wales	July 1983	5 (62.5 %)	2 (25 %)	0 (0 %)	1 (12.5 %)	
3. Scotland		complete information not available				
4. N. England	April 1983	12 (43 %)	11 (39 %)	4 (14 %)	1 (4 %)	
5. London	Jan. 1983	9 (45 %)	9 (45 %)	2 (10 %)	0 (0 %)	
<b>TOTAL</b>		37 (49 %)	29 (38 %)	7 (9 %)	3 (4 %)	
National survey *	1982	196 (48 %)	121 (29 %)	58 (14 %)	39 (9 %)	

\* Source: CDA (1982)

Figure 3. Distribution of Co-operatives by Size

Case Study	Date	Sector				
		Building & Construction	Manufacturing	Services	Transport & Distribution	Retailing
1. London	July 1983	2 (10 %)	3 (15 %)	11 (55 %)	1 (5 %)	3 (15 %)
2. Wales	July 1983	0 (0 %)	4 (50 %)	3 (37.5 %)	0 (0 %)	1 (12.5 %)
3. Scotland		complete information not available				
4. N. England	April 1983	1 (4 %)	6 (21 %)	13 (46 %)	0 (0 %)	8 (29 %)
5. London	Jan. 1983	5 (25 %)	6 (30 %)	9 (45 %)	0 (0 %)	0
<b>TOTAL</b>		8 (11 %)	19 (25 %)	36 (47 %)	1 (1 %)	12 (16 %)
National survey *	1983	6 %	25 %	39 %	6 %	23 %

\* CAG (1983) - based on a national survey of 160 co-operatives

Figure 4. Distribution of Co-operatives by Trading Sector



services, and areas such as building repair, which are less connected with the alternative movement but still reflect a desire by members to choose and control their own work and practice their social beliefs. For example a number of the co-operatives offering professional services are particularly concerned to help community organisations and other disadvantaged groups that cannot normally afford these services. Co-operators in this first group are usually middle-class and well educated. Depending on their past experience and skills they may or may not acquire a lot of assistance from CDAs.

The second group of co-operators are people that are primarily interested in creating their own jobs and see co-operatives as an appropriate means of doing this. For example they may be a group of unemployed workers, a group of young people about to leave a training scheme, a group of people belonging to an ethnic minority who find it difficult to get jobs elsewhere, or a group of women that cannot find employment which fits in with their family commitments. The choice of business in these co-operatives is usually based on the existing skills of the potential members. Common examples are in areas such as building, the manual services, and labour intensive manufacturing processes. Often people from this group will not have much experience of forming or running a business and will require a great deal of assistance from the CDA. It is unlikely that many of these 'job creation' co-operatives would have been set up without CDAs. In a small way CDAs are beginning to extend the opportunity of forming and creating a business to people who would not normally have the confidence or skills to do so.

The second most important way in which new co-operatives are formed is from the rescue of part or all of a failing private business. Rescue co-operatives are more likely to be larger than 'new start' co-operatives and are more likely to be in a traditional manufacturing industry. There was very little demand for help from CDAs to assist private companies convert into co-operatives, even in areas like Scotland, where the CDA had actively tried to promote them.

### **The Effect of Local CDAs**

This section will examine some of the effects of local CDAs on the co-operative sector. The national picture will be described first before looking in more detail at the CDAs in the pilot study. The analysis will focus on the performance of CDAs in terms of co-operative and job creation, the failure rates of co-operatives

being created and cost effectiveness.

Between 1980 and 1982 the number of co-operatives rose from approximately 300 to 480. A comparison of the growth in numbers in areas with and without CDAs shows the effects of CDAs on this growth (figure 5). In areas without CDAs the number of co-operatives grew by 24 %. By comparison the number of co-operatives in areas with CDAs grew by 131 %. On the surface the growth in jobs in co-operatives is less impressive. In areas without CDAs the number of jobs in co-operatives declined by 7 % between 1980 and 1982. By comparison the numbers of jobs in co-operatives in areas with CDAs rose by 56 % (figure 6). However, the employment figures are distorted by the fact that in two areas with CDAs, Coventry and Lambeth, there were large co-operatives that failed. Both these co-operatives were in existence before the CDAs were formed. If these two areas are excluded from the calculations then employment in co-operatives in CDA areas rose by 181 % between 1980 and 1982.

#### Number of co-operatives

	1980	1982	Percentage increase
Areas without CDAs	201	250	24 %
Areas with CDAs	99	229	131 %

Source : This table is derived from work by Taylor (1984) using directories of co-operatives produced by the national CDA (1980, 1982).

