The University of Sydney

Spain pioneers Sustainable Democratic Corporate Governance Business Model with Sociedades Laborales

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Introduction

Many countries are taking inspiration from the 1986 pioneering innovative legislation in Spain - Sociedades Laborales (SAL). This groundbreaking legislation had the objective of creating and preserving jobs through worker participation and was based on tapping the initiative, innovation and risk taking ability of the company's workers. This highly successful initiative was the foundation for the creation of over 12,000 companies and 120,000 jobs by 2006. What can the UK and Europe learn from this?

This article discusses research conducted on seven SALs in the metals manufacturing sector in Spain in 2005 by Anthony Jensen from the University of Sydney who concluded: "These were outstanding examples of worker self management where a collegiate culture between management and workers had produced a business model characterised by high performance work systems. The rest of the world has definitely got important lessons to learn from this pioneering model of job creation and preservation. Sociedades Laborales is a model that the European Commission needs to consider for adoption across Europe. It is important now that Italy, Spain, France and the UK combine their pioneering efforts in this field to produce a discussion document for the European Commission and the International Labour Organization".

Strangely enough it is a little known aspect of Sociedades Laborales that is creating the recent interest in the UK where there is nearly full employment. The UK government is concerned that companies continue to fail and are not saved when they should be saved. This is a very significant waste of intellectual and human capital. This is where Spain has lessons to teach Europe in socially responsible economic restructuring in both creating new companies and preserving old ones.

The recent interest by the French media in the rescue of the insolvent company PAMCO, in Alenon, by the 196 workers became national news championed by La Monde. The establishment of National Federations and working parties supporting recovery in insolvency in a number of countries (UK, US, Brazil, South Korea, Estonia and Argentina) comes at a time when there is a re-examination of this form of industrial restructuring. A form, which was a feature of the 1980s, may well find a place in Europe in the revamped Lisbon Strategy.

The very important lesson Spain has for the UK is that Sociedads Laborales is a sustainable business model which has proved workers can successfully run their own businesses. This article describes seven SALs in the metal working sector that are successful. Some have become market leaders supplying the biggest companies in Europe. What is also important is that these companies were at one time failures, were bankrupt, and were rescued by the workforce.

The economic recession and crises of the 1970s and early 1980s was a period when worker takeovers, sit ins and buyouts were a highly conspicuous reaction by workers to the threat to their jobs in Italy, Spain, France, UK and USA. This was successfully pioneered in Spain in the 1970s and was followed in the other countries. Professor Rob Paton in his book *The Reluctant Entrepreneurs*, which surveyed this period in Europe, described the results:

"Faced with few alternatives to find employment workers became entrepreneurs not by choice but by necessity and took over companies usually when no one else was prepared to do so. Hundreds of companies and thousands of jobs were preserved, moribund organisations were transformed and industrial capacity was preserved and reconstructed, new ways of working and new roles for trade unionists were developed, established social and political ideas were re-evaluated; new networks and economic formations emerged; and men and women surprised themselves by what they became and achieved[1]."

Paton wanted to celebrate and record the definite successes of the worker buyouts in this period and challenge the popular impression of failure and mismanagement associated with some high profile failures. Of considerable importance is the fact that employees can successfully engage in an employee buyout and this is seen as "thought leadership" by key insolvency practitioners in major international firms based in London. It is important then to examine some aspects of the Spanish experience.

The Spanish Experience

This SAL experiment gives the opportunity to research the nature of the success of worker self-management as a strategy in restructuring. This was done in 2006 in a research project sponsored by the UK Foundations Co-operative Action and Common Cause. For this research seven metal manufacturing firms were chosen which recovered from bankruptcy when they were taken over by their workers. The total jobs of all the companies fell from 938 prior to insolvency to 380 afterwards. However collectively they now have 675 employees.

Company	Formed into SAL	Jobs before insolvency	Jobs after reconstruction	Jobs in 2005
SAL 1	1982	70	23	23
SAL 2	1985	150	35	58
SAL 3	1986	45	8	22
SAL 4	1989	236	116	280
SAL 5	1991	317	124	188
SAL 6	1993	80	34	47
SAL 7	1997	40	40	57
Totals		**938**	**380**	**675**

Five were in the Basque Country and two around Madrid. They were SMEs ranging in size from 22 to 380 employees and had been in existence for a

1 Paton.R . Reluctant Entrepreneurs. Open University Press. Milton Keynes.1989.

number of years: the oldest was formed in 1982 and the most recent was in 1997. SAL 3 (paint spraying equipment) and SAL 7 (fans and ventilation equipment) have become market leaders: SAL 4 is the largest SAL in Spain and produces castings for the automotive industry (VW, MAN and Ford); SAL 5 is the number one drills maker in Spain; SAL 6 produces screws for the automotive industry (Citroen, Peugeot and Renault).

