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THE PERUVIAN EXPERIMENT
The Theory and Reality of the Industrial Community

RICHARD D. ROBINSON

WP 851-76 April 1976

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
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This is a preliminary report of a research project financed by the Tinker Foundation via the International Business Project, Center for International Studies, Massachusetts Institute of Technology. Professor Robinson is Professor of International Management at the Alfred P. Sloan School of Management, MIT.
To me, the Peruvian experiment in industrial and agricultural organization is among the most significant efforts to improve the human situation within the Western Hemisphere. The significance becomes the greater when one appreciates the fact that the reforms are not based on ideological commitment other than a general belief that national vitality will be enhanced with a more even distribution of wealth and a wider participation in decision-making where it counts - at the workplace. But even as this is written, there are ominous reports of rising fears within Peru of Chilean-Brazilian military intervention. Indeed, the conservative military-industrial elites of these two powers may well see the concepts embedded in Peru's social reforms as a serious threat to their own privileged positions. Is it happenstance that the Latin American press outside of Peru shows such studied disinterest in what is happening in Peru? And, one wonders anxiously on which side the United States would come down if there were overt hostilities - on the side of the powerful elitist states committed to "free" enterprise or to the small populist state committed to worker participation in ownership and direction? In the former, North American corporations prosper; in the latter they are seriously constrained. But let our corporate managers not be too quick to take sides; satisfying short-term interests could lead to longer-term disaster. Such is my bias.

- the Author -
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Chapter I
INTRODUCTION

A change in the traditional relationship between employee and employer is obviously world-wide. Labor is demanding a larger role in decision-making, both at the job and enterprise level. Perhaps this pressure arises out of an evolutionary process which, despite apparent short-term evidence to the contrary, is reflected in the increasing awareness of individuals everywhere of their humanity. The need for autonomy and self-fulfillment is now part of the world industrial culture. Responses take many forms - from flexible work hours, group-assigned tasks, group assembly operations, workers' councils, co-determination (labor participation at the board level), self-management (labor selection and control of management), role change (managers working periodically as ordinary labor), to employee ownership. The response may be ideologically justified, introduced for purely pragmatic reasons, or appear as the result of labor dissatisfaction and pressure. In any event, in the process the prerogatives and roles of both managers and owners are redefined; and the social-economic disparity between them and workers, narrowed. In the ultimate model they become one or are so heavily overlapped as to be virtually indistinguishable. In some places, such as the United States, the notion that consumers as well should have a voice in the direction of enterprises is gaining support. Where consumers are not organized, this role is possibly best left to government.

In that the function of organized labor is challenged by many of these reforms - or, at least, seriously altered - the vested interest of big labor leadership perceives a threat. Its power would be damped
by workers' management and ownership, for then distinctions between employee and employer melt. Internal accommodation in decision-making replaces direct confrontation supported by resources and pressures external to the firm. Therefore, one can anticipate that big labor will tend to resist these changes. Theoretically, the labor union could still serve critically-important functions in the articulation of grievances, protecting the minority from the tyranny of the majority, reporting irregularities to competent authorities, in satisfying a variety of social and educational needs of employees, and in bringing attention to important income disparities among similar enterprises.

One of the more significant national experiments in altering the relationship between owners, managers, and workers in the Western Hemisphere has been introduced in Peru. This move is significant because it was undertaken in respect to a broad cut of Peruvian industry for what seem to be almost purely pragmatic reasons. Although the government-controlled press in much of the rest of Latin America seems strangely silent on the Peruvian reform, one cannot help but feel that the long-run success or failure of the new Peruvian industrial system may impact heavily elsewhere in the continent. Success can probably be measured by political tranquility, which in turn is possibly a function of economic growth, narrowing income disparities, and an increased sense of national achievement. The first implies adequate investment in both physical and human capital and the incorporation of increasingly sophisticated technology; the second, high levels of employment and a restrained rate of inflation; the third, a reduced sense of dependency upon external support whether from the United States or elsewhere.
Research Design

In essence, the investigation we mounted was an examination of the realities and impacts of the industrial community concept (comunidades industriales) introduced in Peru via the Industrial Law of 1970. We hypothesized that the success of the system rested upon (1) the unity of commitment by the Peruvian political leaders, (2) the response of labor, (3) the response of management, and (4) Peru's ability to maintain an adequate inflow of foreign capital and technology. The latter, we felt, was very likely largely a function of labor and management response.

One of our first moves, in April 1974, was to identify U.S. firms with significant investments in Peruvian manufacturing enterprises. Although not pretending to be an all-inclusive effort, we did study the U.S. Department of Commerce Trade List—Peru, of May 1971, which was the most recent, and selected all U.S. firms which seemed to be involved importantly in manufacturing in Peru. The total came to 86. To these we dispatched a four-question questionnaire. Responses numbered 36 (41.9%). Of these, 24 reported current direct investment in Peruvian manufacturing ventures, 12 did not. It would appear that five firms had had such investment in Peru but had disinvested after 1970. Offsetting was investment by two firms during the 1970-74 period. One can thereby conclude that as of mid-1974, although new U.S. direct investment into Peruvian manufacturing had perhaps been reduced to a trickle (two companies versus ten in the 1965-69 period), no massive disinvestment had taken place. (For further details, see Appendix A.)*

Our second step, which really launched the study, was a two-day conference (May 10-11, 1974) at the Sloan School, to which persons known to have research

*Omitted
interests in respect to Peru and its social reforms were invited. The purpose of this exercise was to assess the present state of available knowledge on the subject. The meeting was attended by 27 persons from 12 colleges and universities and from one research institute. A report of that conference and a list of participants are included as Appendix B. Although some cautioned against the wisdom of Gringo-supported, non-Peruvian researchers seeking out and interviewing Peruvian managers and workers, we resolved that the only way in which our study could add to existing knowledge was to do precisely that. The result was that Ricardo Borzutzky, a Chilean national and a recent graduate of the Sloan School, was dispatched to Peru for two months. I joined him for a week in late June to help consolidate the legitimacy of the undertaking in the eyes of both government and local academic community. An interview schedule had been worked out with the assistance of scholars at the Catholic University and at ESAN (Escuela de Administracion de Negocios para Graduados), both in Lima. A group of 14 target companies in Lima were selected, 11 associated with U.S. interests, 4 with Japanese. Meanwhile, Brian Nelson, a U.S. national and an undergraduate student at Harvard University, was recruited to interview in 11 enterprises, all but one Peruvian-controlled, in Arequipa. However, two of the Arequipa group contained foreign interest, 18 percent German in one and 85 percent Panamanian in the other. The interviews were conducted in Spanish, where appropriate, from a questionnaire on which notes were taken during the interview and subsequently expanded.

The text of the questionnaire is given as Exhibit C. There was no attempt to limit the comments of respondents, and many interviews ran three to four hours. On the workers' side, the president of the industrial community and the general secretaries of the unions involved were interviewed, sometimes separately, sometimes together. On the
management side, either the president, finance manager, general manager, plant manager, vice-president, director general, board member, or other senior management representative was interviewed.

In selecting the U.S. and Japanese firms, we made use of the U.S. Department of Commerce Trade List - Peru (May 1971), "Camera de Comercio e Industria Peruano Japanesa" (June 1974) and "Current Survey of Entry of Japanese Enterprises in Peru" (October 1973), the latter two being mimeographed lists put out by the Japanese Embassy in Lima. All mining and trading enterprises were eliminated. The firms finally selected for interviews (see Appendix D)* were those which responded favorably for a request for interviews and in which the appropriate officials were present during the interviewing period. Hence, some possible bias may have been introduced into the sample in that those managements most critical of the new industrial system might have numbered heavily among those disinclined to cooperate. It was known by the employee representatives in each case that we were interviewing management, and vice versa.

All in all, interviews were conducted in 26 firms (15 in Lima, 11 in Arequipa) with 67 individuals (28 senior managers, 14 union officials, 25 Industrial Community officials). The latter consisted of 19 IC Presidents, four IC Board Members, and one IC Treasurer. Of the union representatives, 12 were Secretary-Generals, the chief union executive at the enterprise level. One IC President (Firm L-2) and one Union Secretary-General were women; all others, men.

All of the firms were incorporated entities (Sociedad Anónima). The range of annual sales was S/. 2 million to S/. 581 million (roughly $50,000 to $14.5 million); of employment, from 35 to 770; of percentage of production

* Omitted
exported, from 0 to 20%; of ownership, from 0% to 85% foreign. The major products of all 26 firms could be classified as either consumer or intermediate.

Subsequently, the interviews from both Lima and Arequipa were analyzed by Brian Nelson under my direction. Over a period of some six months, he analyzed each question and we discussed his conclusions at length. In addition, detailed reports were drafted on the legal and financial structure of the social property enterprises and of the industrial communities. And, because of the projected change in the role of labor, an analysis of the associated educational effort was made. Finally, in order to place Peru's industrial reforms in their economic, political and social context, Ricardo Borzutzky, sometimes accompanied by myself, interviewed some thirty-five people in Lima during the Summer of 1974, the list of which is attached as Appendix E.*

Historical Context

The notion of workers' self-management was given legal reality in Peru by the military regime headed by President Juan Velasco Alvarado which seized power in a bloodless revolution in October 1968. A number of forces had triggered the take-over: a slowdown in economic growth, latent insurgency, accelerating inflation, increasing wealth and income disparities, a widening of the social gap between military officer cadre and the "forty family elite," and the Talara Agreement between the elected Peruvian Government headed by President Fernando Belaunde Terry and the International Petrol Company (a subsidiary of the Standard Oil Company of New Jersey).

It is clear from the subsequent publication of the "Plan Inca," drafted by Velasco well before the 1968 coup which placed him in power,

* Omitted
that the idea of employee participation in management and ownership was part of the rationale for a military takeover. Indeed, according to such authorities as Peter Knight, the Peruvian Aprista party (Alianza Popular Revolucionaria Americana) had supported an evolution toward state capitalism and cooperatives, the latter being "approximations to self-managed firms."

Even the right-of-center Christian Democratic Party had declared, in its first national convention in January 1956, in favor of profit-sharing, participation in management, but to be achieved gradually. The party's first declaration of principles contained the ideas of joint ownership (copropriedad) and joint direction (cogestion). In February 1968 a Christian Democrat deputy even introduced a draft law creating community enterprises (empresa comunitarias), which were essentially defined as self-managed firms.

Various motives have been ascribed to the Velasco regime in introducing co-direction and employee ownership. According to its own claims, the military group seizing power had become concerned over the concentration of economic and political power in Peru, the marginalization of large segments of the population, dependence on foreign economic power to the point where Peru was reduced to a mere exporter of natural resources, and the social segregation of various groups. The military leadership apparently was convinced that these deficiencies could not be righted, short of political intervention by the military. It itself has labelled its philosophy variously as humanist, pluralistic, non-dogmatic, libertarian, originally Peruvian, social democratic, neither capitalist nor communist. Others have applied the adjectives syndicalist, anarchist, libertarian, originally Peruvian, social democratic, neither capitalist nor communist.

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1. Peter T. Knight, Santiago Roca, J. Vanek, F. Collazo, Selfmanagement in Peru (Ithaca; Cornell University, Program on Participation and Labor-managed Systems, 1975), p. 12.

corporatist, militarist, Yugoslavian, and Chinese. But whatever label one uses, it has become apparent that the military leadership was committed to the notion of restructuring society so as to bring about a redistribution of wealth and income, greater popular participation at the community and workplace level, and an opening of opportunities for all. The generals felt that key to the realization of their objectives was the institution of a "general concept of democratic participation in which freely organized men intervene in different areas of decision and exercise various forms of power in a most direct manner in economic, social, and political matters."\(^3\)

The military government characterized its program as revolutionary non-dogmatic, non-violent, non-personal.\(^4\)

To implement these rather vague principles, the military government instituted a series of sweeping reforms designed to leave untouched virtually no sector of the country. Political parties were outlawed; the privately-owned press was "liberated" (El Comercio became the Diario de las Comunidades Laborales and La Prensa, once owned by a large landholder, became the paper of the Agrarian Community); the educational program was rewritten; some foreign firms were nationalized; housing projects were developed.

\(^3\)Filosofía de la Comunidad Industrial (Lima; Ministry of Industry and Tourism, General Directorship of Industrial Communities, undated but probably early 1974), p. 2.

\(^4\)Ibid, p.3.
Chapter 2

THE FIVE SECTORS

The economic reforms were based on the principles of pluralism and participatory democracy. These reforms were non-ideological in the sense that they proposed neither absolute private property nor absolute state control. Their overall objective was to end the exploitation of man by man. The pluralistic, non-ideological approach was translated into the creation of five economic sectors, listed in sequence of appearance: a state sector, the cooperative sector (preeminently in agriculture and fisheries), the industrial community sector, social property sector, the private sector (a residual). In order to place the industrial community sector in context, brief comment about the other four sectors is appropriate.

The State Sector

A state sector, of course, existed at the time of the military coup in October 1968. Indeed, it was in part the rivalry between the State Petroleum Company (Empresa Petrolera Fiscal) and the International Petroleum Company which actually triggered the political intervention of the military. It was perhaps significant that first in the list of specific objectives of "Plan Inca" was the expropriation of IPC. The same plan specified that the state should (1) be in charge of the exploitation of all major mineral deposits and of mineral refining and marketing; (2) establish organizations for the large-scale extraction, processing and marketing of marine products; (3) be in exclusive charge of the generation and distribution of electric energy; (4) create external marketing organizations; (5) progressively socialize the air, marine, and rail transport systems; (6) operate radio and television service, alone or in association with private national capital; (7) reserve for itself all basic industry. In some instances, state participation was seen as a transitory phase, as

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5Andean Peruvian Times, August 2, 1974, p. 10.
in communications, in that the plan called for the "progressive transfer to organizations representative of society."  

Cooperative Sector  

In June 1969, eight months after the military coup, the Velasco regime promulgated a major agrarian reform law, which law emphasized the development of cooperative enterprises. The explicit aims of the reform were to stimulate economic growth in, and to bring social justice to, rural Peru, particularly through the encouragement of farmers' participation in decision-making. By the beginning of 1974 it was reliably estimated that something like 14 percent of the rural, economically-active population had been brought into cooperative enterprises. In the process much valuable private land was expropriated by the State.

Essentially, two types of cooperatives have appeared, the Cooperativa Agraria de Produccion (CAP) and Sociedad Agricola de Interes Social (SAIS), which translate as Agricultural Production Cooperative and the Agricultural Society of Social Interest. The CAP is the smaller but more numerous form of enterprise and the SAIS, the larger but less numerous. Typically the CAP has appeared in the coastal farming regions (particularly on the former sugar plantations of the northern coast) and the SAIS in the sheep and cattle range of the mountains. Normally, a CAP has been organized around a former hacienda with its membership consisting of all permanent ex-hacienda workers, the seasonal cane-cutters being excluded. That part of the assets of a CAP received under the agrarian reform law is collectively owned, and the CAP members must commit themselves to repaying from annual earnings the declared value of those assets, plus interest.

The structure of a CAP may be diagrammed thus:

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7 McClintock, "Preliminary Notes: the Impact of Agrarian Reform Organizations on the Attitudes and Behavior of Organization Members in Peru," (Cambridge; Massachusetts Institute of Technology, Department of Political Science, May 1974) pp. 5-6.
8 Ibid, p. 6.
Figure 1
Structure of an Agricultural Production Cooperative

General Assembly:
- Elects Administrative Council
- Elects Council of Vigilance
- Determines salary levels
- Determines profit share
- Approves annual budget
Analysts report several problems with the CAP's, specifically:

1 - Many CAP's include members who still work their own land, thereby leading to unequal wealth and income among members.

2 - CAP members have refused to extend membership to temporary workers and have a tendency to exploit them by holding their wages down.

3 - Various CAP's have unequal endowments of land and capital, thereby leading to disparity in wealth and income as between CAP's.

4 - The forced 15 percent reinvestment minimum has encouraged mechanization, and has thereby led to reduced employment and further income disparities.

5 - CAP members tend to vote themselves higher wages, thereby reducing taxable profit and reinvestment.

6 - The refusal of CAP administrative councils to present lists of candidates for general managers (as of early 1974, some 54 percent of the CAP's had no general manager).

7 - The tendency to employ more temporary workers rather than to admit more members.9

9 Summarized from Peter T. Knight, Santiago Roca, J. Vanek and F. Collazo, Selfmanagement in Peru (Cornell University, Program on Participation and Labor-Managed Systems, No. 10, 1975), pp. 19-24; C. McClintock, "Preliminary Notes: the Impact of Agrarian Reform Organizations on the Attitude and Behavior of Organization Members in Peru" (Massachusetts Institute of Technology, Department of Political Science, typed m.s., May, 1974), pp. 1-9; Santiago Roca, "The Peruvian Sugar Cooperatives: Some Fundamental Economic Problems, 1968-1972" (typed manuscript, April 1974).
The structure of the Agricultural Society of Social Interest (SAIS) is similar to that of the CAP, although in membership and ideology they differ. The former, organized primarily in the Sierra range country, includes not only former haciendas, but also adjacent peasant communities. The notion was that the former hacienda owners had taken the communities' land unjustly. Thus, members of the nearby communities (comuneros) deserved redress. The upshot is that SAIS members incur no initial debt which must be repaid, and the membership includes a richer group (the former hacienda workers) and a poorer group (the community members). Both groups are granted equal access to SAIS benefits. Thus, the hacienda profits are shared with the associated peasant communities, despite the fact that the latter do not contribute directly to SAIS production. Also, characteristically, the comuneros have a majority in the general assembly and in the administrative council and "council of vigilance." Another point of difference, the Government appoints all technical and managerial personnel. A fraction of an SAIS surplus is retained for internal reinvestment and for distribution to the SAIS workers. But additionally, via a complex formula, a percentage of the surplus goes to member peasant communities in inverse relation to each community's wealth. This distribution must be used for communal projects and not given directly to the individual comuneros.

Knight points out, "The SAIS is explicitly designed as a transitional form which could lead toward the incorporation of the member communities into an enlarged cooperative, thus creating a CAP." But several problems are inherent in the SAIS, specifically:

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10 op.cit., p. 25.
1 - The internalization of long-existing tension between hacienda workers and the peasant communities;

2 - The lack of any distribution to groups outside of the SAIS other than through taxes;

3 - Collusion between Government personnel and the participating communities to hold down the wages of SAIS workers.

By the end of 1974, some 5.3 percent of the rural labor force (54,561 families) had been incorporated into 48 SAIS's.11

Social Property Sector

Skipping over the industrial community or reformed private sector for the moment, next in sequence of appearance was the social property sector, which was defined in a law promulgated in May 1974, just prior to our field research. Theoretically, the ownership of the firm in this case resides in all of the workers of the social-property sector, not with individual firms or workers. Likewise investment is social in that part of the income generated by social property firms is to be used to expand the sector, thereby creating new jobs and benefiting society as a whole. To this extent, the social property enterprise (empresa de propiedad social, or EPS) embodies the Yugoslav notion of social ownership.

Intensive training efforts were envisioned in order to help achieve effective worker participation at all decision-making levels, as well as to improve technical skills. Such training expenses are tax deductible.

Social property enterprises are funded initially by a temporary contribution (aporte transitorio) supplied either by the Investment and Development Fund (Corporación de Financiera de Desarolla, or COFIDE) or

11Knight, p. 25.
by the National Social Property Fund (Fundo Nacional de Propiedad Social, or FONAPS) under a financing contract (convenio financiero). This contribution is equivalent in most respects to start-up capital, but it is repaid in installments, sometimes with interest, sometimes without, out of disposable funds of the enterprise. Once this "debt" is paid back, the same (on average) amount of money is channeled into investment in fixed assets or, if this is impracticable, the money is used to buy special "convertible bonds" (bonos de convertibilidad inmediata) from the National Social Property Fund. The nearest equivalent to share capital is the enterprise's Social Fund and Integrated Fund, the former consisting of the "social contribution," which on the enterprise books replaces the aporte transitorio as this is paid off, plus legal reserves, part of the economic surplus, depreciation, and other disposable funds. The Social Fund represents workers' claims, just as aporte transitorio represents workers' debt. The Integrated Fund consists largely of the proceeds of the sale to banks and other financial institutions of share-bonds (accio-bondos), which pay dividends but never mature. An enterprise's revenue is distributed in the following manner:

Total revenue
Less cost (including wage bill)

PRODUCTION SURPLUS

Plus capital gains and less other expenses

ECONOMIC SURPLUS

Less accumulated losses

Less transfer payment to National Social Property Fund

(10% of the economic surplus plus the wage bill, less twice the Lima legal minimum wage times the number of workers).

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As can be seen, Economic Surplus equals total revenue less total input costs exclusive of labor. The base for the 10% transfer is Economic Surplus plus excess wage, which is defined as twice the legal minimum wage in Lima.
Less reinvestment
Less revaluation surplus
Less donations
Less other deductions allowed by tax laws
Less amortization of *aporte transitorio* or, if repaid, "equivalent payments"
Less contribution to housing fund
TAXABLE SURPLUS
Less taxes
Plus amortization of *aporte transitorio* or, if repaid, "equivalent payments"
DISTRIBUTABLE SURPLUS

This distributable surplus is divided between *accio-bono* dividends and "workers rents" and/or common services. The latter two categories are forms of employee participation in profit. Hence, employees may derive income via the basic wage and bonuses, workers' rent, and common services. The distribution between the last two is made by vote of the general assembly of the enterprise. The so-called "rent" is distributed only as a function of the actual time worked, but the basic wage is related to labor supply and the minimum legal wage. Hence, any shifts from the wage bill to "rent" improves the intra-firm distribution of income. Presumably employees with low wages would opt to maximize the distribution of "rent," since their share would be greater than if there were a general wage increase. But a vote on "workers' rent" would be biased unfavorably by the fact that any increase in distributable surplus would have to be shared with the holders of the *accio-bonos*. In that the social property sector is so new, the decision rules actually used by the General Assemblies of
Social Property Enterprises under various circumstances are not yet reported. All one can do is speculate.\textsuperscript{12} It should be born in mind, however, that initially the wage rates of all workers in an EPS must be approved by the National Social Property Commission, likewise any subsequent increases. Also, any issue of accio-bonos must first be approved by the Commission, and must be within the maximum allowable percentage of accio-bonos to the total net worth of an enterprise as set by the Commission.

These accio-bonos cannot be sold directly to investors, but are issued to designated financial institutions, which in turn establish investment portfolios composed of the accio-bonos of different EPS's and of government securities in such a way that some minimum yield is assured. The financial institution then issues Participation Certificates (Certificados de Participation) for sale to private investors. These certificates are of three types:

1 - Nominative, non-transferable, with repurchase rights, in small denominations, sold only to individuals;

2 - Bearer (i.e., non-nominative), freely negotiable;

3 - Nominative; non-transferable for three years; may be bought by individuals, institutions, or firms.

Interest from certificates is tax free, and one's taxable income is reduced solely by solely invested up to 50\% of one's taxable income. These provisions apply to both individuals and corporations, but the latter provision is valid only during the first year of the certificate's issue. The National Social Property Commission determines which institutions shall act as intermediaries and the regulations under which they shall operate.

It has been observed,

The mechanism and especially the tax incentives will be an effective way to channel funds to the Social Property Sector; However, the effect on income distribution at a national level will be regressive, since the tax incentive will be of more benefit to the high income class who are in the higher tax brackets and thus realize a higher rate of return on such investment.

The various institutions servicing the social property sector are diagrammed in Figure 2.

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Figure 2
Structure of the Social Property Sector

Members:
Ministers of
- Economy and Finance
- Labor
- Industry and Tourism
- Commerce
- Chief, State Planning Institute

National Social
Property Commission
(Comisión Nacional de
Propiedad Social) CONAPS

Social Property
Council
(Consejo de Propiedad
Social)

Rep. of State Planning Institute
Rep. of the President
Rep. of SINAPAS
Reps. of eight ministries
3 reps.

Assembly of the
Social Property Sector(s)
(Asamblea del Sector
de Propiedad Social)

Regional units' Presidents
plus 2 other elected reps.
from each regional unit

Regional units (1)
3 reps.

