

Stewards of Enterprise: Lessons in Economic Democracy from Northern Italy

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Preamble – Hitting rock bottom

On October 9, 2007, the stock market reached an all-time high as the Dow Jones Industrial Average hit 14,164. Months later, the economy entered a recession. By March of the following year venerable Wall Street firm Bear Stearns collapsed. By April 30th, the Federal Reserve had reduced interest rates to 2 percent, and in September the federal government took over Fannie Mae and Freddie Mac, the quasi-governmental entities that backed many of the mortgages issued in the United States.¹

A week after the takeover of Fannie and Freddie, Lehman Brothers filed for the largest bankruptcy in US History. In December of 2008, for the first time in its history, the Fed lowered its benchmark interest rate to 0. Two days later, the US government bailed out General Motors and Chrysler. On March 9th, the Dow hit rock bottom at 6,547: 54% below its peak one year earlier.

During the Great Recession, 8.4 million people lost their jobs—the worst increase in unemployment in 70 years. By 2009, one in seven Americans was living in poverty. Young kids were even harder hit, with one in four children under 6 living in poverty. Household wealth was decimated, with white families losing a third of their net worth between and black families losing an astonishing three quarters of their net worth.²

The official duration of the recession was 18 months: the longest downturn in US history since World War Two. It wouldn't be until 2011 though that unemployment would drop below 9 percent. And it wouldn't be until 2015 that unemployment would finally reach 5%, generally considered something like “full employment”. And while the US economy is now years into its official recovery, labor participation—the percentage of working-age adults working or looking for a job—is at its lowest point in nearly 40 years, a strong indication of the presence of “discouraged workers”, and additional “shadow” unemployment. Wealth and income inequality have reached highs not seen in the United States since the 1930s. With 95% of the income gains

¹ <http://www.csmonitor.com/Business/2013/0908/Timeline-on-the-Great-Recession>

² <http://stateofworkingamerica.org/great-recession/other-fallout/>

since 2009 going to the top 1% of income earners³, incomes for most Americans have barely budged.

Seeking alternatives

Americans responded in different ways to the Great Recession. The years following the bursting of the housing bubble saw the rise of the Tea Party movement, which channeled voter anger against government and rocked the Republican Party establishment. The Occupy Wall Street protests focused ire against the financial sector—a phenomenon which touched nearly every major city in the United States and succeeded in moving mainstream discourse away from deficit and inflation fears onto growing inequality.⁴

Given the depth of the economic crisis, the scale of the destruction of wealth and jobs and how close the global economy actually came to collapse, it is perhaps not surprising that many Americans began to turn from protest toward a search for more fundamental alternatives to structuring the economy. Perhaps it wasn't individual greed, government ineptitude or corruption that was to blame, but how our economy is organized, how investment decisions are made and how our businesses themselves are managed.

When Americans talk about the economy, the idea of “freedom” or “choice” is likely to come up, but in the context of the freedom of consumers to purchase products that meet their needs, the freedom of entrepreneurs to start a business, or the freedom of workers to seek employment where they please—and of employers to hire—or fire—as they please. Concepts like “democracy” and “participation” are typically left to politics, not the economy, in American discourse.

Yet democracy, participation—and their corollary transparency—are increasingly being offered up, in the wake of the Great Recession, as solutions to what ails our economy. Scholars, activists and mainstream pundits have increasingly begun to discuss “economic democracy” as the kind

³ <http://blogs.wsj.com/economics/2013/09/10/some-95-of-2009-2012-income-gains-went-to-wealthiest-1/>

⁴ <http://occupywallstreet.net/story/inequality-after-occupy>

of fundamental shift needed if we are to address persistent problems like poverty, inequality, stability and even low growth.

Advocates of different forms of economic democracy point to the US experience with Employee Stock Ownership Plans (ESOPs), profit sharing and worker co-ops as examples of viable alternatives.⁵ Others look abroad to the Mondragon Cooperative Corporation (MCC), a giant, democratically governed holding company of cooperatives as an example.⁶

But is an entire economy based on principles of participation, wealth redistribution, income equality and democratic values feasible? How would such an economy fair in terms of capital investment, innovation and entrepreneurship? Could such an economy balance social values and the demands of global competition—especially with low-wage, high-tech economies like China and India?

Is an open, competitive and *democratic* economy, one that also creates more jobs, and redistributes wealth and income actually feasible?

In our search for answers to these questions we decided to take a trip to Bologna, Italy, the capital of the central-northern region of Emilia-Romagna. Home to *tagliatelle alla Bolognese*, Ferrari automobiles and balsamic vinegar, this region of nearly 4 million is also home to one of the longest-running, most successful experiments in economic democracy in the Western World.

Where it all began

Take a stroll around the town of Imola in the Emilia-Romagna region of northern Italy and you will find a place that feels much like any other idyllic, medieval, walled city of its place and time. There is a piazza, of course, in this case of understated cobblestone. Ancient walls stand guard on three sides and a massive stone municipal building sits firmly on the square like some kind of dowager princess or enormous faithful dog overseeing all that passes by.

⁵ <http://www.pbs.org/newshour/making-sense/what-the-founding-fathers-beli/>

⁶ http://www.nytimes.com/2014/03/30/magazine/who-needs-a-boss.html?_r=0

Near the entrance to this building, high on one of the old walls is a small poem etched in stone, dedicated to the world on New Year's Eve of 1900 (or 1899, the record is unclear). The poem is by Andrea Costa, a labor and political leader who served as mayor of Imola and as a member of the Italian parliament. Its lines envisioned a world of peace and plenty, "illuminated by science," in which all people are free from oppression and the elderly live in dignity.

Costa's vision of a hoped-for future stood in bleak contrast to the day-to-day Imolese reality at the turn of the 20th century. The swamplands surrounding the town, a persistent source of malaria, had only recently been drained and reclaimed as farmland on that New Year's Eve a century and more ago. While the Industrial Revolution was in full swing elsewhere in the world, it had not yet touched this sleepy village. Sharecropping, a semi-feudal form of agriculture, was the backbone of the economy, as it had been for centuries. Hunger was widespread. Women were systematically oppressed and the bulk of the population could count on little in this world but to die as they had lived, in poverty and misery. Violent clashes between workers and landholders were frequent. Indeed, the smell of ashes and burned wood from one such clash likely competed with that of stone dust in our stone carver's nose as he carefully worked out the words of the poem; while he labored a new building erected for the laboring classes on the town square had recently been burned to the ground.

It was, perhaps, a most unlikely setting for such a utopian vision to take hold, and an even more unlikely locale for its eventual achievement. For while the residents of Imola, and the surrounding Emilia-Romagna region have not completely realized the perfect world imagined by their forebears 115 years ago, the model of social and economic development that grew in this small town and the larger region during the course of 20th century has been nothing short of remarkable.

Today Imola is one of the wealthiest towns in Europe, a feat if not uncommon, is of no small matter. What is unusual is that Imola, and the entire surrounding Emilia-Romagna region *is also one of the most equitable*. Share-croppers' plots have been replaced prosperous small family-owned farms. The town, with just over 60,000 inhabitants, is home to some of the world's leading manufacturers of packaging machinery, high-end ceramics and ceramics presses, and

high-tech medical equipment. Many of this town's top manufacturing firms are 100% community-owned and now at the head of a network of subsidiaries throughout Europe and the world.

In the years in which cities like Detroit, in the United States, or Turin, in Italy, were being built by and according to the needs of major industrial powers, leaders in Italy's Emilia-Romagna region realized that if their economy and society was to develop, they couldn't rely on powerful entrenched economic interests (not that these interests were all that interested anyway). They would have to do it on their own. In the absence of the large, family-owned industrial empires like the Agnelli family's FIAT in the North or investments from European or American multinationals, the Emilia-Romagna economy was developed by networks of family-owned, micro-manufacturers and cooperatively-owned industrial companies. When communities felt the need for access to better, more affordable groceries, the solution was to create a consumer cooperative. When housing in post-World War II Emilia-Romagna was scarce, cooperatives were the preferred method of providing for those needs. In the days following the liberation of Italy after the Second World War, co-ops were formed to sweep the streets and make repairs, cooperative cafeterias fed the workers and cooperative banks kept their wages safe from thieves and speculators alike.

