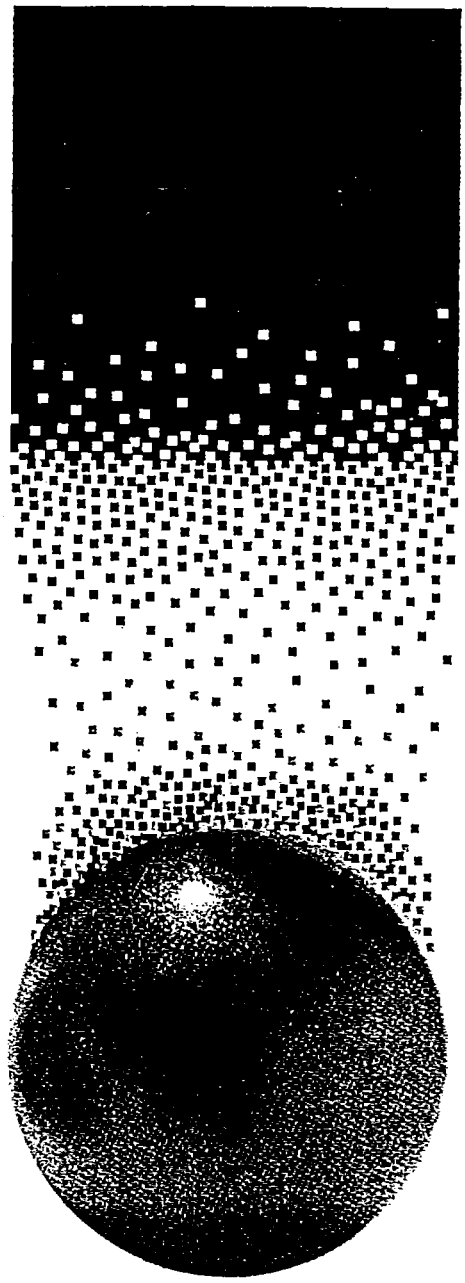

EMPLOYEE BUYOUTS

20 EUROPEAN CASE STUDIES

Published by
ICOM
Industrial Common Ownership Movement Limited

Edited and annotated by
FVECTA
Federación Valenciana de Co-operativas de Trabajo Asociado

With financial assistance from
DGXXIII of the European Commission

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SECTION 1

1.1 INTRODUCTION

1.2 THE PROJECT PARTNERS

ICOM
FEDERLAVORO
FVECTA
FCTAC

1.3 METHODOLOGY

1.1 INTRODUCTION

This compilation of case studies is the outcome of an international project between four federations of worker co-operatives (ICOM of the United Kingdom, Federlavoro e Servizi of Italy and FCTAC and FVECTA of Spain). It was carried out with the support of the Social Economy Unit of DGXXIII of the European Commission.

The project is part of a process of international work, focused on sharing information and knowledge among social economy organizations in Europe and on transforming companies into worker owned ventures. In November 1992, an international congress was held in London called "Strategies for Developing Self-Management" in which that subject was discussed by federations, trade unions and specialists from various European countries.

Prior to that, the results of an international study in six countries on transforming companies in crisis by the "Open University" had been published ("Reluctant Entrepreneurs" Rob Paton, 1988, Open University Press).

Nevertheless, despite the interesting information arising from those studies, the partners in this project considered it important to go deeper into the key issues surrounding conversion to employee ownership by drawing up a report, that would be available in all the languages of the countries involved, and which would reflect the latest developments that have occurred over the last three years.

In this respect, it seemed a good idea to us to take the differing circumstances of the different countries into account. Firstly, the wave of privatizations in the United Kingdom has caused worker owned ventures to be set up in the public sector, who could share their experience with other countries. Secondly, the trend in traditional business thinking towards worker participation should favour the transformation of conventional businesses into worker owned ventures and, in this context, the influence of ideas from the U.S.A. in the development of ESOPs in Europe can clearly be seen. Finally, the persistence of high unemployment rates and business failure, combined with the trend towards decentralization of large company activities, continues to point towards work in this field.

So, this work represents an attempt to raise awareness on the process of converting conventional companies into worker owned ones, by considering 20 case studies. It is not an academic work nor, given its limited resources, does it pretend to offer representative statistics. It is more a qualitative work that tries to identify some of the key factors in the transformation process and to involve the most important actors in that process (especially the federations, trade unions, local development agencies and expert consultants) in a debate and exchange of international information.

To fulfil those objectives, this document is available in English, Italian and Spanish and will be presented in a number of seminars in the United Kingdom, Italy and Spain with the aim of sharing information and exchanging experiences between European organizations that have an interest in developing the social economy.

1.2 THE PARTNERS

ICOM (UK)

ICOM (Industrial Common Ownership Movement) promotes democratic employee-owned enterprises, particularly in the form known as "common ownership". ICOM has assisted over 2,500 such enterprises to come into being since 1971, each a contribution to democracy, equal opportunities and social justice in the workplace. ICOM is democratically controlled by its members and is managed by a General Council elected from the membership.

ICOM is a national non-profit membership organisation and receives no grant aid for its core activities, which are funded from subscriptions and the sale of its services. ICOM has no political affiliation and works with all parties and sectors of the co-operative movement on common issues. It provides a comprehensive package of member services and advice on all issues affecting worker co-operatives and democratic employee controlled businesses. It represents the interests of its members to government departments, the European Union, local authorities, trade unions, the wider co-operative sector and within the social economy generally.

ICOM acts as a Sector Co-ordinator for European Social Fund (ESF) Objective 3. The ESF in general is aimed at combating unemployment and regenerating areas of industrial or rural decline. Objective 3 provides financial support for vocational training and counselling and guidance schemes for unemployed people and those disadvantaged in the labour market. ICOM is an active member of the UK Co-operative Council and of CECOP, the European Federation of Worker Co-operatives, and was a founder member of both these bodies.

For the past twenty years ICOM has provided an efficient and low-cost registration service for co-operative enterprises, ensuring that they adopt a structure which is both legally correct and workable. In response to demand, ICOM has in recent years extended this service to other organisations in the social economy, including voluntary and charitable organisations, social housing projects and community enterprises.

ICOM's membership is principally made up of co-operative enterprises, ranging from small collectives to significant corporations such as Scott Bader, the chemical products company, which employs nearly 1,000 people. There is a separate category for Co-operative Support Organisations, primarily local development agencies who promote and assist new co-operative enterprises. Individuals and other organisations who support the principles of workplace democracy are also encouraged to join ICOM as Associate Members.

ICOM employs 13 staff at its offices in Leeds in the north of England.

FEDERLAVORO E SERVIZI (Italy)

Federlavoro e Servizi is the federation of worker co-operatives which forms part of Confcooperative, a national confederation of co-operatives which represents and promotes

co-operatives in Italy. At the beginning of 1994 there were 24,420 co-operatives affiliated to the confederation with approximately 3.5 million members. Of these Federlavoro e Servizi accounts for 4,475 worker co-operatives with 183,464 members.

It has three main aims:

a) To provide assistance and solidarity for the co-operatives which belong to it, acting as a "company union" and maintaining the proper relationship between member and worker typical of a co-operative in its dealing with public and private bodies and institutions.

b) To draw up and define lines of action, plans and development strategies for its member co-operatives within their different operating sectors: a vast task which involves organisational marketing not only within member co-operative but within the central confederation as well as all territorial structures.

c) The promotion of a number of consortia and co-operative bodies and other kinds of organisation in which individual co-operatives collaborate together.

Federlavoro e Servizi is divided into sectors, which in turn are subdivided into sub-sectors according to the type of market. Currently there are five sectors as follows:

Services 46%
Transport 7%
Others 11 %
Industry and crafts 19%
Construction work 17%

FVECTA (Valencia, South-east Spain)

FVECTA is the Valencian Federation of Worker Co-operatives, an independent business organisation that brings together the worker co-operatives of the Autonomous Community of Valencia, on the basis of their voluntary affiliation. The Spanish Autonomous Community of Valencia comprises the three provinces of Alicante, Castellón and Valencia. The region borders the central part of the Spanish mediterranean coastline and has its own social and political structure. Although the region covers less than 5% of Spain's landmass it has 10% of Spain's population. The service sector is a particularly important part of the region's economy, accounting for 64% of its gross product, followed by the industrial sector (25%), construction (8%) and agriculture (3%).

FVECTA represents and defends the interests of Valencian worker co-operatives. There are approximately 1,100 worker co-ops in the Autonomous Community of Valencia which in total employ are around 20,000 people. Nearly half of the co-operatives are affiliated to FVECTA. FVECTA provides services which include:

- Business development (on 2 levels: sectorial and geographical).
- Promotion of business networking and inter-co-operation.

- Marketing Advice.
- Financial and Legal Advice.
- Assistance to groups of people setting up new co-operatives.
- Information about co-operatives and publications.
- Training in co-operative business management and in vocational/trade areas.
- Support and technical assistance to Local Economic Development Agencies.

One of FVECTA's most important policies is the development of information services and the promotion of networking between its member co-operatives. FVECTA maintains 30 data bases. FVECTA works with public and private organisations to promote and develop the Social Economy. It has a staff of 14 who operate in all three provinces.

FCTAC (Catalonia, North-east Spain)

FCTAC keeps alive a tradition of co-operative organizations started in 1935. It is an association of nearly 500 worker co-operative companies from all sectors of production and/or services, and brings together more than 12,000 worker members.

The Federation was founded in Mataró on 19th. December 1982 and held its First Congress in Terrasa on 30th. June 1984.

FCTAC offers a series of services to its member co-operatives, which includes assistance in resolving their problems and information needs and advice on social, labour and legal aspects etc. It also provides training through the Fundació Joan Ventosa i Roig (whose aims are to spread co-operativism, research and especially the training of the co-operative company's members) and advice and support on a company dimension through the Fundación Sinergia.

It also issues two regular publications: the magazine TREBALL COOPERATIU (Co-operative Work) and the monthly journal FCTACPRESS. The first of these comments in depth on subjects and experiences of interest to the co-operative world; the second regularly gives information on aspects that affect co-operative companies.

1.3 METHODOLOGY

While ICOM had global responsibility for this project, FVECTA took on the responsibility for its technical management. Following a series of international contacts, it was agreed that each partner would carry out 5 case studies in the country (or region in the cases of Valencia and Catalonia). In order to seek a representative spread of cases according to type of business and sector, each partner agreed to select cases from the following categories.

TYPOLOGY OF THE CASES

Each partner was required to carry out 5 case studies of which a certain number from each category in the table below should be included.

	INDUSTRY	SERVICES
SECTOR	MINIMUM OF ONE CASE	MINIMUM OF ONE CASE

	PUBLIC SERVICE	PRIVATE/CAPITAL
TYPE	MINIMUM OF ONE CASE	MINIMUM OF ONE CASE

	SUCCESSFUL	FAILURE
RESULT OF CONVERSION		MINIMUM OF ONE CASE

However, the different circumstances in each country shaped the selection of the cases considerably: above all relating to the size of the business (in Spain there were many more examples of very small businesses, while in the UK they tended to be larger) and also to the fact that there were many more examples of public service conversions in the UK.

The following format was agreed for carrying out the case studies.

OUTLINE FOR PRESENTATION OF CASE STUDIES

Introduction:

a) Type of conversion (public/private, success/failure).
b) Name of business, geographical and temporal location of the conversion, activity (type of product or service).
c) Business structure before the conversion (capital structure and organisational form).
d) Summary of the problem experienced or decision taken.

Main body of the case:

a) History of the businesses until the crisis/decision. Where the conversion idea came from, and the reactions of the owners, management, workforce and trade unions.
b) Background details where necessary:
    * Economic circumstances
    * Competition
    * Markets
    * Laws that specifically affected the process
    * Political factors, government policies etc
c) List of the possible available options for action.
d) The solution adopted and the actions taken to bring it about.
e) The role played by: trade unions, advisors, local development workers, federations etc.
f) How the conversion was financed.

g) How long the process took.
h) The main changes in the management of the business.
i) The current situation of the business.

Final section:

Conclusions and possible future developments

EXECUTION

Each member was free to undertake cases on their own or to ask for collaboration from experts in the field of converting companies. In Valencia FVECTA carried out one case on its own and sought collaboration from the UGT and CC.OO. trade unions in undertaking the other four by contracting the services of the companies Iniciativas SAL and CTA Consultors (organizations linked to the trade union world).

In Catalonia, the research co-operative company G.A.P. worked with FCTAC on the Catalonian cases and analysed the results with representatives of the main unions in the area.

In Italy, the Co-operativa Nova Service S.r.l. carried out the studies on behalf of Federlavoro e Servizi, working with the Compagnia Finanziaria Industriale and the regional offices of Confcooperative in Lombardy and Marche.

In the United Kingdom ICOM worked with personnel under contract from the following companies, who undertook the British case studies: Greenwich CDA, the Wales Co-operative Centre, Employee Ownership Ltd, Tullis Russell Group Ltd and Chesterfield Transport.

The studies were undertaken between December 1994 and the end of January 1995.

In addition to researching those cases, each member contributed information on factors concerning the circumstances of their particular country that may influence the conversion process and also comments on the key points that were apparent in their respective cases. A FVECTA team made the detailed global analysis of the cases and drew up this final document.

Please note that this report has been translated into English from Spanish, the Italian case studies having first been translated from Italian into Spanish, which may account for stylistic peculiarity in places.

Many thanks to all who contributed to the production of this study.

SECTION 2

THE BACKGROUND IN EACH COUNTRY

2.1 UNITED KINGDOM

In recent years the UK has seen a gradual increase in the number of conversions into employee ownership. Back in the 1950s, there were some conversions of private enterprises by their owners, who were generally of Christian/Socialist outlook and whose motive was to develop a more ethical basis for industry and commerce. These individuals formed an organisation to promote their ideas: originally called "The Society for Democratic Integration in Industry", in 1971 it changed its name to the Industrial Common Ownership Movement (ICOM).

However, ICOM was not very successful at convincing other industrialists to transfer ownership of their enterprises to their employees, and most of ICOM's work in the 1970s and 1980s was in the field of "new start" enterprises. This trend was encouraged by the creation of local Co-operative Development Agencies (CDAs) which tended to target disadvantaged sections of the community – particularly the unemployed – for enterprise creation projects, rather than seeking to encourage conversions of existing businesses. One reason for this was that the funders of many CDAs (mainly local authorities) were more concerned with job *creation* rather than with job *retention* or with bringing about a fundamental shift in the ownership of industry and commerce.

Three factors may be isolated which has brought about a greater interest in conversions to employee ownership:

1. The relatively modest results achieved by local CDAs in developing large numbers of small and often fragile businesses has led many agencies to seek fewer but larger-scale employee ownership projects. It was recognised that working with larger enterprises can give greater potential for successful economic regeneration and job retention in the local community.

2. The introduction of tax reliefs for certain types of conversion, making it more tax-effective to sell a business to the workforce than to some other third party. These are known as "Employee Share Ownership Plans" or ESOPs.

3. The pressure from central government on local authorities to become "enablers" rather than "providers". This has led to Compulsory Competitive Tendering (CCT), where an authority is obliged to offer contracts to external agencies. Employees of the authority may form an employee-owned enterprise to bid for such contracts, giving them greater commercial freedom than if they remained as an in-house provider bidding against the private sector. This option may be preferred by those politicians who are generally opposed to the privatisation of public services.

However, apart from the ESOP taxation reliefs referred to, there has been little or no support from central government for employee ownership. The political and fiscal environments do not particularly encourage such conversions, and many conventional business advisers are insufficiently familiar with the option to suggest it to clients or to help those who wish to pursue this course of action.

Thus the growth in conversions to employee ownership has been patchy and sporadic, often depending upon the local presence of an adviser, CDA, consultant or other person who has a commitment to employee ownership and access to the necessary technical skills to bring it about.

2.2 SPAIN

Legislative resurgence, if that is what article 129 of our Constitution may be called, coincided with the mid-1960's economic crisis. It was precisely from that date that there began a sharp increase in setting up CTAs and SALs (for an explanation of these terms, see the end of this section on Spain). Without doubt, worker co-operative initiatives are, on the whole, the fruit of necessity and are promoted by workers to provide or safeguard their jobs; to such an extent is that the case that, during the 1970's almost three times more co-operatives were set up in our Region than during the period from 1945 to 1970. Moreover, four out of every five co-operatives created in that period were set up after 1975, i.e. when the economic crisis deepened in Spain.

In the 1980's, there was a strong revival of the new industrial and services worker co-operativism.

This relaunch coincided in time with two important facts. On the one hand, it was a decade of grave crisis in the work market and, on the other, it was a period when there was an important political change. The socialist party came to power at the same time as important social agencies such as the trade unions were adopting a line more inclined towards a social pact and reformism, increasingly distancing itself from radical positions. During the mid-1980's, the trade unions had to face groups of workers who were demanding action along the lines of providing services, the practice of following a purely ideological trade unionism being seen as inadequate.

As a consequence, the trade unions found themselves obliged to accept the fact of worker co-operative companies. Of course, that acceptance was by no means unanimous. Often it was the trade union cadres that were opposed to the co-operative and worker limited companies. Paradoxically, the workers were asking for help from the union to be able to set up and get a business initiative of the ground. During the first years, this situation was often resolved by the removal of the leaders of the workers, who had led the business initiative, but later, from the second half of the last decade, the trade unions began to facilitate the advice that was demanded from them.

What was noted in the middle of the 1960's, was confirmed in the first year of the 1980's. Whereas in 1978 and 1979, 54 and 46 co-operatives were set up respectively, in 1980 that figure jumped to 132 and in 1981 to 164, reaching a ceiling in 1986.

Apart from the negative circumstances of the work market, other factors should be pointed out that pushed the process forward.

Firstly, encouragement of that type of business, within the more general framework of employment policy, was taken on board by the Central and Regional Governments. Consequently, aid programmes for setting up worker co-operative companies were implemented, among which the most important were:

1) Lump sum payment of Unemployment Benefits, through which an unemployed person who is going to set up a co-operative can receive all the unemployment benefit to which he or she is entitled, in one lump sum.

2) Moderate credits for investment in fixed assets.

3) Subsidies of 500,000 pesetas (c. £2,500) for creating employment in the form of worker-members within co-operatives.

Secondly, the sharp impetus experienced could be related to job insecurity, which is reflected in work in the submerged economy. In effect, the increase in temporary contracts along with productive decentralization, subcontracting, and the increase in the submerged economy, can provoke two kinds of reaction. On the one hand, those coming from certain groups of workers, could see, in the creation of their own company, the possibility of legalizing their situation, at the same time as guaranteeing permanent and stable employment and, on the other hand, those companies can be created due to the pressures of the same large companies, who were subcontracting certain areas of production to the submerged economy; thus in 1986, when V.A.T. was introduced, the greatest number of co-operatives were set up.

Thirdly, we should not forget the part played during the mid-1980's by the business organizations themselves. From the second half of the 1980's, the trade unions began to play an important role. They began to respond to and understand a phenomenon that, on many occasions, as we have mentioned earlier, had been pushed forward by their own union leaders in different companies. In the second half of the 1980's, the trade unions responded to the phenomenon, but did not manage to come up with a distinct and innovative union policy for action that took advantage of those union leaders' initiatives in those companies. In any case, the position in this respect is now of decided and explicit support both from the UGT and the CC.OO., as clearly indicated in statements made by Nicolás Redondo and Antonio Gutierrez in 1989.

Lastly, one has to bear in mind the appearance of certain socio-economic changes that have arisen out of the development of new technologies and the progressive growth in subcontracting to service industries.

Note: **CTAs and SALs**

CTA = Co-operativa de Trabajo Asociado (Worker Co-operative). A work-related commercial society, where the workers are also the members and participation in decision making and distribution of profits are related exclusively to employment.

SAL = Sociedad Anónima Laboral (Worker Limited Company). A capital commercial company which is different from an S.A. (conventional Limited Company) in that the majority of the capital must be in the hands of the workers and, consequently, although the

participation and distribution of profits are related to the holding of capital, that capital is mainly in the hands of the workers.

SHARE CAPITAL:

CTA: - there are no maximum and minimum limits
- at least 67% of members must workers, with a maximum of 33% associates
- 25% maximum shareholding by any one member
- divided into individual profit-shares

SAL: - minimum of 10 million pesetas (£50,000)
- at least 51% in the hands of workers, 49% capitalist maximum
- 25% maximum shareholding by any one member
- divided into individual shares

"PATRIMONY" (i.e. indivisible reserves):

CTA: - 40% non-distributable reserves

SAL: - 10% non-distributable reserves

DISTRIBUTION OF PROFITS:

CTA: - in proportion to work done

SAL: - in proportion to capital

PERMANENT NON-MEMBER EMPLOYEES:

CTA: - 10% maximum

SAL: - 15% maximum
- 25% if there are less than 25 worker-members

MANAGEMENT:

CTA: - Associate representation - 20% maximum vote in Assembly (= general meeting?)
- One person one vote irrespective of capital

SAL: - Representation in proportion to contributions to the capital from worker-members and capitalist-members
- Votes in proportion to share capital contribution

TAX SYSTEM:

CTA: - Total exemption from Estate Tax
- Freedom to mortgage investments made the first three years of inscription on the register

- Application of 20% and a discount of 50% on Company Tax, thus a tax rate of less than 10%
- Discount of 95% on IAE

SAL:
- Discount of 90% on Estate Tax
- Freedom to mortgage for the first five years
- Application of general rate on Company Tax

2.3 ITALY

In Italy, company buy-outs by workers as a system of transferring companies is practically non-existent, with the exception of the specific mechanism that was introduced by the Marcora Law.

The lack of a favourable legislative and fiscal context, and the scarce willingness to accept risk both by savers and intermediate financiers, has prevented up till now the spreading of a mechanism that, in many countries, has proved to be particularly ideal in resolving the problems of changing company ownership, both in the event of company crises and in other types of conversions (death of owner, privatization of a public company, etc.).

In a situation of employment crisis, as at present, the possibility of promoting a company buy-out by workers is being carefully examined in Italy, given that all analyses shows that companies created by worker buy-outs safeguard jobs and are more intensive in terms of labour (greater productivity of the work factor but less investment capacity).

The co-operative movement, up till now, has handled, perhaps, the only cases of company buy-outs by workers in Italy. It has furthered, in agreement with Trade Unions, a law (L. 49 of 27th. February 1985), supporting the setting up of company initiatives in a co-operative form by workers coming from companies in crisis. Working with the trade union organisations CGIL, CISL, and UIL, and with the three main Italian co-operatives federations (The League of Co-operatives, Confcooperative and AGCI), a financial company has been set up, the Compagnia Finanziaria Industriale (Industrial Financial Company), whose function is to participate in the capital of co-operatives financed through Act 49/85.

Act 49/85, also called Legge Marcora (the Marcora Law), after the name of the Member of Parliament who proposed it, represents a significant new approach to state involvement in supporting co-operation and, more generally, employment, and has become an important instrument of industrial and employment policy.

Act 49, in fact, allows workers coming from companies in crisis, or from companies that have ceased or reduced their activity, to set up co-operatives of production and employment and to benefit from participating in the share capital through a financing company created specifically by the co-operatives' federations. Those federations receive the necessary resources from the Special Fund for Intervening to Safeguard Employment Levels, created by that same law.

The Fund, an institute closely linked to the Co-operative Credit Section of the Banca Nazionale del Lavoro, contributes to financing societies, set up on an 'ad hoc' basis by the co-operatives federations, by granting them non-recoverable contributions.

Societies such as the Compagnia Finanziaria Industriale (Industrial Financial Company) are empowered to participate in the share capital of co-operatives that have the above mentioned requirements to the same extent, at least, as the contributions received from the fund itself.

Producer and Employment co-operatives can gain access to the benefits of the Marcora Law if they have the following features:

- They are composed of workers who are in the Cassa Integrazione Guadagni, or employees of companies in crisis or subject to insolvency proceedings (bankruptcy, receivership, etc.) or simply made redundant by the closure of the productive activity or staff reduction;

- They safeguard the workers employment acquiring, leasing or managing even in part, the above mentioned companies, or simply setting up new replacement business initiatives;

- They are constituted by no more than 75 members (in the textile/clothing sector by no more than 50 members);

- Each of such members must have subscribed a quota of share capital equal at least to 4 million Lira (around £1,800). The payment can be made through total or partial ceding of credit related to TPR due on the premises of the original company or through ceding the pre-paid mobility compensation to workers that apply for it, provided of course that they have the right to it.

Such co-operatives may admit into membership workers that are in the Cassa coming from any other company, and also other corporate bodies. The limit on shareholding for the latter is no greater than 25% of the share capital. They can also accept technical and administrative personnel to a percentage of no greater than 20% of the total membership.

Act No. 236/93 on employment has established the specific requirements for workers employed in companies undergoing liquidation or put up for sale by the owners, and who are intending to replace those owners.

The amount of finance available under the Marcora Law, however, has two limits:

- It cannot exceed three times the amount of capital subscribed in each co-operative;

- It cannot exceed the limit of three annual payments of special subsidy from the Cassa Integrazione for each worker affiliated to the co-operative.

Act 181/89 has raised the respective ceiling to 5 times the amount of share capital and 5 annual payments of CIGS for co-operatives set up in areas of steel industry decline, and whose membership is composed of at least 30% of workers coming from the steel industry sector.

The Act states that the members must not be usufructuaries for a 3-year period (5 years in the case of a steel worker co-operatives) of the ordinary and special Cassa Integrazione.

The benefits of CFI participation in co-operatives can be accumulative in respect to any others that arise from a facilitating Act.

The Marcora Act has, indeed, represented an innovation in the policies of intervening to support employment.

The first innovative element is the fact that the law has given the workers the opportunity that they want, the opportunity to create their own company and take on the business risk involved in its management, in order to prevent unemployment.

The second new element is represented by the methods through which financing becomes available. By setting the amount of the financing society's participation at a proportional amount to the capital subscribed by the members, the law encourages the workers to contribute a greater quantity of their own capital. In this way, it promotes the birth of companies with adequate support means of their own, in contrast to the typical lack of capital generally shown by co-operatives.

From the point of view of the co-operative institution, the Marcora Act has introduced one final innovation. It foresees the possibility of co-operatives accepting other legal entities as members, to an extent no greater than 25% of the share capital. It also attributes a completely new and specific role and function to the financial bodies, amongst which is the CFI, within the legislative framework now in force. All this has substantially anticipated the figure of the "supporting member". Recently introduced by Act No. 59 of 1992, this figure has the function of acquiring shares from the co-operative, even without being a worker, to facilitate the capitalization of the company.

The activity of CFI in applying the Marcora Act during its 8 years in operation can be summarized by the following table. The data relating to supplies and turnover are shown in millions of Lira. One million Lira is roughly equivalent to £450.

	1987	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
Applications	79	112	134	150	160	173	186	289
Participation	2	10	41	61	84	95	108	115
Supplies	1,608	9,345	30,534	18,436	63,685	70,616	81,695	92,215
Turnover	15,150	56,521	239,924	319,754	361,685	379,850	315,48	N/A
Jobs	138	514	1,841	1,358	3,055	3,743	4,122	4,391

Approval of the proposals presented has been very selective, in an attempt to only support initiatives with good probabilities of being competitive in the market. After the first selection of the application by CFI, the report goes to an external inspector. Then, the project returns to a company selection process in the head office of the board of directors. If the application is viewed positively, it is examined by the Inter-Ministerial Committee set up for that purpose by the Minister of Industry and, if the assessment is favourable, it awards the CFI

the necessary resources to take on participation in the co-operative by applying for those resources.

The waiting time for the completion of these processes has grown in the last 2 years to 16 months. One of the reasons for that delay derives from the Inter-Ministerial Committee that, generally, meets only three times a year at the Ministry of Industry. In all, the financial initiatives have involved 3,300 worker members expelled from the productive process, to which should be included around 700 new admissions; the initiatives have a turnover of around 450,000 million Lira (nearly £200 million).

Creating jobs has involved a cost, in terms of risk capital, of around 25 million Lira per employee (£10,000). The commitment of workers to new co-operatives has been very strong. This can be seen in the amount of share capital paid: in terms of the law, 4 million Lira (£1,800) per member would be enough but, on average, the share capital has been 9 million Lira (£4,000) each.

There are many examples of other forms of financial involvement, including the regional financing agencies and private companies.

The report of the CFI executive committee, presented with the 1992 balance sheet data, calculated the subsidies that the state would bear in terms of income support policy for workers who have been made redundant, and compared it with the contributive and tax incomes that the new jobs would lead to. Marcora Act intervention showed a net income for the State equivalent, on average, to twice that awarded; so, for each Lira promised by the State, the Marcora Act has meant less payouts and greater income, equivalent to 2 Lira.

The role of the CFI is important for the companies. A receiver has been nominated by the company, who keeps close contact with the participating co-operatives. They have to present a report every three months on their progress. The report between the CFI and the participating co-operatives is not one of mere control: it is a means of consultancy-tutorship with regular visits to a company, which are more frequent when the management is weaker.

The analyses of cases and interviews, carried out by Marcora Act experts, have brought some crucial factors to light. Depending on individual cases and how they are evaluated and managed, those factors can become ones of either success or lack of success. The years in operation and the number of companies set up have, moreover, allowed them to identify the strong points and the weak points of the law and the companies financed by it.

The human element, without doubt, is the crucial point of the companies created. The workers' motivation towards the initiative and their own internal cohesion contribute a fundamental element in overcoming the infinite problems and obstacles in their way.

A strong motivation helps the worker, accustomed to being employed and regarding himself or herself as a dependent, to change his or her role positively and to face new responsibilities and tasks, for which he or she often has no specific skill. This is, also, often necessary to face sacrifices in terms of salary reductions and the unpaid overtime which the initial stage requires.

The cohesion between members, generally helped by the experience of working together and personal acquaintance (above all in small companies), is of crucial importance, especially when it comes to decision taking within the co-operative. That often entails a change of roles and relationships, whether in respect of the past (the relationships within a private company are more structured and characterized by a hierarchical principle) or in respect of the operational activity (organized along functional criteria). Often, the existence of a recognized leader eases cohesion on the social base; on the other hand, it is important to find ways of promoting cohesion because the members must face, apart from the difficulties related to setting up an economic activity of their own, those difficulties related to a co-operative form of activity.

Experience has shown that a lack of cohesion is either the cause or the effect of crisis situations. Indeed, good harmony can be a valid help in overcoming difficult moments, whilst the appearance of problems always tends to have negative repercussions on the relationships between members.

Another crucial element for success in the transformation of a company is the cause of the crisis and the circumstances of the company at the moment when intervention takes place to convert it.

If the crisis is due to financial or management reasons, but the company has potential in the market, the transformation has a good possibility of success, above all, when there is rapid intervention that allows the co-operative to keep the clientele of the former company.
If the reasons for the crisis are various and take place in a general structural crisis, as at present, the possibilities of success are significantly reduced.

The strong and weak points of co-operatives arising out of companies in crisis coincide, in the main, with the strong and weak points of co-operative companies in general.

Among those strong points, one must surely consider the human element that in all co-operatives plays a role of primary importance. The participation of everyone in company life and cohesion among members, aided by past experience of working together, constitutes an element of success for all co-operatives. Additionally, the flexibility of work costs, typical of a company made up of worker members and not of employees, can represent a competitive advantage of great proportions, especially in the initial stage of the business.

Among the weak points, common in Marcora Act co-operatives, is the lack of managerial and commercial ability. Generally, the executives of a company in crisis find new jobs; those remaining, therefore, to form the co-operative, are those that have had the greatest difficulty in finding new jobs. It should be the case that training is used more in setting up a co-operative on a sound footing; and, yet, the need to resolve urgent problems and that demanded by financial agencies, does not allow an appropriate training programme to be initiated.

In comparison to the past, more attention is currently being paid, not only to professional profiles (that have always been proved to be technically adequate), but also to the management abilities of those proposing conversion.