Individual Social
Property enterprise

General
Assembly (3)
Management
Committee
General
Manager
Other managers

General Council
(Sunta de Administración
del Fondo Nacional de
Propiedad Social) JAFONAPS

National Social
Property Fund
(Fondo Nacional de
Propiedad Social) FONAPS

Investment and
Development Corp.
(Corporación de
Financiera de
Desarrollo) COFIDE

Funding

Housing Bank
of Peru
(Banco de la
Vivienda del Perú)

Housing Fund for Workers
of the Social Property
Sector
(Fondo de viviendas para
Trabajadores de Propiedad
Social)

(1) Minimum number of enterprises
To form a regional unit: Three

(2) Minimum regional units To
form the assembly: Five

(3) Consists of all enterprise employees
(i.e., blue collar, white collar, managers),
permanent and temporary
When an *aporte transitorio* is repaid, a crédit is entered in the enterprise books to the social fund, which represents workers' claims, and a debit to workers' debt. Subsidiary accounts are carried for each worker. However, the individual worker never has to pay his share of the workers' debt in that at the end of each year 5 percent of the economic surplus is retained and is used to amortize this debt when a worker retires from the firm. Upon a worker's retirement after 20 years of service, or upon disability or death, the enterprise issues to COFIDE a retirement *accio-bono* for the amount of the worker's account in the social fund of the firm. COFIDE then issues retirement certificates to the retired worker or his heirs for an amount equal to the sum of his part of the social funds of all the social property firms in which he has worked. COFIDE, with all the retirement *accio-bonos* received from the social property sector, forms a retirement portfolio, the income from which is distributed to retired workers or their heirs (widows and minority-aged children) in proportion to the retirement certificates each worker holds.\(^{13a}\)

A social property enterprise may be created on the initiative of any person, group, or corporation which conceives of a project consistent with the program of national development, likewise by the initiative of the state sector, one function of which is to identify opportunities for the social property sector. Initially, a project is presented to the National Social Property Commission (CONAPS), which determines the status of the project within the Development Plan. Its findings are communicated to the Finance and Development Corporation (COFIDE) and to the National

\(^{13a}\) Summarized from Tong, *op.cit.*
Social Property Fund (FONAPS), which organizations study the feasibility of the project. Once determined, CONAPS approval is given and either COFIDE and/or FONAPS adds it to their respective project portfolio. CONAPS then publishes the approval and advertizes the positions to be filled, for which anyone may compete. The final project proposal, as acted upon by COFIDE and FONAPS, includes a proposed organizational structure, market analysis, wage scale, the man-days of labor required, and the criteria to be used for merit and efficiency bonuses. Meanwhile, the initial labor force of the firm is recruited and familiarized with the project. When the production facilities are on stream, the firm becomes a legal entity. The workers give their approval to the constitution of the firm, which is subject to CONAPS approval. The firm must then register as a juridical person.

Firms in other sectors are permitted to convert to social property status if (1) the firm is in sound financial condition, (2) approval by CONAPS is forthcoming, and (3) two-thirds of the proprietors, shareholders or associates approve. Also, with the approval of CONAPS, firms which the owners would like to dissolve, but cannot because the dismissal of the workers is not approved by the Ministry of Labor, may be converted to social property enterprises.

According to the Director of the Social Property Enterprises Department within COFIDE, a joint venture between a social property enterprise and a foreign firm would be possible via a contract, by which certain managerial responsibilities might be delegated to the foreign firm. The approval of both COFIDE and the enterprises' Board would be required.  

14 Interview with Enrique Valdiva Benavides, July 2, 1974.
The General Assembly of a Social Property Enterprise consists of all of the employees of the firm. Its sessions are summoned by the Management Committee and chaired by the President of the latter. Its responsibilities are to approve and modify the company's by-laws, elect and remove members of various committees, ratify the appointment of the General Manager and remove him, decide the sale of fixed assets, determine the debt policy, to approve hiring policies, and to arrange audits. The Management Committee (Comite Directivo), the top executive body, is made up of three to six members elected by the General Assembly for a three-year term. Only persons who have worked at least two years for the company are eligible, and no one may be elected for consecutive terms. This body designates the General Manager and others filling management positions, subject to Assembly approval. It also approves the hiring of new workers. The General Manager is the chief executive and holds his job indefinitely at the pleasure of the Assembly. Annually the Management Committee submits a report to the General Assembly stipulating the number of workers needed for the next year. If rejected by the Assembly, the report goes to the National Social Property Commission, which decides the issue. The Committee can hire workers on its own authority, but subject to approval of the next meeting of the General Assembly.

It is clear that "the main object of the social property system is to provide centralized, independent, non-State type of enterprise, run by the workers in fact and not just in theory, which at the same time make money.""15 It was anticipated that initially at least 90 percent of

the social property enterprises would be new ventures, not converted industrial community or private firms. In the long run, however, it is expected that the social property sector will dominate. Toward that end, priority is given to the social property enterprises by the state via tax reduction, subsidized capital, and other privileges.

Since the promulgation of the Social Property Law in mid-1974, a major issue has been the impact on income distribution. Some commentators believe that the impact will be marginal at best. Others assert that the law will lead only to redistribution of income within the modern sector of the economy. It is expected that the SPE's would tend to pull workers away from the private sector into the social property sector where they might be expected to earn slightly more. The explicit purpose of the law is, of course, to "permit the effective use of resources without concentrating income and decision-making power," which cannot be equated with income redistribution.

The impact of the SPE's on income distribution rests with the ability and willingness of existing firms to expand their labor forces. But, because the social property enterprise can be expected to maximize returns to labor, which means pushing the capital-labor ratio as high as possible, employment is likely to suffer. Some analysts have urged the government, so long as internal investment decisions are left to the firm, to tax the capital used in the SPE's, thereby increasing its cost. On the other hand, via the regional units, the Assembly of the Social Property Sector, the National Social Property Commission, and the National Social Property Fund is the mechanism for state planning and control of the social property sector. How individual firms, which are supposed to have a high
degree of autonomy - which autonomy is embedded in the notion of economic pluralism - will be induced to conform to the plans is not yet really known.

Preliminary indications show that the state sector has expanded most rapidly during the Velasco regime and may already control as much as half the value of output in the Peruvian economy. Since the government appears committed to strengthening and further expanding the state enterprises - at least those in the capital-intensive basic industries such as petroleum, steel, cement, fertilizers, mining, metal refining, paper, telecommunications, electric power, and air transport - it is obvious that the private sectors and cooperatives are most likely to feel the pinch if the government moves toward rapid implementation of the SPS. 16

Reformed Private Sector

We now come to the sector which is the main focus of our research, the reformed private sector, the principal characteristic of which is the Industrial Community (Comunidad Industrial). It was the Industrial Law of July 1970 which legally created this system of employee participation in ownership and decision-making, thereby preceding the introduction of the social property sector by four years. The Government's declared purpose was to increase productivity and capital formation and encourage the participation of workers in the profits, property and direction of industrial firms and promote the social, cultural, professional, and technical development of the workers. The Community concept was extended to the fishing industry in March 1971 and to mining in June 1971.

The essence of the original law was the requirement that the permanent employees of private industrial companies employing six workers or more, or with an annual gross income of at least 1 million soles (about $25,000),

16 Peter T. Knight, Santiago Roca, J. Vanek, F. Collazo, Selfmanagement in Peru (Program on Participation and Labor-Managed Systems, Cornell University, 1975), p. 69.
be organized into industrial communities. (An "industrial" company is defined as one which transforms a product rather than merely transfers it, as would a purely commercial establishment.) Through their industrial community, a firm's employees have a claim on 15% of the pre-tax, net annual profit of the company. With their share of the profit, the employees are obliged to purchase an interest in the firm up to, but not exceeding 50%, via a fund that is owned collectively by the community. If the firm is reinvesting, new shares may be issued; if not, existing shares are purchased from present owners. Once the 50% limit has been reached, the Industrial Community issues its own shares to members (i.e., to all permanent employees) according to seniority (i.e., the number of months worked in the firm). The shares thus acquired by individual members cannot be sold and are redeemable by the employee or his heirs only via his Industrial Community and only in event of his severance from the firm, i.e., retirement, disability, or death. Note that these shares do not represent direct ownership in the firm itself but, rather, in the assets held by the Community, depending upon the firm's profitability. Earnings on Community-held assets are distributed among full-time workers who have been with the firm for more than one year, half being distributed equally among all, half according to the number of months of employment with the firm. An additional 10% of the firm's net pre-tax profit must be distributed directly to its employees, half in proportion to basic wages and half in proportion to the number of months worked during the previous year. The firm must pay out a further 2% for technical research undertaken either by the company itself or by an industrial research institute. (See Figure 3.)
Figure 3
Structure and Operation of an Industrial Community

1. 1.5% of payroll
2. 20% of annual profit
3. National Apprenticeship and Industrial Labor Service

Board of Directors

The Firm

Owners

An Industrial Community
(all permanent employees)

General Assembly
(all IC members)

IC Council

IC President

General Fund

Individual Community members

- Stock purchase up to 50% of annual profit (pre-tax)
- Assistance, Supervision, Training

National Fund of the Industrial Communities (Fondo Nacional de Comunidades Industriales) FONACI

Expenditures for collective benefit (e.g., social, cultural, professional and technical development of members)

12.5% share of annual profit at least 5% per year

Payments to sever members for redemption of stock

If 15% profit distribution to IC is more or less than that required to acquire 5% of the equity of the firm each year
The holdings of the Community must be maintained proportionally, which means that the Community must match, through loans or otherwise, any investment by the private owners proportional to its previous interest in the firm. Such investment requires the authorization of the Ministry of Industry and Tourism.

After 50% ownership has been achieved by the Community, the 15% share of the firm's net, pre-tax income continues to go to the Community and may be used for a variety of purposes, such as investment in other firms or government securities, but may not be distributed to members. Every five years after the acquisition of a 50% interest, the Community issues new shares to its members representing the value of all assets acquired during the period. These shares are distributed on the same seniority basis as the initial shares.

Three systems for evaluating company stock for the purpose of purchase by the Community are specified in the basic law: (1) by agreement between the owners and the Community, (2) the market price if traded locally, (3) or "modified" book value. The subject remains vague.

The Community's General Fund is the reservoir for all Community income and the source of all its expenditures. The latter include those for the social, cultural, professional and technical development of its members; for the redemption of shares held by severed members; and for other authorized expenditures and investments.

The Industrial Community is a juridical person representing the collectivity of all full-time employees of the firm. It is charged with
the responsibility of administering the assets which it acquires in conformity with law for the benefit of the collectivity.

The General Assembly of an Industrial Community is the supreme deliberative body of the Community and the final authority in all Community matters, including the uses of the General Fund. It consists of all Community members, i.e., all employees up to and including managers. The Community's executive body is the Council of the Community, which executes the wishes of the Assembly. Council members, elected by and from the Assembly, hold office for two years and may not succeed themselves. They perform their duties outside of regular working hours and receive no extra remuneration. They may not have any personal ownership in the firm nor simultaneously be union officers. They elect a council president and designate from among themselves one or more Community Directors (Director Comuneros) to represent the Community on the Board of Directors of the firm. The latter serve for one year except in the case that one is selected by the Board as its Chairman, in which event he may complete his term. The Community Directors act as the deputies for the Council and must represent its wishes before the Board, which means that they cannot change their position without prior approval of the Council. From the start, the Community has at least one seat on the Board, and the number increases as the Community share in ownership increases.

Theoretically, the industrial community system encourages labor stability in that the employee receives no shares from the Community until it has reached the 50% point, and the longer he remains with the firm, the more he receives. Even after the Community has reached the 50% mark,
the employee gains via seniority because of the distribution every five years. Indeed, the employee receives only half of the normal severance pay if he leaves before the Community reaches 50% ownership of the firm. Prior to that point, severance pay is determined by dividing one half of the total value of the Community holdings by the total number of man-days worked since its inception as a Community and multiplying the quotient by the number of days the departing employee has worked.

It should be noted that if a firm reinvests at an annual rate equal to or greater than 15% of its net pre-tax profits, the share of Community ownership will not increase.

Furthermore, a private firm may escape reform entirely if it holds the number of its employees below six and its annual sales to less than 1 million soles. The law could thus encourage fragmentation. Also, the exclusion of commercial firms might mean that an enterprise which currently both produces and sells might spin off the sales function to another entity. So long as the original owners remained in effective control of the producing enterprise, they could manipulate transfer prices so as to generate a maximum profit in the selling firm, even if such meant a loss in the manufacturing firm.

Additionally, if the existing managers are likewise the owners, so long as they remain in control they can erode profit by increasing their own salaries and costing various benefits of an individual nature, such as the use of company cars, entertainment funds, pensions, etc., to the extent permitted by the tax law.
An August 1974 law closed some of these loopholes. Henceforth, industrial companies would not be able to contract shop-floor personnel through service companies; they would have to put them on the payroll. Directors' fee of over 100,000 soles ($2,500) would not be discountable for the purpose of calculating the Community's participation and would not in any case exceed 6% of the company's net taxable profits. Nor would anyone be paid more than 30 times the wage of the lowest-paid worker in the firm. On the other hand, a company would be permitted to divide its production and commercial activities into two separate companies, but only if the latter accounted for more than half of the turnover. If industrial activities accounted for less than 30% of the turnover, it need not have a community at all.\footnote{"Industrial Communities: Reforming the Reform," \textit{Andean/Peruvian Times}, August 30, 1974, p. 4.}

Generous tax incentives and customs rebates are available to the reformed private firm, thereby reducing its cost of capital and encouraging greater capital intensity at the expense of additional employment. The magnitude of the incentives depend upon the priority accorded the firm. The priorities:

- First, basic industries and certain other specific industries reserved for government and which may not be privately owned;
- Second, social support industries;
- Third, producers of non-essential goods;
- None, producers of luxury goods.

The incentives given follow this schedule:

\footnote{"Industrial Communities: Reforming the Reform," \textit{Andean/Peruvian Times}, August 30, 1974, p. 4.}
Tariff reduction on:

<table>
<thead>
<tr>
<th>Capital goods</th>
<th>Raw materials</th>
<th>Tax-free investment allowance as a % of pre-tax income</th>
</tr>
</thead>
<tbody>
<tr>
<td>First priority firms</td>
<td>90%</td>
<td>80%</td>
</tr>
<tr>
<td>Second</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td>Third</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

A ploy by a management bent on circumventing the Community's participation in management might be to hold unannounced informal meetings of the Board of Directors to decide all really important matters in the absence of the Community representatives, or by influencing the latter to act against the interest of the Community as a whole but for their own personal gain.

It was also feared by some that the labor unions would see the creation of industrial communities as a threat to their power and thus subvert them. Cooperative decision-making and profit-sharing would leave little room for confrontation tactics through which unions historically garner power. According to one highly placed government official in 1974, the role of the trade unions up to the time when the Community reaches 50% ownership would remain unchanged. After that, the unions would have no function and were expected to disappear. There was an inference of state force behind his words. 18 Officially, we were told that the role of the unions would include wage and salary negotiations. In fact, it was admitted that the majority of union leaders had moved into leadership roles in the Industrial Community Councils. Consequently, Community representatives tended to have a "union mentality." It was

18 Interview with Commander Duarte, Director Superior, Office of Industrial Labor, Ministry of Industry and Tourism, July 1, 1974.
anticipated that so long as the Community was in a minority ownership position, the union would continue to have a legitimate role. But, once the 50% ownership level was reached, the union would no longer be necessary. 19

Some have argued that the income distribution effect of the Industrial Community system will be limited to the upper quartile of the working population, that the poorer and unemployed groups will not benefit at all. Furthermore, the disparity between employees of very profitable and less profitable firms will tend to be magnified. And, even if some form of compensation mechanism were adopted within industry (as in fishing, mining and telecommunications) to help even out inter-firm inequalities in worker income, at the national level the industrial reform would not transfer income to the lower three quartiles of the labor force.

For a time, there was also the unanswered question as to what happens when the 50-50 ownership split between Industrial Community and private owners were realized. Who has control? How are decisions made? It was strongly suspected by many that the planners had in mind the conversion of such firms into social property enterprises. Indeed, it is reported that the First National Congress of Industrial Communities held in early 1973 passed a resolution declaring that the Industrial Community "corresponds to a determined historical stage and therefore has a transitional character toward the building of a new society, which can be no other than that where the means of production are social property, since the very advance and radicalization of the revolutionary changes will determine the inadequacy

of the Industrial Community in its present form."\textsuperscript{20} However, an August 1974 law specifies that in event the 50% level is reached and the company board becomes deadlocked as to whom should be chairman, he shall be appointed by Peru's equivalent of the Securities and Exchange Commission, (Comisión Nacional Supervisora de Empresas y Valores, or CONASEV) from "qualified University professionals."

Many of the same rules applied to the fishing and mining communities following the appearance of the 1971 laws on the subject, but with some modification. First, the profit distribution for the purchase of company stock is less than the 15% for the industrial community. For fishing it is 12%; for mining, 6%. Likewise, the \textit{direct} profit distribution is lower than the 10% for the industrial communities, being 8% for fishing and 4% for mining. Of these amounts, 4% of the 8% for fishing and .8% of the 4% for mining is distributed directly to employees; half on an equal basis, half in proportion to wage. The balance - 4% for fishing and 3.2% for mining - is paid into the sector's "Compensation Fund," which then distributes these amounts equally to all workers in the sector. Of the profits designated for the Community purchase of company ownership (12% for fishing, 6% for mining) 6% and 4.8%, respectively, is distributed directly to the relevant Community. The balance goes to the sector's Compensation Fund and is redistributed to individual Communities on the basis of total man-days worked. This compensation scheme has two major impacts: (1) it penalizes a community for the loss of man-days worked by reason of strikes, and (2) the individual Community loses some of its autonomy. In each sector, the fund is administered by a Compensation

\textsuperscript{20} Primer Congreso Nacional de Comunidades Industriales Resoluciones (Lima; Confederación Nacional de Comunidades Industriales, March 1973, mimeo).
Community, which consists of representatives from all the individual Communities in the sector.

Realizing that various elements in the population would be either neutral or openly hostile to the industrial and agrarian reforms and that public support would therefore have to be rallied, the political leadership created in 1971 the National System in Support of Social Mobilization (Sistema Nacional de Apoya a la Movilización Social, or SINAMOS). As explained by a SINAMOS officer, the process of change initiated by the revolution set up a need to organize large numbers of people into the political process. To this end, SINAMOS was organized, not to generate popular support for government reforms per se, but to get more people involved in the entire process of change, to encourage the development of new and expanded social organizations of all varieties, and to give infrastructure support to them. In the latter category would fall the provision of technical skills on projects, the holding of training seminars, the publication of educational materials. It was emphasized that SINAMOS was a transitory type of organization, was not part of the central bureaucracy, and was not committed to any political ideology other than participation. It was pointed out that the political backgrounds of SINAMOS officials varied widely, but all had experience in political activism. At least one had even been arrested by the Government.\(^{21}\)

One of the greatest challenges in the industrial and agrarian reforms is the preparation of labor for its new role, a process called "capacitación." The explicit object was to break down the distinction between obrero and empleado and to subsume both under the general term trabajador. As of

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\(^{21}\) Interview with Federico Velarde, Director of the Lima Regional Office, SINAMOS, July 2, 1974.
mid-1974, we found three programs under way - basic, intermediate, and superior ("terminus"). It was claimed that 40,000 persons had completed the basic course and that all would go through all three within two years. 22 Apparently, no thought had been given as to the legal qualifications for employment as a manager after the Community achieves 50% ownership.

At the time of our study, it was reported that there were a total of 3,352 industrial communities containing something like 200,000 members. The Minister of Industry and Tourism indicated that though in some firms the percentage of Community ownership exceeded 25%, the national average was on the order of 8 to 9%. 22a

It should be noted in passing that companies established with exclusively foreign ownership were required to enter into agreement with the Government providing for a reduction of foreign ownership to 33 1/3% over a specified period of time. Those established with no more than 75% foreign ownership were required to reduce the foreign share to 49%. Existing foreign-owned companies (as of June 30, 1971) were similarly required to sign agreements with the Government which called for 15% local ownership by July 1, 1974, 45% seven years later, and 51% five years thereafter (1986). On the other hand, as a member of the Andean Common Market, Peru is obligated to observe ANCOM's common policy for foreign investment, which requires that in the Peruvian case foreign firms must reduce their ownership in the favor of local nationals to 49% within 15 years if they wish to participate in the ANCOM customs preference

22 Interview with Commander Duarte, Director Superior, Office of Industrial Labor, Ministry of Industry and Tourism, July 1, 1974.
system. One wonders who is to take up the missing 1% in that an Industrial Community is limited to a 50% interest.

Under a law promulgated in August 1974, each industrial community should acquire not less than 5% of its associated firm's ownership each year, thereby reaching the 50% level by not more than ten years. If the annual profit due to a Community is greater than that required to acquire 5% of the ownership, the extra was to go to the National Industrial Community Fund (Fundo Nacional de Comunidades Industriales, or FONACI). If the profit in a given case is inadequate to give a community the wherewithal to purchase the 5% interest, then it can apply to the Fund for a loan to make up the difference.

The same law makes a distinction between Industrial Communities with direct participation and those with indirect. The latter communities will receive 15% of the firm's net profits in cash, plus another 15% which will go toward buying special FONACI bonds with a guaranteed annual interest rate of 10%, but they will not hold any ownership in the firm. The direct participation communities will be limited to the larger companies, i.e., those with a permanent labor force of 20 or more or with an investment of at least 300,000 soles (about $7500) per employee. It was estimated at the time that between two thirds and three-quarters of Peru's industrial enterprises, employing about half of Peru's industrial labor, would fall into the smaller category, which means profit-sharing and direction-sharing but not ownership-sharing. As before, no state companies have directly participating communities; they receive COFIDE shares instead of shares in the firm.

Private Sector

As can be seen readily from the foregoing discussion, the purely
private sector is a residual one consisting of trading enterprises, service companies, artisan and craft shops, and very small-scale industrial production.

At the start of our study we were concerned with several central questions:

1- Could employees be trained so as to understand the financial and technical operations of their respective firms so as to participate meaningfully in decision-making?

2- Could the traditional managerial elite of Peru be induced to so change its attitudes as to make possible a cooperative decision-making process?

3- Would the unions subvert the entire effort?

4- If productivity and capital accumulation were to drop in the short run, would the political elite jettison the whole experiment? What were its priorities? How firm was its commitment to shared ownership and decision-making?

5- Would the necessary inflows of foreign savings and technology continue?

Administration and Education

Within the Ministry of Industry and Tourism is the Office of Labor Communities (Ofisina de Comunidades Laborales, or OCLA), the Director General of which in 1974 was Commander Benjamín Duharte Costa, a Naval officer. The three principal offices under him are the Divisions of Registration, Supervision, and "Capacitación," all headed by civilians. The latter division relates to the upgrading of worker skills so as to render their participation in management more meaningful.

Within the Supervision Division are the Departments of Inspection, Administrative Accounting, and Control. The first deals with legal problems involving the industrial communities, as well as registering and compiling
statistics, samples of which are attached as Appendices E, F, G, H, and I. From these, it will be noted that apparently there had been 7,520 oral consultations by industrial community spokesmen with the Office of Labor Communities during 1972 and 1973, or an average of almost 3 per community. Also of interest is the fact that the number of new communities appearing had levelled off by 1973 at the 200 level and that the average size, in terms of employees per community, had dropped significantly, from 107 in 1970 to 15 by 1973. The percentages of community ownership varied by sector from less than 3% in the paper and paper products and petro-chemical industries to over 12% in the rubber industry. As one might expect, the majority of the Communities were located in Lima, some 76% of those created during the 1970-73 period, although the percentage seemed to be declining slightly.

The Administrative Accounting Section of OCLA offers accounting assistance to the Communities. When requested by a Community, the Section would send an accountant to the company to prepare an analysis of the company's accounting system and verify the firm's net profit. This report was then given to the Director General of Taxes within the Ministry of Economy and Finance.