Owned and controlled by the people who benefit from them, the cooperative form of enterprise was the preferred business model in Emilia-Romagna, transitioning this share-cropping economy into one of the most advanced, industrial economies in the developed world. True to the vision of Costa and his colleagues, this transition was both community-driven and largely peaceful. It was market-based and "illuminated by science," to be sure, but it was just as well-lit by concern for the welfare and dignity of those less powerful. The institutions built by the cooperatives were democratic, and the results of their activities were both extremely prosperous and remarkably fair. Such an achievement of fairness and prosperity, rising wealth twinned with rising equality, has seldom happened in the industrialized world, and never before for decade after decade, generation upon generation. How they did it is a story worth hearing.

Red Bologna

In 1977, Italian sociologist Arnaldo Bagnasco coined the term “third Italy” to describe the economies of the regions of central and northeastern Italy. These regions were peculiar because, in the wake of World War II, they did not benefit from the presence of large industrial concerns, nor did they benefit from the largesse of Rome in the form of transfer-payments like those supporting underdeveloped and impoverished southern regions.

Instead this third Italy, often but not exclusively administered by Communist governments that were out-of-favor with the ruling Christian Democratic party in Rome, developed a successful—and improbable—model of industrialization based on loose networks of highly specialized small- and micro-firms competing and collaborating to produce specialized industrial products for European and, today, global markets. While the development of the South and the North depended on outside capital—in the form of the wealth of family oligarchies, foreign direct investment or direct state aid—the economies of the third Italy relied on a model of endogenous—or self-driven—growth.

At a time when vertical integration was in favor throughout the Western World, these networks of firms found scale and innovation through the model of the “industrial district” and “flexible specialization.” A network of independent firms provided scale to these districts that vertical integration provided to FIAT, Toyota and General Motors.

In a seminal 1982 article, another Italian sociologist, Sebastiano Brusco, used the phrase “the Emilian model” of development to describe the particular ways leaders of the Emilia-Romagna region deftly harnessed the power of the industrial district. Emilia-Romagna, with its capital of “red Bologna” (so-named for the red brick common to many of this medieval city’s buildings as well as for the uninterrupted string of Communist mayoralties from 1945 until 1989). Eschewing the dogmas of free market economists and Soviet central planners alike, the Communist governments of this impoverished and swampy region sought to drive the modernization of agriculture and the development of industry through a series of sophisticated

partnerships and public policies that would support and nudge the development of industrial districts, in some cases giving rise to entirely new industries.

Between 1945 and the late 1970s, Emilia-Romagna underwent a remarkable economic transformation: a balanced industrialization and gradual movement of workers from the farms of the countryside to the new factories of the cities; from a backward swampland and impoverished economy, to one of the strongest in Europe, capable of welcoming new immigrants, and producing one of the most wealthy and equitable societies in the Old Continent. Today, Emilia-Romagna is the 35th wealthiest region in all of Europe, out of 301, with per capita income 27% higher than the average European average.⁷

All of this was accomplished—indeed made possible—in concert with labor unions, employer federations and a peculiar organization that was neither traditional labor union nor employer federation: the region’s associations of co-operative enterprises.

Cooperatives in Italy

Of the many peculiarities of the Italian economy, one stands out as a bright spot: Italy has one of the highest concentrations, per capita, of cooperative businesses in the world. Today in Italy 43,000 cooperatives, with 12 million members in all sectors of the economy, employ 1.2 million people and generate 140 billion euros of annual revenue. Estimates indicate that co-operatives generate roughly 8% of Italy’s annual Gross Domestic Product.

Italy’s largest retailer is a consumer-owned cooperative. 13.4% of all bank branches in Italy are depositor-owned credit unions. Many of the most high-tech manufacturers in central/northeastern Italy are worker-owned co-ops, employing thousands of workers in stable, well-paid jobs. Twenty-one percent of the country’s agriculture output is produced by Italy’s co-ops including many of the high quality value-added food products that the country is known for.

⁷ This paper was originally written in early 2016; As of 2018, per capita GDP in Emilia Romagna was 20% above the EU average.

Cooperatives and the Emilian Model

Emilia-Romagna has long been recognized as the leading region in Italy's co-operative movement. This central-northern region, part of the "third Italy," with nearly 4.5 million inhabitants (just over 7% of Italy's total population) and a Gross Regional Product of 107 billion euros (nearly 9% of the total Italian GDP) plays an outsized role in the country's co-op movement.

Emilia-Romagna is home to 8% of all co-ops in Italy, but 26% of total co-op membership and 32% of the total revenue of all of Italy's co-ops, indicating the outsized role that these enterprises play in the local economy. In Emilia-Romagna, co-ops produce just north of 13.4% of the region's GDP (compared to 8% for the cooperative movement in Italy as a whole), and employs more than 13% of the region's workers.

Since the late 1970's, Emilia-Romagna's co-operatives have also emerged as essential players in ensuring the continued success of the region's famed industrial districts model of local development and "flexible specialization". Industrial scholars from all over the world began descending on Italy at that time to study their unique model of economic development that relied on a cadre of small, independent artisan firms working in concert rather than one or two industrial giants. In the "Emilian Model" 1.0, the original model described by scholars like Bagnasco and Brusco and popularized in the U.S. by MIT professors Piore and Sable, the small and micro-firms of an industrial district would, at different times, play the role of lead firm, or system integrator—the firm that would land the contract and assemble the final product and deliver it to the end user. While at first this role rotated regularly between firms, during the 90s, scholars began to observe the emergence of "lead firms," firms that became slightly larger in size, and that would specialize in final assembly, marketing and sales. These lead firms—which essentially coordinate the work of the hundreds of small and micro-firms—are the reason why Emilia-Romagna's flexible networks have not only survived, but have thrived in the 21st century global economy.

In industries such as food processing equipment, ceramics manufacturing equipment, construction products, agri-business and construction, the region's largest co-operatives have

emerged as the lead firms for these flexible networks. Today, not only do co-ops export some of the region's most emblematic products throughout Europe and the world, these same co-ops are often themselves multi-national firms, with subsidiaries for sales, marketing and even manufacturing located throughout Europe, the Americas, Asia and Africa.

When Europe set goals for female participation in the labor force in the 1990s, Emilia-Romagna became the first European region to meet the Lisbon protocol's lofty goals. Throughout the 2000s, Emilia-Romagna's unemployment rate remained very low by global standards: from a high of 3.8% in 2001, unemployment declined to 3.2% in 2008. Even more remarkable is the fact that, during this time of consistent reduction in the unemployment rate, the region's population and labor force participation rates were increasing. So as Emilia-Romagna's wealth grew, so also did the number of people able to participate in these growing opportunities.

To put the role of co-ops in the region's economy, society and politics another way, 13.4% of the GDP and more than 13% of employment, in one of Europe's wealthiest regions, is generated by firms that are democratically governed and owned—not by wealthy families, private equity firms, multinational corporations or investors—but by the workers, farmers and consumers that live in this region. These firms have created wealth beyond the imagination of their forebears, in an industrial model renowned for its nimbleness, high quality products, and meritocratic approach. They have contributed to a local and regional political climate widely recognized for its honesty and efficiency, as well as a place with one of the highest per-capita levels of spending on the arts in Europe and superior marks on a wide range of social measures from education rates to participation in blood donation drives.

Why we should care

The Emilian Model doesn't just demonstrate that democratic governance is *possible* in today's global economy—in many ways it suggests that cooperatives can produce *better outcomes* as well.

Why is this quaint story of feisty Italian peasants and part-time poets overcoming all odds a story for America's business community, public servants, entrepreneurs and everyday people to care about, rather than just fodder for some Hollywood screen writer or aspiring novelist?

For one thing, while it is certainly a story of vision and grit and sacrifice, from the advantageous vantage point of subsequent generations, we can also see that the story of Emilia-Romagna and its cooperatives and cooperators is above all a story of *stewardship*.

