

Beyond the Crisis: Cooperatives, Work, Finance

Generating Wealth for the Long Term

By Alberto Zevi, Antonio Zanotti, François Soulage and Adrian Zelaia



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The European confederation of
cooperatives and worker-owned enterprises
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Top left: **Sistemes Avançats d'Energia Solar Tèrmica SCCL** / Worker cooperative in Barcelona, Spain

Top right: **ACOME** / One of the largest French industrial cooperatives

Bottom left: **P.A.R.I.S Anticorps** / Worker cooperative in Compiègne, France

Bottom right: **Indico Buceo Industrial SLL** / Sociedad Laboral in San Vicente de la Barquera, Spain

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Adrian Zelaia graduated in company law from the University of Deusto (Bilbao). Whilst at the same university, he wrote a doctoral thesis on the subject of “Capital in cooperatives”. In 1988, he took up employment in Mondragón, the leading business group in the Spanish Basque Country. Mondragón is also one of the most prosperous cooperative groups in the world and is an emblematic example of what worker cooperation is capable of achieving. Since then, he has held the position of Secretary of the Presidency, has been in charge of the legal affairs department and rector of the Mondragón University before finally becoming the secretary general of the group from 2000 to 2010. Since 2009, he has been the President of the Ekai Centre, which is a research institute for the promotion and the dissemination of knowledge regarding public policies. Adrian Zelaia is the author of several publications about the cooperative enterprise.

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About this book

By Bruno Roelants

Secretary General of CECOP CICOPA Europe

This book is the outcome of a research project called “*Entrepreneurial restructuring and anticipation of change in worker and social cooperatives and other employee-owned enterprises*” under the 2009 call for proposals on “*industrial restructuring, well-being at work and financial participation*” launched by the Unit “*New Skills for New Jobs, Adaptation to Change, CSR and EGF*” of the European Commission’s DG Employment, Social Affairs and Inclusion.

The research, which took place all along 2010, focuses on three countries: Italy, France and Spain; and on three types of enterprises close to each other: worker cooperatives (in the three countries), social cooperatives (in Italy) and “labour societies” [*sociedades laborales*] in Spain. All three are characterized by majority ownership and control of the enterprise by its own staff, and, consequently, by a strong interest in employment sustainability. All three are part of the Europe-wide network coordinated and represented by the European Confederation of Worker Cooperatives, Social Cooperatives and Social and Participative Enterprises (CECOP CICOPA-Europe). The three countries under analysis are also those where these enterprises have experienced the highest level of development within Europe in terms of enterprise numbers, jobs, horizontal enterprise groups and specialized joint support institutions.

The project looked at the various modalities by which these three enterprise types have come to grips with the issue of enterprise restructuring and anticipation of change, both from within and as enterprise groups and/or enterprise support networks, with a particular emphasis on financial instruments.

While the research was conducted by a team of specialists grouped in a Scientific Committee, it availed itself of the close participation of the national federations that are members of CECOP in the three countries. This was fundamental in order to obtain all the necessary data as well as to enhance the participation by, and the research restitution to the organisations representing the enterprises under analysis, while preserving the researchers’ independence.

Other partners in the project were national trade union confederations: CGIL and UIL for Italy, CGT and FO for France, and CCOO and UGT for Spain. Several meetings held with them provided a great opportunity to voice the latter's concerns and obtain useful feedback. CECOP members from all over Europe were also closely associated with the project through their active participation in two key meetings: one in the middle and another at the end of the project, with precious inputs from CECOP member organisations from thirteen other European countries that were not partners in this particular research project.

The first task of the Scientific Committee was to structure the research and produce an initial grid for data collection, which was then discussed with the national federations that are members of CECOP in the three countries under study.

After the grid was agreed upon, the data collection and analysis took place simultaneously in the three countries. The results were then compared and presented to the national federations that were partners in the project. The presentation structure of the three chapters was then harmonized, after which the Scientific Committee delved in both the main conclusions and a series of policy recommendations grounded in the findings. Such recommendations were then debated and approved by CECOP's Board, followed by an all CECOP members' meeting in which a number of sub-national cooperative federations, e.g., from Emilia Romagna, Poitou-Charente, Galicia, West Finland and Mala Polska, took part in the debate. Finally, the research findings were introduced to European Commission's representatives and trade unions. The policy recommendations appear at the end of the book.

The book contains three main chapters drafted by, respectively, Antonio Zanotti for Italy, François Soulage for France, and Adrian Zelaia for Spain. As Chairman of the Scientific Committee on behalf of the European Research Institute on Cooperatives and Social Enterprises (EURICSE), also a partner in this project, Alberto Zevi drafted both the introduction and conclusion. We asked Felice Scalvini, former CECOP president and long-time cooperator, to write the foreword.