Possibly the most important activity of OCLA was identified by the word "capacitación." The function of the division bearing this name was generally to upgrade workers' knowledge and skill so as to support the functioning of the communities and to make labor's participation in direction meaningful. To implement this responsibility, division personnel were giving seminars to Industrial Community representatives on Community philosophy and operation, including simple accounting and organizational
procedures. Up to mid-1974, divisional spokesmen claimed that they had met with representatives from some 40% of the Communities. The purpose of OCLA’s program is to prepare the worker for integration into the Ministry of Education training program, specifically for "The Basic Labor Education" (Educacion Basica Laboral) and "Special Professional Training" courses (Capacitación Profesional Extraordinaria). These upgrading programs given by the Division were called "Unidades Experimentales de Capacitación," Experimental Training Units. Another program was designed to prepare worker-instructors so as to produce a multiplier effect. Division officers admitted to several problems. First, the courses were given only at night, and night work shifts interfered with worker attendance. And initially, there was indifference by workers toward these courses, possibly due to an absence of any promise of immediate material reward.

While our research was in progress, the Government moved to create the System of Permanent Training and Extension Education (Sistema de Capacitacion Permanente y Extension Educativa). This act was designed to create a better integrated system of worker education and training by OCLA and the Ministry of Education. Such a system had been developed previously in the agricultural sector, but efforts were henceforth to be concentrated in the industrial sector. This new program was to be built on the existing Experimental Training Units located within individual Industrial Communities. They were to be directed and taught by Community officials, and individual workers were to participate actively in making their own self evaluations and designing course offerings. Even the pedagogical methods were to be developed via self-management and self-education.
Courses in these units would be offered on three distinct levels: preliminary evaluation (*valuacion previa*), basic course (*curso basico*), and differentiated courses (*cursos diferenciales*). The first would determine the beginning level of the worker. The program recognized three entry levels into the basic course: Cycle I (grades 1 and 2); Cycle II (grades 3, 4, and 5); Cycle III (grades 6, 7, 8, and 9). As of mid-1974, programs had been developed only up to grade 6 level. The basic course was to provide a minimum of education in topics ranging from law, socio-politics, economics, accounting, administration, and cultural activities. On the basis of individual performance, one would enter the differentiated courses. It was expected that these courses would be dedicated to further development of the subjects covered in the basic course. The worker would enter these courses on one of three levels: review program (*programas de reperacion*), complementary course (*ciclos de complementacion*), advanced course (*ciclos avanzados*). Those who had not fully mastered the objectives of the basic course would enter the first. The complimentary course would be designed so as to enhance the worker's knowledge in the area of competence, the determination of which would be largely with the individual. The advanced course would permit the worker to specialize in some area which he began in the basic course.

The three levels would constitute the curriculum of the Unit. These units were to be manned by teachers from the National Center for the Development of Methodology and Training (*Nacional Centro de Formacion Metagolica y Capacitacion*), where both the curriculum and instructors were to be developed. Other instructors were to be selected from the ranks of
the workers who had achieved the highest level of competence in each
subject. Presumably they would teach some of the review courses under the
supervision of a teacher from the Center. The educational program of the
Unit was to be complemented by conferences, study groups, television
watching, and reading groups. Active dialogue between teachers and workers
was to be encouraged. The Units were also to serve as athletic and
recreational centers for the families of the workers.

The first experimental units were established within the larger
Industrial Communities. Once they had something of a track record, they
were to be transformed into Permanent Training Units (Unidades de Capacitación
Permenente). The Center for the Development of Methodology and Training
(Centro de Formacion Metogolica y Capacitacion) would be created to service
the entire program. The Units would be associated with local Industrial
Communities, but would be operated as part of the general education
program of Peru. The overall objectives, as defined in the law, were to
promote the social-cultural, professional, and technical training of
workers; to make the workers aware of their responsibility to the company
and for the development of the country; and to motivate the self-education
of workers that they would be encouraged to participate more dynamically
in the revolutionary process. 23

So as to bring professional and vocational training to a larger part
of the working population, the Government had also created the National

23"Plan de Capacitación Permanente," (Lima, Office of Labor Communities,
Ministry of Industry and Tourism, 1974, mimeographed, 7 pp.); also interviews
with Moises Novoa, Diffusion Department, Ministry of Education, July 1974, and
with Dr. Cesar Picón, Director General of Basic Labor Education and Extraor-
Apprenticeship and Industrial Labor Service (Servicio Nacional de Aprendizaje y Trabajo Industrial, or SENATI), which was part of the Permanent Training Program of the Ministry of Industry and Tourism. It provided decentralized vocational training to skilled and unskilled workers. Companies in the areas served by SENATI schools paid 1.5% of their payrolls to SENATI, and were obligated to take one apprentice for each 25 workers. The company had to guarantee an apprentice one half of the minimum weekly wage (1,500 Soles, $43, in Lima) during this period. SENATI paid the other half. The firm might designate a new employee as a trainee, but the SENATI took only those who were assured of employment after finishing their studies. Graduates were obliged to work for two years after their training for the company which sponsored them.

The SENATI also received support from other countries in the form of machines and scholarship, the latter being principally for SENATI professors studying abroad. As of mid-1974, there were three SENATI centers in Lima, Arequipa, and Chiclayo. There were plans to construct centers in Trujillo, Puculpa and Iquitos, the last-named specifically for the oil industry. Existing centers had a capacity of 350, and in 1974 it was reported that 258 workers had graduated from SENATI courses. A course lasted five months.

Not irrelevant to these efforts was Peru's general commitment to education. Norman Gall wrote in 1974:

While only one in every forty Peruvians had access to public education in 1900, the proportion of those participating in the education system rose to one-in-four by the mid-1960's. While Peru's population has increased since 1900 at the geometric rate

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24 Interview with Vice Admiral Jesus Plar Valdiva, Director of Servicio Nacional de Aprendizaje y Trabajo Industrial, July 1974.
of 1.9 percent annually, enrollments have risen at 5.4 percent per year during the same period, or nearly three times as fast as the population, reflecting one of the world's highest rates of educational expansion in this century. At the same time, education's share of Peru's public budget rose from 2.9 percent in 1900 to 30 percent in 1966, one of the highest in Latin America, and this severely strained the financial resources of the state as continued high birthrates and dramatic declines in infant mortality radically expanded the school-age population. The rapid educational expansion, while showing spectacular growth rates in the remote and backward Departments of the Andes, also has been closely associated with urbanization and migration to the coastal cities. In Metropolitan Lima, roughly 47 percent of the population between the ages of five and 39 was engaged in some kind of formal education in the 1970-1972 period.

Consequently, one can assume a general bias in the direction of education which might auger well for the success of the capacitación programs.

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Chapter 3
INTERVIEWS OF MANAGERS

The overriding purpose of our interviews of both management and workers was to gain a sense of what in fact had happened at the enterprise level in response to the requirement that an Industrial Community be established. These interviews would likewise, it was hoped, provide base-line data, from which we could plot the dynamics of the system when we revisited the same enterprises at a future date.

Obviously, it would be unwise and a breach of confidence to reveal the identity of individual respondents or of firms.

Question #1 - How do you believe Peruvian entrepreneurs conceptualized the appearance of the Industrial Community in 1970?

There are some legitimate reservations about this question in that in Spanish the term empresario was used, as opposed to either dueño or gerente. Dueño means owner in the Peruvian usage; gerente, manager; and empresario, entrepreneur, in the sense of owner-manager. Hence, the question asks for the reaction of a specific type of manager-owner to the appearance of the Industrial Community. Historically, perhaps most dueño's have been empresarios because there are so few professional managers in Peru, but respondents may well have been confused as to whom reference was being made in the question. Presumably the class "manager-owner" would be adversely affected by the advent of the Industrial Community, for they would lose both control and ownership of their companies. On the other hand, the class "managers" might remain essentially unaffected unless they identified with the interests of the empresario's, or were identified by the IC's with empresario interests, or believed that the IC would lead to self-management and elimination of the managing class.
Also, the question asked interviewees to summarize the reaction of empresarios in general. In fact, it was apparent that many of those interviewed simply gave their own personal reactions; some, not even that. Most simply told how they felt about the Industrial Community.

Generally, responses fell into three categories: (1) the Industrial Community is a good idea in theory, but in reality it cannot be effective; (2) the Industrial Community concept is essentially bad because it subverts managerial decision-making, reduces investment, and lowers operating efficiency; and (3) the IC is coming to be accepted, with the realization that it is the only way to assure domestic tranquility and increased buying power by workers. In respect to response (3), executives of five firms (of the 26 in which interviews were held) indicated that either their companies had approved of the idea of the IC or that they had accepted it without reservation. One, a Japanese (in Firm L-1), observed that the idea was good but that no Peruvian managers liked the concept. A management spokesman for a U.S.-owned (Firm L-8) firm indicated that so far the IC had gone quite well, but that he was uncertain about the future. An executive in a second Japanese firm (L-3) reported that his firm had accepted the IC because the firm was very respectful of the law. (Management wished, however, that the workers had not been placed on the Board at the beginning of the program.) The manager of a Peruvian-owned firm alleged that the Japanese were more used to the idea of worker participation than others. Several managers (4, including one from a U.S.-owned firm) opined either that the attitudes of empresarios generally, or their own attitudes, had changed since the formation of the Industrial Community. One of these considered the IC a forced marriage but that he would like to make the best of it. Another indicated that he felt that most managers had come to accept the IC.

26 Firms A-2, A-9, L-4, L-8, and L-9.
Despite these few mildly favorable or conciliatory comments, it was our conclusion that most of the managers interviewed either were not supporting the development of their IC or were actively trying to undermine its effectiveness.

It was also clear that few managers really responded to the question, but rather focused in on their own personal reactions. Only a handful were able to conceptualize the Industrial Community program. That is, they were asked to generalize on the reaction of entrepreneurs to the appearance of the IC. It would seem that a rational response might have been to articulate their perception of the IC and the purposes or needs which it was designed to fulfill. To what were the empresarios reacting? Among the 4 or 5 who did so, one (in Firm A-2) offered a rather lengthy explanation of the creation of the IC. The purpose had been, he said, to extend the political control of the government into the firms, to replace the unions, and to restrict the power of the empresarios. The level of worker participation indicated to him that the government did not intend to limit the IC to 50% ownership. Forced growth, socialization, and political appeasement of the Left were other explanations justifying empresario opposition.

The point is that all but possibly 4 of the 26 managers apparently did not see the IC outside the context of their own firms. They were reacting to a perceived threat to their ownership and/or control. That the IC might serve broader social interests which, in the longer run, might be in the interest of at least the gerente, if not the dueño, was clearly not perceived. Interestingly, with but one exception (Firm A-9) the only firms which appeared to accept the IC law in the sense of indicating active cooperation were foreign, U.S. and Japanese.

The real problems suggested here were (1) how to induce Peruvian managers to look beyond the short-run impact on their own firms to the broader needs of society and (2) how to remove the perception of threat from the IC notion. It would appear that more than ever really skilled
managers would be needed and, hopefully, rewarded, but no one seemed to see that.

Question #2 - Has this conceptualization changed? In what way has this change affected decisions concerning investment and technology transfers from headquarters (i.e., from abroad)?

Only four managers reported a change of attitude toward the IC (3 from Peruvian and 1 from U.S.-owned firms), a softening in each case. Whether this meant that the IC was no longer perceived as a threat to "business as usual," or indicated a willingness to cooperate actively, was not clear.

The managers of three Peruvian-owned firms with technical assistance contracts with U.S. firms (A-1, A-5, and A-9) reported no change. One U.S. firm (L-9), after an initial headquarters' decision to liquidate, decided to remain but without any further investment or transfer of technology. A second U.S. firm (L-10) likewise had terminated all further investment or technology transfer, although continuing to operate. A third firm (L-14), 80% U.S.-owned, reported that Texas Instruments had refused to license some technology on the ground that it did not wish to give its technology to the IC. In contrast, Firm A-9 was established in 1973 by private Peruvian investors to exploit a license given them by a well-known U.S. corporation. Managers whose firms did not have any foreign support (vinculacion) felt that both foreign and domestic investment had dropped because of the IC. Others agreed that the level of investment had indeed dropped, but that the IC was only part of the explanation. Complex and time-consuming import regulations, the low level of foreign reserves, the limitation of profit remittances to 14% of registered capital, and the Andean Pact regulations

(which force a spin-off of foreign majority ownership over time) were likewise important.

The notable exception to the lack of interest in direct investment in Peru were the Japanese. Not only did they accept the IC law, but reportedly they were continuing to invest and transfer technology. In mid-1974, Toyota had just won the bidding on the right to build cars in Peru, a bidding in which Nissan had also participated. Ajinomoto had invested $416,000 since the inception of the IC.

If the viability of the program did depend upon the inflow of foreign capital and technology, as suggested by our working hypothesis, then the IC was indeed threatened. However, foreign investors might shy away for a variety of reasons.

Question #3 - In your opinion what is co-direction (co gestion)?

The hypothesis suggested by this question is that an accurate understanding of the IC program by managers is critical to the viability of the program. It will be recalled that workers' participation in the policy deliberations of the firm was to begin slowly. Until the workers' share in ownership reached 50% (which, at the time of our study, was estimated to be on average some 20 years off) they would remain in a minority position on the Board. Hence, their participation in the actual direction of the firm was dependent upon the attitude of owners and managers. The basic concept here was that, although the workers might not be able to administer (i.e., manage) the firm effectively, it was desirable that employees participate in the policy deliberations of the firm. If they were not permitted to do so now, then they would not be equipped to move into full
50-50 partnership in the future.

The managers of some firms did seem to sense the educational nature of the IC and indicated that they permitted employee representatives to contribute to Board discussions. But others, possibly the majority, felt that their workers were too shortsighted, unprepared, petty, and otherwise unfit to participate in such deliberations. In some firms, worker participation merely meant that the IC was informed of decisions made by the Board. (e.g. Firm A-1) In such cases, management obviously did not recognize its responsibility in assisting in the education of their employees. But it was also true that those workers who used the IC to bring union demands into the Board were only alienating the other directors and failing to establish the sort of relationship with "capital" which would facilitate co-direction.

Management's understanding of co-gestion was not really being tested in some firms because the workers were satisfied to permit the existing Board to continue to determine company policy. In one case, (a U.S. firm, L-8) although the company continued to run smoothly - i.e., without any direct confrontation on the Board - clearly the workers had not availed themselves of their legal opportunities. Hence, there was no assurance that the managers understood co-direction or would be willing to participate in same.

In other firms, managers were clearly ignorant of the meaning of co-direction, as intended under the IC law. To some, the term "co-gestion" was something to be achieved in the distant future, or when the workers achieved 50% ownership, or when the workers equalled the managers in administrative competence. Others (e.g., Firm L-5) felt that co-gestion
meant referring to the relevant expert in coming to technical decisions and, hence, that cogestion had always existed in the firm. There seemed to be considerable confusion between the notion of co-management and co-direction, and between participative management and participative direction. What was intended in the formative years of an IC was participative direction. Ultimately, when the 50-50 ownership relation were achieved, this would evolve into co-direction. But the law was silent on the subject of co-management. Apparently, it was assumed that professional managers would continue to private manage, and the owners of capital would at least retain the power of policy veto at the Board level.

We came across two quite disparate management approaches to cogestion. The owner-manager of one firm (A-1) felt that the IC was incompetent to manage the firm, so he dismissed out of hand the notion that IC representatives could contribute to the deliberations of the Board and completely disregarded the IC in Board discussions. He contended that he would continue to manage the company as he saw fit in the interest of shareholders and workers, but with no apparent awareness that the workers were now incorporated into the body of shareholders.

In a second firm, (A-2), management had allowed the IC to assume a very active role in the direction of the firm. The IC was carefully excluded from technical discussion, but the opinions of its representatives were given full consideration (reported by both management and labor) in policy deliberations. The general manager reserved the right of technical management, but he tried to reach a consensus on policy matters.

Needless to say, in the first firm, workers found the attitude of
management provocative, and the union exercised a strong influence on the firm's IC. In the second firm, the union left the IC to represent the workers' new interests.

Question #4 - How did you institute co-direction (cogestion)?

Obviously, management's concept of cogestion related to its implementation of same, or absence thereof.

In one, a 100% U.S.-owned firm (L-8, the management of which opined that the IC was going well) all decisions were made in the United States with no possibility of worker participation. The company had offered to explain its policies to the IC but as of mid-1974 there had been no response from the IC. In a number of firms, workers had been excluded effectively from policy deliberations either because of the lack of education among workers or the IC's minority position. In such cases, we could discern no change in the decision-making process. Clearly there were great differences between firms as to the actual practice of cogestion. Generally, we concluded - albeit tentatively - that the degree of managerial acceptance of the IC in the direction of firm depended in part on the capacity of management to distinguish between direction and management. It appeared that this inability was particularly strong among empresarios; less so, among professional, non-owning managers.

Several questions suggest themselves. First, is the participation of the workers in the direction of their respective firms necessary for the viability of the program? (The answer depends, of course, on how one defines the essence of the program.) Will the workers be willing to entrust the management of their firms to the traditional managers or will they feel
compelled ultimately to intervene in management as well as direction? Will the workers be able to differentiate their roles as shareholders and employees? Or will these questions become irrelevant because the managers administer the law in such manner that the IC never arrives at a 50% ownership position?

Question #5 - How do you think workers perceive the relation of your company with a foreign corporation?

The foreign investor may be sceptical about the attitudes of Peruvian workers and the nature of the Industrial Community and, as a consequence, withhold investment. One of his principal sources of information in making such an assessment was, we hypothesized, the opinions of managers in Peru. Hence, Peruvian managers' perceptions of the attitudes of their workers toward foreign involvement in their respective firms might be an important factor in determining the flow of foreign investment into Peru. And, if a continued flow of such investment be deemed important to the viability of the whole IC project, then these perceptions could be critical. In order to ascertain whether the managers' perceptions of employee attitudes toward foreign involvement squared with the reality, we also put two questions to employee representatives in these same firms. We discuss the responses from both here.

Our survey included only five firms with no foreign involvement whatever.\textsuperscript{28} Four firms (A-1, A-5, A-8, A-9) had technical assistance, or license contracts with foreign firms; six contained minority foreign holdings ranging from 18 to 41%; 12 companies were either majority or were wholly foreign-owned (4 Japanese, 8 U.S.).

\textsuperscript{28}Firms A-4, A-6, A-7, A-10, A-11.
In all of the firms but one, the workers, we found, were not categorically opposed to foreign investment in Peru. In this one case, the workers interviewed (the Treasurer of the IC, the Organizational Secretary of the Union, and the General Secretary of the Union) felt that foreign capital should be excluded from Peru because foreign investors were not interested in workers' welfare, only in investment. The two union representatives said that foreign capital should be restricted so that the money would stay in Peru. In two other companies (Japanese), the two presidents of their respective IC's considered foreign investment to be an inconvenience because decisions made in foreign firms were made in remote places and it was difficult for the IC to participate in policy formulation.

Nonetheless, managers in six firms felt that their workers opposed the relationship of their firms with foreign capital (which list included none of the three referred to above!). They were contradicted by their workers. In fact, it became very clear that management had never discussed the involvement of foreign interests in their firms with their employees. One manager opined that the union prompted "great irresponsibility toward foreign interests." In the same firm, the President of the IC did not contradict this generalization but apparently the union had had no impact on him because he observed that foreign investment was "convenient" and led to higher profits. He did feel that the IC should help restrict foreign influence through better preparation of, and suggestions to, the Board.

The manager of a U.S. subsidiary believed that the workers felt exploited. But, curiously, the General Secretary of the Union in this same firm stated that foreign involvement in the firm was necessary because the company needed
capital and technology. He felt that the IC should work to clarify itself to the foreign interests. Obviously, he felt misunderstood (and misrepresented?) by management. In a 39% foreign-owned firm, the manager said that the workers took particular dislike to foreign technicians. Even though the General Secretary of the Union agreed generally, he went on to say that the workers did not object to the presence of the technicians, rather to the high salaries they received. Their salaries, he explained, had increased eightfold within a single year. Both he and the President of the IC were indifferent as to the source of the firm's capital. In a 30% foreign-owned firm, the manager believed that the workers opposed foreign investment as "imperialistic." But, the President of the IC in this firm considered foreign investment important for both research and efficient operation. He did feel that the IC should eventually own 50%, but apparently he made no distinction between private Peruvian and private foreign ownership insofar as the other 50% was concerned. Similar misunderstanding was revealed in another minority foreign-owned firm. In other firms, management spokesmen felt that the workers did or would appreciate foreign involvement. In these same firms, workers expressed varying degrees of approval of foreign investment in Peru and in their firm. One was thankful for foreign investment because the foreign owners automatically gave the IC a 15% share in ownership. Others were indifferent to the source of capital. Many were thankful for the new jobs foreign investment had created. They appreciated the fact that the development of Peru was dependent upon foreign capital. Peru simply lacked the necessary funds. Many credited foreign investment for higher wages and larger profits. Others felt that foreign investment had bought better technology, better management, a higher level of expertise, and better worker benefits.
It seemed quite clear that in a number of instances management did not accurately perceive the attitude of their own employees toward foreign involvement in their firms. By and large, workers' attitudes were more favorable than those reported by management.

Question #6 - Do you feel that the Government gives incentives for foreign investment in the manufacturing sector?

Managers in only 3 firms (1 Japanese, 2 wholly Peruvian-owned) of our 26 felt that the government program constituted an incentive for foreign investment, although no cases in which the program had brought investment into Peru could be cited. In general, we felt that these three managers confused the intent of the law with its reality. The Government appeared to welcome foreign investment so long as some mechanism for lodging eventual control in Peru were set up. But the distinction between the Government's intent and the actual impact of its programs was articulated by several managers. Most opined that the Government had effectively discouraged foreign investment, whatever its intent might have been, that its chief concern was internal reform and that it was not likely to revise its program in order to accommodate foreign investment. On the other hand, the manager of a U.S.-owned enterprise stated quite simply that the present government program was "punishment" for the foreign investor. Three others identified the Government program as nationalistic, thereby implying that the Government, even though it had knowingly discouraged foreign investment, was not interested in recouping the loss.

Managers cited an impressive list of disincentives for the foreign investor embedded in the Government's program quite apart from the Industrial Community requirement.
Though the Government was probably aware of the importance of foreign investment in sustaining the development of the Peruvian economy, it was faced with mutually exclusive alternatives; internal reform in terms of wider national participation in profits and decision-making versus high reward and low risk for foreign investors. The question was whether the latter could be reintroduced into the Peruvian economy without sacrificing the reforms. Obviously, some of the Government measures found objectionable by foreign investors were only incidental to the IC reform.

Question #7 - Do you feel that the IC constitutes an incentive for foreign investment?

Important in answering such a question is one's perception of the impact of the IC program. Was it likely that the introduction of the IC would so increase worker productivity that the sharing of direction would generate a larger return on invested capital? Or, would the institutionalized confrontation between labor and management render efficient operation impossible? If one really believed in Theory Y management, and behaved in such manner as to prepare labor for effective participation in policy decisions (which includes trying to induce an attitude which recognizes mutual interest rather than confrontation), then one would expect higher productivity and a higher rate of return.

From the point of view of the foreign investor, the eventual loss of control to a local Board of Directors split 50-50 between foreign owners and local employees may be seen as high cost. But, in fact, such loss of control can be equated with higher cost only if the foreign owners are operating an internationally integrated production-market system and do not envision the Peruvian enterprise as a profit center. Otherwise, loss
of foreign control becomes irrelevant. Presumably, the Peruvian owners are likewise profit-maximizers. And, in any event, loss of foreign control - at least in terms of veto power - cannot be assumed. Under the IC program, local national ownership is required only up to the 50% level, and that is likely to be achieved well beyond the planning time horizon of most corporations. It is the additional 1% of national ownership required under the ANCON regulation that becomes pivotal. But even that level of national ownership does not rule out a substantial degree of foreign control if the associated foreign corporation continues to provide important inputs, such as technology, access to external markets, use of foreign-owned trademarks, provision of debt capital and managerial skills, supply of intermediate products. Such leverage can give the foreign firm basis for adequate control to protect both product quality and income flow.

