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## **A Contradiction of Organization Democracy Among Labor-Managed Firms**

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### **ABSTRACT**

Ideas can influence the reproduction of social orders in our work lives, and ideas can alter activities to create new social orders. A key concern of my research is whether individuals can engage new ideas to create organization social structures that promote the basic ideals of democracy. To address this concern, I examined the social structures of labor-managed firms, which, through their ownership by those who are workers in the firm, are believed to embody the ideals of organization democracy. In previous research I developed a general framework of organization democracy from a narrative analysis of the ethnographic and case study literature on labor-managed firms. I propose that there is a fundamental contradiction in the practices of organization democracy among labor-managed firms in that some members believe that humans are essentially egoistic in nature, while some members believe that humans are essentially cooperative in nature. My contribution is that an unproven belief regarding human nature, or what one might call faith, will drive the preferred types of social structures utilized to create organization democracy within a labor-managed firm.

### **INTRODUCTION**

At least since the writings of Max Weber at the early part of the 20th century (1947, 1978), understanding the manner in which social structures emerge and reproduce themselves is one of the fundamental concerns for the study of organizational life. It is my position that ideas can influence the reproduction of social orders in our work lives, and ideas can alter activities to create new social orders. A key concern of my research is whether individuals can engage new ideas to create organization social structures that promote the basic ideals of democracy – that is of the rule of law and the protection of rights for individuals and minorities, and of elected representation and accountability. I address this concern by researching the social structures of the ‘labor-managed firm,’ a historically unique form of organization (sometimes called a worker owned cooperative or a producer cooperative) that blossomed out of the ideology of the nineteenth and twentieth century cooperative movement. Labor-managed firms are believed to embody the ideals of organization

democracy through the simple fact of the ownership of the firm by those who are its workers. Most theoretical works state explicitly that, given the property-rights of workers in a labor-managed firm, workers are in control of the workplace, and therefore, they then imply that workplace democracy will naturally occur.

In previous research (Luhman, 2000) I developed a general framework of organization democracy from a narrative analysis of the ethnographic and case study literature on labor-managed firms. I set about to conduct a narrative examination of the literature on labor-managed firms to discover the social structures within labor-managed firms, and to assess if they may be described as democratic in nature. My primary research question was: Does the literature on labor-managed firms confirm the assumption that they practice organizational democracy? This primary research question required, however, that the term of ‘organizational democracy’ be defined through a secondary research question: What is theoretical definition of organizational democracy? I first examined the theoretical

literature to create a framework of how firms might incorporate concepts of democracy in their social structures, and second, I examined a collection of ethnographic and case studies on labor-managed firms to discover their actual practices. I did develop an answer to the secondary research question. It consisted of fourteen key concepts derived from the theoretical literature, and nine key concepts derived from actual studies of labor-managed firms. However, I concluded from the evidence that the answer to the primary research question was ambiguous. How could organization democracy be proven to exist given this very broad theoretical definition? The determination of existence of organization democracy in LMFs simply requires more direct research, such as surveys, case studies, and ethnographies.

To make sense of my conclusion, I propose that there is a fundamental contradiction in the practices of organization democracy among labor-managed firms in that some members believe that humans are essentially egoistic in nature, while some members believe that humans are essentially cooperative in nature. This allows me to make the proposition that organization democracy does exist among labor-managed firms, but only if I split the key concepts between these two perspectives on human nature. I conclude that individuals who are critically reflective of their world can engage new ideas to create organization social structures that are deemed as defending and promoting the basic ideals of democracy. My contribution is that an unproven belief regarding human nature, or what one might call faith, will drive the preferred types of social structures utilized to create organization democracy within a labor-managed firm.

The article is divided into five major sections. First, I present some background information on labor-managed firms. Second, is a presentation of my original research method and the resulting framework of organization democracy in labor-managed

firms. Third, I discuss the literature on the purpose of social structures in general. Fourth, is a discussion on the fundamental contradiction in the practice of organization democracy among labor-managed firms. Finally, I end the article with a discussion of implications.

## **BACKGROUND ON LABOR-MANAGED FIRMS**

Labor-managed firms blossomed from the struggle of workers to hold onto a pre-industrial revolution ideal of the work organization (Campbell, Keen, Norman & Oakeshott, 1977; Corina, 1994; Denholm, 1976). The ideal of owners and workers living in mutual cooperation and interdependency was lost when the producer was divorced from his or her means of subsistence because of the introduction of machinery, mechanical power, and the factory system (Potter, 1891: 7-10). The new form of work organization under capitalism led to, and continues to support, a society based solely on monetary relationships. Promoters such as Robert Owen and Jose Marie Arizmendiarieta view the cooperative form of organization as an answer to the alienation of workers from their labor.

