INTRODUCTION

After the Second World War, colonial governments promoted the use of co-operatives (co-ops) as a development tool in countries around the world. Co-ops were seen as grassroots business schools for the disadvantaged, teaching indigenous peoples the skills of management and the virtues of thrift and self-help. British administrations, which had never shown much sympathy for co-ops at home, actively promoted their development overseas in an effort to strengthen indigenous participation in economic life (Crocombe 1983: 105). In much of the Pacific, the type of co-operative favoured by colonial administrators was the consumer co-op, typically a village retail store owned and democratically controlled by its customers. This was the kind of co-op British administrators were familiar with back home. The consumer-owned co-operative might have made sense in urbanised, highly industrialized environments, but it was of questionable value in rural, subsistence economies. The village consumer co-op was “an incursion from another world” (McInnes & Connell 1988: 120), serving mainly to incorporate the South Pacific village into a world distribution system, and doing little to build a viable, locally-owned business which might make more efficient use of local resources.

This article explores the problems and potential of another model of co-operation, less familiar to British civil servants but more appropriate perhaps to the development needs of third world countries. The worker co-operative is an organization which is owned and democratically controlled by the people who work for it. A case study of a worker-owned business in Vanuatu is used to introduce a discussion of the strengths and weaknesses of the worker co-op model. The attempt is then made to show how a modified version of the model, developed in the Basque region of Spain, might be able to address some of the problems of co-ops in general and the Vanuatu organization in particular. Recom-
mendations are then made as to how worker co-ops in the Pacific might be redesigned to enhance their long-term viability.

THE CO-OP THAT ALMOST WAS

Many worker co-ops have risen from the ashes of failing conventional companies. Long-term employees, faced with the prospect of losing their jobs, band together in a worker co-op and raise the funds needed to set themselves up in business (Young & Rigge 1983: 61 seq).

This is more or less what happened in Port Vila when ten ni-Vanuatu furniture makers decided to launch their own worker-owned business. They had all been employed by an expatriate-owned firm which had got into financial difficulties and gone out of business, leaving the ten workers without jobs (Briscoe, Nair & Sibbald 1990: 54-56). They were all skilled carpenters who could make furniture from blueprints. They were also confident they could run their own firm, so they set about the search for start up capital. Their first stop was the Development Bank, but the bankers saw them as a bad risk.

Eventually, the group's leader approached the Canadian University Service Overseas (CUSO) and managed to interest them in the project. The Canadians were impressed by the skills and determination of the workers, the growth potential of the domestic furniture industry, the high costs involved in importing furniture, and the lack of local competition. They were also attracted by the concept of a business that was owned and controlled democratically by its workforce. CUSO decided to back the group with a substantial loan at five per cent, and an experienced volunteer to provide the missing management and design skills. The new manager brought second-hand equipment from Australia, set up the production line, and designed a brand new range of furniture styles. The new designs featured simple, straight lines and could be dismantled for easy packing and shipping to outlying islands.

Melanesian Furniture (MF) was incorporated in Port Vila in 1985. Within a year it was doing so well that it had to move to larger premises. Sales grew from nearly thirteen million Vatu in
Year One (about $170,000 Fijian) to over twenty million in Year Two. MF continued to grow steadily, paying substantial dividends year after year to its worker-owners, who had launched the business with the very modest equity capital of Vt 500,000 (Vt 50,000 each -about $650 Fijian). By the end of 1989, the CUSO loan was all but repaid and the Development Bank was no longer reluctant to lend money to MF.

So far, Melanesian Furniture was a definite success as a business, but its days as a worker-owned firm were numbered. It had been incorporated not as a co-operative but as a private limited company with ten shareholders, each owning ten per cent of the equity. By the end of 1989, one of those original shareholders had resigned, taking his shares with him. Another had died, leaving his shares to his next of kin. Nine new workers had also been hired, though none of them were invited to become shareholders. Quite naturally, the original shareholders were not too keen to dilute their equity by sharing the proceeds of their hard work with new members. All of this meant that by the end of 1989 less than half of the workers at MF were shareholders, and twenty per cent of all dividends on shares were going to shareholders who were not workers. It seems likely that the CUSO officials had thought that they were helping to set up a worker co-operative, a business owned and democratically controlled by all of its workforce. In fact, their experiment in worker democracy is rapidly reverting into a conventional privately-owned company.