In addition, there are the classic weak points of co-operative companies, amongst which are scarce capitalization (despite financing), the difficulty of relationships with credit giving institutions, and a non-existent ability to influence the market (typical of all small companies).

Single product or single client co-operatives have had particular difficulties and these are not now encouraged.

In conclusion, the Marcora Law is an important opportunity for all those workers facing the loss of their jobs, who decide to start up an independent business activity in the form of a co-operative. The Act offers the workers the great advantage of taking over the original company, whose weak and strong points are known to them, and to continue operating in the same sector. With regard to the industrial sector, in which any activity needs an enormous capital contribution, the law gives the workers the chance to undertake a business initiative that they would be unable to undertake using their own means, and which would be practically impossible to start up with private capital, given the difficulty that unemployed people would have in finding the necessary guarantees in order to secure bank loans.

SECTION 3

20 CASE STUDIES

3.1 ITALY

3.2 UNITED KINGDOM

3.3 VALENCIA

3.4 CATALONIA

3.1 ITALY

LOGSERVICE S.R.L.

CONFIN S.C.R.L.

CERAMICA INDUSTRIAL DI LAVENO VERBANO S.C.R.L.

R.G. 86 S.C.R.L.

SER-ZOO S.C.R.L.

LOGSERVICE s.r.l.

INTRODUCTION

Logservice s.l.r. was set up at the end of the 1980's to manage several services, which up till then had been directly managed by ENICHEM, an Italian company in the public chemical/industrial sector.

It is located in Ravena, an important chemical area for Italian industry. ENICHEM of Ravena plays an important role in the local economy, above all in providing employment for the local population.

Logservice operates in the chemical industry sector as a supplier of technical services and handler (packaging, storing, and deliverer of finished products). Basically, it receives unpacked products from the company that has made an order. It selects the most suitable kind of packaging, packs the products and stores them in the area opposite the warehouse. It manages the rotation of goods and undertakes all the operations involved in loading and shipping the merchandise.

Logservice represents a rather anomalous intermediate stage between a public company and a worker owned company. It involves a private company (not co-operative) that has absorbed within itself a part of the employees that used to manage the logistics of ENICHEM which, indirectly, gives work to co-operative companies that belong to the Trust that holds the Logservice capital. Those co-operatives fulfil the purely operational functions of packaging, storing and loading products. The mechanism used for the "conversion", although it may be complex, has proved to be effective, in that it has allowed costs to be reduced and has led to an increase in the efficiency of the productive process and, at the same time, it has guaranteed the security of employment, whether it be for the employees of ENICHEM that have moved on to Logservice or whether it be for the members of the co-operatives involved.

MAIN BODY OF THE CASE

The outset of Logservice activity was closely linked to the policy of subcontracting to the services industry taken up by ENICHEM at the end of the 1980's. The ENICHEM program foresaw, in terms of the logistic future of the Ravena area, the handing over of handling activities, until then undertaken by ENICHEM itself, to an external private company. That involved, therefore, a change of a legal nature in the development of that same activity, given that a public sector company was transferring the carrying out of certain activities to a recently established private sector company.

The future of the workers involved in that change was taken into consideration throughout that services subcontracting process.

At the end of the 1980's, the ENICHEM management met with the regional secretaries of the trade union organizations and a delegation from the Confederation of Industry to examine the possibility of establishing, for the carrying out of some activities, alternative private company structures. The idea was to directly employ the workers belonging to the public structure, to which there would be recognized forms of professional and financial incentive.

At the end of those meetings, the company and union organizations confirmed the importance and distribution of objectives between all the parties involved and the desire and usefulness of trying to get them to rationalize the management of costs and logistics and, by so doing, consolidating the productive position of Ravena in an industrial competitive context.

The CICLAT (Italian Trust for Transport Auxiliary Workers' co-operatives) and the CNS (National Services Trust), to which several freight co-operatives that were involved with the ENICHEM warehouses belonged, played a part of great importance. CICLAT and CNS members, firstly from Confcooperative and secondly from the League of co-operatives, jointly represented another 250 co-operatives that were operating throughout Italy, managing services on behalf of public entities and private companies. The relationship, now consolidated, that they had with ENICHEM or other companies with public participation, lent particular force to their proposal that foresaw jointly developing all the inherent and logistic activity involved in promoting the subcontracting to the services industry in the Ravena area.

The combined hypothesis of CICLAT/CNS presented a number of advantages for all the parties concerned. In particular, for the client, who makes the order:

- A reduction in the finished product cost. In fact, the fixed costs (overheads) were reduced and were transformed into certain variable costs, given that the logistical cost estimate could be easily determined by multiplying the quantity of goods foreseen by the price in lira/kgs. on acceptance of the co-operative's price list.

- A reduction of surplus labour by means of transferring some employees to the future private management company and giving others jobs made vacant by retirement or early retirement.

Meanwhile, the two Trusts, now operating in some parts of the productive cycle (warehouses) with their freight worker co-operatives, had other advantages:

- a growth of their working presence on the site;

- an integrating capacity, flexibility and staff promotion;

- greater operating dynamism through the creation of their own less "cumbersome" business procedures than those of ENICHEM.

ENICHEM valued the proposal put forward by CICLAT and CNS (no other proposals had been made) and contributed other useful ideas to it for improving efficiency and effectiveness in the logistical management of the site.

Numerous contacts and negotiations to firm up on and make the subcontracting to the services industry project possible took place throughout the two year period 1990-92. During that period of negotiation, the unions played the part of guarantors and controllers, so that the position of ENICHEM employees would not be harmed. Meanwhile, Confcooperative and the League of co-operatives were directly represented through their sector Trusts (CICLAT and CNS) in the negotiations.

At the end of the negotiations, ENICHEM accepted that project and, after the positive conclusion of the subcontracting to the services industry process, Logservice was able to begin its own operational activity on 1st. January 1992, integrating itself into the various operations on the site.

Besides Logservice, in managing the activity in question, an even more complex mechanism is planned that anticipated the creation of another new company (SO.CO.RA.) and involvement of other structures. Logservice has a share capital of 20 million lira (£9,000), the property of two financial companies belonging to the co-operative movements:

- Sofit srl, consisting of co-operatives of the CICLAT area and a member of Confcooperative;

- F.m.m. srl, made up of co-operatives from the CNS area and a member of the League of co-operatives.

Logservice forms part of SO.CO.RA. (Ravena Trust Company), a trust-company that also arose out of an agreement between the two co-operative trusts, CICLAT and CNS, to manage the logistical activity involved in the subcontracting to the services industry process of the ENICHEM in Ravena. In the field of back up services, SO.CO.RA. plays a commercial and contractual role, maintaining relationships and drawing up contracts with companies from the ENICHEM group, while Logservice's task is to carry out the activities inherent in the contracts made through SO.CO.RA. (see diagram No.1).

During the first two years and in order to implement the activity and allow the gradual maximization of the structures until achieving the normal operational framework, ENICHEM decided to integrate the accepted price lists into the contracts with a progressive adaptation that would be agreed, partly in advance, at the start of the activity and partly in monthly fractions. For example: Elastomeri accepted a global amount of 1,650 million lira (£720,000) from Logservice, of which 350 million (£152,000) were to be paid in advance and the rest

in monthly instalments of 75 million (£33,000) for the first year and 62.5 million (£27,000) for the second year).

The premises used for the provision of services, the property of ENICHEM, were awarded free of charge to Logservice, who took charge of their maintenance.

The structure that was given to the company had, both the objective of absorbing a part of the ENICHEM workers who were already operating in the logistics sector so as not to lose the fundamental professionalism already acquired there, and to streamline procedures and make the management of the activity transferred to Logservice more flexible.

The management structure of Logservice (see diagram No. 2) consists of a Board of Directors with ordinary and extraordinary management powers and comprises a President (legal representative of the company) and four administrative advisers. Between them a delegate administrator has been nominated who is concerned with the operational management of the company and, specifically, the drawing up of contracts with ordering companies (clients) from the group ENICHEM. He is a former employee of ENICHEM, who, in the past, was responsible for managing the logistics for PVC products.

In the field of organizational structure, beneath the delegate administrator there are four supervisors, who coordinate and control the operational activities undertaken in fulfilling the programs established with the ordering bodies (clients). They also are former employees of ENICHEM and are specifically concerned with:

a) in charge of logistics for polyvinyl products (packaging, storing and shipping)

b) in charge of logistics for polymer products (packaging, storing and shipping)

c) in charge of logistics for elastomer products (packaging, storing and shipping)

d) in charge of safety and maintenance

Finally, to complete the organizational structure there are 22 employees assigned to the different stages of logistic service, of which 16 are former ENICHEM workers.

The former ENICHEM workers have experienced considerable professional growth due to the acquisition of flexible working, now being able to carry out more functions and having acquired the opportunity of interchange among employees assigned to different areas, as well as an increase in direct responsibility in the management of the company (above all the delegate administrator and supervisors).

The definition of contractual aspects regarding the transfer of ENICHEM workers to Logservice was regulated in March 1992 within the framework worked out between SO.CO.RA., Logservice, the provincial trade union organizations (Filcea-Cgil, Flerica-Cisl and Uilcid-Uil), the representatives of ENICHEM and the executive of the Company Board of ENICHEM in Ravena.

Regarding staff interested in moving to Logservice, within the framework of developing the logistical activity acquired, it was agreed to apply the following methods:

- Resolution of the work relationship with liquidation of TFR (Trattamento di Fine Rapporto);

- Re-establishment of a new work relationship in Logservice under the conditions agreed by the same, contractually fitting into the national collective agreement of the private chemical industry.

ENICHEM strove to protect jobs, even in the event of future replacement by other business concerns or in the event of re-establishing direct management. Moreover, the workers transferring were guaranteed economic conditions that were not inferior to those they had previously had and would be treated individually. Also guaranteed, was the maintenance of other advantageous conditions which they had previously enjoyed, such as subsidies in the site canteen and continuity in forming part of FIDA, a provident fund for ENICHEM employees.

The former ENICHEM employees (initially 23), thanks to their experience and professional abilities acquired in the public chemical sector, brought skills and experience to the development of services undertaken by Logservice.

The company, consequently, at the outset of its activity in April 1992, considered it necessary to admit and integrate additional personnel coming from ENICHEM. 6 more employees were admitted, which increased the number of employees to 28.

In Logservice's chosen field of activity, an important role was played by the member co-operatives of the two national trusts CICLAT and CNS, the owners of the share capital.

In fact, while the direct personnel who were working in Logservice carried out a predominantly controlling, coordinating and customer relationship function, the truly operational role was developed by the members of the various co-operatives entrusted with that work. In particular, the co-operatives Giulio Pastore and Cislat that belonged to CICLAT were working on islands (areas) 27 and 16, while the co-operative Facchini Candiano affiliated to CNS works on islands (areas) 12 and 22. These co-operatives, with their highly qualified workers, carry out specific tasks which formerly were the concern of ENICHEM, such as packaging, storing, transferring and loading products, with the aid of efficient and technologically advanced means such as fork-lift trucks, motorized sweeping machines, manual and electrical transports.

The service rendered by the co-operatives represents a variable cost for Logservice, with regard to the value of the service rendered and depending on the quantity of produce handled, with the consequent saving in terms of fixed costs. In fact, those co-operatives manage the warehouses for storing finished products. This is a very important role, both from the operational point of view and the economic point of view, in the respect that, on the one hand, 200 workers/members of the co-operative are employed, closely linked to the 28 Logservice employees, whilst, on the other hand, it assumes a significant economic

importance, in that the services rendered by the co-operatives represent around 70% of the total costs borne by Logservice.

In the field of operational activities carried out, either directly by their own staff, or indirectly by the members of the co-operatives, Logservice has always paid careful attention to developing a sense of common purpose. To such an aim, it has organized, in collaboration with the co-operatives, frequent staff training courses, either within Logservice or as an activity of the co-operatives interested. Staff recently admitted receive assistance for an appropriate length of time, before being able to assume full responsibility for the role assigned to them.

Moreover, all staff regularly participate in courses with the aim of acquiring the increasingly necessary operational techniques and to widen their knowledge concerning safety and quality work problems. In programming and undertaking staff training, the work providing companies are also involved, for example through the participation of internal experts in ENICHEM.

CONCLUSIONS

At a distance of two and a half years since the beginning of this activity, Logservice has achieved a good level of competence and independence within the company, strengthening its own presence and presenting a professionally able and dynamic structure.

When the clients have had varied requirements, it has always shown itself to be willing and flexible, achieving, at the same time, significant maximization in terms of cost.

Contextually, it has had good results, both in terms of management and in economic terms:

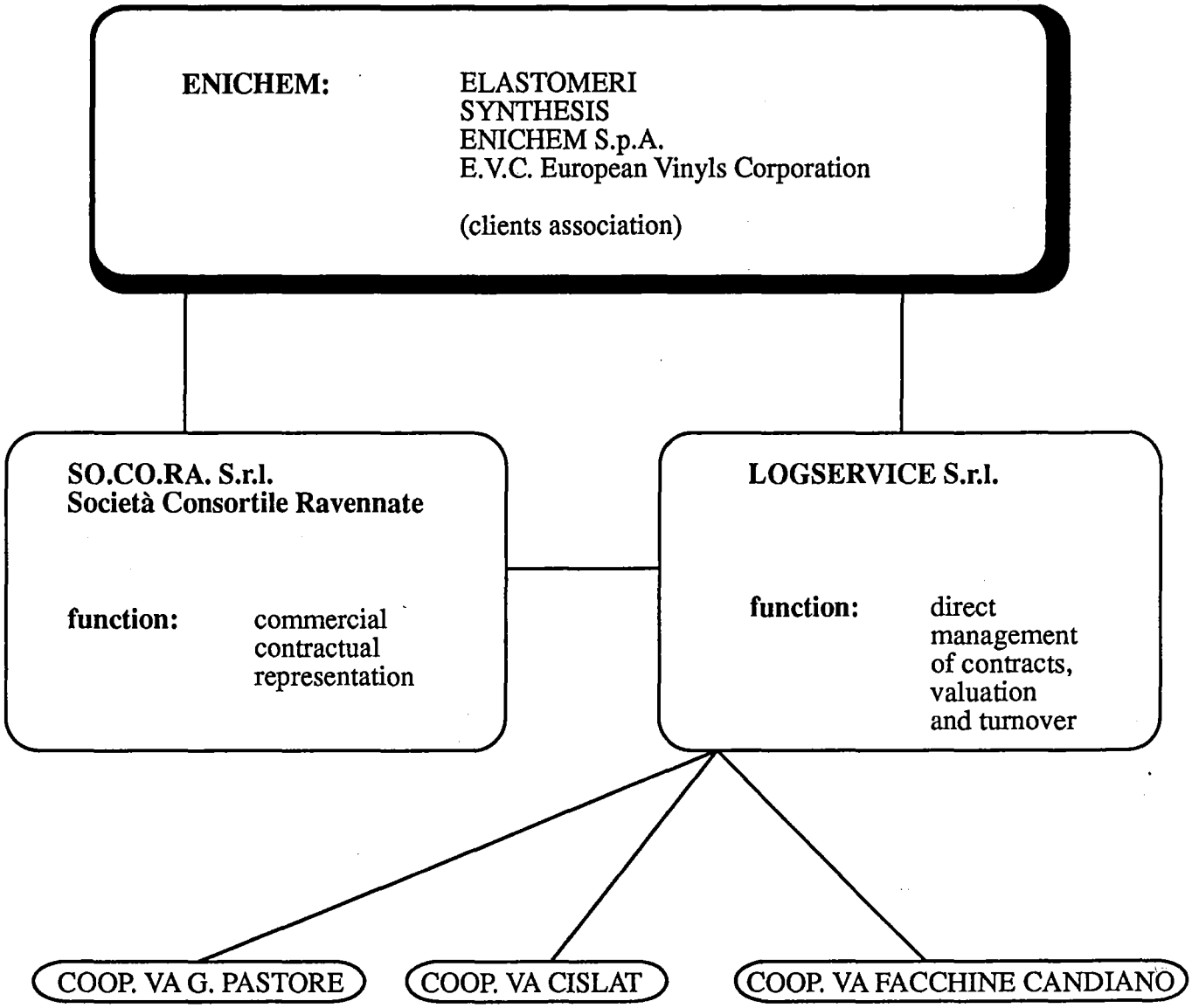
Turnover 1992 (9 months of activity)	10,400,000,000 Lira
Turnover 1993	16,300,000,000 Lira
Turnover 1994 (estimate)	17,000,000,000 Lira

An economic assessment of 1994 states that the company's activity will increase due to the effect of the increase in volume of movement and shipping with regard to some products, a growth that will allow Logservice to present an image of efficiency and professionalism in its own sector of the market.

With regard to the company, it has pursued a policy of quality throughout these years, approving its own Quality Control System through studying quality manuals and management procedure publications.

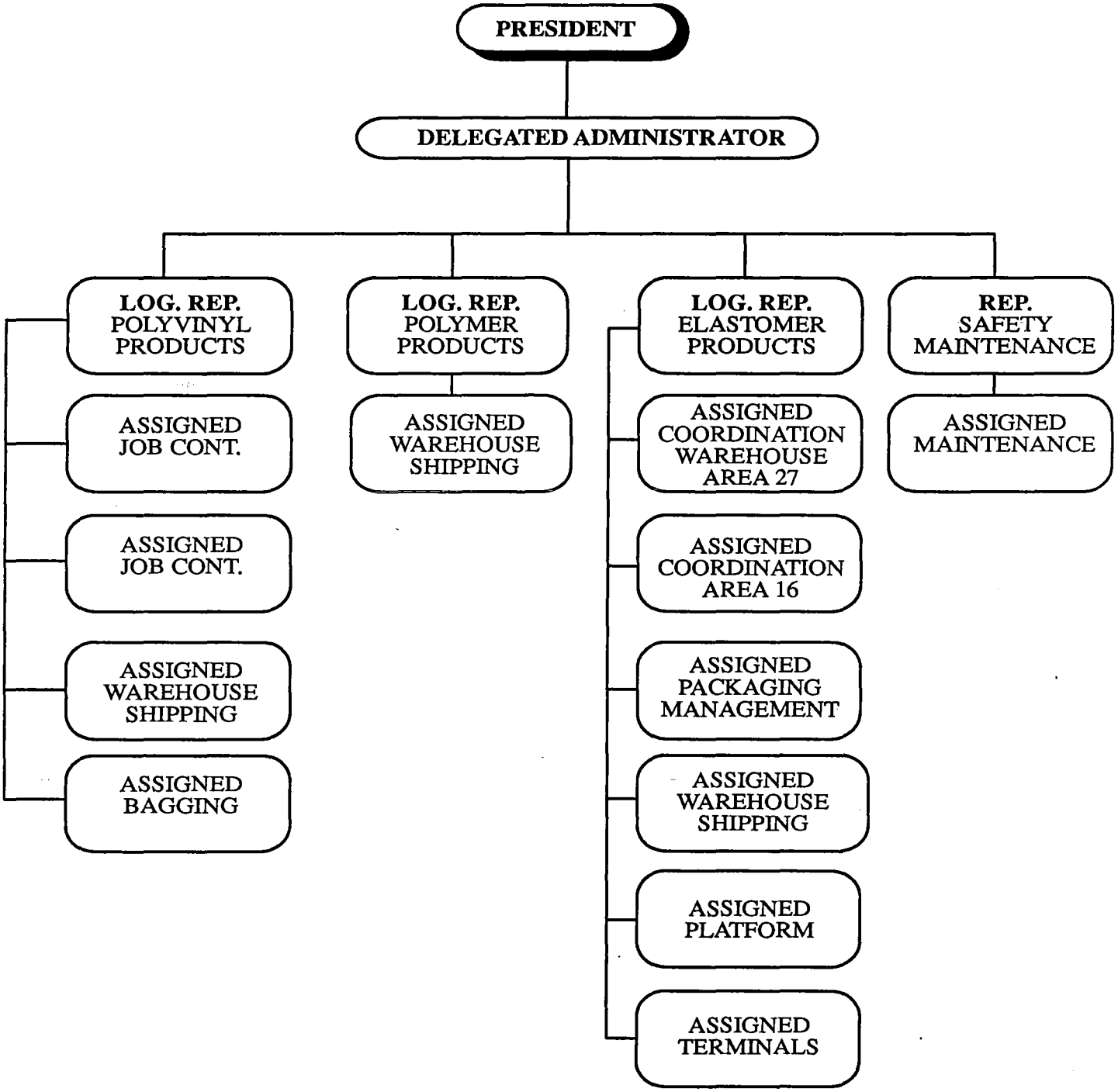
The Quality System was presented in detail to all the staff of Logservice with the aim of gaining the widest and truest collaboration and total involvement. During 1994, the company has integrated and implemented the system so as to be prepared, in 1995, to attain the important aim of quality certification. Logservice, in fact, intends, in the early months of 1995, to attain quality certification in regard to the services company, from Certichim, an accredited Certification Institute.

Diagram No. 1



(operational function)

Diagram No. 2


PRESIDENT
DELEGATED ADMINISTRATOR
LOG. REP. POLYVINYL PRODUCTS
ASSIGNED JOB CONT.
ASSIGNED JOB CONT.
ASSIGNED WAREHOUSE SHIPPING
ASSIGNED BAGGING
LOG. REP. POLYMER PRODUCTS
ASSIGNED WAREHOUSE SHIPPING
LOG. REP. ELASTOMER PRODUCTS
ASSIGNED COORDINATION WAREHOUSE AREA 27
ASSIGNED COORDINATION AREA 16
ASSIGNED PACKAGING MANAGEMENT
ASSIGNED WAREHOUSE SHIPPING
ASSIGNED PLATFORM
ASSIGNED TERMINALS
REP. SAFETY MAINTENANCE
ASSIGNED MAINTENANCE

CONFIN s.c.r.l.

INTRODUCTION

The co-operative CONFIN was set up by a group of former employees of the company Eurobust S.p.A. (joint stock company), a limited company that went into receivership. It is located in Fabriano in the province of Ancona and started up in business in 1985. Its business consists of manufacturing and marketing underwear under the trade name Bimef, which was salvaged from the bankruptcy of the original company.

Eurobust S.p.A., out of which CONFIN was born, was a limited company that, during its best period, employed around 300 people and achieved a production of more than 2 million units.

As a result of a financial crisis which the company had been undergoing for more than a year becoming more acute, the company was declared bankrupt by the Tribunal of Ancona in 1985 and its employees were made redundant. In response to those circumstances, 9 employees decided to set up a co-operative and apply for financing under the Act 49/85 (Legge Marcora).

After a good start, there followed a substantially positive stage and then the co-operative had to confront a number of problems, especially in terms of management, that had negative repercussions on the economic running of the company, The lack of a solution to these problems and the friction that those problems created among the members led to the break-up of the co-operative. Confin presented its application for voluntary liquidation to the Tribunal of Ancona in 1995.

MAIN BODY OF THE CASE

The co-operative Confin was created out of the ashes of an industrial group whose parent company was Eurobust de Fabriano, a company active in the underwear sector.

Industrial activity began at the beginning of the 1960's on the initiative of an entrepreneurial group belonging to the Frigola family. For many years, the business was developed essentially under a creative and productive profile; new models were created and manufactured under the trade names of some of the best-known national companies, who undertook the marketing operations. Only after 1970 did it begin to market under its own trade names. From 1981, it stopped manufacturing for third parties, dedicating itself entirely to the manufacture and direct sale of its own products on a national scale.

Towards the end of 1983, the Grupo Frigola had around 300 direct employees and 70 external ones (Façionsti). Direct productive activity was developed mainly in the area of Fabriano, the rest in the province of Macerata, while external employees were distributed in small productive units ideally placed in the interior areas of the provinces of Ancona and Macerata. Needless to say, the company was very important in terms of employment, both in terms of numbers and in geographical extension. Annual production reached the considerable figure

of more than 2 million units, which were sold with ever more success under the trade names Bimef, Persempre, Tocaco, Parole and Kudos. Success was achieved thanks to appealing to the medium-to-high band of the market and also the significant creative capacity of the entrepreneur, all of which was supported by the product's high quality content. The high results achieved led to the principal trade name Bimef (which alone accounted for 60% of the group's sales) becoming the sixth largest on the national scale.

Nevertheless, at the same time as this significant success was being achieved, the first symptoms of financial crisis were beginning to become apparent. This was mainly due to the excessively rapid growth of the Group, a growth that was not supported by adequate financial resources of their own. During 1984 that crisis grew until it reached unsustainable limits in 1985. In that year, the leading company of the group was declared bankrupt.

The crisis was, to a great extent, a result of the company's internal management problems and not to market problems. The underwear market was, at that time, quite stable and, despite there being a period of contraction, it was always receptive to products bearing a high standard of design and quality material.

On not finding suitable alternative jobs (only a small part of the company's employees could be reabsorbed by the other local companies in that sector) and, bearing in mind the significant opportunities that the market could offer to an already consolidated product, several Eurobust employees decided to join forces and set up a co-operative. The procedure that led to the creation of the co-operative was followed by a consultant, who working simultaneously for CISL and Confcooperative, directed the workers towards the co-operative solution and explained to them the opportunities offered by the Legge Marcora, which, having been approved at the beginning of 1995, was just coming into operational effect.

The objectives that the co-operative were hoping to achieve were the following:

- To guarantee a gradual recuperation of employment in the area, which in that period, had experienced significant job losses.

- To recover professionalism, that had matured over the years, in creating, manufacturing and marketing high quality products.

- To be an example to other small groups, that sprung up spontaneously in the area and were potentially willing to participate in other initiatives of a co-operative nature.

The members of the recently formed co-operative were all former employees of Eurobust, and had held differing positions in that company. The managers of Eurobust did not join the co-operative; as a consequence the positions of greater responsibility were taken by individuals who had formerly held subordinate posts (commercial and administrative employees). The co-operative's technical personnel, however, came from the former heads of departments and had considerable experience in the company (more than ten years). Distribution of duties in the co-operative was established as follows:

Numbers	*Duties*
3	Machine operators (cutting and models)
1	Warehouseman
2	Marketing staff
1	Purchasing staff
2	Administrative staff

One of the marketing staff was also named president of the co-operative, taking on a management function and general administration of the company.

During the first stage, the co-operative began work thanks to the self-financing efforts of the members and the long instalment periods for repaying the loans given by banking institutions. Despite the Eurobust crisis, the Bimef trade name was respected and was trusted even by credit institutions. The share capital was subscribed by the 9 worker members and by 2 legal entities, consisting of two societies that were likewise set up following the demise of Eurobust. On 31/12/86, the share capital was distributed in the following way:

	Capital	
	Subscribed	*Paid in*
9 workers	72 million (£30,000)	72 million
Faron s.c.r.l.	4 million (£1,800)	4 million
Donna s.c.r.l.	4 million (£1,800)	--
TOTAL	80 million (£33,600)	76 million

The co-operative went into business in November 1986 by acquiring the goods of the bankrupt Eurobust, which included all the stock of finished products under the trade name Bimef. During the first year's activity, the co-operative, which operated from a Eurobust-owned industrial unit, sold its stock of finished products and achieved significant profit margins, having bought at liquidation prices and re-sold at market prices. During the second year, the co-operative began production of new items, the greater part of which were made by external sub-contractors. Marketing was done by means of a network of agents, who dealt in various trade names and who covered almost the whole of Italy from a point-of-sale in Fabriano.

Despite the data pointing towards a good potential market for the company's products (during the whole of 1985 there was a great demand for Bimef products, which had been absent from the market because of the company crisis), the co-operative set itself limited objectives, which were in line with the finance available and number of employees. The co-operative decided to operate solely under the name of Bimef relying on the quality of that product, its design and its careful manufacture.

It also decided to carefully select its clientele, choosing those clients most qualified and trustworthy, thus avoiding, as much as possible, the associated risks of insolvency. Finally, they tried to eliminate the negative points of the past, such as delays in shipments and overlapping trade names and items due to their high number.

The turnover foreseen for 1987 was 850 million lira (£370,000), steadily increasing with the consolidation of the business; in 1989 it was expected to reach 1,200 million lira (£520,000).

The economic results of the opening stage were positive, especially thanks to the good profit margin achieved by the sale of finished products acquired from liquidated stock. The co-operative was showing a balanced financial situation too, a prudent surplus of its own resources and good liquidity. The commitment of the members, who had contributed 115 million lira (£50,000) to the co-operative, was outstanding.

On this basis and owing to the good market perspectives, Confin obtained financing in accordance with Act 49/85 (The Marcora Law) for a sum of 240 million lira (£105,000), which was used to buy the site in which the co-operative was operating and some machinery (despite the fact that the machinery that the co-operative had already bought, by means of a leasing agreement, was of a high technological standard). Additionally, the money was used to finance management expenses. Those expenses had considerable importance, given that the creation of stocks and the typical methods of payment and charging in the sector, in which the co-operative was operating, meant that the accumulated cash-flow was only positive after 10-12 months, an excessively long period for a recently created co-operative.

During the third year of activity (in the first two, which can be considered as the setting up stage, the products derived from Eurobust were sold) the co-operative began again to use products made almost entirely abroad resorting to sub-contraction ("Façonisti"). The co-operative concentrated mainly on design and marketing the product.

With new products it was possible to achieve the profit margins made in the first years, relying solely on marketing from the warehouse even though Bimef had lost some of its market value as a result of the interruption to production and the lack of new models.

The co-operative soon had to face numerous problems both of a management and commercial nature.

From the commercial point of view, the problems became obvious in organizing a suitable network for the sale of the marketed product and trade name. The opening of a direct point-of-sale in Fabriano was not appreciated by the agents, who considered it a means of disloyal competition. Moreover, the co-operative's commercial worker members did not have either the necessary skills or experience to manage a marketing activity that represented 90% of the company's activity. It was, therefore, necessary to resort to an external expert, to whom was given the responsibility for the commercial sector. Mistakes in the division of tasks and in managing human resources caused the frequent replacement of the sales manager, with the consequent negative repercussions on the product's image and, above all, on the relationship with the clients. In the productive area, there was a lack of a production control system. Attention was only paid to the quantities sold without taking into account the quality of the product and the relationship with clients and suppliers.

In short, the co-operative, despite having great technical experience, did not have the necessary scope and skills to manage a trade name on a national level.

From the management point of view, as the business' activities became more complex, management deficiencies became more apparent, above all in overall management, in marketing, in financial programming and in internal organization. The difficulties that had to be faced, led to numerous disagreements among members and a difficult relationship between those members and the president. When it came to taking strategic decisions for the business, the president's proposals were often disapproved of or argued against, although, later, they were ultimately accepted as no other member wanted to assume the role of president. That difficult internal relationship led to the wrong alternatives being chosen for the future of the co-operative, that resulted in a worsening of the financial situation and the departure of several members. The turnover for 1992, which had amounted to 3,500 million lira (£1,500,000), was reduced to little over a third, not enough even to cover management costs. In addition, the rates of return on investment (ROI) and on own capital (ROE) showed negative values.

At the beginning of 1995, the co-operative began the process of voluntary liquidation due to a lack of the minimum number of members (Italian law stipulates a minimum number of 9 members in order to establish a co-operative).

CONCLUSIONS

The bankruptcy of CONFIN is not due to a market crisis, as, even in the present recession, the forecasts for a quality product featuring a known trade name are not negative. The determining factors of its situation are more due to executive and management deficiencies, that, still present, and probably not dealt with properly in the setting-up phase of the co-operative, could have been corrected with adequate training and the involvement of technical assistance.

CERAMICA INDUSTRIALE DI LAVENO VERBANO s.c.r.l.

INTRODUCTION

The company, Ceramica Industriale di Laveno Verbano s.c.r.l., was set up in 1982 by a group of former workers of the private company Ceramica Industriale S.p.A., belonging to the Grupo Pozzi-Ginori, one of the largest Italian ceramic manufacturers. It was established after the closure of the Laveno site by the Grupo Pozzi-Ginori, that, in 1981, decided to halt all industrial ceramic production in order to concentrate on more profitable products.