A labor-managed firm is an economic organization where those who perform the work (i.e. the members of the firm) also hold the legal rights of 'residual claimant' (essentially rights over profits), and thus exercise control over the production process. In contrast, the dominant capitalist economic organization, what is called a 'capital-managed firm,' determines the legal right of residual claimant through the property ownership of capital assets. With these firms the capital owners exercise direct or indirect control over the production process. Labor-managed firms (hereafter LMFs) can either have 'individual equity' in which residuals are the property of the individual member, or they can have 'social property' in which residuals are the property of the collective of members (Ellerman, 1992: 167-

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169). LMFs are also guided by a set of core principles such as: open and voluntary membership; democratic control (i.e. each member has one vote irrespective of capital or labor input); all economic surplus belongs to the members and should be distributed in an equitable way; some manner of social responsibility, and efforts to educate members and the public about cooperative principles (GMBATU, 1986: 1).

Early studies of LMFs (e.g. Potter, 1891) suggested that participatory and self-management schemes would not succeed, and most twentieth century pro-labor economists and intellectuals pushed instead for collective bargaining. The contemporary study of LMFs in economics began out of an interest in examining alternatives to state socialism or capitalism. The renewed interest was linked to the problems of structural unemployment and decreases in productivity levels in Western economies during the late 1960s and 1970s, as well as the failure of economic development initiatives in less developed countries from the 1950s onwards (Jones & Svejnar, 1982). Economic modeling of these firms began with Ward (1958), Domar (1966), and Vanek (1970). The model describes LMFs as: managed by majority rule of the membership; equally distributed net income; member determined firm output level and price levels (given market conditions); and, member determined firm size (given the labor supply). LMFs' optimizing behavior is the desire to maximize the income per worker. In fact, the LMFs with the highest productivity levels and the longest lives are the ones with the most 'cooperative features.' Meaning members within the firm agree that "(1) membership be restricted to those in the current active work force; (2) all control and management be vested in the work force on the basis of one-member/one-vote; (3) the surplus be distributed to members as workers" (Jones, 1986: 56).

LMFs have been studied extensively and there is a lot of empirical evidence on the issue of their economic viability and

efficiency. Two key studies of the efficiency of LMFs around the world include Bellas's (1972) study of the northwest U.S. plywood industry, and Thomas and Logan's (1982) study of the Mondragon, Spain complex. Other empirical studies of LMFs include: Berman and Berman's (1989) study of U.S. plywood LMFs; Jones's (1986) study of Polish LMFs; Mygrind's (1986) study of Danish LMFs; Perotin's (1987) and Defourney's (1992) study of French LMFs; Prasnikar, Svejnar, Mihaljek and Prasnikar's (1984) analysis of Yugoslavian LMFs; Thordarson's (1987) study of Swedish LMFs; and, Zevi's (1982) study of Italian LMFs. Most of these are examined in a meta-analysis by Doucouliagos (1997) that found no significant difference between the efficiency of LMFs and comparable CMFs. In addition, there is also literature on LMF populations and lifecycles (e.g. Russell (1993) on population theory, Stephen (1984) and Bonin, Jones and Putterman (1993) on actual population data, and Lichtenstein (1986) on lifecycles. According to the *Directory of Workers' Enterprises in North America* (ICA Group, 1991: 1-17), out of 154 listed LMFs in 1991 (there most current directory) there were forty-five firms in retail, forty-two in manufacturing, twenty-eight in services, eighteen in construction, nine in wholesale, seven in transportation, and five in forestry. The annual sales revenues ranged from forty-three firms earning from zero to \$250,000, and ten firms earning \$11 million to \$52 million. Firm sizes ranged from thirty-five with 1-5 members, and five firms with 301-500 members. Some of the larger firms were: Mount Baker Plywood with 187 members and \$52 million in sales; Stevenson Co-ply, Inc. with 168 members and \$29 million in sales; and, Dakotah, Inc. with 325 members and \$19 million in sales (ICA Group, 1991: 18-21).

### ORIGINAL RESEARCH METHOD AND FRAMEWORK

My research (Luhman, 2000) qualitatively examined texts from published social science literature similar to a

quantitative meta-analysis. A meta-analysis is when results across published studies are combined to conclude any overall associations among similar variables. My study of LMF literature combined and examined descriptions across qualitative studies to conclude associations among concepts – an analytical procedure with two precedents. The first precedent is called ‘secondary data analysis’ as per Hodson, Welsh, Rieble, Jamison & Creighton (1993), and Hodson (1996). In these two studies the textual data was *quantified* using multiple coders in order to verify reliability and create a predictive model. My research, however, left the coded data in narrative form to create a descriptive model. The second precedent is called ‘meta-ethnography’ as per Noblit and Hare (1988). In this study the coding and synthesis of a collection of ethnographic studies constructed *interpretive* explanations, that is, their work *translated* the data into metaphors and concepts to create an inductively derived descriptive model. My research was in line with this second precedent, although it included data from ethnographies (i.e. participant observation, interviews, and archival data) and from case studies (i.e. outsider observation, interviews, and archival data).