The overall management of the project was ensured by three organisations: CECOP as project leader; Soficatra, a member of CECOP with financial expertise on the social economy at the European level; and Diesis, a Brussels-based cooperative specialised in European project logistics.

A semantic note: the term ‘cooperative’ used in the title refers to three enterprise types object of this research. One of them– the Spanish *Sociedades Laborales*–, although not being cooperatives, remains very close to the latter in terms of governance and organisation.

This book can be of interest to all policy-makers, organisations and individuals concerned with cooperatives and the social economy at large, employment sustainability and jobs as well as with regional development. Against the background of the global financial and economic crisis that flared up in 2007/2008, we hope to reflect, in this book, the particularly strong resilience of the enterprises under study, which the reader is now invited to observe and value.



Foreword

By Felice Scalvini

President of Cooperatives Europe

Vice President of the International Cooperative Alliance

I began to write this foreword whilst I was on a flight returning from a Board meeting of the International Cooperative Alliance in India. Whilst I was thinking about what I could write, something pretty uncommon happened, although not something that can be considered to be a new experience for someone who, like me, accumulates a fair number of frequent flyer points every year. The aeroplane was making its way smoothly towards its destination when, all of a sudden, it abruptly lost altitude, as if it had fallen into a hole or tripped on a step. It was not a pleasant sensation, although fortunately it did not last for a long time. Normal flying conditions were quickly restored and the aeroplane continued serenely upon its course. One barely had enough time to skip a heartbeat.

It was then that I realised that chance had presented me with a highly appropriate metaphor. Indeed, there are many people in the economic press who would appear to believe that the current financial crisis is very similar to an air pocket experienced on the serene and secure course that has been travelled by the capitalist economy for decades and that it is destined to continue upon into an indefinite and lengthy future. For just a moment there is that feeling of emptiness, of being tossed around as people looked anxiously at one another, before the automatic pilot, otherwise known as the market and its own version of what is rational, gets everything back onto the usual and positive course.

And yet this is not the case. I believe that it is far more realistic to interpret the crisis as the effect of the hubris by which the so-called free market economy and its many prophets have been overwhelmed. The origins of this arrogance can almost certainly be traced back to the so-called “victory over communism” - over what Reagan had defined as being the “evil empire” – and the process, which was embraced by the rest of the world, that accompanied the breakup of the USSR and its satellite states.

In this dramatic representation of events, who was it who played the white knight, the Saint George like figure who slayed the red dragon? The answer is obvious: it was the capitalist economy! So let us all now bow down before

the victor. Let us turn it into something sacred and let us all conform to its fundamental rule: get rich in the shortest amount of time possible, making the most of the small or large amount of financial potential and/or power we have available to us, particularly any managerial authority that may come our way. Furthermore, in the construction of this almost idolatrous vision, we would do well to forget all of the other factors that have served to change history over the last few decades and brought about the fall of the socialist regimes: from technological innovation to the internet, to rock music, to changing customs, to the changes to the position of women in society, to the actions of the Polish Pope, to the state planned economy's natural propensity to collapse. And finally, we should also forget about how the unchecked charge of financial capitalism has disproportionately increased the differences in income in all countries, distributing the majority of the wealth generated to an extremely small minority of the members of society.

But what I really wish to emphasise here is the fact that not only the interpretation of the collapse of the socialist regimes, but the entire history of the economy, at least over the course of the last two centuries, would appear to be seriously distorted in the way it is currently understood. In fact, one aspect that emerges very clearly from a careful and impartial examination is that the development of the western world's free market economic system has been characterised by the presence of a great variety of entrepreneurial actors who, from time to time and according to the different historical contexts and prevailing business environments, have played a lesser or greater role. One only has to think of the municipality-owned companies and their contribution to the development of the local economy; of the health and welfare mutual insurance companies and of the role played by them in generally improving living conditions and a sense of security for the population; of the public companies that have often intervened to save sections of the economy faced with a serious crisis or have created others in cases in which there was an insufficient supply of private capital; of the cooperatives and the decisive role that they play in areas of the economy that are particularly delicate, such as agriculture and credit; of the savings bank and their function in channelling small-scale savings towards major financial circuits that are not speculative and are geared towards development.