Although unfortunately we did not ask the question - and perhaps it would have produced meaningless responses in any event - it is not at all certain that local employees would, even upon gaining 50% ownership, move to circumscribe either the authority or number of foreign managers. It seems reasonable to expect that Government regulation is more likely to do that than the advent of the IC to a position of parity on the Board of Directors. But this assumes that managers and foreign owners appreciate the true nature of the IC concept. As already indicated, there is evidence that they do not and confuse co-direction with co-management. In fact, co-ownership by employees should make confrontation between labor and capital less likely.

We found that the managers in the 26 companies surveyed agreed overwhelmingly that the IC was not an incentive to the foreign investor. In
fact, all but one felt just the opposite, that the IC was a disincentive. The exception was a professional manager of European nationality in the employ of a 100% Peruvian-owned enterprise, who felt that the IC would encourage foreign investment by increasing productivity. His firm had experienced such improvement since the introduction of the IC. Two other managers (one Japanese, one Peruvian in a foreign-owned firm) felt that the IC had improved their firms' efficiency, but that in balance the IC did not constitute an incentive for foreign investment. Others were more negative, citing, for example, the possible politicalization of the IC. It was feared by some that CONACI and SINAMOS would turn the IC into an arm of government and extent government policy to the Boards of Directors. Others feared that the foreign investor would be dissuaded by the "union mentality" of the IC. That is, they expected confrontation policies on the part of the IC rather than cooperation. Neither fears could be found in the intent or content of the IC law, but political reality might push in this direction. Perhaps critical will be the direction in which workers' trust will run - toward Government, toward the firm, or toward management? One input will certainly be the attitude demonstrated by management, so in a sense management's fears could be self-fulfilling. One of the Japanese managers, representing a firm with a positive experience with the IC in terms of increased productivity, felt that foreign investors would prefer to select their own partners. To avoid future conflict, this particular firm was actively preparing its workers for participation in direction. In the final analysis only five of the 26 managers maintained that the IC was fundamentally objectionable to management and, by extension, to foreign investors. Others based their pessimism on other Government rules and regulations - e.g., limits on profit remittances, restrictions on imports,
etc. - or on present deficiencies which could be overcome, such as the lack of preparation of labor for its new role.

Question #8 - Has the participation of workers in the direction of the enterprise reduced administrative efficiency? Why? If not, has efficiency improved?

Admittedly, this was not a good question; it was leading. It suggested that workers' participation could cause a deterioration in administrative efficiency. It was also poor because it assumed that the workers participate in administration. Under the IC law, they do not participate in "administration;" they participate in "direction." For the two words read "management" and "policy making." In that the members of the IC do not participate at all in "administration," there should not be any effect on "managerial efficiency" one way or another. To the extent that managers responded without restating the question, our earlier finding that most managers confused administration or management with direction was confirmed. The question should have read whether the participation of the workers in the direction of the firm had contributed to the development of good policy (i.e., a policy leading to maximum profit) or the reverse.

We found that only one manager, Japanese, felt that the participation of the workers had contributed to greater efficiency, but the nature of the contribution was not clear. He did seem to suggest that even minority IC representation on the Board could provide better liaison between union and management and, hence, to heightened efficiency. In six other firms, no effect was reported. Typical responses by managers:

- Have not noticed the participation of the IC in administration (two)
- Performs his job as before with no interference.
- No input from the IC into the deliberations of the firm.
- No real participation by the IC at present.
- The IC is only brought into discussion of labor problems.

In the balance of the firms (19), managers felt that participation of the workers in the administration of the firm had adversely affected efficiency. Complaints included lost time in explanations and justifications (3), extra paper work (1), expending Board meetings in discussing pay raise demands(1), introduction of political affairs into Board discussions (2).

Question #9 - Has the profitability of the firm improved? (Due to the fact that the IC wants larger profits)

The question is deficient in that it did not ask whether the IC had led to an increase in profit. Profits might well have increased since the introduction of the IC in spite of the IC, not because of it. On the other hand, the IC could conceivably increase profit by eliminating the distinction between owner and worker - and the costly confrontation inherent in that distinction - and by permitting the worker to share directly in any profit generated through increased productivity. A more subtle factor might be the greater sense of self-realization and higher levels of expectation induced by the IC. And finally, improved communication between employee and manager might contribute to laying ideologically-based hostility.

The continued profitability of the firm is critical to the entire IC program, which depends on profit distribution. If there are no profits, there is no increase in the influence of the IC in the firm. Again, the role of the managers seems essential. Redoubled effort on the part of workers could stimulate profitability, but only if their efforts are matched by similar effort and good intentions by managers. Obviously, managers
can manipulate costs so as to reduce profits, and they may prefer to do so. A manager from a 100% Peruvian-owned firm confessed that he would rather give up 50% of his profits each year in new taxes or profit-sharing than give part of the firm to the workers. The point is, of course, if either managers or workers undermine the profitability of their firms, the entire IC program could be jeopardized.

Managers in only two firms affirmed without qualification the contribution of the IC to the higher profitability of the firm (L-4, A-2): one Japanese-owned and one 100% Peruvian-owned. Managers in ten other firms noted increased profitability since 1970 but attributed the increase to factors other than the introduction of the IC. Some managers indeed speculated that the Government intended to encourage growth as the empresarios struggle to avoid takeover by the IC's. Managers would expand and intensify capital formation in order to slow the takeovers.

Six firms reported no change in profitability since the advent of the IC in 1970. Three noted a decline, in part due to increasing union mentality of the IC, it was alleged.

Perhaps it should be observed that by tying the success of the IC program to the profits of the firms subjects the program to influences other than labor cost and productivity. The rate at which an IC gains in ownership - and, hence, in the capacity to participate in policy determination - is open to disturbances from changes in the prices of factors other than labor, reinvestment policies over which the IC has no control, the goodwill of the managers, the effectiveness of the marketing effort, and the general health of the Peruvian economy.
Question #10 - Has the firm undertaken any expansion projects during the periods 1967-70 and 1970-74 (e.g. diversification, expansion, renovation)?

What is really asked here is whether any changes in investment patterns had occurred with the appearance of the IC.

Given what appears to be the present perception of the IC and of Peruvian Government policy generally among foreign investors, one can conclude that foreign investment is not encouraged to flow in. With that flow reduced, one important source of capital has disappeared for many enterprises. A few managers felt that the IC law had also discouraged domestic investment in the industrial sector, that savings were flowing more into housing and real estate. But, decrease in investment by a firm, without a similar reduction in profitability, means that available profits would be relatively greater, and the takeover by the IC, speeded. Unchanged or lower profits and greater reinvestment would mean a lower rate of takeover by the IC. Managers were caught in a dilemma.

Most of the managers interviewed agreed that the atmosphere in Peru had discouraged industrial investment from new sources. But, the rate of reinvestment by already-established firms was not as clear. Some felt that the small entrepreneurs had not reinvested. The small firm, by definition, had a small capital base, and much of the profit comes to the firm through the efforts of the owner and employees. Profit rates are so large relative to the capital base that such firms are easily lost to the IC. Our sample contained no small firms, so we can report no hard data.

As already indicated, larger firms have an incentive to reinvest. It is mathematically self-evident that capital intensification and reinvestment can retard the growth of the IC's share of ownership. And, in fact, our
inquiry revealed extensive reinvestment since the appearance of the IC. Only two of the 26 companies had not expanded significantly since 1970, both of which were Peruvian-owned. One of these had been forced to retrench by other Government legislation, which gave the Government virtual monopoly in the sector (A-11). The other (L-10), whose management had expressed open hostility towards the IC and the present regime, seemed to have entered a state of "suspended animation" since the creation of the IC.

Six firms reported continued growth in response to market demands, one of which was in the process of expanding its fixed assets from 458 million to 581 million soles when the interview was undertaken. Eleven other companies reported a shift in investment patterns since 1970 as follows:

- A 100% Peruvian-owned firm (A-5) had engaged in growth by diversification and was currently "ambitiously renovating" its factory.

- A 100% Peruvian-owned firm (A-8) was seeking wide diversification and was currently undergoing reorganization.

- A 100% Peruvian-owned firm (A-4) had proceeded with two diversification projects initiated prior to 1970 and which would be completed in 1975. (Since 1970 the company had increased its installed capacity by 120% in four separate steps. It was actively seeking export markets in Bolivia and elsewhere.)

- A 100% Peruvian-owned firm (A-10) was diversifying by integrating vertically. (The installed capacity of the firm had increased by 300% since 1970.)

- An 85% U.S.-owned firm (L-5) had diversified and increased its capital.

- An 80% U.S.-owned firm (L-7) was currently engaged in expansion
costing some 27 million soles, which would more than double its capital. (The firm currently enjoyed an 80% share of the domestic market and was exporting small quantities to Bolivia, Ecuador, and Colombia.)

- A 78% U.S.-owned firm (L-9) was planning to diversify production, but financing was limited entirely to reinvestment.
- A 60% Peruvian-owned firm (L-12) had enlarged its capacity up to 1970, but currently was investing only in machinery.
- A 70% Peruvian-owned firm (L-13) had made a large investment in 1973. (It enjoyed priority two status and could reinvest up to 54% of its profits tax-free.)
- A 75% Japanese-owned firm (L-1) had reinvested once since 1970.
- A 78% U.S.-owned firm (L-8) reported 50% growth since 1970.

It seems quite clear from this list of post-1970 growth that, although aggregate investment in Peru had probably declined significantly since 1970, reinvestment by already-existing and large firms (in the Peruvian context) continued unabated, and in some instances actually stepped up.

Question #11 - Do you know of any instances of disinvestment by either domestic or foreign firms since 1970?

Although the management of one firm (L-9), U.S.-owned, had considered abandoning its plant shortly after the appearance of the law on Industrial Communities, it had not done so. In the opinion of two other managements, associated with U.S.-controlled firms, divestiture might have been more seriously considered if local buyers with access to hard currency had been present. Indeed, given the general impact of the IC law, local buyers with or without hard currency were not likely to appear. Other than spinning off
all commercial operations to a separate enterprise or reducing the number of employees to fewer than six, reinvestment was the only way of avoiding a takeover by the IC. As already noted, reinvestments undertaken by a majority of the firms since 1970 might be viewed as an alternative to divestiture. Indeed, three managers explicitly declared that by introducing the IC the Government was trying to impose growth on the enterprise.

Question #12 - What changes have occurred in relations with workers since 1970 in respect to:
   a) strikes (their origin, process of negotiation, duration, resolution, cost);
   b) attitudes toward management;
   c) level of absenteeism;
   d) productivity (payroll as a percentage of total cost).

Presumably the IC should have an impact on industrial relations well before the Community arrives at the 50% level. The initial impact, one might reasonably expect, would be to complicate industrial relations. New interests and factions within the firm are enfranchised by the IC and consciousness raised. The workers become aware that they have an interest in the operation of the firm and a right to know what is happening. There are several plausible scenarios. First, there is the possibly that initially the union dominates all IC activity, because union leaders are - by definition - the more concerned and the more articulate. One would expect initial IC leadership to be in their hands in many enterprises and that they would carry the union mentality onto the Board of Directors, thereby causing increased friction and perhaps, in the process, finding new reasons for work stoppages. But gradually, in the face of a reasonable management, this confrontation mentality might be expected to give way to some degree of grudging cooperation. At this point, the union leaders may be pushed aside, which could mean a real struggle for power on the labor side and
worsened labor relations. Consequently, one cannot associate either the rise or abatement of labor problems in the short-run, which certainly extends well past the time of our research, with the success or failure of the IC idea. Indeed, increased labor problems in the short run may be a positive sign; labor tranquility, negative.

The picture is further muddied by the fact that the Law of Labor Stability, which guarantees a seventh day's wage for those workers who come to work six days, may have a greater impact on absenteeism than the Industrial Community. And, a simple change in personnel may have a profound influence. In one firm (A-2), which was ridden with labor problems suddenly after 1970, labor disputes ended with the death of the owner-manager and his replacement by a professional manager.

From our data, it would appear that the organization of IC's had had no influence on the number of strikes in those firms which did not have a history of strikes prior to 1970 (13). In firms (3) with a history of labor disputes, there appeared to have been an increase in the number of strikes since 1970. Labor disputes in the other ten firms did not seem to reveal any pattern relevant to the IC. In only one case was the strike settled via direct negotiation; all others were submitted for arbitration to the Ministry of Labor. Invariably in such cases, management complained that decisions went in favor of labor. In one case, however, a strike occurred because the union refused to accept a ruling by the Ministry. Our general conclusion, however, was that the IC had had little to do with the vast majority of the work stoppages. Only in one case, a wholly Peruvian-owned firm (A-8), did the IC seem to have been an issue. The IC would be an issue only if the workers felt that management had slighted the IC in
some way or if via the IC the workers became aware of some inequity within
the firm. In a more subtle way, the IC might for a time kindle more
troubled industrial relations if the IC were successful in arousing among
workers a heightened desire and capability of participating in policy
deliberations at the enterprise board level and management acted in such
manner as to frustrate this pressure. But, we found only one situation in
which this seemed to have happened. Yet, there had been many strikes in
the 26 firms of our sample since 1970.

On the subject of workers' attitudes, managers in ten firms indicated
that they sensed no change. Attitudes were positive both before and after the
advent of the IC. In three of these, management-labor relations seemed
to have been peculiarly open and friendly throughout. In contrast, managers
in eight other firms reported a deterioration in labor's attitudes toward
management since 1970. But one should be cautious about tracing a causal
relationship; other variables - such as changes in personnel - may have
been more significant. Nonetheless, there did seem to be a relationship
between the status of the IC in the firm (e.g., acceptance by management,
percentage of IC ownership achieved) and management's perception of labor
attitudes. With only a very small holding and denied any real voice in the
direction of the firm, workers may in some cases be expected to transform
the IC simply into another vehicle for lodging labor claims. It was the
managements in firms in which the IC was usually weak that complained of
polarization between management and workers and of union influence in the
IC. One can appreciate the possibility of a vicious circle being established,
out of which it was difficult for either side to break. In the final analysis,
when the workers see no progress in the position of the IC they are likely
to abandon any hope that they may one day exercise influence on the direction of the firm other than subversively.

In such firms, the preponderance of the managers interviewed characterized labor's attitude by the terms "political" and "worse." What they seemed to be saying was that workers were functioning less like traditional labor. That is, labor was refusing to accept the lot which their market position dictated and refused simply to execute the instructions of their superiors. In essence, the law on the IC bestows on workers a certain status which does not accrue to them by reason of their position in the market. By virtue of employment in the firm, they have a right to participate in the direction of the firm. Any status or authority which comes to a person by law and not be reason of market position is, by definition, a political right. Hence, when managers say that workers are acting politically under the law of the IC, they are quite correct. But when they equate these political interests with "worse," they reveal their own attitude toward "political" rights of the workers under the Law.

No firm reported that absenteeism had dropped since the creation of the IC. Those firms which reported many strikes, political agitation, a union mentality on the part of the IC, and little IC participation in the direction of the firm, likewise reported high levels of absenteeism or even increases. (These firms consisted of two Peruvian-owned firms and four majority U.S.-owned.) Under these circumstances, heightened absenteeism was not inconsistent with the IC. If workers perceived that their efforts did not make any real difference in the profits of the firm, or if the level of firm profits made little difference to them, the IC might provide a more effective device for organizing opposition.
Management in one firm noted that absenteeism tended to increase after the 10% profit distribution each year. Though such distribution might lead to celebration on the part of some workers, workers themselves indicated that they did not feel that the 10% profit sharing was sufficient to provide a motivation for extra effort.

In contrast to absenteeism, productivity had reportedly increased in many firms (9), although the managers did not necessarily attribute the increase to the IC. Indeed, managers in three of these explicitly denied that the IC had induced higher productivity; two others did not mention the IC as a cause, but four did (two U.S.-owned, one Japanese-owned, one Peruvian-owned).

Question #13 - What percentage does the IC have in the equity of the firm? What was it in 1970? (Asked only in Lima.)

The responses were tabulated thus:

Figure 4

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>na</td>
<td>100% PP</td>
<td>A-9*</td>
</tr>
<tr>
<td>1%</td>
<td>na</td>
<td>20% U.S., 79% PP</td>
<td>L-10</td>
</tr>
<tr>
<td>1.56</td>
<td>1.56</td>
<td>74% Japanese, 14.44 PP</td>
<td>L-1</td>
</tr>
<tr>
<td>2</td>
<td>na</td>
<td>98% PP</td>
<td>A-8</td>
</tr>
<tr>
<td>4</td>
<td>na</td>
<td>96% PP</td>
<td>A-4</td>
</tr>
<tr>
<td>5</td>
<td>na</td>
<td>95% PP</td>
<td>A-7</td>
</tr>
<tr>
<td>8</td>
<td>na</td>
<td>40% U.S., 52% PP</td>
<td>L-12</td>
</tr>
<tr>
<td>8</td>
<td>na</td>
<td>30% U.S., 62% PP</td>
<td>L-13</td>
</tr>
<tr>
<td>10</td>
<td>na</td>
<td>90% PP</td>
<td>A-6</td>
</tr>
<tr>
<td>12</td>
<td>na</td>
<td>88% PP</td>
<td>A-10</td>
</tr>
<tr>
<td>13.5</td>
<td>10.5</td>
<td>70% Japanese, 16.5% PP</td>
<td>L-4</td>
</tr>
<tr>
<td>15</td>
<td>15</td>
<td>85% U.S.</td>
<td>A-3</td>
</tr>
<tr>
<td>15</td>
<td>na</td>
<td>na</td>
<td>A-1</td>
</tr>
<tr>
<td>15.5</td>
<td>15</td>
<td>84.5% Japanese</td>
<td>L-3</td>
</tr>
<tr>
<td>16.4</td>
<td>15</td>
<td>60% Japanese, 23.6% PP</td>
<td>L-2</td>
</tr>
<tr>
<td>17.5</td>
<td>15</td>
<td>82.5% U.S.</td>
<td>L-6</td>
</tr>
<tr>
<td>18</td>
<td>na</td>
<td>41% U.S., 41% PP</td>
<td>L-11</td>
</tr>
<tr>
<td>18</td>
<td>na</td>
<td>18% German, 64% PP</td>
<td>A-2</td>
</tr>
<tr>
<td>19</td>
<td>15</td>
<td>80% U.S., 1% PP</td>
<td>L-7</td>
</tr>
<tr>
<td>19.5</td>
<td>15</td>
<td>80.5% U.S.</td>
<td>L-14</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------</td>
<td>---------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>20</td>
<td>na</td>
<td>80% PP</td>
<td>A-5</td>
</tr>
<tr>
<td>21</td>
<td>na</td>
<td>60% U.S., 19% PP</td>
<td>L-15</td>
</tr>
<tr>
<td>22</td>
<td>15</td>
<td>78% U.S.</td>
<td>L-9</td>
</tr>
<tr>
<td>na</td>
<td>na</td>
<td>100% PP</td>
<td>A-11</td>
</tr>
<tr>
<td>na</td>
<td>na</td>
<td>maj. U.S.</td>
<td>L-8</td>
</tr>
</tbody>
</table>

* Very recently organized; no profit yet reported.

PP: Private Peruvian

It will be noted that nine of the ten firms on which we have 1970 data (all but one known to have been majority-owned in 1970) launched their respective IC's in 1970 with a 15% equity interest. The reason was a Peruvian law (implementing an Andean Common Market agreement) to the effect that all foreign entities other than purely commercial companies (i.e., trading) which existed as of June 30, 1971, were required to have 15% of their equity in the hands of local nationals by July 1, 1974, 45% by July 1, 1981, and 51% by July 1, 1986. It will be noted that Firm L-1, although having turned over only 1.56% of its equity to the IC was, in aggregate, owned 16% by Peruvians. Subsequent to 1970, Firms L-1, A-3, and L-5 shifted no further ownership to their respective IC's. And in Firms L-4 (3%), L-3 (.5%), L-2 (1.4%), L-6 (2.5%), L-7 (4%), L-14 (4.5%), the respective IC's gained little added ownership, under 5% in all cases. Only in one Firm, L-9, did the IC gain substantially since 1970, 7%.

Question #14 - Is there any educational program or effort by the firm for the workers?

All offered some mechanical or professional instruction designed to improve employee's efficiency. Seven firms reported sponsoring courses at SENATI for their workers. One was sending technical workers for training to Europe. Six were offering technical training through fellowships to
courses at the Peruvian Institute of Enterprise Administration (Instituto Peruano de Administracion de Empresas, or IPAE) in Lima, the University of San Augustine in Arequipa, and the Universidad del Pacifico. However, there was no reason to associate any of these efforts with the IC, and no firms offered anything to prepare workers for their new roles as co-owners and co-directors. Four firms offered no training of any kind. (Firms A-6, A-7, A-11, and L-14).
Chapter 4
INTerviews of workers

Questions directed at workers were generally of a more personal nature than those asked of managers. We were most concerned about the preparation of the worker for his new role, his level of satisfaction, and his perceptions of the Industrial Community.

Question #1 - What level of education have you achieved?

As we have seen, many Peruvian managers barred their IC from effective participation in the policy deliberations of their firm because they did not feel that the workers could make any useful contribution. Rather, it was alleged, workers would confuse and burden deliberations with irrelevant, petty, materialistic, political and personal considerations. Worker demands, it was suspected, would be formulated by union and government influences. In general, the workers were allegedly prone to be economically short-sighted because they were materially insecure. Managers, though decrying the lack of preparation of the workers, understandably refused to participate in what they considered their own demise. The IC's themselves had inadequate resources, both financial and institutional, for educational programs. And the Government, overwhelmed by the responsibility and the dimensions of the problem, did not seem to know where to start. The result was that we found a proliferation of week-long seminars, two-day courses, general convocations, conferences and conventions which randomly involved IC officials, who changed from year to year. These programs, we found, rarely progressed beyond descriptions of the philosophy of the IC and very general, rudimentary introductions to organizational and financial concepts.

But in discussing the educational requirements on the labor side, both managers and Government seemed to be laboring under the misapprehension that workers needed to be provided with professional training. The point is that
the idea of the IC was not that workers were to replace managers, but that they would participate in the policy deliberations of the firm. It was not necessary to educate the mass of workers to the mechanics of business administration. For the IC to take a position on major policy issues and to transmit same to the Board via its representative did not require technical competence. Bear in mind that the IC consisted of all employees of the firm. The process of electing representatives to articulate its interests at the Board level did not require that the rank and file receive general professional managerial training. In many firms sufficient competence was available within the IC. All workers, from the least-educated to the general director, were members of the IC, so that the firm's entire competence was at the disposal of the IC. All the workers needed to do was to find sufficient competence that they could trust. They must recognize competence and select it. Presumably, over time, the workers would find it to their advantage to do just that. The problem was not one of general education, but of attitudinal changes.

Indeed, we found little relationship between level of education of IC representatives and the penchant for militancy. In fact, the most militant representatives were among the best educated. The IC President in one firm had a degree in business administration and the Secretary General of the union, a diploma in sociology. The President of the IC in another firm had studied economics. The Assistant General Secretary of the union in a third firm was in his fifth year of economics. The President of the IC in a fourth firm was in fourth year of study of education and hoped to go on into law. In at least two of these four companies, management exhibited a high degree of hostility to the IC. The point is that the end of political militancy and the assumption of economic responsibility among workers did not rest on education.

We found that the IC's were not choosing their officers randomly, nor submitting all issues to general debate. We observed that IC members seemed
to have an appreciation for the demands of management and by and large selected competent representatives far above the average in education and experience. But competence was only one of the conditions for selection; trust was the other. For this reason, the majority of IC's did not draft their representatives from the most competent echelons of upper management. Typically, workers opted for middle managers or administrative assistants who accommodated both the competence and trust criteria. The mechanics of the selection process bore this out.

We found that candidates who volunteered for election as IC officials were sometimes subjected to questioning by union leaders or self-appointed worker representatives. The upshot was that the union, or less formal representative organizations within the firm, controlled the elections. Workers expressed concern for trust in many ways. They were eager to monitor the activities of managers (travels, expenses, salaries, etc.). They watched the IC Board Members to be sure that they had not been sold out to capital. In firms in which the IC Director was excluded from active participation in the Board, the competence criteria became irrelevant and trust, paramount.

