EXPANDED ABSTRACT

Worker cooperatives versus investor-owned firms. Comparative analysis of financial strength and performance in the Basque Country

Objective

Traditionally, agents of social economy and, particularly cooperatives, have been more resilient in crisis environments, thus generating better results in terms of job retention. However, the bankruptcy of Fagor Electrodomésticos, a very large cooperative in the Basque Country (Spain), has given rise to review some of the elements of the cooperative model.

The aim of this paper is to make an assessment of the current financial position of cooperative enterprises in the Basque Country, by proposing a comparative analysis of the financing structure, solvency and profitability of cooperatives with regards to investor owned firms.

This objective is completed through the following steps:

- By identifying what the current financial structure, solvency and profitability of the Basque cooperatives is, through a thorough analysis of their annual accounts.
- By conducting an exploratory comparative assessment of the financial structure, solvency and profitability of cooperative entities regarding investor owned firms.
- By checking whether there are significant differences between the cooperative and capitalist models in their financial structures in terms of rates of return and wealth generation.

In fact, the interest in comparing the two business models lies in the specific principles and values the cooperative model assumes, which comprises a more democratic and participatory system of government. Besides, it is important to notice that in our study we deal with worker cooperatives, which involves unifying the position of equity contributors and workers.

There are other peculiarities in self-financing policies and surplus distribution. The different regulatory framework forces cooperatives to allocate larger percentages to legal reserves. On the other hand, it is common that assemblies of members choose to capitalize returns rather than pay out them. Consequently, the recovery of the returns generated is delayed until partners´ departure or its retirement time. These policies are aimed at strengthening their own resources as well as improving the solvency ratio of cooperatives. Another specific important policy is related to the member´s capital contribution.

In essence, the data obtained will allow us to conclude whether the singularities of the cooperative model generate significant differences on their financial structures compared to investor owned firms. In addition, we will research if there are significant differences in their profitability indicators and ability to generate wealth.

Methodology

We are presenting an exploratory work of the economic and financial position of cooperatives concerning capital companies. The study has been conducted by analysing data presented in the annual financial statements of industrial cooperatives with more than 50 employees located in the Basque Country, during the period of 2010-2011. We have therefore evaluated, the financial statements of 50 of the 65 cooperatives that met these conditions, in total representing 77% of the study population. In order to select0the corporate enterprises, we have identified companies with more than 50 workers located in the Basque Country operating in any of the industries in which sample cooperatives work. Additionally, 27 economic-financial indicators have been considered to perform a comparative analysis for each year (2010 and 2011) therefore representing a total of 54 variables, for each type of entity. We have identified nine indicators to assess the solvency and financial structure on three aspects: liquidity, global solvency and financial ability to repay debts. We have identified 18 indicators on three aspects to analyze the profitability and wealth generation capability: profitability returns, value added and productivity. The singularities of the worker cooperative model, where labor and capital have concurring interests, require alternative instruments to the classic profitability ratios, so as to properly compare the wealth generating capability of both models.

Results

The results show that the studied worker cooperatives offer similar or superior indicators to investor owned firms. Cooperatives have a lower level of debt and thus a higher level of solvency, in line with results obtained by Chaddad (2001), Soboh et al. (2012) and Pozuelo et al. (2012). This suggests that policies to strengthen the legally imposed self-financing are able to counteract the traditional limitation when attracting equity capital, resulting in a more solid financial structure in cooperatives.

In addition, we have made progress identifying the reasons for the observed different levels of indebtedness, which are related to a lower level of short term debts. In our opinion, the identified differences could be explained by a higher level of commercial debt in corporate enterprises. In any case, the results are inconclusive in identifying the financial debt as a factor to explain the lower level of overall indebtedness observed in cooperatives.

Moreover, achieving adequate rates of return is one of the basic elements required for the survival of any business. The results of the analysis, although not statistically significant, suggest higher rates of economic and financial profitability in cooperatives, in this way contradicting most previous works, although being consistent with those observed by Hind (1994).

Significant differences were also observed in productivity indicators, which show a greater capacity to generate value over investment in personnel in cooperatives. Additionally, the operating profit per employee is higher in cooperatives than in investor owned firms.

Although throughout crisis times cooperatives are associated to better job retention levels, this policy seems to have no impact on the return rates observed in our study. This could be explained by the wage adjustments seen in worker cooperatives, so as to prevent redundancies of members.

Limitations

The project only considers two-year worth of data, so we have not enough evidence to draw any relevant conclusions on the evolution of the observed indicators. Future work will study the effects of the global crisis on the two groups using longer time series. It will also be of interest to go deeper into the individualized analysis of the specific characteristics and policies of cooperatives as a cause of the identified differences.

Conclusions

Despite the convulsion that the bankruptcy of Fagor Electrodomésticos - one of the leading cooperatives- caused, the Basque cooperativism presents better indicators in most of the variables compared to those of capital companies, which allows us to consider them as a fundamental driver for of wealth and employment in the Basque Country.

The results may be useful when considering the revision and consolidation of some of the elements that have shaped the cooperative model up to the present, with the aim of contributing to the consolidation and strength of cooperatives as alternatives to generate wealth and employment.

KEY WORDS: Cooperatives, Investor-owned Firms, Profitability, Solvency, Analysis.