It is difficult to say, at present, whether the co-operative can be regarded as a success or a failure as, although present conditions are not good, above all from the financial perspective, the co-operative has been able to survive enormous difficulties and resist numerous temptations of being taken over by private companies, who are only interested in its market share and its trade name. In 1994 the co-operative began an internal restructuring plan, whose results will only be seen in the coming years.

The co-operative is located in the municipal area of Laveno-Verbano, an industrial area in the province of Varese, which is heavily involved in ceramics. The company's business activity consists of manufacturing heat-resistant materials for making ceramic or porcelain items (wall-tiles, plates, ceramic domestic fittings) as well as building industrial kilns.

MAIN BODY OF THE CASE

Production of ceramics began in Laveno in 1856 with the establishment of "Laveno-Lago". In 1925 the Italian ceramic company began construction of the "Laveno Verbano" site for the production of table porcelain aimed at hotels in a joint venture with Rosenthal. In the 1950's, after extensions and renovations, the company began to replace porcelain tableware production for insulators and heat-resistors for the Grupo Pozzi-Ginori.

In 1980, Pozzi-Ginori decided to transfer the production of insulators and heat-resistors to another factory and close the Laveno Verbano site. That decision had a great effect in the area, above all, on the large number of workers employed there (around 200) and also because the ceramic sector was not experiencing any period of crisis. On the contrary, Pozzi-Ginori was, in an industrial area strongly dedicated to ceramics, the largest and most modern company and was an example for all the small and craft-based factories in the sector. It had a very high level of productivity and could rely on a very wide market and orders for a long period of time. Moreover, the kind of heat-resistors that it produced were being imported from abroad, given that Italian production was not sufficient to meet the national demand. Its shortcoming was to form part of a Group that included factories in crisis, such as the Génova and Livorno establishments that manufactured insulators.

The decision to close all the sites that were producing industrial ceramics was, therefore, taken by the central management of Pozzi-Ginori, essentially because of their low profitability, given that industrial products have less added value than household and ornamental ceramics, towards which the Group's investments were more inclined.

With the announcement of the liquidation of Ceramica Industriale S.p.A., the workers requested the collaboration of the Laveno town council and trade union organizations. Given the fundamental role that the business had played in local employment, the Laveno Town Council contacted the Ministry of Employment to find a solution that was capable of safeguarding jobs. The aim was to look for possible buyers that would be truly interested and specific non-profit-making buyers, in that the company was heavily mortgaged.

As a last resort, the employees decided to turn to the co-operative formula, the 150 employees that belonged to the integration fund (50 withdrew of their own accord) setting up a steering committee of ten to study and try to make the co-operative solution viable.

The Laveno town council, besides agreeing with the government, supported the initiative, negotiated with the owners in order to make the facilities available to the employees and, also, decided to carry out a feasibility study using a consultant, at its own expense, with the aim of assessing accurately the perspectives and necessary investment to take over the business in the short term and re-establish the compromised job levels in the medium term.

It was the same Town Council, which contracted Confcooperative that, through its regional headquarters in Lombardy, provided all the necessary information for the workers interested in setting up a work and production co-operative and helped them throughout the process that led to its establishment.

As Pozzi-Ginori had liquidated Ceramica Industriale S.p.A., on 31/3/1981, a group of former workers took the final decision to set up the co-operative and on 30/1/1982 it officially began trading with 12 founding members and an initial share capital of 12 million lira. Gradually more and more workers became members of the co-operative, a great part of whom, came from C.I. S.p.A., until in 1987 there were 72 members, of whom 69 were workers, 3 legal entities and 37 employees.

The share capital on 30/4/1987 was divided in the following way:

	Capital	
	Subscribed	*Paid in*
69 workers	552 million (£240,000)	542 million
Laveno Town Council	26 million (£11,300)	26 million
Cittiglio Town Council	10 million (£4,300)	10 million
Montana Valcuvia Town Council	17 million (£7,400)	17 million
TOTALS	605 Million (£263,000)	595 million

No sooner was the co-operative set up and the workers taken over the business, than other ex-employees joined the co-operative. The development of the work force during the setting-up stage of the society was as follows:

	Members				**Employees**		**Total**
	Managers	*Employees*	*Workers*	*Total*	*Employees*	*Workers*	
1982	1	22	61	84	=	=	84
1983	1	21	62	84	=	=	84
1984	1	20	64	85	=	=	85
1985	1	18	58	77	1	8	86
1986	1	19	51	71	1	28	100
1987	1	18	50	69	1	36	106

The employees were taken on under a training contract and, in general, joined the co-operative on finishing that period of training.

The management structure was established by the chairman of the board, an administrative manager and a commercial manager, all of whom came from C.I. S.p.A., where they had been section heads.

Already in 1992, the co-operative had leased from Pozzi-Ginori, all the Laveno site for nine years, stipulating a purchase-sale contract that provided for the transfer of the site to the co-operative when the lease ran out.

During the initial stage, the co-operative's activity was directly financed by the members, who went into debt and often had to put up personal guarantees.

In 1987, the co-operative sought financing in accordance with Act 19/85 (Ley Marcora) based on a medium-term development plan for the three-year period 1987-1989, that forecast a turnover increase for 1987 of 16% and for the successive years, 13% and 10% respectively, plus the acquisition of the site and facilities during the lease period.

Even though faced with a steadily worsening financial situation, Ceramica Industriale di Laveno s.c.r.l. received financing of 2,000 million lira (£870,000) in accordance with Chapter 1 of Act 49/84 (working capital for the financing of co-operatives) and 1,863 million lira (£810,000) on the basis of Chapter 2 of the same law (special fund for employment support schemes). The two financing agreements were respectively used to acquire the site on which the society was operating and to confront the situation of progressive debt.

The considerations whereby Cèramica Industriale di Laveno s.c.r.l. obtained that financing were as follows:

- Expanding turnover, with a progressive increase in the amount sold abroad;
- The added value that was constant and then on the increase in 1986;
- Good market results;
- The existence of an adequate order book (the co-operative had inherited a large number of the former company's customers);
- A strong image
- The existence of a gap in the market for many of its products;
- The know-how and suitable technology, although there was the need to make investment in the near future;
- The qualified and well-motivated work-force.

Some of those elements mentioned had, from the start, been the crucial factors in the success of the company; in particular the image, the client portfolio, the limited number of competitors for this type of product. All these represented the constantly strong points of the society.

However, to these have to be added the weaknesses with regard to structure and business organization, which have also remained constant over the years. These are:

- An inadequate financial structure with a too high index of indebtedness and too modest an added value to reduce that debt;

- Serious management deficiencies above all in overall management, marketing, financial programming and internal organization;
- Production programming based more on experience than on precise work methods with the consequent inefficiencies and, more importantly, delays in orders.;
- A lack of an organic system of controlling the income and expenses for the manufacturing process itself and for distribution through departments (the present system is based on historical data and cycles. It has not been brought up-to-date, nor has data been systematically gathered).
- The business atmosphere, which, owing to the nature of a co-operative society, seeks consensus and employment more than economic results;
- The difficult relationship with credit institutions.

The existence and gravity of those problems, that could have been resolved, especially those concerning internal organization, if they had been confronted properly from the beginning, became clear when some of these negative factors came together and plunged the society into a grave crisis.

The negative trend has coincided with a general market crisis in the ceramics sector, added to which, the installations and machines have become out-of-date, because the business did not have the capacity to renovate owing to its financial situation. It could not afford substantial investment. Short-term debt became practically unsustainable at the beginning of the 1990's due to several foreign orders in countries of high risk, which had caused lack of liquidity, unforeseen losses and heavy debt to the INPS (National Body for Social Welfare) as a result of non-payment of contributions by some employees.

To confront these set-backs, the co-operative's members assembly decided to elect a new Board of Directors with a new president and a new commercial and administrative head of department. The new delegated administrator had previously been involved in laboratory work: he, therefore, enjoyed the respect and support of the workers, even though his management abilities were not sufficient to deal with the difficulty of the situation.

The Assembly also decided a self-imposed reduction of 20% on gross salaries for one year with the aim of saving enough to pay off the debt to INPS.

Finally, the co-operative asked for the help of the regional Confcooperative and Federlavoro e Servizi Nazionali so as to receive support in facing the debt situation with the credit institutions and to prepare a re-launch plan. After many meetings and thanks to the mediation of the representative organizations, litigation with the banking institutions was temporarily frozen and it was decided to seek the advice of an external consultancy.

Consultancy involvement was assigned to three societies, which proposed three restructuring plans to the Board of Directors, from which one was chosen. The proposed plan foresaw two distinct stages. The first concerned with reestablishing conditions of financial equilibrium and the second, following-on stage, concerned reorganization and relaunching. Over 1993, the co-operative had acted on the first stage that made provision for a drastic reshaping of the organization diagram, which diminished from more than 160 (including members and workers) to the present 96, a turnover from 13,000 million lira (£5,600,000) in 1992 to 9,000 million lira (£3,900,000) in 1993, and an increase in average sales prices of 10%. Thanks to

the costs of raw materials and energy being maintained on the levels of 1992 and to a reduction in fixed expenditure, although limited, given that the obtainable savings were compensated by the costs of consultancy involvement that was necessary for reorganization, the co-operative has, at present, managed to re-establish a balance of the financial situation.

Other important objectives of the restructuring plan were to concentrate on more profitable products and to impose a vigorous commercial plan of action for gathering orders for the manufacture of products on behalf of third parties. The third parties would buy the raw materials, until complete saturation point of the productive capacity was reached and they company would resort to manufactured products paid for by the clientele in the hypothesis that the final price was too high with the client acquiring the raw materials and charging the added value.

Operating that relaunching plan was done with the continuing assistance of the consultancy company that had proposed it. That company has supported the co-operative's management, at times replacing it, in all the crucial functions to ensure the success of restructuring.

Meanwhile, the tentative contacts to develop industrial and commercial development with some sector operators, who were initially interested in acquiring the company, have been strengthened in order to widen the activity of Ceramica di Laveno. The offers received, coming from private companies exclusively interested in preventing the company from being a competitor or exclusively interested in the trade name, were not considered to be appropriate.

It was clear from the analyses carried out, the economic experts consulted, and the market reaction to the company's situation, that there was still an important role for Ceramica Industriale di Laveno. The most reassuring data came from the possibility of acquiring orders in a systematic way and, also, due to a satisfactory economic level, having carried out a price increase of around 10-15% without any significant repercussions.

The greatest concern among customers, on the other hand, involved the punctuality of orders and, naturally, the guarantee of supply in the future.

Finally, to properly initiate the plan for re-launching and returning the productive process to good conditions of performance and productivity, as well as restructuring the reserves and wage rises, an immediate injection of fresh money is absolutely necessary. Those wage rises do not amount to 100% of the workers' former salaries, at present heavily penalized by self-reduction, which has caused hardships for staff and families and the consequent lack of motivation.

CONCLUSIONS

The co-operative needs a member to come to its aid in a commercial and productive and also simply managerial way, in order to return the co-operative to liquidity and to help it enter a more profitable market, to boost the organization , to create a more business-like atmosphere directed towards efficiency, quality, development and to the consolidation of niches in the market.

The approaching end to the consultancy mandate has given rise to an urgent need for the company to have, within its ranks, management staff, who are capable of managing human resources, agents and financiers effectively, and who can set off on the path of developing Ceramica di Laveno products in the national and foreign markets energetically. Such a consideration is even more important due to the positive medium-term forecasts with regard to the demand for Ceramica di Laveno products, which may prove to be an unrepeatable opportunity to achieve the necessary financial backing.

In conclusion, maintaining the co-operative structure of Ceramica Industriale di Laveno, which at the moment is surviving under very precarious conditions, could be sustained in the future with economically significant results if the society were adequately supported, from the financial point of view, and if the internal staff prepare themselves for a modern style of management with training courses and eventually receiving management assistance.

R.G. 86, s.c.r.l.

INTRODUCTION

The R.G. 86 co-operative was set up by a group of former employees of the private company, Prefabricatti RG di Gramoscilli e C, s.n.c., which had declared bankruptcy. It is located in Fano in the province of Pesaro, and was founded in 1986. They manufacture prefabricated panels for furniture and concentrate on the middle to high market range.

The company Prefabricatti RG, out of whose ashes R.G. 86 arose, was a limited company that employed 22 people, before it went bankrupt, and had a turnover of around 1,200 million lira (£520,000).

Faced with a lasting state of crisis, followed by the death of the owner, the society declared bankruptcy and its employees were made redundant. In response to these circumstances, almost half the employees decided to form a co-operative and seek financing in accordance with Act 49/85 (Legge Marcora).

The transformation has been highly successful. The co-operative has not only been able to preserve the jobs of the 13 employees, who first set it up, but has been able to grow, presently having 40 worker members. Currently, the number of members and the turnover has diminished, so as not to run unnecessary risks during an unstable economic situation, like the present one, and so as not to risk bankruptcy due to the same reasons that put the original company in crisis.

MAIN BODY OF THE CASE

Prefabricatti RG di Gramoscilli e Rossi went into business in 1972, producing semi-fabricated products for the furniture industry. After several years of expansion, in 1979, the two partners decided to part company. Gramoscilli continued the previous business with his wife as the

only member (a rare event in company life), while Rossi opened a new venture again in the pre-fabricated product sector. The following year, having become a significant size, including in terms of workers employed, the business moved to Benllochi di Fano, where it is presently located. During those years, the Pesaro furniture industry was undergoing a period of change that allowed the company to increase its clientele.

Between 1983 and 1984 the problems started due to insolvent customers. Given that orders in the field of pre-fabricated products are all for large sums of money, a few customers in difficulty are enough to destabilize the financial circumstances of a company in that field.

The bankruptcy of several customers, who represented 50% of the company's turnover, put the company RG into crisis. It did not have the financial strength to absorb the blow and over the next two years, it was pushed towards bankruptcy. At the end of 1985, the sudden death of the owner in a road accident brought the inevitable even closer. The Gramoscilli heirs (his wife and two sons) were suddenly involved in a disastrous situation without having the least idea of the real situation of the company.

Things being as they were, a supplier applied for the company to be taken into receivership. The employees, who, in the meantime, had found themselves without work and had not been paid for a number of months, could not see any hope in the future, so called in union representatives which were following the situation of the company.

Seeing that the company had been abandoned by its owners, the employees with the support of the CISL union representative and an external technical consultant for the company, decided to finish the orders already in progress and, as the only possible way of saving jobs, to get into contact with Confcooperative de Ancona.

The company was taken into receivership. Consequently, there was no other solution than to set up a co-operative, the official receiver leasing out the installations to it, and pressing on in the hope of getting part of the old business' clientele back, thanks to the high quality and technological standards formerly achieved in their products.

After various staff meetings, in the presence of union representatives from the confederations to which the workers belonged (CGIL,CISL, UIL), it was agreed to finish various orders and to use the payments received to pay the workers' arrears of salary. In January 1986, it was decided to set up the co-operative: twelve ex-employees of the R.G. company decided to join it along with the external technician, who had collaborated in the initiative.

Bankruptcy of the company R.G. was declared in September 1986 and the recently constituted co-operative took over its business. Production had never been interrupted, as the workers, even before having fulfilled all the formal obligations, had continued production, organizing themselves in a kind of "self-management" system.

The co-operative operated from a site taken on lease from two real estate societies to which it belonged (it was not involved in the R.G. bankruptcy procedures), using the machinery that belonged to the bankrupt company and taking over its clientele.

It continued to work in the production of semi-fabricated products specifically designed for the furniture industry and tried to move its combination or range of products towards the flat sandwich type panel, which can be used in a part of the market where the competition was less and the profit margins greater.

The panels manufactured in various sizes and thicknesses, agglomerate and sandwich type, were embellished with cellulose or natural veneer, finished and sent to the customer ready to be fitted.

The co-operative's machinery had taken over that of the bankrupt company. The repayment period had already finished for the machinery, which provided a good standard of production efficiency and was technologically advanced. It guaranteed a high standard of product quality.

The clientele consisted essentially of manufacturers of cupboards and bedroom and sittingroom furniture, while kitchen materials were of a lesser importance. Therefore, a medium-high segment of the market was being aimed at and, as a consequence, a move towards the more professional and higher earning clientele. The majority of the clients were in Le Marche, but their business also spread beyond the regional field, above all, to Emilia and Liguria.

The 13 working members subscribed a share capital contribution of 4 million lira (£1,700), which later rose to 8 million (£3,500), making a total sum of 104 million lira (£45,200). In the initial stage, the co-operative had difficulties in getting bank credit, which it only had resort to for small items and always after having sought personal guarantees from the members. At the setting up stage, the members financed the company with their own work, accepting minimum salaries and doing many unpaid hours of overtime.

Only after having presented the application for financing in accordance with Act 49/85 (Marcora) and the granting of that financing being almost certain, did the credit institutions become more amenable and give R.G. 86 an advance loan for the purchase of all the machines and equipment of the old company from the Pesaro Courts.

The key factors in the success of this transformation are many and all equally important: The first thing was the attitude of the members, who all devoted themselves selflessly to the aims of the company. Secondly, some clients paid the co-operative in cash which allowed the co-operative to face the first few operational days (with the costs involved) without having to resort to ordinary bank credit. In addition, the help and advice of the CISL trade union representatives turned out to be invaluable in dealings with social security organizations and judicial institutions. It allowed them to confront more calmly the more or less grave problems that arise daily, putting stops on people, who, although they may possess significant technical skills, have never independently managed a company business.

Of crucial importance was the fact that the workers knew how to take over the old business. Consequently, the co-operative has been able to reap full benefit from setting up the business. The machinery's good condition and high level of technology along with the high degree of internal staff efficiency allowed the co-operative to offer a high quality and competitive product to the market.

The economic and financial plan in setting up the business made allowances for restricted objectives in proportion to the available finance and number of employees.

Taking over the business meant they could allow all worker members to participate and during 1987, they were even able to take on three non-member vocationally trained workers. All the co-operative's workers joined the collective bargaining agreement of the sector (wood and cork), all on the same level. At the end of 1987, the situation was as follows:

	Employees	*Operatives*	*Total*
Members	4	9	13
Employees	3	-	3
	7	9	16

Both new members and employees were successively incorporated into the co-operative, thanks to the good economic results that the co-operative was able to consolidate over time.

The management was substantially made up of the external technician and the head of administration (who had also occupied that post for the original company), who took on the roles of vice-president and president respectively. Despite the scant experience in direct company management, the absence of friction amongst the members, the common interest in the success of the co-operative and the personal relationships consolidated after years of working together, guaranteed that R.G. 86 got off to a good start.

At the beginning of 1987, the co-operative R.G. 86, presented a request for financing in accordance with Act 49/85 (Marcora) and received a contribution of 312 million lira (£136,000), which was equivalent to three times the share capital invested by the members. The factors on which that involvement was decided were the following:

- The business was already in operation
- Substantially positive economic results
- Good market potential
- The presence of a nucleus of trustworthy and financially sound clients inherited from the former company
- Adequate technology and experience
- Qualified and highly motivated work force

The Marcora Act financing was used to acquire technologically advanced machinery and to finance management expenditure during the first stage of the business, which was the most critical, given that the co-operative that was still not working to full capacity, had to confront a cost dynamic by consolidating itself more quickly.

The members decided, on the contrary, not to buy the site on which they had previously worked and to continue paying the lease to the real estate company that owned it.

Alongside the co-operative, several members set up a private company which manufactured furniture, so closing the productive circle. That initiative, however, was no great success and

in 1992 they had to close down. The employees of that company were re-absorbed by R.G.86, the number of members then rising to more than 40. For several years, the good economic results of the co-operative encouraged many workers in the sector to apply for membership of R.G.86. The management of the co-operative, however, was conscious of the risks that rapid expansion would carry with it. They tried to concentrate principally on the quality of the product and the technologies used, the capital of the machinery and installations amounting to more than a thousand million lira (£435,000). Moreover, on site they experimented with two machines which were later patented.

From 1993 onwards, the co-operative had to face a reduction in orders due to the recession that was then affecting the entire Italian and European economy. To avoid a repetition of a liquidity crisis owing to insolvent clients with the corresponding risk to the survival of the co-operative itself (as had occurred previously with the R.G. company), the co-operative's board of directors proposed a restructuring plan to the members assembly that made provision for a reduction in turnover and the number of employees.

The plan was approved and took the co-operative's turnover from around 5,000 million lira (£2,200,000) to the present 2,500 million lira (£1,100,000), whilst the membership was reduced to the present 17. An agreement was reached that provided for the liquidation of a part of the membership and the purchase of their contributions by the remaining members. Of the members who left the co-operative, some retired, and others found jobs in companies of the same sector as a result of the professionalism, good name, and productivity achieved in the R.G. 86 co-operative.

CONCLUSIONS

At present, the co-operative has reduced its turnover by almost 50%, but it continues to work full-time with three shifts and achieves good economic results.

In order to reduce the risk of insolvency to the minimum, the portfolio of clients was reduced drastically; in addition, from the first months of 1994, the policy of only undertaking the labour was adopted, almost exclusively, asking the client to buy the materials. This has led to almost a 70% reduction in purchasing materials. The relationships between the members are good but rather rigid; the attitude of the members towards the co-operative seems to be mainly influenced by good economic results rather than by an authentic co-operative spirit.

There continues to be problems in the relationship with credit institutions, probably due to their traditional suspicion towards the co-operative world, which means that the co-operative has to pay large sums of debt interest. The outlook appears to include resolving that problem in the near future by creating a Fidi Trust on a regional level, promoted by the Confcooperative and the Law on co-operatives with the specific aim of resolving or, at least, reducing the problems of financing co-operatives structures.

SER-ZOO s.c.r.l.

INTRODUCTION

The co-operative Ser-Zoo Servizi Zootecnici was set up by a group of former employees of Consorzio-Mar, a Trust of co-operatives and individual stockbreeders which collapsed. It is located in Monsano in the province of Ancona and was set up in 1990. Its activity involves the slaughter, jointing, transformation, production, seasoning (curing), sale and marketing of pork products in general.

Zoo-Mar, out of which arose Ser-Zoo, was a Trust, set up by a group of stockbreeders and several co-operatives that were involved in transforming and marketing meat. In the period of its greatest commercial activity it achieved a turnover of around 1,300 million lira (£565,000).

Faced with growing disinterest by the members and the consequent financial crisis which that caused, the Trust went into liquidation and its employees were made redundant. In response to those circumstances, several of the former employees decided to set up a co-operative and seek financing in accordance with Act 49/85 (Legge Marcora).

The Ser-Zoo co-operative has only been in existence for a few years; therefore, it is difficult to make a definitive judgement on the success of that transformation. However, being involved in a difficult sector, the very fact that it has survived and is able to make a high quality product, that it satisfies the customer and ensures work for its employees, constitutes a significant pointer to the success of that transformation.

MAIN BODY OF THE CASE

The Trust Zoo-Mar was not in existence for long. It was set up in 1985, only really began its activities in 1988, and closed in 1990. In the beginning it was formed by 5 co-operatives of stockbreeders and producers. Individual companies successively joined until, in 1989, there were a total of 15 members. In 1990 there were 6 resignations. When bankruptcy was declared there were only 5 co-operatives and two individual companies left.

The reasons for its failure can be attributed, in the main, to the conditions dictated by an E.C. market, that considered Italian stockbreeders totally outside the market (too high costs in respect to European competitors) and not only to the intrinsic deeds of the society.

The social component of the business had two concerns, whose interests were difficult to reconcile: small breeders and small tradesmen. The needs of the stockbreeders, who had to compete with a European market were not compatible with the needs of small tradesmen, who were looking for the supply of not only a quality product, but rather a marketable product that would allow them to make the maximum profit. The difficulties in harmonizing the different operational strategies followed by the trust's members had negative repercussions on its management.

The changes in the market that occurred in the meat sector also played an important role, above all in distribution and marketing; strong groupings were, indeed, forming that were causing the disappearance of small operators both in the breeding sector and in the preparing, distributing and marketing sector.

Finally, the financial difficulties of the slaughterhouse owning company and the relative need of that company to give up the site, led to a loss of interest in the Trust by the stockbreeders, who were obliged to go to other slaughterhouses, which consequently meant new contracts.

In the end, all these reasons had gradually frustrated the aim for which the Trust had been set up. The management paralysis led to such losses that, in 1990, the Trust was forced to close because it found itself totally outside the market and with extremely high costs.

After trying, without success, to go down the path of compulsory liquidation (which was initiated), the Trust was declared bankrupt by the Tribunal of Ancona in March 1991.

The employees, on finding themselves excluded from the job market, decided to set up a production and workers co-operative re-assuming all productive activity through a company lease contract.

Already having a link with the world of co-operation (the Trust was associated to Confcooperative) and knowing the opportunities offered under Act 49/85 (Marcora), the workers, made redundant by the Trust, directly approached Confcooperative in Le Marche region to verify the feasibility of their project.

Confcooperative, in collaboration with the union movement, provided the new members (of whom 7 were former members of the Trust) with all the necessary help in setting up the co-operative and getting it going.

The co-operative was formally set up in October 1990. Productive operations re-started the following month on a property site leased from one of the members who had not come from the former company. Ser-Zoo also entered into a leasing contract with Consorcio Zoo-Mar (still formally in existence as bankruptcy was only declared in 1991) for the use of the meat processing and preparing equipment then used by the former company in crisis.

Of the 9 co-operative members, 7 were from the former company where they had never played any managerial role, while 2 were commercial representatives. The 7 were accepted by the co-operative as workers or employees, while the other two remained stuck within the framework of commercial representatives working on a commission basis. There was, also, a third agent who, along with the two members, had responsibility for promoting sales in the provincial and regional area.

The organizational structure of the company (see diagram 1) was very simple in line with the small size of the co-operative. It tried to make a balanced division between the roles to be played and was designed to guarantee full participation of all the membership in the life and decision making of the co-operative.

The management was highly motivated and determined to relaunch and develop the co-operative. The organizational structure seemed to be sufficiently balanced in functional and professionally qualified terms; the average work experience among the workers in the commercial sector, to which they belonged, was of over 10 years.

In short, the occupational makeup of the workforce was:

5 x specialized worker employees
1 x commercial agent on full-day pay
1 x consultant and commercial representative
1 x employee
1 x all-purpose worker

One of the main crucial points in getting the co-operative's activity off to a good start was the availability of ample financial resources. The sector, in which the co-operative was operating, was and still continues to be characterized by a market in flux, where to have positive results, it is necessary to have one's own means available to face the conditioning periods (maturing of the products). One of the reasons why many small and medium companies with scarce financial resources end up being forced to close is the fact that the acquisitions (pig and semi-prepared fresh meat) have payment periods that are rarely greater than 30 days, while the time for the product to mature (sausages, hams, etc) can, on average, be between 3 and 12 months.

The company began with an almost non-existent share capital that amounted to 90 million lira (£39,000) – 10 million (£4,300) invested by each member – entering a line of business where one's own financial resources are an essential factor in being successful. Ser-Zoo also did not use bank credit excessively, (the conditions offered by the credit companies hardly being advantageous), but resorted to "third party capital" for financing operations.

In addition, it was decided to modify the productive mix with regard to Consorzio Zoo-Mar's product type in favour of products that require less immobilization of financial resources and which would mean the company running less risks. The co-operative, as it did not have its own slaughterhouse, completely abandoned the slaughter of pigs, which in the original company had around a 40% bearing on turnover. It also decided not to be involved in breeding and tending animals, but, instead, to trade in fresh raw material in the meat market. The idea was to increase the conditioning (maturing) activity of third parties, with the aim of maximizing the productive structure and thus hoping to avoid being involved in producing and maturing its own products. There continued to be a large number of exclusively marketed products, despite the lack of a specific cooking facility, that would allow the company to make the cooked products itself.

The co-operative, also, tried to modify the former society's client portfolio, which had been too fragmented – around 300 customers, almost all of whom required a very limited supply worth 5 million lira (£2,200) at most in a year – and consequently was in need of continual help. Ser-Zoo, while keeping many small food shops among its clients, directed its attentions more towards the small supermarkets of the Ancona region, "Iesi" and "Macerata" and took advantage of the commercial channels that it had acquired from the former company in crisis.

In a market characterized by a rather slow concentration process, the co-operative enjoyed the competitive advantages that many small craft companies still have over the large industrial companies in the sector, i.e.:

- low labour costs
- productive elasticity
- competitiveness in the local area
- the product's "typifying" the region or craftsmanship.

In commercial terms, the company defined itself as a simplified distributive organization, constituting a sufficient resource for the daily transport of finished products to the clientele; a limited distribution service is also carried out directly by the company.

With regard to the three commercial representatives working on a commission basis, the region was split up into geographical areas for them, depending on criteria in line with the company's distributive capacity.

The factor that, in the end, ensured the co-operative taking off was the financing granted in accordance with Act 49/85 (Marcora). The feasibility studies that had been carried out, underlined what was already known by the promoters, that, given the type of activity and market reference, the initiative would have been doomed to bankruptcy without a substantial injection of liquidity. The structural characteristics of the market alongside the out-of-date equipment which was not appropriate for modern preparation techniques and did not guarantee the health and quality standards of the product, were highly in need of investment that the co-operative was not in a position to make with its own resources.

The commercial turnover of the co-operative, which in 1991 was around a thousand million lira (£430,000), was enough to guarantee forecast job levels (10 employees), but made almost non-existent profit margins. The sector was also characterized by a static course with no development forecasts.

The feasibility study carried out, with a view to applying for finance through the Marcora law, showed that the future of the company was closely linked to undertaking an investment plan that the co-operative was unable to sustain with its own resources. Indeed, acquiring a new industrial unit for preparing pork meat, made to modern technical-productive criteria, and buying new equipment were the only option to overcome the deficiencies in terms of the sectors regulations.

The forecast accounts showed only moderate profit margins, even in the considerable marketing activities undertaken by the co-operative, but the obsolescence of the productive structure would not allow more satisfactory results.

The co-operative Ser-Zoo received financing during 1992 in accordance with Chapter II (special fund for intervening to save jobs) of the Marcora law of 270 million lira (£120,000), which was used to acquire the site where they were working and to finance operating expenses. In addition to that, the co-operative received financing through Chapter I of the

same law (turnover fund for financing co-operatives) to be used for purchasing a new site that would allow Ser-Zoo to consolidate by increasing both the quantity and quality of their products.

CONCLUSIONS

The main strong points of the new co-operative are the following:

- The membership seem highly motivated in the relaunching and the productive development of the company. The members have a lot of accumulated experience in the sector which has matured during the former management stage. There is a notable internal cohesion that means that they can face the necessary sacrifices as a united body.

- The co-operative's productive activity has begun well; the forecast turnover for the first years of the company's activity is completely satisfactory.

- In commercial terms, the society has sufficient management experience acquired from the previous society in crisis.

- Management so far has been prudent and cautious in line with the co-operative's available finances; they have tried to maintain their better clients by establishing a relationship based on quality and reliability and have also incorporated new clients, without, however, stretching themselves too far, so as not to run the risk of supply problems.