Figure 5

EDUCATION OF WORKER REPRESENTATIVES INTERVIEWED
(25 IC, 13 union officials)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Position of Representative</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>L-1</td>
<td>President of the IC</td>
<td>Second year of college. Was currently studying engineering.</td>
</tr>
<tr>
<td></td>
<td>(blue collar worker)</td>
<td></td>
</tr>
<tr>
<td>L-1</td>
<td>Union secretary for internal and external relations</td>
<td>Seventh grade, public school</td>
</tr>
<tr>
<td>L-2</td>
<td>President of the IC (woman)</td>
<td>Currently was a freshman in college (psychology major)</td>
</tr>
<tr>
<td></td>
<td>(line work on assembly line)</td>
<td></td>
</tr>
<tr>
<td>L-3</td>
<td>President of the IC (blue collar in maintenance)</td>
<td>Normal school (philosophy)</td>
</tr>
<tr>
<td>L-4</td>
<td>President of the IC (accountant)</td>
<td>College. Had a CPA.</td>
</tr>
<tr>
<td>L-5</td>
<td>President of the IC (assistant systems analyst)</td>
<td>High school (public)</td>
</tr>
<tr>
<td>L-6</td>
<td>General Secretary of Employees' Union</td>
<td>College. Has a CPA.</td>
</tr>
<tr>
<td>L-7</td>
<td>President of the IC (Marketing Manager)</td>
<td>College (mechanical and electrical engineering)</td>
</tr>
<tr>
<td>L-8</td>
<td>President of the IC (Chief Plant Engineer)</td>
<td>College (industrial engineer)</td>
</tr>
<tr>
<td>L-9</td>
<td>President of the IC (foreman)</td>
<td>Fifth grade</td>
</tr>
<tr>
<td>L-10</td>
<td>President of the IC (V-P of Marketing)</td>
<td>College (business administration)</td>
</tr>
<tr>
<td>L-11</td>
<td>President of the IC (Assistant to Section Mgr.)</td>
<td>Third year of commercial highschool</td>
</tr>
<tr>
<td>L-12</td>
<td>IC representative on Board (assistant accountant)</td>
<td>University degree (CPA)</td>
</tr>
<tr>
<td>L-12</td>
<td>General Secretary of the Union (technician)</td>
<td>Third year of secondary. Attended courses at university level in business administration</td>
</tr>
<tr>
<td>L-13</td>
<td>IC Director of Board (assistant accountant)</td>
<td>Last year of commercial studies (highschool level)</td>
</tr>
<tr>
<td>L-14</td>
<td>IC Director on Board (supervisor, warehouse receiving)</td>
<td>College degree in business administration</td>
</tr>
<tr>
<td>L-14</td>
<td>President of the IC (in charge of payroll, Personnel Department)</td>
<td>In second year in business administration in a technical institute</td>
</tr>
<tr>
<td>L-14</td>
<td>General Secretary of the Workers' Union (female)</td>
<td>In second year in University (education)</td>
</tr>
<tr>
<td>L-14</td>
<td>Treasurer of the IC (machine operator)</td>
<td>In fourth year of college (business administration)</td>
</tr>
<tr>
<td>L-15</td>
<td>Organization Secretary of the Union (skilled labor)</td>
<td>Fifth grade</td>
</tr>
<tr>
<td>L-15</td>
<td>General Secretary of the Union (skilled labor)</td>
<td>In fourth year at university (sociology)</td>
</tr>
<tr>
<td>A-1</td>
<td>President of the IC (assistant cashier)</td>
<td>University degree in economics</td>
</tr>
<tr>
<td>A-1</td>
<td>General Secretary of the Union</td>
<td>In fifth year at university (economics)</td>
</tr>
</tbody>
</table>
One might reasonably hypothesize that generally where IC and union representatives had lesser educational achievement and occupied lower positions in the firm, workers were emphasizing trust in their selection more than competence. In such firms, one would expect to encounter more negative management attitudes vis-a-vis the utility of the IC. On this
basis Firms L-9 and L-11 stand out. Or, the reverse, where the IC had selected top echelon managers to represent it (as in Firms L-7, L-8, L-10, A-9), one might expect a high level of trust in management and more emphasis here on competence. In fact, we could find no clear-cut relationships. But in a sample of this size, taken when it was, perhaps clear-cut relationships would have been surprising. First, the almost random appearance of certain personality types muddled the relationships. Also, we did not really know whether the election of higher echelon managers to IC position could be equated with trust or with intimidation, deliberate subversion, or a high degree of paternalism. In any event the time was too short to reveal longer-term trends. All one could say was that in those firms in which the IC had selected high level managers to represent it, only one (L-10) seemed to house a highly conflicted labor-management relationship. In one firm, L-8 (U.S.-owned) management spokesmen frankly admitted that the IC had been a good thing for the firm and that cooperation had improved. But in Firm L-10, a high level of worker distrust was reported, although there had been no strikes. The top management of Firm A-9 reflected a positive attitude toward the IC by observing that the concept was designed to achieve social tranquility, but this firm was so recently established as to give no basis for evaluating the working relationship between management and IC.

Where we have data for both IC official and union officer, invariably the educational achievement of the former was higher (Firms L-1, L-15, A-2, A-3, A-4, A-5, A-8, A-10), with but two exceptions where they seemed about evenly matched in this regard (Firms L-14 and L-15). It would appear that either workers perceived the IC as having a different role from that of the union or the IC elections were being influenced by the firm. Frankly, the
former seemed more likely.

Question #2 - What types of training courses (cursos de capacitacion) have you attended? When were they? How long did they last? Who prepared them? Who sent you?

The IC Law had generated a proliferation of courses intended for labor. In Arequipa, the Ministry of Labor, the Minister of Industry and Commerce, SINAMOS, IPAE, the Chamber of Commerce, and a local high school had all offered courses. Most dealt with the explanation of the IC law or of the philosophy behind it; a few, with the administration of the firm, accounting, balance sheet analysis, and labor law. Twelve courses had been week-long for two or three hours each afternoon; one, full time for a week; two, for two weeks in the afternoon. Most of these efforts were intended for IC officials. Considering the diverse sponsorship, the range of subjects, their brevity, and the fact that the courses had been given over a five-year period and that IC Presidents had attended an average only 1.7 courses, we concluded that the IC officials had not been subjected to a concerted and systematic educational program. And there was no reason to believe that Arequipa was unusual in this regard. The range was great. One IC President (Firm A-9) had attended 17 different courses given by such varied institutions as Stanford University and IPAE and lasting from 18 months to 2 weeks. Significantly, only one had dealt specifically with the IC. On the other hand, one IC President had attended no courses relating to the IC.

A review of the educational history of union leaders revealed a similar pattern. Over the past five years, the eight interviewees in Arequipa had attended an average of 2 5/8 courses. One had attended
seven; three, only one. Sponsorship had been the same as for the IC courses, with the addition of the University of San Augustine, the Catholic University Cenip SENATI, the Federal Department of Labor of Arequipa, the Federation of Peruvian Textile Workers and the Federal Department of the CI. The major subject had been labor law (70 courses). Most courses were intended for union leaders, and in most cases the unions selected their own participants.

The most interesting pattern to emerge from this educational patchwork was that union officials had attended three different IC conventions as IC representatives. All told, the IC's had sent five union officials to various IC functions. Though this activity did not necessarily represent a breach of law, in at least two firms union officials seemed to be serving simultaneously as IC officials, which was contrary to the law.

In Lima, fifteen IC officials had attended 34 courses. The largest number attended by any individual was five. Three officials had attended none. Each of the four local universities had offered single courses, likewise the Ministry of Industry and Tourism. Only the Office of Community Labor (OCLA) seemed to have mounted a concerted educational campaign, but only in Lima as of mid-1974. Our interviewees had attended seven OCLA courses. In all, 11 courses had dealt with some aspect of business administration; eight, with accounting. The IC had been the principal subject in only six courses. Of the 34 courses reported, IC representatives had attended 11 on their own initiative, 8 on company initiative, and 5 on IC initiative. Only five courses had been designed specifically for IC officers. A pattern of weekday afternoon courses seemed to prevail.
Only five union officials were interviewed in Lima, but again most had attended few courses and no one seemed to have availed himself of any systematic educational effort relating to industrial relations. The Secretary General of one union (Firm L-6) had been sent by his IC to three courses intended for IC directors. (The management in this firm complained of close IC-union relations.)

Question #3 - Would you like more education? If yes, what type? Any specific subject?

The responses to this question gave added support to the earlier tentative finding that IC officials seemed to come from a different population than union officers. Out of a smaller survey of union leaders (13 union versus 25 IC officials), more union officials than IC indicated that they had an interest in learning more about the IC and other aspects of labor law in Peru (7 union and 4 IC officials). IC officials indicated little interest in studying the IC itself; only 4 of the 25. The vast majority of the IC officers wished to pursue studies in management (10) or some professional field (6). No union official, however, expressed interest in a profession, and only one spoke of a desire to study management. Two of the 25 IC officials and 3 of the 13 union officials specified an interest in technical training; 3 IC officials and 2 union officials, in advancing their general educational level.

We found that five IC officials were currently pursuing some formal course of studies, all at the university level (psychology, engineering, microeconomics). In contrast, the only union official reporting current educational effort was following a correspondence course in "electricity."
Several of our interviewees said that they would like to enter a course of study but that family duties, transportation problems, job responsibilities, fatigue, etc., prevented them from doing so.

Question #4 - In which of the following do you participate?
- the IC?
- the union?
- the cooperative within the firm?
- training courses?
- strikes and demonstrations?
- workers' delegations to the firm?
- athletic events given by the firm and by the workers?

The responses to some of these queries were trivial. Obviously, all IC officials participated in their IC's. But, of the 25 IC officials interviewed, six (in Firms L-4, L-7, L-8, L-10, L-13, A-9) apparently did not participate in their unions (in Firm A-9 there was no union). The IC President in Firm L-4 felt that the union and IC should unite to benefit the company and that such a move would change the nature of union demands. The President of the IC in Firm L-13 had been tried out in the position of Personnel Manager and was presently assistant accountant. Others had held the following positions: accountant in Firm L-4, assistant system analyst in Firm L-5, Marketing Manager in Firm L-7, Chief Plant Engineer in Firm L-8, Vice President of Marketing in Firm L-10, Director of Marketing in A-9. On the other hand, three IC officials (Firms L-5, L-9, L-11) had served as union officers, and IC officers from Firms A-8 and A-10 participated regularly in union meetings.

The President of Firm L-9's IC felt that the union should become an administrative instrument of the company when the Community achieved 50% ownership. The President of the IC in Firm L-11 conceived of the union as an administrative channel through which complaints would be aired. But the President of the IC in Firm L-5
predicted the disappearance of the union with the ascendancy of the IC. He was the only one of the three who seemed to perceive a functional distinction between union and IC. The two union leaders we interviewed who had been IC officials (Firms L-6 and L-12) did seem to perceive the distinction. It would appear that the filling of IC and union positions by the same people did not necessarily imply the confusion of goals between the two organizations. But neither was the reverse apparently true; the separation of the goals had not been assured by the separation of representatives. The management in one company (Firm L-15), in which management relations with the IC were particularly bad, had tried to force separation of union and IC. One IC official had been prevented from attending a SENATI course because he was a member of the union. This appeared not to have been an isolated incident.

Four IC Presidents had participated in training courses within the firm, two of the four having taught the courses in which they participated (Firms L-4 and L-7). Six had participated in courses outside the firm. The IC President in Firm L-3 had taken a course in foremanship. IC officials from Firm L-14 had attended the CONACI convention. The IC President at Firm L-5 was studying an IBM course.

Four union officials reported studying in training courses outside the firm. The President of Firm A-3's IC was teaching a seminar on industrial safety.

Four IC Presidents and four Union officials reported participating in the cooperatives associated with their firms.
Only five of the IC presidents admitted participation in strikes, while two others (of Firms L-5 and L-7) explicitly opposed them. Eleven of the IC Presidents and 7 union leaders had participated in delegations sent to administration with a variety of demands. Of the 24 IC officials, 12 reported joining in athletic events sponsored by the union, the IC or the firm. Eleven of the 14 union officials interviewed, all had participated in the same activities.

It should be noted that the President of one IC was the Press Secretary of FENACITREX (National Federation of Textile IC's), and the union leader in another firm had organized the first and second National Congresses of Peruvian Miners.

It would appear that both IC and union officials were among employee activists.

Question #5 - What types of problems do you confront outside the firm most frequently?

Many managers doubted that workers could effectively participate in the direction of a firm because they were beseiged with personal problems which clouded their reason and perverted their interests. One explained that managers followed the "interests of the head" in serving the company while workers followed the "interests of the stomach." He suggested that material security was necessary for the exercise of reason in directing a firm. He feared that the IC would prefer to trade growth in exchange for immediate personal material gain.

Responses to this question suggested that indeed IC and union officials were beseiged by many materialistic problems. Of the 38 interviewed,
only 8 stated that they had no pressing problems outside the firm (six IC officials and two union). The remaining 19 IC officers mentioned general salary or financial problems 7 times, transportation 4 times, inflation 4 times, housing 3 times, study problems twice, the need to moonlight twice, family size once, babysitting needs once. Union officials mentioned housing five times, low salaries four, educational problems three, children's education three, inflation twice, and the absence of free time once.

An examination of specific cases revealed that some workers who claimed serious, multiple salary and housing problems seemed to be quite passive in their attitudes; those apparently without serious problems, the most militant (i.e., the most demanding of the firm). In general, the survey did not substantiate the idea that perceived deprivation breeds militancy. Hence, our data casts doubt on the general assumption held by Peruvian managers interviewed that the pressure of immediate and personal economic problems made labor less receptive to longer term company interests.

Question #6 - What types of problems do you have most frequently within the company?

Peru had been infamous for its industrial relations. The intransigence of managers and workers had characteristically escalated labor disputes to violent confrontations, and the Ministry of Industry and Tourism often arbitrated the most pedestrian of squabbles. The Law relating to the IC had been designed in part to eliminate the basis for conflict by encouraging workers to identify more directly with the firm and encouraging management to provide workers with more adequate understanding of how decisions were reached. Some managers and workers felt that the IC had
indeed been beneficial by opening up communication. Others complained that the IC had effectively internalized all of the conflicts of Peruvian labor relations at the Board of Directors' level, thereby leading to an escalation of rhetoric and emotions. And the workers, confused about the role of the IC (rights versus new interests) had been uncertain about the function of the IC within the firm. Further discouraged by the intransigence of many managers and the slow progress in the IC's acquisition of ownership, some IC leaders had adopted the perspective of the union. They had taken up the struggle for workers' rights because the IC had given them no new interests.

In Arequipa, only three officials of unions and industrial communities indicated the absence of problems within the firm (Firms A-5, A-7, and A-10). All of the other IC officers commented on problems involving their respective Communities. Two IC officials mentioned problems between IC and Union. One IC President (Firm A-1) complained that four of the nine members of the IC Executive Committee would like the union to play a larger role in the administration of the IC and that the IC should carry union claims to the Board of Directors. The Secretary General of the union in the same firm verified this claim. The President of the IC in Firm A-3 complained that there were about ten self-appointed leaders among the workers whom the rest followed blindly. He had had to satisfy them before he could win election as IC President.

Two other IC officers alleged difficulties with management. One (Firm A-4) claimed that management was trying to avoid implementation of the law by spending more money on trips abroad, on reinvestment of profits, on personnel, and on investment in other firms. In Firm A-8, the IC
President felt that management mistreated him by refusing to provide documents on the commercial operations of the firm. (The owners had formed a commercial company which distributed much of the company's output.)

Significantly, none of the union officials in Arequipa made mention of the IC in enumerating the problems perceived within the firm. They restricted their comment almost exclusively to traditional demands.

Again, in Lima IC officers restricted themselves to comment about the IC in responding to this question, but none complained of interference by the union in the IC. (In one firm, L-15, it was known that the IC and union were cooperating very closely.) In five cases, there were no complaints (Firms L-2, L-4, L-5, L-8, L-13). One complained of the annual distribution of profits (Firm L-1). The others commented upon the inadequacies of the infrastructure of their respective firms. IC officials in three firms (L-1, L-12, L-13) noted the lack of organization, deficient communication, inadequate industrial relations, absence of a well-defined promotions system. In Firm L-6, the IC Treasurer complained of the lack of consistent managerial policies, of the double standard applied to workers and managers, between union and non-union workers. IC officials in Firms L-5 and A-2 reported no problems, because of good communications. One, in a Japanese-owned firm, complained of the remote decision-making caused by the great distance between headquarters and the local firm. Nor did the manager answer memoranda sent by the workers. The IC President in Firm L-3, also Japanese-owned, complained of the incomprehension of his bosses, and in Firm L-10 there was complaint of the general mistrust which seemed to pervade the firm. Three IC officials (Firms L-12, L-14, L-15) all wanted a more active role for the IC. In L-14, the President wanted the ideas
initiated by the IC not only acknowledged by the Board of Directors, but also acted upon.

Unlike those in Arequipa, three union officials mentioned the IC in response to this question. The Secretary General of the union in Firm L-6 (U.S.-controlled) felt some of the problems he perceived in the firm originated in the fact that the workers did not know what to do with the IC because they had not achieved it with any sacrifice on their part; it had been given to them. The General Secretary of the union in Firm L-14 had just denounced management for its failure to comply with an agreement with the IC, and the union official in Firm L-15 - as had the IC President - condemned management for not promoting union members. In so doing he led into a more extreme conclusion: private capital should disappear and the proletariat should come into power. (It should be noted that in this latter case the President of the IC and two union officials were interviewed jointly.)

Question #7 - Are you satisfied with your current job? Why or why not?

Union officials had little to add to what had already been recorded. But the responses of IC officials in Lima was a distinct break with the response pattern for all other labor spokesmen. Without exception, they mentioned work satisfaction. Some were not satisfied with the personal fulfillment afforded them by their jobs, others were. But significantly, all expressed concern for receiving personal satisfaction from their labor. One (Firm L-12) would like to have added responsibility; he did not find his present position fulfilling. (He was an assistant cashier with a university degree and CPA.) Another (in Firm L-15) complained that
he was working below his capacity. (He was a machine operator in his fourth year of university.) Another wanted to be the Industrial Relations Manager. (He was Assistant Accountant and in his last year of commercial studies at the high school level.) In Firm L-11, the IC President complained that government uncertainty and stockholder constraint kept him from realizing his "executive ambitions." (He was assistant section manager and had completed his third year of commercial high school.) Others found their jobs boring or lacking recognition. Only in Firms L-7 and L-9 were the IC Presidents satisfied with their jobs. (The former was Marketing Manager and had a college degree; the latter, a foreman with a fifth grade education.) Very frequently, over-education rather than under-education contributed to the unease of IC officials, particularly among our Lima interviewees.

Question #8 - Are you satisfied with your current salary?

One of the dangers reiterated by managers ad infinitum in the interviews was that the workers, with union encouragement, would eliminate all profits in favor of increased wages once labor was in control. Responses to this question did not rebut this fear. Only 10 of the 39 labor representatives interviewed indicated satisfaction with their wages. Those satisfied:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Individual</th>
<th>Job in firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>L-7</td>
<td>President of IC</td>
<td>Manager of Marketing</td>
</tr>
<tr>
<td>L-8</td>
<td>President of IC</td>
<td>Chief Plant Engineer</td>
</tr>
<tr>
<td>L-9</td>
<td>President of IC</td>
<td>Foreman</td>
</tr>
<tr>
<td>A-2</td>
<td>President of IC</td>
<td>Agricultural Engineer</td>
</tr>
<tr>
<td>A-2</td>
<td>Secretary-General of union</td>
<td>Not known</td>
</tr>
<tr>
<td>A-4</td>
<td>President of IC</td>
<td>Computer operator</td>
</tr>
<tr>
<td>A-6</td>
<td>President of IC</td>
<td>Assembly worker</td>
</tr>
<tr>
<td>A-3</td>
<td>Secretary-General of union</td>
<td>Not known</td>
</tr>
<tr>
<td>A-9</td>
<td>President of IC</td>
<td>Director of Marketing</td>
</tr>
<tr>
<td>A-10</td>
<td>President of IC</td>
<td>Not known</td>
</tr>
</tbody>
</table>
In the Lima interviews, workers were asked how much they made and how much they thought they should earn. It was found that the average wage among union representatives was 6,648 soles. The lowest wage reported was 4,400 soles in Firm L-15; the highest, 12,000 soles in Firm L-12. Second from the bottom was the 4,500 soles paid by Firm L-15 to the General Secretary of the union, a woman. Union leaders felt that they should earn on the average 11,450 soles, or an increase of 67% over current wages. The range desired was 24,000 soles (Firm L-12) and 6,000 soles (Firm L-14). The largest increase sought was that of the General Secretary of the Union in Firm L-15, from 4,500 to 10,000 soles.

In contrast, the average salary among IC officers in Lima was reported to have been 11,660 soles, approximately 75% higher than the average for union officials. We thus find added support for the hypothesis that union officials and Community officials were drawn from quite different populations. The lowest wage for IC officials was 4,000 soles, for a woman in Firm L-2. Second lowest was paid to the IC Secretary in Firm L-15. The highest was the 42,000 soles paid to the IC President in Firm L-10, the Vice President of Marketing. IC officials felt that they should earn on the average of 17,063 soles, an increase of 46% over current levels. The largest absolute increase was requested by the VP of Marketing in Firm L-10, from 42,000 to 70,000 and the smallest, by the IC Treasurer in Firm L-15, where there were charges that union workers were paid consistently lower wages than non-union workers.

Asked if they would like to become owners (proprietarios), all workers interviewed in Arequipa but one responded positively. (The question was not asked in the Lima interviews.) Curiously, only one third
indicated that the IC helped them realize that desire. The rest saw their only chance of becoming a *proprietario* in opening a shop of their own. Asked if they would like to be managers (*patrones*), worker response was more varied. Seven said yes; eight, no. One disliked the idea of exploiting workers; another felt that the *patrones* would disappear when the IC reached 50% ownership; others specified no reason.

**Question #9** - In the company where you work, do the following exist:

- Industrial Community Board of Directors
- Employees' Union (an enterprise union with external affiliation)
- Workers' Union (a labor union with external affiliation)
- Unique Union (a company union)
- Industrial Relations Manager
- Social Assistant
- Other institutions

Responses were tabulated by firm, thus:
**Figure 6**

INSTITUTIONAL STRUCTURE OF SAMPLE ENTERPRISES

<table>
<thead>
<tr>
<th>Firm</th>
<th>IC</th>
<th>BofD</th>
<th>Employees' Union</th>
<th>Workers' Union</th>
<th>Unique Union</th>
<th>IRM</th>
<th>SA</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>L-1</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
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<td>x</td>
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<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>L-7</td>
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</tr>
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<td>x</td>
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<td>x</td>
<td>Cooperative</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
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<td>x</td>
<td>-</td>
</tr>
<tr>
<td>L-11</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>Coop., prof. club</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>Loan, housing coops</td>
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<tr>
<td>L-13</td>
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<td>x</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>L-14</td>
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<td>x</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>x</td>
<td>Dietician &amp; nursery</td>
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<td>x</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>Shareholders meetings</td>
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<td>A-1</td>
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<td>x</td>
<td>-</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Housing coop.</td>
</tr>
<tr>
<td>A-2</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>A-3</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>Savings, housing coops.</td>
</tr>
<tr>
<td>A-4</td>
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<td>x</td>
<td>-</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Savings coop., medical service</td>
</tr>
<tr>
<td>A-5</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>A-6</td>
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<td>x</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>x</td>
<td>Departmental committee</td>
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<td>a</td>
<td>A-7</td>
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<td>x</td>
<td>?</td>
<td>?</td>
<td>?</td>
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<td>?</td>
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<tr>
<td>b</td>
<td>A-8</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>(a)</td>
<td>A-9</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(b)</td>
<td>A-10</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>A-11</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Totals 26 26 11 23 3 15 18

(a) Incomplete information

(b) Just established
Question #10 - In your opinion, which person or group of persons in the company is the most important?

If one assumes a synergism between various grades of labor skill, various levels of management and the providers of capital, the question is unanswerable. Clearly, the question seeks to reveal bias. One might well make the case that the only real service to be attained via reeducating workers in Peru is to induce them to appreciate the need for specially-trained individuals called managers and to give them some management perspective of the problems faced by the firm. The apparent emphasis on raising the general cultural level of workers may be misplaced if its justification rests on reducing conflict between worker and manager.