Just a few short years ago in 2008, Americans found themselves wondering just who was responsible for the stewardship of *their* economy.

When the Great Recession hit, those fortunate enough to have retirement funds saw them lose 50% of their value, seemingly overnight. Unemployment spiked, stalwart companies went under and there was a pointed and pervasive sense of unease that no one really understood what was happening to us all, or how far it could go.

In addition to the profound and immediate pain it rendered, the Great Recession revealed some deep, structural weaknesses of the world's most dynamic and wealthy economy. Subsequent data from the "jobless recovery" unveiled not years, but decades of wage stagnations⁸, where effectively all of the benefit of economic growth had gone to a very few individuals. Inequality amongst Americans has been steadily increasing, and despite our self-perception as the "land of opportunity", today the U.S. has considerably less social mobility than Canada or Europe.⁹ True, the US has avoided some of the worst effects of the protracted recession that gripped much of Europe in the years following 2008, but our success has been relative, and not without cost.

Paired with this sobering aggregate economic data is another set of data, even more unsettling in its way. This data concerns the manner in which this economic insecurity manifests itself in people's lives. Often when we think of economic insecurity, we think (correctly) of the poor, that is, to be poor in America is certainly to live a precarious life. But its corollary, that *not* being

⁸ Steven Greenhouse, "the Mystery of the Vanishing Pay Raise" *New York Times*, November 1, 2015.

⁹ Nicholas Fitz, "Economic Inequality its Far Worse Than You Think" *Scientific American*, March 31, 2015.

poor should buy some amount of economic security is increasingly *not* the case. One of the reasons that American politicians seem to obsess so relentlessly about the “middle class” is because to be middle class is shorthand for economic security – being “middle class” means one has enough money to regularly pay the bills, save for retirement, and indulge in a little time off or entertainment once in a while. Yet the middle class has been shrinking for decades. Until fairly recently this was because more and more American households were moving up; today it is still shrinking, but for the opposite reason.¹⁰

And even achieving middle or upper-class status no longer assures us of economic stability. Stanford business professor Jeffrey Pfeffer has written extensively about the unrelenting decline in job satisfaction and engagement amongst American workers over the past 30 years, and the rise of an increasingly transactional nature of work. Off-shoring, lay-offs, increased use of part-time or temporary workers, and unpredictable scheduling have all contributed to a situation of unease and job insecurity, even amongst the affluent and middle class. A relentless focus on quarterly results or what the next Venture Capitalist might want leaves little room for thoughts of future generations. Indeed, notes Pfeffer, there is an exceedingly low level of trust in the American workplace, and “the social relations that once bound people together and to their companies have largely disappeared”.¹¹

The reason why it may seem that in our economy the system is just not working for so many is because it isn't, it is both unbecoming and unfair to continue to insist that each individual alone shoulder the burden and blame for not fully succeeding in a system that in truth, is stacked against them in many ways from the beginning. In an economic context where choice and opportunities are becoming more limited rather than more expansive, where trust is in short supply while anxiety and fear are plentiful, and where increasingly economic decisions with enormous and often detrimental consequences are being made for reasons that are opaque and by people who have no accountability to those they affect, it might make sense to think about doing something different. As a nation, our relentless focus on individual achievement and national

¹⁰ Dionne Searcy and Robert Gebeloff “Middle Class Shrinks Further as More Fall Out Instead of Moving Up” *New York Times*, January 25, 2015.

¹¹ Dan Schwabel, “Jeffrey Pfeffer: What Most People Don't Know About Leadership” *Forbes*, September 15, 2015.

narrative of “rugged individualism” has always had its dark side; in a 21st century dominated by a global capital elite, it is a particularly poor fit for the circumstances in which the vast majority of us find ourselves.

Reframing the issue

Policy solutions from both the Right and the Left tend to focus on structural reforms. Democrats may favor a more progressive taxation scheme and greater regulation of business, Republicans lower tax rates all around and less regulation. But in each case the solutions are forwarded in the common understanding that the underlying system and framework, the structure for allocating resources in our society and economy remains unchanged.

And indeed, our understanding of the genius of the Italian cooperative system was also at first focused on structures — “it must be because of their law”, we thought or “their coops are so successful because the financing and support of them have been organized in such and such a way.” After 15 years of studying the Italian co-op experience, however, we have come to realize that there is something more to it than shared governance, robust democracy, well-tailored financing, or a tax system that favors long-term investment. In fact all of these structural elements—each vital in their own way to the success of the entire system—are but evidence of a more fundamental difference, not the cause but rather the result of something else. And that something else is the core values with which these leaders approached the management and governance of these co-ops, and the fundamentally different way that their members view their role and relationship to the enterprise.

In the Italian cooperative system, the members are the owners (managers too are generally members of the co-op and thus owners alongside everyone else). But to be a democratic owner of an enterprise under this system is to take on a solemn responsibility as temporary steward of an economic asset that truly belongs to future generations. Being an owner in the Italian coop system is thus inextricable from being a steward. Far from meaning you can do anything you want with something because you own it, being an owner actually means you can’t do anything you want: you are obligated to do the right thing.

This concept of Ownership as Stewardship is a core value that permeates every cooperative, infuses every strategic plan, pervades every boardroom and percolates throughout the vast and justly admirable edifices of assistance and support that helps ensure the success of every cooperative enterprise at every juncture of its existence. It is the thing which truly makes the whole system extraordinary, and without which we would not be writing this paper today.

Many businesses talk about their values; this is certainly nothing new. But that talk generally stops pretty short when money or convenience or a perceived threat to autonomy of management is at stake. Even those committed to a values-based business approach have a hard time pulling it off in the context of a system that so firmly resistant to the application of any screen or unit of value save money.

Among contemporary Western economies, it is difficult to imagine a less verdant garden for a wide-scale, highly prosperous, values-based business system to grow than modern Italy. To return to the examples of regulation and taxes, two presumptive common drivers of economic fairness and success, Italy scores poorly on both. Right, Left, and Center, most Italians would agree that the taxation system in their country is opaque, inefficient, and highly susceptible to fraud and evasion. Similarly, Italian rules and bureaucracy governing business as well as most other human enterprise are widely characterized across the political spectrum as byzantine, impenetrable, and given to corruptions, large and small. It is hardly the environment to birth a flourishing, democratic, highly transparent, internationally-competitive business sector committed to fairness and the care and sustenance of common good for generations yet-unseen. Yet it did just that.

We don't often use the concept of stewardship in business at all, and if we do it is generally in relation to shareholders, occasionally the environment, very seldom the community, employees, or future generations. In place of the concept of stewardship for future generations, the American finance system is bolstered by a narrative of individual achievement measured sometimes in units of power, but most often in units of money, and its darker corollary, individual blame.

The Italian cooperative system is not against individual achievement; it is just not the main point. Monetary success in business is not the primary metric against which a human being measures his or her worth. Executives in the Italian coops are paid well, on par with their peers in investor-owned firms, but the obsession ends there. A freeness to not focus singularly on your own achievement paired with absence of fear of being replaced at any instance if immediate stock values are not seen to be sufficient unleashes an enormous amount of time and creativity that can be spent on serving customers, improving products, refining production systems, accessing new markets, and/or leaving work at a reasonable hour.

Thus we move back to the justly laudable Italian system of legal and financial support for cooperatives and we see that these structures did not create the societal value that we see (low unemployment, high per capita wealth, admirable distribution of income, and a vibrant private sector), Rather that *values* created the system and structures that then supported such “value” being created, for the individual participants and for the whole community at large.

One of the unique things about cooperative enterprise is that all cooperatives across the world subscribe at least nominally to a mutual set of common values that are articulated by the reigning international body, the International Cooperative Alliance and enshrined in a shared set of core principles. From funeral cooperatives in Fargo, ND to coffee farmer co-ops in Sumatra, from international agriculture giants to the police officers’ credit union in Singapore, all cooperatives all around the world are organized along common principles and values among which are democracy, autonomy, equity, solidarity, member economic participation and limited return on investment. While all co-ops share these values, all cooperative sectors do not garner the same influence and success that the Italian cooperative movement has—in most cases not even close. It is how the co-ops in Italy interpret these values and put them to work that is the difference.

