Why we need cooperatives to make the business world more people-centered

The Emilia-Romagna experience

Vera Negri Zamagni
University of Bologna and SAIS Europe of the Johns Hopkins University (Italy)

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Abstract

In a world in which capitalist corporations produce vast negative externalities, the present paper discusses first the comparative advantages of cooperatives in humanizing the economy with their positive externalities. In the second part of the paper, the case of Emilia-Romagna, a flourishing region of Northern Italy where a large amount of cooperatives are active in many sectors, is analysed, with three aims: 1. offering a quantitative picture of the presence of cooperatives in the region; 2. showing how cooperatives contribute largely to the economic success of the region 3. illustrating the conditions which have allowed the special flourishing of cooperatives. The Emilia-Romagna case shows that cooperatives, besides producing effectively many goods and services for their members, play a strategic role for the entire market place where they reach a critical mass, by making the business world more people-centered.

Keywords

Cooperative enterprises, Emilia-Romagna, social economy

Bio

Vera NEGRI ZAMAGNI is Professor of Economic History at the University of Bologna and adjunct professor at SAIS Europe of the Johns Hopkins University. Her publications cover reconstruction of historical national income estimates, regional disequilibria, state intervention, business history, the cooperative movement, European integration, role of the family in society, with special reference to Italy. Among the latest: An Economic History of Europe since 1700 (Agenda Pub., 2017) The Italian Economy (Agenda Pub., 2018).
1. Introduction

The most praised form of enterprise is today still the corporation-public company one, which separates ownership from control, is led by a tight managerial hierarchy and tends to become larger and larger through multinationalization and mergers. Standardization of production, economies of scale, high research investments cut the production costs of these companies and offer consumers innovative goods and services, often at low price. Very seldom it is mentioned, however, that these benefits have a high cost, because such mammoth enterprises have large negative externalities, often hidden to the public eye. Among them, the following are the most adverse: scant attention to territories and local cultures (their plants can be easily displaced); moderate interest in people (only high ranking managers are well payed); destructive use of competition (they tend to abuse of dominant positions every time they can); scarce regard for democracy, both internal and external. But above all, an exclusive concentration on to their profits (maximization of shareholder value), which produces a tendency to minimize the legitimate interests of all other stakeholders including the states where they are active, to which they try to pay the lowest possible taxes.

We owe to these negative externalities the recent rapid increase of inequalities in the world and the revolt of citizens in advanced countries who tend to vote for anybody promising a radical change, disregarding the feasibility of the proposals put forward. The counterbalancing role of the State, especially through the welfare state, is in great difficulty, as a result of the climbing challenges to be faced as well as the insufficient rise of taxation revenues. It must also be underlined that State intervention is mostly ex-post and does not intervene at the root of the problems listed above, namely the functioning principles of the capitalist corporation. There is now a welcome movement to reconsider the basic principles of doing business and the 17 UN SDG offer clear guidelines in this direction. Of the 17 SDGs, cooperatives address mostly 1-2 (no poverty, no hunger), because they promote entrepreneurship by pooling modest amounts of capital into productive businesses; 8 (good jobs), being coops focused on defending employment; 10 (reduced inequalities), because coops redistribute profits across all their members; and 11 (sustainable cities and communities), as coops tend to be formed also in small villages and peripheral districts. The other SDGs as well are indirectly addressed by coops, being their mission that of catering for the social needs.

In this light, it becomes clear why the cooperative form of enterprises, born in the XIX century, should be relaunched in old as well as new businesses, particularly in the service sectors, employing today the large majority of workers in advanced societies. The comparative advantages of cooperatives with reference to capitalist enterprises in many sectors and their positive externalities will be examined in the first part of the paper, to clarify why they are desirable and should be promoted.