There is another difficulty with this question: it asks the respondent to identify the most important person or persons in the company, not to the company. Clearly, there is really a small group of persons who are important in the firm, the top echelon technicians, managers and the principal owners. Despite these reservations, responses do provide a glimpse into the thinking of the workers.

Among the IC officials in Arequipa, seven felt that the manager was the most important person in the firm; two, the workers; and one, the Personnel Director. A variety of reasons were advanced: he is the most capable person; he has the most authority to solve problems, he executes the orders of the Board; one good manager can make the firm run well. The Personnel Director because he harmonizes the work. Those who specified workers did so because without them no work would be done or because they contributed the energy upon which progress depended, or because they were in majority.
Three union leaders in the Arequipa group felt that the manager was the most important person; three, that the workers were most important. Another named the Chairman of the Board, and another felt that all were about equal in importance. The manager was most important because he organized the firm and accepted responsibility, and assigned the work.

In Lima, the pattern was approximately the same. Five IC officials named the manager as most important. Five felt that everyone was important; two, that the workers were most important. One named the marketing manager, and another voted for the marketing group. Another specified the Chairman of the Board. Three of the union officers gave the nod to the workers, while one named the union and another the Director of Industrial Relations. Altogether, management received 15 votes; the workers, 10; all the same, 6; the Chairman of the Board, 2; Director of Marketing, 2; and the union and Director of Industrial Relations each 1. The point is that this data would indicate that a significant part of employee representatives recognize the importance of management.

Question #11 - What does the Industrial Community mean to you?

Among IC presidents there was seldom mention of participation in the profits of the firm and of the duties of the IC within the context of the Peruvian Revolution. The President of one IC (Firm A-6) felt that the IC was a union of laborers which participated in the profits of the firm. Another saw the IC as the means of participation in the management of the firm. Still another observed that the IC was the administrative body interested in the growth of the firm and the improvement of the work situation. Union officials in Arequipa more or less echoed these views, but did bring up one interesting new point. They stressed
the eventual nature of the IC; several observed that until the IC reached the 50% ownership mark it would not effectively participate in the management of the firm. One suggested that the present law should be replaced by one giving ownership of the firms immediately to the workers. The Union Secretary-General in Firm A-1 alleged that many companies were avoiding the IC by eliminating profits, making unnecessary purchases, hiring useless workers, and postponing new technologies.

The Lima officials likewise offered random definitions of the IC, each stressing one or more aspects. But in much of the opinion ran an undercurrent of conflict. In one way or another, many seemed to see the IC as a device to defend workers' rights rather than improving productivity and profitability through recognition of mutual interest and cooperation.

Question #12 - Following the creation of the IC, whom do you feel have improved their situation:
- the workers?
- the managers?
- the employees?
- others?

Overall, 31 union and IC officers felt that the workers had benefitted from the IC; 7, the contrary. Thirty-four claimed that employees had benefitted; four, not. Most who felt that the workers had benefitted responded positively for the employees as well. But a few felt that the employees had benefitted even though the workers had not. They did so because they had witnessed a great increase in salaries since 1970.

On the other hand, 13 union and IC officials felt that the empresarios had benefitted; 25 that they had not. The difference of opinion emerges from disagreement as to whether the increase in productivity since the
advent of the IC had been sufficient to offset the losses in the profits going to the *empresarios* by reason of the profit-sharing with the IC's. A few pointed out that at least theoretically everyone should benefit.

Question #13 - Do you believe that with the existence of the IC, the Union should disappear?

Many people thought that the Peruvian Government created the IC really to undermine the power base of the unions and hence remove a serious political threat. In fact, the IC had not replaced the unions, at least during the first four years of the IC, and it was quite evident to us that most worker spokesmen saw a continuing need for strong unions. Many perceived a distinct functional difference which assured the continuing existence of the union even after the IC had assumed a 50% interest in the firm. The concern which we found was whether the union would take over the IC, particularly if management continued to restrain the function of the IC.

The belief that the union must disappear once the magic 50% ownership mark were reached is predicated on the traditional approach to management; that is, a class is a set of characteristics which define relationships rather than a set of relationship which define characteristics. A person or institution can serve more than one function in society: producer-consumer, father-husband, owner-employee. As long as there remains a functional difference between the IC and the union, and as long as there remains a function for the union in the regime of the IC, they should be able to co-exist.

The workers we interviewed overwhelmingly had a sense for this
argument. They believed that the union and the IC should co-exist, even cooperate. The union, by its very nature, could defendant interests which the IC could not guarantee, and the IC had created interests for the workers which the union could not administer. Many echoed the statement made by the President of the IC in Firm A-1 that the union defended the interests of the workers while the IC represented the interests of the firm. Another IC President (Firm A-2) pointed out that the union and IC had different tasks. The IC participated in the direction of the firm and managed its 15% share of the profits. The union administered overtime and wage increases. The IC President in Firm A-8 felt that the IC could help mediate between union and firm. Only a small minority of IC officials (5) felt that the union would disappear when the IC gained 50% ownership.

Question #14 - What is your opinion of the fact that this company is linked with foreign capital? (If it is?)

Response to this question has been reported in the discussion of management responses (question #5).

Question #15 - Do you feel that this government is favoring the workers?

We asked worker spokesmen to reflect on the intent of the laws, not on the reality as in Question #13. We found that there was near unanimous agreement that the Government was indeed favoring the workers. Only two of our 36 IC and union officials who responded to this question felt otherwise. The good intent of the Government was evidenced not only in the IC, we were told, but in many other programs as well - Agrarian Reform, the nationalization of the fishing and mining industries, the creation of the Social Property Sector, the Basic Labor Education Law, the Labor Stability Law, the provision for retirement at age 55, the elimination of
obreros and empleados categories, social security, SENATI. It should be noted that the Labor Stability Law was seen by many as an essential complement to the Law on the IC because it was feared that in the absence of such legal guaranties employees would have simply fired any worker who tried to establish an IC in the firm. Although that possibility was probably not very likely in the large firms in which we conducted interviews, the danger was possibly very real in the smaller firms. One response: "In general, the present government is the first government concerned with the workers and concerned with changing the social structure of the country in favor of the majority - a total economic, social and moral change."

The greatest reservation about the performance of the government was inflation. Indeed, both of the spokesmen who felt that the Government had not favored the workers felt so because of inflation.

Question #16 - Why do you work for this company?

Obviously, among the basic concerns among managers and students of the Peruvian reforms is the question whether workers have the mental capacity, skills, and perspective to direct a firm effectively. Although our 38 IC and union representatives often referred to increased understanding of the operation of the firm as a principal benefit of the IC, managers did not seem able or willing to believe that workers had more than a short-run, material interest in their respective firms. The implicit hypothesis embedded in this question is that a modicum of job security and an indication of some interest in self-realization are essential to the IC program. If one assumes a Maslow-like hierarchy of interests ranging from self-preservation to self-realization and that the higher interests
do not manifest themselves until the lower interests are satisfied at some minimum acceptable level, one can argue that in the Peruvian case the basic needs of family, job security, etc., of the workers must be satisfied before the worker is able to turn his attention to the direction of his company. In other words, one might hold that for the IC concept to succeed, workers must respond to this question in terms other than mere personal economic need.

In fact, of the 37 IC and union representatives who responded to this question, eleven indicated that they worked for some reason other than mere subsistence. Four said merely that they worked for personal satisfaction in addition to the need for subsistence. Two felt that their respective companies had good prospects; another that he had a future with his firm; another had been actively recruited by his firm; another derived satisfaction helping to improve the company's products; another had followed a friend's recommendations; another entered Firm L-15 to organize the workers and raise their self consciousness; four worked in order to pursue their studies. From these cases, it is difficult to generate any significant generalizations.

Part of the problem is that the question was left ambiguous. Were the respondents being asked their reason for working or for working in a particular firm? Their responses seem to imply confusion, which is unfortunate. Specific data on why workers had chosen to work for a particular firm might have been revealing and been more germane to the central issue as to whether workers - at least IC and union officials - were responding to needs other than subsistence.
Question #17 - Do you feel that workers should be the owners of firms; fulfill labor contracts and nothing else; or participate in profits, property and direction of the firm? (Asked only in Arequipa)

This question asks IC and union officers, without making any reference to the IC, whether they feel that the workers should in fact receive the benefits which the wording of the IC law intended for them - specifically, profit participation, property ownership, co-direction. An affirmative response would indicate that the provisions of the IC have some measure of among the working classes. The question also avoids the question of the ability of the workers to fulfill their duties under the law.

Six of the ten IC officials interviewed in Arequipa said that workers should be the owners (duenos) of their firms. Three qualified their answers by stating further that they did not feel that the workers could take over immediate ownership, that they lacked preparation. Again, one notes the confusion between ownership and management. Four felt that workers should not be owners. The upshot was that only three gave unqualified affirmative answers. Two (the IC Presidents in Firms A-1 and A-8) said that the workers should be owners because this was the only way for the workers to abandon their salariado mentality. The IC President in Firm A-3 did not feel that the IC should assume ownership until the union influence in the firm was eliminated or reduced. The IC Board member in Firm A-10 observed that it was impossible to run a firm with many owners. Again, note the confusion between ownership and management.

Nine of the ten IC officials stated that workers should do more than merely fulfill the labor contract. They should contribute to the firm according to their ability. They should participate in the cooperatives,
in the cultural and social activities, and in classes given by the firm. They should try to increase their productivity and contribute their ideas to the company. They should try to maintain the machinery of the firm.

Five of the seven Arequipa union officers interviewed likewise were of the opinion that workers should do more than merely fulfill their labor contract.

All of the Arequipa IC and union officers stated that the workers should participate in the profits of the firm. All but one, the IC Board member in Firm A-10, likewise felt that workers should participate in the property of the firm. One, the IC President in Firm A-9, opined that a 50% share was excessive, that 20% would be sufficient to derive the benefits of property-sharing. The one negative vote, cast by the IC Board member in Firm A-10, said that worker participation in the firm's property only served to alienate the capitalists who would otherwise invest in Peruvian industry.

All IC officials but two came down on the side of worker participation in the direction of the firm (gestion). One of the dissenters, again the IC Board member in Firm A-10 was negative because it was impossible to reach a consensus. Although favoring the contribution of ideas by workers to the direction of the firm, the IC President in Firm A-1, did not favor worker participation in actual decision-making. The others favored participation because the workers know the production process better than the managers and because they see problems confronting the firm from a more humanist point of view. All of the union officials favored participation. They felt that workers were capable of making
innovative suggestions; others, that workers should participate so as to be better informed about the situation of the firm and to reduce the likelihood of being fooled by management in labor disputes.

It seemed clear that some were basing their judgments on the participation of the workers in the *gestion* of the firm, which they assumed to mean management. It is clear that a multiplication of managers would make the daily operation of the firm difficult, but participation in the Boards of Directors was a different matter. The addition of one more person, the IC member, should not confuse deliberations unduly. One can only assume that the objection raised by the IC Board member in Firm A-10, for example, equated *gestion* with management. Inasmuch as the IC did not participate in management, but in the direction of the firm and nowhere else, one must assume his confusion. As a shareholder in the firm, the IC had no right to participate in management, and did not.

The term *gestion* seems to be difficult to translate in the sense in which it is used in the law on the IC. Commonly, it would translate "management." Just as the term *empresario* seems to incorporate the functions of both the owner or shareholder (*dueno* or *accionista*) and the manager (*gerente*). Is it the intent of the Government to encourage workers to participate in both the direction of the firm and its management? We think not. The term *gestion* may have been used because it is the term most often used in connection with worker self-management in world literature. Even the regime in Yugoslavia is referred to as *auto-gestion*, although it is clear that the workers do not manage the daily operations of Yugoslav firms. One is further led to believe that the Peruvians have
simply carried over a foreign term, without intending to preserve its meaning in practice. They did not even change the French spelling _gestion_ to the Spanish _gesción_. It seems that possibly the whole country is laboring under the illusion that the workers are to manage the firms in the Industrial Community or Reformed Private Sector. The Government may actually be confused, and the confusion may show in its choice of terms. This confusion may prove to be dangerous for it may be stimulating much unnecessary opposition and criticism of the IC concept, both within Peru and without and to an unnecessary slowdown in investment.
Chapter 5
SELECTED CASE STUDIES

Although it was impossible from the data we collected to rank the 26 companies in any precise order from the one with the best experience with its Industrial Community to the one with the worst, we could select two of the best, two of the worst. By worst, we refer to those firms with a relatively high apparent level of conflict and distrust. It was agreed that Firms A-8 and L-15 were the most likely candidates. At the more positive end of the continuum, Firms A-2, L-4, L-8 and L-9 were all outstanding. It seems useful to report the environment within each of these firms so as to provide additional insight, more in the form of hypotheses for further research than any hard conclusions.

The Negative Cases

Firm A-8

Firm A-8 had been incorporated in 1969 by a group of four local investors and remained 100% Peruvian-owned. Headquartered in Arequipa, the firm assembled household electrical appliances. The percentage of the local market held varied with the product, but it was an important domestic source for each product line. The company did very little manufacturing, it being very largely a buyer of kits from foreign sources (e.g., Sony) for assembly in Peru. The firm was currently 98% owned by the four Peruvians, which meant that the Industrial Community had acquired only 2%, at which level it had remained since 1972. Annual sales had reached 180 million soles on a capital base of 68 million. Reported profits had obviously been low, in that over the past three years, the 15% profit
distribution to the IC had equalled only 2% of 68 million, or 1.36 million soles. This implied a total before-tax profit of 9.1 million soles, or only 2.9 million per year for the three-year period during which the IC had received a profit distribution (i.e., a 4.3% rate of return). Apart from its own assembly activities, the firm invested in other enterprises as majority owner. The company was constantly diversifying its lines, the most recent addition being sewing machines. It was also increasing and improving existing lines, and in mid-1974 was completely reorganizing its major plant in Arequipa.

The firm had sent a few workers to technical courses run by SENATI (Servicio Nacional de Aprendizaje y Trabajo Industrial, National Apprenticeship and Industrial Labor Service). One or two workers had been going each month for month-long courses.

Although management claimed that there had been no disinvestment since 1970, profitability had been reduced since the appearance of the IC. The IC had created instability within the firm, one executive observed, because it simply considered itself another union. The IC had been the cause of some strikes, it was alleged. When the IC became dissatisfied with the distribution of the 10%, or the capitalization of the 15%, or when it felt that profits were too low, the IC would report such dissatisfaction to the Directors, and sometimes a strike would ensue. Since 1970, strikes had claimed from 15 to 20 days of shutdown time each year. No change in the manner of negotiation was reported. The Ministry of Labor frequently intervened, and arbitration often favored the workers. In general, the workers had become more hostile to management. One top executive felt that the change had been produced by "social instability" and the injection
of politics into the firm. Although the level of absenteeism had increased slightly since 1970, management did not feel that the IC had been to blame, rather the general social instability. By the latter term was apparently meant a general feeling of malaise due to the rising cost of living, inadequate housing, and increased uncertainty about the future.

Although the legal counsel (and Board Member) of Firm A-8 felt that initial reaction of Peruvian managers had been overwhelmingly negative, they now accepted the IC. Indeed, it had been found that the IC had not influenced most decisions markedly. He interpreted the introduction of the IC as an effort to transfer economic power to the people in response to popular demand. He defined co-gestion as the joint administration by management and labor at the Board level. Workers lacked preparation, he felt, to participate in decisions concerning investments. In practice, co-gestion seemed to mean in Firm A-8 the practice of consulting the IC representative in respect to new products and wages (i.e., via voting) but not in reference to investments. In any event, the IC was still very much in the minority at any Board meeting. It was admitted that the presence of an IC representative on the Board had bothered the Board. Generally, it was alleged, he did not realize the implications of matters under consideration and tended to apply political criteria. But as yet, his presence had not "interfered" with decisions.

Management was not aware of any worker hostility to the idea of foreign involvement in the firm. Labor knew that the company bought assembly kits from abroad, and seemed to have no objection. Management did not feel that the government encouraged foreign investment in any manner, nor was
the IC felt to be such an incentive, because there were difficulties with co-gestion and workers participation in capital.

The President of the IC in Firm A-8, a high school graduate, had studied eight semesters at a local university. Employed as an assembly worker, he had participated in two capacitacion courses in 1973. One had been a five-day affair on the Law of the IC put on by the Ministry of Industry and Tourism. He had been sent by the IC. The other, to which he was sent by the union, had been run by SINAMOS(Sistema Nacional de Apoya a la Movilizacion Social, National System in Support of Social Mobilization) and dealt with labor law. He participated actively in the union.

The IC President reported that he was mistreated and misinformed whenever he sought information from the firm's legal counsel. The IC President attempted to inspect every aspect of the firm's production, including the receipts for all sales. He did not trust management. He reported satisfaction with all aspects of his own job, except the atmosphere. Relations with "the firm" were bad.

Since the creation of the IC, he felt that the workers in general had improved their lot because they now participated in the management and profits of the firm. He also felt that the owners had benefited because profits had improved. Both the IC and the union should continue to co-exist, he claimed. The union is concerned with the workers' claims; the IC, with the development of the firm. The IC should take care of both workers and firm, and to this end try to mediate differences between them.
He went on to say that the workers should be owners so that they would work with more love (amor). The workers, he felt, should participate in the cultural and social functions of the firm as well as the union, IC, athletic events, short courses and the like. Workers should participate in the profits of the firm because they contributed their labor and their salaries were low. Workers should participate in the property of the firm so they would take better care of the machinery. Workers should participate in the administration of the firm because they knew the methods of production better than did the directors.

The IC President had no response, one way or another, when queried about the involvement of any foreign interests in the firm. (Technically speaking, of course, there were none other than in terms of supply.)

The Secretary-General of the Union, an assembly worker, had completed third grade of the middle school. In February 1972 he attended the first regional IC Congress in Arequipa and the first National Congress in Lima. In both cases, he was the IC delegate. In May 1974, he participated in a week-long seminar concerning the ideology of the Peruvian Revolution. The course was given by the syndicate of unions, and he attended as representative of his union. He would like to go on with his education and study history and geography at the university level.

Although apparently contrary to the IC Law, the Secretary-General of the Union also served as IC representative on the firm's Board of Directors (comunero).

The most serious problem he confronted in the firm was the bad
relationship between the Director and the workers. He felt molested (intimidated?) by the administration and abused. For example, the firm had refused to pay the workers their Independence Day bonus because the profits were not high enough. The management did not respond adequately to workers' complaints, so there was an unhappy atmosphere within the firm. He said that he was not happy with his work; he was constantly dealing with labor problems and that these adversely affected the satisfaction he felt for his job. He was also unhappy with his pay, because it did not permit him to live in "human conditions."

He identified the IC with the law which would eventually give the workers participation in the administration of the firm. Obviously, he did not feel that they had achieved this as yet. He went on to say that the law should be replaced by one which gave workers immediate control of the firm.

It was his opinion that the owner-managers had improved their lot since the IC appeared because the workers worked harder, and the former received the benefit. In contrast, the workers had not improved their lot because they received only 25% of the increase in production (i.e., profit), whereas the other owners received 75%.

Queried about the continuing role of the Union, he did not see the aims of the IC and of the Union as being incompatible. Rather, there should be more cooperation. At present, the IC was not representing the interests of the workers sufficiently. Although the Union and IC operated in different areas, there should be close collaboration between them because they represented the same workers. The IC should represent the workers in
the administration of the firm; the Union should petition and fight for the rights of the workers.

The Union Secretary-General was well aware of the fact that the firm had no foreign involvement other than the supply of kits, which it purchased abroad for assembly in Peru. But he observed that generally the Union and IC should fight to eliminate foreign capital from Peru because at present there was "international exploitation." Nationalization of firms would be good for Peruvian workers.

The Government, he felt, was in favor of the workers because it had created the IC, the Social Property Sector, and the Agrarian Reform. It had likewise nationalized the mining and fishing industries.

Firm L-15

This firm, located in Lima, had been established in 1962 by a group of United States and Peruvian investors to manufacture a variety of light consumer goods. It was 60% owned by the U.S. group. In that the firm was not a subsidiary of a foreign parent corporation, decisions were made locally. Two of the founders, a Peruvian and North American, were serving currently as president and managing director, respectively. The enterprise had been capitalized initially at $67,000 (approximately 1.8 million soles), but as of December 1973, capitalization stood at 44.5 million soles; fixed assets, at 117.0 million. Meanwhile, sales had grown from 5 million soles in 1962 to an estimated 623 million in 1974. Profits in 1973 had been 18.4 million soles on sales of 255 million. During the year ending March 1973, the firm's capital had jumped from 28.8 million soles to 44.5 million.
The profitability of the firm in terms of local currency was given substance by the fact that no new capital had been brought into Peru since 1964. Capital growth had been based exclusively on reinvestment and borrowing. This added capital had been used entirely to enlarge installed capacity and to replace machinery, not at all to diversify.

Since the organization of an Industrial Community at L-15, shortly after the enabling law of 1970, top management reported an increase in work stoppages, absenteeism, and political agitation. Strikes currently lasted longer than formerly because of worker militancy and heightened needs. Workers' attitudes toward management had worsened. The result had been higher cost for everyone. Management believed that the introduction of the IC had been motivated by the desire of the left-wing military regime to eliminate private property. The result, it was pointed out, would be to reduce both individual and corporate investment and to fuel inflation. It was further alleged that the Board Members selected by the Industrial Community had without exception been opposed to the interests of the company, and that the labor union and the IC were one and the same thing in that the IC Board Members had been union leaders. They simply resigned their union positions before becoming Directors. Currently, 21.07% of the firm was owned by the Community. Total employment was as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Top management</td>
<td>6</td>
</tr>
<tr>
<td>Office staff</td>
<td>31</td>
</tr>
<tr>
<td>Technicians (engineers or equivalent)</td>
<td>16</td>
</tr>
<tr>
<td>Factory workers</td>
<td>279</td>
</tr>
<tr>
<td>Sales staff</td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>342</strong></td>
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Four of the top management were stockholders (in aggregate, holding about 40%) as well as Board Members.

All the Government had done by introducing the Industrial Community, according to management spokesmen, was to make workers more conscious of their rights, but not of their obligations.

Co-gestion was defined by management as joint management by labor and management. Doubt was expressed as to whether management could continue to manage once the IC secured 50% ownership. The declared policy was to push IC ownership as rapidly as possible to force the issue. Perhaps there would be no change?

Workers, it was pointed out, would improve their living standards more quickly through increased wages rather than through profit distribution. One incident was cited in which a new machine had been shut down because workers demanded higher payments by reason of the increased productivity. "Of course, this increase in productivity had nothing to do with more effort by workers," observed the General Manager. He added,

The former President of the IC either pocketed or spent all of the Community's money. No more than 16 attended the IC's General Assembly. Others are not interested. The "empleados" (i.e., professional level employees) refuse to have anything to do with the IC. They will not associate with the "riff-raff," despite our request that they participate. The IC Board member is the best of the lot.

The General Manager went on to complain that an "illegal agreement" with the Ministry gives the IC President four hours a week with pay for IC business.

Management evaluated the company-sponsored training (capacitacion)
program as excellent.

Asked about workers' perceptions of the foreign involvement in the firm, the General Manager responded that the workers did not even know what a foreigner was. The introduction of the IC was not seen as an incentive for investment, foreign or otherwise. The Government, it was said, had given only negative incentives for industrial investment. Indeed, if there were any buyers on the market, the present owners would sell out immediately.

The General Secretary of the Union was in his fourth year studying sociology at a local university. He had participated in a number of capacitacion seminars outside the firm. He felt that these seminars had been useful and that he now had a better knowledge of the Industrial Community. He would like further education on labor law and on Marxist philosophy and would be prepared to spend his evenings in the effort. He had requested admission to the company-sponsored courses, but had been denied entry because of his union affiliation. He professed not to be preoccupied with personal problems; he was concerned with larger issues, such as working toward the disappearance of private property. "Everything continues without change," he observed. "It will only change when the proletarian dictatorship comes to power." The workers are the creators of all wealth. Personally, he was satisfied with his job, which was of a semi-skilled nature. He found the atmosphere agreeable and he claimed to have no problems with either fellow workers or supervisors.