Sound laws and policies certainly make things easier, but they don’t guarantee that people will behave differently. In the Italian cooperative system, core values beyond financial rights permeate the entire system, each cooperative, and importantly, the way that each cooperative relates to each other. This network of shared values put in place and lived in a very practical

way, every day, is what—we believe—begets the amazing results that these enterprises are able to achieve.

The Italian cooperative legislation reflects the core value that the cooperative is an asset of the community to be stewarded for future generations; it also reflects a core belief in the right to individual agency on the part of each member, and the understanding that trust only happens when information is regularly and predictably shared. These three core values, *stewardship*, *agency*, and *transparency* are fundamental to the success of each enterprise. Equally fundamental is the concept that these values apply not just within each individual cooperative, but to the system of cooperatives as a whole and their relationships to each other. This concept of a *system of support*, is a final central tenant of this uniquely successful practice of economic, social and personal development.

Stewardship for future generations

In the late 19th century, members of Imola's *societa' di mutuo soccorso*, or workers' mutual aid society, created this town's first cooperative bank: a member-owned and -financed credit union with a social mission to help support the working class in this small, backwater town in central-north Italy. Like so many other cooperative institutions around the turn of the 20th century, the Cooperative Bank of Imola was created by a local mutual aid society—the forerunner to both the Italian labor and cooperative movements. And like so many other co-operative institutions of the time the credit union was formed to help Imola's most marginalized citizens, in this case the unbankable: labor radicals, political activists, sharecroppers, cart-pushers, factory workers and the like.

Following their first year of profitable operation in 1904, the members of the credit union met to decide what to do with their profits (it was the first year that the new credit union ended in the black). While the law allowed them to distribute the profits back to the members in the form of a patronage dividend, co-op leaders decided not to. Instead, the members took all of that year's profits and locked them away into what they called "indivisible reserves:" a type of retained earning that could only be used to invest in the growth of the co-operative, but could never be

used to benefit members directly. Their intention was to set aside wealth to benefit “future generations.”

By naming these retained earnings “indivisible reserves” the members created a new type of social capital, before social capital even had a name. These reserves were equity, but equity that could never be paid out to members in any monetary form including patronage dividends, but instead could only be used to strengthen the enterprise for future generations. This new “currency”—which could only be paid out in the future, and then only in the form of opportunity. The funds would be “worthless” to investors, yet as it turns out, “priceless” to everyone else. Taking money out of the speculative economy, willfully non-monetizing something rather than the opposite, turned out to be a stroke of genius. And it was begot through the simple means of applying a lens of foundational values measured over time, rather than a lens of individual benefit measured in *lire*. Ownership and stewardship became indivisible.

From the perspective of today, it may be hard to understand how important this gesture was. In 1904, Imola was still a very undeveloped, rural economy. There were violent street clashes between the un- and under-employed and the large landholding nobility. The economic vibrancy and shared prosperity that defines this area today was still a utopian vision, captured in a poem on the city wall, but certainly not part of everyday life. Those early co-op members could certainly have used a few more *lire* in their pockets.

It is not clear exactly where the original idea of such “indivisible reserves” in Italy came from. One possibility is that it was a practice that originated with the mutual aid societies, the forerunner of the co-op. Another possibility is that it was a political inspiration of Giuseppe Mazzini—a radical democrat and ideological forebear of the idea of the modern Italian state, sometimes described as the Jefferson to Garibaldi’s Washington. Regardless of where the idea originated, this practice of setting aside indivisible reserves for future generations would have a profound impact on the development of the Italian cooperative movement, and would become a defining feature of Italian cooperatives in the 20th century. In fact, this practice would be codified into law with the 1947 *Basevi* laws that defined co-operatives a “mutual” or not-for-profit enterprises. Creating such indivisible reserves was a requirement in order to demonstrate the mutual, as opposed to profit-seeking, nature of the firm.

Under Italian law, all cooperatives must allocate a portion of earnings to long-term investment through indivisible reserves, and these funds are not subject to tax. In the unlikely event that a cooperative goes out of business or is sold, the untaxed indivisible reserves must be transferred to a special fund and used to help new and developing cooperatives. Perversely, American cooperative law creates just the opposite incentives—under American tax law, co-ops that distribute profits to augment individual wealth receive beneficial tax treatment, while the decision to retain funds within the cooperative—funds that can be used to bolster the enterprise against hard times, or create more jobs—are the funds that engender a tax; and U.S. corporate tax is one of the highest in the developed world for smaller, domestically-based enterprises without the wherewithal or inclination to invest in elaborate foreign operations as “tax avoidance” strategies.

A 2003 change in the law reduced the indivisible reserve tax benefit to only 30-70% of retained earnings, depending upon the co-op (30% of profits is the minimum indivisible reserve required by law; additional profits may be distributed or retained as the coop sees fit). Despite the diminishment of the tax advantage and although no longer required by law, the majority of cooperatives in Italy still routinely set aside 80-90% of their annual profits in these indivisible reserves. In a region with scarce investment capital (the average size of the region’s 400,000 plus firms is just 3 employees today), the cooperative movement’s indivisible reserves came to serve an important social and economic function. In the Imola area alone, the cooperative firms today have net assets of more than 1.5 billion euros—the majority of which are in the form of indivisible reserves.

These reserves—which can’t be paid out in the form of dividends to members—play the vital role of patient and risk capital for the region: allowing firms to invest in new technology, plants and equipment as well as international expansion and acquisitions. Such indivisible-reserve-fueled growth benefited the entire region’s economy: co-operatives were often the first firms in the region to develop sophisticated processing and marketing capabilities for the region’s agricultural products, including milk, cheese wine and meats; manufacturing co-operatives frequently play the key role of “lead firm” for a network of hundreds and thousands of smaller firms that make up their supply chain.

Because indivisible reserves can only be used to benefit future generations, co-op leaders and managers are freed up to make the kinds of long-term investments in growth that is often impossible for managers in publicly traded corporations, whose owners demand short-term returns often at the expense of long-term growth and stability.

Stewardship

Noun: *stew·ard·ship* \ 'stü-ərd-, ship 'styü-; 'st(y)ürd- \:

- 1: the office, duties, and obligations of a steward
 - 2: the conducting, supervising, or managing of something; especially the careful and responsible management of something entrusted to one's care
“stewardship of natural resources”
-

This focus on future generations—exemplified by the practice of indivisible reserves—is why so many leaders in the co-operative movement speak of the co-operative, not as the property of its members—but as an “asset of the community.” In the Italian cooperative system, the job of an owner is to be a steward in a market economy. Not to maximize shareholder value, but to maximize *stakeholder* value, to maximize the value of the asset under your care, for all to whom that asset is relevant. In this frame, members are merely “temporary beneficiaries” of an asset they must “protect for future generations.”

It is common in the United States to talk about the members of a cooperative enterprise as the co-op's *owners*, as in worker-owners, consumer-owners, etc. In fact, this language is designed to make members think more expansively about their role: “I'm not just a worker, I'm an owner” or “I'm not just a customer, I'm an owner” etc. However useful in that context, this language can make it difficult to try and understand the relationship of members to their co-ops in Italy, as well as in explaining the peculiar behavior of the co-ops themselves.

A more apt term when describing the relationship of Italian co-op members — their role, rights and responsibilities — to their co-op is therefore “stewardship.” Stewardship is commonly applied to public goods like natural resources, the environment, values, culture or language. Stewards, those “entrusted with the careful and responsible management” of a resource, must think about the interests of *future* generations, as well as the interests of the people or communities that currently benefit from the resource. A steward may also be called on to negotiate conflicting interests--both among different beneficiaries and between current beneficiaries and future beneficiaries.

In contrast, rarely do we think of the owners of a business as its stewards. In fact, executives of corporations in the United States are bound by a fiduciary responsibility to “promote the value of

the corporation for the benefit of its stockholders.”