The extraordinary process of economic development that has characterised the western economy has been based on "entrepreneurial biodiversity" and it is on this very basis that the success of the emerging countries is being built,

on the condition that there is a willingness to examine the current situation in a realistic way, rather than through the looking glass of the market-based ideology. Indeed, it is plain for everyone to see how the opening up towards the international market for goods and capital and, from a general point of view, towards financial entrepreneurs, is now taking place on a gradual and non-exclusive basis in countries like China and Brazil. In this regard, the thoughts expressed by the Chinese Vice Premier, Hui Liangyu, at the Asia-Pacific Regional Assembly of the International Cooperative Alliance held in Beijing in September 2010, concerning the need to promote both the significant growth and broad dissemination of cooperatives in order to guarantee a balanced development of the country over the forthcoming years, are particularly relevant. Similarly, the instability created by the decision taken by Russia in the 1990s to embrace the precepts of the Chicago school of economics, which ultimately required the return of the public company, is clear for all to see. This phenomenon not only led to the removal of centralised power from the “oligarchs”, but also, from a more structural point of view, the rebalancing and, to a certain, if insufficient extent, the re-establishment of the entrepreneurial biodiversity.

There is no doubt that it is not an easy task to bring about a return to a balanced and aware approach that places financial capitalism in the correct dimension and guarantees a balance between the different economic actors, shaping action according to the specific characteristics. The cage doors have been opened and the animal spirits of aggressive finance are now everywhere: in the media, the business schools, research centres, the nerve centres of the public administration and the government. Terms such as “creating value”, meaning speculation that is not held in check by any rules and is driven by reckless financial practices, or “extracting value”, to justify operations that are inspired by the trite philosophy of making hay whilst the sun shines and failing to prepare for the future, have been almost omnipresent in the headlines of the specialised economic press and the PowerPoint presentations made by CEOs to market analysts and company general meetings.

All of this is creating a long wave that seems destined to last for some time (although we hope for not too long) and which is difficult to counter. Proof of this is to be found in what I have already said above: many of the opinion makers whose articles we read in the economic press claim that the situation will return to normality in a natural way. All that is needed for the time being is a certain amount of temporary state support.

However, there is one fact that should both comfort and challenge all of those who are striving to break the damaging hegemony of the political thought and action that has been created. Not only has a different way of interpreting the economy and entrepreneurial activity always existed and can be found today in all areas and in all phases of development, but also, in this period, it is proving to be more resilient and reactive in the face of the crisis and, despite all of the obvious difficulties, it is even managing to significantly increase its own field of activity. Over the last three years, the social economy has grown in importance in all countries and there is no lack of confirmation of this growth. The cooperative banks have only been marginally impacted by the financial storm and have not required government support. It is not a coincidence that a study commissioned by the US Treasury Department states that the cooperative form may represent a possible solution to the current financial difficulties being experienced by Freddy Mac and Fannie Mae. A study by the Italian Chambers of Commerce shows that social enterprises even managed to increase their employment figures in 2009. In France, the creation of cooperatives by workers is helping companies in crisis to survive, as you will read further on in this book.

There are many examples, but the problem lies in the fact that the evidence produced by these examples is struggling to become a global proposal, a widespread alternative, a culture present in the universities, in the business schools and research centres, a prospect proposed by the media and shared by the policy makers for a future development of the economic and social framework.

There is a great deal of work to be done. We must elevate the profile of these experiences and of many others like them. We must put them forward as paradigmatic points of reference. By examining them closely, we must learn more about their specific dynamics and mechanisms, as well as their defects and limits. There is a need to transmit the contents developed within these experiences, through appropriate communication, training and information activities. But above all, we must emerge from the somewhat confined spaces occupied by the local experiences in order to be present on a wider stage, connecting and collating different realities in order to devise new avenues of work, operational proposals, as well as ambitious and large-scale designs to bring about economic change and to put forward policy proposals.

Thanks to the support provided by the European Commission, CECOP has endeavoured to make its own contribution to the efforts being made to respond

to these new demands and to set out this new design, through the “Anticipate” project, which has benefited from the involvement of a wide range of protagonists, under the committed and expert guidance of Bruno Roelants, in his capacity as Secretary General of CECOP, and of Alberto Zevi, as Chairman of the project’s Scientific Committee. These are passionate cooperators and scholars who, for many long years, have been combining reflections with direct action within various cooperative organisations. The project has produced this publication, which illustrates the framework of worker cooperation in three European countries - Italy, France and Spain -, providing a realistic and well-documented representation of this framework and, above all, an analysis of the dynamics of development and the impact that can be exerted upon these dynamics by an appropriate form of financial instrumentation.

One of the most striking elements to emerge whilst reading this book is the intrinsic strength of the cooperative company and its capacity to adapt, with great flexibility, to different economic and social contexts and situations.

This, therefore, is a book that helps one to ponder, to understand and to act. It may also help to spread an awareness, first of all amongst cooperators, but also at an increasingly wider level, amongst the general public, the media, the academic world, the business community and the policy makers, of the fact that whilst it may be true, according to the well-known statement made by Rathenau, that “the economy is our destiny”, it may also be worth taking the time to consider if the social economy can be our hope.

