

An investigation into the impact of governance on leadership
strategies within worker co-operatives.

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Introduction and justification

According to the Trade Union Congress (TUC), both public and private sector pay has declined by at least 1.6% after adjusting for inflation. A TUC report in 2022 revealed that 12% of workers anticipate struggling to afford basic necessities in the next six months, with 22% expecting difficulties beyond essentials (TUC, 2022).

Additionally, Unite the Union reports that profit margins for the UK's largest listed companies (FTSE 350) were 73% higher than pre-pandemic levels in 2019. During the period from October 2021 to March 2022, “UK-wide company profits rose by 11.74%” while labour income rose by only 2.61% and fell by 0.8% after adjusting for inflation” (ONS, 2022; Unite, 2022). “Executive pay also saw a significant increase, with FTSE executives' average salary rising from £2.52 million in 2019 to £2.59 million in 2021” (Unite, 2022).

This disparity between stagnant worker wages and rising company profits and executive compensation underscores the need to explore alternatives to traditional corporate models. Co-operatives, guided by principles from the International Co-operative Alliance (ICA), attempt to avoid disproportionate executive salaries in favour of fair profit distribution among members, often adopting flat pay structures. This democratic approach to profit-sharing presents an attractive alternative for workers dissatisfied with current pay disparities and economic conditions.

While inadequate pay is a primary concern driving many strikes, job insecurity also plays a crucial role. The TUC (2022) reports that 3.7 million people are in insecure work, exacerbated by zero-hour contracts that strip workers of rights and benefits. The Labour Force Survey by the Office for National Statistics (ONS, 2022) reveal that 64% of zero-hour contract workers experience shifts cancelled with less than 24 hours' notice, many workers feel compelled to accept these conditions due to limited alternatives (TUC, 2022).

Moreover, insecure work disproportionately affects lower-paying sectors such as machine operatives and elementary roles, with 44.2% of insecure workers employed in these fields compared to only 8% in management positions (TUC, 2022). This precarious employment situation not only contributes to real-term wage decreases but also leaves workers vulnerable to dismissal with minimal job protections. The TUC (2022) proposes legislative measures including an Employment Bill to ban zero-hour contracts, ensuring advance notice for shifts, compensation for cancelled shifts, and the right to guaranteed hours.

The persistent vulnerability faced by many employees underscores the urgent need to rethink organisational structures. According to the latest UK.co-op (2020) report on community shares, which evaluates investment in co-operatives in deprived areas using the Index of Multiple Deprivation (IMD), found that all top 10 most deprived districts are located in the North, with the Northwest alone housing 45% of these districts within the most deprived decile (MHCLG, 2019).

Despite these challenges, the report highlights that co-operative are investing in the Northwest. nearly half (48%) of community share offerings are directed towards the five most deprived areas, indicating a robust community investment focus. Particularly striking is the substantial community investment (20%) in the three most deprived areas, compared to a lower traditional investment (13%) in the same regions (UK.coop, 2020).

This data highlights the Northwest as a region where co-operative investment plays a crucial role in addressing economic disparities and fostering community resilience, thereby justifying further exploration and support for co-operative initiatives in these areas.

Main Research Question (MRQ)

- How does the structure of co-operative governance influence leadership strategies and practices within co-operatives?

Secondary Research Questions (SRQs)

- How do different leadership styles impact decision-making processes and member engagement in worker co-operatives?
- What are the key challenges and strategies in aligning co-operative governance with democratic principles and equitable member representation?

Research objectives

1. To explore the benefits of co-operative models for worker welfare
2. To examine the impact of co-operative governance on leadership dynamics and strategies in co-operatives.
3. To analyse the link between co-operative governance models and leadership strategy development.
4. To assess the primary obstacles in attaining long-term sustainability within worker co-operatives

Literature review

Conceptualizing Co-operatives

The International Co-operative Alliance (ICA) a large co-operative federation defines co-operatives as 'A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (ICA, 2018).

The ICA also underpin co-operatives with seven key principles: **(1)** voluntary and open membership, **(2)** democratic member control, **(3)** member economic participation, **(4)** autonomy and independence, **(5)** education, training, and information, **(6)** co-operation among co-operatives and **(7)** concern for community. Fici (2013) found that although the ICA principles do help define co-operatives, due to their fluidity not all principles are strictly followed in every co-operative. This view is supported by Birchall (2012) who argues the principles provide a foundation for co-operatives, but should not necessarily be used to define all co-operative organisations (Fajardo García, 2021).