**EMPLOYEE-OWNED OR WORKER CO-OP?**

Let us be clear about the difference between an employee-owned firm and a worker co-operative. Melanesian Furniture was set up as an employee-owned firm, controlled by its workforce. It soon began to revert to a more conventional pattern of ownership and control. Its corporate structure not only permitted its shares to pass to non-members, it also allowed the hiring of new workers without extending to them the privilege of becoming shareholders.

In a genuine worker co-operative things would have to be done very differently. In a worker co-op it is usual to limit ownership rights to workers. If a member leaves the co-op for whatever reason, he or she must also give up ownership rights. Typically,
co-ops will have some procedure for buying back the former member's shares. It is also usually required that all new workers become shareholders (after a short probationary period). Worker co-ops are also expected to abide by the defining 'principles of co-operation' which are embodied in most of the legislation governing co-operatives of all kinds in the Pacific. These defining principles are usually referred to as the Rochdale Principles, so named after one of the earliest successful co-operatives which was set up in 1844, in the English town of Rochdale. The Rochdale Principles may be summarized as follows.

1. **Membership is open.** Anyone who can make use of a co-op's services should be free to join. In the context of a worker co-op this would mean that any permanent employee of the co-op should be admitted as a member. Any attempt to restrict membership to a small elite of long-term employees would undermine the co-operative character of the business. Moreover, the membership fee should not be so high as to prevent a potential member from joining.

2. **The organization should be controlled and administered democratically.** All members have an equal say in business meetings and elections. Voting rights go with membership, not with the size of capital investment (as would happen in a conventional company). The rule is one member one vote. It should not be possible in a co-operative to buy more votes by investing more money. In a worker co-op it is the worker-members who elect a board of directors from their own ranks to hire and oversee the co-op's management.

3. **Co-ops should only pay a limited return on share capital.** Unlike a conventional company, co-ops do not distribute profits in proportion to shareholding. Share capital investments in the co-op are rewarded by fixed interest payments, usually limited to a rate comparable to those payable on ordinary bank savings accounts.

4. **Profits are distributed in proportion to members' use of the business.** Profits are distributed in such a way as to avoid one member gaining at the expense of another. In a worker co-operative, profits are usually distributed in proportion to the members' wages from the co-op. Many
worker co-ops also build in a further guarantee of equity by setting the maximum permissible salary range from lowest paid to highest paid worker.

5. Co-ops should make specific provision for education for their members, to enhance their ability to run their own affairs, but also for the general public to show them how the techniques of co-operation can be applied to the solution of societal problems.

6. Co-ops should co-operate with one another. Co-operatives usually start out as tiny businesses set up by relatively poor people with very limited resources. They are only likely to grow and prosper if they work closely with other co-ops (International Co-operative Alliance 1966).

The first four of these so-called principles are the defining characteristics found in most co-operative legislation. The last two sound like sensible and desirable propositions but are more often ignored than observed by worker co-ops (Young & Rigge 1983: 47-48).

The pioneers who set up that successful co-op in Rochdale and developed the above principles were trying to secure tangible, economic benefits for themselves. They were also trying to change the very nature of society by attempting to redesign economic institutions in the interests of the poor. They were idealistic but pragmatic revolutionaries whose philosophy owed more to the ideas of Robert Owen and William Thompson than to those of Marx and Engels (Briscoe 1982). Their view of a co-operative is perhaps best summarised in Gruenfeld’s definition which emphasises the social and ideological aims of co-ops.

A Co-operative is an association made up of socially weak persons, endeavouring to achieve certain social aims within the framework of an enterprise open to all and based on the rules of solidarity and democracy; it instills ideas of mutual help and social responsibility as part of a new idea of society. (Quoted in Preuss 1960:23)

Worker co-ops are not the only type of co-operative governed by the Rochdale Principles. Most of the other varieties of co-op can be classified into three main categories (Briscoe 1986).
1. Consumer co-ops - businesses owned and democratically controlled by their customers (e.g. village co-op stores, credit unions and housing co-ops).