The weak points, on the other hand, are:

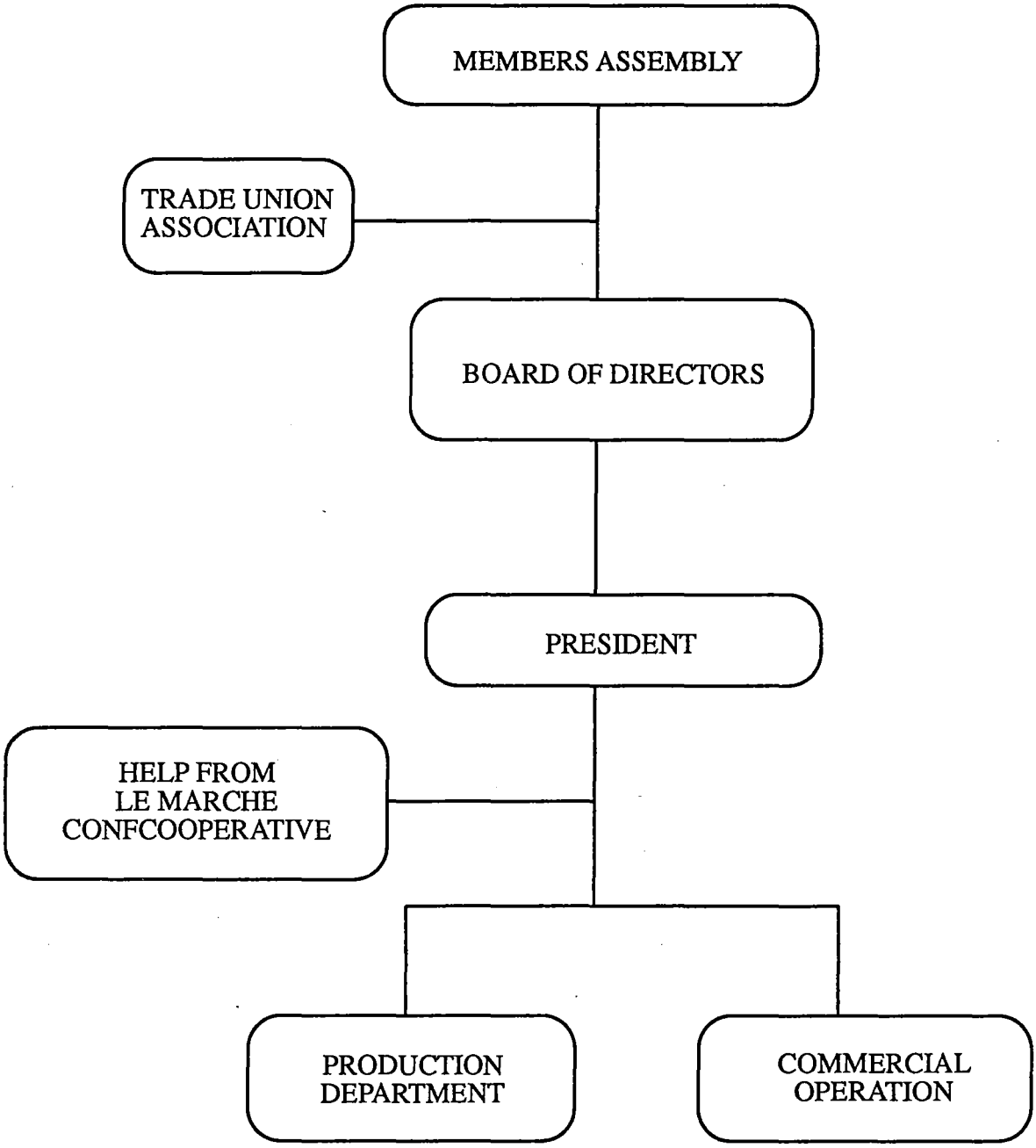
- The present site is inadequate both in technical-productive terms and in health and hygiene; the existing structures are characterized by obsolescence and do not meet the sector's preparation regulations.

- Attainment of a new site is obligatory for the co-operative and is the only way of overcoming the present logistic/productive deficiencies. Failing to acquire new installations would mean serious problems and threaten the business' future.

- The breakeven turnover for the new structure is estimated at 2,500/3,000 million lira (£1,000,000/1,300,000), an objective which now seems difficult to achieve and depends on the ability of the company to adjust its present commercial policies correctly and boost its own distributive structure.

The acquisition of a new site and its subsequent financial, commercial and productive management represent good opportunities for guaranteeing the company both in terms of consolidation and its own turnover growth and in terms of employment in the medium term. With such prospects, the co-operative can attempt, with reasonable probabilities of success, the jump towards large distribution. That jump represents a risk for a small company still in the initial stages, but probably it is a risk that is necessary to take, given the frequency with which that situation is rapidly having on the foodstuffs sector, above all, in the Italy.

DIAGRAM 1


MEMBERS ASSEMBLY
TRADE UNION ASSOCIATION
BOARD OF DIRECTORS
PRESIDENT
HELP FROM LE MARCHE CONFCOOPERATIVE
PRODUCTION DEPARTMENT
COMMERCIAL OPERATION

3.2 UNITED KINGDOM

GREENWICH LEISURE LIMITED

TULLIS RUSSELL GROUP LTD

CHESTERFIELD TRANSPORT LIMITED

TOWER COLLIERY

BARRHEAD SANITARY WARE PLC

GREENWICH LEISURE LIMITED

INTRODUCTION

Greenwich Leisure Limited ("GLL") converted from a public sector in-house contractor to an independent non-profit body under democratic employee control.

GLL is situated in the south east London borough of Greenwich, with a population of 212,000. The west of the borough benefits largely from tourism, but large parts of the borough suffer from poor quality housing and inner city problems. Average unemployment is 20.6% but in some areas is as high as 27%. Greenwich Council is controlled by the Labour Party with a large majority.

GLL Manages Greenwich's seven public leisure centres. The largest includes three swimming pools. It receives 800,000 visits per year and creates 50% of GLL's income. The smallest centre has a fitness gymnasium and sauna, receives 37,000 visits and contributes 4% of GLL's income. GLL has a turnover of £4.5 million per annum including a grant of £1.6 million from the local authority. GLL employs 100 full-time contracted staff and over 300 sessional staff.

GLL became independent in July 1993.

Prior to independence, GLL was part of the Greenwich Borough Council's leisure department. The department is responsible for libraries, parks, sports facilities, community centres, entertainment and arts. Until January 1992 the leisure centres were funded under the authority's leisure service budget, like all the department's services. In January 1992 GLL became an independent in-house contractor after winning the contract against competition to provide the service under **Compulsory Competitive Tendering** ("CCT") legislation.

A funding crisis in the local authority threatened funding cuts and the closure of some leisure centres. As this would change the terms of the contract, it was believed that a new round of CCT might be needed.

MAIN BODY OF THE CASE

When Greenwich's leisure centres first went to CCT tender there was much interest from the private sector because of the quality of the provision. This was of concern to the local authority which feared losing management and policy control over one of its key services.

In 1993 Greenwich suffered its severest cut in funding allocated by central government. A reduction in expenditure of £34 million was necessary. The leisure centres faced losing 30% of their funding, which had already been reduced in previous years. This would have led to the closure of two or three centres and the loss of 30% of the staff.

Attempts to solve the problem by increasing entry charges would have led to the exclusion of priority target groups, such as the young and the disadvantaged. Also under threat were special programmes like women-only swimming sessions.

Under pressure to administer these cuts, the Chair of the Leisure Services Committee of the Council instigated a comprehensive review to set out the options for a new approach to service delivery.

The review recommendations included encouragement of partnerships and "arms length influence" rather than direct control of the leisure centres. The centres should be passed on to some form of independence whilst continuing as a "not for profit" service to the community. An independent organisation could benefit from government capital grants for sport, which are not available to local authority providers. The proposal could also lead to cost reduction due to tax advantages on business rates. In July 1992 a discussion document was distributed to staff, Council members and officers.

In September 1992 Greenwich Co-operative Development Agency ("Greenwich CDA") was invited to help identify the key issues and to look for a suitable structure. An initial report was produced and received tentative political approval in January 1993. Detailed proposals followed.

A key early supporter of the non-profit co-operative solution was the Chair of the Leisure Services committee, himself committed to co-operatives and a member of one. The leader of the Council was also in favour. The plan was developed by the General Manager with a team of staff involved. Greenwich CDA and ICOM (Industrial Common Ownership Movement, the national federation of worker co-operatives) devised the practical proposals and recommendations.

The views of senior officers in the Leisure Services Department ranged from neutral to supportive. The Contract Manager was keen to find a solution which would avoid cuts in staffing and service provision.

Some of the employees were concerned abut the proposals. They had in the previous year adapted to the CCT contract and seen cuts in funding and jobs result from that. Here was yet another unknown. However, as information became available, the staff view moved rapidly. The confirmation of no change to employment conditions and pensions also helped to alleviate worries.

Trade unions took a very cautious stand. It was clear that the unions' initial view favoured staying within the local authority even if this resulted in redundancies and closures. The views of the main trade union changed as the negotiations progressed.

Competition: Direct competition to GLL as a manager of the service came from private leisure contractors. Apart from the facilities to be managed, the amount of interest in any particular contract depends on the number of CCT contracts coming up to tender at any one time.

Markets: As a non-essential service, leisure provision is sensitive to fluctuations in the local economy, including unemployment rates and income variations. The fitness market changes continuously, requiring new investment. New products have to be developed all the time to keep customers and encourage new markets.

Competition for the public's leisure spending also comes from leisure providers not concerned with sport or fitness.

Legal issues: A key question was to find an appropriate legal structure to meet the needs of the various stakeholders: staff, local authority members (i.e. the elected politicians), local authority officers, and the trade unions. Also significant was the EC's Acquired Rights Directive and related UK legislations (known as "TUPE"). It was accepted from the start that TUPE would apply; the question was how to put it into practice.

Political/government factors: Privatisation of local authority services has been forced by the government's Compulsory Competitive Tendering legislation. Also the government has instigated a universal reduction in local authority expenditure, aimed at cutting all but statutory services. Due to the inevitable increase in the cost of homelessness, social services and education, the local authority was unable to maintain the existing level of expenditure on leisure services.

The review initiated by the Chair of the Leisure Services Committee included encouragement of partnerships and "arms length influence" rather than direct control; a relatively new position for a Labour authority to adopt.

Objectives: The key objective was to save jobs and keep the centres open under the threat of major cuts. The local authority was not prepared to transfer the service to any form of private profit making organisation. Some form of employee participation and Council influence were necessary.

Specific objectives included making the best use of any tax benefits available and avoiding, if possible, any further rounds of CCT.

Once it was clear that job cuts and reduced services were not acceptable, new options were necessary. Some form of independence seemed a possible solution.

Different legal structures were assessed. Originally a form of trust was proposed, but the local authority's concern for continuing its influence and its commitment to employee participation led to the abandonment of this idea.

A non-profit co-operative structure became the favoured solution.

The structure adopted was that of a "Society for the Benefit of the Community" registered under the Industrial & Provident Societies Acts. Here the primary benefit must be to the public rather than to its members (the workforce). There is no profit distribution. Membership is open to all staff of GLL, who may buy one share for the nominal sum of £1, giving them a single vote at general meetings. 90% of eligible staff have taken up membership.

The general meeting elects a Management Board annually by secret ballot. All the officers of the Board, including the Chair, are employees. The Board is the policy-making body within GLL. It appoints senior managers, makes investment decisions and effectively manages the business.

The Management Board comprises:

11 employees, reflecting the spread of genders, ethnicity and class of work within GLL;
3 Greenwich Council members;
2 users of GLL's facilities;
1 trade union representative; and
the General Manager.

The Council still owns the buildings (which are leased to GLL) and manages building fabric and major plant. GLL controls staff conditions and recruitment, pricing and programming.

Greenwich Council's formal influence is based on the lease, the annual grant and its membership of the Management Board. The Council sets conditions of service provision in the lease as well as in the grant. The grant targets services to the Council's priority groups, is assessed annually and paid quarterly. The Council undertakes regular service quality assessments.

To achieve this end, a "shadow board" reflecting staff on all the sites was set up. This met regularly to review progress. A newsletter, informing all staff about developments, was produced during the negotiation period. Regular staff meetings with the General Manager took place.

A comprehensive training programme on co-operative structures and the implications of the proposals was provided for all staff by Greenwich CDA. This was followed by an indicative ballot to obtain staff views: 85% voted in favour.

The CCT contract was terminated by mutual agreement. The staff left local authority employment and set up GLL as a Society to which the management of the leisure centres, along with all the direct managerial and operational staff, was transferred. Also transferred

were the support services: payroll, cash collection, banking, cashflow management, accounts and auditing. To set up, operate and manage these posts, two and a half new posts were created within GLL. Cash collection is contracted out to a security company.

Trade Unions: Two trade unions were involved in this process, one with only a few members within the leisure centres. This smaller union took the view that any externalisation or privatisation of public services was unacceptable. This union decided not to take any part in the negotiations which was most disappointing for all parties and in particular for that union's members amongst the staff.

The larger union took a pragmatic view and was involved in negotiations throughout. Their initial preference was to stay within the local authority even with redundancies and closures; but it was clear that this did not find favour with their members. In the end the union's line was to support any decision its members made.

There is trade union representation on GLL's Management Board, being the Chair of the Joint Negotiating Committee for all unions involved in leisure services within the local authority.

It became clear during the negotiation process that the trade unions had no national policy on co-operatives or employee-controlled businesses as an alternative to CCT. This led to policy being made locally by a small number of people in a situation which was fast moving.

There needs to be informed debate and development of national policy amongst trade unions. Local union officers should have quality advice and support available to them.

Development Agencies: Greenwich CDA was invited to participate in finding and assessing practical options once the leisure service review went to staff consultation. The CDA has throughout the process provided support, advice, education and training services to staff, Council members and officers. The CDA co-ordinated the resources for the setting up of the Society and managed the external consultancy services used throughout the conversion. Greenwich CDA continues to provide training and development support to the senior management group.

Federations: ICOM's legal department developed the innovative legal structure used, combining democratic employee control with an inherently non-profit status, and provided invaluable advice, support and training throughout the process.

As the property itself remained in the ownership of the Council, the costs of setting up were small. The costs of specialist and legal advice and of setting up the Society were initially funded by Greenwich CDA, but were recovered from GLL once it was established independently.

One year passed between the original review papers and the transfer of the service to GLL. The actual practical work on the conversion was done in six months from January to June 1993. This was far too short a time and it is recommended that at least 18 months be allowed to ensure more time for discussion, negotiations, staff and management training before the transfer takes place.

The Management Board is the policy making body within the organisation. It appoints senior managers, makes investment decisions and effectively manages the business. It is drawn from all sections of the workforce, with representatives from the local authority, customers and trade unions. Responsibility for day to day operational management of the business is with the professional managers, as before the transfer, but they are now accountable to the Board and not to a committee of the local Council.

Less bureaucracy means faster and more flexible decision making, enabling GLL to develop new business opportunities.

Staff training and development opportunities have improved and are better planned due to the appointment of a Human Resources Manager.

Decisions made by the Board are subject to direct scrutiny by the Council's representatives on the Board.

Financially GLL has performed far above expectations. 18 months on, all the centres have remained open, some of the sessional staff have received permanent contracts, and the size of the workforce has increased rather than shrunk. At the end of the first year's trading GLL had made a small trading surplus after investing in major improvements at two of its centres.

The Board meets monthly and is settling into its role. Staff interest in the Board is evident and the Board is working well as a tool of democratic control. The first year has been a major learning process for all parties involved, but there is a feeling of ownership amongst the workforce.

CONCLUSIONS

A possible project within the next five years is the opening of a new purpose-built leisure centre. GLL is also considering bidding for other leisure related contracts beyond those previously provided by Greenwich Council.

Key factors in the success of this case have been:

- The commitment from the key stakeholders and the skill and ability of the negotiators were vital to success. The main negotiators involved were the Director of Leisure (a senior local authority officer), the Chair of the Leisure Committee (an elected politician), the General Manager of the in-house contract, and the larger of the two unions. The key trade union negotiators were the shop stewards and the Chair of the Joint Negotiation Committee.

- The availability of appropriate expertise from within the co-operative sector itself, via Greenwich CDA and ICOM. The eventual solution adopted was one which conventional lawyers had advised was unobtainable; while the training provision was designed specifically for this project.

- The commitment to communicating with the workforce during the negotiation period, including the issuing of a regular newsletter and the holding of regular meetings between the General Manager and staff.

- The low capital requirement, resulting from agreeing a mutually beneficial arrangement over the assets with the local authority.

TULLIS RUSSELL GROUP LTD

INTRODUCTION

Tullis Russell Group Ltd converted from a private family-owned company into a private company owned by its employees and by trusts.

At the time of writing the conversion is universally seen as successful. It created a considerable interest in conferences and the media, including the *Financial Times* and *Director* magazine, and resulted in Tullis Russell winning the 1994 ProShare Award for Employee Share Ownership.

The company is Tullis Russell Group Ltd, with its headquarters at Markinch in Fife in Scotland. There are four operating companies in the group. Sales in the financial year ending March 1994 were £101 million and profit before tax was £4.6 million. Tullis Russell employs approximately 1,200 staff.

The conversion from family ownership to employee and trust ownership took place in stages, with the formation of a charitable trust in 1947, the passing of control to that trust in 1975, the introduction of a profit sharing share scheme in 1985 and the buyout of the entire remaining family interest in June 1994.

Tullis Russell has always been an independent, family-owned company. Its business has always been specialist, high value papers. The whole company was converted to employee and trust ownership.

Conversion to employee and trust ownership happened because:

1. The family tradition was that the company maintain its independence, as this was the best way to serve the interests of the employees and the community.

2. Nonetheless, the current generation of family owners wished to extract their capital from the business, substantially or entirely, over time.

After considering several other options, the board reached the conclusion that conversion to employee and trust ownership, financed by the company, was the best solution.

MAIN BODY OF THE CASE

The business was founded in 1809. The philosophy of the Russell family, who owned 100% of shares by 1930, was enlightened paternalism. On the one hand they were committed to development of a successful, growing, prosperous business in the paper industry. On the other hand, they were committed to looking after the interests of the employees.

This commitment to the interests of the community was recognised when Sir David Russell, then chairman, created the Russell Trust (a charitable trust) in memory of his son Patrick, who was killed in the war. The 25% of shares which Patrick would have received were put into this trust, so that the dividends on those shares could be handed out to charity every year.

Dr David Russell, Sir David's son, when chairman in the early 1970's was concerned that there was no obvious successor and he worried that the business might be sold when he retired or died, to the detriment of both employees and community. So in 1975, the non-trust shareholders re-arranged the shares to give voting control to the trust. At the same time the three family trustees were joined by four management trustees. This was done specifically to try to ensure that the company stayed independent and served the interests of the employees, rather than the interests of outside family shareholders.

The transfer of ownership to employees started in a relatively small way in 1985, when a profit sharing share scheme was set up under the Finance Act 1978. Every year, 7.5% of the profit of the company is given to this scheme, which uses the money to buy shares to distribute to all employees with more than one year's service. When this was first done, the employees reacted with considerable suspicion. The trade unions, as their representatives, were interested but intensely suspicious. Everybody was looking for the catch. On average, a little over 1% of the equity was given out each year for the following eight years. Shares were sold by a minority of employees wishing to cash in their capital, once the legal limits were met (mandatory to hold shares for two years, and tax free if shares are held for five years). Over time, this led to a rather positive feeling about the share scheme. People, including the trades union representatives realised that it was beneficial for employees to own capital and that there was no catch.

The extent of the change in attitude was shown by a survey carried out in March 1994. There was a 90% positive response to the statement: "Having shares means you care about how well the company is doing."

Economic circumstances: Tullis Russell competes in the paper industry, a highly cyclical and intensely competitive global industry. Initially the proposal was that the conversion to employee ownership should be achieved in the late 1980's, but the arrival of the recession postponed the plans. The board recognised the need for a high level of capital investment in plant.

Competition: Competition is international. Since the UK market is entirely open to paper imports and Tullis Russell exports 40% of its turnover, the best international companies are met as competitors. The industry is capital intensive with very high barriers to exit. Because

of the requirement to fill the machines, price competition during recessions and downturns is very intense.

Markets: By picking specialist markets and performing to high standards of quality and service, Tullis Russell carved itself an enviable niche as a top grade producer. The major markets for Tullis Russell specialist papers are the UK and Europe. More specialist products are exported all over the world. Group turnover of £101 million in the year to March 1994 comprised £56 million in the UK, £25 million in Europe, £10 million in North America, £5.5 million in the Far East and £4.7 million in other areas.

Objectives: The objective of the conversion process was to allow the family shareholders to sell their shares in Tullis Russell, extracting their capital, without giving up the independence of the company and, at the same time, allowing the company to prosper and involving the employees in the ownership of the company. Employee share ownership fits very well with the development of the participative management style in Tullis Russell that has taken place since 1985 when the current chairman took over. This includes full and open communication and consultation, extensive training, involvement in such processes as quality improvement, and cash profit sharing.

Legal issues/government policy: Legislative changes were extremely important in allowing Tullis Russell to achieve its ownership conversion. The Employee Share Ownership ("ESOP") legislation in the Finance Acts of 1989, 1990 and 1994 was crucial, allowing the company to finance the transfer in a very tax efficient manner:

1. The vendors of shares to the employee share ownership trust are allowed to invest the capital that they receive into a wide range of investments with capital gains tax rollover. This was very valuable to the family shareholders of Tullis Russell, who would otherwise have paid some 37% of what they received for the shares (some £19 million) in tax.

2. The company is allowed to use tax free money for the financing of the whole deal, including the capital element. This is a major benefit.

3. Through the 1978 Finance Act profit sharing share scheme, employees receive their shares tax free, provided they hold them for five years.

Employee share ownership legislation has been supported by all the main political parties.

The options available to the company to allow family shareholders to sell their shares included:

1. Sale of the company to a competitor. This was rejected as being very much against the interests of the employees.

2. Flotation on the stock exchange. This was rejected as being likely to make it impossible to run the company with priority on the interests of the employees. Future managers would be forced to respond primarily to the financial interests of outside shareholders.

3. Sale of family shares to financial institutions. This was rejected as being essentially a half-way house towards either 1 or 2. The institutions would be bound to want an exit themselves at some point.

Thus employee share ownership seemed to be the only way in which both objectives could be achieved: allowing the family to extract their capital, and ensuring that the company remained independent, serving the interests of employees.

The solution adopted was relatively complex, because of the large amount of financing required – £19 million for the family shares. The family shareholders accepted convertible loan stock in exchange for their shares. The company made a commitment to buy in the loan stock in three equal tranches in 1996, 1999 and 2002. At the point where the loan stock is bought in, it converts to shares. These shares are bought by the statutory employee share ownership trust, which during the following 20 years, passes them out, free, to employees, the method of allocation being 30% equally per head and 70% in proportion to salary.

The family were happy because they received a substantial increase in income (loan stock pays 7.5% interest); the employee representatives were happy because a commitment was made to pass shares free into employee hands, worth approximately one year's salary, in the foreseeable future; the directors were happy because by taking this relatively long period of time, the company would be allowed to prosper and have enough funds for investment throughout the whole process.

The process involved creating a prospectus, designed in negotiation between a merchant bank representing the company (Noble Grossart) and an accountant representing the interests of the family and other individual shareholders (KPMG). This involved the creation of a new holding company, which issued loan stock to the family and a small amount of preference shares and non-voting shares to provide for special circumstances. The older family benefit from holding preference shares rather than loan stock if they die and there was a small number of individuals who wanted to retain a small shareholding indefinitely (less than 2% in total) of non-voting stock. The board were careful to take fully independent advice to ensure that all procedures were fair and above board. The prospectus was launched in June 1994 and acceptance was 100% – the family all accepted the instruments designed for them, the employees accepted shares in the new holding company and the trusts accepted shares.

During this whole process, communication was of vital importance – with family members, employees and their representatives, and with the advisers.

Trade unions: The attitude of the main union (GPMU) has been broadly to encourage the development of share ownership (after initial scepticism), although not to get directly involved. In 1986, a special representative body was formed, now called the Share Council, specifically to represent the employees as shareholders. It is the policy of the company to maintain a clear division between **(a)** representation of employees as *employees* which is done through trades union representation (in two of the companies in the group) and through works councils (in the other two companies in the group) and **(b)** representation of the employees *as shareholders*, which is done by the Share Council for all employees in the whole group.

Currently there is one representative on the Share Council who is also a trade union representative (there have been more in the past). At the initiative of the Share Council, a large meeting was held in April 1993 involving senior managers, representatives of the trade unions, the works councils and the Share Council. This was a successful meeting, which reinforced support for the growing employee shareholding.

Local development workers, federations: There was no involvement from any such body.

Specialist advisers: Since this was a major capital reconstruction, with divergent interests, it was necessary to involve a large number of specialist advisers. In 1985, Copeman Paterson, a firm specialising in the design of employee share schemes helped set up the initial scheme. In 1994, advisers were:

Advisers to the company – Noble Grossart Ltd, merchant bankers; Dundas & Wilson CS, solicitors; Geoghegan & Co, chartered accountants; Capital Strategies Ltd, employee ownership advisers.

Independent financial advisers to the shareholders – KPMG Peat Marwick, chartered accountants.

Independent financial advisers to the trusts – Coopers & Lybrand, chartered accountants.

It is worth noting that one individual specialist adviser, who works in the field of merchant banking, attempted to disrupt the process **(a)** by trying to persuade a minority of the family that the deal was not in their interests, and **(b)** when this failed, by taking his knowledge of what was happening in the company to a competitor, who then attempted to launch a take-over bid for the company.

Both of these disruptive and, in the company's view, immoral acts were successfully resisted, but this illustrates the dangers of bringing in traditional aggressive merchant banking – the kind of people who patently do not believe in the benefits of employee share ownership. Nonetheless, it is not possible to go through an exercise of this magnitude without expert advice and all the other advisers behaved magnificently.

Finance: Essentially the deal was vendor financed through convertible loan stock, which attracted all the tax benefits of the ESOP legislation. At the point where the first third of the loan stock requires to be bought in 1996, the company has support from the bank to proceed. It is perhaps worth noting that the balance sheet is very strong with total assets less current liabilities of £47.5 million, and shareholders' funds of £41 million. One of the main considerations of the board was to make sure that the company would continue to prosper after the conversion.

The length of time taken to achieve the conversion varies, depending on where you start! The first serious step was in 1975, when voting control was given to the charitable trust. The next major step was in 1985 when the profit sharing share scheme was set up. The design of the final buyout took several years, due to the need to postpone its implementation because of the recession. The final process took approximately six months of intensive work by the chairman, the group finance director and the advisers, overseen by the board periodically.

There have been no significant changes in the management of the business since the conversion was effected. However, there were enormous changes in management of the business during the period from 1985-1994 when employee shareholding was being developed. Essentially, employee shareholding is one of an integrated set of policies designed to promote participation by all employees, both in creating its success and in sharing the fruits of its success. These have been listed above: communication, consultation, training, involvement, profit sharing and shareholding.

The current situation of the business is that demand for paper products is relatively strong. Owing to the tightness of the pulp market, the pulp price has risen very dramatically, by more than 100% in a little over a year, and it has not been possible to recover all the margins. However, in spite of that pressure, sales for the first nine months of the year were up by over 20% and profit was also up substantially.

CONCLUSIONS

The one major aim of this buyout is to establish Tullis Russell in a way that allows employee ownership to be sustained for the long term. Hence the use of trusts. In the long term we expect only about 30% of the shares to be in the hands of individual employees at any one time, the rest being in trusts (the charitable trust and the employee benefits trust). Because no more than 30% of the shares are potentially on the market at any one time, the private market can be kept liquid without taking too much cash out of the company. This will be achieved essentially by the profit sharing share scheme, which will buy shares every year and distribute them to all employees.

In terms of representative structure, the existing Share Council is constantly working on ways of making employee share ownership mean more to everyone. What form this takes cannot be easily forecast, but it is certain to involve giving employees greater influence in the direction of the business although *not* in day to day managerial decisions, except by normal involvement as employees.

The independence of Tullis Russell is protected by leaving a golden share with the charitable trust, specifically in order to protect the independence of the company. Tullis Russell is thus extremely hard to take-over. However, a take-over is not impossible; if ever it was judged to be more in the interests of the employees to join a big group rather than stay independent, this possibility is open for the directors, employees and trustees at the time.

Key factors in the success of this case have been:

- The legislation that allowed the vendors to roll-over capital gains tax was a key factor in persuading them that they were not losing out by selling to the employees.

- The ability of the company to finance the whole thing out of pre-tax money was key for the board in its consideration of the financial health of the company, now and in future.

- The broadly favourable feeling amongst family shareholders, that they were not only gaining their capital but were also helping to set up something that was of benefit to

employees and to the community was also a very important element in enabling us to achieve 100% agreement on the way forward.

- Future success depends on how well the managers and employees can work together in the participative way that has been developed in Tullis Russell over the last nine years. At the moment the signs are very positive.

- Intensive communication was vital.

CHESTERFIELD TRANSPORT LIMITED

INTRODUCTION

The case of **Chesterfield Transport Limited** involves an employee buy-out of a former public service. Although Chesterfield Transport is frequently cited as a good example of conversion to employee ownership and it has been commercially successful, it is at time of writing in the process of merging with another, larger bus company (which is, however, itself employee owned) and thus will lose its independence.

Chesterfield is a town of some 100,000 people and is situated in the centre of England 200km north of London and 20km south of Sheffield. Apart from its employee owned bus company, it is famous for its crooked spire on the Church and also as the place where the great railway engineer, George Stephenson, spent the last ten years of his life.

Chesterfield as a town was built up around the iron, steel and coal industries; but with their disappearance it has moved more to the service industries.

Chesterfield Transport is a small to medium sized operator with some 350 employees, 120 buses and a turnover of around £7 million. It converted to employee ownership in April 1990.

At the time of the conversion, Chesterfield Transport was a company wholly owned by Chesterfield Council and was considered part of the public sector.

The conversion of Chesterfield Transport came about because in 1988 the Government were talking about forcing local councils to sell the bus companies. Employee ownership was the favoured alternative to outright privatisation through purchase by external business.

MAIN BODY OF THE CASE

Chesterfield and District Tramway Company Limited started operating in the town in 1882. In 1897 the Tramway was taken over by the Town Council of Chesterfield, and it remained a Department of the Council through all the technical advances of the industry until 1986.

The privatisation of the publicly owned British bus industry came about because of the introduction of the 1985 Transport Act by the Conservative Government. This Act brought not only privatisation, but also deregulation to the industry.

Up until that time the vast majority of the industry was held within three types of public ownership. The National Bus Company (NBC) was a national network of around 70 subsidiaries which was state owned. The seven largest city based companies, excluding London, were owned by the Metropolitan County Councils, and the 47 municipals were owned by local Town Councils.

As a result of the 1985 Transport Act, the Transport Department of Chesterfield Town Council was converted into an "arms length" limited company. Although it could remain owned by the Council, it was clear that this was only part of the privatisation process and that the Government would eventually make the Council sell their stake in the company.

It was when this conversion took place that the Council allowed an elected Employee Director to join the Board of the company, which was dominated by non-executive Councillors holding five of the nine Board seats.

Anticipating the sell-off of the bus company, the local trade union officials and the company's management decided to join together to form a buy-out team. This consisted of the Managing Director, Finance Director and Employee Director, along with the Branch Secretaries of the three trade unions that represented the drivers, engineers and office workers. The drivers were allowed to add one further representative to the Team to reflect the proportion of workers in that category.

The first task was to convince the vendor (i.e. the Council) that it was in everyone's interest to sell the company to the employees. The Socialist Council Leader made it clear that it would require a change from the current policy, which was not to sell Council assets under any circumstances. Recognising the political situation nationally, however, it was agreed to sell to the employees in principal and – provided some fundamental conditions were met – it would allow the employees "single bidder" status.

The buy-out team then organised a meeting of all employees to gain their endorsement of the idea; this was agreed by an overwhelming majority.

The local trade unions were very much in favour of the deal, mainly because they were looking at the alternatives of reduced wages and conditions, job loses and possible asset stripping if an outsider bought the company. By contrast, the national trade unions involved (namely the TGWU, AEU and NALGO) were indifferent about the whole affair and, while they did not actively discourage the bid, they did little to help or encourage it either.

Economic circumstances: Chesterfield Transport had been following the declining trend in the industry. Over the last four decades, it had seen a fall in passengers of 2% per annum, due mainly to the rise in car ownership. Nevertheless, since becoming a limited company in 1986 it had always made a profit, and was thus in a healthy position for a buy-out.

Competition: Although Chesterfield Transport was the major operator in Chesterfield, it had competition from an ex-National Bus Company operation which had a depot in the town. Following deregulation there were some early skirmishes, but these soon settled down and an amicable relationship developed between the two. Chesterfield Transport – following conversion to employee ownership – itself acquired ownership of a small bus company in a neighbouring town.