Although the definition put forth by the ICA has been critiqued (Birchall and Simmons, 2004, Birchall, 2012, Birchall, 2014) It is still seen as the most popular definition, and one that is used by the majority of academics and professional bodies. As a result, the definition put forth by the ICA will be used when discussing general co-operatives.

Co-operative governance

Governance is a widely researched theme within co-operatives, but it is also an area fraught with inherent tensions. Novkovic and Miner (2015) propose that "governance is related to vision, decision-making processes, power dynamics, and accountability practices. The goal of governance is to effectively fulfil an organisation's goals in a way consistent with the organisation's purpose." They argue that governance is core to co-operatives as it enables democratic decision-making among workers, thus supporting both principles 1 and 2 of the ICA (ICA, 2017). Hannley (2007) further contends that the long-term sustainability and success of co-operatives heavily rely on competent governance, as co-operatives with weak governance are more likely to privatise and fail (Battilani and Zamagni, 2012). However, the democratic and socially oriented nature of co-operative leadership introduces complexities.

Research has explored both the benefits and limitations to governance in worker co-operatives. The main identifiable benefit to a more humanistic approach to governance is the

opportunity for employees to become members, as a result of this, it is argued that workers “*forge a deeper and more meaningful relationship that goes beyond work and that penetrates the entire organisation*” (Novkovic and Miner, 2015). Lang and Roessl (2011) support this view and argue that worker co-operative governance helps to promote social belonging and recognition amongst the workers.

In their analysis of governance within co-operatives, Berge et al. (2016) alongside Michaud and Audebrand (2022) identify critical challenges that threaten the democratic foundation and operational efficiency of these organisations. A key issue is the disproportionate influence exerted by certain board members, leading to skewed decision-making and member disengagement. This situation not only compromises the principle of equal representation but also discourages broader member participation, essential for the co-operative model's success (Berge et al., 2016).

Furthermore, the difficulty in attracting and retaining qualified board members poses a significant challenge, exacerbated by a limited candidate pool and the departure of members dissatisfied with existing governance dynamics. This issue, coupled with the challenge of clearly defining roles and responsibilities, underscores the necessity for early and proactive governance interventions (Berge et al., 2016). Leadership within co-operatives must focus on identifying and developing talent to sustain effective governance, ensuring the organisation's democratic integrity and operational viability.

To foster democratic control, the "one worker, one vote" policy is often encouraged. Davidson (2009) defines this policy as a core principle, ensuring each worker's vote holds equal value regardless of capital invested (Attwood, 1987, Lambru and Petrescu, 2014, Preluca, 2021). Davidson (2009; 2012) argues that this re-empowers workers, enhancing participation and promoting a democratic culture. However, Ellerman (1984) highlighted a potential issue: workers need at least one share to vote, and shares can be expensive, preventing some workers from participating in the democratic process (Vieta et al., 2016). Additionally, the flat pay structures often seen in co-operatives, can create perceptions of unfairness, while a study by (Basterretxea et al., 2020) found that allowing high numbers of members can cause “bloating”, meaning key decisions were often delayed (Birchall and Simmons, 2004, Chaddad and Iliopoulos, 2013).

These tensions within governance and leadership practices (democratic ideals versus practical inefficiencies), equal voting rights versus operational delays, and equitable pay versus perceived unfairness, highlights the complex nature of maintaining co-operative principles.

Leading in Co-operatives

The exploration of leadership styles within worker co-operatives has garnered attention from various scholars, highlighting a shift towards socially oriented and democratic leadership practices. An early study by Forgacs (2008) explored Hungarian agricultural co-operatives post-Soviet Union, revealing a preference for a social-oriented leadership style, especially beneficial during economic changes. This style emphasises collaboration and communication, allowing all members to participate in decision-making processes, fostering a democratic and diverse approach (Stodd, 2014, Forgacs, 2008). Trust was also identified as a crucial element for the success of this leadership style (Forgacs, 2008).

Further research supports the significance of social leadership in co-operatives. Cheney et al. (2014) highlighted the Mondragon co-operative's use of social councils for decision-making, enhancing worker engagement and combining entrepreneurial and ethical leadership to prioritise community and co-operative well-being over profit. Avey et al. (2012) also noted the positive impact of ethical leadership on employee satisfaction and psychological welfare. Harwiki (2016) and Shapira (2013) emphasised servant leadership, which prioritises employees' needs over management, enhancing employee commitment and performance through a person-centred approach, thereby echoing the importance of trust within co-operatives.