In the second part of the paper the case of the Italian region Emilia-Romagna, where a large amount of substantial cooperatives are established in many sectors, will be analysed, with three aims: 1. offering a quantitative and qualitative picture of the presence of cooperatives in Emilia-Romagna. In particular, I will show that on average the Emilia-Romagna cooperatives have a firm size larger than the capitalist enterprises and many of the local cooperatives are leaders in Italy in their sector; 2. showing how cooperatives contribute largely to the economic
success of a region which is one of the most dynamic and advanced in Europe with its firms (both cooperative and capitalist) of intermediate size, engaged in the promotion and export of local food and beverages brands and of manufactures employing skilled workers; 3. illustrating the conditions which have allowed such a flourishing of cooperatives in the region and the complementarity role played by them with the capitalist sector. Among these conditions, a culture of the work place in which everyone is involved; a refusal to work in anonymous big corporations; an interest in developing customized products and in servicing clients; a large diffusion of associations of all types; a tradition of hospitality. Special attention will be devoted to the performance of the Emilia-Romagna cooperatives across the recent world crisis.

2. Beyond shareholders value

One very effective way of contrasting the worst impact of capitalist corporations is to contain their number. This approach is not in great fashion because it is poorly known that many economic activities can be better carried out by companies organized differently from capitalist corporations. Cooperatives, social enterprises, non profit institutions by their very legal form do not produce the negative spillover effects typical of capitalist corporations, because they work for the wellbeing of their members and of the people living in the territories where they are located and not to increase shareholders profits. Concentrating here my argument on cooperatives, these are companies open to membership of not well to do people, as they normally require only a limited amount of share capital from their members, so they are inclusive businesses. Cooperatives are run democratically and tend to reward members and dependent workers in a more equitable way, avoiding major gaps in remuneration between the high ranking employees and the unskilled ones. An increase in inclusiveness and social cohesion is the result of the diffusion of cooperatives, as well as a more widespread exercise of entrepreneurship. In fact, capitalist corporations are highly hierarchical organizations, while cooperatives rely on self-organization and require the participation of members, strengthening responsibility and civicness. A substantial presence of cooperatives has also a positive impact on the market at large, because they increase the number of firms operating with sound principles of fairness and correctness and competition is not interpreted as a race to the bottom. While cooperative enterprises can be created in almost any sector, in a number of sectors they enjoy of specific comparative advantages (S. and V. Zamagni 2010), which are worth being spelled out.

2.1. Users cooperatives.

This type of coop is created by people who use the products/services of their cooperative and can be found in retail trade, utilities, credit, insurance, housing, distribution of electricity and other public utilities. Members appoint managers to organize the business on their behalf, using dependent workers. Capital is advanced by members, who need not make a large individual contribution, being generally in very large numbers, and can get the goods and services at the best price and quality, avoiding a costly intermediation and receiving the profits produced under the form of rebate. In addition, these cooperatives can carry on specific campaigns in favour of the goals members want to reach (fair trade, clean environment, microcredit, co-housing etc.). There is little doubt that this is the most successful type of cooperative enterprise. The advantages lay not only in cutting intermediation costs, but also in making the services concerned available to small and scattered users at the best possible conditions, responding to the needs and preferences of users, rather than to the profit
maximizing desires of capital owners. Capital can be increased by multiplying the members of such coops, which can easily reach the tens or hundreds of thousands, even millions. Additional capital can also be made available through members loans.

2.2. Producers cooperatives.

This type of coop is formed by members who produce in a private company of their own commodities which are conferred to a coop (or a consortium of coops) in charge of buying inputs, marketing and often processing the output. The best example is given by farmers coops, which increase the market power of farmers by contrasting monopsonies, and internalize the profits produced by the processing of the produce in dairy plants, wineries, oil mills, canneries etc. owned or controlled by coops, although often incorporated as joint stock companies. The reasons for success of cooperation in this field are clear. There is a strong interest by the part of producers, generally small and scattered, to avoid being exploited by wholesale buyers, to reap the benefits of economies of scale in the purchase of inputs and machinery, and to be able to internalize the profits of the industrial processing of their produce. The capitals needed to start business are not large and can be accumulated as the business grows up. The tendency of these coops to enlarge is well established, especially if they deal with highly standardized commodities. The important role these coops can play in supporting the income of farmers is so evident that governments are often inclined in committing to cooperatives the management of the bulk of their agricultural sectors, as the cases of India and Japan, or even China, show. However, if cooperation remains confined only to land cultivation alone, mechanization, the shrinking of the labour force and the increased size of farms tend to lock farmers cooperatives in marginal businesses, so the food and beverages industry is the “natural” evolution of these coops, granting farmers cooperatives better prospects of having a lasting place in national economies.