The Union Secretary was critical of the Industrial Community concept in that he saw it as an instrument used by the bourgeoisie to exploit the
workers and to force savings. Of all those associated with the firm, undoubtedly it had been the managers who had profited the most from the introduction of the Industrial Community. Granted, the social capital had increased, but the IC's portion would never reach 50%. When asked whether the present Government was favoring the workers, he responded by saying that the question was too delicate to answer.

The Union Secretary also criticized the IC because of its effect on the union. The union was getting weaker, he reported. If the IC ownership ever reached 50%, the union would disappear. The IC is making the workers less ideological. "The union must always seek [to lead] the fight between classes." He confessed that he worked for the firm in order to organize the workers and make them more conscious. "Under the proletarian dictatorship, 100% of the company would be in workers' hands," he predicted.

Some of these views, but not all, were echoed by the Organizational Secretary of the Union, a man with only a fifth-grade education. He had attended no capacitacion courses, although he expressed a desire to do so, also a desire to attend commercial secondary school. He could not attend the company-sponsored courses because entry was barred to union members. He also believed that promotion within the firm was impossible unless he agreed with the "company's way of thinking." In fact, when he was elected to his present union position, he had been transferred to a less important job. "The boss divides the workers by giving privileges." He did feel that everyone had benefitted about equally from the IC. He denied that the union would disappear. "It is the only way to fight the bosses." He felt that foreign investment should be restricted in Peru because of the
profits it was taking out of the country. The Government had done some things which seemed to favor the workers, such as the Labor Stability Law and the Industrial Community, but the Government was also responsible for the high cost of living. He seemed generally ambivalent in his attitude toward the Government.

The Treasurer of the Industrial Community, a machine-operator, was a fourth-year student in business administration at a local university. He had participated in a number of capacitacion courses regarding the Industrial Community - on accounting, administration, philosophy, organization, law, the role of the IC director. All of these had been given either by the Ministry of Industry and Tourism or by OCLA (Oficina de Comunidades Laborales, Office of Labor Communities). Nonetheless, he would like to have more training, particularly on the financial aspects of the IC. Apart from being IC Treasurer, he was also active in the Union. He could not attend the company-sponsored capacitacion course because of his union activities. Although the required 1.5% of the company's payroll went to SENATI, his request to take the SENATI course was denied by management.

He protested quite bitterly about the alleged discrimination within the firm. He pointed out that his job was not at all commensurate with his preparation. "Some workers, the toadies (amarillos) have the best jobs. With just a memorandum from one's supervisor, a worker may be suspended from his job, and the Ministry of Labor has to solve the conflict." He also alleged salary discrimination. A unionized worker might get 29 soles a day whereas the non-unioned might get 39 to 45 soles for similar
work. He went on to charge that management was using all sorts of tricks to change the net profit. The workers did not have the documents necessary to determine net profit, hence, the managers profited most from the Industrial Community. The unions should not disappear, he felt, because there would always be bosses and workers, even in the 50-50 ownership situation. The union had the power to provoke a strike. Also, when the IC representative took his place on the Board of Directors, he was corrupted. The workers should own 100% of the company, he observed.

The IC Treasurer was not favorably disposed to foreign investment because foreign investors were interested only in getting their money out and not at all concerned with workers' welfare. He felt that any effort to improve relations with foreign capital was not worthwhile because foreign capitalists saw no good in either the unions or the Industrial Community. The involvement of foreign interests within the firm was essentially financial and to some extent political.

On the subject of Government bias toward the workers, the IC Treasurer was ambivalent. He cited the Labor Stability Law on the positive side, but the high cost of living and the fewer jobs on the negative. One of the causes for the latter had been the Industrial Community Law in that many companies had closed down. He worked for the firm out of economic necessity and the lack of alternative jobs.

Some of the hostility in the firm directed toward management had been articulated in a letter from the President of the IC, one paragraph from which is quoted below.
I consider myself obliged to remind you that our Government did not create the Industrial Community for the purpose of creating a weapon for the company. This would be counter-productive to the goals of this Revolutionary Government, which are to create a BIG and POWERFUL PERU, develop a JUST SOCIETY where no one can be exploited and where the behavior of each of us is independent of the arbitrary will of small dominant groups which have caused so much harm to our beloved Nation. You and your Associates certainly understand that this Law is a decisive step towards a society where everyone participates effectively in collective decisions. You and your "associates" are converting the PARTICIPATION granted to us by the law into a PSEUDO-PARTICIPATION, thus making fun of the revolutionary process.

The Positive Cases

Firm A-2

Company A-2, located in Arequipa, had been founded in 1898 to produce beverages and was manned initially entirely with foreign personnel. It was not incorporated until 1926. Currently, there were 19 stockholders, with 64% of the equity being held by individual Peruvians, 18% by foreigners. The balance, 18%, was owned by the Industrial Community. All of the 1,904 million soles of sales (1973) were made domestically. The company's capital was placed at 458,402,000 soles; its fixed assets at S/.50 million (1973 year-end). As of mid 1974, the firm was waiting authority to increase its capitalization to 581 million soles. Currently, it employed 750 persons. It was growing at a rate of between 12 and 18% annually and was currently investing in a second plant.

The General Director had prepared a written analysis of the role of the Industrial Communities in the national development plan and was unusually well informed. He professed belief that Peruvian entrepreneurs generally had been surprised at the appearance of the Industrial Community
Law but nonetheless felt that it was a good idea. However, the level of participation of the workers in capital and profits was ill-conceived and posed grave conflict. He felt that the Government might have been moved to create the IC's in order to institute indirect control over private enterprises and to supplant the unions. Reinvestment probably had not been much affected but new investment, he believed, had fallen off. The problem from the point of view of private investors (accionistas) was that the IC would receive 75% of a firm's profits when it reached the 50% ownership level and that the Government's ultimate intentions were unclear.

Owners and managers were working with the IC's but thus far the outcome was uncertain, he felt, because it was not known whether the IC's would respond to economic or to political criteria. Co-gestion, which the General Manager equated with the mutual participation of workers and managers in the administration of the firm, should be employed in respect to general policy matters, he felt, not in more technical matters. Thus far, in his own firm, the participation of workers in administration had not affected efficiency, but participation was still small.

The General Manager reported that there had not been a strike in the company for 12 years. He could see no change in the attitude of the workers since the IC, but the attitude had been good prior to that time. Nor had there been any change in absenteeism or in productivity since 1970. Admittedly, however, workers sometimes opposed measures which could improve their productivity. Psychologically, they tended to resist change
in that they felt that change would either create more work with less profit or lead to unemployment. Consequently, workers usually demanded increased compensation for any change. In general, he felt, the workers were more interested in the 10% profit distribution than the 15% investment made via the IC.

The company was not involved in any general educational activity on behalf of its workers. The IC was instituting a series of seminars for all workers which was designed to improve their general cultural level. The firm, as a matter of policy, apparently left worker education to the IC. It did send workers to Lima and Europe on occasion for technical training.

The President of the IC in Firm A-2 was a university graduate with a degree in agricultural engineering, which profession he practised in the firm's employ. Prior to that he had graduated from a military high school. More recently, he had participated in three capacitacion courses; two one-week seminars given by the Ministry of Labor in 1970 and 1971 concerning the IC and a one-week seminar on accounting at IPAE (Instituto Peruano de Administracion de Empresas, Peruvian Institute of Business Administration) to which he had been sent by the IC. He would like to study more about the IC, finance, investment, and management, but job and family responsibilities made such impossible. He was participating actively in the union, but seemed highly satisfied with his job and the company, even his present salary. The only difficulty to which he alluded was in waiting for the company to receive authorization to capitalize its share of 1973 profits. He referred to a recent change in General Managers,
which had improved the situation within the firm.

The IC President described the IC as an institution which increased the participation of workers in the firm and tried to educate the workers and create a new consciousness among them. He felt that the courses offered workers were insufficient to give them the education they needed. The most important person in the firm? The general manager, because he executed the orders given by the Board.

Both the employers and workers had improved their lot since the IC had been organized. The IC and union should both be maintained because their tasks were distinct. The IC, he explained, was in charge of the 15% profit distribution made to it and of representing its interest in the firm. The union, on the other hand, was in charge of overtime and pay disputes.

It was the IC President's opinion that the workers should not be the sole owners of the firm because they are not prepared for that role. He did feel that the workers should participate in the profits, property, and administration of the firm.

He manifested no hostility toward foreign involvement in the firm. The firm could sometimes find needed capital abroad. Indeed, if the IC needed funds, he would not be adverse to the IC's borrowing from foreign sources. The foreign involvement in the firm had to do with capital and technology. He did not perceive any relationship between this foreign involvement and the position of the union or of the IC.
The General Secretary of the union at Firm A-2 had finished five years of primary school and attended three capacitacion courses as union representative, one on the structure of the union organization, one on the Social Property Law, and one on psychology. The first two had been given by the union and lasted one week each. The third, sponsored by the IC, had been given by a local university. He would like to study more in the area of mechanics and to finish high school. He participated actively in the IC as well as the union.

In his position as head of the union at Company A-2, he encountered problems concerning the penalizing, the mistreatment, and the well-being of workers. At present, the workers were upset because a rotating schedule had been instituted at the plant. However, he professed himself as being satisfied with all aspects of his own work, even his salary. He conditioned this latter statement with the comment that he had few children and that many of his co-workers with many children were having serious financial trouble.

He felt that the IC was of assistance to workers in that it allowed them to participate in the stock and profits of the firm. Both workers and management had benefitted from the introduction of the IC, he believed, because the workers now better understood the firm and had a better attitude toward it, from which both groups benefitted.

The Union General Secretary went on to say that the union and the IC should work in cooperation. The IC should take care of the administration of the firm; the union, the workers. Although government policy seemed to him, in balance, to favor the workers, he was disappointed in the inability
of the Government to fulfill its promise to improve the worker's lot without inflation.

The fact that there was foreign involvement in the firm was looked upon as a positive factor because "many things are missing in Peru."

For him, the most important aspects of the firm were the wages paid and the amount of work offered. A healthy industry benefitted the workers, he observed. He realized that the firm was supported by foreign interests in respect to the import of machinery, the hiring of foreign technicians, and the purchase of raw materials. None of this seemed to bother him.

Firm L-4

Firm L-4 was 70% Japanese-owned; 30% Peruvian (16.5% by private persons, 13.5% by the Industrial Community). Established in 1968 and located in Lima, it manufactured a number of food products. The previous year's sales (1973) had totalled 230 million soles from fixed assets valued at 130 million and equity capital of 47 million. Total employment stood at 265. Management reported that the Peruvian subsidiary was autonomous in its decision-making so long as it was self-financing. The Japanese parent company allegedly professed a strong preference for entering a market via a majority position in a joint-venture, in which the local partner was private rather than government. The market for the firm's products was 80% local Peruvian, 20% export.

Despite the advent of the IC Law, new technology continued to be transferred to Peru, and in 1971 the parent company invested an added $416,000. In that both subsidiary and parent wished to become independent,
no new investment was likely to come in. There was a technical assistance contract in force with the parent Japanese company which called for payment of 6% on net sales. In 1973, and again in 1974, there had been an expansion of installed capacity, both resting on reinvested earnings.

The Aperado* of the Peruvian firm, a Japanese national, said of the appearance of the IC that no Peruvian manager liked it. His firm had studied all the possible consequences of the law. Although it was possible that the IC could restrain the traditional freedom of the manager, the law seemed to his management to be a good one. Consequently, the firm's policy was to accept the law, although management refrained from so publicizing itself. It was quite clear that his meaning was that the firm had resolved to cooperate in making the IC concept workable within the context of the firm and to support it not only in letter, but also in spirit. It was equally obvious that this foreign manager did not find many like-minded Peruvian managers. The company was consciously preparing itself for the moment when 50-50 ownership parity with the IC arrived. It was deliberately delegating responsibility and authority. Management had concluded that the only way to avoid conflict was to start preparing itself immediately for the change, not to subvert it.

Co-gestion meant simply to this executive "to manage jointly with the workers." Implementation had meant workers' participation at meetings of the Board of Directors and of the Shareholders. Thus far, there had apparently been no objections registered by the workers to any decision taken by the Board. Indeed, the result of such participation had been

* Refers to the "National Intermediary," i.e., the link between General-Manager and parent headquarters. In this case apparently he was the effective chief executive.
improved efficiency, in part due to the IC and the fact that the IC Council consisted of well-prepared individuals. And the profitability of the company, the President opined, had indeed improved in part because of the interest of the IC in generating larger profits.

Since the company's founding in 1968, there had been two strikes, both of which had to do with wages and lasted for five days. They were resolved by means of conciliation through the Ministry of Labor. In general, however, workers' attitudes toward management had remained good throughout, the President claimed. Absenteeism had not changed since the IC had appeared. Productivity had increased a little, but it was difficult to say if this improvement had been due to the IC. (Productivity, it will be recalled, was defined as value of production divided by the size of the payroll.)

Each year, the firm had been sending three or four employees or technicians to special courses in Japan. Additionally, the company had the policy of paying the tuition of any course that the company considered was good for the worker wishing to attend.

It was the President's opinion that generally workers liked to work for a foreign company. However, he observed that Government incentives for foreign investment had worsened. It very much depended on the level of foreign exchange reserves. Very little new foreign investment in the manufacturing sector was, in fact, entering Peru. There was not much incentive offered the foreign investor in the IC Law because one must have the liberty to choose with whom to associate.
The President of the IC in this firm possessed a college education and was a Certified Public Accountant. He was employed as an accountant within the firm. He had attended capacitacion courses on the new accounting system, on the Andean Common Market, and on purchasing. In each case, the company had sent him. He would like to continue his education at nights in order to build up his general knowledge. He was President of the Company Club, which seemed to be a social-cultural-athletic organization open to all employees. He was not a member of the union.

Queried about problems he faced within and without the firm, all he could mention was commuting and the rising cost of living. Although not satisfied with his present salary (18,000 soles), and although specifying what he would like (25,000 soles), he obviously did not feel strongly about the issue.

He defined the IC as the juridical institution, the objective of which was to achieve participation in the company in accordance with the percentage established by law. He went on to say that he felt that the IC Law was a good one and favored the workers. In a 10- to 15-year period workers would arrive at the 50% ownership level. Immediately thereafter, he added that there was a good atmosphere inside the company. Several seminars were offered the workers so they would know their rights and obligations.

Asked about the beneficiaries of the IC Law, this IC President responded that both workers and employees had benefitted. He refused to speculate on the balance.
As for the Union, he felt that it should not disappear in that the IC and Union were quite different. He proposed that the Union and IC should get together for the benefit of the company. Such a move would do much to change the Union's attitudes and demands.

Queried about foreign involvement in the firm, he observed that the developing countries needed foreign capital. The more capital which came, the better, for new jobs were thereby created. He was well aware of the foreign capital in the firm and of the technical and commercial assistance being rendered the firm by its Japanese parent. No sign of hostility appeared in his comment.

**Firm L-9**

In L-9, management was trying to restrain IC ownership as much as possible via annual reinvestment of 15%. Nonetheless, it had reached 22% by mid-1974, the highest within our sample. The U.S. headquarters would not, we were told, permit its name to be used if it were to lose control, i.e., if its equity were to fall below 51%. It had a general policy of not going into minority position. The first reaction of the parent U.S. company to the 1970 law was to liquidate the Peruvian subsidiary, but the subsidiary management convinced headquarters to hold off as long as possible. Control was clearly the issue. Even so, no new money had been invested by the parent company in Peru since 1970 and no new technology had been transferred, which policies would appear to bring the day closer on which the U.S. parent would in fact lose effective control. The Peruvian plant was allegedly the only one in the world not manufacturing a newly improved product developed by the parent.
Despite this hesitation, the local management reported that communication within the firm had improved with the development of the IC. Also, the IC was credited with efforts to control an increase in absenteeism. Even so, production had decreased by some 4% from 1973 to 1974 due largely to absenteeism. The IC had also been helpful in curbing wastage of materials, according to management.

The company was dominant in its sector in Peru, with annual sales of $21 million, assets of $13 million, and a total labor force of 723. It had been established as a 100% U.S.-owned industry in 1944 upon the urging of its local distributor.

The IC share of the firm's equity, 22% (claimed to be 23.3% by the IC President) represented S/. 74.8 million and produced dividends of S/. 10 million. Mentioned by the IC President, but not by the management, were the problems of (1) obtaining hard currency with which to buy necessary imported raw materials and (2) Government-enforced price control of L-9's products, despite widely fluctuating raw material cost.

The President of the IC was a blue collar worker, former General Secretary of the Union, a high school graduate, and only seven years from retirement.

In general, the IC tried to "concietizar" the workers, according to the IC President. It was planning each department with a company committee, so each worker would know the rationale for his job and have an opportunity to give his opinions. The IC expected wastage to decrease and workers' interest in the company to increase. The IC maintained a
file on each worker and issued bulletins to "teach" the workers. It had proved to the workers that any company problem was likewise an IC problem and was handled jointly. Neither the company nor the IC had tried to trick each other, the IC President alleged. A major educational effort had been undertaken upon IC initiative and with company support.

Funds which accumulated in the General Fund were expanded as follows: 5% for office expenses, 20% for cultural promotion, 50% to buy back the shares of the people who left the company, 25% as reserves. The current balance in the Fund was S/. 800,000.

Workers were not prepared to manage, so management should continue as is, opined the IC President.

**Firm L-8**

L-9's major competitor in Peru was L-8, likewise U.S.-owned. It had possibly half of L-8's market share. The Plant Manager (and Board Member) opened the interview with the comment that the IC, in general, had been good for the company. And profit sharing had been a good thing, the average share being equivalent to three-months' wage. He went on to observe that in his opinion the union had lost prestige in the shadow of the IC. A 50-50 ownership situation could work well or be chaos; it depended wholly on the people involved.

From 1970 to 1974, production had doubled and productivity had increased from 30 tons per man hour to 70 tons. The increment was not attributed wholly to the IC, but "we can give it credit as a catalyst."
On the negative side, absenteeism allegedly had increased, from 2.5% prior to 1970 to 3.5 to 4.0% since. But still, this level was considered relatively good. There had been no strikes since 1968.

The degree of cooperation on the part of the workers had improved due to their understanding that they were getting a "piece of the pie." The workers were willing to accept higher standards and thereby avoid expanding the work force. However, the 15% profit distribution to the Community and the 10% to employees had discouraged any new investment from the parent company. The 2% obligatory expenditure for R&D was going to a local research institute, because if the company undertook its own R&D in Peru it would have to reveal its proprietary technology. The percentage of IC ownership was not revealed.

Currently, the firm was increasing its installed capacity by 50%, and workers understood that more would have to be hired. Signed in 1972, L-8 had the only labor contract - i.e., collective agreement - in Peru.

The President of the IC hired out to the Chief Engineer of the Plant, a university-trained engineer. Apparently he was not active in the union, but was a counselor for the cooperative and participated actively in the company's athletic program. But obviously, he was part of management and so identified.

He felt that the IC was good because it gave workers participation in profits, thereby creating a greater sense of identification with the company. However, he pointed out that if the firm failed to be
profitable the IC would become merely one more union. There was a
note of hostility here toward the unions generally. However, he did
not feel that the union should disappear; the union protected workers'
rights; the IC, their patrimony. When the 50-50 situation was
realized, the unions would continue but would possibly be quite weak.

The IC President felt that the involvement of foreign capital in
the enterprise was needed to create new jobs, but that the relationship
between foreign and local interests must be based on mutual respect,
which he implied was the case here. Although Firm L-8 was currently a
multinational subsidiary, it was in the process of transforming itself
into a mixed company.

On the subject of Government favoritism, the IC President claimed
that Government policy favored the workers. Personally, he worked for
Firm L-8 out of economic necessity, but also because the company was
operating satisfactorily. He was glad to have contributed to the
improvement of the product.
Commentary on Cases

These six firms fell into no neat categories. Of the two selected because of a low level of conflict and distrust, A-8 and L-15, the first was wholly Peruvian-owned, and the latter 60% foreign-owned. The former was relatively small (annual sales of S/.180 million); the latter quite large, with annual sales of S/.623 million. Likewise, of the four firms selected by reason of exhibiting a relatively harmonious situation internally, A-2, L-4, L-8 and L-9, the last three were all majority foreign-owned; A-2, 82% Peruvian-owned. Firm A-2 was among the largest in our sample (S/.581 million in annual sales); Firm L-4, one of the smaller (S/.230 million in annual sales).

It did appear likely that in A-8, which reported a rate of return of 4.3%, profits were being extracted via another route. Significantly, the firm was owned essentially by four local investors, who were likewise active in the firm. Profitability was allegedly down since the advent of the IC. Although L-15 reported a very high level of profit, a 41% rate of return, it likewise was owned by a relatively small number of U.S. and Peruvian investors, some of whom were active in management. But then, Firm A-2, in which a much better labor-management environment had been noted, was likewise owned by a very few individuals (19), some of whom were in management. In Firms L-4, L-8, L-9, ownership and management were separate.

In Firms A-8 and L-15, the levels of ownership achieved by the Industrial Community were widely disparate - 2% in the former case, 21.07% in the latter. It would appear that the management of A-8 was
siphoning profits off via "costs" and that of L-15 was accelerating Community ownership so as to achieve the 50% as rapidly as possible. Both tactics might effectively subvert the development of the IC. In the latter case, the IC would be catapulted into full joint ownership long before its members were equipped psychologically or technically to assume that role.

Both L-8 and L-9, despite a relatively high level within the Peruvian firm, headquarters management had decreed no new external investment, which would appear to accelerate the accumulation of IC ownership. In L-9 it had reached 22%. For L-8, the figure was not revealed to us, but it must have been relatively high. L-9 had likewise stopped transferring new technology, so fearful was it of loss of control.

It would appear that in L-9 the local management, threatened by a headquarters decision shortly after the appearance of the 1970 law to liquidate its Peruvian subsidiary, had turned the situation around. The President of the IC specifically told us that the present management should continue to manage, that the workers were not prepared to do so. We concluded that if there is a local management which wishes to stay in place, it may in some cases react to a negative headquarters response by working to develop an active and constructive IC - or, at least, to perpetuate such an image.

In the two "negative" companies, A-8 and L-15, it was not apparent that union and Community representatives had been selected
from significantly different populations. All had modest educations and fell into the blue collar category. However, in L-15, the IC Treasurer was studying at the local university. Curiously, in this firm both the President of the IC and the IC Board Member found it inconvenient to submit to our interview. In three of the "positive" companies (L-4, L-8, A-2), the IC Presidents had had advanced education and occupied high-level white collar jobs. In the fourth, L-9, the IC President was a high-school educated blue collar worker. Unfortunately, we do not have data on the principal union officers, except for A-2, who had had less education and was in a blue collar job.

The level of distrust and distance between management and worker in A-8 and L-15 was obviously high. The worker representatives made quite serious charges in both companies, in A-8 that management was doctoring the books so as to reduce reported profit and in L-15 that management would not permit any active union member to participate in training courses and, hence, advance themselves. And in both firms, the worker representatives espoused quite radical views relative to workers' ownership and private property.

One cannot trace a one-way causal relationship, that is, one which might lead to the conclusion that if management had held a different set of attitudes, the workers would have responded differently.

One of the firms in which we found a positive attitude on both sides, A-2, was likewise a rapidly growing firm. And, it had suffered no strikes in twelve years. The General Manager said that he felt that
that the general idea of the IC was good. He seemed to have analyzed the IC with a good deal of intellectual effort and differentiated between participation in direction and participation in management. The firm had not become involved in any general educational activity and apparently, as a matter of policy, left such activity to the IC, which possibly had the impact of magnifying the importance of the IC.

The IC President in A-2 was, possibly significantly, a university graduate and was employed as an agricultural engineer, whereas the General Secretary of the Union had finished only five years of primary school and was a blue-collar worker. Neither reflected any hostility toward the company. The most serious problems they could identify within the firm were relatively trivial. Foreign involvement was seen as something positive.

In L-4, another firm in which a high level of harmony seemed to be present, was majority-owned by Japanese, unlike A-2 which was majority-owned by Peruvians. As in the other cases, the company had continued to grow. As in A-2, the top L-4 executive expressed himself as mildly in favor of the IC concept. Workers' attitudes reportedly had remained good.

