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# Mitigating the democratic entropy of worker cooperatives: a holacratic approach

*Iris Wuisman and Morshed Mannan*<sup>1</sup>

## I. Introduction

This essay is in honour of Professor dr. Henk Snijder's multifarious and long-lasting contributions to the field of dispute resolution over the past quarter-century. It addresses one of the fundamental internal tensions in democratic enterprises – curbing managerial authority while remaining a competitive business. It draws from the latest developments in management discourse to suggest a durable, organisational approach to ameliorating such disputes in worker cooperatives. A workers' cooperative is an autonomous legal person, governed by private law, which undertakes economic activities in the interest of its worker-members.<sup>2</sup> In general, they democratically participate in the management and control of the cooperative in exchange for a capital and labour contribution. Members are entitled to elect a board of directors on a 'one member, one vote' basis and to freely express their views on management.<sup>3</sup> While profit is not their sole purpose, members

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<sup>2</sup> Precisely defining cooperatives and distinguishing them from stock companies and other forms of business organisation is a difficult task and we have used a generalised definition of worker cooperatives that is drawn from section 1.1 of the *Draft Principles of European Cooperative Law* (PECOL) (May 2015), available online at: <[www.euricse.eu/wp-content/uploads/2015/04/PECOL-May-2015.pdf](http://www.euricse.eu/wp-content/uploads/2015/04/PECOL-May-2015.pdf)> accessed on 23 February 2016 and inspired by H. Henry, *Guidelines for Cooperative Legislation*, 3<sup>rd</sup> ed. rev., Geneva: ILO 2012. *But see* ILO, *Recommendation No. 193 of 2002* at Paragraph 2 which emphasises that cooperatives are 'jointly owned'. Otto von Gierke had an even more expansive definition of cooperatives, and included associations from tribes to guilds to municipalities. See O. von Gierke, *Das Deutsche Genossenschaftsrecht*, 4 vols, Berlin: Weidemann, 1868-1913, quoted in M. Lehmann, 'Cooperatives as Governance Mechanisms', *ECFR* 2014/1, p. 36.

<sup>3</sup> 'Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.' They are supposed to be open, distribute surplus in proportion to trade and pay limited interest on capital. For more information regarding Cooperative Values and the 7 Cooperative Principles, see, International Cooperative Alliance, *Cooperative Identity, Values & Principles*, available online at: <<http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>> accessed on 25 January 2016. Lehmann makes the less ideological, contractual

often receive a portion of the surplus revenue of the firm in proportion to their labour input. In the 20<sup>th</sup> century, such firms mainly developed in geographical and industrial ‘clusters’,<sup>4</sup> with worker cooperatives becoming prominent in the Basque region of Spain, Northern Italy and the Northwest USA for manufacturing and providing construction, taxicab, scavenging and cleaning services. In these past 25 years in particular, professional organisations and firms that are part of the ‘knowledge’ economy have also embraced the worker cooperative model.<sup>5</sup> They have – along with many other reasons – arisen out of workers’ desire to have greater control over their working life.

Though these firms are managed by, and in the interest of, labour, empirical studies have shown that there are encouraging signs that they can be as efficient and productive as conventional limited liability companies that are managed in the interest of shareholders.<sup>6</sup> As workers use their own savings to provide the cooperative’s capital, they are driven to see the organisation become self-sufficient and as they collectively participate in a revenue-sharing model, they are sensitive to

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argument that as ‘the cooperative stands in the middle between the market and the firm’, equality of voting (democracy) is similar to equality between parties during offer and acceptance. See M. Lehmann, ‘Cooperatives as Governance Mechanisms’, *ECFR* 2014/1, p. 50.

- 4 For more detail on the development of such clusters, see GK Dow, *Governing the Firm: Workers’ Control in Theory and Practice*, Cambridge: Cambridge University Press 2003, p. 230ff. More recently, cooperatives are enjoying a renaissance in the United States, see California’s Assembly Bill No. 816 of 2015-2016 and the investment of \$ 1.2 million by the New York City Government to fund the development of worker cooperatives. See NCBA CLUSA, ‘New York City Invests \$ 1.2 Million In Worker Cooperatives’ *NCBA CLUSA*, 27 June 2014, available online at: <[www.ncba.coop/ncba-media/press-releases/610-new-york-city-invests-1-2-million-in-worker-cooperatives](http://www.ncba.coop/ncba-media/press-releases/610-new-york-city-invests-1-2-million-in-worker-cooperatives)> accessed on 22 February 2015.
- 5 There are a number of such cooperatives represented in the North American ‘Tech Co-op Network’, <<http://techworker.coop/>> accessed on 29 February 2016.
- 6 See, e.g. J.A. Bayo-Moriones, P.J. Galilea-Salvatierra and J.M. de Cerio, ‘Participation, Cooperatives and Performance: An Analysis of Spanish Manufacturing Firms’, in T. Kato and J. Pliskin, *Determinants of the Incidence and the Effects of Participatory Organizations: Advances in the Economic Analysis of Participatory and Labor-Managed Firms*, Amsterdam: Elsevier 2003, where a study of 965 Spanish manufacturing plants revealed that the level of performance of capital-managed firms and cooperatives was similar. Kruse et al. found that the evidence of sixty empirical studies reveals a positive association between ‘shared capitalism’ programmes and company performance, with an average increased productivity of 4.5% as a result of employee ownership and profit sharing. See D.L. Kruse, J.R. Blasi and R. Park, ‘Shared Capitalism in the US Economy: Prevalence, Characteristics and Employee Views of Financial Participation in Enterprises’, in D.L. Kruse, R.B. Freeman and J.R. Blasi (eds.), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, Chicago: University of Chicago Press 2010, p. 44.

the quality of each other's work.<sup>7</sup> They often pay more than the minimum wage and offer better working conditions.<sup>8</sup> Moreover, there is strong empirical evidence that such organisations are resilient and in some industries have proven to be more resistant to failure than conventionally organised firms.<sup>9</sup> They attempt to insulate their members from market shocks to a greater degree than archetypal companies by, for instance, lowering earnings per member-worker rather than making a group of them redundant.<sup>10</sup> As a form of organisation, it has an intuitive appeal to social theorists on both sides of the political spectrum, for its potential to nurture democratic values and solidarity as well as its capacity to encourage free enterprise.<sup>11</sup> Its participatory nature has led some academics to

7 J. Levin and S. Tadelis, 'Profit Sharing and the Role of Professional Partnerships', *The Quarterly Journal of Economics* 2005/120(1), p. 131-171; GK Dow, *Governing the Firm: Workers' Control in Theory and Practice*, Cambridge: Cambridge University Press 2003; H. Hansmann, 'When Does Worker Ownership Work? ESOPs, Law Firms, Codetermination and Economic Democracy', *Yale Law Journal* 1990/99(8), p. 1762.

8 For a recent study on Argentinean cooperatives that demonstrate this notable wage increase, see I. Albergucci et al., *Trabajo auto gestionado y organización política*, Buenos Aires: CTA Ediciones 2009 cited in B. Dobrusin, 'Workers' Cooperatives in Argentina: The Self-administered Workers' Association', *International Journal of Labour Research* 2013/5(2), p. 198.