A special version of producers coops are retailers coops. Originally, retailers maintained their direct private activity as shopkeepers (as farmers do), but cooperated in wholesale purchases and in many other services. When hypermarkets appeared, however, retailers coops became a rather blurred type of coop, because retailers shared a capital stake in hypermarkets, some of them giving up their shopkeeper activity altogether. In transportation too, there can be coops where private owners of the means of transport share services and clients.

2.3. Workers cooperatives.

These are self managed coops by those who work in them, advancing the capital which is needed. This type of coop has received a very large attention by the economic literature, starting with John Stuart Mill, because they are democratically run and contrast directly the capitalist form of enterprise. Workers coops are however not so diffused in industry, for a host of reasons, among which the most important are the following: a) standardization of products and Fordist processes of production in industry do not need cooperators; workers at the assembly line have to perform menial jobs, in which there is very little scope for the exercise of personal talents; b) the huge physical capital needed cannot be advanced by workers; c) the large economies of scale to be reaped impose a size that cannot be governed democratically. What predominates in these corporations is capital, and managers are appointed as instruments to maximize dividends. Workers coops in industry tend therefore to be present only in small businesses1. More workers coops can instead be successful in services: transportation (taxis,

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1 There is a single well known exception, the Mondragon cooperative corporation in the Basque region of Spain.
lorries, buses), catering, facility management, logistics, management of cultural resorts, theatres, media, tourism, professional firms. The literature on coop activities in services is to my knowledge very modest, at the exception of Italy, where they are widely present, as we shall see below.

2.4. Social cooperatives.

It has taken a long time for this type of coop which delivers social services to external clients to be officially recognized by ICA (the International Cooperative Alliance). While in 1995 ICA added a 7th principle of external mutuality to the already existing cooperative principles to accommodate social coops, they remain a special type of coop, which functions combining workers and users of social services in a multistakeholder board and availing themselves also of part time voluntary workers. The comparative advantage of coops in social services is mostly based on intrinsic motivations (Becchetti, Castriota, Tortia 2009). The fact that social services postulate a direct contact of the producer with the clients – an interpersonal relation (Gui, Sugden, 2005) – makes the personal involvement of the producer essential to the good result of the productive process. Having “intrinsic motivations”, sometimes a true passion, for what the social service worker does is the best prerequisite to have a satisfactory relation with clients. Coop members, who choose to be in a social service enterprise run by them, are in the best position to develop their talents and express their “benevolence” towards their colleagues and clients, ready to tailor their services to the real needs of clients. Social service coops are normally not large, precisely because of the need of customization, and rely more than other types of coops on networks or consortia (Menzani and Zamagni 2010, 98-127). Physical capital needed is often modest, while human capital is extremely important.

Governments caring for their people should understand the usefulness of promoting cooperatives with an appropriate legislation. The need for this legislation arises from two reasons: on the one side, cooperatives must be allowed to form permanent networks and have their umbrella organizations and on the other side, their capitalization must be supported because often not enough capital comes from their members. There are various ways of supporting the capitalization of cooperatives: a) forming “indivisible reserves”, made up of untaxed profits not distributable to members (intergenerational bond); b) allowing members loans to be remunerated at the market rate of interest; c) creating a solidarity fund with some percentage (in Italy 3%) of the profits of cooperatives to help restructuring coops and funding start ups d) raising additional capital through joint stock companies controlled by cooperatives (V. Zamagni 2015, 554-68).

Countries with a substantial presence of cooperatives are the most civilized countries of the world (Battilani and Schröter 2012), also because non-profit organizations are normally growing in the same countries side by side with cooperatives and even capitalist corporations tend to show there higher corporate social responsibility. We can therefore conclude that cooperatives, besides helping their members with effectively produced goods and services, play a humanizing and socializing role of the entire market place where they reach a critical mass (Restakis 2010).