Government policies: The entire reason for the employee buy-out had, of course, originated in Government policies, the Transport Act and subsequent privatisation measures. As at this time the envisaged form of employee ownership was an entirely new model, the buy-out team were advised by the Department of Transport and Industry that they would need to consult the DTI regularly to ensure the plan met with the Government's "Privatisation Criteria".

Objectives: As the buy-out team expressed them, the objectives of the buy-out were as follows:

- to control our own destiny;
- to discourage any outside bids;
- to stop uncertainty;
- to give the company a long term future;
- to become wholly owned by the employees;
- to have equality in ownership;
- to have worker representation, involvement and participation;
- to decide ourselves what to do with the profits we make.

The options available to the buy-out team to achieve the objectives were determined by the following factors.

First, it was clear that the employees could not raise the £2 million plus that was needed to buy the company. Thus they would be looking for a structure which enabled external finance to be introduced as effectively as possible: some sort of Employee Share Ownership Plan.

Second, because of the Council's insistence that a condition of selling the company to the employees would be a structure which demonstrated as much equality as possible, they would need to create a model which suited that condition as well as their other objectives.

The buy-out team realised that it would need specialist advisers to pursue the bid and, after much deliberation (using the "Beauty Parade" method), appointed Nigel Mason (then of ICOF – Industrial Common Ownership Finance) as structural adviser; KPMG Peat Marwick as financial advisers; and the company's own solicitors Blakesley Rice MacDonald as legal advisers.

Other employee-owned companies were visited not only to gain great knowledge, but also to give confidence that the buy-out could be done. Two major principles adopted as a result of these visits were: an equal investment and individual ownership structure, from People's Provincial, a bus company on the south coast; and a perpetual trust to encourage the long term future of the company from Baxi Heating, a Preston based manufacturing company.
A business plan was formulated with the help of the advisers and also developed was a financial structure which would attempt to satisfy the buy-out's objectives.

Trade unions: As stated before, the national union officers were very non-committal and offered no encouragement to the buy-out. However this was not true of the trade union officers within the company itself, who played an active part in the buy-out team and quickly gained credibility by exercising their political affiliations to the local Socialist Councils to the best effect by lobbying and cutting "red tape". The Employee Director was himself educated and brought up through the trade union movement and so was also active in most of the political moves.

Local development workers: The buy-out team visited local development workers but they were rather afraid of the scale of the operation and, while offering moral support, in practice that was the extent of their involvement.

Specialist advisers: While the buy-out team respected their specialist advisers, the team made it clear that they were running the show and that every decision had to be referred to them at frequent meetings. In general, however, the opinion of the buy-out team was that their advisers performed an excellent job and were most encouraging throughout.

Federations: At the time of the buy-out there were no federations known to the team. Indeed, it was because of this absence and the lack of support from the national trade unions that key employee representatives in the larger employee-owned companies formed their own federation, namely The Centre for Employee Ownership and Participation (CEOP) in order to promote, lobby for and educate people on the merits of employee ownership.

A new company – Chesterfield Transport (1989) Limited – was formed to purchase all the shares in the existing company and so secure it for the employees.

The company was bought by means of an Employee Share Ownership Plan (ESOP) at a total of £2,450,000, made up as follows:

Employees' contributions	215,000
The Employee Benefits Trust	85,000
Deferred payment to vendor	450,000
Loan from Bank	1,700,000
Total	**£2,450,000**

There was also a 10 year claw back agreement which stated that, if the property or part was sold, any profit on the sale would go the Council. This provision would reduce by 10% per year, expiring completely at the end of the 10 year period.

Each employee was invited to invest £800: £750 in non-voting Preference Shares, and the other £50 as 500 x 10p Ordinary (voting) Shares.

86% of the workforce took up the offer making it one of the highest take-ups achieved at that time in an employee buy-out. In order to secure as many participants as possible, a special deal was done with a local bank that enabled employees to borrow the money required for their share purchases and pay it back, through their wages, over a period of up to five years.

This model was designed to combine the incentives of individual ownership with the virtues of collective (or common) ownership. This meant that 15% of the Ordinary Shares were held by employees while the other 85% were held in trust on behalf of present and future employees, some of these to be distributed to employees out of the future profits of the company.

The shares in the Trust were to be distributed until the Trust held 51% only; this balance would be maintained, therefore sustaining the perpetual ESOP as the controlling majority shareholder.

The whole buy-out process took around 18 months. The reason for this relatively long period was because the team were treading new ground and also because, being part of the Government's privatisation programme, issues had to be continually referred to the relevant Government departments for approval. Further, lengthy and complicated procedure had to be pursued in order to enable the employees to stay in the Local Government Pension Scheme.

Similar employee buy-outs which followed tended to take less time: usually in the region of three to six months.

Following the buy-out the company has been controlled by the Employee Benefit Trust as the major shareholder. The Trust, as represented by its Trustees, also acts as a Supervisory Board along the lines of the German *Aufsichtsrat* Model. There are seven members of the Trust, three elected from the employees, three outside people chosen for their knowledge of business, and an Executive Director.

The Board of Directors consist of Managing, Financial and Operations Directors plus an elected Employee Director. They are responsible for the day to day running of the company and are accountable to the Trustees.

The structure under the Directors is a conventional one, consisting of a joint management/ trade union body and the types of negotiating and disciplinary mechanisms that you would find in any good company.

Thus the structure has been designed to ensure that the workforce have representation and participation at every level of management and ownership.

Chesterfield Transport been a successful company, making profits every year. The Ordinary Shares have risen in value from 10p through 16p, 45p, 55p to 70p in successive years up to the present time, while at the same time increasing the Individual Employee Shareholding from 15% to 25%, leaving 75% of the shares still in the Trust.The company has paid off the £450,000 owed to the Council as well as reducing the debt to the bank to £1.5 million, even after purchasing the other bus company.

CONCLUSIONS

Commercially, Chesterfield Transport is a success, but the environment in which it is trading has changed. The newly privatised and fragmented industry has now formed itself into large groups. This is ironic: privatisation has resulted in a move from three large public sector

groups to three large private sector groups, mainly because of the Government's lack of policing of its own blueprint for the industry. This means, however, that in order to survive Chesterfield Transport has had to look for a larger partner and is in the process of merging with neighbouring bus company Mainline Buses, which is also employee owned.

Chesterfield Transport developed an Internal Share Market to encourage new start employees to become employee owners soon after they join the company, by allowing them preferential treatment when buying an initial amount of shares. It is hoped that this system will be introduced into Mainline Buses and that Mainline will generally wish to take advantage of the four years experience gained in Chesterfield Transport.

Chesterfield Transport was the first ex-municipal bus company to become 100% employee owned. But now it is to lose its independence and with hindsight the Employee Director is not so certain that things were done as well as they might have been.

Key factors in this case have been:

- Changes in the structure of the industry making smaller, independent bus companies unviable.
- Following the successful acquisition of the company, members of the buy-out team reverted to their traditional roles and relationships, instead of carrying on with the joint approach that was so successful through the buy-out process.
- Elected positions were created and filled too early, without any transition period for effective democratic training.
- Despite many efforts, the company failed to generate any true feeling of ownership amongst the workforce. They have concluded that more should have been invested in education and communication.

TOWER COLLIERY

INTRODUCTION

Tower Colliery is a mine producing anthracite in the South Wales coalfield. Formerly part of British Coal, the pit re-opened under democratic employee control in January 1995. The pit had been part of British Coal, a state owned corporation, for 47 years but was offered for sale in 1994. The UK Government closed Tower Colliery in April 1994 as part of its policy on privatising the entire British coal industry. It was offered for sale to the general public. The miners who worked at Tower Colliery believed there to be sufficient reserves to maintain employment for up to 250 people for a further 10 years, at an annual production of 500,000 tons, and thus resolved to buy the pit.

MAIN BODY OF THE CASE

Tower Colliery has been in existence since the 19th century and is capable of producing up to 900,000 tons of coal per annum. The British coal industry was nationalised in 1947 and Tower Colliery has been in public ownership since then.

The announcement of its closure naturally caused dismay in the community, and the local lodge of the National Union of Mineworkers ("NUM") fought for six months to keep it open, attracting national attention and support.

Management believed that there were insufficient reserves to run a viable colliery. The miners thought otherwise and, with the support of their local trade union officials – but not with national union support – established the Tower Employee Buy-out Team ("TEBO") and began looking at ways of purchasing the pit. They approached the Wales Co-operative Centre, a development agency with very strong trade union connections, to assist with mounting their bid.

Economic circumstances: One of the reasons for the closure of Tower Colliery was that there was over-production in the UK coal industry. In particular there was perceived to be no market for the anthracite produced at Tower. After its closure the pit was maintained on a "care and maintenance" basis, with some of the remaining British Coal management remaining on site. The whole of the colliery and its extraction machinery was extremely well maintained.

Markets: One of the strengths of the employees' bid to buy the mine against competition – at least three other companies bid for the colliery – was that the TEBO team was able to produce signed contracts from customers to buy their coal at 500,000 tons per annum for the following five years, at prices which would ensure that the pit remained in profit.

Legal/political issues: The first task was to qualify with the Government as a reputable company capable of making a proper bid and of running the mine successfully. This was achieved with help from the Wales Co-operative Centre by May 1994. The Government, acting through its advisers N M Rothschilds, then issued further detailed information on the colliery itself and invited firm bids by 14 September 1994. The documents issued by the Government invited all bidders to indicate what plans they had for employee ownership and participation in the new company. The TEBO bid, not surprisingly, was the only one proposing 100% employee ownership of the colliery, which gave the miners some encouragement.

Objectives: The overall objective – in an area of high unemployment – was to maximise the number of jobs provided by the colliery and the length of employment. This would involve a plan which ensured the viability of the mine as a business. The immediate objective was to succeed in purchasing the colliery.

The initial option pursued by the trade union was a spirited campaign against the closure of Tower Colliery. Once this had failed, however, the only options available to the miners were to wait and see if anyone else might buy the mine and then employ them; or to seek to take control of it themselves. Once the latter course had been adopted, the choices to be made were really only in matters of detail.

The TEBO team consisted of six miners, including lay officers from the two trade unions the NUM and NACODS, between them representing a wide section of the workforce. Regular meetings were held with their advisers, and the team reported back to the workforce every two weeks on the progress of the bid.

The team recruited experienced managers, some of whom had worked at Tower Colliery in the past, to join their team and help to prepare an acceptable mining plan for the colliery. Recognising the need to operate Tower in a profitable manner, the team also stated its intention that the pit should be operated on a strictly competitive and commercial basis, and a new finance director was recruited from the private sector to augment the management team.

The bid was also based on the expectations that since the workforce fully owned the new company, this should increase the commitment of the workforce to the company and help to maximise productivity and efficiency as well as improving industrial relations.

The value of the bid was further enhanced by including within it a commitment to pay a royalty to the Government over the next five years based upon saleable tonnage.

The mining plan for the pit indicated little change from previous methods and a relatively low level of annual production at 400,000-500,000 tons of coal, and an emphasis on maintaining safety standards.

Having been advised that the employees' bid had been successful, Tower Colliery was registered as a private company limited by shares under the Companies Act 1985. An Employee Benefit Trust was also established.

The workforce contributed £2 million of equity but voting rights are held on a one member, one vote basis, not in proportion to shareholding. Upon leaving employment at Tower, members must sell their shares to the Employee Benefit Trust, thus ensuring that the colliery remains employee owned in the longer term.

Trade unions: Local union officials from the National Union of Mineworkers were instrumental in instigating the employee buy-out and remained actively involved in all negotiations throughout. This case was very much a union-instigated affair. The other main miners' union – NACODS – also joined the TEBO team. However, there was some disapproval of the buy-out at national level, where the policy is to retain the coal industry in public ownership.

Local development workers: This bid was greatly assisted by the local presence of the Wales Co-operative Agency, with over 10 years' experience of developing employee-owned companies, including a number of large scale buy-outs. The Centre provided general advice and assistance as well as training to the new company. It also helped that the Wales Co-operative Centre itself has very strong union links, having been established under the auspices of the Wales Trades Union Congress.

Specialist advisers: The TEBO team were very keen to make use of specialist advisers at the appropriate times, for example in helping to raise the finance and in devising the mining plan, which was essential for the success of their bid.

Public: Because of the high profile and somewhat controversial nature of this bid, it received wide publicity and won strong support from the media and from local authorities.

Finance had to be arranged in a manner which would ensure the success of the bid in a competitive situation and provide sufficient working capital to enable the pit to function properly.

Every member of the company, both miners and management, contributed £8,000 each in share capital, providing £2,000,000 in total. An arrangement was made with the Co-operative Bank for personal loans to be made available to those miners who needed to borrow to raise this equity.

The willingness of the workforce to invest collectively this relatively large sum of money enabled the TEBO team's adviser to raise debt finance from Barclays Bank. The bank also provided an overdraft at twice the term debt. However, to date production at the pit has been so good that it seems unlikely that the company will need the full overdraft facility.

Tower Colliery was closed in April 1994. The TEBO team succeeded in qualifying as capable of making a proper bid and running the mine by 14 May. The bid had to be submitted by 14 September. The Government indicated in October that the employees' bid was preferred over others received, and final completion took place on 23 December. Thus the whole process took nine months.

The colliery is managed by a small executive board comprising:
- a non-executive Chairman
- the Colliery Manager
- the Finance Director
- two Worker Directors, elected by and from the workforce
- the Mining Surveyor.

Once the debt finance has been repaid to the bank (scheduled for two years time), the number of Worker Directors will increase from two to four.

The board meets monthly to give overall direction to the company and oversees all managers and the workforce.

In addition, it is intended that there will be quarterly meetings of all the shareholders to allow them to review progress and raise matters of company policy.

The company has only been trading for a short time but already it is three weeks ahead of its projections. There have been no problems so far, with coal being mined and delivered on time and customers paying promptly.

CONCLUSIONS

Future developments could include the following:
- The development of new markets, including exports.
- Introducing direct supply to domestic and industrial consumers.
- The purchase of other mining facilities to increase capacity and performance.

The Wales Co-operative Centre has been commission to prepare a strategic business plan in conjunction with the new board.

Key factors in the success of this case have been:

- The determination and commitment of the workforce to "save their pit".
- The organisational structure which existed already within the trade union.
- The loyalty, trust and support given by the entire workforce to their elected union representatives.
- The skills and experience of the TEBO team, learned through many years of trade union activity.
- The ability of the workforce to raise large sums of money for investment.
- The willingness of the Co-operative Bank to arrange to lend employees the money needed to purchase their shares.
- The commitment of all the unions involved to ensuring the success of the venture.
- Regular communication between the buy-out team and workforce to ensure continuing commitment.
- The availability of a good local development agency, the Wales Co-operative Centre, with its considerable experience of assisting with large scale employee buy-outs and ability to offer advice and training, augmented by the Centre's close connections with the trade union movement.
- The use of specialist advisers at appropriate times, particularly to prepare the mining plan and to raise investment funds.
- The Government's expressed policy of encouraging employee ownership and participation in bids tendered.
- Widespread public support.
- Sufficient reserves of coal to justify the bid and ready markets, both industrial and domestic.

BARRHEAD SANITARY WARE PLC

INTRODUCTION

This was a rescue from a factory closure in the private sector and was set up as a new enterprise without any assistance from the parent company. The previous owner of the business was Armitage Shanks, which closed their only Scottish factory in Barrhead, Renfrewshire. The company manufactured sanitary ware pottery. The factory closed at the end of March 992 and restarted in February 1993.

Armitage Shanks Ltd is a part of the Blue Circle Group of companies, a very large group quoted on the Stock Exchange. The factory had previously been an autonomous Scottish company until taken over by the Armitage group.

MAIN BODY OF THE CASE

The original company had been trading since the 19th century as Shanks of Barrhead, manufacturing sanitaryware pottery. Shanks were justifiably famous as their products were to be found all over the world. The company was eventually taken over by the Armitage group, part of Blue Circle Industries. The business continued under the name Armitage Shanks, with the Barrhead factory being one of several manufacturing units, all the others situated in England. This continued for 13 years until 1991, when it was announced that the Barrhead factory would be closed as part of a restructuring operation owing to excess production capacity.

The workforce of 330 people was made redundant at the end of March 1992, despite many widespread protests. The employees made the forcible point that the factory had always been profitable, which was never denied by the Armitage Shanks management.

During the Christmas holidays of 1991, there appeared in a national newspaper an article about the doomed factory and photograph of grim-faced workers standing outside the factory gates. The closure had just been confirmed.

Alex Smith, then director of the Scottish Co-operatives Development Company ("SCDC"), determined to pursue this matter which was in line with SCDC's pro-active policy on company rescues which, over the previous year, had led to many companies being rescued from receivership or liquidation and being turned into worker co-operatives. This, however, would be the largest rescue ever attempted as a worker co-operative.

An initial meeting between an officer of SCDC and the Trade Union Shop Stewards Committee took place in January 1992. The Committee members were very interested in the concept of an employee buy-out, having assumed that nothing more could be done to save their jobs. A further meeting between SCDC's director and the Committee led to the following main points being agreed:

1. SCDC must be convinced that the Committee and the workforce were determined to start a new company and would do all within their power to achieve this.
2. Each member of the new company would be required to lodge cash as equity and the sum mentioned could be as high as £2,000 each.
3. Before SCDC were prepared to become involved at a major level of activity, an initial market survey would be conducted and from this it would be decided if a rescue were practicable.
4. Each supporter of the project would be required to contribute a sum, possibly £100, into a "fighting fund". This would give the donor absolutely no rights in the new organisation. The fighting fund would be used for fundraising purposes; it would be held in a bank account and cheques would require the signature of the director of SCDC and the Shop Stewards' Convenor.
5. No guarantees would be given about how many jobs would be created in the new organisation or who would get them.
6. SCDC wished to work with the existing Shop Stewards Committee, though the workforce might wish to elect another committee to represent them at some stage.
7. SCDC would require a mandate from the workforce to act on their behalf.
8. The new organisation would be set up as a worker co-operative.

9. No publicity would be sought before the National Union had completed negotiations on the redundancy package for the workforce. This was because it was assumed – quite correctly in retrospect – that Armitage Shanks would be extremely hostile to any new organisation threatening competition in the Scottish market. If the company were unaware of the plans of the workforce, they might be more likely to be generous in their redundancy package.

Economic circumstances: In normal rescue scenarios it is usual to retain all or part of the factory and plant so that production can continue. The main difficulty facing the new company was the hostility of Armitage Shanks to the plan. This gave huge problems in that the new venture would have to find a factory and purchase the plant, probably at new prices. Further, there was the fundamental problem that the pottery had no designs and no casts for bulk manufacturing. The time required to make the casts from initial designs was estimated in the trade at 18 months, which would place a great strain upon the employees to keep the momentum going. Because of the refusal of Armitage Shanks' management to assist the employees' venture, this development became more like a new start business than a conversion. With a workforce of 50-60, and an estimated cost for plant of £800,000, this would be the largest new manufacturing co-operative start-up in Scotland, and probably within all of the UK.

Markets: A list of current Armitage Shanks customers in Scotland was obtained from the office staff at Barrhead. After the union had confirmed that the final redundancy package was agreed and signed, a questionnaire was sent to all existing Armitage Shanks customers plus other sanitaryware dealers in Scotland, asking them if they would be prepared to purchase from the new organisation if price, quality etc. were satisfactory. Over 90% responded positively and several indicated they would *only* buy from the new company. The results of this initial survey were gratifying but it was recognised that an independent, professional marketing survey would be required prior to the detailed business planning and fundraising.

Legal issues: It was decided to seek to raise money by using the "Business Expansion Scheme", a Government scheme which offered tax relief to individuals for investing in small company's shares. This was successfully achieved.

Political factors: The Minister for Industry in Scotland was the Conservative MP for the area including Barrhead. Both he and the Labour candidate for the constituency indicated their strong support for the project, and the Industry Minister promised substantial grant aid. Several Scottish local authorities contributed to the initial setting up costs.

Objectives: The primary objective was to rescue as many manufacturing jobs as possible following Armitage Shanks' decision to close the factory. Specific objectives included raising the large amount of finance needed, maintaining the enthusiasm and support of the workforce, and ensuring that a viable business could be established.

The option initially pursued by the workforce was to campaign against the factory's closure. Once closure was inevitable, and an employee buy-out decided upon, a desirable option would have been for Armitage Shanks to have co-operated with the workforce in selling or leasing them the necessary premises and plant, but this was not to be.

The first meeting of the workforce was attended by around 130 people and was addressed by the SCDC director. The meeting gave SCDC a mandate to proceed and 110 people agreed to donate £100 each to the fighting fund, raising £11,000. This fund was important as it was used to leverage additional sums from local authorities, including Strathclyde Regional Council and Renfrew District Council. The money raised was used to commission a new independent market survey and pay for fundraising. It was hoped that a substantial sum of equity capital could be raised through a share issue utilising the Business Expansion Scheme. It was felt that banks, local authorities and Government would not be interested in funding the project unless it had been shown that employees and the public were backing the idea with real money.

At the second meeting, where the Industry Minister for Scotland, also the local MP, and the Labour candidate expressed their support, the director of a Public Relations company offered to undertake work for the venture on the basis of a fee which would be conditional upon the eventual success of the project. Chartered Accountants and lawyers were recruited on a similar fee structure. The next task was to raise funds from the public.

The equity fundraising had to be organised by creating a Public Limited Company (PLC) which is the only type of legal structure which may issue ordinary shares to the general public.The law requires that such a public issue must be accompanied by a Prospectus, in the proper format, which requires the services of lawyers and Chartered Accountants. As noted, two firms had offered their services on a contingency fee basis as they had been persuaded that he project could be viable.

The Prospectus was drafted by SCDC officers and amended where necessary by lawyers. SCDC also assisted the accountants to draw up the business plan which was required for the Prospectus.

The professional independent marketing survey had been commissioned when the fighting fund was created and this now provided the marketing content for the Prospectus. The survey showed a huge market with the UK and Europe, but that there was much dissatisfaction with both the quality and delivery specifications of manufacturers. It was suggested there was a niche market for a small manufacturing unit producing high quality sanitaryware. Written statements were obtained from a number of companies that they would be prepared to place orders, and these were incorporated into the Prospectus. There is no doubt that these statements were very helpful in giving credence to the Prospectus. One of these companies did indeed provide substantial orders once the factory was set up and this provided the main initial workload for the fledgling organisation.

The previous owner of Shanks of Barrhead, Mr Kenneth Shanks, was persuaded to join the consortium as Honorary President and to write the foreword to the prospectus, which helped to sell the share issue.

The Prospectus was finished and sent to a large mailing list in July 1993. The mailing list had been carefully compiled from subscribers to previous "green" share issues as it was thought such people might support the concept of a worker co-operative. This proved to be the case as a large number of people from the south of England subscribed for shares. There was also a massive local campaign in the west of Scotland, particularly in Barrhead, Paisley and

Renfrew. Many local people in these towns bought shares and press coverage was tremendous. One of the interesting subscribers was a major trade union, the GMB. The Scottish branch of this trade union was approached by the director of SCDC who proposed that the union should consider subscribing for shares in the company in return for recognition as the appropriate union with which the company should deal. The concept of the co-operative's members joining a trade union had been discussed and agreed by the membership.

Several members of the Board of Barrhead Sanitary Ware PLC met with the union and agreed the basis under which collective bargaining would evolve in the company. The GMB Union, on the strength of this agreement and from a genuine desire to see the workforce succeed, subscribed a substantial amount of money.

The share issue was a success and in total raised over £430,000. With the initial fundraising target having been achieved, the more difficult work of raising the balance of funds was no started.

As stated earlier, one of the main problems affecting the start up was the lack of designs and casts to enable manufacturing to take place. The estimate for a set of casts for a bathroom suite was about £100,000 and it had never taken less than 18 months. However, the workforce felt that with their skills and experience they could do better than this. It proved possible to set up a training programme which enabled a few of the craftsmen from the Barrhead casting department to receive a small training salary while attending the Glasgow School of Art, and using that institution's facilities, expertise and advice. They produced the necessary designs and casts of the bathroom suite within seven months.

Meanwhile a contract was offered by a customer who would supply his own casts and designs, enabling work to start.

An acceptable factory was located on the outskirts of Glasgow and the lease signed.

Formal applications for funding were made to the Industry Department for Scotland and to banks. Local authorities – especially Strathclyde Regional Council, Renfrew District Council and Glasgow District Council – were very helpful and all provided funds.

It was decided to buy the bulk of the equipment needed from one manufacturer and the order was placed; but there was a three month waiting period before the plant was manufactured. However, the manufacturer was persuaded to take £125,000 worth of non-voting preference shares in return for being awarded the contract.

Following negotiations, the Scottish Office Industry Department made a grant of £400,000 and took a further £200,000 worth of preference shares.

Grants were also received from Glasgow Development Agency, the largest local enterprise agency in Scotland and in whose area the new company was to be situated, mainly for renovating the factory and for training purposes.

Loans were received from the Scottish Co-operatives Venture Capital Fund and Strathclyde Regional Council. Renfrew District Council took equity in the BES share issue.

Trade unions: The initial employee support for the concept of an employee buy-out came from the Trade Union Shop Stewards Committee, which contributed to the process throughout and represented the workforce on the first board of directors of the new company.

The GMB Union contributed finance to the new company and in return was recognised as the principle trade union within the organisation.

Local development workers: The original initiative to consider an employee buy-out came from the director of SCDC, the development agency covering the whole of Scotland. SCDC was closely involved throughout the process and its director became a member of the board of directors when the new company was formed. SCDC brought a great deal of practical experience of employee buy-outs to this case.

Specialist advisers: Because of the scale of this operation, and its apparent viability, it proved possible to retain professional advisers on the basis of their fees being contingent on the eventual success of the project. Naturally this was very helpful.

The Barrhead Sanitary Ware PLC funding package:	£000's
Equity	
Share issue under the Business Expansion Scheme (Non-voting ordinary shares)	439
Workforce £2,000 each worker x 62 (Voting ordinary shares)	124
Equipment supplier (Non voting preference shares)	125
Scottish Development Finance (preference shares)	200
Total equity	**888**
Grants	
Selective Financial Assistance Grant (Industry Department for Scotland)	400
Glasgow Development Agency	100
Total grants	**500**
Loans	
Strathclyde Regional Council	175
Co-operative Venture Capital (Scotland) Ltd	20
Total loans	**195**
Bank finance	
Loan and overdraft facility	300
Total funding	**1,883**

Expenditure	
Plant and factory refurbishment	1,378
Working capital	505
Total expenditure	**1,883**

From the initial contact in January 1992, 13 months elapsed before the company was in production.

An initial board of directors was established comprising two members of the Shop Steward Committee (representing the workforce), the Technical Director, the Director of SCDC, and a non-executive Chairman, who was suggested by the Industry Minister. They recruited a Chief Executive, an industry professional who started work in October 1993.
Arrangements were changed in 1994 when a cash injection from the Baxi Partnership (see below) required that they be given board representation.

The factory commenced business early in 1993 but production was initially difficult because of teething problems with the plant and kilns. During the first few months the workforce expressed their commitment to the success of the venture by working long hours of overtime. Through their willingness production started to get right, but the months of delay meant that cash flow difficulties were causing problems.

These problems led to two other organisations trying to take over the company through an offer to buy shares, neither of which succeeded as the shareholders in Barrhead Sanitary Ware would not vote in favour of these offers. However one of the bidders – another employee owned manufacturing business, the Baxi Partnership – subsequently provided a loan to keep the company operating.

CONCLUSIONS

While there are still moves for the company to be taken over in some way by Baxi, at time of writing it is still operating as a worker co-operative and jobs have been retained in an important manufacturing industry for Scotland.

The company is not in as strong a financial or trading position as was originally hoped, but there is still plenty of goodwill to call on.

Key factors in this case have been:
- The commitment of the workforce to the success of the venture.
- The contribution from the trade unions in co-ordinating the process.
- The availability of help and expertise from the Scottish Co-operatives Development Company with their prior experience of advising employee buy-outs.
- The imaginative approach used in raising finance and the willingness of the public, trade unions and statutory bodies to support a co-operative venture.
- The scale of the operation, enabling the venture to negotiate better than usual terms for supplies and services, and even investment in the business.

3.3 VALENCIA - SPAIN

ALVIMAR, SCV

VULCANIZADOS GN, SCV

CAPISA, SCV

MORVEDRE SAGUNTINA, SCV

VALFOTO, SCV

ALVIMAR, SDAD CO-OPERATIVA VALENCIANA

INTRODUCTION

The creation of the company "ALVIMAR, Sdad. Co-op Valenciana" before a solicitor on the 22 May 1993 ended the "legal transformation" process that arose from the liquidation of the defunct "ALVIMAR S.L.".

This study details the passage of a typical joint stock company to one within the social economy, but with an ill-fated outcome, an outcome that may be described as a total failure.

"ALVIMAR, Sdad. Co-op Valenciana" was located on the same site as the company that it grew out of, No. 2, Camí de Castella in the town of Novelda (Alicante). The business activity of "ALVIMAR, Sdad. Co-op Valenciana" was a continuation of the former company's activity, which was:

> "Marketing marble, granite and other natural stone; the buying and selling of those materials, either unworked or worked; quarrying; importing those materials; and the manufacture, marketing and repair of all kinds of machinery belonging to the marble and granite industry, as well as active and passive technology and design transfer".

The structure of the capital in the former company "ALVIMAR S.L." was 100% the property of the entrepreneur. That changed rapidly when the company was transformed. The seven worker members had an equal contribution in the share capital of "ALVIMAR, Sdad. Co-op Valenciana".

In January 1993, owing to poor financial management and the total lack of liquidity in the company, the entrepreneur - the owner of "ALVIMAR S.L."- suggested to the workers that

they inject funds into the company and participate in its share capital. In this way, they could continue the business and save all the jobs.

MAIN BODY OF THE CASE

"ALVIMAR S.L." was a company dedicated to everything to do with marble, granite and natural stone. It was situated at No. 2, Camí de Castella in the town of Novelda (Alicante) and had a staff of six workers plus the entrepreneur-owner. The latter had all the information on the progress and situation of the company, but as he could not be contacted, it is not possible to give his version of events.

What is certain is that "ALVIMAR S.L." came to a point where it had to freeze payments. It was the entrepreneur-owner who proposed the idea to the workers of capitalizing the company by giving them participation in it and so "overcoming the financial slump in the company". That, however, meant transforming the company from a Limited Company to a Valencian Worker co-operative so that, in this way, it would be easier for the workers to incorporate their money into the share capital of the company.

So, given the circumstances, the actual transformation proposal was made by the owner himself, a proposal that was accepted by the workers and supported by the trade unions, so that there would be no job losses.

Faced with the situation of job losses, financial crisis and the proposal put forward, the most influential factors in the conversion of the company were:

1. The financial situation: given that this was the key factor which provoked the proposal to convert the company.
2. Access to capital: the entrepreneur saw the conversion process as the ideal way to capitalize the company.

So, we can point to capital income as a clear objective of conversion: that objective did not coincide with the objective of the workers, which was to safeguard their jobs. The entrepreneur's objective prevailed over that of the workers.

There were two possible actions that presented themselves; the closure of the company or conversion into a social economy company. The second, obviously, was chosen.

The roles played by the actors in that conversion, were:
1. Trade Unions: acted as promoters of the project.
2. Consultants: played no part in that conversion.
3. Associations and/or Federations: encouraged the project.
4. Workers: they allowed themselves to be carried along by their former boss, who directed the whole conversion process.
5. Public Administration: subsidized the project as any other social economy company.

The funding of the conversion process was undertaken on the basis of the following:
1. Contributions of the worker members. Here, it must be pointed out that those contributions were made on the basis of capitalizing the loan for redundancy payments.

The quantity of that capitalization represented for each worker an average of three million pesetas (c. £15,000). However, the contribution to share capital reflected only two hundred and fifty thousand pesetas (£1,250) for each of the six worker members individually, the rest of that sum, up to three million pesetas, being considered as a voluntary contribution by each worker member.