The goal of my research was to describe (see Pleasant’s (1999) discussion of a Wittgensteinian (1974) idea of a critical social science). Two examples in the management field that are close to my research goal are Litterer (1986), and Locke and Golden-Biddle (1997). Litterer searched management literature and created a conceptual framework of pre-Taylor management thought. Locke and Golden-Biddle search management literature and created a conceptual framework of how authors construct their ‘contribution’ to management knowledge.

I collected the data by first determining the appropriate reference data banks and appropriate index headings under which to search for citations of works. Reference data banks were used to search

for works by entering various index headings determined by examining headings in the *Journal of Economic Literature*, and through trial and error. The initial collection of citations of works occurred at the U.S. Library of Congress, in Washington, D.C., which provided access to a large set of reference data banks. I targeted works that consisted of ethnographic research, case studies, or histories in academic journals or books. Works were determined relevant if their abstract demonstrated that they might discuss social structures in LMFs, and all of the works were considered equal in quality no matter the source of publication (i.e. the journal “level” or non-refereed book).

There were 279 items collected from the citations provided by the reference data banks. As they were received, each item’s abstract was reviewed and the item was coded into the following three categories: (1) theoretical studies on LMFs (130 works); (2) qualitative studies on LMFs (160 works); and, (3) quantitative studies on LMFs (32 works). After reading the whole content of each item some items were selected as *not relevant* in that they were actually not discussing organizational issues. This left a final set of 97 qualitative studies. A closer examination discovered an actual amount of 122 distinct ethnographic studies or case studies of LMFs (some works contained multiple studies which were counted separately). The studies took place in a wide range of historical and cultural contexts, and came from many different countries such as Canada, Chile, or China. The largest collections came from Ireland (11 studies), Spain (12 studies), India (13 studies), the United Kingdom (22 studies), and the United States (29).

#### *A Framework of Organization Democracy*

In order to confirm the assumption that LMFs are the way to realize organization democracy, I first examined the theoretical literature to create a framework of how firms might incorporate concepts of democracy in their social structure. Textual passages in

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the theoretical literature that discussed how to make social structures democratic-like were coded through a method of writing memos to describe concepts, sorting concepts, and then deciding on the key concepts (cf. Glaser & Strauss, 1967). Concepts that appeared in at least five textual passages amongst the 130 theoretical works were determined to be key concepts. Each textual passage was then scanned into electronic form, stored, and organized through a process of coding assisted by NVivo™. Below is the list of the fifteen theoretical key concepts of organization democracy.

### **Theory Code 1: Community Solidarity**

Individuals and groups have a sense of solidarity with the needs of the community in which their firm is located. (15 textual passages)

### **Theory Code 2: Consciousness**

Individuals have a consciousness of cooperation and a consciousness of the greater good (i.e. a common value set). (33)

### **Theory Code 3: Control Over Tasks**

Individuals have control over their work tasks. (21)

### **Theory Code 4: Decision Making Process**

Decisions to be made by the group are through either majority rule voting, or by achieving group consensus. (22)

### **Theory Code 5: Procedural Formality**

Groups operate with formality in the structure of their procedures and rules. (12)

### **Theory Code 6: Accountable Hierarchical Controls**

Organizational efficiency requires a hierarchical system of monitoring of performance, but this system must be accountable to the workers. (65)

### **Theory Code 7: Access to Information**

All individuals have access to organizational information and individuals gain skills to deal

with that information. (18)

### **Theory Code 8: Specialized Management Roles**

There is a specialization of management skills and knowledge in distinct individuals. (84)

### **Theory Code 9: Sense of Meaningful Work**

The organization strives to give individuals a sense of meaningful work. (9)

### **Theory Code 10: Multiple Skills**

Individuals have multiple amounts of skills, which can be continually utilized during their tenure. (12)

### **Theory Code 11: Non-Hierarchical Controls**

There is a severe restriction, or even the elimination, of any hierarchical system of control. (11)

### **Theory Code 12: Collective Management Roles**

There is no specialization of management skills or knowledge in any distinct individuals, where management is a collective process rotated amongst group members. (40)

### **Theory Code 13: Norm of Self-Reliance**

Individuals, or groups, do not submit to the cultural norm of dependence on authority to make decisions or perform tasks. (6)

### **Theory Code 14: Rights and Appeal**

There is an independent body (as in a judiciary) to protect the rights of individuals or minority groups from abuse by other individuals or majority groups. (12)

With the above theoretical framework, I then moved to discover how LMFs practiced organization democracy. The next step was to examine the 122 ethnographic and case studies of LMFs. The findings were achieved through the process of reading the collected studies and identifying textual passages that related to the theory concepts of organization

democracy. Each textual passage describing a key concept was then scanned into electronic form and stored as described above. Nine more key concepts not developed in the theoretical framework were inductively derived through the reading to the ethnographic and case study data. Here is the list of the non-theory key concepts of organization democracy in LMFs.