9 A longitudinal study of the Mondragon group of cooperatives conducted in the wake of the 2008 financial recession found that it had the dynamic ability to innovate and adjust to changing market conditions, even in comparison to conventional firms. See S. Arando et al., 'Assessing Mondragon: Stability & Managed Change in the Face of Globalization', *Working Paper Number 1003*, William Davidson Institute, University of Michigan: 2010 p. 11, 13 available online at: <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1726449](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1726449)> accessed on 29 January 2016.

10 See, e.g. J. Pencavel, L. Pistaferri and F. Schivardi, 'Wages, Employment, and Capital in Capitalist and Worker-Owned Firms', *Industrial and Labor Relations Review* 2006/60(1), p. 23-44 for a comparative, empirical study on this issue between Italian companies and Italian co-operatives.

11 For a liberal perspective, see N. Jorman, *The Big Society*, Buckingham: University of Buckingham Press, 2010, p. 172-176; H-H. Münkner, *The Relationship Between the State and Cooperative in Cooperative Legislation: Report of a Colloquium Held at Geneva, 14-15 December 1993*, Geneva: Enterprise and Cooperative Development Department, International Labour Office 1994, p. 165; K. Bradley, 'Employee Ownership and Economic Decline in Western Industrial Democracies', *Journal of Management Studies* 1986/23(1), p. 52. For a more left-wing stance see, e.g. B. Jossa, 'Alienation and the Self-Managed Firm System', *Review of Political Economics* 2014/46(1); Both Marx and Lenin believed in the potential of cooperative firms to realise new modes of production but questioned in its sustainability within the capitalist system. See K. Marx, 'The Civil War in France', in: K. Marx and F. Engels, *Collected Works*, Vol. 24, London, Lawrence & Wishart: 1975-2001, p. 335; K. Marx, *Capital*, Vol. III, Harmondsworth: Penguin Books, 1981, p. 513-514 and VI Lenin, 'On Cooperation', in: *Collected Works*, Vol. XXXIII, Moscow: Progress Publishers 1923. For a Parecon, anarchist perspective, see P. Burrows, 'Parecon and Workers' Self-Management: Reflections on Winnipeg's Mondragon Bookstore and Coffee House Collective', C. Spannos, *Real Utopia: Participatory Society for the 21<sup>st</sup> Century*, Chico CA: AK Press 2008, p. 278.

postulate that it acts as a form of ‘self-realization’<sup>12</sup> and diminishes the alienation experienced by workers in capitalist enterprises.<sup>13</sup>

While there are a number of impediments to the formation of a labour-managed firm,<sup>14</sup> once they do form they confront a series of endogenous conflicts. Some theorists argue that these internal conflicts can lead to the conversion (or ‘degeneration’) of a labour-managed firm into one dominated by a managerial elite and controlled in the interests of capital,<sup>15</sup> as with the 20<sup>th</sup> century plywood cooperatives in the Northwest USA.<sup>16</sup>

In the remainder of this article, we will focus on how conflicts arise in cooperative workplaces and explore how the democratic and self-determining qualities of worker cooperatives can be extended after they reach a level of maturity and develop a complex governance structure. To do so, we will first illustrate the life cycle of *de novo* workers’ cooperatives using a simple example.<sup>17</sup> We describe a set of development stages of worker cooperatives. The evolution of cooperatives may follow different paths and may deviate from the illustration described below.

12 See J. Elster, ‘Self-Realization in Work and Politics’, *Social Philosophy and Policy* 1986/3(2), p. 97-126.

13 Jossa contends that in cooperatives, ‘workers become buyers of production means instead of being bought by the owners of them’, B. Jossa, ‘Alienation and the Self-Managed Firm System’, *Review of Political Economics* 2014/46(1), p. 9.

14 See J. Schwartz, ‘Where Did Mill Go Wrong?: Why the Capital-Managed Firm Rather than the Labor-Managed Enterprise Is the Predominant Organizational Form in Market Economics’, *Ohio State Law Journal* 2012/73(2), p. 219-281 for an overview of the literature on why there are so few labor-managed firms.

15 For more detail on the degeneration thesis, see R. Spear, ‘Governance in Democratic Member Based Organisations’, *Annals of Public and Cooperative Economics* 2004/75(1), p. 33-60; A. Meister, *Participation, Associations, Development and Change*, New Brunswick, NJ: Transaction Books, 1984; S. Webb and B. Webb, ‘Co-operative Production and Profit Sharing’, *New Statesman* 1914/Special Supplement; B. Potter, *The Cooperative Movement in Great Britain*, London: Swan Sonnenschein & Co. 1891.

16 The Olympia Veneer Cooperative began operating a plywood mill in the state of Washington, USA in 1921 with 125 worker-members, each of whom owned shares worth \$ 500. As the business prospered, some of the original worker-members left the company and non-member workers were hired. By the time the cooperative was sold to the United States Plywood Corporation, there were 1000 non-member workers and 69 member-workers. Of the 69, 23 of them received a return of \$ 652,000 for their share in the cooperative. For more information, see Plywood Pioneers Association, ‘Olympic Veneer Company’, *Plywood in Retrospect No. 7*, Tacoma: Plywood Pioneers Association 1967 and S. Bowles, *Microeconomics: Behavior, Institutions and Evolution*, Princeton: Princeton University Press 2006.

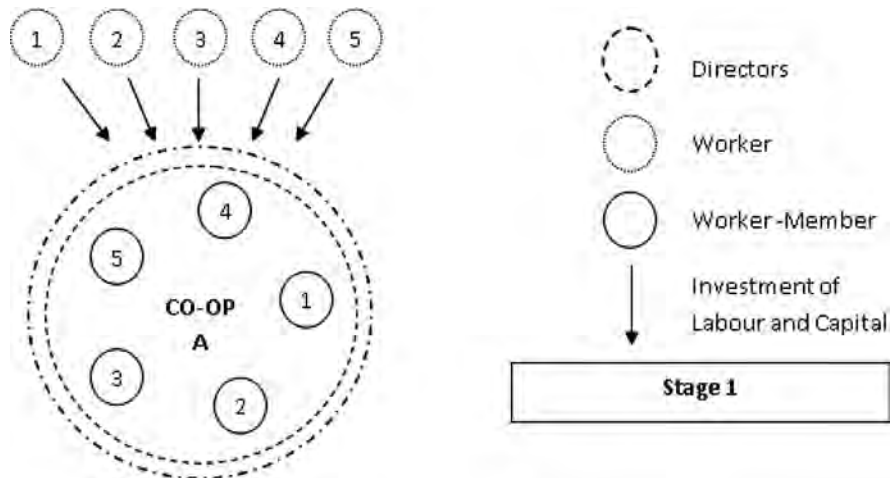
17 It should be noted at the outset that this is a generalized model for a cooperative, as some have differing degrees of workers’ participation, from direct participation to representative participation to no participation in governance at all. For examples of the latter, see the French SCOP cooperatives described in E. Batsone, ‘Organization and Orientation: A Life Cycle Model of French Co-operatives’, *Economic and Industrial Democracy* 1983/4, p. 139-161. These illustrations develop upon the ones used in Cooperatives UK, *The Worker Cooperative Code*, 2012.

However, this example demonstrates the evolving complexity of the governance system that may give rise to internal conflicts. As we focus on the internal factors that cause this, we have not considered external stakeholders such as cooperative federations, trade unions, financial creditors, the government, outside investors, political parties and social movements. While a number of financing issues may also arise, it falls outside of the scope of this article.