2. The subsidies for conversion and investment in a social economy company.

The conversion process was very quick, only taking one month, as the decision was taken during the same week that the workers were notified of the situation and the possible solutions were put forward.

The speed of the transformation process and the aim of the proposal meant that there was no change in the management of the company (that fell to the former entrepreneur) and it continued with the same organizational structure. That meant that the worker members never had access to information on the real situation that the company was experiencing up until the last moment.

In January 1995, the situation of the company is very discouraging as it is now in a situation of liquidation and, moreover, there is a lawsuit between the workers and the company manager.

CONCLUSIONS

Once the conversion of the company had been completed, the company continued to function as a capitalist company, with the same problems that it had experienced in the previous stage of its life.

The undercapitalizing of the company and the "tinkering" of the accounts by the manager of the co-operative and, in turn, the entrepreneur of the Limited Company has meant that the company finds itself in a situation of liquidation and the workers have taken the former manager to court.

With the accounts, which the workers managed to secure, the following evidence of "tinkering" could be seen:

1. Shipments were badly accounted for.
2. The income and expenditure figures were not broken down into periods.
3. There was no mention of an inventory of final goods.
4. Repayments to tied-up working capital were not taken into account, nor were there repayment schedules.
5. The voluntary contributions made by the worker members were not entered.

We can summarize the whole conversion process in the following questions and answers.

What happened? Undercapitalization of the Limited Company out of which the co-operative arose.
To whom? To the entire staff (six workers) that comprised the company ALVIMAR, S.L.
When did it happen? In February 1993.
The reason for the events? To try to capitalize a business project.

How were decisions taken? The decisions were made by the former entrepreneur.
What were the consequences? The creation of a Valencian co-operative that did not even survive for two years.
What is the present situation? The company has been liquidated and is in court.

GN. SOC. CO-OP VALENCIANA LTDA.

INTRODUCTION

The transformation process of the company "VULCANIZADOS GN. Soc. Co-op. Valenciana Ltda." began on 11 April 1984. It came about as the result of a crisis in the company out of which it grew and the desire of the workers to save their jobs under difficult circumstances. The type of conversion, which we are dealing with here, is one of a capitalist company being transformed into a social economy company. This conversion can be called successful, given its eleven years of continued existence.

The company "ISMAEL GUINEA NAJERA, S.L." used to rent 1,200 sq. mts. premises for its factory and warehouse at No.8, Valladolid St. in Alicante. Its business activity was centred on vulcanized products, making moulded rubber containers. "VULCANIZADOS GN. Soc. Co-op. Valenciana Ltda." initially went down the same path and began its activity in the same industrial subsector. However, in 1989, it bought an industrial site consisting of 22, 000 sq. mts. in total, on which, today, there are 4 industrial units, together occupying 4,000 sq. mts. So "VULCANIZADOS GN. Soc. Co-op. Valenciana Ltda." is now on the Alicante-Elche road, Kilometro 73 de Torrellano, in Elche (Alicante) and has been since 1993.

In turn, "VULCANIZADOS GN. Soc. Co-op. Valenciana Ltda.", which began its activity in the manufacturing of moulded rubber containers subsector at the end of the 1980's, at the beginning of the 1990's started up two new lines of business, one more successful than the other. That first line, initiated in 1991, is called "SERVICAMARA" and deals in refrigerated services. The other line of business, that was not so successful, was an attempt to create an industrial park for social economy companies.

The capital structure of the former company "ISMAEL GUINEA NAJERA, S.L." was 100% the property of the owner. That changed radically once the company had been transformed, all the worker members having equal shares in the capital of the new company.

The issue that arose at the end of 1983 (November - December) for the owner-manager of the company "ISMAEL GUINEA NAJERA, S.L.", owing to the final crisis which that company was undergoing, was to reduce the staff by 50% and so continue in business.

MAIN BODY OF THE CASE

"ISMAEL GUINEA NAJERA, S.L." was a company dedicated to the manufacture and sale of moulded rubber containers. In its rented premises the company undertook its business activity with a staff of 21 employees.

The company enjoyed a high market share as there were only two Spanish companies manufacturing those products. In terms of production issues, the company was satisfactory, but it had a poor management, no control, and a bad pricing policy. For example, prices were only based on comparisons with the competition, taking no account of the expenses of the company itself, with the result that they were selling below the real manufacturing costs (with a cost analysis that situation could have been avoided).

Faced with the financial crisis, the manager of the company "ISMAEL GUINEA NAJERA, S.L." put forward the need to sharply reduce the staff (50%), from 21 workers to 10, so as to "solve" the grave financial crisis in which the company was immersed.

However, given the administrative staff's wide knowledge of the existing situation and the reasons that had led to the financial crisis, it was clear from the outset, that the reasons were not really those suggested by the management of the former company, but that the financial crisis was the result of a misguided company management policy.

So, in a situation of financial crisis, the entrepreneur proposed reducing the staff by 50%, while the workers (knowing all the secrets of the company and with the support of the trade union U.G.T.) proposed that the situation could be resolved by changing the management and all the workers taking over the company.

Faced with the financial crisis and proposal put forward, the most influential factors for the conversion of the business were:

1. Seeking professional advice: One of the proposals that the workers put forward was the need for a feasibility study to be carried out by experts to approve or disapprove of the new business project.
2. The personal opinion of the workers and, above all, of the person who became leader of the staff at that time, and continues to be so. That person was the workers' union representative as well as the person who had greater business knowledge than the rest of the staff.

We may summarise by saying that, faced with the grave problem of the business' financial crisis, with all that entailed and the typical loss of jobs, the staff along with the support of their trade union, decided to continue the business with the clear and explicit objective of maintaining their existing jobs.

With this agreement, the following line of action was proposed:
1. Undertaking a business feasibility study using qualified experts.
2. The possibility of creating a social economy company
   2.1 A Valencian Worker Co-operative Society
   2.2 A Worker Owned Limited Company.

Once that feasibility study had been completed, setting up a Valencian Worker Co-operative Society was chosen, The legal form of a Worker Owned Limited Company was rejected due to the fact that there was the possibility of outside capital participation, a situation that was totally rejected by the company's workers.

The different roles played by the actors in that conversion were as follows:

1. Trade Unions: total and unconditional support for the workers, as well as often acting as a "skeleton key for opening various doors".
2. Public Administration: It allowed it to happen, but did nothing.
3. The workers: Of the 21 staff, two were chosen (among themselves) who would not initially be incorporated into the project as members but as employees.

The conversion process, that in reality lasted five months, although only three months went by from being informed of the crisis by the entrepreneur until the company was legally constituted, was financed through the following company strategy:

1. With assenting suppliers, a payment period of between 45 to 60 days was negotiated.
2. Cash sales were made obligatory.
3. Through their own resources, which were:
    - Unemployment payments for three months
    - Voluntary contributions from the worker members.

The creation of the co-operative caused, as the principal change to the company management, the resignation of the manager, although he remained as a member-worker taking charge of the raw material stocks and final products, which also helped to finance the company during the conversion period.

Regarding the present situation of the company, it must be pointed out that there is a lack of understanding on the role of a worker member amongst the vast majority of the members, but, on the other hand, a successful company management has been achieved.

CONCLUSIONS

Finally, with regard to the conversion process, it must be pointed out that the posture that the union representative took was vital, as well as the information that he was able to provide and the knowledge that he had of the company, given his position in it. The project had a very difficult beginning, but the impetus of that individual and the support of the U.G.T. allowed them to come through the conversion process intact.

With regard to the central aim of the conversion "THE MAINTENANCE OF JOBS", we can say this has been achieved successfully. The following table shows the development of the staff:

Period	*No. of Workers*
Before the conversion (Until Dec. 83)	21
The manager's solution	10 (not adopted)
After the conversion (April 84)	21
1987	21(worker members)
1994	17

To clarify the table above, four voluntary resignations have occurred during the financial years 1991, 1992, 1993 and 1994.

The co-operative company has experienced three well defined and distinct stages:

Period	*Stage*
1984-1985	Difficult and restricted stage
1986-1990	Good stage
1991-1994	Difficult and restricted stage

During the first stage of the company, called the difficult stage, they were able to overcome problems owing to the effort that all the worker members made. So, they arrived at a stage, which we may call the boom period, in which all the workers came to enjoy 45 days of leave per year. However, the world economic recession cut sales and the high cost of moving the company premises led to a return to the difficult stage. This time, however, it was different from the first in that the company had a net worth that it did not have in the earlier stage.

The critical aspect of the company has been and continues to be the non-participation and disinterest that all the workers show to company management, an aspect that has fallen on the shoulders of a single person.

However, in turn, this has had positive effects as well, as the workers have never put obstacles in the way of that individual and have always responded to the objectives placed before them and carried them out.

Regarding the future challenges within the co-operative, there are basically two:
1. To increase participation in company management matters.
2. To promote a method and more appropriate way of renewing the management of the co-operative.

We can summarize the conversion process by the following questions and answers:

What happened? There was a financial crisis due to deficient company management policy.
To whom? To all the workers (21 staff) that the company "ISMAEL GUINEA NAJERA, S.L." consisted of.
When did it happen? In December 1983.
The reason for those events? Because of the attempt to reduce the staff by 50%
How were the decisions taken? By the workers' union representative, at that time, along with the rest of the staff and with the support of the trade union.

What were the consequences? The creation of a social economy company and the maintenance, up till this day (over eleven years), of the jobs.
What is the present situation? At present there is a Management Board working as a single person because the worker members will not assume responsibility.

CAPISA, SDAD.COOP.VCIANA.

INTRODUCTION

The co-operative that is the subject of this account resulted from the conversion of a family business, in the form of a Limited Company (S.L.), into a S.A.L. (Worker-owned Limited Liability Company) with share participation from the former Limited Company, and then into a co-operative, after the resolution of various conflicts that arose in that S.A.L.

The reconverted family business was called "Carrocerías Pico S.L." and was the property of the Pico brothers. Its business was manufacturing vans to be mounted on the chassis of industrial vehicles.

MAIN BODY OF THE CASE

The commercial activity of Mr. Enrique Pico, the former manager of the company and first manager of the S.A.L. had brought together a strong network of clients, was well placed in certain defined areas of the refrigerated van market, and had a strong image in terms of quality: craftsmanship quality and personalized decoration. When the S.A.L. was first set up, it created a real feeling of personal involvement in the clients' minds, but, it also made the first few steps towards independence insecure, when the workers collectively decided to take over the company's management.

The market areas in which "Carrocerías Pico S.L." were involved can be summarized as follows:

1. Small and medium-sized vans for transporting fish in the fishing area between Denia and Alméria, where the main fleets of the Mediterranean are located and from where the main source of Mediterranean supply for Madrid comes. In this segment of the market, the friendship between Mr. Enrique Pico and the main fish wholesalers was decisive for his undisputed leading position. That friendship was achieved through a positive discrimination policy in service and quality: quality in terms of durability and following a very particular design of van.
2. Repairing the metal panels and paint work on the buses of "Autobuses Valdes", a leading transport company on the outskirts of Alicante.
3. A car panel beating and paintwork workshop, whose main customers were the private cars of the fish transporters.

The lack of a company financing programme, along with the common practice in family businesses, of confusing private finances and that of the family business provides, no doubt, the explanation for the financial decisions of the manager of "Carrocerías Pico S.L.", which

led to an unsustainable position during the recession of 1978-80, despite having a solid position in the market.

Those decisions were:

1. To finance client credits with non-payment of Social Security and the Inland Revenue, in the belief that those debits do not have to paid. That belief, however, was widely held during those days.
2. To finance private investments, taking away the necessary liquidity from the company's operational funds.
3. A delivery policy to clients without programming criteria, which lengthened the average maturity period to double or treble the necessary, creating Stocks that aggravated the financial problems created by points 1 and 2.

The components of points 1 and 2 that added to the overall problem were:

a. The privately financed investments lost liquidity, meaning the ability to be realized without loss, because of the economic crisis mentioned earlier.
b. The Social Security and Inland Revenue claimed their credits against the Limited Company, threatening embargoes, which would have failed, as all the assets with which the company was operating were in the names of private persons.
c. The company delayed salary payments, creating unsustainable ill feeling among the workers.

In March 1981, the company and workers decided to negotiate a way out of the crisis.

The management of the Limited Company proposed to the workers that they contribute to save the company as a way of safeguarding their jobs.

The counter proposal of the Company Committee was to offer to create a S.A.L. (Worker-owned Limited Company) under the following conditions:

- The Pico brothers would pay the company, in payment for redundancy compensation, the assets with which they worked (industrial units and fittings) in this way creating an asset base for the company.
- A credit would be applied for, from the National Fund for Employment Protection, to cover the working capital needs.
- The Pico brothers would undertake the general and production management of the new company, but would be subject to the fiscal authority of the Board of Directors.
- An agreement would be made with the suppliers to liquidate the former debts arising from the Limited Company.
- Continuity of the company would not be accepted.
- Permission of the workers' organizations would be sought and received, so as not to interrupt production during the setting up phase of the S.A.L..

The Pico brothers accepted the workers' proposal, after an initial period of confrontation, then later negotiation.

The S.A.L. consisted of forty-five members.

External influences that were involved:

The Trade Union CC.OO., through their advisors, who developed the company business plan and negotiated with the labour authorities.

The external advisors that acted as intermediaries with the Pico brothers.

The union shop steward, who supported saving the jobs and applying for the F.N.P.T. credit, despite the loss which that involved, in order to avoid losing jobs and the implications it would have on Social Security.

Several clients of the Limited Company, knew that the manager's administrative limitations were making the family or personalized style of the company inviable.

Overall problem of the mixed S.A.L.

The administrative practices of the manager of the S.A.L. continued the ethos of the family business described on the first page. The Board of Directors' controls were not voluntarily complied with by Mr. Pico, who, in time reproduced the atmosphere of confrontation that persisted in the final months of the S.L. Moreover, that situation created defensive reactions on both sides.

The manager tried to fence in the customer road access to reinforce its private ownership character and refused to give information on his business trips and visits to clients, representation expenses, etc

The worker-administrators assumed an ultra-conservative financing policy of the working capital. They avoided bank discounts and froze the money received from the F.N.P.T. in a fixed term account, that, theoretically should avoid compromising the industrial real estate in guaranteeing a bank discount. What they were trying to do, with that attitude, was salvage the workers' compensation money.

The break-up was inevitable and, in 1983, the Pico brothers left the S.A.L. to set up their own workshop, along with four of the worker members.

The S.A.L. went through a period from 1984-1986, in which a strategy of simple design, but difficult to implement without adequate organization, was applied. The learning period had a cost in losses of 3 and 9 million pesetas (£15,000 and £45,000) in the first two years respectively, but the S.A.L. consolidated its recovery in 1986 and 1987. Those years brought profits that compensated for the previous years and the company became a co-operative, setting off on a new stage under a contracted manager in December 1987.

The elements of the strategy were:

a. To create an image of the company's trade name: CAPISA. According to a report carried out in May 1987, at that time, the market had already forgotten the previous trade name.
b. To maintain the same prices per van as those asked for by the company leaders of the sector during those years.
c. To establish a sales image, linking the commercial image of CAPISA to that of its president, who fulfilled the function of manager and commercial director.

d. To maintain the idea of van customizing in accordance with the Pico tradition and to the aesthetic preferences of the fish hauliers.
f. Maintain the cohesion, although not free from friction and tension, of a group of workers who had no business experience, and who, at times, had few negotiating skills, but who did have a strong sense of right and wrong among themselves. They were adamant about saving their jobs.
g. To homologate the vans with the Ministry of Industry regulations in accordance with European standards. This S.A.L. was one of the first small bodywork companies to take that step.
h. Several support elements that were decisive:
   1) Firstly, a couple of fish wholesaler customers, on whose companies many small fish hauliers depended. The support of those clients was not offered freely, but was based on the guarantee of a prioritized servicing of their needs. If one considers the price of an industrial vehicle and the immobilization that the construction of a van can cause, due to break-down repairs, one can imagine why the clients are so interested.
   2) The Syndicate, the group that collaborated at that stage, and the figure of the Head of Contributor Relations of the Inland Revenue in Alicante, whose attitude of facilitating successive negotiations on the debt with the National Fund for Employment Protection gave the company an important financial breathing space at that stage.

Nevertheless, the commercial practices of S.A.L. were borrowed from the former manager's commercial practices, smartly copied by the company president.

Unfortunately, such commercial practices involved several work organization techniques similar to that of the previous manager: delays in delivery, accumulation of orders and over-accumulation of stock in transit and of clients awaiting invoicing (increases in working capital requirements).

At the beginning of 1987, the S.A.L. ordered a study to be carried out to try to determine what the strong points and weak points of the strategies followed, up till that moment, had been. The results were as follows:

Strong points:

- Sales management had been concentrating on the most profitable van models, those less than 6.5 meters long.
- The net worth was solid and there were significant margins for borrowing.
- CAPISA was a well-known trade name.
- The product was considered a good one, with a distinct image and identified with its trade name.
- There was willingness to change within the collective, but it was not sure in which direction to go.

Weak points:
- The S.A.L. lacked company organization.
- The installations were too small and inadequate. They created bottlenecks that led to significant delays in production.

- The company was very rigid. The profitability threshold was an average of 93 vans and the organization and installation's maximum capacity available was for 116 vans.
- Orders could not be rejected as the trade name was not yet sufficiently consolidated. This, along with the bottlenecks, harmed the service even more.
- There was a weakness in front of certain clients, who were breaking the service chain, which yet again was causing delays in deliveries and increases in the flow of product stocks.

From that study, the Board of Directors agreed:

A) PRODUCT MARKET.

1. "The market is obvious and, for the moment, should not change: fish transporting vans, preferably less than 6 meters in length and frozen goods vans".

B) ORGANIZATIONAL STRATEGIES:

1. To change the form of company and make it more suitable for the collective by converting it into a co-operative.
2. To differentiate the main responsibilities by making salaries higher for those duties, although maintaining a very close scale 1:1.25.
3. To contract a manager suited to the collective, who would carry out the decisions taken.
4. To separate the car panelwork workshop, making it an independent company by offering it to the workers, who could then create a co-operative.

C) INVESTMENTS:

1. "To define the minimum installations that the company needs and their cost, in the expectation of being able to double production, for which no great commercial effort would have to be made" (the quotes are an exact transcription from the May 1987 study mentioned above).

In 1987, "Carrocerías Pico S.A.L." became two co-operatives: CAPISA Co-op. V. consisting of forty-three worker members; and TALLERES HÉRCULES Co-op. V. consisting of six worker members.

In December of that same year, Mr. Zaplana, a technical engineer, was contracted as manager, a post he continues to hold. Mr. Zaplana consequently developed the CAPISA Co-op. V. company strategies.

He completely separated the management of the business from the membership control of the company. He introduced incentives based on productivity. He created an organizational chart with defined responsibilities. He appropriately differentiated salary payments depending on responsibility, within the limits that co-operativism would approve of, but sufficiently motivating employees to take on new responsibilities. He pushed forward the construction of adequate installations. He standardized customer relations, respecting preferential treatment of some, but within a framework compatible with all clients and productivity.

These measures were taken during the long boom period of 1987 to 1991, so were applied without the stress that economic recessions cause within organizations. Once implemented, CAPISA was able to survive the long crisis period of 1992, 1993 and 1994 by taking advantage of the co-operative's competitive advantages.

In 1990, CAPISA Co-op. V. built its new workshop on an 8,200 sq. mt. site of an Industrial Estate, situated between the A-7 motorway and the Madrid highway on the Alicante turn off. The site consists of 4,100 sq. mt. of well-equipped installations that were designed in accordance with van production and repair requirements.

The cost was 164 million pesetas (£820,000) and was financed by 50 million of the company's own contribution (£250,000) through share sales and by raising capital: 40 million pesetas (£200,000) in subsidies and 74 million pesetas (£370,000) in long-term loans.

To have some idea of what the recent crisis meant for CAPISA Co-op. V., one has to think in terms of growth that was expected in tripling production capacity and of the debt that accompanied that investment.

Contrary to those expectations, CAPISA Co-op. V. achieved the following results in millions of pesetas (a million pesetas = approximately £5,000):

Year	Result	Ordinary res.	Extraordinary res.	Sales	Salaries	Interest
1990	6.7			250		
1991	9.8	4.5	5.3	249	91	15.8
1992	-4.8	-9.8	5.0	201	74	21.0
1993	-5.9	-20.0	13.0	161	55	18.1

.... which clearly shows the magnitude of the crisis in the transport sector.

CONCLUSIONS

The company has been able to face the crisis of the years 1992, 1993 and 1994 thanks to the involvement of the worker members and the management taking the measures necessary to remain viable: freezing salaries, cancellation of bonuses, timetabling adjustments, productivity control and response to orders.

That period has helped to consolidate an internal educative experience, encouraging role limitation and the differentiation between the membership, management and production.

Using a SWOT analysis, the present situation may be described as follows:

Weaknesses:

- Financial: the low demand of recent years, coinciding with the repayment of credits for the new installations has led to a liquidity problem.
- There is an urgent need to revise salaries, consolidating the payment system through objectives established by the management and up-dating purchasing power.

- There is a need to strengthen cultural, membership and motivational aspects of the work within the organization's staff, and to consolidate the change of model and company mission.

Strengths:

- The human capital of the organization: professional, able to change and accept realities.
- Permanency in a market and having a well defined quality product to offer it, seeing the competition as a challenge and a threat.
- Adequate machinery and installations and stable, consolidated production processes.
- Quality control in the process stages, linked to productivity payments.
- A firm management team that is accepted by the members.
- Proven confidence from the banking institutions and suppliers.
- Constant improvement of the trade mark image.
- Converting fall-off in demands into opportunities to revise and up-date productive processes.

Threats:

The main one and, perhaps, the only one would be instability in the transport sector and no increase in demand.

Opportunities:

These arise from the positive up-turn out of the recent crisis and the disappearance of part of the competition from the sector.

CAPISA is the third largest trade name nationally in its sector and has premises, equipment and staff that are able to respond effectively and swiftly to the demands of their customers.

Future prospects:

In this situation, the market prospects with the necessary up-dating of fleets by the transport companies, the economic up-turn, the internal potential of CAPISA, where the ability to participate and make sacrifices has been developed, alongside what we may call an "educational process", all means that the company can face the future with optimism.

SOCIEDAD CO-OPERATIVA MORVEDRE SAGUNTINA

INTRODUCTION

The present Sociedad Co-operativa Morvedre Saguntina was set up as a Worker Co-operative in September 1988.

Previously, from 1982, two of the present members of the co-operative began providing services to the Home Care Service through the offices of INSERSO under the method then known as "Grandparent Cheque". That method basically consisted of a pensioner seeking the provision of a service from the Local Pensioner Social Home Care Service, which when the appropriate number of hours a week for that service had been judged, resulted in that pensioner receiving money to contract a person who would carry out the service. This system always prevented contractual relationships from being established between the persons providing the service and INSERSO itself, and nearly always the relationship between the beneficiary and the worker that attended to his or her needs was entirely verbal.

In that situation, in 1988, some women involved in providing that service, among whom two still belong to the present members of "MORVEDRE SAGUNTINA", appealed to INSERSO for recognition as permanent workers of that institution before the employment tribunals. Their appeal was rejected.

However, also in 1988, the responsibility for Home Care Service (SAD) was transferred from INSERSO to the Regional Employment Ministry.

MAIN BODY OF THE CASE

Faced with the request for information from the two women, the Regional Employment Ministry (Social Services Institute) encouraged them to set themselves up as a Worker co-operative with the aim of being able to continue working and providing a service under economic conditions similar to those that they had previously had with INSERSO, but this time directly invoicing the Regional Employment Ministry.

So, they proceeded to look for another three women to make up the necessary minimum number to constitute a Worker co-operative and did so in September 1988.

From that moment until 1990 they worked for a single client, the Regional Employment Ministry.

It should be stated that the process of setting up a Worker Co-operative was carried out without any kind of specialist business advice and without making contact with any organization involved in the field of co-operatives. The legal questions related to its constitution were undertaken by non-specialist business agents.

From 1990, the agreement between the Sagunto Town Council and the Regional Employment Ministry on funding Home Care Service (S.A.D.) came into effect.

The co-operative had another new member that year, who later in 1992 left for personal reasons.

The co-operative's relationship with the Regional Employment Ministry ended that year and was established in a constant way with Sagunto Town Council through the Municipal Department of Social Services.

A series of changes occurred at that time that are essential to the understanding of Morvedre Saguntina's history.

1. It experienced an increase of turnover, from an average 8 million pesetas (£40,000) per year, working for the Regional Employment Ministry, to 30-32 million pesetas (£150-160,000) while providing services through Sagunto Town Council.
2. The number of workers increased to 24 part-time employees (including the five members).
3. It was impossible, and still is, to make a forecast of the hours of service rendered, as those depended on Sagunto Town Council's available budget, as well as on the number of cases that required the service.
4. The increased volume in terms of the company's administrative tasks, payroll, taxes, accounts, etc. were given to Sagunto business advisors, the members of the Worker co-operative not having the qualified skills for those functions.
   In this sense, we can say that at no time was a company structure developed beyond that strictly necessary for the legal existence of the co-operative and that in no moment was it transformed into effective differentiation of roles, generation of departments, planning etc.
   Nor was there any development in technical-professional capacity beyond that of pure experience in carrying out mechanical tasks, as the functions relating to control and technical planning of staff involvement with the users was, from the first moment, assumed by the professionals of the Municipal Department of Social Services.
5. On the other hand, the fact that Home Care Service (S.A.D.) provision came to depend on the Sagunto Town Council's Department of Social Services meant a substantial change in the composition of the user population. It included home care to various groups of elderly people, as well as children and the physically and mentally handicapped, although, as we have already mentioned, that was not accompanied by parallel professional control processes to confront the new demands.
6. The undertaking with the Sagunto Town Council was not translated into a formal contractual relationship for Home Care Service (S.A.D.) provision

Faced with this position, contact was made with people in other companies who were providing Home Care Service (S.A.D.) in other towns and the outcome of that was the incorporation of MORVEDRE SAGUNTINA in the Valencia Federation of Worker Co-operative Companies (FVECTA) and in the Valencia Trust for Home Care Services (CONVASAD) at the heart of that Federation.

Although, basically, its business activity continued under similar conditions, joining CONVASAD meant a turning point, in the way in which it was incorporated into a current of similar business development and broke away from its traditional isolation.

Certainly, the specialists of Sagunto Town Council's Social Services Department always adopted a protective attitude towards the group of women that had been capable of formally setting up in business and so safeguarding their jobs, and that attitude led to continual and impartial advice for "Morvedre Saguntina", as well as a certain allowance for their deficiencies. This was how two of the members joined a 400-hour course on SME management in 1994, which the Sagunto Town Council organized for small businesses in the area, preferably in the field of social economy.

The advice of municipal specialists, of the Social Services, of the training course mentioned and, above all, of CONVASAD, suggested the need to face the situation as a business in the market:

a) They had only a single client that could disappear in the event of the Sagunto Town Council deciding to put Home Care Service (S.A.D.) provision out to tender, which was keeping them in a position of permanent dependence.

b) Dissatisfaction with the static position, to which they were submitted, while watching the progress of other business concerns that had started out in a similar situation to their own.

c) Understanding, though intuitively, possible but imminent changes in their market base; the companies providing Home Care Service (S.A.D.) began to simultaneously manage Senior Citizens Residences and projects for social involvement at the same time as welcoming university graduates into their Human Resources structure.

Faced with this situation, at the end of 1994, the opportunity arose to break out of the co-operative's static situation: the Regional Employment Ministry presented a public tender for the Management of the Senior Citizens Residence in Vilareal.

In order to participate in that public competition, "MORVEDRE SAGUNTINA" made contact with the leading co-operative in managing the Social Services in the Valencia Region: POVISAD-SERVIGRUP.

Between that co-operative and MORVEDRE SAGUNTINA, a collaboration process was established that led to a contract for technical assistance in advising on the management of Senior Citizen Residences. Using that contract as backing, it was decided to present MORVEDRE SAGUNTINA as a candidate for the integral management of the Vilareal Residence after a long process of reflection and risk evaluation on the part of the members. For them, it would mean drastic changes in their business and even in their own organizational identity as a co-operative:

- It meant a considerable increase in the number of workers to 61 (which is the number of Residency staff), which would be a four-fold increase in total staff.
- It would, of necessity, oblige them to develop business roles that up till now had lain dormant, externalized, or simply did not exist: administration, managing, planning, etc. This is even more necessary if one considers that taking on the integral management of the Vilareal Residence means establishing more complicated relationships with Public Adminstration. That relationship was simplified enormously with the generous collaboration of the Sagunto Town Council civil servants.
- It meant embarking on a process of differentiating roles and responsibilities that would have to put an end to the traditional method of decision taking, always agreed on by the co-operative's members. That would come as a shock after the usual methods that had been used up till then.

At the moment, January 1995, "MORVEDRE SAGUNTINA" has won the contract for the Integral Management of the Vilareal Senior Citizens' Residence and is responsible for that task from 1st. February 1995.

CONCLUSIONS

The planning change that had been carefully devised since the second half of 1994, with the support of those already mentioned, is in full swing and that poses problems, questions and matters that demand new skills and attitudes from the "MORVEDRE SAGUNTINA" members:

- The number of members has increased to 8 (incorporating 3 new members)
- Salary differentiation has been settled in regard to taking on professional personnel skilled in setting up and managing the residence.
- A business development plan has been implemented that means creating a business management structure that may lessen the influence of the co-operative's society structure.
- An accelerated training process is being undertaken, combining continuous training through participation in the group work schemes of FORCEM, which is managed by FICOOP (2nd. level co-operative dedicated to social economy company training and development) and in-job training.

In short, we can say that "MORVEDRE SAGUNTINA" has entered a revolutionary stage in terms of its structures and, what is more important, has become aware of the position that it can occupy in its chosen target market.

VALFOTO, CO-OP. V.

INTRODUCTION

This case concerns a worker co-operative, called VALFOTO Co-op. V., which was set up in July 1993 as a consequence of the closure of a limited liability company, called PUNTOFOTO, and which, although it has only been in existence for less than two years, can be judged as a success.

PUNTOFOTO S.A. was created in 1982 by three partners. The business activity consisted of a photograph developing service aimed mainly at amateur photography and professional journalism within the city of Valencia.

The partners had considerable net worth and interests in other sectors. As they knew something of the photographic market, they decided to embark on that activity in order to diversify their personal investments. One of them took on the function of general manager, the other two playing no other part other than being partners.

The company, although it was formed with little investment, and the machinery used was somewhat out-of-date, got off to a good start in the market and was successful. It was successful because it was the first laboratory that opened as a shop directly to the public. It offered acceptable quality and lower prices, at the same time as improving the service by substantially reducing the time between handing the film in and receiving the photographs.

The company development was more than acceptable. PUNTOFOTO S.A. began in 1982 with the opening of the laboratory and one shop to the public. Within the same year, it opened a second shop and in 1984 a third. This growth was also reflected in the number of staff. There were originally 3, but that number grew to 11 before the crisis occurred.

MAIN BODY OF THE CASE

As already pointed out, PUNTOFOTO S.A. made a good start and progressed well until October 1986, the date on which a series of events took place, which led to its demise.

The cause of the closure of the limited liability company was the attitude of the manager, who, seeing the success that the company was having and the possibilities opening up in the market, put his own personal interests before those of the company that he was directing. That person created his own company dedicated to the same activity as PUNTOFOTO S.A. He opened a shop called CEB-Manual Color on the avenue called Antiguo Reino de Valencia, and began to act and make investments, that he should have been doing with PUNTOFOTO S.A.

PUNTOFOTO was becoming established in two areas of the market, on the one hand undertaking professional journalism work and, on the other, in what is called industrial photography (photographs for company catalogues and exhibitions: footwear, furniture, ceramics, etc.), an area in which a somewhat higher quality is needed and that this company was able to offer.

