Should voting rights in a worker-managed firm vary according to seniority?

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Bernheim Social Responsibility Essay Prize 2015-16, Second prize

Cours LESPO2212- Social Responsibility In Economic Life
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Introduction

A worker-managed firm (WMF) is a company in which workplace democracy has been implemented in its strongest form. This means that the workers own the firm and participate in the distribution of profits. The company is still competing in a capitalist market economy but has a completely different inner structure. According to Gregory K. Dow, workplace democracy can be defined as: “an economic system in which labour suppliers control the production activities and hold ultimate authority within firms.”

However, if we accept this to be our general definition of workplace democracy, nothing is said about how the workers should participate in the decision-making process. In this essay we will try to focus on one key feature of democracy implementation inside a worker managed firm. Precisely, we will analyse the distribution of voting rights inside this kind of organization. First, we will briefly define our working framework. Then, we will define seniority and explore the justifications for distributing voting rights according to this criterion. Finally, we will conclude by giving a personal opinion on this topic.

Analysis of the effects of voting rights distribution

Real life applications of workplace democracy have shown that not all workers inside this kind of organization participate in the decision-making process. In companies like Mondragon, which is considered by many to be one of the most successful cooperatives in the world, not all workers are actually members. Only the member workers are granted the right to vote. The non-members are actually employed as in a "classical" capitalist firm. However, in our setting, we will assume that inside a worker-managed firm all the workers shall be granted a voting right. This implies that all employees are at the same time the shareholders and the workforce. Moreover, we will simplify reality and assume that newly hired workers are inexperienced and with a low level of wealth, while senior workers have a strong know-how and receive high wages. After having made these fundamental assumptions, we can now focus on the central issue of this paper.

In order to find a general definition of seniority to work with, we could look at both the economic and legal literature regarding this topic. Benjamin Aaron, in an article of the Harvard Law Review, gave the following definition: “Seniority is a system of employment preference based on length of service; employees with the longest service are given the greatest job security and the best opportunities for advancement”.

definition tells us that job tenure\textsuperscript{3} is a key feature used for deciding which worker will be allowed to climb up the career ladder. In fact, key job aspects such as wage profile, the possibility of choosing holidays in advance and mobility opportunities, appear to be linked to seniority in our capitalist market economy. The economic literature strengthens this thesis. In fact, many econometric studies have been able to identify a positive correlation between seniority and earnings. This means that a positive shock on the number of years of service will have a positive impact on the worker’s wage, all other things being equal.\textsuperscript{4}

These are some of the main reasons why seniority shall be considered as a critical issue inside an organization. Neglecting it could lead to employee dissatisfaction since it is implicitly assumed by the workers that earnings will grow over time in order to provide them with proper incentives regarding turnover and effort.\textsuperscript{5} On the other hand, stressing hierarchical division between workers, thanks to this criterion, could lead to workers losing their feeling of community.

Nevertheless, we believe this discrimination criterion to be appropriate in order to divide voting power among workers. We will now explore one possible theoretical justification of this claim followed by two economical ones.

We will make the assumption that a worker-managed firm is the business equivalent of a society, an organization in which democracy has been implemented. Therefore, we can apply similar criticisms and justifications to workplace democracy as to democracy itself. Seniority-based voting power could be a potential solution to Plato’s instrumental argument against democracy.\textsuperscript{6} In fact, in his book \textit{Republic}, the philosopher argued that democracy was inferior to many other governance models.\textsuperscript{7} This is due to the fact that: “\textit{democracy tends to undermine the expertise necessary to properly govern societies}”.\textsuperscript{8} Those able to win elections will dominate the political scene, not those with more expertise. Therefore, granting more power to the “older workers” may be seen as a way of redistributing power in order to address this issue.

After many years of service, senior workers acquire business knowledge and know-how useful for the continuous development of the firm.\textsuperscript{9} Therefore, we could assume that the experience of the most senior workers will be able to guide the younger employees to a “safe harbour”, in times in which the market environment is becoming more and more VUCA\textsuperscript{10}. This means that, in times in which the macro and micro business environment are subject to constant disruptions, the experience of the most senior workers will be a precious tool in order to face multiple challenges and grasp potential market opportunities.

In the financial theory there is the concept of going concern that states that: “\textit{In estimating value, a going-concern assumption is the assumption that the company will...}”

\textsuperscript{3} Synonym for seniority.


\textsuperscript{5} \textit{Ibidem}, p. 1.

\textsuperscript{6} Stanford Encyclopaedia of Philosophy, Democracy, www.plato.stanford.edu/entries/democracy, 27\textsuperscript{th} of July 2006, consulted the 10\textsuperscript{th} of December 2015.

\textsuperscript{7} Such as monarchy, aristocracy and even oligarchy.

\textsuperscript{8} Stanford Encyclopaedia of Philosophy, op. cit., consulted the 10\textsuperscript{th} of December 2015.


\textsuperscript{10} VUCA: is an abbreviation used for defining an economic environment that is characterized by volatility, uncertainty, complexity and ambiguity. This term has been described in the January-February 2014 Harvard Business review.
continue its business activities into the foreseeable future”. This implies that, when valuing, analysing and studying a company, we make the implicit assumption that the firm will still exist after the senior workers quit their jobs. Therefore, it is crucial to convince them to share with the other employees all the knowledge they have acquired during their business-life. This is currently a critical issue faced by the strategic management of conventional firms. As shown in the book Stratégique, this expertise is specific to each worker, difficult to formalise and difficult to transmit. It is defined as tacit knowledge and considered to be the most important form of organisational knowledge. Being so difficult to imitate, it can easily become a source of competitive advantage for the enterprise. The real struggle is to put in place an organisational context to convince the elder workers to share their knowledge. In fact, this will only happen if both parties see a mutual advantage from doing so. In a capitalist conventional firm, the worker’s expertise is their main source of negotiating power towards the company. Tensions arise among workers in order to acquire business skills. However, this feeling of competition is mitigated inside a WMF structure.

In fact, inside this organisational setting, workers experience a series of positive non-wage aspects such as an increased sense of equality, community, recognition for their job and motivation. Moreover, we believe that if the seniority rule were to be adopted it could constitute an additional incentive to help spread the workers’ tacit knowledge. Senior workers in fact would not feel harmed by increasing the business skills of their fellow employees since decisional power would not be linked to personal skills. In fact, this peculiar organisational setting would act as a shield against potential young “sharks” only seeking to climb up the career ladder. At the same time, senior workers close to retirement, who invested so much of their life and energy in the WMF, would want to ensure the future of the company by spreading their knowledge with the younger employees. They would act as mentors and help the other workers develop unique business skills in order to make their company -the company they collectively own- the most successful ever.

Conclusion

Seniority can be seen as an indicator of the employee’s long-term engagement towards the company, in addition to an indicator of experience. Since inside a worker-managed firm the company is owned by the workforce, seniority can be correctly seen as a proxy for the interest in the company’s desired future state. Providing more voting rights to senior personnel would also be beneficial in correcting the typical situation where older employees who didn’t manage to reach management positions feel demotivated. Therefore, we believe that the main strength of this seniority model, applied to WMF, resides in the ability to develop in each worker a unique sense of belonging, responsibility and solidarity towards the entire company.

Bibliography

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