3. The Emilia-Romagna cooperative network

Before concentrating on Emilia-Romagna’s cooperatives, I remind that cooperatives have in Italy a quite substantial presence, in all sectors of the economy (Ammirato 2018) and enjoy a “constitutional” status, being mentioned specifically in article 45 of the Italian 1948
Constitution\textsuperscript{2}. One of the distinctive features of Italian cooperativism is indeed its wide presence in the whole economy, with a share of employment (Public Administration excluded) around 8\% at the national level, but around 13\% in Emilia Romagna (V. Zamagni 2012). These employment figures do not take into account the joint stock companies controlled by cooperatives, which are particularly large in precisely this latter region.

Emilia-Romagna is one of the 20 Italian regions and belongs to the North of the country. Its industrialization was retarded by a highly productive agriculture, because most of its territory is made up of a substantial part of the Po valley\textsuperscript{3} (the entire southern side, while the northern side of the Po Valley is shared by Piedmont, Lombardy and Venetia). After a slow beginning, since the 1960s industrialization became widespread and it rapidly raised the level of wellbeing of the region to the highest in Italy. Today, the old “industrial triangle” of Italy, which took off as early as the 1890s, (Milan-Turin-Genoa in the North-West) has been replaced by a new industrial triangle (Brescia-Bologna-Padua in the North-East\textsuperscript{4}). The model of the North-East, and particularly of the Emilia-Romagna industrialization differs markedly from the North-West one and is based on SMEs, highly specialized in niche products (mostly metal-engineering, but also agro-food and beverages industry, chemicals, pharmaceuticals, and artificial materials), where they are often among the world leaders.

| Table 1. Emilia-Romagna cooperatives, 2008-2017 |
|-------------------------------|-------------------|-------------------|
|                               | 2008              | 2017              |
|                               | No.   | employment | Turnover | No.   | employment | Turnover |
|                               |       |            | Million  |       |            | Million  |
| Agro-food and beverages       | 924   | 28172      | 7826     | 854   | 25669      | 8982     |
| Manufacturing                 | 321   | 10291      | 2524     | 264   | 9524       | 2397     |
| Construction                  | 602   | 10284      | 7378     | 521   | 4931       | 3844     |
| Retail and wholesale trade    | 485   | 24700      | 11162    | 476   | 27037      | 13192    |
| Logistics                     | 712   | 27773      | 1852     | 717   | 27868      | 1891     |
| Credit/insurance              | 158   | 5511       | 41       | 120   | 5160       | 747      |
| Other services                | 2132  | 61777      | 4098     | 2113  | 68152      | 4724     |
| Total                         | 5334  | 168508     | 34880    | 5065  | 168341     | 35778    |

Source: elaborations from Unioncamere data bank

In the texture of Emilia Romagna’s SMEs, cooperatives are excellently placed, as it can be seen in table 1, and Bologna can be considered the capital of Italian cooperativism, both because of the size of cooperative enterprises and their controlled joint stock companies in that area\textsuperscript{5} and

\textsuperscript{2} The article recites (my translation): “The Republic recognizes the social function of cooperation with a mutual and non private profit character. The law promotes and supports its diffusion with suitable means and guarantees with the appropriate controls that its aims are fulfilled”.

\textsuperscript{3} The valley formed by the river Po is the only important valley of the entire Italian territory.

\textsuperscript{4} The three regions of the new industrial triangle have a much stronger industrial base than the average for Italy: value added in industry (construction included) in 2017 was 23.5\% in Italy, but 27.5\% in Lombardy, 30.4\% in Emilia-Romagna and 30.5\% in Veneto. In the same 2017, the combined export of these three regions amounted to 54\% of total Italian export (while the combined population is only 1/3 of the Italian one). For a general overview of the Italian economy, see V. Zamagni 2018.

\textsuperscript{5} 10 out of the 20 largest companies in Bologna are cooperatives or joint stock companies controlled by cooperatives.
because of their innovative and networking capabilities. Commenting in more details tab.1, we can say the following:

- Over the worst period of Italian economic history, which has been a bit less bad for Emilia-Romagna, but still negative (neither Italy nor the region have in 2017 been able to recover the 2008 levels), the regional cooperatives have maintained their employment and their turnover, with a tendency of the size of coops to enlarge on average (the number of coops decreased by 5%).

