

## CECOP position on EC's Green Paper: Restructuring and anticipation of change: what lessons from recent experience?

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### 1. Lessons from the crisis

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As pointed out in recent studies and articles, cooperatives are experiencing stronger resilience in times of crisis compared to conventional enterprises. In 2009 CECOP launched an annual survey among its members in order to assess the impact of the crisis on affiliated cooperatives<sup>1</sup>. Since 2009 results of the surveys point out a better situation for worker and social cooperatives compared to conventional enterprises of a similar size and active in the same territories. CECOP members do report difficulties especially in the "second wave" of the crisis (from 2010 until now), but they also report relatively few job losses and cases of enterprise closures in spite of small variations according to the sectors.

In 2011 some positive results have even been noticed: in France cooperative closures and job losses have decreased; in Italy, according to Federlavoro e Servizi<sup>2</sup>, 68.3% of cooperatives kept the same level of employment and 18% reported an employment growth; in Spain, COCETA<sup>3</sup>, reports 13.336 new jobs in the service sector.

Furthermore, the number of worker cooperatives start-ups is increasing: in fact people interested in creating an enterprise are choosing the cooperative model in order to respond to new economic realities. According to the ILO, even in the current context of recession, an increase of cooperative start-ups has been noticed<sup>4</sup>.

Specific measures adopted by cooperative worker-members (reduction of costs and working hours/wages, use of reserves, subcontracting, production changes, etc), have helped to save jobs and enterprises, but the effect of those measures starts to be weakened as the crisis persists and if they are not followed by effective measures of economic stimulus. In the situation of crisis, the inherent advantages of the cooperative model are not sufficient to overcome the large-scale economic recession in the ongoing crisis, therefore public policies and measures are important.

- **Innovative measures in order to save employment**

Support services, as well as specific cooperative financial instruments developed inside the worker and social cooperative systems, are providing great support and solutions for the development of cooperatives and are particularly useful in crisis time. Many cooperative enterprise could not have found similar services or financial support out of the cooperative system and would most probably be much more affected by the current crisis.

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<sup>1</sup> CECOP annual report can be found here: [www.cecop.coop](http://www.cecop.coop)

<sup>2</sup> Federation of worker cooperatives in production and services (around 5.083 cooperative enterprises)

<sup>3</sup> Federation of worker cooperatives (around 18.986 cooperative enterprises)

<sup>4</sup> ILO, "Resilience of the cooperative business model in times of crises", available at the address <http://www.copac.coop/publications/2009-ilo-coop-resilience.pdf>, p.2.

But cooperatives are not relying exclusively on solutions from cooperative federations. In order to resist the crisis and better adapt to its consequences, most of our affiliated cooperative enterprises have put in place, since 2008, creative and innovative measures inside the enterprise.

Two levels of complementary measures have been observed:

- short term “emergency” measures: reduction in wages and working hours, efforts to reduce costs, the use of cooperative reserves<sup>5</sup>, solidarity measures among different cooperatives, limitations in investments, subcontracting etc
- long-term measures: investment in training for workers, technological innovation, product changes etc

Especially in crisis time, cooperatives’ strength lies in their governance model<sup>6</sup> that has allowed cooperative members, in emergency situations, to take, sometimes very quickly, adequate decisions in order to save jobs or the activity of the enterprise.

## 2. Business transfers

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One of the major challenges when we talk about restructuring is the transfer of businesses which would, otherwise close down. Very surprisingly, the Green Paper allocates only few lines to this issue. 2008 Communication “Small Business Act for Europe” mentions business transfers as one of its priority actions. More recently, a European Commission – DG Enterprises and Industry - study “Business Dynamics: start-ups, business transfers and bankruptcy” published in January 2011 indicates that “approximately 450.000 firms with 2 million employees are being transferred each year across Europe. The study estimated that every year, there is a risk of losing approximately 150.000 firms and 600.000 jobs due to inefficiencies in the business transfers system.”<sup>7</sup>

CECOP considers that, in the current context of economic crisis, business transfers should remain a priority in future EC’s policies and initiatives on restructuring.

In the few lines on business transfers we can find in the Green Paper, the issue is addressed only from the “failed entrepreneur” side and mentions measures only in favour of a second chance for the failed entrepreneur. Considering the fact that this is an initiative from DG Employment, it would be essential, according to us, to put more stress on the employment dimension. Successful business transfers save jobs and thus prevent workers from unemployment and risk of social exclusion. They also create a favourable environment for new jobs: 2008 Communication “Small Business Act for Europe” indicates that more new jobs are created in successfully transferred enterprises than in start-ups. For this reason business transfers should not be addressed only as a career perspective for one man – the failed entrepreneur - but as an employment and social solution for European citizens and regions, particularly relevant in current situation of massive jobs losses and enterprises closures.

