Economics, Cooperation, and Employee Ownership: The Emilia Romagna model – in more detail

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There are at least two European models for employee ownership that demand American attention. The one is the Mondragon cooperative group in the Basque region of Spain which has been frequently discussed in American employee ownership circles (see, for instance, "Lessons of Mondragon's Employee-Owned Network,"*Owners at Work* XII:1, 5-9 and "From Mondragon to Ohio," *Owners at Work* XIII:1, 16-17). The other is the much less well known complex of employee-owned companies in the Emilia Romagna region in Northern Italy around Bologna.

I had the good fortune to take a week's study trip to the employee-owned sector in Northern Italy this last summer with a delegation from the Boston-based Cooperative Charitable Trust to see the Emilian model first hand.

In some ways, Emilia Romagna and the Basque co-ops are very different. In the Basque region, the Mondragon employee cooperatives grew out of Catholic social teaching and Basque nationalism in the 1950s and 1960s. In Emilia Romagna, by contrast, the co-ops grew up with the 19th century labor movement but split into three different partisan political federations -- Catholic, Socialist/Communist, and Social Democratic/Republican -- in the 20th century. They have no link to ethnic or linguistic minorities.

In other ways, they are very similar. Both appear to owe their success today to a combination of small scale, flexible employee-owned firms which achieve economies of scale to compete globally through collaborative research and development strategies, cooperative export efforts, their own financial institutions, and other forms of collaboration and cooperation that are largely or completely missing in the employee-owned sector in the US.

There's a great deal we can learn in Ohio from what this one small region in Northern Italy has achieved over the last fifty years.

At the core of the Emilian Romagna success story is the regional government's focus on support small businesses – employee-owned and co-op owned alike.

Promotion of small business

Emilia Romagna with its seven provinces (of 103 in Italy) is roughly comparable to Northeast Ohio in population: 3.9 million vs. 3.8 million. Unlike Northeast Ohio, it has its own regional government (of 20 in Italy) with significant power.

By Ohio standards, firms are very small scale. Emilia Romagna has 420,000 firms – one for every 9 men, women and children -- vs. 110,000 in Northeastern Ohio. More than half the population are co-op members. Coops -- including employee-owned businesses -- employ 10% of the workforce and generate, according to University of Bologna economist Stefano Zamagni, about 30% of the GDP in the region and up to 60% of the GDP in some cities like Imola. In Bologna itself, 15 of the 50 largest businesses are coops, and coops employ 25,000, or 10% of the labor force. Housing co-ops and consumer co-ops are so numerous that they hold down prices, and most privatized social services are provided by employee co-ops (including 60% of home health care services). Flavio del Bono, the regional finance minister, tells foreign visitors point blank that "the massive presence of cooperative firms is a stabilizing factor in the regional economy."

Emilia Romagna and Northeastern Ohio

	Emilia Romagna	Northeast Ohio
Population	3.9 million	3.8 million
Number of firms	420,000	110,000
Agriculture as percent of GDP	5%	
Manufacturing and construction in GDP	30%	
Services as percent of GDP	65%	
Unemployment in region	3.1%	5.9%
Population of major city	380,000 (Bologna)	459,000 (Cleveland)
Unemployment in major city	2.7% (Bologna)	7.7% (Cleveland)
Percent of total population in co-ops	57%	Unavailable
Percent of GDP generated by co-ops and employee-owned firms	30%	Unavailable

"Emilia Romagna has 7% of the population of Italy," says del Bono. "But we account for 9% of the Italian GDP, 12% of Italy's exports, and 30% of Italy's patents." Unemployment is an enviable 3%.

It wasn't always this way. Emilia Romagna moved from among the poorest of Italy's industrial regions in 1950 to the richest in 2005. Today it's among the 10 richest of the European Union's 122 regions.

Emilia Romagna came out of World War II as perhaps the most devastated region in Italy. Its strong co-operative and labor movements had been decimated by 25 years of Mussolini's fascism that suppressed all independent organizations and jailed many co-op and labor leaders. After the Anglo-American landings in Southern Italy, Emilia Romagna ended up just behind the Nazis' "Gothic line" from 1943 to 1945. It became the focus for Allied bombing, guerrilla warfare by the Resistance, and Nazi reprisals against the civilian population. It emerged from the war impoverished with heavy unemployment.

After the war it became part of Italy's so-called "Red Belt," the part of Italy that was in the front line of the Cold War because the Communists and Socialists won the elections there. The CIA poured money into the region to split the labor and co-operative movements. But lacking the large-scale industrial base of a Milan or a Turin, a funny thing happened: The left-wing government in Emilia Romagna embarked on a strategy of promoting small business for economic development. It encouraged employee ownership, consumer cooperatives, and agricultural cooperatives, and it encouraged the development of cooperative institutions for all small businesses – co-ops and family-owned firms alike. It was, as Alberto Alberani of the left-wing Legacoop federation characterized it, a policy of "tortellini

Communism."

It also paid off politically for the left. Ironically from an American perspective, the CNA, the umbrella interest organization for family businesses, is Communist led. While all its member businesses are privately owned, the CNA provides a range of joint services for them that parallels the services provided for the cooperatives by their central organizations.

The regional government's economic development agency ERVET.created publicly funded small business "industrial sector service centers" that have supported small business clustering in the region. They provide shared services in research and development, purchasing, education and training, workplace safety, technology transfer, marketing and distribution, exporting and more for scores or hundreds of small businesses in industrial sectors like ceramics, textiles, footwear, construction, and agricultural machinery.

These service centers combine the economies of scale with the advantages and flexibility of small business. They have supported the so-called "flexible manufacturing" of the region in which small businesses in the same industry collaborate in joint bids for major contracts. The region is home to some very high value-added producers, including companies widely known in the United States like Ferrari, Lamborghini, Maserati, and Ducati, which use networks of small businesses to supply their inputs.