“The co-op is dead when someone thinks they are the owner”

Maurizio Brioni, Fondazione Barberini

When shareholders perceive that management has deviated from this prime directive, they have standing to sue the Board of Directors in a court of law to demand a change in direction. Shareholders have

even succeeded in forcing management to prioritize short-term shareholder gain at the expense of the long-term health, and even survival, of the company.

Italian co-ops, on the other hand, are designed from the start to be managed for the benefit of the local community and future generations. Current members are merely “temporary beneficiaries” whose responsibility is to steward the co-op — the “patrimony of the local community” — for the benefit of future generations.

Imagine that a friend asks you to invest \$100,000 in a company. In exchange for that investment, you could have a job at that company, a vote in electing the Board of Directors and the company’s top leadership, and the ability to vote on the firm’s annual budget. In exchange, the company agrees to pay you a fair salary, and a return on your initial investment of around 6% per year, plus a modest dividend (and because this firm is in the heart of Italy’s famed food producing region, likely you would also get the opportunity to go home for lunch every day to a delicious bowl of *tagliatelle alla Bolognese* instead of eating at your desk).

There is just one catch: unlike in a private firm, your equity will not grow through retained earnings. Instead, most of the profits each year (at least 80%) will be locked away in an indivisible reserve account. Those reserves will be used to invest in the growth of the company but will never be used, in any way, to benefit you or any other individual investor. No dividends can be paid to the owners on those reserves, nor can those reserves be used for a stock buyback. (In fact, those reserves could not even be used to invest in another company in which you held stock.) If a competitor decides to purchase the business — even if they pay a premium — you would only receive the value of your initial investment. Further, in the event of such a sale, the remaining assets (what would have been shareholder equity in a private corporation) will be

donated to help other businesses grow, not unlike how a non-profit in the United States would donate its assets to another non-profit in the event of closure.

To some this might sound bizarre — a violation of the basic laws of nature (or at least the laws of neo-classical economics) but this is what happens every year — and has been happening for more than 100 years--in the Italian cooperative movement.

The future of stewardship

Knowing that the law no longer requires that a majority of profits be locked away into indivisible reserves, one of our goals during our recent field research in Italy was to determine the impact that this has had on the practice of indivisible reserves. In the past, there were powerful tax advantages for the co-op tied to investing the majority of net revenues into indivisible reserves. That advantage is now significantly diminished (in many cases, firms can now only receive a tax benefit on 30% of the profits invested in indivisible reserves). Perhaps members in large, successful co-ops would be motivated to capture more of that wealth for themselves at the expense of future generations?

This is a question that we asked during each interview that we conducted, with individual co-operators, leaders in the movement and other observers. Despite changes to the tax code that provide less external incentive to invest in indivisible reserves, Italian co-operatives continue to invest the majority, 80-90%, of their annual profits into indivisible reserves. Our suspicion—that this was a practice rooted in deeply-held values and not tax policy—was confirmed.

What was perhaps more impressive, is the deliberate way this value is communicated to new generations of co-operators. From the ten-year-old culture management firm *Artemisia*, to the new co-ops born of worker buyouts of failed private firms following the recession, this core value is embodied in the practice of setting aside wealth each year for future generations.

Stewardship is not a foreign concept to North Americans; it a core value in other areas of our lives, just not in business. Arguably one of the greatest achievements of the American Experiment ever is our vast portfolio of national parks, a priceless part of our heritage tantamount to the family jewels, that is not now, and presumably never will be, for sale. A more

colloquial and favorite example among U.S. cooperators is the Green Bay Packers football team—a community-owned franchise worth millions, one of the most successful in the league, whose stock is held by fans and can only be sold to benefit a community nonprofit (so powerful, in fact, is the specter of community ownership of sports teams that it is now forbidden by the NFL as well as the governing bodies of all other major sports). We in fact *do* know how to do stewardship; we just most often chose not to.

Agency

Human agency as a concept and a right has its origin in Enlightenment thinking. Despite this pedigree, “agency” is one of the most difficult concepts for well-intentioned systems-changers to embrace; yet it is core to the concept of democracy itself, and central to the effective practices of the Italian cooperative world. Human agency is simply the capacity for human being to make independent choices. The degree to which actually human agency is independently exercised versus being influenced by structures such as religion, class and culture is an ongoing debate in sociology, and beyond the scope of this paper. For our purposes, “agency” is the concept that those in power may not be the only ones with a good idea, and that for an idea to see the light of day its holder will have to convince other equally-committed people that his or her point of view should prevail—you have the means and ability to propose your ideas, and your colleagues have the means and ability to evaluate them and propose alternatives of their own.

Cooperatives, as democratic institutions, involve all members directly and regularly in making certain core choices on behalf of the organization. In the Italian context, the cooperative structure of course influences the agency of each member—only individuals that have met the requirements can qualify as members, and

members are empowered to make choices only at certain intervals and about certain things. These limiting factors operate both directly through bylaw provisions, and indirectly through the culture of shared values underlying the formation

and operation of all the cooperatives. Yet the effect of this agency, despite its limited parameters

“If we have reasons to believe in political democracy, we have to defend co-operatives”
Stefano Zamagni, University of Bologna

— or it could be argued, because of the very specific nature of the limiting parameters — is truly remarkable.

A core example of such agency is the requirement under Italian cooperative law for the full membership of any cooperative to approve the annual budget. This degree of transparency not to mention ceding of control would be virtually unthinkable in any American company, large and small, cooperative or not. Yet it happens, every day and every year in the thousands of successful Italian cooperatives. Why? Because the practice supports and contributes to a culture of transparency and shared interest, and because it keeps company management on their toes in a good way. It requires them to think things through from multiple perspectives, and be able to articulate and defend to common members their plans and preparations for stewarding their shared enterprise. Co-op members cannot invoke line-item vetoes, or micro-manage the process (the vote is simply up or down to the budget presented) but the practice is rigorous enough to provide fertile grounds on both sides for better understanding and engagement.

In addition to the annual budget, all cooperatives (not only in Italy, but across the world) actively engage on a one-person, one-vote basis in selecting the board of directors. But in Italy, cooperative governance is not merely an annual event, as is so common in American coops. The most effective Italian cooperatives also spend significant time and effort on a daily, weekly or at least monthly basis in engaging ordinary members in articulating and refining the strategic direction of the company. This democracy does not, it is important to note, frequently extend to decision-making at a work place level. While some Italian cooperative workplaces are more participative than others, in general the managers' roles as decision-makers on a day-to-day basis is respected and upheld in a fairly traditional way. The key difference is that there is a common understanding of core values and strategic direction, and the members have an elected board of directors to whom they can turn for clarity and accountability in putting those values and plans to work.

While “engagement” may happen in other progressive workplaces, democratic voting on issues of company-wide significance almost never does. And that is really unfortunate, because such “agency” is a core reason why the Italian cooperatives are so very good at so many things that

we profess to think are important in our economy and society (equity, full employment) and a vital ingredient missing in most social enterprise efforts purportedly aimed at achieving these same things.

In the cooperatives (and this is all cooperatives, not just the Italian variety) agency stems from ownership. “Who owns it, who controls it, who benefits from it” is a pithy way that cooperatives differentiate themselves from investor-owned businesses or social enterprises, because in cooperatives the answer to all three of these questions is always the same: the members. If this role of agency in a common enterprise is to be taken seriously and not circumvented (note shareholder voting in publicly traded firms) then it requires the coop take on a number of practices that it turns out are beneficial for the long-term health of the company. Membership criteria must be carefully established, members must be kept educated and informed not only about company performance but about market-wide competitive conditions (see below), and the firm must make regular provision for the polite, but sometimes pointed exchange of ideas.

The role of Board President is also a much different concept in the Italian cooperative system than we hold in American stock companies, and even in many large American cooperatives. The idea of conflating President and CEO into a single role would be ridiculous to an Italian cooperative, because the jobs are completely different. In large cooperatives, the role of Board President is a full-time job; the job is not to run the company (management’s role) but to represent the members: standing in for them in public forums, advocating for them both inside and outside of the company, gathering industry and market information relevant to the company, and making sure members are well-informed decision-makers.