Here again, the IC President possessed a college education and was employed in a technical job, as an accountant. He could not identify any real problems within the firm. Nor did he see foreign involvement in the firm as anything other than beneficial.

In both L-8 and L-9 management attributed tangible gains to the
Industrial Community. In each case, the IC President had had a university-level education and referred to no problems within the firm.

In all four of these firms it appeared to us that the workers, aware of the complexity of the problems to be dealt with by the IC, had elected well-trained individuals to represent their interests. The level of trust with the firms was such as to permit this. Union leaders, however, continued to be drawn from the blue collar ranks. After all, they would deal with matters which all could understand. No conflict between union and IC was anticipated in these four firms.

Nor was there any indication in any of the six situations, good or bad, that investment had slowed down by reason of the appearance of the IC. We could not associate attitudes with either firm size, nationality of ownership, or level of IC ownership. However, the IC's were still very young in 1974 and the pressures which would ultimately shape them and their firms had obviously not run their course.
Chapter 6

FINAL COMMENT

The overriding purpose of this inquiry was to ascertain what impact the advent of the industrial community had made on the firm in terms of ownership, direction, and attitudes. What was management's response? What sort of people were being selected by the industrial communities to represent them? Was new investment flowing? Would the unions survive? To what extent was the Government committed to the reform?

One of the key questions motivating the study was: Under what sets of circumstances was an industrial community likely to succeed?

Success could be defined possibly in terms of (1) increased perception of mutuality of interest (i.e., absence of conflict) between labor, management and private owners; (2) a relatively high level of trust among the three groups; (3) effective participation of employees in the ownership and direction of the firm (possibly a function of 1 and 2 above); uninterrupted industrial growth - that is, continued flow of private investment, both domestic and foreign, plus increased productivity.

We speculated that factors pushing in the direction of success were likely to be: (1) the existence of professional managers as opposed to entrepreneurial or owner-managers; (2) a past record of relatively conflict-free labor-management relations; (3) a relatively high level of profit; and (4) active company support for further training.

But in our cases, no clear-cut patterns emerged. Indeed, one could
suggest reasons for opposite relationships. An entrepreneurial or owner-manager might identify more closely with his workers than his professional counterpart. He might be more sensitive - and responsive - to their personal needs. A record of relatively little overt labor-management conflict could be the result of subsistence wages, abundant labor, and management intimidation. (Fear of job loss was communicated in several interviews.) High profit level, if associated with a high level of reinvestment, could flow from deliberate policy to restrain IC ownership (admittedly the case in Firms L-2 and L-9). Active company support for training could be a device to make workers further dependent upon management. (In one firm, L-15, admission to training was being denied more militant unionists.)

It seemed to be true that where either IC and/or Union leadership were underemployed as measured against education (e.g., those with university-level education employed in a blue collar job, represented by a rating of 3 in Column 2 of Figure 7), the industrial relations situation in the firm was inclined to be bad. And the reverse seemed to hold as well. That is, the situation tended to be good in those firms in which educational preparation and job matched up for IC and/or Union representative (either a 1 or 4 rating on Figure 7). Curiously, the 20 IC officers (of 25) had had some college-level education, 12 of whom were known to be occupying relatively high level white collar jobs. Five of the Union officers (of 14) had had some higher education; three of these were known to be holding blue collar jobs. Where a status differential was recorded, 12 cases, that of the IC representative was higher in all but 4 cases in
### SUMMARY OF INDUSTRIAL RELATIONS STATUS

<table>
<thead>
<tr>
<th>Firm</th>
<th>Company</th>
<th>Status of IC Rep.</th>
<th>IC Rep a Union Member?</th>
<th>IC Rep's Attitude to Union</th>
<th>Status of Union Rep</th>
<th>Is Union Rep Favorable to IC?</th>
<th>Status Differential</th>
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</table>

(A) **Company Rating**  
- Evidence of bitterness and/or hostility  
  0 Mutual criticism, but mild  
  + Active effort to cooperate, no serious criticism

(B) **Status Measures**  
1 Primary or secondary education, blue collar  
2 Primary or secondary education, white collar  
3 Higher education, blue collar  
4 Higher education, white collar  
4- Higher education, position unknown

(C) **Union Membership**  
Yes+ Former Union officer  
Yes- Indicates criticism of Union

(D) **Attitude Toward Union**  
1 Union of little value  
2 Union valuable, but will disappear  
3 Union valuable, will not disappear

(E) **Union Rep Favorable to IC**  
Yes+ Former leadership position in IC

ND = No Data
which equal status was recorded. It was obvious that IC and Union officials were being selected from different populations. Did such selections represent a high level of trust in the firm or an effort by management to control the situation? The picture was not clear. And would this different narrow over time?

We found that typical management complaints could be catalogued thus:

**Figure 8**
CATALOGUE OF MANAGEMENT COMPLAINTS

<table>
<thead>
<tr>
<th>Union mentality of IC Reps</th>
<th>L-1, L-5, L-11, L-12, L-13, L-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>participate effectively</td>
<td></td>
</tr>
<tr>
<td>Work of Board Adversely</td>
<td>L-5, A-4, A-5</td>
</tr>
<tr>
<td>affected by IC member(s)</td>
<td></td>
</tr>
<tr>
<td>IC a good idea, but an</td>
<td>A-1, A-2</td>
</tr>
<tr>
<td>impossible one (unrealistic)</td>
<td></td>
</tr>
</tbody>
</table>

These were set off against the following catalogue of complaints on the employee side:

**Figure 9**
CATALOGUE OF EMPLOYEE COMPLAINTS

| Inadequate labor-management communication | L-1, L-14 |
| Company refusal to provide information   | L-2, L-12 |
| Discrimination against IC and/or Union reps | A-8, L-15 |
| No recognition of the IC                  | L-3      |
| Suspcion of manipulation of the books     | L-12     |
| Generally negative attitude by management | A-1, A-3, A-8 |
| Lack of profit                            | A-11     |
| Lack of a promotion system                | L-14     |
| Nothing had improved (despite expectations) | L-1   |
| Inadequacies of the IC                    | A-1, A-3, L-10 |
| Workers inadequately prepared to be owners | A-2, A-10 |
| Union influence in the IC                  | A-3      |
Several points should be made about the above tabulation.

(1) Employee complaints were far more specific than those of management, and more varied.

(2) There was some self-criticism on the employee side, never on the management side.

(3) No problems were cited by employee representatives in 11 companies. These were:

In L-4, a college-trained accountant (IC)
In L-5, a high school-trained assistant systems analyst (IC)
In L-6, a college graduate, job unknown (Union)
In L-7, a college-trained director of marketing (IC)
In L-8, a college-trained chief plant engineer (IC)
In L-11, a third year commercial high school graduate, assistant to a section manager (IC)
In A-5, a high school graduate (IC), second year middle school graduate (Union), jobs unknown
In A-6, one-year medical school graduate, an assembly worker
In A-9, a U.S. university graduate director of marketing
In A-11, a high school graduate (IC), a high school graduate (Union)

It should be noted that in only two of these companies (A-11 and A-5) were Union representatives interviewed. Also, in all cases but one (A-6), either the interviewee was really a member of management and possessed a superior education or had advanced into middle management on the basis of lesser education. (We do not have adequate data for A-5 and A-9.) For many registering no complaints, the system was undoubtedly perceived as congenial to the interviewee's personal interests. In three of these firms (L-4, L-8 and L-9), management spoke favorably of the IC and its experience with it. In the others (L-5, L-6, L-7, L-11, A-5, A-9, A-11) management seemed more or less neutral, mildly critical of the IC, possibly apprehensive (A-9), but never hostile. The one case, which does not fit is A-6 (an IC President), for which no explanation suggests itself. One would have expected expression of dissatisfaction.
picked up none. The interviewee was obviously overeducated for his job, yet expressed no hostility to the system. There may have been a personal explanation which we failed to hear.

Several other important findings fell out of our study.

First, it was found that there was considerable misunderstanding about the intent of the Peruvian law, which called for employee participation in ownership and direction, but not management. Yet, virtually everyone seemed to be translating the word co-gestion as self-management, thereby creating perhaps unwarranted fears among managers. Establishing a set of legally-required criteria for inexperienced managers might be helpful.

Second, the management of only 7 of the 26 firms in which interviews were conducted seemed to be actively hostile to their IC's (see Figure 7). In five others, managements were cooperating. In the balance, 15, both sides were inclined to be mildly critical of each other, but without the overtone of bitterness obviously present in the 7.

Third, despite many misgivings about the impact of shared ownership in the growth of the firm, only two of the 26 firms studied had not expanded significantly since 1970, both of the exceptions being wholly Peruvian-owned. No cases of disinvestment were noted. (In the larger mailed survey of U.S. firms believed to have had investment in manufacturing enterprises in Peru in 1970, five of 36 respondents reported disinvestment since 1970; two, new investment.)
Fourth, whether strikes and absenteeism had increased in the aggregate since 1970 was unclear. Only three managements reported positively and were willing to specify a causal relationship. In contrast, two others reported better labor-management relations because of the IC. Many employee interviewees noted an improvement since the advent of the IC.

Fifth, the level of IC ownership achieved by mid-1974 within the 26 firms varied substantially, from 0% for a newly-organized enterprise to 22% for a U.S.-owned company. Most had gained little since the initial transfer of ownership in 1970 of 15%. This transfer had been effected in order to satisfy the Peruvian law implementing Decision 24 of the Andean Common Market which required a spin-off of foreign ownership under certain conditions. The amount of ownership acquired by the IC seemed to relate not at all to the level of harmony within the firm.

Sixth, there was no apparent relationship between the MNC's and performance under the Peruvian Law. Of the nine known MNC subsidiaries, three were rated plus, three negative, three zero. (See Figures 4 and 6) Of the plus-rated MNC subsidiaries, two were U.S., one Japanese; of the negative, one was U.S., two Japanese. Two Peruvian-owned firms rated a plus; two, minus. Obviously, no significance can be given these numbers. The only conclusion possible is that the results were mixed.

Seventh, the overwhelming majority of the interviewees did not foresee a disappearance of the unions, although a significant minority felt that they would be weakened seriously as the IC approached 50%
ownership of the firm. Curiously, some of the very managements which accused the IC's of being dominated by "union mentality" (i.e., that which demanded short-term gain without regard for the longer-term impact on the firm) were deliberately pursuing tactics to minimize IC ownership in the firm. By thus making the IC appear less important in the eyes of employees, it would seem likely that the continuing importance of the union would be enhanced. Those who anticipated no weakening of the union supported their view by pointing out that the function of the union was different from that of the IC. The purpose of the union was to protect and improve working conditions; that of the IC to participate in policy-making at the Board level and to act as a fiscal agent for all employees.

Eighth, in all firms but one, the employee representatives exhibited no real hostility to private foreign investment in Peru. In two others, some mild criticism was offered. Managers in six firms, on the other hand, felt that their workers opposed the relationship of the firm with foreign capital, but curiously they were associated with none of the three in which some worker opposition was expressed. Managers seemed to be assuming a degree of labor hostility to foreign involvement for which we found little evidence, a fact possibly of some importance to potential foreign investors.

Ninth, in only one firm did management feel that IC participation on the Board had been really useful. In six others, no effect was reported. In the balance (18), managers felt that efficiency had been reduced by reason of IC participation. Managers in two firms claimed that the IC had contributed to higher profitability. Managers in 10 others reported
higher profits since 1970 but for other reasons. Six reported no change, but only three a decline - in part, it was alleged, due to the increasing union mentality of the IC. And only two of the 26 firms had not made substantial reinvestments since 1970. One of the two had been seriously inhibited by price control in its sector. The second, U.S.-controlled, seemed to have gone into suspended animation since 1970.

One thing was certain; virtually everyone was taking the IC concept seriously - government, management, labor. Only one management was holding out for a hoped-for change. And a majority of the interviewees were convinced that the Government was acting to improve labor's position vis-a-vis owners and managers. There was considerable ambiguity in the responses as to the extent this objective had in fact been achieved.


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Hugo Serrano, "La Comunidad Laboral, Anomía y Conflict." (lecture delivered at Escuela de Administracion de Negocios para Graduados, Lima, 1972-73)

-- "El Paternalismo de Empresarios y Obreros Frente a la Comunidad Industrial" (Ibid).


Institutional Publications


-- "Exposicion de la Camera de Comercio e Industria de Arequipa Sobre le Ley General de Industrias" (Arequipa, mimeo, August, 1970).

Government of Peru, "Filosofia del Gobierno Revolucionario" (undated, probably 1973 or 1974).


-- Par y Para la Comunidad (Direccion General des Comunidades Laborales, September 1973, No. 1).

-- --, "Plan de Capacitacion Permanente" (mimeo, 1974).


Appendix F

PROBLEMS RAISED IN ORAL CONSULTATION AFFECTING INDUSTRIAL COMMUNITIES

1972 - 1973

<table>
<thead>
<tr>
<th>Nature of Problem</th>
<th>Number of Consultations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bookkeeping</td>
<td>884</td>
</tr>
<tr>
<td>2. Distribution of profits (the 10%)</td>
<td>837</td>
</tr>
<tr>
<td>3. Ownership of the Community</td>
<td>329</td>
</tr>
<tr>
<td>4. Administrative control and direction</td>
<td>1821</td>
</tr>
<tr>
<td>5. Request for technical advice - technical training</td>
<td>183</td>
</tr>
<tr>
<td>6. Various legal aspects</td>
<td>2186</td>
</tr>
<tr>
<td>7. Dismissal and termination of a Community member</td>
<td>601</td>
</tr>
<tr>
<td>8. Related to shares</td>
<td>250</td>
</tr>
<tr>
<td>9. Changes in the social order of the enterprises</td>
<td>132</td>
</tr>
<tr>
<td>10. General Fund and the payment of dividends</td>
<td>262</td>
</tr>
<tr>
<td>11. Closing of an enterprise</td>
<td>35</td>
</tr>
</tbody>
</table>

TOTAL                                                    7,520

Source: Statistical Section
Registration Division
Office of Labor Communities
Ministry of Industry and Tourism

July 1, 1974
Appendix G

OWNERSHIP PERCENTAGE HELD BY INDUSTRIAL COMMUNITIES

1970 - 1973

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Communities</th>
<th>Total Social Capital of the Enterprise (millions of Soles)</th>
<th>15% Accumulated up to 1972 (millions of Soles)</th>
<th>Percentage of IC Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food products industry</td>
<td>361</td>
<td>3,685.7</td>
<td>321.6</td>
<td>8.73%</td>
</tr>
<tr>
<td>Beverage industry</td>
<td>61</td>
<td>3,521.4</td>
<td>261.5</td>
<td>7.43%</td>
</tr>
<tr>
<td>Tobacco industry</td>
<td>3</td>
<td>231.1</td>
<td>16.3</td>
<td>7.07%</td>
</tr>
<tr>
<td>Textiles industry</td>
<td>235</td>
<td>4,160.2</td>
<td>351.9</td>
<td>8.46%</td>
</tr>
<tr>
<td>Clothing industry</td>
<td>166</td>
<td>1,035.3</td>
<td>103.2</td>
<td>9.97%</td>
</tr>
<tr>
<td>Lumber industry</td>
<td>66</td>
<td>325.5</td>
<td>13.0</td>
<td>4.01%</td>
</tr>
<tr>
<td>Furniture industry</td>
<td>64</td>
<td>131.9</td>
<td>14.2</td>
<td>10.78%</td>
</tr>
<tr>
<td>Paper and paper products</td>
<td>33</td>
<td>2,079.6</td>
<td>54.0</td>
<td>2.59%</td>
</tr>
<tr>
<td>Printing industry</td>
<td>117</td>
<td>551.6</td>
<td>29.4</td>
<td>5.33%</td>
</tr>
<tr>
<td>Leather industry</td>
<td>24</td>
<td>74.8</td>
<td>4.9</td>
<td>6.53%</td>
</tr>
<tr>
<td>Rubber industry</td>
<td>16</td>
<td>639.3</td>
<td>82.6</td>
<td>12.93%</td>
</tr>
<tr>
<td>Chemical industry</td>
<td>179</td>
<td>3,875.2</td>
<td>313.7</td>
<td>8.10%</td>
</tr>
<tr>
<td>Petro-chemical industry</td>
<td>2</td>
<td>6.0</td>
<td>0.2</td>
<td>2.44%</td>
</tr>
<tr>
<td>Non-metalic mineral products</td>
<td>100</td>
<td>2,382.7</td>
<td>134.3</td>
<td>5.64%</td>
</tr>
<tr>
<td>Sector</td>
<td>Number of Communities</td>
<td>Total Social Capital of the Enterprise (millions of Soles)</td>
<td>15% Accumulated up to 1972 (millions of Soles)</td>
<td>Percentage of IC Ownership</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------</td>
<td>----------------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Basic metal industry</td>
<td>20</td>
<td>7,146.4</td>
<td>55.2</td>
<td>0.77%</td>
</tr>
<tr>
<td>Metal products industry</td>
<td>142</td>
<td>805.0</td>
<td>94.3</td>
<td>11.71%</td>
</tr>
<tr>
<td>Machinery industry</td>
<td>80</td>
<td>1,177.6</td>
<td>73.0</td>
<td>6.20%</td>
</tr>
<tr>
<td>Electrical equipment industry</td>
<td>69</td>
<td>1,189.2</td>
<td>120.5</td>
<td>10.13%</td>
</tr>
<tr>
<td>Transportation equipment industry</td>
<td>63</td>
<td>732.5</td>
<td>40.5</td>
<td>5.53%</td>
</tr>
<tr>
<td>Various industries (not otherwise listed)</td>
<td>162</td>
<td>1,046.5</td>
<td>128.0</td>
<td>12.23%</td>
</tr>
<tr>
<td><strong>NATIONAL TOTAL:</strong></td>
<td><strong>1,963</strong></td>
<td><strong>34,797.6</strong></td>
<td><strong>2,212.5</strong></td>
<td><strong>7%</strong></td>
</tr>
</tbody>
</table>

Source: Statistical Section
Division of Registration
Office of Labor Communities
Ministry of Industry and Tourism

July 5, 1974
### Appendix H

#### NUMBER OF INDUSTRIAL COMMUNITIES BY DEPARTMENT

<table>
<thead>
<tr>
<th>Department</th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
<th>1973</th>
<th>TOTAL</th>
<th>Percentage Located in Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazonas</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>3</td>
<td>.1</td>
</tr>
<tr>
<td>Ancash</td>
<td>1</td>
<td>10</td>
<td>-</td>
<td>1</td>
<td>12</td>
<td>.4</td>
</tr>
<tr>
<td>Apurimac</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>*</td>
</tr>
<tr>
<td>Arequipa</td>
<td>6</td>
<td>108</td>
<td>6</td>
<td>2</td>
<td>122</td>
<td>3.6</td>
</tr>
<tr>
<td>Ayacucho</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cajamarca</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>8</td>
<td>.2</td>
</tr>
<tr>
<td>Cuzco</td>
<td>8</td>
<td>32</td>
<td>1</td>
<td>1</td>
<td>42</td>
<td>1.3</td>
</tr>
<tr>
<td>Callao</td>
<td>39</td>
<td>120</td>
<td>13</td>
<td>17</td>
<td>189</td>
<td>5.6</td>
</tr>
<tr>
<td>Huanuco</td>
<td>1</td>
<td>12</td>
<td>2</td>
<td>-</td>
<td>15</td>
<td>.4</td>
</tr>
<tr>
<td>Huancavelica</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td>Ica</td>
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<td>35</td>
<td>1</td>
<td>1</td>
<td>41</td>
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<tr>
<td>Junin</td>
<td>-</td>
<td>36</td>
<td>3</td>
<td>4</td>
<td>43</td>
<td>1.3</td>
</tr>
<tr>
<td>La Libertad</td>
<td>16</td>
<td>79</td>
<td>2</td>
<td>4</td>
<td>101</td>
<td>3.0</td>
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<td>Lambayeque</td>
<td>6</td>
<td>60</td>
<td>2</td>
<td>1</td>
<td>69</td>
<td>2.1</td>
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<tr>
<td>Lima</td>
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<td>1,743</td>
<td>156</td>
<td>150</td>
<td>2,551</td>
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</tr>
<tr>
<td></td>
<td>(85%)</td>
<td>(74%)</td>
<td>(76%)</td>
<td>(73%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loreto</td>
<td>1</td>
<td>29</td>
<td>9</td>
<td>14</td>
<td>53</td>
<td>1.6</td>
</tr>
<tr>
<td>Moquegua</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Madre De Dios</td>
<td>-</td>
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<td>4</td>
<td>2</td>
<td>10</td>
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</tr>
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<td>1</td>
<td>57</td>
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<td>Tacna</td>
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<td>-</td>
<td>-</td>
<td>15</td>
<td>.4</td>
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<tr>
<td>Puno</td>
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<td>1</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>.1</td>
</tr>
<tr>
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<td>11</td>
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<td>TOTAL:</td>
<td>594</td>
<td>2,348</td>
<td>204</td>
<td>206</td>
<td>3,352</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Statistical Section
Registration Division
Office of Labor Communities
Ministry of Industry and Tourism

* less than .1%
Appendix I

NUMBER OF PERSONS EMPLOYED BY INDUSTRIAL COMMUNITIES

<table>
<thead>
<tr>
<th>Department</th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
<th>1973</th>
<th>TOTAL</th>
<th>Average size by number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Amazonas</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>38</td>
<td>13</td>
</tr>
<tr>
<td>Ancash</td>
<td>52</td>
<td>2,064</td>
<td>-</td>
<td>32</td>
<td>2,148</td>
<td>179</td>
</tr>
<tr>
<td>Apurimac</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Arequipa</td>
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<td>248</td>
<td>35</td>
<td>6,549</td>
<td>54</td>
</tr>
<tr>
<td>Ayacucho</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cajamarca</td>
<td>6</td>
<td>48</td>
<td>72</td>
<td>26</td>
<td>152</td>
<td>19</td>
</tr>
<tr>
<td>Cuzco</td>
<td>239</td>
<td>1,383</td>
<td>39</td>
<td>13</td>
<td>1,674</td>
<td>40</td>
</tr>
<tr>
<td>Callao</td>
<td>6,889</td>
<td>28,981</td>
<td>279</td>
<td>776</td>
<td>36,925</td>
<td>195</td>
</tr>
<tr>
<td>Huanuco</td>
<td>6</td>
<td>494</td>
<td>65</td>
<td>-</td>
<td>565</td>
<td>38</td>
</tr>
<tr>
<td>Huancavelica</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ica</td>
<td>293</td>
<td>1,364</td>
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<td>12</td>
<td>1,706</td>
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</tr>
<tr>
<td>Junin</td>
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<td>1,039</td>
<td>34</td>
<td>58</td>
<td>1,131</td>
<td>26</td>
</tr>
<tr>
<td>La Libertad</td>
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<td>41</td>
<td>65</td>
<td>5,726</td>
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<tr>
<td>Lambayeque</td>
<td>548</td>
<td>1,394</td>
<td>44</td>
<td>13</td>
<td>1,999</td>
<td>29</td>
</tr>
<tr>
<td>Lima</td>
<td>51,063</td>
<td>66,685</td>
<td>11,837</td>
<td>1,594</td>
<td>131,179</td>
<td>51</td>
</tr>
<tr>
<td>Loreto</td>
<td>182</td>
<td>2,062</td>
<td>503</td>
<td>409</td>
<td>3,156</td>
<td>60</td>
</tr>
<tr>
<td>Moquegua</td>
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<td>-</td>
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</tr>
<tr>
<td>Madre De Dios</td>
<td>-</td>
<td>-</td>
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<td>13,336</td>
<td>3,137</td>
<td>195,532</td>
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Source: Statistical Section
Registration Division
Office of Labor Communities
Ministry of Industry and Tourism
Appendix J

NUMBER AND SIZE OF INDUSTRIAL COMMUNITIES

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<th>Year</th>
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<th>Number of Employees</th>
<th>Average Size</th>
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Source: Statistical Section
Registration Division
Office of Labor Communities
Ministry of Industry and Tourism

July 5, 1974