**Non-Theory Code 15: Sense of Class Solidarity**

Workers should have a sense of labor class solidarity, which guides their judgment during decision making. (7)

**Non-Theory Code 16: Concern for Gender Equality**

Workers should have a concern for women's rights and women's participation in the workplace. (19)

**Non-Theory Code 17: Procedural Informality**

Groups, and/or the organization as a whole, work informally with a minimal amount of structure, procedures, or rules. (8)

**Non-Theory Code 18: Job Rotation**

The rotation of individuals between specific job positions to enrich their work lives. (23)

**Non-Theory Code 19: Social Council**

The organization establishes a structural body that acts on behalf of the workers quality of life concerns, similar to the role of a trade union. (14)

**Non-Theory Code 20: Task Variety**

Individuals have a variety of tasks to perform during their workday so as to enrich their lives. (14)

**Non-Theory Code 21: Tolerance and Respect**

Individuals act with tolerance and respect for minority and/or dissenting views, and acting with tolerance and respect for differences within their group. (20)

**Non-Theory Code 22: Wage Solidarity**

The organization establishes a structure of equal, or near equal, wages for all employees in the organization. (20)

**Non-Theory Code 23: Whole Work Process**

Individuals have a clear idea of the whole work process of their organization. (11)

To make sense of this broad and ambiguous framework of organization democracy within LMFs, I propose that there is a fundamental contradiction in the practices of organization democracy in that some members believe that humans are essentially egoistic in nature, while some members believe that humans are essentially cooperative in nature. However, before I discuss this fundamental contradiction, I believe it is necessary to provide some literature on the general purpose of social structures in organizations.

**THE PURPOSE OF ORGANIZATION SOCIAL STRUCTURES**

The set of characteristics and processes that align the interests of a group of individuals into an organization is usually described as the organization's social structure. Ideally, it is believed that:

... individuals not interested in helping the organization perpetuate itself typically leave. Individuals' well-being and status are often at least somewhat related to the well-being and status of the organization in which they are a member or an employee, producing some commonality of interest in perpetuating the organization. (Pfeffer, 1997: 8)

Yet, that ideal is not counted on, and it is the primary interest of organizational social structure to ensure the alignment of individual goals with the survival of the organization. Typically, it is not counted on because of the occurrence of organizational social differentiation – the spreading and separation of functions through the pooling of skills or tasks. The occurrence of differentiation

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results in the need for social integration – the organizational coordination of these differential functions. In organization theory it is generally understood that the purpose of social integration, otherwise described as an organization's social structure, is to adapt individuals and groups to the complexity of market forces external to the organization, specifically, the complexity of the environment (Burns & Stalker, 1961), the complexity of the technology in use (Woodward, 1965), or a combination of both (Katz & Kahn, 1966).

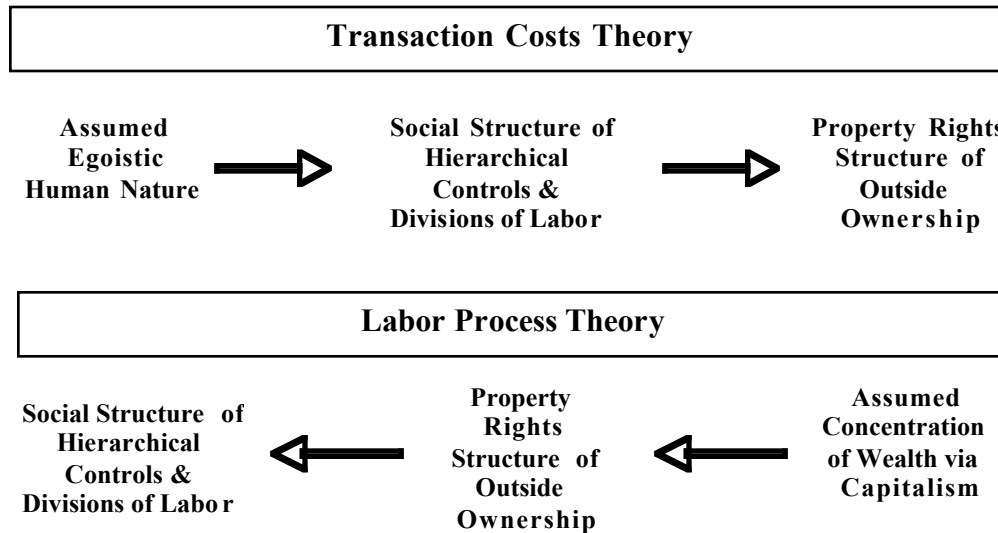
The purpose of social structure in property rights theory is to control the assumed egoistic nature of individuals to meet the efficiency requirements of the organization (Alchian & Demsetz, 1972; Jensen and Meckling, 1979). Neo-classical economists assume human nature to be egoistic, and workers will naturally 'shirk' in their duties if they can get away with it. This forces organizations to establish systems of hierarchical controls, and more importantly, the divisions of labor, to monitor individual performance. The establishment of hierarchical controls within the organization requires, therefore, the use of outside owners of the firm to monitor the performance of those executives in control of the hierarchy (i.e. board of directors).