The result is thousands of small and medium-sized enterprises, perhaps the densest concentrations of small businesses in the industrial world.

That support for local ownership forms the context for Emilia Romagna's cooperatives.

Employee ownership and the law

Employee-owned companies in Italy fall under the general cooperative law that covers agricultural cooperatives, fishing co-ops, housing co-ops, consumer co-ops, and credit unions as well as employee-owned businesses.

The Italian cooperative movement had its origin in 1850s and flourished in Northern Italy before Mussolini came to power. Unlike most of the rest of Europe where consumer co-ops predominated, in Italy employee-owned co-ops played a major role. In1921, there were 3600 consumer co-ops and 2700 production co-ops in Emilia Romagna. But the co-ops fell on hard times about Mussolini's fascists marched on Rome in 1922, and, beginning in 1926, Mussolini's government systematically crushed them as independent organizations .

With the restoration of democracy in Italy after World War II, parliament gave formal recognition to the role of cooperatives. Article 45 of the Italian Constitution (1947) states: "The Republic recognizes the social function of cooperation characterized by mutual aid and not private profit. The law promotes and favors the growth of these structures using the most appropriate means and guarantees that their character and purpose will be inspected accordingly."

The Basevi Law of 1947 -- Italy's basic co-op law -- fleshed out this constitutional recognition. It provided co-ops with special tax treatment to encourage their self-capitalization by creating the concept of "indivisible reserves" for the benefit of all (i.e., future generations of employees and the community). Earnings could be contributed to indivisible reserves tax free (saving 40% in taxes), but if the co-op dissolved or sold, its reserves by law went to another cooperative or to a cooperative federation, rather than being distributed among the members. Members received their returns in annual interest payments on their membership fees and in patronage dividends.

Curiously, the law extended the same advantages to co-ops in which all employees were members and those in which only a minority of employees were members provided members owned 100% of the business. As a consequence, some employee co-ops have a very low level of inclusion of employees as members

Cooperatives provided for members' control through an annual meeting that reviews financial results, approves the budget, and makes decisions on distributions; and through an election of the board every third year.

There have been three major changes in co-op laws since 1947.

In 1991, "social cooperatives" were formally recognized with special goals and special tax advantages. Those are discussed below.

In 1992, co-op law was changed to require all cooperatives to contribute 3% of their profits to co-op development funds run by the various federations of cooperatives.[1] These funds are earmarked for starting new cooperatives or growing existing cooperatives. The law generalized the previous practice of the largest co-op federation, the left-leaning Legacoop.

Contrast this to the status of Sub-S corporation ESOPs in the United States. They are tax free, but all the

benefits go to the current generation of employees, rather than benefitting employees in the future. If the employees sell or dissolve the ESOP, they can take the profits and run. Often they do. There isn't even any contribution to helping to establish new employee-owned firms, like the 3% cooperative development fund fee in Italy.

In 2001, the right-wing Berlusconi government in Rome staged a frontal legislative assault on the co-ops which all the co-op federations fought. The result was a compromise: tax advantages for co-ops were reduced and scaled to the proportion of employees or consumers who belonged as members. Contributions to indivisible reserves are now 70% tax exempt for co-ops that do at least 50% of their business with members; those that do less are now only 30% tax exempt. Not surprisingly, this has encouraged employee co-ops to enroll at least 50% of their employees as members.

Recognizing the handwriting on the wall, the National Alliance party, which supported Berlusconi's attack on the co-ops, set up its own, right-wing cooperative federation.

In short, employee-owned firms are governed by the same law as consumer and agricultural co-ops. They are membership associations in which members own 100% of the business. But members do not necessarily all have to belong to the same category. Some co-ops in the service sector mix employee and consumer ownership. Further, there is some overlap, especially among social co-ops, with what would be non-profit organizations in the US, and these include supporting as well as employee members.

In the last fifteen years, co-ops of all sorts have doubled their importance in the Italian economy. Today 121 of the 1400 largest Italian firms are cooperatives or 9%, up from 4%, and employment have doubled from ½ million to 1 million. Employee-owned co-ops play a major role, especially in Emilia Romagna.

Because of the organization of the co-ops in three federations that combine all sorts of co-ops, it's a bit difficult to separate the employee-owned sector from the rest of the co-op sector. In the Catholic Confcooperativa federation in Emlia Romagna, 750 employee-owned firms account for 40% of the firms, just under 20% of membership, 60% of co-op employment and 12% of turnover.

There are two basic kinds of employee-owned cooperatives: the traditional employee co-ops in crafts, manufacturing, construction and services that operate much like American employee-owned firms, and the new social service co-ops. Between the two groups there are perhaps 2,700 employee-owned businesses in the region, employing about 6% of the labor force. Most of them are social co-ops, but most of the employment is in the more traditional sector.

Employee cooperatives

The traditional employee-owned cooperative in Emilia Romagna is the artisan-style production cooperative that has consolidated and grown. Some were established to deal with shutdowns; others, with lockouts; others, from artisans pooling their assets; and others, by benevolent management. The oldest we visited was set up in 1874; the newest was from the 1980s.

These employee co-ops have succeeded first in the local or regional market, then the national, and now the global market largely because of their focus on competitiveness and innovation. As in American employee-owned firms, competitiveness frequently stems from a niche – varying from short run, quick set up at ***Zappettificio Muzzi***, an agricultural implement part producer, to design and quality excellence at ***Cooperativa Ceramiche d'Imola***, Italy's 5th largest ceramics company, to technological leadership at ***Societa Cooperative Bilanciai***, one of Europe's leading scale producers which plows a remarkable 7% of revenues back into R& D in an otherwise mature industry. Occasionally, the competitive strategy is one of size and economies of scale, as it is for some of the Italian consumer co-ops like ***Coopitalia,*** Italy's largest retailer; this is the strategy of employee-owned ***CIR Foods,*** the country's third largest food service provider.