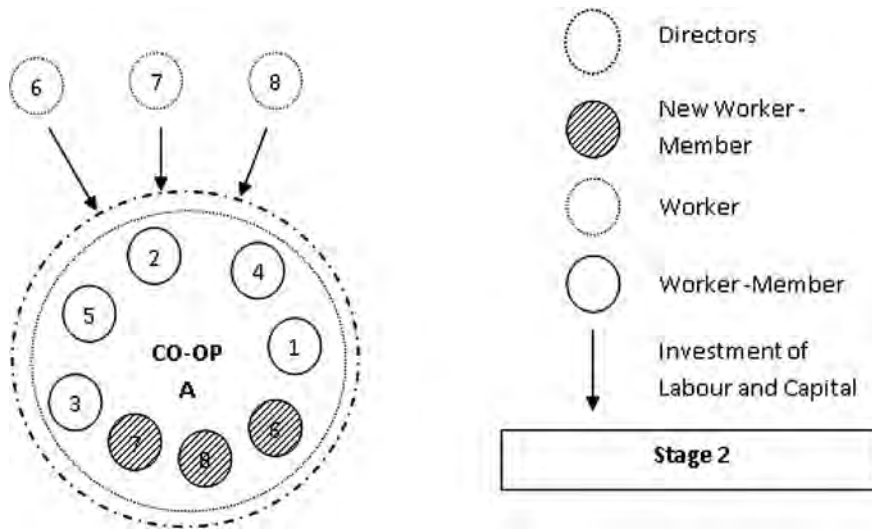
## 2. The Life Cycle of a Workers' Cooperative

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

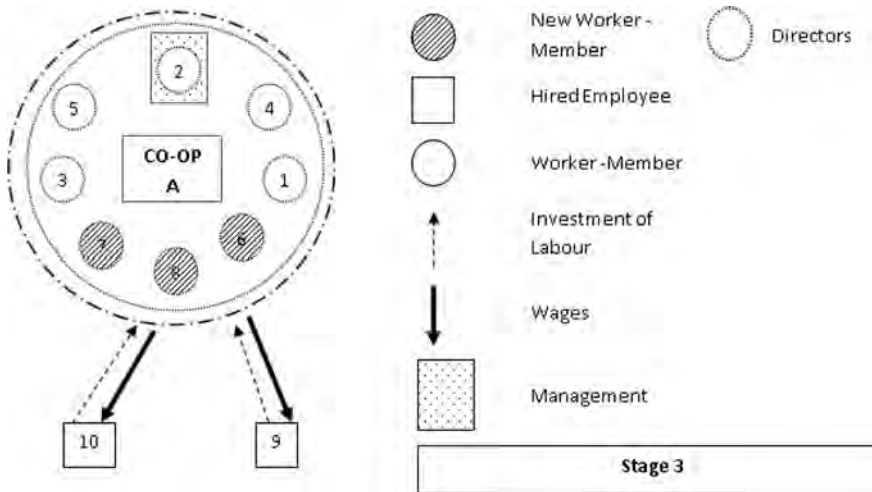
The first stage of their cooperative will therefore look like this:



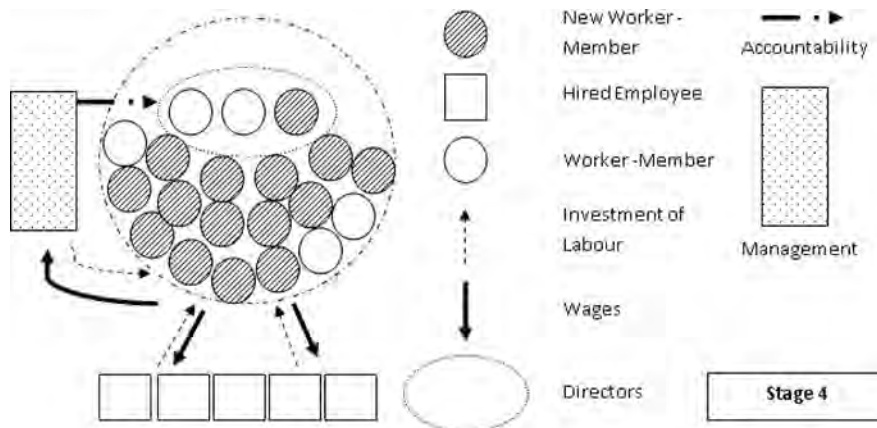
After a while, Co-op A's business begins to pick up. Through word-of-mouth, news about the furniture cooperative spreads across town. One day, three men, 6, 7 and 8, arrive at the shop and express their desire to gain membership of Co-op A. Two of them have experience in delivering goods and the youngest has a marketing degree from a local university. After some discussion, the members agree to include 6, 7 and 8 in the cooperative, in exchange for a capital contribution of EUR 10,000 each and the use of their specific skill sets. At this stage, Co-op A will look like this:



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



With the passage of years, Co-op A purchases fixed assets and opens branches across town. It now has 30 members<sup>18</sup> and a dozen blue-collar and office staff. As the members have a strong bond of trust<sup>19</sup> and they wish to better manage the expansion of the cooperative, they agree to elect three of their own fellow members as 'directors' of the cooperative on an annual basis,<sup>20</sup> with the directors being responsible for overseeing operations and appointing a professional, non-member manager to purchase raw materials, ensure quality control, market the furniture and implement decisions made by the board and the members.



### 3. The Irony of Consensus and the Iron Law of Oligarchy

On the face of it, the cooperative structure of Co-op A should inherently diminish conflicting interests that exist in conventional firms, such as the conflicts between investors and workers or the board of directors and workers. By choosing a

<sup>18</sup> Cornforth suggests that after 15-20 members, some form of representative democracy is needed. See C. Cornforth, 'Patterns of Cooperative Management: Beyond the Degeneration Thesis', *Economic and Industrial Democracy* 1995/16, p. 520. The ICA Group makes a similar suggestion once a worker cooperative has 12 members. See D. Hammer, 'Democratic Governance: The Design of Governance System for Worker Cooperatives', The ICA Group, p. 13, available online at: <<http://ica-group.org/product/democratic-governance-for-worker-co-ops/>> accessed on 23 February 2016.

<sup>19</sup> Feelings of trust can be crucial in the decision of a member to delegate his or her decision-making power to a director. They have to believe that they don't need to be part of every decision made. See the interviews of cooperators in G.C. Hunt, 'Division of Labour, Life Cycle and Democracy in Worker Co-operatives', *Economic and Industrial Democracy* 1992/13, p. 21ff.

<sup>20</sup> There is no ideal size of a cooperative Board of Directors, however the ILO recommends that the minimum should be three and the ICA Group suggests that there should be no more than twelve. See H. Henry, *Guidelines for Cooperative Legislation*, 3<sup>rd</sup> ed. rev., Geneva: ILO, 2012, Part 4.3-4.4; D. Hammer, 'Democratic Governance: The Design of Governance System for Worker Cooperatives', The ICA Group, p. 13.

structure in which the workers possess control rights as members of the cooperative on a one-member one-vote basis, the workers have fundamentally sought to diminish the power imbalances and alienation that exists in conventional firms.