The aforementioned manager took that machinery to his own shop and made several other investments that he should have made in PUNTOFOTO, and not only that, but he also took the film processor, a machine without which development cannot be done. PUNTOFOTO then had to have to their processing done by CEB-Manual Color, who charged them exorbitant prices. Additionally, he took away many of the clients including people who were contracted by PUNTOFOTO. In reality they were working for CEB-Manual Colour.

That person was simultaneously manager of both companies. He saw the business opportunities and the actions that needed to be carried out. If he took that action with PUNTOFOTO the profits would be divided by three. If he only took that action in his own company all the profit would go to himself.

When the other two partners realised, a year had already gone by (October 1987) and the situation was at breaking point; no significant investments had been made and a series of essential machines for doing the work had disappeared, meaning a significant amount of indebtedness to suppliers.

Faced with this situation, the two other partners saw only two ways out, either close the company, or inject capital into it. The second alternative was chosen. 8 million pesetas (£40,000) was provided and used mainly to pay existing debts and buy the specialist machinery that had disappeared.

The manager's position had to be filled and someone was contracted who had some experience of the job, having come from another trade, but who had no photographic

experience. During the two and a half years that he was there, he was only able to make contact with the sector but not make any advances in it.

After that second manager had left, the search for a third got underway, while Alvaro, an employee in charge of the laboratory and the entire technical process, took over that post temporarily. The third manager never arrived. Alvaro eventually assumed responsibility despite having no qualifications nor experience in that field and no strategic plan but relied solely on his own good judgement. The accounts were taken over by a company in which the partners had full confidence and that was the only point of reference that they could exercise on the company's development.

Alvaro was not prepared to take on the management of the company. He knew everything that was necessary on a technical level in terms of photographic development, but very little about how to manage a company. Consequently, the results were negative and the partners were disposed to closing the company down. However, a last attempt to refloat it and make it profitable was made.

This involved establishing a commercial network of non-photographic shops that would provide a photograph developing service. The aim was to create a kind of franchised chain in already existing shops such as stationer's, bookshops, etc. in an attempt to physically take the service to the customer, i.e., make use of existing shops where many people pass through so that they can also take their films to be developed there. PUNTOFOTO provided all the technical support and advised them on products, prices, profit margins, how to deal with customers, etc. and the shop would begin to increase its profits. The partners liked the idea and for that reason made one final effort. A commercial agent was contracted to look for this type of shop and maintain relations with them and they also decided to remodel and up-date their corporative image and logo.

A network of 18 outlets was created, but, in reality, these were not good. Each outlet required a minimum investment of 300,000 pesetas (£1,500) in material, which led to an immobilization of resources and then turned out not to be profitable in comparison with the sales increase experienced. The commercial agent was paid a sum of money for each shop that become associated to the company, irrespective of the sales that later came from that shop. This meant that unprofitable shops became associated. In the end the result was unsatisfactory because they were trying to undertake a grand project with scarce financial resources and without sufficient knowledge, on a commercial level, to carry it through.

The refloating attempt had failed. The partners were not willing to lose more money and so decided to close the company. This was apparent, as for the two last months, they often asked to see the accounts and balances, before finally making their decision public.

The closure procedure was a little unusual as the workers were not invited to a meeting to be told of the decision. Also on finding out about it, the workers still did not meet to see what could be done. The partners had a meeting with Alvaro and told him that the company was not profitable, that they had asked for more money but had been refused, and that the only way out, as far as they could see, was to close, unless he could suggest another alternative that would not involve them in investing any more money.

On that basis, Alvaro thought of the possibility of setting up a co-operative as he had participated before in the setting up of a teaching co-operative. Again, on that occasion, there was no meeting to debate the subject. That person, when it came to informing the workers that the company was going to close simply commented that there was the possibility of staying with it in the form of a co-operative. Of the eleven workers, there were a few who were willing to embark on the venture, but some were not. Only five accepted the challenge. Of the other six, five did not wish to join basically for two reasons. Two were very young and did not want complications. They wanted a monthly salary with no problems and the partners of the other three had savings which they did not want to put at risk. The other worker was not asked to join because the others did not consider that person to be appropriate, given the relationship problems that he was always creating with the rest of the staff as a consequence of his character.

Once it was clear who was going to take over the company property, negotiations began with the owner, who was a single one at that time.

The owner liked the idea and an agreement was reached. The price of the company was quoted as 12,300,000 pesetas (£61,500) for the machinery, fittings and PUNTOFOTO trade name, to which the price of existing stock would have to be added in accordance with the inventory carried out, 1,883,030 pesetas (£9,500). As for the existing debts, the limited liability company would take responsibility for them.

In addition, it was estimated that a circulating capital investment of 1,200,000 pesetas (£6,000) would be necessary that would be contributed by the members at the outset. So the total investment in order to set out was 15,383,030 pesetas (£77,000).

The payment method agreed was the following. 12.3 million pesetas (£61,500) would be met through debt financing. This would include compensation from the company to the workers in respect of back-payments of salaries and redundancy payments. In addition a single payment was going to be applied for and would be promised to the members as soon as it was received, to be used for paying off some of the debt and refinancing the rest. 17 monthly payments in respect of rescheduling without interest was agreed for the sum of 300,000 pesetas (£1,500 per month) and a final payment of 290,907 pesetas (£1,450). In terms of stock, it was agreed to pay for this depending on the fortunes of the company.

DEBT FINANCING

A) Debt compensation in favour of the workers:		
July 1993 redundancy pay	860,000	
July 1993 50% of salary back-pay	1,124,885	
B) Single payment (October 1993)	4,923,722	
C) Debt rescheduling		
17 monthly payments of 300,000	5,100,000	
Final payment of 290,907	290,000	
		12,300,000

At the time that setting up a co-operative was considered, the prime movers made contact with the Employment Council, which in turn sent them to the Valencia Federation of Worker Co-operatives (FVECTA) who had a service especially designed to provide support to that type of initiative. The following actions were taken:

a) Firstly, an explanation of what a worker co-operative involves was given, making reference to the advantages and drawbacks of that type of company, especially in terms of the desirability of establishing that style of company to respond to the needs of the workers.
b) The members were also informed of the grants that they could apply for, as well as other sources of funding (lump sum payment of unemployment benefit).
c) They were told of the importance of drawing up a business plan which, after having been scrutinised by FVECTA, turned out to be favourable.
d) As a consequence of the feasibility of the project, the legal constitution of the co-operative was undertaken.
e) The future manager, Alvaro, undertook a training course in co-operative management to acquire the necessary skills for the post that he was going to fulfil later.

There was other support, although of a different nature. First of all INEM (Ministry of Employment) should be mentioned, which provides advanced unemployment payments (Lump sum) for this type of company. This was a great help in that it allowed them to raise a large part, 32% in fact, of the necessary funding to get the new company under way and it was received in a relatively short time.

Subsidies from the Regional Employment Ministry were applied for and received: a sum of 2,500,000 pesetas (£12,500) for job creation, and an investment of 1,700,000 pesetas (£8,500), although that sum was not used to get the company going due to the delay of more than a year in receiving it.

CONCLUSIONS

The most important factor in the success of the co-operative has been the motivation that the prime movers showed in setting up the co-operative. Their jobs were in serious danger and this made them prioritize the maintenance of those jobs. The first reaction was one of fear, faced with the almost sure loss of their jobs, especially in the work climate of 1992, when the mass media could only talk about the crisis. The workers thought that it was going to be very difficult to find work, of the kind they had experience of, in any of the competitors companies and this was one of the factors that made them launch the co-operative.

Another factor that favoured the creation of a worker co-operative was the sale condition of the company. The price was quite fair and some payment conditions were within their reach with a little help from the cash-flow. It was so because the aim of the partners, when they set up their limited liability company was to diversify their personal investment in order to obtain profit. When that turned negative, the only thing they wanted to do was disinvest. We are not dealing with the typical entrepreneur, who sets up a company and spends the greater part of his/her life trying to improve it, but people who invest to obtain profit and diversify their risk. They do not work and are not really involved in the company. So, when losses occur, their only desire is to get out as soon as possible. Even more, if it had been so, there

probably would not have been the occasion for the manager to act irregularly, given that he would have been discovered immediately, and the necessary measures would have been speedily taken to prevent those irregularities.

When it was known who were going to join the co-operative, there was a meeting in which the subject of how the new company was going to function was discussed in detail. At that meeting, it was decided that the day-to-day running of the company would remain the same, i.e., there would be a hierarchical organization in which every worker would have a series of duties, responsibilities and salary. For more general decisions (large investments, new openings of shops, new lines of business) the General Assembly would be called to take account of all the members' opinions. That is how it works at the moment and it is having results.

It is important to point out as a factor of success, that the crisis did not affect the customers. At no moment was the activity stopped and from outside all looked absolutely normal. On the contrary, the crisis coincided with a publicity campaign that was undertaken to publicise the network of franchised shops, so, really it gave the impression of a company in full expansion.

The co-operative did not have to physically pay the capital transfer tax and legal acts mentioned, given that PUNTOFOTO S.A. is still a company and the tied-up capital transfer was made through an invoice with V.A.T. and was deductible. In any event, being a co-operative would have made it exempt from Capital Transfer Tax.

There has been a change of attitude. The workers are notably more committed to the company and their degree of responsibility has increased. This can been seen in small details. Before, when a sheet of paper fell on the floor, it would be kicked about and later swept up. Now, it is picked up. Before, all the lights were always on. Now, only those that are necessary are used. Before, at seven o'clock in the evening, everyone disappeared. Now, there is more freedom. Everyone knows what they have to do and, if they have to come early or leave late, they do so.

Only one instalment remains to be paid to acquire the company. Already it has been decided to use that surplus (300,000 pesetas a month) to finance investment in a machine of the latest technology and the opening of a new shop of their own, that will allow them to offer a service at a price and speed which, for reasons that obviously cannot be revealed, does not exist in the present market.

3.4 CATALONIA – SPAIN

EDUCADORS PER LA INSERCIO SOCIAL I LABORAL S.C.C.L.

INENPRE S.C.C.L.

LABORATORIO ELECTRONICO S.C.C.L.

NS TELECSAL

FUNDIBAIX S.C.C.L.

EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL

Legal status: WORKER CO-OPERATIVE

Address: c/ Banys nous,16 4 1ª.

Town: 08002 BARCELONA

Type of Conversion: SERVICES COMPANY/PUBLIC

Activity: SOCIAL INTEGRATION AND OCCUPATIONAL TRAINING

INTRODUCTION

The Co-operative **EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL** was founded in 1990 on the initiative of CARITAS-Barcelona, a Non-Governmental Organization dedicated to developing social services programmes for disadvantaged groups.

The initiative of setting up the Co-operative, which is the subject of this case, was not an isolated one as Cáritas proposed the same formula for a number of other services, which up to that moment, CARITAS-Barcelona had managed directly itself, e.g. infant day centres and, what we are concerned with here, introducing into the work market individuals who have special integration problems caused by different reasons of social marginalization.

That educational activity consisted of Occupational Training such as: welding, shoemaking, textiles, home helps and careers advice.

The people who joined those co-operatives were the workers from the various centres, where the proposal for conversion had been made.

The income of Cáritas-Barcelona came either from private contributions or, in the main, through agreements with, or funding from, Public Bodies depending on how much the activities undertaken were seen to be replacing State involvement.

The relationships between the workers of the different co-operatives to be set up and the management of CARITAS-Barcelona were very good, in that the people involved were all believers in the ideals of the organization and had few work grievances. Trade unions played no part in that Non-Governmental Organization.

MAIN BODY OF THE CASE

EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL had specifically to develop the activities of social and work integration and occupational training that CARITAS-Barcelona had agreed with either Central, Regional or Local Administrations.

In fact, we are dealing with a double subcontracting of services: from the Government to CARITAS and from CARITAS to EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL.

The reasons that led Cáritas to make that proposal were various:

This form of organization was regarded as the most decentralized and flexible: In the field of public companies and Public Utility Bodies, there is the widely held belief that giving independent management to a third Company-Body for overseeing the services and programmes to be carried out by Public Bodies, means that the members or individuals who have to undertake those activities will be more committed in a direct way, as, if the activity is not performed adequately, that company will lose the contract for the service and the future financial rewards.

For Cáritas itself, there was the opportunity of reducing the risk that it had taken on, at that time, through having contracted a great number of staff as a consequence of the large growth it had till then experienced.

One should not forget that, at that time, the activity of social and work integration depended, to a great extent, on the public resources available from the various public authorities. Therefore, no-one could guarantee that the activity would continue in future, or, at least no-one could completely guarantee that the amounts awarded by the authorities for the following financial years would be the same or that they would increase.

In our country, despite the significant increase in temporary contracts that has occurred, those contracts are limited in time. The temporary contracts cannot be extended in a continuous way for a period greater than 3 years. Once that period is over, the contract has to be indefinite, in which case unfair dismissal compensation is based on 45 days per year worked.

In the case that we are dealing with here receiving income does not depend on a more or less known market, but on the political will of the governing bodies. The power to reduce the risk of having to meet salary costs of a number of professionals that, perhaps at a later stage, might not have to paid for, is very tempting for the heads of organizations that manage that activity.

With the proposed formula, it was hoped that the different professional teams would also directly present projects to the Government or other organizations for funding. In this way, dependence on the original Non-Governmental Body could be reduced and so, too, could be the moral obligation or dependence that the co-operative to be set up may come to have with regard to CARITAS.

In principle, subcontracting services from CARITAS to the new co-operative should not mean a reduction, in terms of amounts received, for paying the salaries of each one of the professionals that would have to be linked to the new co-operative.

In reality, those professions were going to lose some of the rights they had gained before conversion, which were: the bonus for former work agreed through collective bargaining; the right to unemployment benefits should CARITAS want to close down the service, in as much as the relationship between the co-operative and CARITAS is exclusively limited to the field of providing services and is not a labour relationship, other than in terms of the economic risk that a company takes on when there is only a single client.

In any case, those aspects of conversion were not regarded as very important by the members of the new co-operative because of their belief in the ideals of CARITAS, as we have already mentioned above.

During the conversion, there was no moving about of assets and liabilities from one society to another, as even now, both the premises where the co-operative, EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL, operates from and the furnishings and other fittings are the property of CARITAS.

The only economic relation between Caritas and EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL is the payment of salary costs for the personnel that work in the co-operative and only for the time that the work is undertaken.

One of the motives that is often expressed when conversion of a public service is proposed, and in this case, in particular, being in the form of a co-operative, is the opportunity that the Government Administration has to achieve free financing through services provided.

The custom of the various Public Administrations is to pay by instalments for services provided. In some cases these instalments can be delayed by up to 9 to 12 months after the service has been provided. That means a very significant financing of suppliers (the company to which the Administration has awarded the service) and tremendous difficulties for the new co-operative as it must have sufficient financial capacity available to be able to fund that delay in payment.

In the case we are dealing with, CARITAS did not propose payment by instalment for the services rendered by the Co-operative but, instead, cash payment. In this way, if the co-operative wanted to widen its field of activity with programmes managed directly and funded by the Administration (programmes to be managed apart from CARITAS), this problem would not occur.

In any case, the majority of the items pointed out in this section were not regarded as very important by the co-operative's members at the moment of setting it up and, even now, the members of EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL, are not concerned with those details. As has been mentioned, the members of the co-operative continued to be considered as CARITAS salaried staff, even though they were not in a formal sense.

The trade unions played no part whatsoever in the conversion process, which lead to the creation of the Co-operative, as they were not involved in CARITAS.

It is important to bear in mind that the advice, that was received during setting up the co-operative, came from CARITAS. As we have seen, that advice was limited to covering the formal area of the co-operative's constitution: the formalities involved in setting the co-operative up. However, an economic or strategic evaluation of the future of the society as a business was never carried out at any stage.

In this sense, it is significant that none of the funding possibilities that the Government makes available to newly created co-operatives were taken advantage of, possibilities that were:

1. Single payment of unemployment benefits (paying the right to unemployment benefit in a singe sum in order to finance the activity to be developed).

2. Public subsidies such as Subsistence Income – 500,000 pesetas (£2,500) for each member less than 25 years of age or over 25 and with one year of unemployment incorporated into a co-operative – or financial Subsidies that cover up to 6 points of the interest rate on loans applied for to finance the necessary investments to develop the society's own activity, amongst others....

Also, no contact was made with any Association or Federation as they were unaware of their existence.

Finally, it must said that the members who were going to join the new co-operative were also totally unaware of the existence of Local Development Agencies.

The co-operative was set up with the minimum of share capital by the members. In accordance with Company Statutes, the obligatory contribution of each member to join the society was a single payment of 10,000 pesetas (£50) and the Minimum Capital of the society only 100,000 pesetas (£500).

As already mentioned, none of the opportunities for public funding to create a co-operative were taken advantage of: single payment of unemployment benefits or subsidies for creating

co-operatives and financing investments, such as Subsistence Income or Subsidies on interest rate.

In part, this situation of undercapitalizing the society was a result of that same conversion process. EDUCADORS PER LA INSERCIO SOCIAL I LABORAL, SCCL did not have to make any investment at the moment of conversion to develop its activities as CARITAS had already offered it the necessary infrastructures.

The conversion process was very quick, hardly taking 6 months in all.

The conversion process was entirely directed by the Non-Governmental Organization. As it did not involve the disappearance of one company and another to replace it, but the process of external subcontracting of a part that organization's activity, no change were caused in management in respect to its original situation.

It was the same Non-Governmental Organization that contracted the person who was to direct the new society and the situation today is of a total economic dependence of the co-operative on CARITAS.

In this sense, it is a significant fact that, when a new worker is contracted, so that he or she can be incorporated into a task subcontracted by CARITAS, it is that same organization, in the name of the co-operative, that directly makes contact with the agency responsible for undertaking business with government departments and which advises the co-operative on drawing up salaried staff contracts, and presses for the contract, which is later signed by the person responsible in the co-operative.

The fact must be insisted upon, however, that the members of the co-operative do not consider CARITAS' participation to be especially negative. In reality, they continue believing that their work is carried out as CARITAS workers and for them it is of secondary importance that the legal formula of a workers co-operative is being employed. Moreover, they generally happy with the line of work that they are involved in and their legal position does not present them with any great problem.

On a management level, the structure is minimum. There is no system of economic control for the society 's development, nor a strategy to be followed in the future. In addition, an absolute lack of motivation among members with respect to the society's development is apparent.

The only concern of the co-operative's members is in evaluating the extent to which the direct labour that they put into their work is effective and of educational worth. They do not care about the business world in which they are dabbling.

CONCLUSIONS

The present situation of the society is practically the same as it was the day it was set up.

There has been no management development that could have led to acquiring new markets in a direct way.

Recently, it seems, the possibility is being discussed of the co-operative itself directly presenting the training projects to the Regional Government of Catalonia, that is the body who fundamentally finances the projects that the co-operative carries out. It is by no means clear how this could be done and above all how the co-operative could finance the delays in payment, which the firms that carry out those activities are accustomed to. Up till now it was CARITAS that financed the delay, but when the relationship becomes a direct one, it will have to be seen how those fundamental questions are resolved.

From a financial point of view, as we have already explained, it seems that the income and expenditure has been balanced for the moment, but no type of capitalization has occurred.

On a commercial level, we have to consider, from the point of view of Social Services and employment, the policy of the various administrations that are involved in this field: Local and Regional Government are following the trend of subcontracting or privatizing services as much as possible, but maintaining a certain control over the activities undertaken.

To conclude, we have been dealing with a conversion project that has still not finished the process of detaching itself from its original way of operating.

INDUSTRIA DEL ENGRANAJE DE PRECISION S.C.C.L. (INENPRE SCCL)

Legal status: WORKER CO-OPERATIVE

Address: Can Sellarès 17,

Town: 08740 SANT ANDREU DE LA BARCA (BARCELONA)

Type of Conversion: INDUSTRIAL COMPANY/PRIVATE

Activity: Manufacturing precision gears

INTRODUCTION

The original company was set up in the 1950's in the form of a Limited Company, called INQUIMENO S.A. with head office in L'Hospitalet de LLobregat (Barcelona). Its structure was mostly based on family shareholders and it was involved in manufacturing precision gears. These were for industry in general, but according to the order and model established by the purchaser, not through manufacturing and selling their own product in the traditional way.

A good sales policy, that diversified risk as stated above, plus prioritizing investment on profit making by the shareholders, led to the company's consolidation in the market. In the 1960's it had a staff of around seven hundred employees.

However, the family nature and the control of a single person among the shareholders was fine until the head of the company retired, but neither of his heirs wanted to take control of the family business, so it was sold in 1970 to the company AMON, which originally was in the scrap business.

The change of direction in investment policy and the search for quick profits started to create problems at the heart of the company. They became worse, in 1974, when a number of the company's executives set up a limited company called CALIPREC S.A. Part of INQUIMENOSA's production and commercial activity was diverted to the new company, presumably with the aim of decapitalizing the latter and so being able to adapt the staffs to new market necessities, that had been created by the poor management of the new owners.

However, before all that could take place, the company was sold in its entirety to an Italian firm at the end of 1975. That firm invested heavily and managed to reactivate the company, but it concentrated eighty per cent of its business on a single client, the company ENASA, that manufactured Pegaso trucks.

The great volume of work for ENASA made the company totally reliant upon their orders. That trade mark was known to be in trouble and in 1978 there was a drop in orders. Unfortunately that reduction was not in stages, which would have allowed INQUIMENOSA to look for new markets, but was abrupt. That meant that eighty per cent of its business disappeared overnight.

The high level of activity, prior to these events, had led the Italian firm to invest heavily in the fixed assets of the company and to maintain a staff of greater than six hundred workers.

MAIN BODY OF THE CASE

This new situation created by the loss of ENASA, was not dealt with adequately by the new ownership, either in financial terms (extending capital that would have helped to ride out a difficult transitional period, presenting a receivership procedure, etc.), or commercial terms (widening markets) or in terms of labour (notification of redundancies or temporary lay-offs of some staff). On the contrary, their business having suddenly disappeared and the sole aim of the investment of Italian capital having been rapid profit making, after four months, without any measures having been taken, the purchaser firm totally disappeared too, causing a company lockout due to its owners' abandonment of it.

With no business and abundant salary arrears for the workers, without having taken any measures to guarantee their continuation in employment and, not even, having taken legal measures so that the staff could have access to unemployment subsidies through the appropriate notification of redundancies or lay-offs, the workers were obliged to look after their own most immediate interests. There was nothing they could do other than protect the company's assets by creating a liquidation committee basically controlled by the Company's trade union representatives, belonging to the Unión General de Trabajadores (General Workers Union) and the Comisiones Obreras (Workers Association). The first measure to be taken was to guard the company so that none of the machinery could disappear, whilst the legal position of the workers was being sorted out, and while some of the assets were being realized to guarantee payment of part of the salary arrears.

At that moment, with the company inactive, with the staff bewildered at not having settled any of the legal aspects that would guarantee their present and future situation and with a market potential of 15% of what it was before the crisis, the first attempts to convert the company into a self-managing company appeared. Different proposals were put forward within the workers' headquarters to establish various workers co-operatives that could continue the activity of the former company (distributing the production a and the market that remained between them).

The idea of creating a number of co-operatives, each one independent, was because the economic crisis was so deep with the disappearance of more than eighty per cent of the market, that neither the workers nor the unions involved, could see the slightest possibility of maintaining a company structure with a staff of seven hundred workers. On the other hand, they could see the possibility that groups of workers could continue in a business activity in Catalonia, that was characterized by a lack of competition.

Of the various groups that attempted to take this way out, i.e. creating worker owned companies, only one, composed of sixteen workers, really came together and demonstrated their will to continue. That group was the basis of the present Co-operative Society INENPRE SCCL. After negotiations with the rest of the company's workforce, many of whom had already accepted redundancy and early retirement, others simply finding jobs in other companies or preferring to find individual solutions, that group of workers was awarded part of the company's machinery in return for salary arrears and through the Industrial Relations Tribunal. With that machinery it was able to start up a new business activity.

So, in 1979, the Co-operative Society INENPRE SCCL was set up, with the following staff composition: 1 Ordinary Degree technician, an administrative worker and the rest were all workers. All possessed a high level of professional skill, which meant that each one knew how to use all the machinery, on which the productive process was developed, correctly.

Having set up the co-operative, the machinery was immediately contributed to the Society by the members. It was sufficient to begin with, but they needed business premises in which to develop production. They also needed to keep costs down, so the company began production in Sant Andreu de la Barca.

The first need of the new Co-operative was to recover markets. To do this they had one thing in their favour: On the disappearance of INQUIMENOSA, no enterprise in Catalonia had taken up manufacturing Precision Gears. The only direct competition for this type of business came from the Basque Country, which meant that recovering 20% of the former company's market, which had nothing to do with ENASA, and for whom they used to work before the crisis, was relatively easy.

Having set up the Co-operative with the minimum of capital and the machinery from the public auction, the main problem in financing the new project was the fact that, despite the relative ease of recovering market confidence, it was not so easy to convince the co-operative's suppliers, many of whom were creditors of the former company. Not being able to do without them, the only way was to pay cash on delivery for orders made.

To finance those payments, the normal financial markets not being open to them, they opted for two methods. The first was to work for practically no salary. The second was for the members of the Co-operative to take out personal loans for the co-operative's use.

That situation was temporary until such time as the members, being former INQUIMENOSA employees, received the amounts corresponding to their compulsory redundancy from the Salary Guarantee Fund. These were finally paid during the middle of 1980 and were entirely contributed to the share capital of the Co-operative by all its members.

The contribution of the amount of money from FOGASA meant that the member's personal loans could be repaid. That capitalization of the Co-operative also meant that, through negotiation with the suppliers, the normal ninety day payment period could be restored. That done, along with a truly speedy introduction into the market, led to it consolidating its position in a period of just a year from its being set up, without the need to resort to external debt. It could already finance itself with its own resources.

During the Company crisis, along with all the staff of the former company, the Trade Union representatives of the UGT and CCOO, took on the role of directing and representing the worker's interests, more in the sense of ensuring the appropriate payments (salary arrears) through the control and sale of the machinery abandoned by management and guaranteeing redundancy payments and compensation by the Salary Guarantee Fund, than in the sense of putting forward alternatives for a self-managing way out of the crisis.

The different co-operative projects that arose within the staff headquarters were the initiatives of the workers themselves, each group seeking the best advice. The group that made up INENPRE SCCL did not receive any other advice than that of private professionals. There was no trade union organization participation or other representatives involved in helping to set up the co-operative and get it going.

The closure of INQUIMENOSA occurred at the end of 1978. For five to six months, the workers were in control to ensure the sale of machinery and while the problems of unemployment payment and applications to the Salary Guarantee Fund were being resolved. The Co-operative was legally established in October 1979. Consolidation of its entry on the market and its financing was achieved by the end of 1980.

As none of the former management participated in the new Co-operative Society, its management had to come from the sixteen workers involved. This was done by setting up a Board of Managers, not formally but executive and operational, in which the former administrative worker, who had joined the project and was one of its pillars of strength, took on the role of President and Director. The rest of the staff had deep respect for that person as he always had the best information and decision making choices at hand.

The management is externally supported only in terms of dealings with governmental paperwork (payroll, social insurance and help with accounting once a year).

In 1982, it joined the Federation of Worker Co-operatives of Catalonia, not in search of management support, but merely to belong an organization representing Co-operative

Societies. Decision taking, therefore, is an entirely internal affair for the Co-operative's own members.

CONCLUSIONS

Today, the Co-operative has fifteen members, one fixed salary worker and four casual workers, who, when fully incorporated into the Co-operative's procedures, will become part of it as worker-members.

It can be considered as a totally consolidated business structure, its main new feature being that of having totally diversified the level of risk with its clients. None of those clients represents more than 15% of the company's total turnover. It refuses production for a single client that is over that percentage.

Business activity involves:

- -Straight flanked gears
- -Serrated shaft ground axles
- -Gear boxes
- -Headstock for machine tools
- -Gear reducers

mainly for the footwear, textile, tools, wrapping and graphic art industries.

Consequently we are dealing with a Company that is consolidated in the market, has a high level of business activity, is in sound health economically, and in which, the self-managing basis, in regard to information and decision making, is a fundamental element for involving all and every one of the members in the productive process.

LABORATORIO ELECTROTECNICO, SCCL

Legal status:	CO-OPERATIVE SOCIETY
Address:	Pasaje Roses, s/n.
Town:	08940 CORNELLA DE LLOBREGAT
Activity:	Manufacturing and marketing switches, circuit breakers,transformers to measure, and medium and voltage cabins

INTRODUCTION

In 1973, LABORATORIO ELECTROTECNICO, S.A. formed part of a group of industrial companies, that were family based concerns, were of considerable size and whose business activity was spread throughout the Spain. That group of companies, in turn, formed part of GARDY SUIZA GROUP, a Swiss holding company, that brought together family-operated

companies and based their activities on a single coordinated organization. GARDY SUIZA was controlled, at that time, by a French multinational in that sector, called MERLIN GUERIN of the SCHNEIDER GROUP.

MERLIN GUERIN, in its commercial expansion process, seemed, in the beginning, to have counted on Spanish companies to expand its activities on the peninsula. Under this guise, the clear objects were hidden of getting rid of the company structures and using only the commercial networks to introduce its own products. Evidently this process led to the closure of factories in Spain and to many workers losing their jobs.

All the companies of the Spanish group suffered the consequences, apart from LABORATORIO ELECTROTECNICO, S.A. and another Valencian company, which, at first had to undergo a restructuring of staff that affected half of them, and was forecast to be carried out in one and a half to two years.

That cause, undoubtedly external, led to an internal process of the workers defending their jobs, which, at one extreme, led them to take over the ownership of the company and, at the other, to found a new company organization, based on the co-operative model for ideological reasons.

MAIN BODY OF THE CASE

A family based company structure that found itself embroiled in a take-over process with a strong industrial group of the sector led to the company's loss of independence in a short period of time.

Clear opposition to the project, both from the trade union and the workers' actions which were brought to bear on the multinational's management and institutions, forced the resolution of the case.

Economic conditions: In full economic crisis, the so-called petrol crisis, the company tackled the viability conditions that the parent company laid down. Towards 1975, MERLYN GARIN increased the capital of Laboratorio, leaving the initial owners in the minority. The debts with Public Administrations amounted to nearly 5000 million pesetas (£2,500,000).

The company Committee opposed staff restructuring and made contact with the French central trade union CGT, the Metal Confederation and the Company Committee of MERLIN GUERIN in France. From those meetings, sufficient evidence was gathered to show that, amongst other future objectives, MERLIN GUERIN wanted to close Laboratorio Electrotécnico.

Competitiveness: Economic and commercial management was gradually neglected by the new owners of the company, a factor that can be added to an out-dated catalogue and other obsolete products and a serious lack of investment. Various banking operations were putting the company into debt.

Markets: The markets of Laboratorio Electrotécnico were concentrated on the national market and Latin-America, but all the factors previously mentioned coming together, weakened the trademark's position in the market.

In 1976, the company went into receivership, with notification of redundancies. The trade union membership within the company was 90% CC.OO. The notification of redundancies was initially opposed by the Work Ministry Inspection, but the involvement of the Head of Inspection was decisive in the future development of the case.

The receivership was accepted. Meanwhile, through the company Committee, work continued, fulfilling the orders, and nominating a caretaker committee that would safeguard the production equipment and facilities. Faced with this situation, the Minister for Employment accepted an early retirement plan and recognition of rates of payment.

The resolution of the Minister of Employment was not accepted and Voluntary Bankruptcy proceedings began; the judge reached an agreement for initiating Open Bankruptcy proceedings.

The workers' committee, one of whose members is always on the company committee, pressed the company management to take measures. The management at that time used the committee as a consultative body for all its actions.

The authorized receiver of the bankruptcy delegated functions in the company committee, that was now beginning to put itself forward as the leadership of the company. It set out paying the suppliers and not losing the confidence of the clients awaiting orders as the objectives.