The concept of a firm for neo-classical economists begins with the discussion of how does one gain the 'direct exchange' between productivity and rewards that occurs in the marketplace (Alchian & Demsetz, 1972). To establish a firm means to internalize that exchange which should be done only if one has full knowledge of the productive process, and has the ability to meter productivity and

rewards. An internalized exchange, or a firm, implies that there is cooperation between all 'input' (capital, labor) owners with a central contractual party. Labor, as an input, enters into an employment relation which, when the labor process is any bit ambiguous, requires the act of monitoring against shirking by labor. Information on the performance of an individual's work effort is a monitoring cost of the neo-classical firm. Monitoring is less costly if one person with specialized skills takes on this function at each level in a hierarchy. The central contracting party, who acts as the firm's monitor of performance, receives residuals and has the power to revise contracts and incentives (Alchian & Demsetz, 1972).

Pagano (1991) provides an important insight on the causal relationship between social structure and the form of ownership of the firm by comparing transaction costs theory with labor process theory. According to Pagano (1991), the causal relationship between an organization's social structure and property rights structure for transaction costs theory moves from the needs of the firm toward property rights structure (i.e. the ownership of capital shares and the system of monitoring firm performance via a board of directors). Transaction costs arise when workers purposely try to conceal information about their job performance. This mainly occurs when workers have very specialized skills or when workers gain extensive knowledge in the course of their time in their jobs. This gives workers what Williamson (1975) calls 'information impactedness' over the efficiency of the labor process. Thus, human nature requires the use of one type of property rights for firms (see Figure 1).

**Figure 1. Causal Relationships Between Social Structure and Property Rights.**



In contrast, labor process theory views the causal relationship between an organization's social structure and property rights structure from the needs of capitalism toward organizational form. Because capitalism promotes the concentration of wealth, those with power will want to maintain their status. Property rights that prefer those with economic power establishes outside ownership of the firm as a strategy to maintain control over profits. Outside ownership, therefore, places demands on the organization to establish systems of hierarchical controls and the divisions of labor to increase profits (Braverman, 1974). Putterman (1988: 246) extends this argument by critiquing the dominant perspective on the function of a firm as a "commodity – a bundle of rights with a marketable value linked to an expected profit stream." In this perspective, the owners hold rights to own and dispose of capital goods, to use intangible capital, to enter contracts, to supervise or monitor the execution of contracts, and the owners may confer these rights to a board or to managers. The concept of firm ownership is

"crucial to an understanding of internal governance issues" since most economists assume that a firm must be "own-able and saleable if they are to be operated efficiently" (Putterman, 1988: 243). This assumption implies that labor services will be purchased by firms and supervised under a hierarchical authority relation since, as only a supplier of an input, labor does not share the same interests in productivity and must be induced to work efficiently through rewards and punishments. The utilization of principles of scientific management (i.e. Frederick Taylor, 1911) is a direct response to organizations perceiving labor as an input. The goal of scientific management is to provide those who monitor performance internal to the organization (management) with effective monitoring tools. Continually breaking down any productive or service process into simplified sets of activities and tasks results in a decreased ambiguity of individual performance. The other benefits being the segmentation or fragmentation of the workforce, the lowering of labor costs, and the future automation of labor tasks. Thus, capitalism requires the use of the



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conventional type of organizational social structure (see Figure 1 again).

Having discussed the theoretical conflict between transaction costs theory and labor process theory, it is my intention to demonstrate that the core ideas of LMF members influences the production of two ideal types of organizational social structures for workplace democracy.