Employee ownership is itself seen as a competitive advantage. "The gift of the cooperative is to create a sense of collective entrepreneurship. Membership requires thinking about the business. Workers are more committed than in private firms," says Stefano Bolognesi, president of Cooperativa Ceramiche d'Imola,. "If that weren't true, I wouldn't have accepted the presidency."

The employee co-ops are 100% membership owned and operate with a membership-elected board that serves a three year term. The law requires a membership meeting reviews the annual financial report and next year's budget, but the co-ops we visited had quarterly or monthly membership meetings, and one provided small group meetings to review the financial report and budget before the membership meeting.

On the other hand, co-ops vary tremendously requirements for membership. The four we visited varied from six months' service and a $3000 membership fee paid over three years to a five year minimum service requirement and a $112,000 membership fee. Not surprisingly, the proportion of employees who are members varies as well – from 172

members of 1350 employees at Cooperativa Ceramiche d'Imola to 230 of 265 at Bilanciai.

While Italian co-op experts describe employee co-ops as being "by definition undercapitalized," in fact the legally required "indivisible reserves" build over time into substantial permanent equity that dwarfs membership fees. Bilanciai, which became a co-op in 1963, for instance, has membership fee accounts of $1 million and indivisible reserves of $12 million. The indivisible reserves were universally seen as an advantage, guaranteeing employment for multiple generations, rather than "collective property" to be "privatized" by the current group of members.

Here's how Bolognesi from Cooperativa Ceramiche d'Imola, and a third generation co-op member, summed it up: "Part of our mission is intergenerational mutuality. What we see here is the fruit of generations of work. We receive wealth from past generations, and we create it for future generations of members. Our objective isn't just to generate jobs for this generation but also for future generations."

Some of the older and better financially consolidated co-ops have expanded internationally through setting up holding companies in which the co-op owns a majority share with financial partners owning minority positions. The holding companies then owns the foreign subsidiaries and, sometimes, Italian non-cooperative subsidiaries as well. Bilanciai has become a major European player in this way, winning 34% of the European Union's truck scale market. Occasionally the employee co-op controls a public company; for example, the 8,000-employee ***Manutencoop,*** a facilities management and janitorial group, has spun off its three core areas of business into three companies, listed them on the stock exchange while retaining a controlling 70% stake in each, and used funds raised on the stock exchange to finance these businesses.

Curiously, there seems little pressure from the co-op membership to convert subsidiaries outside Italy into co-ops.

Employee co-op wages generally match the industry standard, because the co-ops are covered by the general industry-wide wage agreements that cover the private sector. Members receive both interest on their membership fee (typically about 9%) and "patronage dividends" annually. "Patronage dividends" are based on member labor input into the business, are frequently equal for all members, and varied from the equivalent of 1 to 4 months' salary in the co-ops we visited.

Managers, however, make less than the market - typically 75-80% of what they would make in comparable private sector jobs. There was a period in the 1980s when co-ops were modernizing that they turned generally to the market for management, but that led to major value conflicts between managers and members. Consequently today, 80-90% are said to be recruited from within. "You earn less money," says Bilanciai's elected president Luciano Diacci, who came from the company's engineering staff, "but have more satisfaction, more job security, and a real sense of belonging."

Here are thumbnail sketches of several of the Emilian co-ops we visited.

Cooperativa Ceramiche d'Imola was founded as an artisan potters' co-op in 1874 to produce tableware. Today it is the 5th largest ceramics company in Italy and one of the world's leading producers of ceramic tile -- 22 million square meters, or enough to tile 7,500 football fields annually – with sales of about $420 million (including 15% exported to the US). It also continues to produce tableware and, ironically for a Communist-affiliated co-op, makes church-quality Virgin and child plaques in the Della Robia tradition. The Madonnas are primarily for the Italian market.

Most employees aren't co-op members in this firm. Of 1350 employees (40% women), only 172 are members of co-op -- mainly in the production departments -- and only 10% of these are women. To be eligible for membership requires a minimum of five years of employment, a positive job review, and values compatible with those of the co-op. It also requires a willingness to pay a high membership fee: $112,000, payable over time, and the membership fee is revalued annually to adjust for inflation. Interest on the membership fee is currently 9%, and patronage dividends for members run about 30% of annual salaries. The membership fee is returned at retirement.

Only four new members joined in 2004.

The small number of members doesn't seem to concern employees. Despite the barriers to membership, it is a long term goal for many. As one employee who had ten years service but wasn't yet a member put it,

"membership is real recognition of skill and achievement." Members concur. As one member put it, "I have a greater sense of responsibility than if I invested only $2,500."

The company is governed by its members who elect the board of directors. There are monthly membership meetings.

For co-op president Stefano Bolognesi, a 3rd generation co-op member, being a co-op is its competitive advantage. "The gift of the cooperative is to create a sense of collective entrepreneurship. Membership requires thinking about the business. Workers are more committed than in private firms. If that weren't true, I wouldn't have accepted the presidency."

Artist at work at Cooperativa Ceramiche, Imola

Societa Cooperative Bilanciai was set up in 1949 by about 40 artisan scale makers who had been locked out by a private company. It started by building scales to weigh pigs and Parmesan cheese. Initial wages were paid in part in cheese. Bilanciai formally became a co-op in 1963.

It has become a major innovator technologically, introducing the first electronic scales in Italy and the first European calibration lab. The plant is similarly modern with robots doing the welding for truck and platform scales. The company spends 7% of revenue on R&D, a remarkably high number in a mature industry.