2. Producer co-ops - businesses owned and democratically controlled by independent producers, such as farmers, fishermen and artisans. The purpose of these kinds of co-ops is to help the producers improve the efficiency of their own individual businesses (e.g. agricultural marketing co-ops, land-leasing co-ops, agricultural credit societies, fishery co-ops, handicraft marketing co-ops).

3. Community co-ops - multipurpose organizations which operate several kinds of businesses appealing to different interest groups or attempting to integrate the interests of consumers, producers and/or workers. To my knowledge there are no co-ops of this kind in the Pacific. Examples include the kibbutzim of Israel, the community co-ops of Atlantic Canada and the Celtic fringe of Europe, and the Producer-Consumer co-ops of Iceland.

From all of this it should be clear that Melanesian Furniture was never, strictly speaking, a co-operative, even though it looked superficially very much like one in its first year or so of operation, when ownership rights happened to be divided equally among its entire workforce.

THE PROMISE OF WORKER CO-OPS

Melanesian Furniture is not a co-operative, but it does seem to have established itself as a successful business. Why then should it matter that it is not a genuine worker co-op? In an attempt to answer this question, let us review some of the possible advantages of this organizational form and some of the claims that have been made for it.

Over the years, worker co-ops have been touted, often extravagantly, as the answer to an extraordinary range of industrial and societal problems. At first sight they do seem to have much to recommend them. They abolish the divide between employer and employee, a schism which is at the root of most labour relations problems. According to many of their advocates, worker co-ops
resolve the problems of worker alienation; the interests of labour and capital are finally united. Workers own and control the means of production and enjoy the full benefits of their labour. Management is answerable to labour and performs the roles of co-ordinator and expert technical consultant rather than the role of a boss. Because the workers are working for themselves there is less need for all the policing that goes on in conventional firms. Worker co-ops should be able to cut overheads by dispensing with the expensive armies of supervisors whose main function is to ensure that workers work. They should also find it much easier than conventional firms to harness the initiative and creativity of their workforces.

Since workers own their own enterprises they share directly in the success as well as the failure of the firm. This not only produces strong personal incentives to be productive, but also considerable peer pressure on colleagues to do their share. Furthermore, it contributes to low rates of worker turnover and absenteeism when compared to capitalist firms. (Jackall & Levin 1984: 7)

In short, worker co-ops ought to be able to reduce significantly what Leibenstein calls X-inefficiency, that is the conflict and loss of worker motivation which stem from the divergence of interests between labour and capital in conventional firms (Bradley & Gelb 1983: 41-44).

In many parts of the world, worker co-ops have also shown themselves to be a useful strategy for job creation in times of economic recession. In the UK, for example, worker co-ops developed rapidly during a recent period of rising unemployment. In 1976, there were only a handful of them. By 1990, the handful had increased to over 1900 businesses providing jobs for about 15,000 people (Milford 1991: 223).

The growth of co-ops has been even more dramatic in Spain, where unemployment had reached 19 per cent by 1990 (40 per cent for those under twenty five). In the last five years of the eighties, over 13,000 new co-ops were launched. Of these, some 9,600 were worker co-ops providing jobs for over 81,000 people. In 1988, worker co-op sales in Spain had reached the respectable figure of US$5.7 billion (Godoy 1990: 15).
Less tangible but perhaps even more significant potential benefits have been attributed to worker co-ops. John Stuart Mill enthused about the educative value of participation in a worker co-op (Pateman 1970: 34). G.D.H. Cole saw co-ops as a training ground for democratic citizenship (Pateman 1970: 38). Tonnies saw the co-operative as an attempt to revive the principle of Gemeinschaft (Community) within an organisational form that follows the pattern of Gesellschaft (Corporation). He suggested the possibility of the co-op becoming “the focus for a resuscitation of family life and other forms of Gemeinschaft through better understanding of their significance and their essential qualities” (Tonnies 1957: 196). He saw the co-operative as an expression of the desire to build a sense of community between workers, management and consumers.