- **Business transfers to employees**

CECOP strongly deplores that, within the framework of business transfers, there is no mention of business transfers to employees in the Green Paper. However, in the 2009 toolkit which aim was to help companies, workers and their representatives to better manage and anticipate business restructuring “in an economically efficient and socially responsible way”, annexed to the Communication “EU Shared

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<sup>5</sup> Cooperative members allocate a percentage of their annual benefits to reserves in order to reinforce the equity and ensure thereby the sustainability of the enterprise

<sup>6</sup> In cooperatives, the internal democratic control is based on the principle of “one member, one vote” whatever the capital share held by the respective workers.

<sup>7</sup> [http://ec.europa.eu/enterprise/policies/sme/business-environment/files/business\\_dynamics\\_final\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/business-environment/files/business_dynamics_final_report_en.pdf)

Commitment for Employment”, the EC had recommended to employers to consider the option of enterprises being bought out by the employees before contemplating redundancies.

This lack of reference to business transfer to employees in the Green Paper is occurring in spite of the fact that the cooperative system has a very rich record of experience and high-level expertise in this field, with a high rate of success, comparatively low costs and high policy significance for European industry.

In this respect, lack of knowledge about the success rate of business transfer to employees and about the factors of success appears to be widespread, from the European level down to the local level. Often, the problem encountered in business transfer to employees in case of bankruptcies is not only a question of bureaucratic length as mentioned in the Green Paper in the case of the “failed entrepreneurs”, but often, and even more importantly, of lack of knowledge amongst professionals (eg lawyers, accountants, etc) and the judicial system, about this scenario. Training for professionals, judges, etc would be essential in promoting this practice.

Nevertheless, this does not mean that business transfers to employees have stopped or even decreased since 2009. In fact the opposite is true. A considerable number of cooperative enterprises from our network are the result of businesses meant to close that have been bought out by the workers and re-established under the cooperative form.

This type of business transfer is even on the increase with the ongoing crisis, especially in France, Italy and Spain. CECOP French member, *Confédération Générale des Scop* (CGSCOP), has accompanied 76 successful business transfers to employees in 2010, and 52 in 2011 (transfer of enterprises in crisis, enterprises without heirs and conversion of associations in cooperatives). More than a thousand of jobs were saved in those enterprises, without mentioning all the upstream, downstream and surrounding local economic activities whose jobs are also at risk when an enterprise has to close down.

The sustainability of such operations is the fruit of a considerable level of expertise in the specialised organisations, such as cooperative federations, and also of non-banking instruments of the cooperative movement and cooperative banks. The role of public authorities, at national and regional level, is crucial for the success and sustainability of such business transfers. Preventing enterprises from closure is in the whole interest of the regions: social exclusion is avoided and local wealth and skills are maintained. In France, for instance, regional authorities frequently collaborate with CGSCOP regional federations and support financially business transfers to employees under cooperative form.

The conversion of enterprises in crisis into healthy cooperatives requires a precise diagnosis. This is absolutely key to the success of the conversion cases. In addition, the earlier the diagnosis can be established, the most successful and sustainable the restructuring will be. The authorities at all levels should cooperate with the cooperative system in facilitating the establishment of early diagnoses of enterprise crises and of the feasibility of transformation into cooperatives.

But we must often deplore very reactive policies from local authorities in the field of business transfer to employees, who often know about enterprise crises long before the cooperative system does. By so doing, the restructuring process are often more costly, even though the cooperative system does keep them to a minimum thanks to the funding capacity of its financial instruments and of the workers themselves.

The various dimensions of local/regional development (economic, social, environmental and regional impacts) and the fight against economic desertification of regions is another strong argument for strongly advocating the promotion of business transfers to employees, not only in crisis scenarios, but also in cases of healthy enterprises that are going to close down definitively because no one is buying out the business.

CECOP considers that, in the current context of economic crisis, it is more crucial than ever to promote all type of business transfers, including business transfers to employees. In the current situation, the EU

cannot afford to deny successful experiences of jobs being saved. CECOP wishes also to underline that business transfers to employees under the cooperative form should not be considered as a conjunctural policy, and that, instead, what is at stake here is saving employment but also the maintenance of local wealth and the economic development and social cohesion of entire European regions.

### **3. Enterprise groupings**

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The establishment of horizontal groups, consortia or clusters also represents an important instrument for small and medium cooperatives active in industry and services (including services of general interest) to strengthen innovation and competitiveness and adapt to new market challenges. In Italy, for instance, “network contracts”, introduced in Italian legislation in 2009, is a very useful instrument in crisis time that allows companies to form groupings among themselves geared towards specific targets (eg innovation projects, exports etc) while keeping their own legal autonomy.