### Irony of Consensus

Despite the aim of creating a supportive environment for the benefit of worker-members, in stage 1 a number of tensions between the members themselves may arise over the allocation of work and decision-making about the future of the cooperative. Each member may desire a different balance between profit, job security, favourable work-scheduling, safety and a congenial social atmosphere.<sup>21</sup> As the members are all equal members of the cooperative, all of their views will be legitimate but it may not be possible to achieve consensus. The heterogeneous interests can make it costly and difficult to decide on the direction of the firm, as every decision requires bargaining among the members.<sup>22</sup> If not remedied, the disagreements could boil over with the most productive members leaving ('brain drain').<sup>23</sup> Thus, while members will feel included in the decision-making process of the firm they work for, each decision could leave at least one member dissatisfied.

In stage 2, when new worker-members apply to join the cooperative there may be disputes between current members, about allowing new members to enter the cooperative, and between new members and old members once they have joined.<sup>24</sup> Old members may not want to take on new members as they could hamper future decision-making. It will also invariably exacerbate the problem of dividing tasks. While not working as efficiently nor partaking in necessary trainings nor embracing the cooperative's ethos, they will still have an equal say in management. This could materialise in fundamental disagreements over the direction the cooperative

21 Draft PECOL (May 2015), p. 25.

22 This is known as a 'collective choice problem'. See H. Hansmann, *The Ownership of Enterprise*, Cambridge, MA: The Belknap Press of Harvard University Press 1996.

23 Abramitzky's study of communes reveals that collective groups united by a 'social' ideology, like socialism, is more prone to brain drain than those unified by religious dogma. Hoffmann's comparative studies on loyalty to cooperatives indicate that the same logic could be applied to the relatively weak bonding effect of cooperative ideology. See R. Abramitzky, 'On the (Lack of) Stability of Communes: An Economic Perspective', in: RM McCleary (ed.), *The Oxford Handbook of the Economics of Religion*, Oxford: Oxford University Press 2012. This was also evident in the Mondragon Bookstore and Coffee House Collective mentioned in P Burrows, 'Parecon and Workers' Self-Management: Reflections on Winnipeg's Mondragon Bookstore and Coffee House Collective', C. Spannos, *Real Utopia: Participatory Society for the 21<sup>st</sup> Century*, Chico CA: AK Press 2008, p. 286.

24 Such conflicts emerged between old and new members of two Canadian media cooperatives. See G.C. Hunt, 'Division of Labour, Life Cycle and Democracy in a Worker Co-operative', *Economic and Industrial Democracy* 1992/13, p. 9-43.

should take. Some members may want to start a new line of furniture or move away from their 'artisanal' brand to a more commercial direction. This could lead to ill-will among all workers and production delays. This occurred with the growth of the Burley Design Cooperative,<sup>25</sup> Mondragon, and many other large-scale cooperatives.<sup>26</sup> While they will be sensitive to the fact that the cooperative provides everyone's livelihood, and they will be wary of imposing harsh sanctions,<sup>27</sup> some co-operators may feel more disinterested in the cooperatives' activities. By stage 3 of Co-op A's life cycle, hired employees have been taken on and a member-manager has been appointed. The challenge presented by this new organisational configuration is that the manager, for the duration of his tenure, has a monopoly of information regarding the daily operations of the cooperative and may have to be relied upon by other worker-members to resolve organisational problems. In turn, additional tensions may be generated by the hired employees who may feel unsure about their chances of obtaining membership of the cooperative.

#### The Emergence of Oligarchy

It is at around stage 4 that mature worker cooperatives begin to experience degeneration and suffer from two correlated, adverse trends: concentration of managerial power and a drop in worker motivation and active involvement in decision-making.<sup>28</sup> The examples of the Olympia Veneer Cooperative, the Nir Taxi

25 The Burley Design Cooperative was formed in 1978 to manufacture bicycle panniers (touring bags) and other accessories, with worker-members being granted equal voting power and share in the business in exchange for an initial investment of \$ 2500. Over a thirty-year period, Burley expanded considerably to include 100 worker-members and earned revenue of \$ 10 million per annum. While it tried to retain its participatory culture, new and old members clashed over what the core commitments of the cooperative should be. While some viewed democracy and social causes as being essential to the cooperative, others stressed financial performance and product diversification. For more information, see J. Schoening, 'The Rise and Fall of Burley Design Cooperative', *Oregon Historical Quarterly* 2010/111 (3), p. 312-341.

26 J. Rotschild and J.A. Whitt, *The Cooperative Workplace: Potential Dilemmas of Organizational Democracy and Participation*, Cambridge University Press: Cambridge 1986, p. 96.

27 G.M. Gulati, TMT Isaac and W.A. Klein, 'When a Workers' Cooperative Works: The Case of Kerala Dinesh Beedi', *UCLA Law Review* 2002/49, p. 1417-1454, p. 1423.

28 This is in line with Meisters' view that as market values are embraced, representative democracy creates fissures between managers and members. See A Meister, 'Democratie et participation dans les associations volontaires', *Sociologie du Travail* 1961/3, p. 236-252; R. Michels, *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy*, New York: The Free Press 1958; for a more contemporary example see Hernandez's study of Sociedad Cooperativa de Trabajadores Pascual (Pascual) in Mexico for an illustration of member apathy at a general meeting see S. Hernandez, 'Striving for Control: Democracy and Oligarchy at a Mexican Cooperative', *Economic and Industrial Democracy* 2006/27(1), p. 124-127.

Station<sup>29</sup> and many others indicate that, as with corporations, cooperatives have an oligarchic tendency, whereby a charismatic, elite group emerge over time and dominate the organisation. The need for technical expertise, leadership and quick decision-making may lead to certain members, especially managers, becoming entrenched in their positions. Appointment of the management by representative directors, and subsequent monitoring by them, should motivate management to act as effective stewards,<sup>30</sup> rather than in their own interests.<sup>31</sup> However, directors elected by the membership will find it difficult to hold management accountable, as they will need to balance their representative function with their duty to ensure the strong performance of the cooperative as a business.<sup>32</sup> This will be accentuated if the directors are laymen and lack the specialised skills possessed by the managers and do not have a unifying vision for the cooperative. At the same time, employees and newer members may feel emotionally indebted to upper management and older members and may become apathetic as a result of a cumbersome participation processes. This may engender feelings of indispensability and potentially allow management to exploit their dominant position to their personal advantage.<sup>33</sup> In some countries, these problems have been exacerbated by the spectre of corruption.<sup>34</sup>

29 'Nir' Taxi Station (name changed to protect confidentiality) is a taxi cooperative in Tel Aviv, Israel that was established in 1931 with the ambition of providing the cleanest and most punctual taxi service in the country. Taxi drivers could become members of the station if they owned a taxi, possessed a public license to drive it and bought a share in the station for \$ 10,000. The number of members grew slowly over the years but from the late 1950s onwards, an increasing number were hired drivers, rather than full members. Darr found that 38% of the station's workforce were non-members, who either rented taxis from members for night shifts or rented the use public licenses. See A. Darr, 'Conflict and Conflict Resolution in a Cooperative: The Case of the Nir Taxi Station', *Human Relations* 1999/52(3), p. 283.

30 C. Cornforth, 'The Governance of Cooperatives and Mutual Associations: A Paradox Perspective', *Annals of Public and Cooperative Economics* 2004/75(1), p. 15.