### A CONTRADICTION OF ORGANIZATION DEMOCRACY

My interpretation of the original framework of organization democracy provides an understanding of organization democracy among labor-managed firms as a fundamental contradiction between the belief that members are essentially egoistic in nature or the belief that members are essentially cooperative in nature. Members in LMFs are attempting to balance beliefs in democratic ideals within the context of the demands of marketplace productivity. Some LMFs provide for internal monitoring systems, but make them accountable to the members so as to maintain efficiency through the adequate monitoring of individual and/or group job performance and resource utilization. The utilization of *Specialized Management Roles* along with the use of *Accountable Hierarchical Controls* is an acknowledgment that they assume human nature is egoistic. Labor, even in a labor owned firm, must be monitored to prevent shirking and provide fairness in the rewarding of work. This forces organizations to establish systems of hierarchical controls, and more importantly, the divisions of labor, to monitor individual performance. Thus, the essence of a social structure is to control the egoistic orientation of individuals. Without control there would be no organizational efficiency. The difference from a conventional, or neo-classical firm is that this structure of hierarchical control and management roles has legal accountability to the actual workers within the firm.

Another aspect of LMFs assuming an

egoistic human nature is not simply to monitor and control it through a system of rewards and punishments, but rather to change it by shifting the focus of the divisions of labor. The differences in worker skills as a consequence of the divisions of labor effects an increase in productivity when repetitive tasks augment the 'learning' of the worker. Practice makes perfect, in other words. Adam Smith (1893), who originated the concept the divisions of labor, held this view of learning. Smith, according to Pagano, "emphasized the advantages of the divisions of labor due to a greater acquisition of new skills, whereas Gioia and Babbage concentrated on its advantages due to an optimal utilization of given skills" (1991: 319). Members of LMFs seemingly hold Smith's view on the divisions of labor by promoting the social structures of *Control Over Tasks*, *Job Rotation*, *Multiple Skills*, *Sense of Meaningful Work*, *Task Variety*, and *Whole Work Process*. LMFs provide workers with skill enhancement, which should prevent any sense of alienation with one's work activities, while hopefully protecting the firm against the assumed egoistic human nature by maintaining some forms of the divisions of labor.

In contrast, some LMFs provide for an egalitarian social system by limiting the monitoring systems. These members promote the use of *Collective Management Roles*, *Non-Hierarchical Controls*, *Norm of Self-Reliance*, and *Wage Solidarity* social structures, all of which point to the 'anarchistic' drive (Rothschild-Whitt, 1982) in the cooperative movement that pushes the ideal of collectivism. Its goal is an egalitarian and harmonious society based on individual freedom and small-scale social solidarity (Perlin, 1979). Anarchism believes freedom can only be achieved through the creative operation and integration of one's emotional, intellectual, and sensuous capabilities. Spontaneous activity unites humans with their inner self, with others, and with nature, through the affirmation of self and others in the creativity of work (Fromm, 1941: 256-276). Members in LMFs where members

assume human nature is cooperative are primarily concerned with the prevention of any form of domination or exploitation at the expense of adequate forms of monitoring performance and resource utilization.

From this fundamental contradiction of LMF social structures I generalize two 'ideal types' of organization democracy. An ideal type, as developed by Weber (1947), is an abstract generalization from particular concrete experiences to describe a normative course of action. Some LMF members believe in the egoistic nature of humans, while some LMF members believe in the cooperative nature of humans. I demonstrate this fundamental contradiction of the practice of LMF organization democracy in Table 2. In this table, I contrast LMF Ideal Type I, based on an assumed egoistic human nature, with LMF Ideal Type II, based on an assumed cooperative human nature. The core social structure of Ideal Type I is *Specialized Management Roles*, and the core social structure of Ideal Type II is *Collective Management Roles*. I then show the number of actual studies that had at least one code for each of the key concept from the original framework of organization democracy.

A closer look at these two ideal types and their firm sizes reveals no difference between organization democracy based on either an assumption of egoistic human nature or cooperative human nature. There are twenty-four studies on a single firm that have an exact member count available. I looked at these studies and differentiated them by their ideal type by seeing which was coded under *Specialized Management Roles*

or coded under *Collective Management Roles*. Twelve firms were coded with *Specialized Management Roles*, thus classified as Ideal Type I, that had a range of firm sizes from 9 members to 500 members and an average size of 88. Twelve firms were coded with *Collective Management Roles*, thus classified as Ideal Type II, which had a range of firm sizes from 4 members to 300 members and an average size of 79. My conclusion is that firm size is not a characteristic of either ideal type of organization democracy within LMFs.

If we turn the previous theoretical discussion of causal relationship toward LMFs, then what might the relationship look like when property rights are restricted to inside ownership? An alternative causal relationship between organizational social structure and property rights begins with the knowledge that LMFs are established precisely to give workers greater control over the wealth they create in their productive activities. A core principle for LMFs is that "labor hires capital: capital does not hire labor" in addition, "any economic surplus belongs to the members" (GMBATU, 1986: 1). LMFs establish a property rights structure of worker/member ownership as a defense against the usurpation of profits by those who do not actually work in the firm. The first link in this alternative casual relationship is the need to protect against the abuses of wealth concentration by establishing the structure of inside ownership. See Figure 2 for a visual representation of an alternative causal relationship between social structure and property rights.