SAL Corporate Governance Model

Structure of Ownership

Sociedades Laborales, was a new pioneering form of Labour Corporation, was first incorporated in the 1985 Act with the aim of devising new ways of creating employment and at the same time increasing employee participation in companies by placing ownership in the hands of the workers. This was made possible by an innovative financing mechanism providing workers with capital to invest in the company through an Unemployment Lump Sum. This capitalised two years unemployment benefits and was supplemented by central and local government loans or grants without control provisions.

The SAL is a business model of collective self management and a balance between individual and collective ownership and control where ownership is assumed to be the key prerequisite to control. The worker owners own 51% of the capital in the form of stock and there is a limitation on any one worker owning more than a third of the stock except public authorities, which can own 49%. There are two types of members – those who own a share and have an employment contract and those who invest but don't work there. SALs are required to invest in a collective special reserve fund to offset losses. There can be up to 20% non member workers.

Structure of Control

Corporate governance principles aim to clarify the set of relationships between the main stakeholders - the shareholders, the management and the board. Democratic corporate governance involves a different set of issues relating to sovereignty and delegation of authority as the workers are the shareholders and appoint management. Ownership and control of the SAL is internalised in the one person – the worker. The structure of democratic corporate governance involves a network of five participatory institutions:

(i) The Assembly or general council where sovereignty is exercised in a democratic process and where fundamental policy decisions are made with rights based on an authorised capital majority. Worker members vote according to their shareholding. Any type of decision of an economic and social nature can be submitted for debate by members. Non members are not included.

(ii) The Assembly Board administers the SAL and is elected by the Assembly. The number on the board varies according to the size of the SAL. Members are elected for four years with the responsibility to represent, govern and administer. It is accountable to the assembly every year.

(iii) Management of the SAL, when it is of sufficient size, occurs through functional specialisation with the appointment of a hired manager or manager's equivalent to directors. The SAL then has in effect a two tier board. Managers report to the Assembly Board on a regular basis.

(iv) The Workers Committee has the function of delivering worker participation and represents all the workers which is a requirement by law for all Spanish companies over 50 employees. It is elected from the trade unions and all workers are involved. This discusses salary, labour rights, workers rights and hours, leave, contract work and working conditions. Other bodies such as committee of staff or committee of hygiene and safety or works council are set up in accord with labour law. Industrial and trade union bodies co-exist.

(v) The trade unions are an institution of corporate governance and have generally decided to remain in the SALs in a traditional collective bargaining role. The trade union can be either an agent of education and advice or a pressure group on working matters, negotiating and bargaining over wages, timetables and organisation of work. Trade unions are very important in assisting with identifying potential buyouts and negotiating the transfer to the workers.

Evaluation

The seven firms in this study have been successful by the criteria of having survived a number of years, fulfilled the objectives of the owners in providing job security and in the process have created more jobs. Some have become market leaders. Two suffered insolvency a second time before recovery was consolidated. What is significant is that in achieving this they demonstrated the simultaneous occurrence of democratic forms of management in the presence of working within the rigorous demands of market efficiency.

This analysis sets out to gain insights into how democratic corporate governance contributed to the success of this form of worker self-management and produced high performance work systems. The firms demonstrated the successful implementation of the entrepreneurial function in meeting the demands of the market as well as the democratic decision making process. Patton described the criteria for success: strong leadership, a coherent workforce and effective and continuing advisory and training support. The way this was resolved in the case studies will be the subject of the evaluation below.

There were many SALs that failed, as in all business start up programmes, but on the other hand many were successful and these were very successful. A reason for failure of these SALs may have been that the workers were unable to overcome three key contradictions inherent in democratic corporate governance. These contradictions are knowledge, time and free riders.

The first contradiction the SALs overcame relates to qualifications where 'the level of knowledge of many of the employees is not adequate for running the business'. In the case studies the SALs overcame this problem by selecting, and appointing professional management. A servant leader collegiate approach broadened and deepened management throughout the SAL. Management was not democratised however , where everyone took part directly in management, but decision making at all levels was placed in the hands of people who had the expertise and information to make those decisions.