Figure 5. *The Growth of Co-operatives in Areas With and Without CDAs (1980-1982)*

#### Number of jobs in co-operatives

	1980	1982	Percentage increase
Areas without CDAs	3554	3315	- 7 %
Areas with CDAs	1125	1764	+ 56 %
Areas with CDAs (excluding Lambeth & Coventry)	520	1464	181 %

Source : As for Figure 3

Figure 6. *The Growth of Jobs in Co-operatives in Areas With and Without CDAs (1980-1982)*

To what extent can this differential growth be attributed to the efforts of local CDAs? Taylor (1984) who has analysed this pattern

of change in more detail concludes that the growth in co-operatives and co-operative employment in areas with CDAs cannot be attributed to favourable local economic conditions:

« Most of the places involved (i.e. with CDAs) are urban or inner city areas with severe economic problems and in most cases there were a number of co-operatives already established by 1980. This major progress therefore cannot be put down to a locally favourable economic climate or to a previous absence of co-operatives from an area which had a 'natural' ability to sustain co-operatives. »

Evidence from the pilot study suggested that many co-operatives would not have been set up without the assistance of CDAs. In conclusion, both sets of results support the view that CDAs have been a dominant factor in the recent growth of co-operatives.

Taylor (1984) also examined the effects of local CDAs on co-operative and job creation nationally.

« Figures have been collected for the twenty three local CDAs which had staff between 1980 and 1982. They show that on average during this period each member of staff helped to create sixteen jobs and two and a half co-operatives a year. This compares very favourably with other forms of investment in job creation. If average costs of staff salaries and other CDA expenses are borne in mind, this gives a figure of about £750 of council grant per job created — a very impressive figure.»

Unfortunately Taylor does not give details of the method he employed in making these calculations or of the assumption he had to make and so it is difficult to assess the validity of his results by themselves. However, comparison with the results of the pilot study will enable us to see whether this aggregate analysis bears any resemblance to the findings from the five case studies.

The performance of the five CDAs in the pilot study were examined in terms of co-operative creation, job creation and the health of the co-operative sector in their area. Three measures of performance were used:

1. Co-operative creation was measured in terms of the number of new co-operatives established in the agency's area per person year of work that were still in existence when the study took place.
2. Job creation was measured in terms of the number of jobs in new co-operatives created per person year of work that were still in existence when the study took place.
3. The health of the co-operative sector was measured in terms of failure rate for co-operatives in an agency's area to date.

Figure 7 shows the performance of each of the five agencies using these measures. However, before examining these results it is important to realise that the measures employed have various limitations which need to be borne in mind when interpreting the results.

1. The measures of co-operative and job creation take no account of:
    - a) changes among co-operatives that existed before the agency started.
    - b) co-operatives and jobs that have existed for part of the life of the agency and have subsequently ceased to exist.
    - c) co-operatives and jobs in the process of formation.
    - d) co-operatives that were converted from private companies as no jobs are created or saved by this.
    - e) whether the jobs are full or part-time. (Information on this was only available in two areas: in Case Study 4, 23 % of the total jobs were part-time, in Case Study 5, 10 % of the total jobs were part-time.)
  2. The measure of job creation takes no account of jobs that may have been displaced elsewhere by those created.
  3. All the CDAs, but in particular the two London CDAs, have put a lot of effort into projects for improving the availability of premises and loans for co-operatives. The effects of these activities on co-operative and job creation, in particular the work on premises, will be long term and in consequence will reduce the level of performance of these agencies in the short term.
  4. The measures of job or co-operative creation give no indication of the viability of the co-operatives and jobs created. This problem can be partly overcome by looking at the failure rate of co-operatives in the area in order to give some indication of the health of the co-operative sector and hence the viability of the jobs created. However, there is a danger that this measure will overestimate the health of newly formed co-operatives. In the short term there is evidence to suggest that members of co-operatives are willing to make personal sacrifices such as taking low wages in order to get their co-operative off the ground. Such sacrifices are more difficult to sustain in the longer term if the co-operatives' performance does not improve.
  5. The measure of 'health' gives no indication of the quality of the jobs created or how well the co-operatives perform as co-operatives.
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Agency	Period	Person years of effort	New co-ops formed in period	Co-ops still existing by 1983	Number of new jobs (including part-time)	Co-ops/person year of development work	Jobs/person year of development work	Failure rate
1. in London	Oct. 1980 July 1983	3.75 approx	22	17	63	4.5 (3.4) *	16.8 (12.6) *	3 in 22 (two co-ops left the area)
2. in Wales	March 1979 July 1983	5.75 approx	9	8	62	1.6 (1.2) *	10.8 (8.1) *	1 in 9
3. in Scotland	June 1977- Jan. 1983	13.25	39 or more	39	370	2.9 (2.2) *	28.0 (21) *	not known but estimated as low
4. in Northern England	April 1982- May 1983	3	9	9	47	3.0 (2.25) *	15.7 (11.7) *	0
5. in London	April 1980 Feb. 1983	8.75 approx	20	20	113	2.3 (1.7) *	12.9 (9.7) *	0
TOTAL		34.5	99	93	655			
Average						2.87 (2.2) *	19 (14.2) *	

\* The figures in brackets represent an estimate of the minimum number of co-operatives and jobs each agency helped to create.