- The sectorial performance however has been varied. The only entirely negative sector has been Construction, as a result of the huge fall of domestic demand in the whole of Italy. Today the level of turnover and employment in the Italian construction industry is 20% of what it was before the crisis, as a result of the fall of private demand for new buildings and of the almost complete disappearance of public demand for infrastructures. Cooperatives had an important presence in this sector (around 1/3) and could not avoid being severely affected by such a trend. Agro-food and beverages has instead increased turnover, but not employment, manufacturing has lost only slightly, while employment as well as turnover have increased in services, especially in “Other services”, which include the social coops, a highly labour intensive sector.

These positive results have been achieved through a number of instruments typical of cooperatives. In the first place, much of the capital of Italian cooperatives is made up of “indivisible reserves”, which are not depreciated by fluctuations in the stock exchange and can partly be used in situations of emergency to face temporary budget deficits. In the second place, while in normal times members and dependent workers of Italian cooperatives are paid according to national contracts negotiated by trade unions for each sector, in emergency situations the Italian legislation allows cooperatives more flexibility in the use of workers time and in their remuneration, with the aim of protecting jobs, asking some sacrifices to coops members and also to dependent workers in terms of remuneration for the purpose of ensuring jobs. A third instrument has been that of opening up start ups in neighboring sectors, so as to give new jobs to surplus workers. Also, the coops umbrella organizations have used their solidarity funds to help restructuring cooperatives in crisis as part of the mutuality within coops, particularly in the building sector (Menzani 2018, 143-172).

It must also be mentioned that the wide presence of cooperatives in many sectors of the economy has allowed cooperatives to reap substantial “economies of networking” (Menzani and V. Zamagni 2010, 98-127), enhanced by a tight umbrella organizations support. These apex organizations were present in Italy since the very beginning of the cooperative movement, were dissolved by fascism but reintroduced after the end of World War II. They were formed along ideological lines, one for the socialist-communist cooperatives, one for the Catholic cooperatives and a much smaller one for the neutral (liberal) coops. Only in 2011 a process of unification of these three umbrella organizations started, but it is still under way at present. This ideological divide, though preventing a more effective compacting of the movement up to present, supported a very strong collaboration among the cooperatives belonging to each umbrella organization, offering an additional element of cohesion that led to tighter networking.

Some examples of substantial cooperatives active in Emilia Romagna can be clarifying. The largest is Alleanza 3.0, a consumer coop born in 2016 as a result of the merger of three long lived large consumer coops of the region. It is the largest coop in Italy (3.7 billion euro of turnover in 2017), with 400 shops in 12 Italian regions, 2.3 million members, and is major part of the 94 Italian consumer coops, which together are in Italy market leader in organized retail distribution (Zamagni V., Battilani, Casali 2004). Bologna hosts also the two connected
companies Centrale Adriatica (which manages the warehouses of the Coop system, 3.2 billion euros of turnover) and Coop Italia (which manages the wholesale of the Coop system, 0.8 billion). In Bologna there are also the headquarters of CONAD (1.3 billion), the retailers coop created in 1963, which is today active through eight groups and together with COOP and some smaller cooperative groups covers 1/3 of the Italian organized retail distribution.

Bologna is also the home of some of the largest coops in other sectors, among which CAMST (0.6 billion euros), the largest Italian coop in catering, created in 1946 (which is also the largest Italian company in catering tout court); Granarolo (1 billion), a large dairy joint stock company controlled by the coop Granlatte; Sacmi (0.9 billion), a substantial manufacturing coop producing machinery for tiles and for the confection of glass bottles; Re-keep (0.7 billion), a large facility management joint stock company controlled by the coop Manutencoop. It also hosts three important cooperative consortia: Conserve Italia (0.6 billion), a group of agro-food and beverages coops, CNS (0.8 billion) a group of facility management coops and Integra (0.7 billion), a group of construction coops. The insurance company Unipol (17 billion), created in 1963 by Emilia-Romagna coops as a joint stock company and still controlled by cooperatives, is a unique case, because it has become the second largest insurance company in Italy and is listed in the stock exchange. But Emilia Romagna is the home of other large cooperatives in wine, cheese, fruits, salami making, taxi and lorries driving, manufacturing, credit and social services. It is no surprise that the local branches of the cooperative umbrella organizations are the most prominent in Italy.