To add further support to the claims of worker co-ops, there is also a rapidly growing body of evidence about the efficacy of worker participation (in both decision-making and profit-sharing) in conventional firms. A recent British study compared 113 profit sharing companies with 301 non-profit sharers. The economic performance of the profit sharers was significantly superior in terms of profitability, growth and investor returns (Bell & Hanson 1989). A survey of American research cited 188 studies and experiments showing significant positive relationships between employee participation and productivity (Simmons & Mares 1983: 285 seq). Influential researchers-cum-consultants, like Kanter (1985; 1989) and Peters and Waterman (Peters & Waterman 1982; Waterman 1988) are pushing the empowerment of the organizational grassroots as one of the characteristics of those excellent companies which are able to keep pace with a rapidly changing world. Strauss (1990), in a review of worker participation in management, emphasises the value of participation as a means of “effecting compromises, developing consensus, and legitimating decisions”. In a similar vein, more and more commentators are attributing much of the success of Japanese industry to its ability to involve workers throughout the firm in decision-making and problem-solving. On the local scene, Chand (1988) has highlighted the improvements in service quality which followed the establishment of Air Terminal Services, Nadi, as a company fifty per cent owned by its workers.

Over a century ago, John Stuart Mill foreshadowed many of the arguments of current organizational theorists when he talked...
enthusiastically about the educative and integrative functions of worker participation. He was an ardent advocate of worker co-ops which, he said, would lead to

friendly rivalry in the pursuit of a good common to all; the elevation of the dignity of labour; a new sense of security and independence in the labouring classes; and the conversion of each human being's daily occupation into a school of the social sympathies and the practical intelligence. (Quoted in Pateman 1970:34)

He concluded that changed attitudes to work would result in greater efficiency and productivity, and he even went so far as to predict the eventual triumph of worker co-operatives as the predominant form of association in industrial society. Mill argued that if humanity is to continue to make progress one form of association would eventually triumph over all the others:

not that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the associations of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves. (Quoted in Pateman 1970:34)

THE PROBLEMS OF WORKER CO-OPS

J.S. Mill made this prediction about the triumph of worker co-ops well over a century ago. Obviously, something has gone wrong. Either he was mistaken, or he was talking about a distant future yet to come. Worker co-ops have clearly not become the predominant form of industrial association.

So what went wrong? Although the concept may sound appealing in theory, there have been plenty of problems in practice. Some of the more serious problems may be summarized under the following headings: 1) undercapitalization; 2) management dilemmas; 3) lack of entrepreneurs; 4) lack of democratic norms for decision-making; and 5) the equity dilution dilemma.
1. Undercapitalization
As long ago as the 1890s, the Fabian socialist Beatrice Webb had put her finger on two of the significant problems of worker co-ops (Webb 1891). The first is that worker co-ops are particularly likely to suffer from inadequate capitalization. All co-ops have difficulties accumulating capital. The Rochdale Principles, as we have seen, preclude the possibility of paying high returns on capital, thereby making co-operatives unattractive to outside investors. There is also the danger that co-ops will be tempted to distribute a high proportion of their profits as patronage refunds to members (see the fourth Rochdale Principle) while retaining too little of their earnings for investment in the business. Such problems are especially acute in worker co-ops which typically require a higher investment of capital per member than do consumer co-ops. Without a ready access to capital it is difficult for a business to grow.

2. Management dilemmas
Another problem identified by Webb was the possibility that the task of management in a worker co-op might be an unusually difficult one, and that as a result it would be hard to attract good managers. She was sceptical about the feasibility of workers on boards of directors supervising their own managers. It would put management in an intolerable position when they were required to discipline workers who were also board members.

Consider a railway managed on the system of the porters choosing the station master, the station master choosing the traffic superintendent, the whole body of employees choosing the board of directors! (Webb, quoted in Young and Rigge 1983)

3. Shortage of entrepreneurs
Closely related to the first two problems is the likelihood that an entrepreneur setting up a new business would not usually choose to launch it as a worker co-operative. Why would entrepreneurs, operating by the logic of the marketplace, choose to give away their bright ideas, their control of the business and their investment opportunities to the people working in the enterprise? It is true that occasional, magnanimous entrepreneurs do give away the businesses they have painstakingly built up. The British industrialist Ernest Bader gave away his prosperous company to his workers (Schumacher 1974: 230 seq). The Swiss retailer Gottlieb Duttweiler gave away the massive Migros Organization to his customers.
(Briscoe 1971). But such philanthropic acts are extremely rare. If it is true, as many would argue (Timmons 1988), that the primary impetus for new business development comes from the individual entrepreneur, then it is not surprising that worker co-ops have failed to live up to the exalted expectations of J.S. Mill.