31 Euwema discusses the impact that personality and management-style clashes can have on decisions to govern the company, strategize and allocate resources. See M.C. Euwema, 'Bemiddelingbijconflictenaan de top', *Ondernemingsrecht* 2016/2.

32 Sivertsen found co-operatives to be management driven rather than member-controlled. See S. Sivertsen, 'Governance Issues Seen From a Management Perspective', *Review of International Co-operation* 1996/89(4), p. 34-36, p. 35.

33 C. Cornforth, 'Patterns of Cooperative Management: Beyond the Degeneration Thesis', *Economic and Industrial Democracy* 1995/16, p. 490.

34 For examples of managerial corruption in Mexico and Tanzania respectively, see S. Hernandez, 'Striving for Control: Democracy and Oligarchy at a Mexican Cooperative', *Economic and Industrial Democracy* 2006/27(1), p. 117-118; A. Boekhold, *Measuring the State of the Primary Cooperative Societies*, Amsterdam/Moshi: Green Development Foundation/Kilimanjaro Native Cooperative Union, 2005 cited in L. Shaw, 'Discussion Paper: Overview of Corporate Governance Issues for Co-operatives', *Working Meeting on Corporate Governance and Co-operatives*, Global Corporate Governance Forum, London, 8 February 2007, p. 24.

Broadly speaking, the interrelated tensions that hamper democracy over the course of the cooperative's life cycle concern managerial opportunism, difficulty in building consensus, heeding minority voices and member apathy. It is arguable that such conflicts are part and parcel of a democratic workplace but they should be constructively managed.<sup>35</sup> If not, they can leave worker-members feeling alienated, confused, insecure and with a 'vague sense of loss'<sup>36</sup> regarding the transformation of the cooperative's identity. It may even lead the cooperative to no longer be a labour-managed firm.

#### 4. Reviving Democracy and Self-Determination: A Holacratic Approach

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

Some argue that as members are formally equal and experience feelings of 'ownership', they should feel empowered to raise their concerns and actively utilise the mechanisms available for them to do so in case of conflicts.<sup>37</sup> Hoffmann reasons that this occurs more often in non-hierarchical workplaces because members perceive greater 'procedural justice' in the system, as they have trust in the authorities<sup>38</sup> have equal standing with other disputants and believe they will receive non-discriminatory, neutral treatment.<sup>39</sup> If they feel that procedural justice exists in their cooperative, they will generally favour collective fairness over individual interests.<sup>40</sup> In relation to professional non-member management, it is generally suggested that management should receive cooperative education upon appointment to ensure that the cooperative identity is respected.<sup>41</sup> However, it is

35 Z. Gamson and H. Levin, 'Obstacles to the Survival of Democratic Workplaces', in: R. Jackall and H. Levin (eds.), *Worker Cooperatives in America*, Berkeley: University of California 1984, p. 219-244, p. 235-236.

36 G.C. Hunt, 'Division of Labour, Life Cycle and Democracy in Worker Co-operatives', *Economic and Industrial Democracy* 1992/13, p. 35.

37 E.A. Hoffmann, 'Dispute Resolution in a Worker Cooperative: Formal Procedures and Procedural Justice', *Law & Society Review* 2005/39(1), p. 53-54.

38 A. Hyde, 'In Defense of Employee Ownership', *Chicago-Kent Law Review* 1991/67, p. 191-194.

39 T.R. Tyler and E.A. Lind, 'Procedural Justice', in: J. Sanders and V.L. Hamilton (eds.), *Handbook of Justice Research in Law*, New York: Kluwer Academic/Plenum Publishing 2000, p. 65-92 cited in E.A. Hoffmann, 'Confrontations and Compromise: Dispute Resolution at a Worker Cooperative Coal Mine', *Law & Social Inquiry* 2001/26(3), p. 560.

40 E.A. Hoffmann, 'Confrontations and Compromise: Dispute Resolution at a Worker Cooperative Coal Mine', *Law & Social Inquiry* 2001/26(3), p. 569.

41 See Section 2.5(8), Draft PECOL (May 2015).

important that co-operators are self-conscious about the potential for domination and to have a ‘cycle of vigilance’<sup>42</sup> to avert managerial opportunism. The cooperative could consider using role-reversal exercises or appointing external mediators that have a thorough understanding of group dynamics and thereby can help strengthen worker teams.<sup>43</sup> These are *post facto* remedies to an existing problem rather than a means to institutionalise democratic principles. A survey of the (empirical) research reveals that many cooperatives have sought to resolve tensions between members by establishing a scheme where management responsibilities are rotated<sup>44</sup> and training is provided on cooperative and participative values.<sup>45</sup> To avoid ‘free rider’ problems, rewards have been given to active participants and high-performing workers<sup>46</sup> and remuneration has been partially tied to individual and group performance, thereby requiring less managerial monitoring and more self- and mutual-monitoring.<sup>47</sup> To assert direct member control over management,

42 T. Lodahl and S. Mitchell, ‘Drift in the Development of Innovative Organizations’, in: J. Kimberly and R. Miles (eds.), *The Organizational Life Cycle*, San Francisco: Jossey Bass 1980.

43 See Euwema’s suggestions on appointing specially-qualified mediators for conflicts among board members in M.C. Euwema, ‘Bemiddelingbijconflictenaan de top’, *Ondernemingsrecht* 2016/2. The ILO also suggests the use of mediation in internal disputes. See H. Henry, *Guidelines for Cooperative Legislation*, 3<sup>rd</sup> ed. rev., Geneva: ILO 2012, Part 11. However, the Draft PECOL (May 2015) does not explicitly mention ADR for internal disputes.

44 Burrows suggests rotating both labour-intensive and managerial tasks, depending on industry. Otherwise the ones in more empowered positions will become more assertive. See P. Burrows, ‘Parecon and Workers’ Self-Management: Reflections on Winnipeg’s Mondragon Bookstore and Coffee House Collective’, in: C. Spannos, *Real Utopia: Participatory Society for the 21<sup>st</sup> Century*, Chico CA: AK Press 2008, p. 279, 280 and 283.

45 Formula Servizi, a large Italian worker cooperative that provides a range of high-quality services, gives potential members 2 years of training while Cooperative Muratori e Braccianti (CMB), a workers cooperative in the construction sector, gives bonuses on the basis of training participation. See M. Monaco and L. Pastorelli, ‘Trade Unions and Worker Cooperatives in Europe: A Win-Win Relationship’, *International Journal of Labour Research* 2013/5(2), p. 242-245. For this purpose, it may be necessary to build a training reserve fund, see ss. 3.4(2)(a), 3.4(8), 70, Draft PECOL (May 2015). In the future, such training may become increasingly digitalised. See I. Snaith, ‘Virtual Co-operation: The Jurists’ Role’, available online at: <[www.iansnaith.com/wp-content/blogs.dir/8/files/2013/02/Virtual-Co-operation.pdf](http://www.iansnaith.com/wp-content/blogs.dir/8/files/2013/02/Virtual-Co-operation.pdf)> accessed 25 February 2016.