The positive externalities promoted by cooperatives in Emilia Romagna do not refer only to the activities directly practiced by them. In a region where SMEs predominate, coops not only can compete, but often, as a result of the sectors where they are leaders, they involve capitalist companies as suppliers. This is especially true because coops in Emilia Romagna are leaders in the retailing and wholesale sectors, in which coops develop their brands, often supplied by other coops, but also by small capitalist firms. Unipol has a large number of non coops clients. The same can be said of the credit unions, which grant credit to a lot of SMEs, and of social coops serving the public at large. But also in other services (logistics, facility management, catering) coops work with capitalist enterprises and the local public administration. In a nutshell, we can say that the degree of collaboration of coops and other enterprises in Emilia-Romagna is very high, also inside common associations and with public authorities. By way of an example, the Bologna exhibition joint stock company (one of the largest in Italy, participated by local authorities, foundations, Chamber of commerce and others, including coops), is now led by a chairman coming from the Granarolo company.

Social cooperatives, which are as I mentioned above a special type of coops practicing “external” mutualism, are very creative, not only in inventing new assistance programs, but in creating jobs for disadvantaged people (handicapped, prisoners getting out of prison, formerly drugged people, migrants, abandoned and raped women, beggars6) and in helping local authorities in the maintenance of streets and greens. Also to be mentioned is the process of conversion of capitalist firms in difficulty into cooperatives: workers buy outs, helped by a law of 1985 and by an ad hoc agency created jointly by the three umbrella organizations, have allowed in the years 2008-2017 the rescuing of about 500 jobs.

Another interesting novelty produced by coops is the contrast to depopulation of small villages by building “community coops”, which supply a wide range of services (coffee house, restaurant, hotel, but also bakery, touristic programs, forestry management, cultivation of typical

6 By way of an example, I like to quote the “Social bike” shop, which repairs and sells second hand bicycles in Bologna and instructs homeless people how to do the job, helping them to get out of the street.
agricultural products, social assistance, even post-office and bank) to local inhabitants and tourists. Emilia-Romagna coops are also developing new startups in renewable energy and co-housing. The building up of cooperative platforms is instead still lagging behind (at the moment there are only a few small ones), but is under increasing attention.

4. Conclusions

Cooperativism is in Italy quite strong as a result of a long lived historical tradition and of a post World War II legislation which supports coops, starting from article 45 of the Constitution. But this is not enough to explain the Emilia-Romagna case. Among the causes of the particularly successful performance of Emilia-Romagna coops, the most important one is a culture of the work place as a place of collaboration and shared responsibility. This has led to a refusal by the workers of the region of being recruited in anonymous big corporations producing standardized goods and services, nurturing a preference to run own businesses. Not being able to reap economies of scale as a result of the limited size of companies, the flourishing of SMEs in the region had to resort to other advantages: developing high quality products and services, becoming skilled in customizing products and in servicing clients, building tight networks of companies servicing each other, activating associations and common services at various levels. These are the very reasons why cooperatives have flourished and are among the largest companies in the region: to work for a large cooperative is not the same as working for a large capitalist enterprise, because in coops the solidaristic principles are practiced and therefore their increase in size does not raise major opposition.

It is also true that cooperatives in this region did not have to confront themselves with established big capitalist businesses and had a better chance of success than in places where capitalist enterprises were prime movers. The relatively comparable size between coops and capitalist enterprises in Emilia-Romagna has eased the collaboration among the two types of business, up to the point in which the national legislation allowing coops to control joint stock companies was put in place in 1984 as a result of lobbying from the region’s coops. The Emilia-Romagna model of cooperativism is therefore a very peculiar one, because it tends to avoid separation and marginalization of coops, allowing them to hybridize the capitalist context in which they are active by making it more social, but also to absorb the principles of efficiency from it.

References


7 The mutual funds of the three umbrella organizations (formed with 3% of the yearly profits of cooperatives) have their headquarters in Emilia-Romagna, though their coverage is national. This is an additional reason for the regional cooperative elites to be hegemonic in the Italian cooperative movement.
8 The first coop was created in Italy in 1854.