The second contradiction relates to the time factor – business often requires quick decisions and it is important not to divert member's time from production to decision making. This was solved in the groups by delegating power to the assembly board and management. Also it was apparent that only certain decisions needed to be brought to the assembly for discussion reflecting 'democratic management does not need to involve everybody in everything' and 'it does not result in total agreement on every issue'.

The third contradiction relates to responsibility at work and overcoming the free rider problem ensuring that decisions are implemented. The legal constitution of the SAL institutionalises collective entrepreneurship and responsibility through individual stock ownership. Here the worker has a clear line of sight on how their actions affect performance and profitability. Horizontal monitoring is enhanced by peer pressure where workers emulate each other and vertical monitoring by the exposure of management to worker shareholder observation.

The resolving of these three key contradictions reflects the characteristics of the stakeholder organisation that features both co-operative and individual interests. The elected Chairman, assembly board and general assembly all together form a collective entrepreneur where they are integrated into the decision making and innovation process.

The Collective Entrepreneurship Model of the SAL

The collective entrepreneurship model, which was practiced by these SALs, is based on worker participation functioning in four areas: direct and indirect democracy at both the company level and at the shop floor. This proved to be a very powerful example of a collective entrepreneurship system which was based on achieving full worker engagement. This was based on a, what is classified in the UK as a very forward looking High Performance Work System – flat organisational structure, participation in decision making and egalitarian pay structures.

It was the successful attempt to make democracy work in these four areas that the workers overcame the contradictions between democracy and the demands of market efficiency. One worker described this: 'We support one another. Remember yourself and your workmates. Be prepared to sacrifice. Have flexibility in approaching your role. Be prepared to work not 8 hours but 11 or 15. Change your mentality. The salary is paid to be an entrepreneur and a worker'.

(i) Direct Democracy at the level of the firm: Direct democracy in the running of the firm was exercised in annual general meetings through discussion and debate with major decisions taken by consensus in some firms. When asked whether they actually felt they had power, shop floor workers replied: 'Of course I do. It's my company' and 'In the meetings we are all the same. Everyone does their best' and 'Day to day management is the same but now we contribute to vision and future direction.'

(ii) Indirect democracy at the level of the firm: The elected assembly board was potentially the weak link as sound management and direction requires a balanced board with a range of commercial skills that workers generally do not have. They met this challenge through a two-tiered board which met monthly which acted as a consultative, information sharing mechanism delegating authority to a general manager with commercial acumen sympathetic to the values of worker ownership. Managers were prepared to work for below market rates. The manager would be asked to develop a corporate plan which would go to the Assembly Board then to the Assembly. The workers appeared content that they had appointed the best CEO they could find. A worker described the process: 'The Board. Yes. They explain all the plans and make the decisions. It is hard to have to tell workers if they are redundant. You are there to make decisions. Normally these decisions are made by the managing director'.

(iii) Direct democracy at the shop floor. There was a great deal of democracy and autonomy observed resulting in a high enthusiasm for work. As one worker stated: 'Before I report to the boss. Now I am an employee and boss. There is no conflict in that role. I lose more hair and have to think more.' Workers were given problems to solve both individually and collectively. Job rotation and job enrichment 'is simply a characteristic part of everyday life'. As a worker explained: 'They used to work for a patron. The machines had names. What scared them was letting go and doing something else. One day to the next this disappeared. We now adapt to whatever comes. Develop self belief that we can change it. Used to be work, work, work, and work nothing else.'

(iii) Indirect Democracy at the shop floor: Work on the shop floor was organised in teams in which workers participated and which had a co-ordinator. One manager explained team based production: 'We need to make a model for the future. This is part of the democratic model – there are nine coordinators who make many decisions. The team is part of that decision. Each part of the company has its own decision-making. Workers are in self managing teams and contribute'.

Conclusion

The success of the SALs demonstrated the workings of effective democratic institutions which overcome the negative aspects of democracy and worker participation. A vibrant model of collective entrepreneurship emerged in which workers engaged in cost cutting, innovation and ideas generation, improved productivity, better access to and use of information in improved decision making. This study demonstrated that in certain circumstances workers could exercise managerial power effectively, carry out strategic decision-making and engage in sustainable democratic corporate governance resulting in high performance work systems.

These SALs developed a sustainable democratic governance system that resolved three key issues: the potential conflicts of interest amongst workers, a method of keeping them informed and a culture which enabled them to make 'credible commitments to each other'. The European study by Professor Rob Paton also found, which was expected, that corporate recovery is not a panacea for every situation and the task is to determine what are the characteristics which point to success. This is the subject of further research in Italy, Spain and the UK by Anthony Jensen of the University of Sydney in 2008. "

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