One of the major advantages of the horizontal groups, consortia or cooperative networks during the crisis is their ability to relocate workers from one cooperative to one other. Within the Mondragon cooperative group (Basque Country), workers from a cooperative that closed down have been offered the possibility to work in another cooperative from the group. In this way, no jobs were lost. The relocation of workers is not practiced only when a cooperative from the group/consortia/network closes down: hundreds of workers from cooperatives active in one industrial sector undergoing the brunt of the crisis (eg automotive industry) have been temporarily redeployed in cooperatives active in other enterprise sectors which, at the same moment, have been less affected. This type of jobs restructuring is also a way to respond better to fast-changing sectors, market or economic transformations. This practice goes in line with what is described in the Green Paper as being the “challenge of adaptability of businesses and employability of workers” while in the same time it offers employment security to the workers.

The experience of cooperative groups should be highly promoted among SMEs at large. This clustering process would provide SMEs with the opportunity to pool resources in order to occupy a larger portion of the globalized chains of production, distribution and finance which are increasingly dominating the industrial system, instead of remaining sub-contractors dependent on few clients (see the attempt of the Mondragon group to produce an electrical car out of a collaboration between 22 out of the over 100 industrial cooperatives of the group). In addition, few SMEs can generate meaningful R&D, and, when they do, they are sometimes acquired by large groups in order to acquire the generated knowledge. Pools and clusters of SMEs can in turn create the necessary business scales to do innovation.

### **4. Adequate financial instruments for enterprise restructuring**

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The different restructuring processes described in this paper would be difficult to achieve without the support of the cooperative non-banking financial institutions. In fact, created by the cooperative movements, they are geared towards the entrepreneurial development of cooperatives. They intervene according to different modalities, such as the business transfers to employees under the cooperative form, enterprise startups, enterprise development, modernisation, innovation and internationalisation. They use different financial instruments, such as subordinated loans, risk capital, participatory certificates, or guarantee funds. More importantly perhaps, none of them are purely “financial” organisations: they all have a critical follow up and advisory role: in this sense, they are full-fledged development organisations, in full support of the employment creation and social inclusion mission of cooperatives.

### **5. Challenge of adaptability of businesses and employability of workers**

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CECOP agrees that quality retraining in the context of lifelong learning of workers is crucial in order to maintain high and adequate employment levels. In this sense, cooperatives invest a lot in workers lifelong and cross-skills learning. In some cooperatives workers are asked to switch from different task in order to

gain a broader perspective of their tasks, enlarge their skills and maintain their motivation and thus their productivity.

A more adequate school and university curriculum would also be necessary in order to better prepare future workers or enterprise managers. Diversity of enterprise legal forms, including the cooperative one, should be included in business programmes. CECOP Romanian member, National Union of Handicraft and Production Cooperatives, has for example established a countrywide educational and vocational system, at technical and university level. Once graduated, young people are offered a working place in a cooperative.

## **6. Innovation, capital accumulation and investments, and industrial skills**

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There is a strong relation between innovation and capital accumulation. A number of industrial and service cooperatives (eg the above mentioned Mondragon electrical car, with research financed by own funds, or social cooperatives involved in social services to handicapped people today, and yesterday spearheading services to AIDs patients) have been able to proactively pioneer and self-finance innovation projects.

Furthermore, firms that have the practice (and founding mission) of maintaining jobs as much as possible and at the same time of practicing participatory management, such as industrial and service cooperatives, are also able to retain in the enterprise and pool together the necessary know how to produce innovation, both technological and organisational.

There is a general lack of a working relationship between universities, especially in management and technical skills, and enterprises. The Mondragon group has been able to develop to such an extent that it has established its own university where proper industrial skills can be learnt in connection with the business reality. Higher education needs to be far more connected to the needs of industry and of enterprises.

## **7. Services sector**

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Social cooperatives, specialising in the provision of general interest services (social, health, environmental, educational services etc), in particular when they include into the membership the various stakeholders involved in public/general interest services (and in particular both the providers and the users of the services), are proving to be an original angle at tackling the public services issues. Social cooperatives in Italy, the country where they are most developed and most integrated in consortia, have seen their jobs increase in numbers in the midst of the crisis. Their turnover has NOT turned negative in 2011, in spite of the cutbacks in state budgets. Social cooperatives provide a service offer which is not more expensive than the one provided by the state, in many instances is cheaper especially in the long run, and is almost always of better quality, which in the end often ends up cutting costs.

## **8. Collaboration with regional authorities**

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Cooperatives are generally characterized by long-term enterprise strategies by their very nature. There should be more collaboration between regional organizations of cooperatives and/or regional cooperative groups on the one hand and regional authorities on the other in planning long-term strategies. The experience in this respect in Emilia-Romagna, Lombardia, Rhone-Alpes, Poitou-Charente, the Spanish Basque Autonomous Region and Andalucia should be a source of inspiration for other European regions. Collaboration on higher level educational institution, industrial centres, financial mechanisms, industrial policies especially in innovative sectors (eg bio-mass energy production), diagnosis of restructuring cases etc, should be sought.