It is the leading Italian company in industrial scales with sales of $60 million for the co-op and $120 million for the Bilanciai group. The group, set up in 1999, is 60% owned by the co-op and 40% owned by 5 banks.

The Bilanciai group throughout Europe builds everything from truck scales (34% of the European market), crane scales, and platform scales for industrial uses to weighing and labeling lines to analytical balances for labs – and it produces special scale lines for Ferrari's formula 1 program. It includes a joint venture with Brechbuhler in Canton.

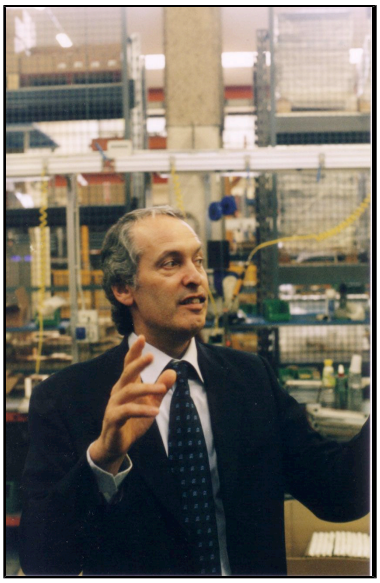
Co-op member's painting of Cooperativa Bilanciai summer employee party

The co-op itself has 265 employees in Modena of whom 230 are members. Additionally it has 131 other "supporting" shareholders including former employees, retirees, and the 5 banks that are its partners in the Bilanciai group.

Its governance structure reflects this mixed ownership. The thirteen directors include one elected by supporting members and twelve elected by working members on a departmental basis. Seats are contested with two or more candidates per seat, and the Lega provides courses for board members. One of its three auditors is elected by

its bank partners, two, by the members. The board meets monthly generally for a full 1 day.

There are 4-6 membership meetings a year. The annual budget meeting is preceded with budget discussion in groups of 30-40 members before budget meeting.



Membership requires a 6 month probationary period and a membership fee of $3000 paid over three years. Membership fees provide $1.2 million of the company's $16 million in equity; the rest comes from partner bank investments of $3 million and indivisible reserves of $12 million.

Wages are said to be higher than market at bottom and lower at top, though in good years, the patronage bonus has been about the equivalent of one month's wages for the lowest paid. Managers – 80-90% are recruited from within – are paid 75-80% of what they would make in comparable private sector jobs. "You earn less money," says President Luciano Diacci, "but more satisfaction, more job security, and sense of belonging."

Despite its strong commitment to the employee co-op model in its home plant, Balanciai has not extended employee membership beyond Italy.

Zappettificio Muzzi is at the other end of the technological spectrum. This small forge shop in Imola, which produces parts for agricultural implement makers, remains almost as labor intensive as forges used to be, but it appears to be competitive on small runs with quick set ups. It does about $7.5 million in sales and exports about 55% - to the European Union as well as India and Africa.

Luciano Diacci, Managing Director, Cooperativa Bilanciai, Modena

It was shut by its conventional owner in 1981 but bought and reopened by 25 employees who used their severance – Italy, like most European countries, has a general system of severance pay – for the purchase.

Today its membership fee is about $17,000 with individual payment schedules. Of 42 employees, 16 are members. Thirty percent of employees are immigrants, but no immigrants are members, and there is a high turnover among immigrant employees.

Why be in the co-op? "It's important to be my own boss," replied one member. "It's in the Imolese DNA."

Running a forge press at Zappettificio Muzzi, the worker cooperative agricultural implement company

CIR Food is Italy's third largest food chain. It runs cafeterias for schools, companies, hospitals, and the army, and operates 230 restaurants.

It has a mixed cooperative ownership structure of 5000 member, including consumers, employees, and supporting members. Thanks to the 2001 law providing a sliding scale for tax benefits for indivisible reserves, CIR is in the process of converting to an employee cooperative to meet need for 50% inclusion of members; feeding tens of thousands daily, it could never meet the 50% requirement as a consumer cooperative. It's not far from qualifying as an employee co-op. Of 6000 employees, 2700 are worker members.

Social cooperatives

The rapid growth in employee ownership in Italy in the last twenty years has been in the social cooperative sector, which provide a variety of social services.

Like most of the rest of the West, Italy has undergone an extensive debate about the role of government in providing public services. While the rapid Italian recovery and economic growth after World War II was driven by a very large state sector, in recent years Italy has moved farther than most other Western countries in seeking to privatize public services.

Unlike most of the rest of the West, however, Italy has done it with cooperatives. In Bologna, depending on whom you talk to, 60 - 85% of privatized social services are provided by social co-ops. Throughout Italy social co-ops employ 60,000 and account for 13% of social service expenditures. Their goal: to promote the public interest outside state sector.

There are two basic types of social co-ops. Type A is owned by the employees and provides social services to the usual social clients. Type B is owned by the members and also provides gainful employment for the marginalized, who must comprise at least 30% of members. Type B co-ops are similar to American non-profits which provide sheltered employment for the hard-to-employ – handicapped, former substance abusers, etc. The difference is, in the Italian case, that the hard-to-employ have an ownership share in the business. They have additional tax advantages as well.

Social co-ops have low membership fees, typically $1000 or so, and short probationary periods. Wages meet private sector standards because of the industry-wide bargaining agreements, but are typically below wages paid previously to public sector employees to perform the same work – even after patronage dividends are added in.

They are often more political than the traditional employee co-ops. The strongest ideological motivation we heard was at ***CADIAI***, a Type A, 800 employee (including 420 members) diversified social care provider of home care, child care, residential care, and nursing home care services to 4,000. CADIAI's goals are to "improve and ensure the quality of personal care, and affirm the professional content and social value of care workers." Its founders specifically sought to legalize their grey-market jobs, supported women's rights including that to divorce (then contested in Italy), were strongly anti-clerical, and overtly "red" in their politics.