46 D. Hammer, ‘Democratic Governance: The Design of Governance System for Worker Cooperatives’, The ICA Group, p. 24.

47 The Kerala Dinesh Beedi cooperative has such a system in place. Crucially, mutual monitoring has been seen to improve the performance of those who fall behind in production and wages remained above the market average. See GM Gulati, TMT Isaac and WA Klein, ‘When a Workers’ Cooperative Works: The Case of Kerala Dinesh Beedi’, *UCLA Law Review* 2002/49, p. 1439-1440. Though it is important to consider Dow’s argument that certain free rider problems are inevitable, see GK Dow, *Governing the Firm: Workers’ Control in Theory and Practice*, Cambridge: Cambridge University Press 2003, p. 175. The beneficial impact of profit-sharing, group bonuses and penalties on ‘total labour productivity’ can be seen in D.C. Jones and T. Kato, ‘The

Co-op A could follow the example of other cooperatives and enact organisational changes that require managers to take on certain operational tasks and regularly disseminate information regarding their activities.<sup>48</sup> In line with ubiquitous (but contested) corporate governance practices, they could establish 'advisory councils' or supervisory committees to enhance member oversight,<sup>49</sup> vote on director remuneration<sup>50</sup> and appoint independent, professional directors.<sup>51</sup> These directors could be vetted by the supervisory committee, have maximum term times and not be allowed to stand for re-election.<sup>52</sup>

However, the challenge is institutionalising these aforementioned practices in a cooperative's management structure. In our view, lessons could be learned from other social enterprises outside of the cooperative sector. One approach worth considering is the adoption of *Holacracy*<sup>TM</sup> as a governance system ('Holacracy') in

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Productivity Effects of Employee Stock-Ownership Plans and Bonuses: Evidence from Japanese Panel Data', *The American Economic Review* 1995/85(2), p. 391-414; D.L. Kruse, *Profit Sharing: Does it Make a Difference?*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research 1993; S.B. Wadhvani and M. Wall, 'The Effects of Profit-Sharing on Employment, Wages, Stock Returns and Productivity: Evidence from UK Micro Data', *Economic Journal* 1990/100(399), p. 1-17; B Holmstrom, 'Moral Hazard in Teams', *Bell Journal of Economics* 1982/13(2), p. 324-340.

48 Many scholars have attributed managerial entrenchment to the informational advantage they have. To be able to make informed democratic decisions, it is suggested that they are given ready, transparent access to information. See Section 2.6(1), Draft PECOL (May 2015). This could be done by summarising information in a newsletter, posting regular bulletins or establishing a website. Important governance documents should also be available in an easily accessible information file. See D. Hammer, 'Democratic Governance: The Design of Governance System for Worker Cooperatives', The ICA Group, p. 22-23, available online at: <<http://ica-group.org/product/democratic-governance-for-worker-co-ops/>> accessed on 23 February 2016.

49 The ILO suggests that cooperatives can have a permanent 'control unit', such as a supervisory or advisory council, to act on behalf of the members as a mini general assembly to exercise an effective and continuous monitoring of the Board of Directors and Management. For more see H. Henrý, *Guidelines for Cooperative Legislation*, 3<sup>rd</sup> ed. rev., Geneva: ILO 2012, Part 5.1, 5.4

50 See Section 2.5(1), Draft PECOL (May 2015). The wage differential between average workers and average managers in many cooperatives is low and voted upon at the General Assembly. The Kerala Dinesh Beedi cooperative is an exceptional example of this as the Directors and Managers receive the same wage. See G.M. Gulati, TMT Isaac and W.A. Klein, 'When a Workers' Cooperative Works: The Case of Kerala Dinesh Beedi', *UCLA Law Review* 2002/49, p. 1443.

51 A social enterprise, the Day Chocolate Company, has the Kuapa Kokoo Chocolate Co-operative as a major shareholder and has NGO representatives and co-operators on its Board of Directors. See generally H. Henrý, *Guidelines for Cooperative Legislation*, 3<sup>rd</sup> ed. rev., Geneva: ILO, 2012, Part 5.3.3. But also see s. 2.5(6), Draft PECOL (May 2015) which states that the majority of the Board has to be co-operators.

52 This was the practice in Pascual, a Mexican cooperative. To ensure continuity, however, only one tranche of directors retired in a given year. See S. Hernandez, 'Striving for Control: Democracy and Oligarchy at a Mexican Cooperative', *Economic and Industrial Democracy* 2006/27(1), p. 116.

worker cooperatives.<sup>53</sup> Holacracy is a managerial approach that distributes authority, decision-making powers and roles in an organisation in a different manner than conventional firms. Holacratic enterprises are not flat organisations but they comprise a number of roles that are bound together, like a Matroshka doll, in a ‘nest’ of circles. Its history dates back to the early years of the 21<sup>st</sup> century and grew out of the ‘sociocracy’, ‘agile software development’ and ‘lean’ movements, which prioritised self-organisation and delivering results with minimum managerial interference.<sup>54</sup> By giving ‘role-fillers’ complete authority over their domain, and not requiring consensus in all decisions, individuals have an incentive to be creative and leave their mark.<sup>55</sup> Most importantly, addressing governance gaps through regular meetings enables Holacracy to engage workers in the decision-making process and clarify the members, board and management’s role and responsibilities.<sup>56</sup> Participants in this organizational structure may feel more in control over issues that directly influence their work life. Its proponents, like the billion dollar online clothing retailer Zappos, valorise the system’s encouragement of self-help,

53 This derives from the term holarchy. According to Koestler, a holon is a ‘whole that is a part of a larger whole’ while holarchy is the ‘connection between these holons’. See A. Koestler, *The Ghost in the Machine*, New York: Macmillan 1968. Drawing inspiration from how nature organises itself (i.e. cells are a holon and they collective comprise an organ which is another holon, etc.), holarchies seek to ‘simultaneously honour autonomy and collaboration at every level of scale’. See HolacracyOne LLC, ‘Holacracy: Discover A Better Way of Working’, *Introductory White Paper*, p. 7, available online at: <[www.holacracy.org/whitepaper](http://www.holacracy.org/whitepaper)> accessed on 23 February 2016; also see B.J. Robertson, *Holacracy: The New Management System for a Rapidly Changing World*, New York: Henry Holt and Company 2015, p. 38-39.

54 See B.J. Robertson, ‘History of Holacracy: The Discovery of an Evolutionary Algorithm’, *Holacracy Blog*, June 2014, available online at: <<https://blog.holacracy.org/history-of-holacracy-c7a8489f8eca#.s8v6k53wb>> accessed on 25 February 2016. The idea of teams as circles, elected representatives and structured decision making was inspired by Gerard Endenburg’s conception of sociocracy in the Netherlands in 1960s and 1970s. See, e.g., G. Endenburg, *Sociocracy as Social Design*, Delft: Eburon 1998; Holacracy is distinguished from sociocracy in the manner it distinguishes roles from persons and eschews a formal manager.