Albert Hirschman first articulated the now commonly-accepted concept of “Exit and Voice” and added the additional interplay of “loyalty”. “Exit or Voice” means simply that any individual faced with a difficult situation, whether he or she be a disappointed customer, unhappy worker, or oppressed citizen has two basic choices: They can “exit” the situation in search of better terms (buy a new product, find a new job, emigrate to a better country) or they can attempt redress by changing rather than leaving a situation through “voice” — make a suggestion, file a complaint, or hit the streets in protest. To these two stark options, Hirschman added a third

concept of “loyalty” as a mediating device — the more loyal an individual is to an organization, brand, or country, the more motivated that person will theoretically be to seek improvements rather than exit. And a key ingredient of “loyalty” is the degree to which individuals feel their “voice” is to some degree being heard, the degree to which they have confidence that the future will bring desirable results.

Subsequent critics of Hirschman have pointed out the difficulty of exercising positive voice in many contexts, particularly in employment where any kind of complaint may brand one as “disloyal” and a trouble-maker. In the Italian cooperative context, the legal role of agency provides just such a positive means to express ideas and concerns, and in turn, cement the loyalty of customers and employees to the long term (shared) goals of the enterprise. This moves the conversation, particularly in the employment context, from one of tactical confrontation to one of strategic engagement — more polite, more focused, and more likely to achieve lasting positive results.

A focus, as above, on the enterprise benefits of an engaged cooperative membership does a profound disservice however, to the more complex and comprehensive outcomes of a widespread practice of democratic agency, when that agency extends to those very institutions that most directly affect someone’s lives. As noted cooperative scholar Ian MacPherson points out

“a simple listing of registered institutional strengths undervalues what a movement means for the people involved in it . . . similarly the statistics do not reflect the social role that co-operatives play and have played historically among ethnic communities . . .how communities have come together in rather remarkable displays of community activism and empowerment to meet pressing social needs . . . they do not show how people have transferred what they have learned through co-operatives to other economic or community-based activities.” (McPherson 2010¹²:37)

¹² Ian MacPherson 2010 *Cooperatives and the social economy in English Canada: Circles of influence and experience* in JJ McMurtry (ed.) in *Living Economics* Emond Montgomery publications, Toronto: 35-56.

This social impact of effective cooperatives to offer tangible skills and guidance of a way for the disempowered to positively affect their world should not be dismissed. In the US, a large portion of American leaders of the civil rights movement had early and seminal roles as leaders of cooperatives.¹³ A tantalizing new economic study led by Richard Freeman of Harvard found that children—all children, not just those whose parents joined unions—achieved greater rates of social mobility in cities with a higher concentration of union membership¹⁴, even when all other economic and social variables are accounted for; unions are, of course, another form of democratic institution where widespread agency is the norm. Through these and numerous other examples, it is clear to see that the widespread and positive consequences of the experience of effective agency are not just so much extra icing — they are part of the cake. It is why ownership matters, and why agency matters, and cooperatives are the way that these two things have historically been most effectively joined across the world.

When seen in this context it is also clear why a paternalistic nonprofit approach to solving vital social issues like unemployment or inequity are frequently not much more effective in the long-term than oligopolistic capitalist trickle down solutions are—advocacy is not the same as agency any more than generosity is the same as justice. There are no proxies in real life. It is certainly possible to delegate authority, and Italian co-op members and boards do that all the time. It is part of a healthy and trustful system of operation. But delegation is not the same as acting in someone’s place. Without the legitimacy of agency, an action, however benevolent, loses its transformational potential, becoming just another thing done *to* someone rather than with their assent.

Clarity and transparency

The concept of agency establishes shared rights and that of stewardship, shared responsibilities. The third core value we identified in the Italian cooperative system is the one that facilitates the

¹³ For example, Ella Jo Baker, Mrs. Thurgood Marshall and several early leaders of the Federation of Southern Cooperatives. See Jessica Gordon Nembhard, *Collective Courage: the History of African American Cooperative Thought and Practice*, Pennsylvania State University, College Park, Pennsylvania, USA 2014.

¹⁴ Norm Scheiber, “How an Area’s Union Membership Can Predict Children’s Advancement, *New York Times*, the Upshot, September 9, 2015.

effective interplay of these two things—both the glue and the grease—and that is shared information.

“Transparency” is an over-used word and sometimes not-quite-sincere concept in corporate America, and for that reason we hesitated to use the word. Yet at its core definitional state “free from pretense or deceit”, it well describes the Italian cooperative approach to information. All members of Italian cooperatives have access to regular and substantive financial information about their cooperatives. In fact, it is common practice even among those of substantial size with multi-national holdings to put key financial reports right on their website where anyone may see them. Such a forthcoming approach to financial information would be almost unheard of in many American companies, where data about privately-held companies is jealously held, and required data from public companies’ data seems almost willfully obfuscated.

Some may fear that to share such data would leave a company vulnerable to a competitor; that is certainly the reason that is frequently given for the secrecy that prevails in American boardrooms. But that doesn’t seem to happen to the Italian cooperatives. Perhaps the fact that co-op managers and members alike are joined in the pursuit of a long term venture makes them

“the co-op is the form of incorporation that is the best expression of our friendship”
Stefania Comomori, co-founder, Alba Progetti

less afraid of short-term competition and more confident in taking their own path; it may also well be that thanks to indivisible reserves the co-ops are generally very well-capitalized, and thus in a position to dictate

their own terms and not respond to the threats of others. Whatever the reason, fear is absent from the realm of financial information, and in its place the more productive practices of understanding, engagement, creative thought and commitment are able to flourish.

To the common phrase of “transparency” we also add the concept of “clarity,” for the practice of Italian cooperatives is not just to share information, but to share the understanding of it. When we talk about economic democracy, and the fact of a high-school-educated former press operator serving as the Chair of the Board (and serving very well) of a 400 million euro worker-owned company with operations across the globe, the story seems fantastic, as in, a fantasy. But it’s

not. Ownership of Italian cooperatives is a serious business, and this is particularly true of those coops that are owned by the workers themselves. Membership criteria may be steep in terms of investment and tenure, and members view their status as a solemn responsibility. The precursor to the annual meeting where members gather to approve the annual budget, for example, is more than likely months of meetings held with members within divisions and departments to gather the best information from across the organization and make sure that member-owners are well-informed.

“Open Book Management” where key financial information is shared among regular workers and financial skills are honed, is a growing and laudable practice in the U.S., and another example of why these concepts we are emphasizing in this paper are not completely foreign to American ears. The difference, however, lies in the combination of them, the linking, for example, of the value of “clarity and transparency” with that of “agency” discussed above. Italian cooperative members do not study financial information because it is a game, or to make the company more money, or to make their bosses happy. They do it because it is their responsibility to act with thought and seriousness as a steward of an asset that is important to their families and their community.

Financial information access and training, the “clarity” part of “clarity and transparency” may be compared with the early concept of free and universal public education in the U.S., a major advancement over thinking in Europe and the rest of the world, advocated for (effectively) as a key tenet of meaningful political democracy. “How can citizens educate themselves and have a meaningful vote if they cannot read”? early social advocates asked their peers. Of course, they could not. And similarly, members of Italian coops cannot be effective stewards of their own enterprises if they do not have the information and understanding to do so; providing this through a culture of clarity and transparency is therefore a third core value that distinguishes the Italian cooperative practice from those of other enterprises across the world.

Co-op structure and values

Every cooperative throughout the world operates on the central democratic principle of one member, one vote. But the definition of membership and the fundamental objective and function of the individual cooperative means that democracy, and therefore the core values of stewardship, agency and clarity/transparency, operate differently in different kinds of cooperatives. A useful distinction made by Italian cooperators is the difference between cooperatives whose members are workers engaged in a common enterprise, cooperatives whose members are small businesses engaged in joint business activities, and cooperatives whose members are individual consumers whose common denominator is simply a desire for a similar consumer good or experience.