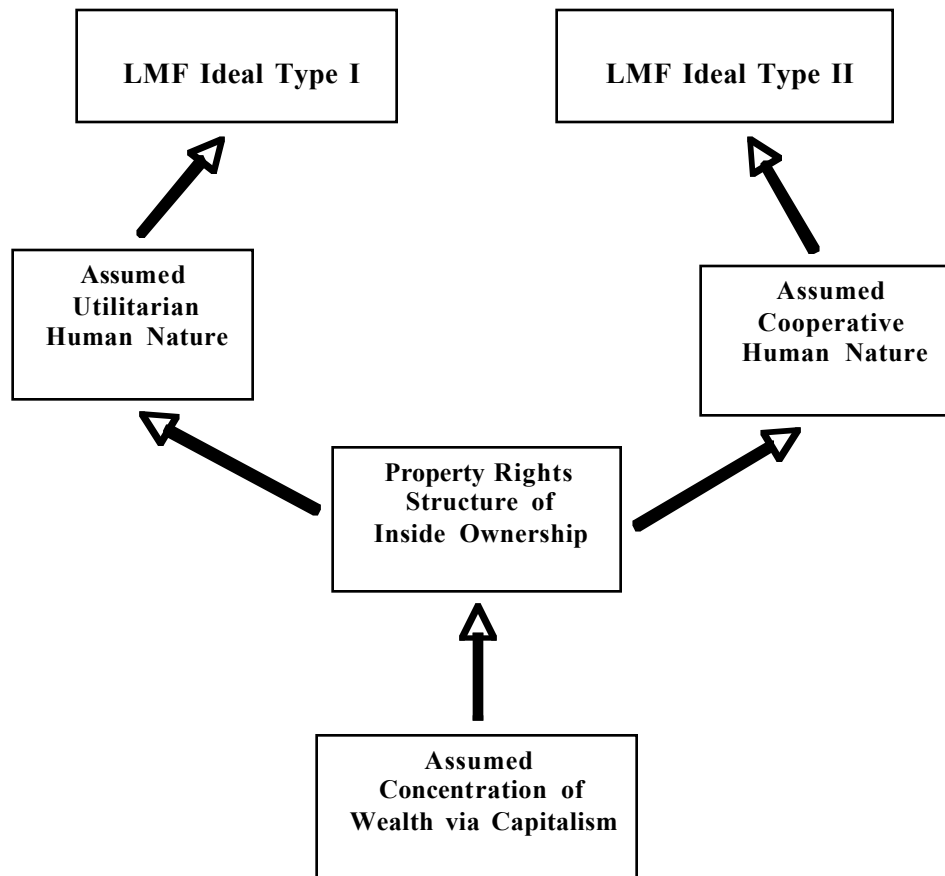
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**Table 1. Two Ideal Types of Organization Democracy among Labor-Managed Firms.**

**Notes:** (a) the *Specialized Management Roles* and the *Collective Management Roles* codes are mutually exclusive for 51 and 30 respective studies; and, (b) the other key concepts appear at least once per study among the respective 51 or 30 studies of each ideal type.

<b>LMF Ideal Type I Based on Assumed Egoistic Human Nature-51 Studies Coded as Having Specialized Management Roles</b>		<b>LMF Ideal Type II Based on Assumed Cooperative Human Nature-30 Studies Coded as Having Collective Management Roles</b>	
<b>Other Key Concepts of Organization Democracy</b>	<b>Number of Coded Studies</b>	<b>Other Key Concepts of Organization Democracy</b>	<b>Number of Coded Studies</b>
Accountable Hierarchical Controls	51	Job Rotation	10
Social Council	13	Control Over Tasks	8
Consciousness	11	Decision Making Process	8
Community Solidarity	9	Non-Hierarchical Controls	8
Access to Information	8	Wage Solidarity	8
Sense of Class Solidarity	6	Consciousness	7
Decision Making Process	6	Multiple Skills	7
Job Rotation	6	Tolerance and Respect	6
Concern for Gender Equality	5	Community Solidarity	5
Control Over Tasks	5	Procedural Formality	5
Rights and Appeal	5	Sense of Meaningful Work	4
Multiple Skills	4	Norm of Self Reliance	4
Tolerance and Respect	4	Task Variety	4
Procedural Informality	3	Whole Work Process	2
Task Variety	3	Procedural Informality	1
Sense of Meaningful Work	2	Rights and Appeal	1
Whole Work Process	2	Sense of Class Solidarity	1

**Figure 2. An Alternative Causal Relationship Between Social Structure and Property Rights.**



Continuing this causal relationship in one direction you arrive at the LMF Ideal Type I. LMFs' use of *Specialized Management Roles* structures is an acceptance of the idea that a firm's function is to maintain efficiency through the adequate monitoring of individual and/or group job performance and resource utilization. As stated above, the utilization of systems of *Specialized Management Roles* is an acknowledgment that they assume human nature is egoistic. Alternatively, a move in the other direction you arrive at the LMF Ideal Type II. *Collective Management Roles* promotes the prescription to affirm one and others through creative activity at work, while striving to create an egalitarian and harmonious society based on individual freedom and small-scale social solidarity. As stated above, this

collective ideal (cf. Rothschild-Whitt, 1982) focuses on the prevention of any form of domination or exploitation at the expense of adequate forms of monitoring performance and resource utilization. These members assume that human nature is cooperatively oriented.