55 Art. 1.3, 1.4 and 2.1.2 *Holacracy Constitution*, Version 4.1.

56 The ICA Group’s guide on democratic governance suggests delineating decision-making in a cooperative pursuant to extensiveness, significance and grievability tests. See D. Hammer, ‘Democratic Governance: The Design of Governance System for Worker Cooperatives’, The ICA Group, p. 16-22; Also see C. Cornforth, ‘The Governance of Cooperatives and Mutual Associations: A Paradox Perspective’, *Annals of Public and Cooperative Economics* 2004/75(1), p. 11-32; C. Cornforth and C. Edwards, *Good Governance: Developing Effective Board-Management Relations in Public and Voluntary Organisations*, London: CIMA 1998; M.A. Harris, ‘Exploring the Role of Boards Using Total Activities Analysis’, *Nonprofit Management and Leadership* 1993/3(3), p. 269-282.

its transparency and agility and for being responsive to demands for a sustainable economy.<sup>57</sup>

### Holacracy and Co-op A

Its structure and potential to revive flagging democratic practices is best illustrated through the example of Co-op A. If the cooperative ratifies Holacracy's constitution ('Constitution') in its articles of association or bylaws, each worker will fill a role in the organisation. This role will have certain functions (its 'domain') that it is responsible for (its 'accountabilities') to fulfil the purpose of its team ('circle')<sup>58</sup> and organisation (as determined in the Constitution).<sup>59</sup> The role comes with the authority to control and regulate the domain that is connected to the role. Each 'role-filler' can establish role policies that describe how others may impact their domain. These policies have to be put forward in a forum that is convenient for those that are impacted by the domain and may not violate the policies of the circle. As a result the role-filler has considerable influence on the realisation of his/her tasks, without having the brand of uninhibited freedom that could harm the interest of involved parties and without a manager that (solely) decides how things should be done.

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

There are, of course, multiple circles involved in the multi-faceted activities of the Co-op. One circle would be responsible for logistics, another for design, another for manufacturing and so on. Each circle would have a leading person called the 'lead link' who assigns roles, monitors individual suitability to fulfil a role, assess performance, strategizes and allocates resources.<sup>60</sup> Alongside this lead link role,

57 B.J. Robertson, *Holacracy: The New Management System for a Rapidly Changing World*, New York: Henry Holt and Company 2015 p. 194; Holacracy One LLC, 'Holacracy: Discover A Better Way of Working', *Introductory White Paper*, p. 1.

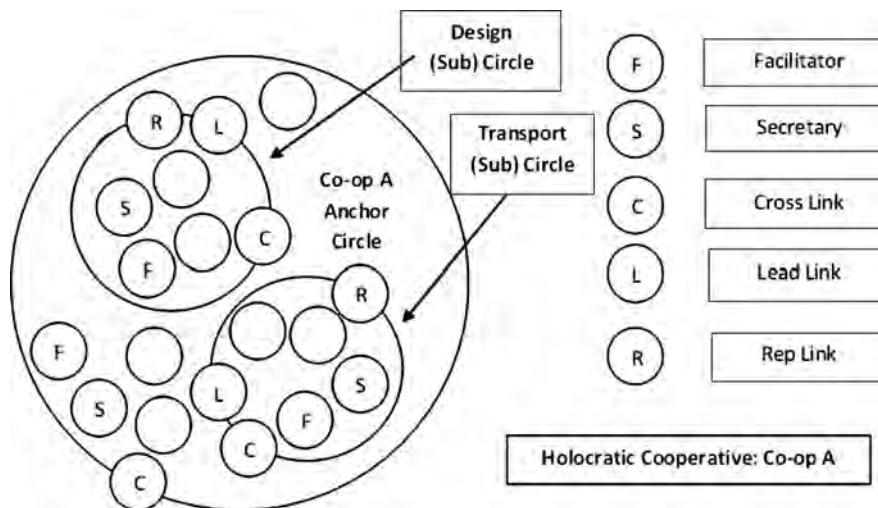
58 Art. 2.1 *Holacracy Constitution*, Version 4.1.

59 The 'Anchor Circle', the broadest circle in Holacracy, is responsible for defining the organisation's overall purpose. Art. 5.2.3 *Holacracy Constitution*, Version 4.1, states that '[t]he Purpose of the Organization is the deepest creative potential it can sustainably express in the word, given all of the constraints acting upon it and everything available to it. That includes its history, current capacities, available resources, Partners, characters, culture, business structure, brand market awareness and all other relevant resources or factors'.

60 Art. 2.2.2 and Appendix A on p. 37, *Holacracy Constitution*, Version 4.1.

each circle would have elected facilitator-, secretary- and rep- link roles to address governance challenges and effectively act as a check to the lead link's authority.<sup>61</sup> The facilitator will ensure adherence to the organisation's process and constitution during meetings, the secretary will undertake administrative and record-keeping tasks of the circles, as well as constitutional interpretation, and the rep link will pass on concerns of the circle to broader circles and vice versa. In addition, there is scope for having 'cross links', representatives from external actors or from other circles, in a 'target' circle so as to play a policy-shaping role similar to skilled, independent directors.<sup>62</sup> Any worker-member will be eligible for elections, which will, in turn, be organised on a regular basis.<sup>63</sup> 'Anchor circles', that have similar qualities to a board of directors, can either have a lead link or have a number of cross links from constituent circles and external actors.<sup>64</sup>

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



Although the anchor circle appoints the lead link, it should be noted that the lead link is not identical to a conventional firm or cooperative's manager. Managerial 'power', in terms of role(s) and accountabilities, may be distributed among the lead link, rep link, facilitator, secretary and the workers themselves,<sup>65</sup> rather than concentrated in one role. While the lead link is responsible for allocating roles and accountabilities,<sup>66</sup> the core circle members have the power to propose an amendment to the role of the lead link through the governance process discussed

<sup>61</sup> Art. 2.5 and Appendix A on p. 37-38, *Holacracy Constitution*, Version 4.1.

<sup>62</sup> Art. 2.7, 2.7.3 *Holacracy Constitution*, Version 4.1.

<sup>63</sup> Art. 2.5.1, 2.5.2 *Holacracy Constitution*, Version 4.1.

<sup>64</sup> Art. 5.2.1-5.2.4 *Holacracy Constitution*, Version 4.1.

<sup>65</sup> See, e.g. Art. 1.1 Operating Agreement of Holacracy One, LLC for their definition of 'Manager'.

<sup>66</sup> Art. 2.4 *Holacracy Constitution*, Version 4.1.

below.<sup>67</sup> In our example, if the lead links' appointers at the anchor circle level – the cross links – are themselves elected by the workers pursuant to the articles of association or by laws of the cooperative, then accountability and ultimate direct member control is assured.

Thus, instead of a managerial 'hero' (or despot!), Holacracy requires, members to be hands-on in the governance of the organisation and trouble-shooting problems that may arise at its source.<sup>68</sup>

### The governance meeting

The model's Constitution acknowledges the 'tensions'<sup>69</sup> that arise in any workplace and provides for their resolution through well-coordinated meetings.<sup>70</sup> The governance meeting of a circle is premised on achieving workable solutions to tensions, rather than trying to achieve 'ideal' solutions that pleases everyone as that may be both time-consuming and impracticable.<sup>71</sup> There is no quorum and no fixed agenda and those that do not attend are presumed to agree to the decisions made.<sup>72</sup> Roles raise proposals for resolving tensions that they sense during their work, to which other core circle members can raise objections in a structured manner. There is initially a 'check-in round' for individuals to express their state of

67 Circle members can 'remove any accountabilities, domains, authorities or functions' of the lead link that may be necessary to improve the functioning of the circle and re-allocate such accountabilities, domains, authorities or functions to other roles. See Art. 2.2.3 *Holacracy Constitution*, Version 4.1.