In a worker-owned cooperative enterprise, all of the members are engaged in the joint operation of a single enterprise, often at a single location, that is the main source of income for most, if not all, of the members. Because of the necessarily central role that the co-op plays in the lives of these members, and because of the high degree of information that members have about the enterprise just as a function of going to work every day, the level of overall engagement in these types of cooperatives tend to be high. Members may not agree precisely about the way in which the values of stewardship, agency and transparency should be applied in a particular instance, but it is easy for all to see how these values pertain.

In farmer marketing cooperatives or purchasing cooperatives made up of small family-owned grocery stores, the application of these values is a bit more remote. In this case, the central enterprise where many hours are spent and upon whose success the family fortune relies, is not the cooperative but the family farm or store. The co-op certainly aids the family business in being more successful, and many cooperative members understand and appreciate this. But the fact remains that for most, the cooperative is the second-most important enterprise at best. One advantage of these kinds of cooperatives is that a high proportion of members are experienced business owners; the disadvantage is that their attention is divided, and engagement may be limited. This is not to say that the cooperative model doesn't work in these instances. In fact, some of the most successful and long-lived cooperatives in the world are producer cooperatives

of this kind. It is only to say that it is easier for the values to get lost in a setting where members are more remote from the daily operations of the co-op. Therefore, it is more important than ever that the application of the core values be systematic and institutional.

In the third kind of cooperative—representing consumer co-ops, housing co-ops, electric cooperatives and the like—the distance between member and cooperative enterprise is even greater. In these cases, the co-op may provide a useful good or service, but not one that is central to the well-being of the members' household. After all, if you don't like the food co-op you can just shop someplace else. These are the kinds of cooperatives where—even in Italy—the members are typically the least engaged, are most likely to defer automatically to management and also where the highest proportion of “free riders” exist—members who enjoy the advantages the cooperative delivers, but shirk the responsibilities. Again, this does not mean that these kinds of cooperatives cannot be successful; only that the application of the three core values must be consistent and deliberate or they could be easily lost. In some sectors (social service cooperatives in Italy, consumer cooperatives in Mondragon, Spain) cooperatives inoculate themselves against the kinds of issues produced by the distance between member and co-op by using a hybrid worker-consumer ownership and governance structure.

System support

The three core values of Stewardship, Agency, and Clarity/Transparency can be seen working together within each successful cooperative in the Italian system; to the extent any one co-op is failing, or is seen by its unions, community or other partners as being not up to snuff, the problem can most likely be traced to a weakness in the application of one of these three core elements.

A fourth core value however, has to do with the way in which the cooperatives in Northern Italy relate to each other; why the system functions so well as a *system* is that these values are seen as applying not just in relation to each cooperative itself and its members, but also in the relationships *between* cooperatives. It is quite common for American cooperatives to see their responsibilities ending at the threshold to their own business; while “cooperation among coops”

is a core cooperative principle,¹⁵ its practice is subject to wide interpretation and often weak application. In the Italian system in contrast, the same core values that are at work within a cooperative are also readily seen in the extensive and sophisticated system that has been built up to support the growth and development of all cooperatives within the country.

Throughout Italy, cooperative enterprises are organized into peer associations, both by industry and by geography. So, a grocery cooperative, for example, would belong certainly to a local, regional and national association of similar grocery cooperatives and it would also belong to geographically-based associations of cooperatives operating at the local, regional and national level. These larger organizations at both a regional and national level can provide a troubled cooperative with direct advice and assistance, and in addition have organized various other secondary organizations and entities that exist to assist member cooperatives in their everyday business dealings. These include UNIPOL, the national insurance agency owned by cooperatives, a wide variety of financing entities providing financing from small start-up organizations to multi-million euro transactions, a master's degree in cooperative management at the prestigious University of Bologna to train co-op leaders, and a wide variety of other specialty services depending on the needs and aspirations of cooperative leaders in a particular area. In Emilia-Romagna for example, there is a special real estate fund that assists regional cooperatives with the acquisition and financing of real estate.

Wealthier cooperatives willingly contribute to this system (in fact, 3% of all cooperative profits go to fund a pool of development capital) because stewardship of the movement is as much their responsibility as stewardship of an individual cooperative. Local, regional and national associations are democratically run, and resources are moved across the system to engender the best results. Successful cooperatives will often take on workers displaced by failing coops for example, and Coopfond, the development arm of the movement, has since the Great Recession succeeded in converting 48 failing companies to cooperative ownership, using financial resources supplied through the 3% tax.

¹⁵ One of seven core cooperative principles, see the International Cooperative Alliance www.ica.coop

What all this means for economic development in a local area is profound. Far from being on their own to figure out complex human resource problems, tax issues, industry trends, or real estate negotiations as American entrepreneurs are, small cooperative businesses in Italy have access to a sophisticated support network to turn to at every juncture. The result is that cooperatives in Italy, and especially in the Northern regions where the cooperative tradition runs deep, have a much higher degree of success than ordinary businesses. Cooperative enterprises in Italy—across sector and geography—routinely stay in business longer, fail far less frequently, and seldom lay off their employees.¹⁶

This commitment to stable employment if at all possible extends not just within each organization, but significantly across the cooperative community within each geography. When one cooperative is doing poorly and threatening to lay people off, other cooperative in the same locale will step in and try and hire those workers, a degree of solidarity it would be difficult to imagine happening in the U.S. Why do they do it? Why would a business go out of its way to take on the discarded employees of another? Why would large and successful enterprises self-“tax” themselves to support services for smaller enterprises in an entirely different industry? Under a system devoted to the enrichment of individual investors above all, of course it wouldn’t make sense. Under a system that looks at “value “and values differently, it does.

Stewardship of the community means not only making sure your own enterprise is sound and its stakeholders well-served, but also that members of your community are well-supported. This includes broad access to services including banking, grocery stores, and social services (organized on a cooperative basis of course), and it includes a commitment to minimize disruptive bouts of unemployment not only for your employees, but for the whole community. Small entrepreneurs are also not shut out of the system, as one of the largest branches of the cooperative movement in Italy is made up of purchasing cooperatives of small, independent, family-owned firms such as corner grocery stores.

¹⁶ There is interesting data from the US and Canada as well that cooperatives and employee-owned businesses also stay in business longer and lay off fewer workers in a recession.

In the U.S., companies that are large enough can purchase their own sophisticated experts on complex business and industry matters, and achieve economies of scale through their own large purchases. Small companies generally cannot. Small business owners in the U.S. frequently pay higher effective rates of tax, almost always pay higher rates for things like health insurance for their employees, and often must simply muddle through as best they can when confronted with thorny business or industry issues.

For American workers, business owners, and community members this choice between Big and Little is often a draconian one: work for a big company (or sell your own small company to one), and you gain access to many more resources, but at a significant loss of local control — over your company, over your job, over your own well-being. Keep your business small and independent, or work for one such, and you retain the ability to keep decision-making and priorities close to home, but at a significant cost of efficiency and sometimes stability. Fortunately, this dichotomy is not only draconian, it is also largely unnecessary.

In the Italian cooperative model, one of the striking characteristics of this large and sophisticated support structure is the degree to which it is devoted to its small, less sophisticated members. It is, in fact, the “bigness” of the system that allows the smaller, local enterprises to keep their local connection yet thrive in a way that they simply would not be able to otherwise. The bigness of the system does not eclipse the small; instead it illuminates it, nurtures it, and allows in to shine.

From the point of view of employees, customers, vendors, and local residents the difference could not be more stark. In a system whose value is measured only in money, small players will always lose out — it will almost always be more expensive to serve a small customer, buy from a small vendor, or keep open a facility with a small number of employees. In a system based on money, big usually wins. However, in a system that springs from values, where dollars are viewed as a means not an end, and where the power and value of agency and local self-determination is well-understood and appreciated, a different end results.

Despite the many hurdles and risks involved in small business ownership, Americans are an entrepreneurial lot; we work long hours, and try and try again because many of us understand

intuitively the priceless value of self-determination. Wouldn't it be better for us all if more people, more communities could enjoy such self-determination, with less risk and a higher degree of success? Cooperative entrepreneurship shows us a way to do "local" without it being synonymous with more expensive, more risky, and less efficient.