4. Lack of democratic norms
It could be argued that co-operatives are by nature difficult things to manage. Perhaps it would be fairer, however, to argue that we often find them harder to manage because they are designed to operate by sets of norms which are very different from those we are accustomed to. For example, co-ops are supposed to embody the idea of democratic control and they require people to take responsibility for the decision-making which affects their lives. These notions are obviously very different from the requirements of the typical organization. Most of us were raised and trained in organizations where democratic control and self-determination were the last things anyone would expect to find on the agenda! G.D.H. Cole argued that we are carefully trained for subservience. He advocated worker co-ops as a strategy for training citizens in the art and skills of democracy. It is quite impossible to have a vibrant political democracy, he insisted, if people have been trained to be docile in all other aspects of their lives.

The industrial system ... is in great measure the key to the paradox of political democracy. Why are the many nominally supreme but actually powerless? Largely because the circumstances of their lives do not accustom or fit them for power or responsibility. A servile system in industry inevitably reflects itself in political servility. (Cole, quoted in Pateman 1970: 38)

But even if we were to agree with Cole's argument about the desirability of such co-operative schools of democracy, it still leaves worker co-ops in the apparently difficult position of having to operate by atypical norms in a hostile, competitive environment. Gamson and Levin (1983: 231 seq) identify four further problems in democratic decision-making: 1) dilemmas associated with the exercise of authority; 2) the problem of obtaining accountability from members; 3) lack of experience in using conflict productively; and 4) inability to manage meetings efficiently. Whatever the virtues of running a school for democracy, worker co-ops have to deal with a range of complex issues which rarely come to the
surface in the more orderly and familiar world of hierarchical organizations.

5. The equity dilution dilemma
This dilemma is perhaps the most serious impediment to the growth of worker co-ops. There are many situations in which worker co-ops will choose not to grow; faced with similar situations, a conventional, capitalist firm would find it in its own best interests to choose growth (Benjamin Ward, discussed in Lutz & Lux 1988).

Take for example the case of Melanesian Furniture (MF). When growth opportunities presented themselves, it was easy for MF to respond by hiring additional members of staff. This was a relatively cheap way of increasing output. If MF had been a worker co-op, however, the taking on of an additional staff member would have been a much more expensive proposition, because the new worker would have had to be admitted to membership. The new co-op member would not only receive his weekly pay, he would also be entitled to a share of the accumulated equity and a share of distributed profits.

Clearly, a new worker-member of a co-op is a much more costly option than a new employee in a conventional firm. In a conventional firm, new workers will be hired if their expected additional output exceeds the costs of employing them. In a worker co-op, new workers are only likely to be admitted if their expected additional output exceeds employment costs plus the costs of ownership rights (equity entitlements and share of future profits). It follows from this argument that worker co-ops are less likely than conventional firms to hire additional members of staff. It also follows that when someone leaves the co-op, it will often be in the best financial interests of members to refrain from hiring a replacement. If this line of reasoning is correct, it would seem that, compared to conventional capitalist firms, worker co-ops are by nature averse to growth. No wonder J.S. Mill's predictions have gone awry!

THE DILEMMAS RESOLVED

Before we jump to the conclusion that the worker co-operative is a fatally flawed concept, let us look at a modified version which seems to have resolved most of the dilemmas outlined above.
This new version of the worker co-op was evolved, largely through trial and error, by the highly successful network of industrial co-operatives which has developed over the last 35 years in and around the Spanish town of Mondragon.