#### IMPLICATION

Recognition of the importance of organizational social structure is usually credited with Weber's (1978, 1947) discussion of hierarchy, divisions of labor, and coordinating mechanisms (cf. Lawrence & Lorsch, 1967). Social differentiation, and the adjusting integration, is a requirement of the 'non-market' social relations within an organization so as to force individuals to be

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trustworthy and act in the interest of the organization; behavior that the market itself would have forced otherwise (Weber, 1978: 635-637). Weber believes that the so-called rational nature of social relationships within the market is enabled by the requirement of 'trust' between equal partners in order to effectively exchange freely. Ironically, free market competition only happens under conditions of trust. Trust in conditions of competition only occurs between actors of equal power. Weber (1978: 637) further describes this condition as 'depersonalization' where social relations move away from human aspirations (cf. Parker Follett, 1941: 58-59). Interactions become automatic because of 'faith' in the actions of others. Faith being defined as "an openness to the infinitely different and deferred future beyond the phenomenological horizon, but which haunts our thoughts" (O'Shea, 2002: 123).

Social relations internal to a conventional firm are not based on the establishment of trust since there is no exchange between equal partners. Trust breaks down when there is unequal power between actors. Human aspirations enter into the social relations of actors without equal power, and interactions become political. This disparity of status between organizational members requires some manner of rationalization – what we commonly refer to as the bureaucratic organization – thus its reliance on authoritarian or even totalitarian forms of social structures. Social structures that attempt to create an equality of exchange between members of an organization will therefore internalize the free market conditions of trust. This is, I believe, the core meaning behind organization democracy "by having faith in something that we do not understand but can only experience" (O'Shea, 2002: 123). The two ideal types of LMF social structures do provide an answer to how organizations can promote democratic ideals by augmenting the distribution of power, the access to resources, the protection of rights, and the

direct or indirect participation in decision-making. LMFs, as a unique historical phenomenon derived from the ideology and practices of the cooperative movement, practice a form of organization democracy and provide guidelines for how conventional firms might strive toward democratic-like social structures. LMFs provide a possible solution to the major paradox of capitalist production, that of an authoritarian economic life within a democratic political life. While building solidarity between an individual's aspirations and an organization's goals LMFs also meet the worker's demand for autonomy and participation, all of which is predicted to lead to greater productivity and innovation.

Faith in either assumption of human nature can, with proper social structures in place, provides resilience against market pressures to mutate into a non-democratic firm by restricting membership, hiring non-member labor, or outright conversion into a conventional firm. Faith in one's assumption of human nature is what maintains organization democracy. The faith, or steadfast hope, is in the idea that efficiency and organizational survival can be aligned with social structures that attempt to create an equality of exchange between members. Individuals who are critically reflective of their world can engage new ideas to create new organization social structures. Peter Winch and Paulo Freire tell us that change is possible from the level of the 'intentionally conscious' individual. Change in a social order is possible when consciousness turns toward reflectiveness and the individual achieves awareness of alternative modes of behaviors. The concept of reflectiveness into the process of social reproduction allows for greater free will on the part of the individual. However, change requires that reflectiveness shift to intentional action. Winch sees social relations as a "conversational interchange of ideas" rather than simply an interaction of forces (1990: xviii). Change comes from people acting and reflecting on their world (Freire, 2000: 79) only if they are pushed by that world to change it. If individuals can learn to act with

'historical awareness' (a consciousness of their situation through the critical reflection of their conditions of existence), then they might acquire the capacity to intervene in their social order (Freire, 2000: 109).

Future research should be in the direction of direct studies of social structures within LMFs. Given that the ethnographic and case studies examined here did not have as a focus a study of organization democracy (which influenced the overall frequency count of textual passages), specific studies would be helpful. The basic question that could be addressed is: what would the ideal types look like if detailed studies were done on a sample of LMFs with the express purpose of studying social structures? My main conclusion that ideas influence the formation of each ideal type could be further examined by studies that look at the sources of ideas in the social-demographic characteristics of members, and how the strength of either assumption influences the life of democratically-oriented organizations.

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