There was continuous contact with financial and legal advisors which also provided a meeting point between the different parties involved in the negotiations.

The company committee maintained unity of action as a slogan and unified positions were stated at meetings. As a consequence, an alternative put forward that involved keeping their jobs for two years, after the workers had accepted voluntary cancellation of their contracts, when that period had elapsed, and the hand-over of the company, but not its products and with no guarantee or safeguard, was rejected.

The trade union's activities were numerous, both on the internal and external level. They were decisive as a pressure element with regard to institutions as well as the multinational itself. That fact influenced the management of the multinational, which finally handed over the whole company to the workers, i.e. all its assets and liabilities.

The idea of self-management was gaining more and more ground and the ideological character of co-operatives seemed to be moving opinion towards that model of company. Added to that, CMAC succeeded in getting the company to recognise the salary arrears that they had contracted with the workers, almost one hundred and fifty million pesetas (£750,000).

The privileged nature of the salaries prevailed over the other company debts, which were: banker's references – 70 million (£350,000); Public Bodies – 500 million £2,500,000); and suppliers – 90 million (£450,000).

An embargo on goods was effected, the mortgages having a preferential right, but neither the banks nor the rest of the creditors were opposed. At the meeting of creditors the company was given over to the workers, through selling the shares for the symbolic value of 1 peseta (0.5p).

At the same time that a new Board of Directors was formed for the Limited Company, the co-operative was set up on 18th. December 1980. The co-operative was founded on the advice of private lawyers belonging to political bodies from the communist and socialist political sphere. 12 members initially founded it and set up its main source of resources for extending capital based on the resources of the former limited society as well as collections organized by workers.

The involvement of government bodies, at this financing stage, proved important, as a postponement of Social Security charges was agreed. In addition, cancellation of the Town Council of Cornellá's share undoubtedly eased the company's debts. However, the company saw the need to start insolvency proceedings in order to avoid having to pay payments and gain access to more institutional funding (Salary Guarantee Fund,).

That was on 10/03/1981, when there were 133 workers and shift work still continued.

There is one burden from the past that still has to be mentioned and that is that part of the society's assets were mortgaged. That involved a banker's reference for the value of 70 million pesetas (£350,000), which in order to face it, meant applying to the National Fund for the Protection of Employment, and undergoing a feasibility study.

The trade unions (most members continued to belong to CC.OO) and the Metal Federation in principle rejected the technical and management advice as well as the financing the company needed, which meant that the company had to look for an independent professional agency to carry out the feasibility study.

At first, the loan was refused due to the lack of feasibility prospects, which meant re-planning. That brought with it the granting of a 53 million loan (£265,000), guaranteed by a second mortgage on the patrimony (indivisible reserves) and personal guarantees, and conditional on the reduction of the bank loan to 33 million (£165,000) with the remainder going to re-organize the co-operative. The loan could not be met, which raised the debt, plus interests, to 76 million (£380,000) for which reason the Co-operative began to make approaches for the debt to be remitted. Faced with the negative legal reactions to those approaches, solutions were sought for cancelling the debt, from capitalizing the workers' unemployment benefits (arising from making the entire staff redundant), by means of setting up a second co-operative, the members of which had been gradually rejoining the original company.

The process had followed the chronological sequence below:

YEAR

1973	-	Family company Lesco belongs to the Gardy Suiza Group
1974	-	Gardy Suiza is acquired by the French Merlin Guerin Holding. Among other plans is the closure of Lesco.
1975	-	Gardy seizes control of Lesco.
	-	Labour and Union against internal structuring.
1976	-	Deliberate commercial and economic weakening of the company by its owners.
1977	-	Receivership procedure initiated and, later, Voluntary and Open Bankruptcy proceedings begin.
	-	The Company Committee maintains production and fights for maintaining jobs.
	-	The worker owned company idea leads on to the Co-operative idea, basically for ideological reasons.
1978	-	A period of negotiation begins, which offers job continuity for two years.
1979	-	The Company Committee forces the owners to hand over the company to the workers.
1980	-	The Co-operative is created and financing sought.
1981	-	Productive and commercial activities begin.

Main changes to company management:

STAGE 1 (before 1973): Management mainly based on family-style company models.
STAGE 2 (1973-75): Coordinated management in a wider company environment but still based on the same family structure.
STAGE 3 (1975-77): Management by managers belonging to a foreign holding company with the clear aim of undercapitalizing and commercially sinking the company.
STAGE 4 (1977-79): Those managers, under increasing pressure, gradually delegate functions to the Company Committee.
STAGE 5 (1979-80): Management passes into the hands of the workers at the most difficult moment for the company.

CONCLUSIONS

At present, Lesco is coming out of a period of general crisis. It has managed to survive partly due to internationalizing sales, particularly in North Africa and Latin America.

Its entry onto the national market has resulted in it attaining a 25% share of the transformer market. Its client portfolio is based on Electricity Companies and its products have quality control guarantees. Its turnover is around 600 million pesetas (£3,000,000), 10% of which comes from exports.

The basic products are general purpose switches-isolators for interior installations and both intensity and voltage transformers. Currently, the products are being homologated in different countries, which will give them an advantage when it comes to them being installed in other countries. At the moment commercial contacts are very well developed with Iran, Taiwan, Japan, Columbia, Ecuador, Morocco, Sweden, Israel and Egypt.

NOVES TECNIQUES ELECTRIQUES S.A.L. "NS TELECSAL"

Legal status: WORKER-OWNED LIMITED COMPANY

Address: La Font 8-10

Town: 08-BARCELONA

INTRODUCTION

The company was set up in 1929 as a family business. It began as a car repair workshop, in the electrical sector, under the name **J. BESCOMPTE.**

At the beginning of the 1960's it diversified and began manufacturing electrical components for industrial facilities. Between the 1960's and 70's it employed a total of 140 workers. It was mostly geared to the paper industry.

The crisis in this sector and lack of sufficient investment as a result of the family structure of the company, caused, during the middle years of the 1970's, a series of economic problems, which led to the setting up of a Limited Company at the end of that decade. This was basically done to separate the Company's properties from its assets (today the property continues to be owned by the founding family).

The insufficient investment referred to and the inappropriateness of those that were made, led to the company, in 1981, facing receivership and presentation of redundancy notifications, reducing the staff to 64, and overcoming the situation through a total freeze on salaries and regularly fulfilling obligations with banking and suppliers.

Finally, in 1983, various receivership procedures presented by the clients of the Company, caused the company to accumulate debts of over two hundred million pesetas (£1 million), which made its survival almost impossible. The monolithic family structure of share-holders was broken up and a first attempt was made to offer part of the shares to the executive staff of the factory, approximately 10 workers, with the aim of setting up a Worker Limited Company. That was rejected as all the assets of the Company were confiscated through debts owing to the Inland Revenue.

That group of workers, already concerned about keeping all the staff's jobs, did not accept the offer, as already stated, which led the management to propose the closure of the company. Faced with this situation, that group, acting on behalf of all the staff, and in negotiation with the management, acquired 70% of the company's shares in 1984. The former ownership held on to 30%. That purchase led to the nomination of a new Board of Directors and the control of production and work methods, as well as customer and supplier relations, by the workers of the Company.

At the same time, in 1984, and with a share capital of 5,000,000 pesetas (£25,000), the present Worker Limited Company was set up. All the staff participated in 75% of the shares and the former owners had 25%.

The in-coming Board of Directors, faced with the deep crisis of the Limited Company, presented Notification of Redundancies for the entire staff of the Company and recognized the large amount of salary arrears owed to the workers, before the appropriate authorities.

Doing that meant that the workers, on the basis of the recognized credits, could attend the Inland Revenue's public auction, where they were awarded the assets confiscated from the Company. Those were later contributed as extension of capital to the new Worker Limited Company, which, at the same time, capitalized the quantities arising from the single payment of unemployment benefits. At that moment, the company began to act exclusively as a Worker Limited Company, and the former Limited Company became extinct.

MAIN BODY OF THE CASE

Working in a single sector, mostly the paper industry, and the lack of adequate investment and market diversification, along with the totally closed share-holder structure of the company, totally family orientated, were the most important economic and company reasons that led to the crisis of the former company.

The following points should be considered as positive elements in a transformation that had few personal casualties:

a) The Company's new managerial team began to diversify risk, extending the company's activity to different productive sectors: paper, pharmaceutical, chemical and industry in general, manufacturing both industrial electrical installations and control boxes and their later repair and maintenance.
b) That was possible due to the high quality professional team, which meant that, at no time, did they stop attending to the orders from different clients, while, at the same time, they competed in the market with quality products and services, rather than lowering prices.
c) Lastly, it must be pointed out that the funding of the process did not entail great personal sacrifices, apart from the temporary freeze on salaries, given that, along with the contribution of the assets acquired in the public auction by the workers, unemployment benefits were capitalized for each one of those workers, resulting in a total amount of sixty million pesetas, that were enough both to up-date existing technology as well as to acquire new technology, which allowed them to continue to be competitive on the market.

Throughout, the handling of the negotiation and conversion process was undertaken by the workers themselves, with no involvement from trade union bodies or other representative bodies. They did have the advice of professional independent consultants.

The handling of the process, as pointed out, was carried through by a group of company workers, who had the full support of all the staff.

Today, they enjoy a close relationship with federation bodies, especially with the Managing Board of the Federation of Worker Limited Companies of Catalonia, (FSALC), to which the company belongs. That relationship is best understood as participation in a representative body, rather than participation in a services providing body.

As mentioned, the financing was in two parts: through acquisition and later contribution of the assets of the former Company, acquired from the public sale by the staff as a whole, and, on the other hand, through capitalizing unemployment benefits and contributing it to a S.A.L. (Worker Limited Company).

At present, the Company is in the position to be able to finance itself with credits attained by guaranteeing its own funds, without having to ask for new capital contributions from its members.

The former management of the company, although still having 25% of the Company's capital, has no representation in the management bodies of the new Company.

The Board of Directors consists of Company workers and especially those who occupy positions of responsibility in either managerial posts or in any of the company's departments.

There is no company committee, as there are no labour conflicts, all the workers being members. So, there is very little difference between the managerial staff and the others.

The present share-holder situation is one of equality. All the workers, irrespective of their professional category, have the same number of shares with the same nominal value. New workers acquire the same amount of shares, arising out of the company portfolio of shares caused by members leaving, when they are admitted as members.

CONCLUSIONS

Today, we can say, that having the same difficulties of any commercial company, it is a Society of 47 worker members, plus 5 casual workers, that, after ten years of operating as a Worker-Owned Limited Company, self-managed by the workers, is completely consolidated and fully competitive in its sector. It gives priority to the quality of its products and its services rather than to prices.

FUNDIBAIX, SCCL

Legal status: WORKER CO-OPERATIVE

Address: PASSATGE ALBERT EINSTEIN, NAVE 18.

Town: 08940 CORNELLA DE LLOBREGAT

Type of Conversion: INDUSTRIAL COMPANY/PRIVATE/SUCCESS

Activity: BRASS FOUNDING, TRADING IN BRASS FITTINGS AND BRACKETS, ETC.

INTRODUCTION

The company arose out of a company called FUNDICIONES CONTER, S.A., whose business activity consisted of founding and trading in brass fittings, brackets, etc. The company's products were manufactured for ironmongers, the construction industry and other companies where the products of FUNDICIONES CONTER, S.A. were used as accessories (lamps, etc). FUNDICIONES CONTER, S.A. created a new company in Teruel: HERRAJES Y ARTICULOS PARA MADERA, S.L., dedicated to the same business activity. Between the two companies, there were a total of 30 workers.

The owners were in the process of moving production to Teruel, leaving the Cornellà factory with very little production capacity, despite that factory having the workers with greater qualifications and experience. That situation brought with it serious economic problems for the company with delays in salary payments. That reason, plus the evident lack of business, formed the background that led to the conversion of the company.

MAIN BODY OF THE CASE

In 1993, the company made the workers redundant and the Social Security auctioned the FUNDICIONES CONTER, S.A. machinery. The workers participated in the auction, convincing the receivers that they could acquire it. At that auction, the workers had access to private funding and in November 1993 they set up FUNDIBAIX, SCCL.

It seems that the owners of the company lost almost all their assets during the company crisis, and, at present, are nowhere to be found.

Of the 11 workers of the former company FUNDICIONES CONTER, S.A., 10 decided to continue the business activity, 4 in the fittings section and 7 in founding. The only person who did not join the project, did so, for reasons of age.

Among the workers that continued, were also those who held the few intermediary posts in the company, in particular, those who marketed the products, who were a great help, especially at the outset of the new company.

The workers applied for the maximum sum legally established in the Salary Guarantee Fund, but that amount did not form part of the society. It was used only to compensate the amount of salaries not received by the workers.

At the time of the crisis, the situation was not an especially difficult one to resolve on a commercial level. The main problem was a combination of problems arising from the general crisis that Spain was suffering in 1993, the excessive size of the two initial companies, FUNDICIONES CONTER,S.A. and HERRAJES Y ARTICULOS PARA MADERA, S.L. and the already mentioned poor organization and management.

On the legal level, the proposal to create a worker co-operative came from the advice of a private consultant. The possibility of transferring the shares of the former company to the workers was never put forward.

Creating the worker co-operative meant:

1. Making access to the single unemployment subsidy possible on proposing a workers owned company project.
2. Separating, as fast as possible, the net assets of the original company in crisis and not having to take over the liabilities in full.
3. Combining the different workers' interests to have a work alternative and not fall into unemployment pay. This aspect was important in as much as the average age of the workers was 50 years old.

Several legal problems arose in 1993 out of the need to keep the same industrial unit of the former company and under the same conditions. The former company had left arrears of rent pending and the new owners (FUNDIBAIX, SCCL.) were also unable to offer great quantities. Moreover, there was a law in force in 1993, that did not oblige the leaser to continue the contract from one company to another under equal conditions. Despite that, the leaseholders managed to have the industrial unit lease changed over to FUNDIBAIX, SCCL. This agreement was prior to acquiring the machinery and setting up a Co-operative.

Apart from the capitalizing of unemployment payments, the FUNDIBAIX, SCCL. promoters received no other government help in converting the company, due to a lack of information on available resources and, above all, because it was fundamental for the success of the process, that that process was delayed as little as possible, so maintaining contact with customers, suppliers and sellers. The search for public aid and all the paper work involved could postpone the conversion and so it was not considered to be a priority at that moment.

The workers' access to capital on a private level was very limited owing to their own scarce savings, which meant that capitalization of unemployment played a fundamental part in the conversion process.

Trade unions played no part in the process. At the time of the company's crisis, the assistance of a private consultant was preferred.

As already mentioned, no support from the Local Development Agencies was received because the workers did not know they could apply for it. The only support from Public

Authorities Departments consisted of the lump sum payment of unemployment benefit and their willingness to allow the workers to acquire the machinery auctioned by the Social Security.

There was no support from Associations and/or Federations involved in the conversion process because the promoters were unaware of their existence. It was later that they made contact with FCTAC.

As already stated, the basic funding for the co-operative came from capitalizing unemployment – 15 million pesetas (£75,000); 8 individuals at 1,625,000 pesetas (£8,125) each and 2 individuals that contributed 1,000,000 (£5,000).

The Central Bank also offered finance in the form of a 2 million pesetas (£10,000) credit policy.

The members of FUNDIBAIX, SCCL. had to meet a debt of 2 million pesetas (£10,000) with FECSA and 5 million (£25,000) with their suppliers.

They did not have to meet their unsettled debt with Social Security and the Inland Revenue.

As mentioned above, the workers acquired the necessary machinery from a Social Security auction.

The conversion process was very quick, scarcely taking six months from the date of agreeing on conversion.

CONCLUSIONS

The middle managers took over the management of the company. That move presented no great problems. Equally, the entire commercial structure of the company that was based on independent sellers in terms of tools and ornamental items continued and, additionally, they were able to maintain the confidence of the suppliers.

A small change on the commercial level has taken place regarding what they offer in terms of ornamental items. This has changed from a standard range to a new high range, where there is less competition.

In tools, the strategy of staying in the low price range and acting as a wholesaler has been maintained.

When it comes to pressure diecasting, there is very little competition.

SECTION 4

4.1 REASONS FOR CONVERTING TO EMPLOYEE OWNERSHIP

4.2 TYPE AND SIZE OF CASE STUDIES

4.3 KEY FACTORS FOR SUCCESS

4.4 CONCLUSIONS

4.1 REASONS FOR CONVERTING TO EMPLOYEE OWNERSHIP

After studying the cases presented, it is clear that there are wide differences between them. However, a number of significant and common elements can be seen that caused the conversion process and it is these that we propose to deal with here.

COMPANY FAILURE:

When faced with closure, conversion to employee ownership is accepted as the lesser evil in order to maintain jobs. In most cases, the companies subject to conversion are going through a seemingly hopeless period that can only lead to the disappearance of the firm and its workers swelling the unemployment figures.

Examples of bankruptcy situations include R-86, Confin and Serzoo in Italy.

Receivership in Alvimar S.L. caused the entrepreneur to propose conversion, which was accepted by the workers and supported by the trade unions, public administration and the associations/federations for encouraging co-operativism. It was a failure because the aims of the entrepreneur always prevailed over the workers, who did not know how to break away from the former style of operating (lack of communication, abuse of skills, etc...). In the case of Capisa, a similar process was begun, but the workers knew how to set things straight in the end. They broke the former model, which allowed them to achieve success.

The only way out of redundancy notifications in the case of Vulcanizados proposed by the entrepreneur was for the workers to reject the proposal, as they considered the financial crisis to be the result of poor management.

Adverse economic circumstances were also apparent in the cases of R-86 (a troubled sector) and in Inenpre that lost its main client when that client became bankrupt.

SUCCESSION:

In these cases, the conversion process is put forward as a proposal to solve a problem of succession, rather than as a result of company failure.

For example, the proposal to convert may come from the business's original owners, perhaps because they wish to retire or to extract their capital, but they retain a commitment to the welfare of the workforce, as in the case of the Tullis Russell Group Ltd.

The natural heirs may be incapable of continuing the company, as in the cases of RG-86 and Inenpre. When the owner of Inquimeno S.A. retired, none of his heirs wanted to take over the family business.

POLITICAL REASONS:

Conversion can also take place for "political reasons", by which is meant governmental and administrative decisions at various levels which oblige local administrations to make severe budgetary cutbacks in and/or privatize public companies (e.g. Greenwich Leisure, Chesterfield Transport and Tower Colliery in the United Kingdom, Logservice in Italy, or Morvedre Saguntina in Valencia). This type of intervention is more frequent in the management of public services.

COMPANY STRATEGIES:

Lastly, some conversion processes are begun as a consequence of a "perverse" company strategy, i.e. they do not fit into any of the above mentioned groups, but rather result from a strategic decision on the part of the management of large business groups. The management chooses to realign its productive centres, following a well-defined strategic plan. That involves progressive disinvestment in some plants in favour of others that are considered more appropriate as a consequence of the growing phenomenon of company rationalization, which arises from the unstoppable globalization process of the capitalist economy (examples include Barrhead Sanitary Ware in the United Kingdom, Ceramica Industriale di Laveno Verbano in Italy, Educadors per la Inserciò Social i Laboral, Fundibaix and Laboratorio Electrotécnico in Catalonia).

Such company strategies may be a response to two types of situation; in the first, there may be a failure to achieve the profitability expected of one of the outlying production plants, which leads to progressive disinvestment and abandonment of that plant; in the second, the business is profitable, but the parent company decides to sub-contract some stages of production and create independent units. The link between the parent company and "branch" is now more subtle, based on contract. Crucial to the welfare of the newly independent outpost are research and development needs and know-how, power over which remains in the hands of the larger, central business.

4.2 TYPE AND SIZE OF CASE STUDIES

	SECTOR		SIZE		
NAME OF THE BUSINESS	Industry	Service	Large	Medium	Small
SOC.CO-OP. MORVEDRE SAGUNTINA		X			X
CAPISA, SCV	X			X	
ALVIMAR, SCV	X				X
VULCANIZADOS GN, SCV	X			X	
VALFOTO, SCV		X			X
NOVES TECNIQUES ELECTRIQUES, SAL	X		X		
FUNDIBAIX, SCCL	X			X	
LABORATORIO ELECTRONICO, SCCL	X		X		
INDUSTRIA DEL ENGRANAJE DE	X		X		
EDUCADORS PER LA INSERCIO SOCIAL		X			X
RG-86, .s.c.r.l.	X			X	
LOGSERVICE, s.r.l.		X	X		
CONFIN, s.c.r.l.	X		X		
SER-200, s.c.r.l.	X		X		
CERAMICA INDUSTRIALE DI LAVENO	X		X		
GREENWICH LEISURE LIMITED		X	X		
TULLIS RUSSELL GROUP, L.T.D.	X		X		
CHESTERFIELD TRANSPORT LIMITED		X	X		
TOWER COLLIERY	X		X		
BARRHEAD SANITARY WARE P.L.C.	X		X		

4.3 KEY FACTORS FOR SUCCESS

The title of this section may seem dogmatic and inflexible. Our intention, as should be obvious, is not to seek to dictate how to set about converting to employee ownership, but to contribute to the analysis of the cases presented by identifying the factors that contributed to the success of conversions, irrespective of whether the sample studied is representative or not. As we have stated in the Introduction to this work, we accept its non-scientific nature but that is no obstacle to its being considered as a serious work, but without pretension of being something which it is not.

First, we can try to classify these key aspects or factors for success as either necessary or advantageous. That depends on the existence of elements which, acting on their own or in conjunction with others, are good omens for the successful conversion of a company.

We understand the *necessary* factors to be those without which the conversion process would almost certainly face difficulties of such a magnitude that it would be advisable to abandon the attempt. Those called *advantageous* factors help the process in a significant way, but without having the degree of influence of the "necessary" ones.

Even with regard to the advantageous, but not essential, factors, we can say that if the greatest possible proportion of those factors is not available, we will be faced with more problematic conversions and therefore a greater chance of failure, due to the obstacles of an internal and external nature which every conversion has to overcome.

NECESSARY FACTORS FOR SUCCESS

1) External advice:

From the business point of view we believe that, during the conversion process from a conventional company into a worker owned company, it is necessary to have an advisory team that is expert in the different skills that the conversion processes requires, such as: economic-financial feasibility studies, fiscal and legal procedures and human resource analysis. This expertise may be provided either by independent consultants (e.g. Laboratorio Electrotécnico, Fundibaix, Telecsal) or by bodies that promote co-operativism (e.g. Valfoto, Logservice, Greenwich Leisure, Ser-zoo, and RG-86 amongst others).

2) Clear objective; self-management

It is also necessary to make maintenance of jobs the clear objective of the conversion and not to accept conversions that continue the financing of the same structure with a new name (as in the case of Alvimar). A new operational model needs to worked out that suits the new company arising from the conversion, in accordance with its organizational characteristics, the environment in which it operates, the aims that it is hoping to achieve, appropriately modifying the productive and management structures. The worker owned company needs to clearly define its objectives as a company. It needs to do research to find out its situation in the market and its chances of development. It will need, in the end, to draw up an effective investment and financing plan in accordance with objective pursued.

3) Team work

No matter how necessary or advantageous everything mentioned above may be, it cannot eclipse the fundamental importance of the human component. In all legal conversions, the worker becomes the centre of attention. Uncertainty, suspicion, mistrust and fear of the unknown abound.

To remove uncertainties is, therefore, absolutely necessary. To do that, before, during and after the change process, fluid information channels have to be established, in such a way that the group consciously takes on risks and commitments (especially financial ones) that every conversion inevitably brings with it to a greater of lesser degree. Without communication, the workers will not want to take on their collective responsibilities because they will continue to consider themselves as employees and not as members.

Not to create an authentic feeling of ownership among the workers is like betting heavily on failure.

That feeling is achieved, on the one hand, as we have just mentioned, by establishing smooth communication channels between the negotiating team made of workers' representatives and the rest of their colleagues.

Certainly, if a team of individuals does not exist among the negotiation promoters capable of uniting wills and setting up mechanisms for the success of the conversion, the attempt should be abandoned. However, the human team that takes on the conversion of the company challenge must be cohesive and maintain smooth information channels with all the external agents that are actively involved in the conversion process (federations, trade unions, local development agencies, teams of experts).

On the other hand, the cohesion of the group and the feeling of belonging among the workers must be based on responsibility and mutual commitment.

The lack of a co-operative mentality has to be countered by specific training. The failures reveal that the lack of communication and training that the workers receive is one of the determining factors in failure. Workers awareness in this respect is seen as something essential.

4) Financing

It is necessary to attain the appropriate financing from the outset that will permit the new company to become established and really take off (acquisition of some assets, setting-up expenses, etc). In this respect, one can see that insufficient initial capital contribution by the members, causes a certain lack of confidence in the business project in the minds of external agencies (banks, suppliers, clients and institutions), which seriously hampers the conversion process.

FACTORS THAT FAVOUR SUCCESS

1) Support of local development agencies

Local development agencies have played an extremely important role in a number of the cases considered (e.g. Tower Colliery, Barrhead Sanitary Ware), in that they have contributed a very valuable collaborative effort in advising, looking for the most suitable formulas in each case, involving local or regional authorities, facilitating information and training, and providing access to specialist expertise which may not be available from conventional consultants or advisers. This can be clearly appreciated in the case of Greenwich Leisure, when the local development agency was able to assist the venture to locate a particularly suitable legal structure, one which the local authority had previously been advised was not available.

2) Trade Union support

Likewise, the positive involvement of the trade unions (particularly at a local level) has, in some cases, provided vitally important support (Chesterfield Transport, Vulcanizados, Inenpre, Capisa, Laboratorio Electrotécnico). Without their involvement, the negotiations would have been sterile.

Trade unions in all three countries have had, at times, an ambiguous attitude to employee ownership; but in the end, it would seem clear that trade union involvement, both during and after conversion, is a beneficial influence. The participation of the trade unions in the conversion processes can therefore be considered an advantageous factor.

3) Product or service introduced on the market.

The companies with the better chances of success are those which, despite the financial difficulties created by conversion, have a product well-placed on the market and an adequate trade mark image. That is an advantageous element in success, as too is the availability of suitable management teams that can properly exploit the opportunities available to the new company.

4) Business continuity

There is no doubt that it is advantageous if, during the period of conversion, the company is able to maintain its trading activity. Interruption would give a poor impression and not encourage the continuity of relationships established with clients and suppliers. The duration of the conversion process should also be as short as possible, though it is important not to jump stages which may prove to be necessary steps to success.

5) Support of clients, suppliers, creditors and financial institutions

All the factors given above favour success in converting conventional companies into worker owned companies, and all of them coming together creates a climate of confidence that is projected towards the external agencies concerned with the company's progress through its trading operations.

The expectations that the different agencies form on the emerging company (financial and economic solvency) play a decisive role.

In some cases, the support decided upon by the clients has favoured conversion by injecting significant doses of security into the process (cash payment, etc.), which have resulted in small amounts of operating capital (RG-86, Capisa).

The creditors, especially the Social Security and Tax Departments, have, in some cases, facilitated the conversion process by granting a postponement of social payments to the Social Security (Laboratorio Electrotécnico sccl), or by allowing the acquisition of the necessary machinery in Social Security auctions and by not insisting on debts to the Inland Revenue (Fundibaix sccl).

The credit agencies have also favoured conversion with their positive involvement by offering finance when the company needs it most during the conversion process (Fundibaix, Barrhead Sanitary Ware).

6) Support from State administrations

The support of governmental institutions by promoting imaginative formulas that facilitate access to finance which otherwise would be unavailable is a key factor in achieving success, both in cases where capital needs for the purchase of the company are assumed by the workers, and in those cases where there are financial mechanisms and instruments in place to facilitate the necessary funds being obtained.

The variety of methods used in the cases studied shows that there is no single way of financing the conversion processes. They depend a lot on the accessibility of those funds, on information and financial advice available within the legal framework, and on support of public bodies.

a) Financial measures

In this respect, measures such as the capitalization of redundancy payments have shown their great validity as they are advantageous in securing success because they allow an initial financing for the workers to purchase the assets of the company undergoing conversion. The financial subsidies from the government to invest in fixed assets, although often delayed, helps to lower the financial costs that the new company has to bear (Valfoto).

Act 49/85 (The Marcora Law) in Italy is an example of privileged financing for co-operatives that has encouraged the success of conversions in that country.

b) Fiscal measures

Advantageous fiscal measures, such as targeted tax exemption, indisputably contribute to successful conversions. In the UK, for example, there is little political support for employee ownership from central government, but the indirect support offered in the form of tax incentives for the transfer of shares to workers through ESOPS has encouraged some conversions which might not otherwise have happened (e.g. Tullis Russell).

c) The legal framework

The legal framework also plays an encouraging part in the conversions. Suitable legislation that caters adequately for the transferring of companies to their workers by facilitating the legal proceedings is, quite clearly, an environmental element that favours success.

In the Spanish case, several regional governments enjoy legislative authority on co-operative issues which has been transferred to them from the central government in accordance with their statutes of autonomy. The Valencia Region and Catalonia are two autonomous regions that have made use of that authority by issuing their own respective laws on co-operatives. This is considered positive, as they can suit co-operative legislation to the reality of the circumstances within which local companies operate.

4.4 CONCLUSIONS

As has already been stated, the purpose of this work is not to set out doctrines, but to contribute to the phenomenon of company conversions which result in worker owned companies, as is happening increasingly throughout Europe. We believe that the reader of this book has had the opportunity of discovering elements that may be useful to him or her in understanding those factors which most contribute to the company conversion process.

Each case studied has been a world of its own, which was so simply because the protagonists involved were different individuals, in different sectors of activity, in different countries with different political, economic and cultural environments, who saw things from different angles. Despite that, there are many things in common and the cases were summarized using a unifying methodology in order to see if there were clear elements that may be factors for success in transforming companies into worker owned ventures.

At the end of the millennium, in which we are living today, no-one doubts that we are facing profound technological, organizational, sociological, cultural and political changes.

Many socio-economic thinkers anticipate, in the development of new technologies, profound changes which will result in a new social reality. We believe that there is a battle to be fought and won for social and economic progress in Europe, and that battle is for the hearts and minds of politicians, businesspeople, workers and others concerned with the worlds of business and commerce. Those of us who wish to see a new economic order in Europe are observing a growth in support for and understanding of self-management and employee ownership.

Self-management is the business formula that best resolves the conflicting logistics of market, owner and worker.

The future of business, as is already becoming a reality, rests in greater worker participation in companies, coinciding with the economic-entrepreneurial reality of a Europe, characterized by:

(a) The subcontracting to service industries for reasons of economy and flexible production. We face an ever more complex society with increasing productive decentralization and subcontracting.

(b) The reduction in the cost of communication and transmission of information which accompanies subcontracting to the service industry, and an increase in business awareness, lead us to think that the protagonist of future business will be the worker, the individual.

(c) The progressive privatization of public services by local and national governments and the general inappropriateness of conventional capitalist structures, with their absence of accountability or social dimension, to inherit these services.

(d) The profusion of temporary contracts, the insecurity of jobs and the difficulties of certain groups in overcoming unstable employment situations, plus the growing tendency towards a polarization in society, leads us to think that business initiatives will be promoted that are designed to achieve a greater stability of employment.

(e) Following general social trends, one can expect a growing demand for goods and services produced in a socially responsible and responsive manner by an increasing number of consumers.

(f) The demographic changes that are taking place in Europe will contribute a greater range of ideas and needs to the market, which in turn will generate an increasing number of new solutions to socio-economic problems.

Because these emerging factors will result in substantial changes to the models of production in the coming decades, we believe that worker owned companies are capable of making a significant contribution to the restructuring of the economy.

We hope that this study will assist in identifying the causes of and solutions to some of the problems experienced in the cases scrutinized, and thus contribute to the success of future conversions to worker ownership. In the larger scale of things, we hope that this modest piece of work will further the progress towards a society which values people above all, both individually and collectively.

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