Figure 7. *The Performance of the Five Co-operative Development Agencies*

6. The measures do not take account of how significantly the CDA was involved in helping create the new co-operatives. Discussions with development workers suggest that CDAs are significantly involved in setting up the majority of new co-operatives. This is borne out by our earlier analysis of the growth of co-operatives in areas with and without CDAs (figure 3). In consequence we believe that a lower limit for the performance of CDAs might be estimated by taking three quarters of the total figures for co-operatives and jobs created. These figures are shown in brackets in Figure 7.

Using the minimum estimates the number of co-operatives formed per person year of development work varied between 1.2 and 3.4 for different CDAs, and the average rate for all five agencies together was 2.2. The number of jobs created varied between 8.1 and 21.0 per person year of development work for different CDAs, and the average rate estimated over all five was 14.2. The comparatively high job creation rate for the agency in Scotland may have been due to a higher potential for the 'spontaneous' formation of co-operatives as a consequence of the much larger area it covered than other CDAs.

It was possible to get exact figures associated with the costs involved in setting up these co-operatives. However, the CDA in Wales received funding of £17,500 a year in 1983 to cover salary costs and all overheads including rent. On this basis we have assumed £18,00 as the average cost per person year of development work in each agency. On this basis the cost of jobs created varies between approximately £850 per job and £2,200 per job depending on the job creation rate of the agency. The average cost per job over all five agencies is £1300. (These figures do not include any other costs that may have been incurred in setting up the co-operatives, for example start up grants etc.)

The failure rate for co-operatives during the life of each agency varied between 0 out of 20 set up in a period covering 34 months, and 3 out of 22 set up in a period covering 32 months. In the four agencies, excluding Scotland for which figures were unavailable, 4 out of 60 new co-operatives set up had failed. These figures indicate that failure rates so far are quite low. However, all the co-operatives the CDAs helped set up were less than three years old and so it is really too early to judge long term health and prospects from these results.

The average figures on co-operative and job creation for the 5 case studies compare quite closely with those produced by Taylor for 23 CDAs between 1980 and 1982, discussed earlier. However Taylor's estimate of the cost of each job created is much lower than

ours at £750. This suggests that the difference lies in our respective estimates of the costs associated with development work. Although both sets of figures need to be treated with some caution, because of various limitations of the measures used and the assumptions that have been made, the figures do suggest that CDAs provide a cost effective means of job creation in comparison with the costs associated with someone remaining on the dole, or many other job creation schemes.

### **Summary of Main Findings and Conclusions**

Research has shown that local co-operative development agencies (CDAs) have been a major factor in the growth of co-operatives in the UK since 1980. Since that time it has only been in areas with local CDAs that the number of co-operatives has grown significantly. These findings lend support to the arguments of theorists such as Vanek (1975) and Horvat (1980) who have argued that the presence of support organisations is vital in the establishment of a worker co-operative (or self-managed) sector of the economy.

The impetus for setting up local CDAs has often stemmed from local voluntary action stimulated by success in other areas. The main function of these groups has been to gain funding in order to employ fulltime development workers. This has usually been achieved by gaining the support of local Government who have either funded CDAs directly or supported applications for central Government grants. Usually support has come from Labour controlled authorities who, concerned with high levels of unemployment, have been developing strategies to stimulate their local economies.

This pattern of development and funding means that support for worker co-operatives is highly decentralised, although the CDAs have set up a regional and national network in order to share information and experience. This decentralised system has a number of strengths. First, the formation of many co-operatives requires intensive development work, which is best carried out on a local basis so that there can be regular contact between the co-operative and the development worker. Secondly, it enables each CDA to build up local knowledge and contacts with key institutions such as the local authority, banks, trade unions etc. which can be very important in the development process. Thirdly, it is a flexible system which can meet demand in many areas of the country. However it does also have weaknesses. First, promoting small co-operatives on a decentralised basis means that it is very

difficult to develop an interdependent system of co-operatives which can be self-supporting. Secondly, small agencies are unlikely to be able to provide all the specialist skills and resources co-operatives may need. Thirdly, some development work is probably best pursued on a sectoral rather than an area basis. These weaknesses could possibly be overcome by having some services organised on a regional or national basis. Such bodies might for example provide additional specialist skills, undertake sectoral initiatives, and support CDAs when dealing with larger co-operatives. This is an issue which requires further thought by practitioners and policy makers. In particular we recommend that 'natural experiments' such as in London are monitored in order to assess their effectiveness.