Similarly a Type A research cooperative, ***Centro di Ricerca sul Cancro*** (Center for Research on Cancer), which is incongruously located in a 16th century castle, did pathbreaking work on the industrial carcinogin benzine forty years ago. Now its researchers -- 35 employee members -- are analyzing the impact of electro magnetic fields and cell phones on health.

"You can wish to have a better world, but it's hard to build one," says CRC scientific director Dr. Morando Soffritti. "Our cooperative form gives us real freedom as a research institute: It allows us to be genuinely independent, to research freely and to speak freely."

The Type B co-op we visited was ***Giovani Rilegatori,*** a co-op print shop set up in the early 1980s to do printing for other co-ops, which transformed itself in the 1990s into a Type B social coop. In addition to its professional printing of co-op annual reports, it provides work for the handicapped by taking in low skill, labor-intensive print work and by adding light assembly work. While we visited, several severely handicapped workers were putting together seat adjustment levers for Alfa Romeo. This co-op has 17 working members, 45% in the disadvantaged category. It recently moved to a modern industrial park, its building purchased with a 50 year, 2% interest loan from the Imola's local development fund.
It's hard to beat – if you believe in an ownership society for those who otherwise are left out of ownership like unskilled women in home health care and the disabled.

Assembly work at Cooperativa Giovani Rilegatori, social cooperative

CADIAI (Cooperativa Assistenza Domiciliare Infermi Anziani Infanzia) is a social coop set up in 1974 by a handful of women who provided home care for the elderly and sick. Its goals: "improve and ensure the quality of personal care, affirm the professional content and social value of care workers." Its founders specifically sought to legalize their grey-market jobs, supported women's rights including that to divorce (then contested in Italy), and were strongly anti-clerical. The most overtly political of the co-ops we visited, CADIAI was supported by the Communist Party when it was founded as what we would now call a "high road employer."

Incorporated as a Type A co-op, today it employs 800 (including 420 members), is a diversified social care provider of home care, child care, residential care, and nursing home care services to 4,000 (+ health safety and training services to another 19,000) and has revenues of about $25 million.

Membership requires a $1250 membership fee - $60 down and 3% of pay until it is paid in full. Thirty percent of profits are paid to members in patronage dividends; this averages about the equivalent of a month's pay per member annually.

A third, and entirely different, social co-op is the ***Centro di Ricerca sul Cancro*** (Center for Research on Cancer), which is incongruously located in a 16th century castle which had been abandoned for decades before the researchers took it over in 1970. When you walk under the portcullis, through the thick brick walls and battlements, you expect to see armored knights and brown rats burrowing in the straw. Instead you see lab-coated technicians tending white rats and clean rooms with tissue samples. Forty years ago the CRC did pathbreaking work on the industrial carcinogin benzine. Now its researchers are analyzing the impact of electro magnetic fields and cell phones on health.

"You can **wish** to have a better world, but it's hard to build one," says scientific director Dr. Morando Soffritti. "Our cooperative form gives us real freedom as a research institute: It allows us to be **genuinely** independent, to research freely and to speak freely."

Begun as an independent research institute, CRC converted to the social co-op structure in 1992, shortly after the social co-op legislation went into effect. "The co-op structure gives us some additional support, because it connects us with the community," says Soffritti. That comes from the co-op's 16,000 associate members who pay $35 in dues because they support the CRC's research and its provision of free cancer screening exams to seniors.

The co-op, which has 35 employee members, focuses on environmental and occupational health and medicine. It has done research for a number of American funders including the National Institute of Health (NIH), OSHA. It currently has a contract with the US National Toxicology Project.

What does the social co-op form mean for the employee members? "My pay and benefits are lower than I used to get in the commercial sector," says research technician Davide Esposti at CRC, "but working on improving health is a lot more satisfying than developing another shampoo." Esposti found the democratic structure of the co-op particularly rewarding: "Here we all help to shape the research design together."

Economies of scale

Unlike the United States where the traditional cooperatives – agricultural cooperatives like Land of Lakes, mutual insurance companies like Nationwide, rural electric cooperatives, and credit unions – are completely separate from the employee-owned sector, in Italy the agricultural, financial, and consumer co-ops and the employee-owned companies are organized in the same associations at the national, regional, and local levels. While co-op federations are separated by party politics, their unity across sectoral lines is immensely useful for strengthening second-tier cooperative structures and building the whole cooperative sector.

The strength of the Italian co-ops stems largely from their creation of secondary co-ops, or "cooperation among co-ops." Like the Mondragon co-ops in Spain, they have set up financial institutions; insurance companies; and joint training, research, and development centers.

Co-op federation services. The three main cooperative federations provide many services to their members. The Legacoop, for example, provides tax preparation, accounting, payroll and legal services; training and development; occupational health and safety consulting; collective bargaining; waste disposal; and lending and equity investment from its development fund. It also charges a hefty 4/10 of 1% of sales for membership.

Because the Federations have regional and provincial associations, these services are provided locally but with real economies of scale.

Financial services. We visited Unipol, the insurance company, which was set it up in 1963 by a group of Bologna co-ops to insure their members. Today it is Italy's 3rd largest insurance company and employs 5400. It had a

growth crisis in the 1970s, but was rescued by the German Metalworkers' insurance company injecting an equity stake. Today its ownership has broadened to include cooperatives, labor unions, and the left-leaning farmers and family business organizations. Together they own 51% while 49% is publicly traded. Of the 51% held by organizations, 30 Lega co-ops hold more than half.