Co-ops in crisis: The Great Recession

Like other developed economies, Emilia-Romagna was hard hit by the 2008 Great Recession. The combined effect of the bursting of Italy's housing bubble and the collapse of domestic and global markets resulted in businesses closing, rising unemployment and a phenomenon not seen in this region since the end of World War II: long-term unemployment. Prior to the recession, unemployment in Emilia-Romagna was essentially frictional—as low as 2.5% in Bologna, the capital. That number doubled to 5% following the recession. It's estimated that number would have been as high as 7% had businesses not relied so heavily on the state's unemployment programs, which allows companies to put workers on temporary layoff or reduced hours, with a part of their lost wages made up by state unemployment.

The effects of the global recession were hardest on firms most dependent on internal (Italian) markets—and among the hardest hit firms were the region's co-ops. Long the backbone of employment in worker co-ops, almost all of the region's construction co-ops, like the 81 year old Coop Costruzioni, closed as a result of the bursting of Italy's housing bubble. The only construction firms to save themselves were those involved in big, civil engineering projects with customers outside of Italy and Europe.

Other historic firms closed as well, after burning through their indivisible reserves and exhausting unemployment benefits. For example, 3Elle, a leading producer of high-quality wooden doors and windows for the Italian housing market recently declared bankruptcy. Some of the members have reconstituted a new co-op, using the assets of the former co-op, but the new firm is a shadow of its former self. Others, like the legendary Cooperativa Ceramica di Imola—one of the oldest worker co-ops in Italy, survived, but at the cost of painful restructuring and employment cuts.

And, for the first time in the history of the cooperative movement, real scandals emerged that have resulted in civil and criminal actions against management, as well as the bankruptcy of some firms. One historic firm from Reggio Emilia whose elected president enjoyed a cozy relationship with management and the Board, began paying the mob in Naples in order to win public works projects—in part to generate enough revenue to support his expensive lifestyle. As Antonio Mattioli, a leader with the largest regional labor federation, CGIL, observed, the co-ops most at risk for this type of corruption were ones with a lack of effective democratic governance and management accountability, in firms that were overly dependent on the domestic market.

Though these cases of corruption were extremely limited, in a region known for ethics and good governance, these scandals have clearly shaken the cooperative movement's leadership and tarnished its image.

The recession also tested the ability of leaders to manage the tension between current members' needs and the interests of future generations. In some cases, co-operatives chose to spend down the indivisible reserves—bequeathed by past generations—to save members jobs, only to see the co-op go under: an explicit violation of the principle of stewarding the co-op as an asset for future generations.

At the same time, it is also clear that the reason why the region fared relatively well during the recession has, in large part, to do with the strength of the cooperative movement. Despite the collapse of the cooperative construction industry, between 2008 and 2013, the number of people employed by the cooperative movement actually grew by 7%, while employment in the private sector dropped by 5%. Of note, in an era of increasing precariousness in employment relations, the majority of the new jobs created by the co-ops are stable and long-term.¹⁷

¹⁷ http://www.emilia-romagna.legacoop.it/associazione/notizie/tra_il_2008_e_il_2013_occupazione_nelle_cooperative_7_nelle_impres_private_5.html

While most of the growth in employment in the co-ops has come through the expansion of social co-ops, co-ops that provide social and health-related services, largely through public contracts, the great recession has also seen increased collaboration between the labor and co-op movement to save failing firms through worker buyouts and co-op conversions. Since the great recession, the cooperative movement has financed and advised 48 worker buyouts of firms in bankruptcy—more than double the amount of worker buyouts in the preceding twenty years.

While small in scale from the perspective of number of employees involved, the scale of coordination in keeping these firms open and converting them to co-ops is unprecedented, involving Coopfund, the cooperative movement's 400 billion euro investment fund, CGIL the labor federation, and local bankruptcy courts and banks.

While some see these buyouts a form of welfare: merely buying time until the firms are bought by a larger company or the workers find jobs elsewhere, other observers see in these worker buyouts a rediscovery of the values and heroism that inspired the wave of co-op formation 70 years ago: the wave of co-op creation that gave birth to, what are today, some of the largest employers and most important anchors of the region's economy.

Conclusion

What we see in the Italian cooperative system is as close to a true practice of economic democracy as is seen anywhere in the world. The term “economic democracy” may sound frightening to some, or worse, ridiculous, but it is neither. It should be very familiar to us as Americans, because it effectively is a system where the things of which we are most proud are “indivisible”, they happen from combined effort of all and belong to a united us — past, present and future. And it is a place with “liberty and justice for all”. This is not state-sponsored socialism, nor is it rampant oligarchical capitalism. Markets are free, consumers have choice, people move between jobs as their skills and interests dictate and everyone has the opportunity to enjoy the just fruit of their efforts, both financial and otherwise.

We could choose to attack rise in inequality through redistribution; while that has its place, few in our society or any other have the stomach for the 50% or more¹⁸ tax brackets that that would entail as a solidary strategy. We could attempt to deal with it, as the Ford Foundation has led us, through philanthropy. Charitable giving certainly has its place as well; but we can't compel generosity, nor is it responsible to leave core functions of society to the whims of billionaires. It is eminently more sensible to deal with inequality at the moment that wealth is created, thus bypassing and preventing the problem rather than trying to resolve it later.

In a society where everyone is raised to be a warrior, you get Sparta; in a society where everyone is pressured to be an ambitious schemer, you get Rome (and the fall thereof). In a society where everyone is cooperative, you get a pretty good life. In the Italian cooperatives, democracy is used as an instrument to change the nature of the market, transforming enterprises and the people who work for them.

As many people will point out, Northern Italy is a unique and beautiful place. The wealthy and powerful independent Italian City Republics of Florence, Venice, Milan, Genoa, Pisa and Siena are a stalwart of Western Civics class. The University of Bologna, the oldest university still in existence in the world, was run for the first 400 years by its students; these are a people who know how to run things. “We have never” our friend Stefano informs us firmly “had a king; we have never had a dictator.”

And that is true; but then, neither have we.

“The cooperative is a very tight suit” for new coops, opined one of our informants solemnly, especially for those working in global financial markets; the restrictions inherent in being an agent of economic democracy in a world of finance capitalism can be daunting. And it's true—the coop is a “tight suit” in an age of international finance capitalism, and to pretend otherwise would be naïve.

¹⁸ The highest marginal tax rate for individuals in the U.S. was actually over 90% from 1944 – 1963.

But it's a well-cut suit; handsome, a bit under-stated perhaps, but well-tailored, and of a fine and timeless fabric; it's the work of proud craftsmen, built to last, handed down from one generation to the next. If an Armani suit is what the cooperative represents (and Armani himself, after all, was born in Emilia-Romagna), then perhaps it's time we spiffed up our wardrobe.

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A recognized expert on co-ops, labor and economic development in Emilia-Romagna, Matt is the author of *Compete to Cooperate*, a book about the cooperatives of Imola, Italy. From 2003 – 2006 Matt lived, worked, and studied in Bologna, Italy. As a consultant with *Istituto per il Lavoro* (Institute for Labor), Matt collaborated with European research centers, businesses and unions on action research into participatory forms of work organization, process improvement, supply-chain management and inter-firm cooperation. While in Italy he earned a Master's in Cooperative Economics from the University of Bologna (Italy). His studies focused on governance, finance, and strategy in the region's cooperatives.

Margaret Lund is an independent consultant specializing in the areas of community development finance, shared ownership strategies, program evaluation and strategic enterprise development. Her client list includes dozens of nonprofits, cooperatives and community development organizations. With a focus on democratic ownership, she works across cooperative sectors including credit unions, healthcare, sustainable food systems, and consumer, housing and worker co-ops. Prior to launching her consulting practice in 2008, Ms. Lund spent 15 years as the Executive Director a Community Development Financial Institution (CDFI) specializing in cooperatives and other community-owned enterprises.

Margaret is a past member of the board of the National Cooperative Business Association (US apex organization) and has served on numerous other boards including HealthPartners, the largest consumer-governed healthcare organization in the U.S. She holds a Masters' of Science. in Industrial and Labor Relations from Cornell University. Ms. Lund can be reached at mlund95@gmail.com.