The town of Mondragon is in the Basque region of northern Spain, remote from the main population centres and in an area which used to be severely depressed and underdeveloped. The first of the Mondragon co-ops was started in 1956, a modest establishment assembling paraffin stoves under licence from a British company. Today, the group provides over 20,000 jobs in 150 co-operatives. Worker co-ops in most other parts of the world are labour-intensive, usually suffering from an acute shortage of investment funds as predicted by Beatrice Webb. In Mondragon, the typical worker co-op is a capital-intensive factory engaged in the production of consumer durables, refrigeration equipment, or capital goods. The Mondragon system is serviced by a co-operative bank, a co-op health care and social benefits centre, a co-op research laboratory, and a co-operative university, technical college and business school. At the unique university, students not only learn the technical knowhow and skills they need to be productive members in the Mondragon system, they also operate their own manufacturing co-op which provides on-the-job experience while helping them pay their way through college.

Economic studies have shown the Mondragon group to be outperforming conventional Spanish businesses (Bradley & Gelb 1983; Levin 1984) and the group manages to export consistently between 25 and 30 per cent of its output. All of these achievements have been financed largely from local community resources.

THE MONDRAGON MODIFICATIONS

Let us look at how the Mondragon workers have modified the concept of the worker co-operative, and how these adaptations have enabled their co-operatives to overcome the dilemmas and problems outlined above. The following practices of Mondragon's primary manufacturing co-ops seem to be particularly significant.

1. All workers must be members
After a short probationary period, all workers are required to join the co-operative. Workers who quit their jobs cease to be members
and must withdraw the capital they have accumulated during their employment.

2. Substantial initial investment
When workers join they must subscribe a substantial sum of money - something of the order of $3,000 (Fijian dollars). This does not have to be found all at once. There are usually arrangements for paying the amount in instalments out of earnings (a scheme which is facilitated by the Mondragon Co-op Bank).

3. Individual capital accounts (ICAs)
Each member has an ICA into which is paid the initial investment plus the member's share of those profits which were distributed during his or her term of employment. Members may not withdraw money from their ICA until they leave the co-op, and then they must withdraw their capital. The full amount is refundable if members are retiring or leaving for health reasons or to work in another Mondragon co-op. If they are leaving for other reasons, up to twenty per cent of their investment may be retained by the co-op. Savings bank rates of interest are paid on the amounts in ICAs, and periodic adjustments are made to compensate for inflation if the financial condition of the co-operative permits.

4. Distribution of profits
In a Mondragon co-op, distributed profits are allocated to workers in proportion to their wages (see Rochdale Principle number 4, above). Distributed profits are paid directly into workers' ICAs. However, no more than seventy per cent of annual profits may be distributed. At least twenty per cent must go to collective reserves which are not withdrawable, and at least ten per cent must be spent on social services to benefit the community as a whole - services such as health, education and recreation projects. Withdrawal of money from ICAs is restricted as outlined in the previous paragraph.

If the co-op should make a loss, at least seventy per cent of the loss must be withdrawn from ICAs, and not more than thirty per cent from the collective reserves.

5. Equitable salary scales
To cement the feeling that "we are all in this together", the range of salaries is deliberately restricted. The highest paid worker may not normally be paid more than three times the lowest. The
exception to this is that senior professional staff can earn supplements of up to fifty per cent of their salary for special responsibilities and long hours (Briscoe 1986; Co-operatives Research Unit 1982; Bradley & Gelb 1983; Larranaga 1990; Oakeshott 1978).

In addition to its primary manufacturing co-ops, Mondragon has a number of important secondary co-ops - the bank, the social security service, the research centre and the university. These are structured much like the primary co-ops but in addition have provisions which allow customers of the services, as well as workers, to participate in ownership and control.

THE PROBLEMS REVISITED

How do these modifications to the co-operative concept address the problems discussed above? Let us review these problems and see how the Mondragon approach is able to deal with them.

1. Problems of capital
Mondragon meets some of its capital needs by requiring a substantial financial commitment from would-be members. Not only does this bring in a good deal of capital, it also increases the individual worker's motivation to ensure that the co-operative succeeds. The retention of distributed profits in individual accounts and the allocation of a minimum fixed percentage of profits to collective reserves also increase financial stability. In addition, the Mondragon group developed its own community-based savings bank which funnels investment funds into the network.

2. Management dilemmas
Beatrice Webb's dire predictions have not been borne out at Mondragon. Management is clearly seen as the servant of the workforce, being appointed and supervised by boards of directors elected by and from the workers. The solidarity of labour and management is also strengthened by the limits imposed on the permissible range of salaries.