Unipol was a pioneer of social accounting in Italy, which it has been doing for a decade. Its "social balance sheet" is as glossy as a Fortune 500 annual corporate report. But the content is very different. Still, "we are a business, not a charitable organization," says Franco Malagrino, Unipol's social accountability director. The company is more profitable than the average for private insurers in Italy.

As a consequence of its business success, Unipol has become a major source of investment in the cooperative sector through the placement of its reserves, which are largely placed in there. It has recently expanded its financial services: The Unipol bank grew from 9 branches in 1998 to 273 branches today, and Unipol set up a merchant bank in 2003.

Collaboration on specific projects. Employee cooperatives collaborate extensively on specific business projects. Thus, for example, CADIAI is partnering with CIR, the food service co-op, and several other co-ops to build day care centers – managed by CADIAI with food provided by CIR. And CIR is backing the opening of Colors, the co-op restaurant set up by the employee survivors of Windows on the World in the World Trade Center.

The co-ops even use the stock market -- generating a downright messy situation by purist standards. As mentioned above, the 8000-employee Manutencoop, a facilities management and janitorial cooperative, owns 70% of each of three public companies in its field. Similarly dairy co-ops own 65% of Granarolo, the 2nd largest dairy company in Italy.

Co-op development funds. Since 1992, 3% of profits of co-ops have been allocated to cooperative development fund to finance starting new cooperatives, conversion of existing businesses to co-ops, and the expansion of current cooperatives. Each of the three big co-op association has its own fund.

We visited with the management of Legacoop's fund – Coopfond. As of 2004, it had raised about $290 million and had invested about $340 million. Additionally, Coopfond has 14 regional funds. The other two national cooperative associations have smaller funds. Unaffiliated coops' contributions go into a government fund for the same purpose.

The Legacoop's Coopfond can:

- place up to $1.5 million into either equity or debt with a 5-7 year term,
- take up to 50% equity in new co-ops,
- provide 30% equity in conversions of existing businesses to cooperatives, and
- lend 50% of the costs of expansion projects for existing coops.

Additionally, the Coopfond can create loan guarantee pools to support the sorts of projects listed above and can support education on co-ops and social economy.

Between 1994 and 2001, Coopfond supported 109 co-op start ups with $48 million in equity and $17 million in loans leveraging $288 million in investment and creating 4640 new jobs. It also supported 82 expansion projects with $53 million in loans, leveraging $370 million in co-op investments and creating 2690 new jobs. That's 7300 jobs for $101 million invested or about $14,000 per job. By comparison, $280 million in Ohio public sector investment preserved 3,800 jobs at the Toledo Jeep plant, or about $74,000 per job.

Furthermore, the Coopfond tries to strengthen Southern Italy which has the same relation economically to Northern Italy as Alabama has to Ohio. Of Coopfond's current revenue, 76% comes from Northern Italy, 21% from Central Italy, and 3% from South Italy. By contrast investments and lending are 52% in Northern Italy, 21% in Central and 27% Southern Italy.

Imagine, if you will, the implications in Ohio if each employee-owned firm paid 3% of its profits into a fund to encourage the development of additional employee-owned firms in the state.

Unions, collective bargaining, and employee co-ops

We met with representatives of the three labor federations – the communist/socialist CGIL, the Catholic CSIL, and the Republican/Social Democratic UIL – in Reggio Emilia where 150,000 of the province's 450,000 inhabitants (from

elderly to babes in arms) are union members -- the highest union density in Italy – and with the dominant CGIL Bologna. Here are their views on the relations between the employee co-ops and the unions.

There isn't a special relationship today between the co-ops and the unions, despite the fact that they may share the same partisan political coloration and historically have been closely associated. Today the co-ops are simply slotted into the general structure of modern Italian collective bargaining. The three federations bargain in common nationally with the private sector, and the co-op sector mirrors the resulting national contracts. In the co-ops, unions represent co-op members as workers, not in their roles as co-op members, as well as representing employees who aren't co-op members.

Basic contracts are negotiated at the national level, covering entire labor market within that area nationally. (We were told that there are about 450 national agreements.) These national contracts set minimum standards. The national contracts are then fleshed out at the sectoral and – in larger enterprises – at the enterprise level. Thirty to thirty-five percent of firms have enterprise level agreements. Co-ops may have a slightly higher wage scale (apart from patronage dividends) in these larger firms. In the absence of enterprise level agreements, the sectoral or national agreements pertain.

In smaller firms without enterprise-level contracts, wages are higher and working conditions better in co-ops than private firms, according to the union spokesmen. Less positively, the social co-ops have lower wages and benefits than the public employees that they replaced, perhaps 20-30% lower. It was suggested that co-ops have tried to ignore national standards in favor of local standards, which represented a modest threat to the national standard-setting process.

The relations of unions with co-ops are weaker today than thirty years ago. In part, this is a consequence of the fact that many co-ops were historically set up to provide employment for blacklisted unionists – a practice that has come to an end with the end of blacklisting. Further, in the past, many co-ops were managed by former union officers; today, because of increased global competition, co-ops have by necessity turned to more professional management. The erosion in the relationship also stems, in part, from the fact that political ties are weaker today between party-political unions and party-political co-op federations: unions are more focused on representing members as employees and less on their party affiliation.

However, there are still numerous areas in which unions and co-ops can make common cause, according to the union officials we met. One is employment creation for marginalized young people. A second is challenging the shutdowns of viable firms. A third is to create labor-co-op-community coalitions to challenge finance capital.

Size and cooperatives

One of the most striking aspects of Italian cooperative movement is that it is structured to achieve economies of scale for very small producers at the same time as the Italian co-ops have become very big business indeed. The Italian retail coop, Coopitalia, for example, is the largest retailer in Italy and is the reason, according to Bologna University economist Stefano Zamagni, that Wal-Mart has steered clear of Italy.