Broadly speaking all the CDAs undertook the same range of activities: promotional work, educational work, development work setting up new co-operatives, providing services to existing co-operatives, and establishing a local infrastructure to support co-operatives in their area. As one might expect in the early years of an agency the main preoccupation is setting up new co-operatives. However, as they grew older the CDAs in the pilot study were spending more of their time servicing existing co-operatives. This raises a number of important questions for CDAs. What balance should they maintain between developing new co-operatives and supporting existing ones. How should they maintain contact with existing co-operatives? Should they monitor the performance of existing co-operatives? What range of support services should they offer? Are they creating co-operatives that are too dependent on them for support? At the moment CDAs are beginning to develop their own solutions to these problems but practice is still not well developed. These issues need to be more widely explored and discussed so that CDAs may learn from each others experiences.

There was a high degree of consensus among development workers that the initiative for new co-operatives must come from the workforce if they are to be successful. In the five CDAs covered by the pilot study only one co-operative had been set up successfully from above by a development worker. This finding supports the results of other research on the success and failure of co-operatives in the UK (Thornley 1981, Cornforth 1983) and is similar to the experiences of the successful Mondragon co-operatives (Campbell *et al*, 1977:6). Further research is required on the impact that different styles of development work have on the development of worker co-operatives.



The great majority of the co-operatives that the CDAs helped to set up were 'new starts' employing less than ten people. Most were established in businesses where initial capital requirements are relatively small. There was very little demand for 'conversion' co-operatives. The only agency in the pilot study to be significantly involved with 'rescue' co-operatives was the agency in Scotland. These larger rescue co-operatives often require intensive assistance from development workers who may be required to undertake an entrepreneurial role making sure that all the necessary factors of production are present and working under severe time pressures to get the co-operative established before the original business closes and customers are lost. The Scottish experience suggests that with the resources available it is often only possible to save a part of a business. However these rescues may still be significantly larger than the 'new start' co-operatives. Because of this we feel it might be worth other CDAs considering whether they should devote more resources towards promoting rescue co-operatives.

There was some evidence that CDAs suffered from skill shortages in areas such as marketing. In order to help overcome these problems we suggest that policy makers and practitioners should consider how to improve training opportunities for development workers, and how to improve links with other business advisory services.

The performance of the five CDAs was examined in terms of the number of co-operatives and jobs created and the failure rates for new co-operatives in their areas. Given the limited time the CDAs have been established and the assumptions it has been necessary to make in order to measure performance our conclusions should be regarded as tentative. Initial impressions though were favourable. The estimates of the minimum number of jobs created in each agency varied between 8.1 and 21 per person year of development work, and the average, taking all five agencies together, was 14.2. The estimates of the minimum number of co-operatives created in each agency varied between 1.2 and 3.4 per person year of development work with an average, over the five agencies, of 2.2. Taking all five agencies together the average cost per job was estimated to be £1,300. The failure rates for the new co-operatives created were also encouragingly low ranging between 0 out of 20 and 3 out of 22 over the life of an agency. However, all of these co-operatives are still very young (under 3 years old) and, given that the early years of a business are the most vulnerable, it is really too early to reach firm conclusions.

The research did not examine the social or economic performance of the co-operatives set up. In consequence we can say nothing about the quality of co-operatives set up or the quality

of the jobs created. In order to gain a more thorough understanding of how CDAs are performing, information on these aspects would be extremely important. This is clearly an important area for future research.

So far local CDAs have demonstrated that they can effectively set up small co-operatives in the low capital intensive sectors of the economy. However, if policy makers are concerned to develop a co-operative sector which has a bigger economic impact then the present system of support will have to be considerably strengthened. How this should be done is too big an issue to discuss here, but we feel that experiences in Italy and Mondragon still offer the most useful models for future developments.

Finally we would like to conclude by considering the more immediate future for worker co-operatives and local CDAs in the UK. Although the number of worker co-operatives has grown rapidly the sector is not firmly established. It is comprised of new small businesses without economic muscle and as a consequence it is vulnerable to wider social and economic forces. As a result the continued health and growth of the sector is likely to be dependent on the support of local CDAs, which in turn are dependent on the backing of local and central Government, for some time to come. In consequence the short term future of worker co-operatives sector is highly dependent on changes in local and central Government policy. At the moment these changes appear to be for the worse as cutbacks in Urban Aid funding and the abolition of the Metropolitan Authorities are likely to threaten the existence of some CDAs. The future then is uncertain. The number of small co-operatives will continue to grow in these areas supported by CDAs, but the sector is unlikely to become important economically unless it receives much greater backing and support from central Government.

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