68 Art. 3.5 *Holacracy Constitution*, Version 4.1; Stryjan and Weick were early proponents of employees being active participants in resolving governance conflicts, especially in labour-managed firms. Involvement is considered to be the most creative and positive way to handle conflicts. See Y. Stryjan, 'Understanding Cooperatives: The Reproduction Perspective', *Annals of Public and Cooperative Economics* 1994/65(1), p. 68-69, 76; K.E. Weick, *The Social Psychology of Organizing*, Reading, Mass.: Addison Wesley 1979.

69 Tensions being defined as the gap between real/current results and potential results. See Art. 1.2.1 *Holacracy Constitution*, Version 4.1. In the case of the transport sub circle, for example, this can range from clarifying which driver has to pick up a consignment of mahogany wood to creating new roles altogether.

70 Aside from governance meetings, there are also tactical meetings for circle member to keep abreast of different projects and move forward with new actions, meetings for strategy and inter-circle meetings for significant tensions that need to be addressed at a super circle or anchor circle level.

71 Hernandez, for instance, noted that meetings in the Pascual cooperative in Mexico lasted for 4-10 hours, where many members fell asleep and had to be coerced into attending under the threat of losing food coupons. This was because the members sought to discuss every issue, vote and achieve a consensus. See S. Hernandez, 'Striving for Control: Democracy and Oligarchy at a Mexican Cooperative', *Economic and Industrial Democracy* 2006/27(1), p. 122, 125.

72 Art. 3.3.2, 3.3.4 *Holacracy Constitution*, Version 4.1. However, core circle members are strongly encouraged to participate in meetings.

mind and a short ‘administrative concerns’ round to set a framework for the meeting. The facilitator then allows the members to very briefly raise the tensions they have noted as a means to build an agenda. These items are then considered in the order they have been expressed through ‘integrative decision making’,<sup>73</sup> with the member presenting their proposal for resolving a tension and the others being given an opportunity to ask for clarifications, suggest amendments and potentially raise objections from the perspective of the roles they fill. The facilitator ensures that everyone gets an opportunity to speak, but without allowing it to devolve into an open discussion. The facilitator also tests the reasonableness and validity of both proposals and objections,<sup>74</sup> in terms of whether it will harm the circle or push its activities backwards. If both are found to be valid, then a proposal will usually integrate the objections so far as it can still resolve the highlighted tension. This strikes a balance between listening to minority voices and considering majority concerns. If such a governance process is adopted in a cooperative’s managerial structure, co-operators can get through many agenda items in a brief period of time, address tensions and avoid the deadlock that can often arise when consensus is sought.<sup>75</sup>

#### **Holacracy and worker cooperatives**

While Holacracy was developed with orthodox hierarchical organisations in mind, where workers do not have a (substantial) say in how the work is done or the overall direction the organisation takes, it provides a model that is flexible enough to extend to worker cooperatives.<sup>76</sup> This is because considerable discretion is left to the decisions of ratifying members and key decisions can be made at governance meetings. As it is simply an ‘operating system’ for an organisation, it allows for policies (e.g. compensation, dismissal) to be transitioned from the earlier form of organisation, as long as they are first adopted using the governance process.<sup>77</sup> Other important changes can also be made by the ratifying members. For instance, instead of only core circle members participating in the governance process, all worker-members can be entitled to participate, raise proposals and objections.

Though self-managing teams can already be found in some cooperatives,<sup>78</sup> Holacracy’s chief contribution may be the nudge it gives co-operators to rethink the scope of their roles, reconsider the manner in which they holds meetings and redefine the extent of managerial authority. By adopting the Holacracy constitution in a cooperative’s articles of association or bylaws, co-operators will entrench ‘partici-

<sup>73</sup> Art. 3.3.5 *Holacracy Constitution*, Version 4.1.

<sup>74</sup> Art. 3.2.3, 3.2.5 *Holacracy Constitution*, Version 4.1.

<sup>75</sup> B.J. Robertson, *Holacracy: The New Management System for a Rapidly Changing World*, New York: Henry Holt and Company 2015, p. 25.

<sup>76</sup> See the scope for amending the Constitution in Art. 5.5 *Holacracy Constitution*, Version 4.1.

<sup>77</sup> Art. 5.5 *Holacracy Constitution*, Version 4.1.

<sup>78</sup> See the management structures mentioned in Cooperatives UK, *The Worker Cooperative Code*, 2012.

patory consciousness<sup>79</sup> in practice, as it fosters a process of conscientization, confrontation, negotiation and settlement.<sup>80</sup> Moreover, creating interlocked circles mirrors the practice of large cooperatives like Mondragon that encourage their constituent cooperatives to splinter into subordinate sections or new sustaining ventures in a bid to retain workplace democracy and improve financial performance.<sup>81</sup>

Holacracy is still in its formative years and is not without its detractors. Some contend that it will only work in small, creative and fast-growing companies, rather than larger, orthodox firms.<sup>82</sup> Whether this is true or not remains to be seen. However, worker cooperatives are not founded with the objective of replicating the practices and culture of conventional firms. Ultimately, worker cooperatives seek to create a workplace environment that cannot be found elsewhere<sup>83</sup> and are both 'nicer and better' than rival companies.<sup>84</sup> A holacratic cooperative could potentially create just such an environment – maybe in the next 25 years or so!

79 This is characterized by self-reliance, flexibility, the ability to notice trends, an attachment to working with others, a capacity to admit to errors and a willingness to learn. See P. Bernstein, *Workplace Democratization: Its Internal Dynamics*, New Brunswick: Transaction Books 1980, p. 93; R.J. Bernstein, *The Restructuring of Social and Political Theory*, Philadelphia: University of Pennsylvania Press 1976.

80 See A. Curle, *Making Peace*, London: Tavistock 1971.

81 A. Guitierrez-Johnson, 'The Mondragon Model of Cooperative Enterprise: Considerations Concerning Its Success and Transferability', *Changing Work* 1984/1(1), p. 35-41. When writing about 'guilds', Marx also recommended that existing guilds could split up into subordinate sections or establish new guilds for the purpose of further dividing labour. See G-Z. Sun (ed.), *Readings in the Economics of Labor: The Classical Tradition*, 1<sup>st</sup> ed., World Scientific Publishing 2005, p. 186.

82 Schumpeter, 'The holes in holacracy', *The Economist* 5 July 2014.

83 See the committee established to plan 'fun' activities in the South Mountain Company (SMC), a well-established and prosperous architecture and building cooperative in Wisconsin, mentioned in Berner et al., 'Successful Cooperative Ownership Transitions: Case Studies on the Conversion of Privately Held Business to Worker Cooperatives', *Case Studies from the University of Wisconsin-Madison Center for Cooperatives*, March 2015, p. 11-12; also see E.A. Hoffmann, 'The Ironic Value of Loyalty: Dispute Resolution Strategies in Worker Cooperatives and Conventional Organizations', *Non-profit Management & Leadership* 2006/17(2), p. 165, 176.

84 Senior management of a labour-managed firm expressed such an intention. See J. Storey, I. Basterretxea and G. Salaman, 'Managing and Resisting "Degeneration" in Employee-Owned Businesses: A Comparative Study of Two Large Retailers in Spain and the United Kingdom', *Organization* 2014/21(5), p. 633.