But rather than being a gigantic national cooperative, it is, in fact, an alliance of 169 local retail cooperatives with 4 million consumer members with a highly decentralized, democratic structure. Each member retail co-op has its own structure. Bologna's Coop Adriatico, for example, has 300,000 members organized in local circles which elect their delegates to the central city retail co-op.

The agricultural processing co-ops we visited pooled the production of very small producers.

Latteria Sociale Bagnolo in Reggio Emilia, which we visited, is one of some 700 dairy coops in Emilia Romagna that produce Parmigiano-Reggiano Parmesan cheese (it also produces butter, whey, and ricotta cheese). A 103-year-old cooperative, its cheese production techniques would be recognizable by its original members: It's a labor-intensive, artisan-style process. Workers add enzymes, turn the cheese in the vats, split it, force it into forms for beginning the aging process, and place it in brine for three weeks, all under the direction of a master cheese maker who carries on a 9-century-old tradition. This co-op processes the milk daily from 19 independent members and a dairy coop of 60 farmers who together have 1300

cows – about 15 cows per farmer. It's hard to get much smaller scale than that.

Forming parmagiano reggiano at Latteria Sociale

On the other hand, when you go into the cheese aging facility – and Parmigiano-Reggiano has to be aged about 2 years – you see 19,000 thirty-eight kilo cheese wheels, worth about $12.5 million, being turned 24 hours a day by a robotic Parmesan cheese wheel flipper that moves up and down the aisles with no operator in sight.

It's a unique combination of very small family farming producing a very high value-added artisan product -- which sells for $18/pound in the export market -- with some hyper modern technology doing 95% of the heavy lifting.

Or consider Cantine Cooperative Riunite, the wine cooperative. It started in 1950 with 9 members and $4 in total share capital, and grew out of sharecropping in which farm workers got a part of the grape harvest in return for their labor. Today it has 1400 direct farmer-members who collectively own 4700 acres of Lambrusco grapes, and 30 member cooperatives which have an additional 3700 farmer-members who farm another 12,600 acres of grapes. It's an average of 3.4 acres per farmer -- hardly commercial production. But pooled in the Riunite co-op, its members own state of the art winemaking and bottling facilities and have sales of more than $75 million in 54 countries. More than half Riunite's production is exported.

Members get a premium price for their grapes and 5-10% patronage dividends annually.

What the efficiency of scale of the agricultural coops have done is to permit the continuation of small scale family farming in which you still have 10 or 20 cows, 30-40 pigs (prosciutto is another high value added co-op product), 2-3 acres of vineyards, etc. The average farm size in the region is said to be in the 25-40 acre range, far below what we would consider commercial scale.

Coops, social capital, and quality of life

Emilia Romagna frequently tops European measures of quality of life. Why?

The answer, we were told, lies in the fact that Emilia Romagna ranks high in Italy and Europe on measures of "social capital' or trust. "Social capital" is the set of attitudes around neighborliness -- around trust and collaboration -- which enable people to work together more easily. There is no question that the region's system of "flexible manufacturing" in which small firms collaborate to win big contracts is related to the high level of social trust.

"Social capital is highly associated with quality of life everywhere," says University of Bologna economics professor Stefano Zamagni, who comes out of the Catholic social tradition, which stresses community. "It seems that the co-operatives' emphasis on fairness and respect contribute to the accumulation of social capital here."

Professor Stefano Zamangni, University of Bologna

The goal of "creating businesses that last across generations" and which provide employment for the next generation as well as the current one is clearly rooted in those attitudes.

"Co-ops also reduce inequality," Zamagni continues. "We know internationally that lower inequality is correlated with higher quality of life. The quality of our social services is higher here too – though Milan is richer than we are, our social services are better – and again that is because of social capital."

(In fact the whole American discussion of social capital, popularized by Harvard's Robert Putnam and his book ***Bowling Alone***, draws on Emilia Romagna. Putnam, who is an Italian politics expert, spent so much research time in the region that Bologna claims him as a native son.)

Some years ago, David Erdal analyzed various indicators of health status, crime, sense of personal security, participation in community life and the like in Emilia Romagna, comparing communities with high employee co-op employment, medium co-op employment, and low co-op employment. He found a strong correlation between the importance of employee cooperatives as employers and positive ranking on his indicators. (See "Is Employee Ownership Better for Your Health?" *Owners at Work,* 13:2, 1-3.)

Even co-op advertising seems to support the formation of social capital. In the words of Vera Zamagni, an economic historian at the University of Bologna, the co-ops have had "a civilizing role" as Italian society has become richer. Consumer co-ops, for example, have changed emphasis from low prices to high quality to environmental concerns and fair trade. Agricultural co-ops have slashed pesticide use for their current "produced with love" slogan.

Again the contrast with the Wal-Martization of America seems striking.

The co-ops grow out of the context of social trust and have nourished it on a daily basis.

Challenges

Unquestionably Emilia Romagna faces the same challenges of globalization that the rest of us do. It has to compete against low income producers in Asia. "We have to play the quality game, innovating in products and processes," says regional finance minister, Flavio del Bono, who was elected on the "Daisy slate," a center-left Christian Democratic group, which is part of the leftist coalition government of the region.

"We can't compete in every area, and we certainly can't compete on price with the Chinese. But we can sell to the top 3% of Chinese consumers who have an income at the Italian level," says del Bono. "That's 30-40 million people. We can compete in ceramics, for example, and that's why we've opened an office in China to help our firms export." Again it's an example of the way the regional government helps small firms achieve economies of scale.