Webb's 'dilemmas' turned out not to be dilemmas after all. Her pessimism probably resulted from her own low opinion of the commonsense and ability of ordinary workers.
3. Shortage of entrepreneurs
According to Ellerman (1984), Mondragon has solved this problem by institutionalising the process of entrepreneurship. The Co-op Bank has set up its own Entrepreneurial Division which nurtures new ideas, invests in them, and provides the back up services needed to turn them into reality (Briscoe, Nair & Sibbald 1990: 63-65).

4. Lack of democratic norms
After thirty five years, the Mondragon co-ops have developed democratic norms and efficient systems of decision-making. Some commentators have argued that this can be attributed to Basque nationalism with its associated mistrust of outsiders, which in turn fosters regional solidarity. A similar sense of grievance against outsiders can, of course, be found in many other parts of the world, but the Mondragon determination to turn that grievance into positive economic development may not be easy to replicate. Gamson and Levin (1984) have offered practical suggestions about this difficult issue.

5. The equity dilution dilemma
The Mondragon model brilliantly resolves this dilemma. In Mondragon, the requirement of a substantial initial investment, plus the concept of individual capital accounts (ICAs) go a long way to solving a problem which has bedevilled worker co-ops since the days of J.S. Mill. In the Mondragon system, a new member does not dilute the individual equity shares of other members. Their shares are carefully preserved in their own ICAs. Far from diluting their equity, the new member brings in additional new capital. New members have no claims against the capital accumulated by individuals in the past. Their only claims are on the profits distributed during their own term of employment. Ellerman (1984: 260 seq) argues that the Mondragon co-operators have solved the dilemma by implicitly drawing a distinction between membership rights (voting rights + economic profit rights) and conventional share rights (membership rights + net book value). (See also the discussion in Lutz and Lux 1989)

LESSONS FOR THE SOUTH PACIFIC

Although the successes of the Mondragon co-ops are not attributable solely to their ingenious modifications of the co-operative concept,
they have nevertheless provided us with a relatively simple social invention of considerable promise. They have invented an organizational concept which is much more viable than the clumsier concepts (inherited from colonial governments) which we have been struggling to implement in the South Pacific.

If Melanesian Furniture had been set up according to the Mondragon model, its owners would not have had the same reluctance to admit new members. The firm would have been capable of growth within a co-operative structure and might have avoided many of the X-inefficiencies which are likely to creep in as the firm continues to expand. Our existing co-operative structures do little to encourage growth and innovation, and are likely to precipitate all of the problems and dilemmas discussed above.

Co-operative departments throughout the region should explore the possibility of incorporating into co-operative legislation the Mondragon structural characteristics outlined in this article. The work of Ellerman and Pitegoff (1983: 441-472), in the USA, and Oakeshott (1978), in the UK, would facilitate the framing of new legislation which could adapt the essentials of the Mondragon approach to the realities of this region.

In the meantime, without waiting for legislative changes, worker co-ops can improve their effectiveness by incorporating appropriate modifications into their articles of association and by-laws. Again, departments of co-operatives can assist by providing revised model articles of association and/or by-laws for worker co-ops. International agencies, like CUSO, can also have an impact by helping the new businesses they assist to develop by-laws and articles which facilitate co-operative growth rather than hamper it.

In the field of new business development, there is much we can learn from the Mondragon approach. We frequently hear laments about the lack of indigenous entrepreneurs in the region (Fairbairn 1988). The Mondragon Co-op Bank's approach to nurturing new ventures is a strategy for institutionalising entrepreneurship which could well be adapted to the needs of this region. A recent Pacific Island Development Program report (Briscoe, Nair & Sibbald 1990) outlines a range of business development strategies, many of which involve approaches similar to Mondragon's. In nearly thirty years of new enterprise development, Mondragon's Co-op
Bank has had only three failures, an extraordinary, unparallelled record which should encourage us to think very carefully about how we go about developing indigenous businesses in the South Pacific.

BIBLIOGRAPHY


—— et al. 1982. The co-operative idea.. Cork: Bank of Ireland Centre for Co-operative Studies.