Furthermore, Martinez-Leon et al. (2020) and Hejkrlik et al. (2021) explored transformational and transactional leadership styles in co-operatives. While Martinez-Leon et al. (2020) found that both transactional and transformational leadership styles were used, Hejkrlik et al. (2021) argued transformational leadership was the most suited due to its consultative and inclusive decision-making approach.

Abell (2014) argued for a nuanced approach to leadership in U.S. worker co-operatives, suggesting that empowering employees through democratic structures is crucial but emphasised the potential of distributed leadership to involve all workers in leadership decisions, aligning with ICA principles. Similarly, Eti-Tofinga et al. (2017) advocated for a hybrid leadership style in Fijian co-operatives, blending socially oriented and authoritarian elements depending on cultural contexts. This body of research collectively underscores a

move towards more democratic, socially oriented leadership practices within co-operatives, highlighting the importance of trust, employee engagement, and cultural sensitivity in fostering successful co-operative environments.

In challenging the extent to which democratic, socially oriented leadership is free from forms of power-play and the degree to which it can avoid compromising such approaches, this discussion highlights a critical complexity in co-operative governance. The point raised by Basterretxea et al. (2020) regarding the "bloated nature of co-operative governance" and its impact on decision-making adds to this complexity, suggesting that maintaining democratic governance in co-operatives is not only challenging but also essential to their success and sustainability. Additionally, it is important to discuss the inherent tensions within co-operative governance structures, such as flat (equitable) pay structures and leadership dynamics. The disproportionate influence exerted by certain board members regarding decision-making underscores the multifaceted exertion of power within these organisations (Michaud and Audebrand, 2022). These dynamics highlight the challenges in balancing democratic ideals with the practicalities of governance and leadership in co-operatives.

Research gap

Despite extensive research on governance and leadership in worker co-operatives, there remains a gap in understanding their effect on each other (Shapira, 2013; Hejkrlik et al., 2021). This study aims to investigate how governance structures, such as decision-making processes and member participation, intersect with various leadership styles, exploring the resulting tensions and potential opportunities for resolution. "By examining these interdependencies, the research seeks to uncover insights that enhance co-operative effectiveness, democratic participation, and organisational resilience. Such insights are crucial as co-operatives increasingly serve as alternatives emphasising sustainability and community-focused decision-making (TUC, 2022; Unite, 2022).

Methodology

This study will employ a constructivist approach to explore leadership within worker co-operatives, rooted in the belief that truth and meaning are constructed through individual interactions with the world (Gray, 2019). Constructivism posits that social phenomena are continually being accomplished by the social actors, rather than the social entity (Bell et al., 2022; Bryman & Bell, 2003). As such, when undertaking a constructivist position, less importance is placed on the social entities, and instead explores how individuals contextualise and construct their own understanding through personal experiences and interactions. As a result, ‘meaning is constructed not discovered... subjects construct their own meaning in different ways... Hence, multiple contradictories, but equally valid accounts of the world can exist’ (Gray, 2019). Based on the research above, it could be argued that a constructivist approach to the current research would be most appropriate. For example, the argument that meaning is socially constructed is deeply linked with the formation of worker co-operatives as collective decision-making and shared ownership are deemed as key principles (Fajardo García, 2021, Birchall, 2014)).

Constructivism has been pivotal in co-operative research, offering rich insights into the subjective experiences of co-operative members. Wren and Ridley-Duff (2021) underscored its relevance, noting that constructivist philosophies highlight motivations and rationales within employee-owned businesses, making it ideal for exploring leadership in co-operatives. Similarly, Hale and Carolan (2018) utilised constructivism to explore how leadership impacts collaboration within co-operatives, relying on interviews to capture diverse perspectives on leadership and its effects on co-operative dynamics. Preluca (2021) combined constructivist with objectivist methods in a study on sustainability in co-operatives, highlighting constructivism's strength in understanding the nuanced experiences of co-operative workers. These studies collectively demonstrate constructivism's efficacy in capturing the complex, lived realities of those within co-operatives, justifying its selection for investigating leadership practices in this context.

Utilising semi-structured interviews, this methodology will engage board members across 10 worker co-operatives in the Northwest. The selection of this region is informed by the previously mentioned Index of Multiple Deprivation (IMD) and the UK.coop (2020) report, which indicates that while the Northwest is underfunded through traditional means, there is notable investment by co-operatives in this area.

Theoretical underpinning

The theoretical implication of this research lies in its potential to redefine the conventional understanding of governance and leadership within organisations. By contextualising these elements within the co-operative model, the study not only fills a critical gap in existing literature but also contributes to a deeper understanding of the potential for more democratic, equitable, and effective forms of organisational governance and leadership

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