While del Bono is reasonably sanguine about the ability of local firms to compete internationally, he is concerned that "foreign firms investing in Emilia Romagna have apparently reduced innovation." This is a major concern because the region's competitiveness in a global economy depends on continued innovation reflected in its extraordinary record in patents (30% of Italy's patents for 7% of its population). Employee cooperatives provide an edge: "Co-ops are tough for foreign firms to purchase," he says, since their "indivisible reverses" automatically revert to the various co-op development funds.

Partly to stay on the cutting edge of innovation, the regional government is providing the fiber-optic backbone for the entire region.

On the other hand, Italian employee cooperatives have internationalized their production through wholly owned subsidiaries which do little or nothing to spread employee ownership internationally. This is bound eventually to become an internal crisis of values, as it has in Mondragon. An early evidence of change is CIR Foods backing the establishment of the employee-owned co-op restaurant Colors in New York (see sidebar).

To compete, Italian co-ops have opted for size, and the left-leaning Legacoop affiliates have been forced in that direction faster because they have been more exposed to international competition that the Catholic Confcooperativa affiliates. As a consequence, they found themselves hiring professional managers with the conflicts with co-op values that this entailed. In recent years, they have sought to deal with this by emphasizing training and promotion from within.

Internally, employee co-ops describe their challenges differently. A major one is inclusion of foreign workers. Italy is awash in foreign workers from Eastern Europe, the Balkans and North Africa. Some are legal, many are not. Particularly in construction and services, they are pressuring wages. They also make up an increasing portion of co-op employment: 10% at CADIAI, for example, up from none three years ago. But they lack the co-op tradition. Though immigrants make up 30% of workers at the agricultural implement parts co-op we visited, none are members.

A second is the challenge of making large size compatible with democratic structure. From an American perspective, the Italian co-ops have dealt well, but it remains an issue of concern, especially in the consumer co-ops which have had to federate to remain competitive.

A third, and perhaps most serious, has been a sea change in values. As Guiliano Poletti, the national president of Legacoop, put it, "We teach children in school about coops, but today's "get rich quick" values conflict with those that made cooperatives strong."

What can we learn?

There are a number of lessons for Ohio policy makers and the employee-ownership community in Emilia Romagna that we should take to heart.

Promotion of small business. The regional government's focus on promoting small and medium-sized enterprises through creating economies of scale for them goes far beyond what we are used to in Ohio. The industrial sector service centers and other policies appear to have had a tremendous impact on clustering of businesses,[2] flexible manufacturing, innovation, and exports. Small business organizations, including the various cooperative associations, provide additional services -- especially inexpensive professional services -- to their members. The consequence: higher wages in the small business sector, more patents and innovation, more employment growth, and more exports.

Access to capital. Much of the strength of the Emilia Romagna model stems from access to capital from large pools dedicated to cooperative development. Consider the insurance company Unipol. Established and controlled by other cooperatives, Unipol has strengthened the cooperative sector through its investment policies, and through its pioneering work in social accounting as well as through underwriting insurance for cooperatives and their members. Or consider the co-op development fund structure which "taxes" otherwise tax-advantaged co-ops to develop new co-ops seems to be an effective mechanism both to create new co-ops and new jobs.

Not least, the Italian co-operatives' "indivisible reserves" – which revert to the co-operative development funds at the sale or liquidation of cooperatives -- give them a staying power that American cooperatives and employee-owned businesses lack. They pay out part of the profits to members, but not their tax-advantaged retained earnings which guarantee that the capital created with tax advantages benefit future generations and the community. We basically turn those tax advantages into pensions for the current generation of employees.

Cross-sectoral collaboration between cooperatives – consumer-owned, agricultural producer-owned, and employee-owned firms – strengthens all three groups, especially through the provision of common services for their members. The cooperative councils at the regional, provincial and municipal levels give co-ops an independent voice in decision making, especially in the privatization of social services.

Imagine, for a moment, the extension of this model to Ohio. Imagine a state government with a proactive strategy of encouraging the development of small business and creating economies of scale in export, research and development, and provision of professional service through sectoral service centers and other policies. Imagine that capital was pooled for starting and expanding employee-owned companies and that mutual insurance companies put a substantial portion of their placements back into growing the employee-owned and cooperative sectors. Imagine that employee-owners' investment of sweat and capital were anchored in the community for a longer term. And imagine cross-sectoral collaboration between farm co-ops, credit unions, mutual insurance companies like Nationwide, and employee-owned companies that strengthened them all.

Imagine, in short, that employee-owned companies in Ohio were not individually islands unto themselves but part of a larger whole.

John Logue is director of the Ohio Employee Ownership Center and professor of political science at Kent State University. *My thanks to Bob Giel and the Cooperative Charitable Trust for initiating and supporting the study tour; to Matt Hancock, an American graduate student in the cooperative program at the University of Bologna, and Bruce Herman of the National Employment Law Project for setting up the visits; to Hancock for his suggestions on improving this piece; and to our Italian hosts for their the openness in discussing their experience, including their successes, failures, and problems.* *The Euro conversion rate used throughout the article is 1 Euro = $1.20.*

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The CCT group at Legacoop

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[1] There are three main cooperative federations: Legacoop, the Communist/Socialist group; Confcooperative, the Catholic federation; and the Associazione Generale, the far smaller, Social Democratic group. All three organize co-ops in all sectors including employee-owned firms, consumer coops, credit unions, agricultural coops, housing co-ops, etc. While the political labels still have some residual meaning, they have lost their Cold War importance, and some of the co-ops belong to both the Communist and the Catholic federations.

[2] Consider the ceramics industry cluster with its accompanying cluster of ceramics machinery manufacturing firms. Emilia Romagna's 350 ceramics firms account for 85% of Italy's production of ceramic tile. Most of it is exported. Check your local tile store or home improvement chain store to see just how much of what you buy comes from Emilia Romagna!