Felice Scalvini

Brescia, 15.01.2011



Introduction

By Alberto Zevi

This study has placed its focus upon the experiences of worker and social cooperatives and other worker-owned enterprises in France, Italy and Spain. In these three countries, the phenomenon of workers managing their enterprise is important from both a qualitative and quantitative point of view. In all three cases, there has been an increase in the number of people employed by cooperatives over the last few decades. At the same time, in recent years, there have been significant changes in terms of the modalities according to which these very same cooperatives are organised. The experiences described here would appear to differ greatly with one another, although there are many elements that they have in common. In preparing this study, it has also been possible to identify numerous cases of good practice, many of which could be taken as a point of reference for the development of worker cooperation in other European Union countries.

On the basis of the information available, the study has set out to identify not only the dynamics of the cooperatives involved in these processes, but also their characteristics, their ability to adjust to changes and to anticipate them, as well as the issues facing them. The thorough examination of all of these aspects has enabled the authors to pin-point both the areas of potential and of weakness. This process has led to the formulation of the recommendations that are set out in the final part of this publication.

Whilst the study has been carried out by three experts nominated within the individual countries, Francois Soulage (France), Antonio Zanotti (Italy) and Adrian Zelaia (Spain), it has also benefited from the contributions made by the organisations of worker and social cooperatives and other forms of worker-owned enterprises in the countries covered by the study (CGSCOP, AGCI, Confcooperative-Federlavoro, Confcooperative-Federsolidarietà, Legacoop-ANCPL; Legacoop Servizi, Legacoop Sociali, COCETA and CONFESAL) and the reflections of Bruno Roelants (CECOP), Bruno Dunkel (Soficatra) and Dorothea Daniele (Diesis).

A particularly important contribution has also been made by the meetings (that have taken place on more than one occasion) with the cooperative associations (including those of CECOP members from countries that are not involved in the study) and with the various bodies (financing companies and consortia) that are specialised in the provision of support for worker cooperatives. The resultant discussions helped to provide information that is otherwise not readily available, as well as descriptions of noteworthy practices. The exchanges allowed for the dissemination of the various experiences and promoted an in-depth examination of the main issues of the day.

Finally, the study has been able to consider the modalities with which worker cooperation is striving to cope with the current crisis. In this way, it has been possible to identify the differences in the approach adopted by cooperatives compared to other types of enterprise and also to recognize the importance of the contribution made by worker cooperation, not only to the economy in different countries, but also to social cohesion from a general point of view.

Chapter 1

Italy: the Strength of an Inter-Sectoral Network

by Antonio Zanotti

1. WORKER AND SOCIAL COOPERATIVES IN ITALY

1.1. The institutional and legal dimension

The history of the cooperative movement in Italy can trace its roots back to the second half of the 1800s, just as is the case for the rest of Europe.

A significant aspect of this history is represented by the level of interest that the Italian legislative authorities have always expressed in the cooperative phenomenon. Whilst the commercial code published in 1865 made no mention of the cooperative society, the code published in 1882 contained ten articles that referred to the cooperative society. However, the code considered the cooperative society to be a version of a limited company that had its own specific features:

- the variable nature of the capital;
- one person one vote;
- limitations regarding the transfer of the capital;
- registration of the shares that are only transferable with the approval of the board members;
- tax relief.

It was not until the introduction of the 1942 civil code that a cooperative society was considered to be distinct from a joint-stock company. Indeed, article 2511 defines the cooperative society on the basis of the fact that it has been formed for “the purposes of mutuality” as opposed to the “profit-making” purposes for which other forms of company are created¹.

¹ A great deal has been written regarding the meaning of the term “purposes of mutuality”; very briefly, one can describe the “purposes of mutuality” of a cooperative society as being the efforts made to ensure that the members have access to work, goods or services (according to the type of cooperative) under conditions that are better than those available on the free market.

A series of significant provisions were introduced regarding forms of cooperation in the period preceding the First World War, notably law 422, introduced in 1909, which set out the fundamental bases for the creation of the cooperative consortium.

The cooperative movement grew very quickly: in 1886 the cooperatives already felt the need to organise themselves at the national level and therefore created the Lega Nazionale delle Cooperative (Legacoop). However, in 1898, due to divergent views that emerged within the organisation, the Catholic based cooperatives broke away from the organisation and founded their own national organisation in 1919, namely the Confederazione Generale delle Cooperative Italiane (Confcooperative).

At the end of the Second World War, at a time when efforts were being made to rebuild democracy in the country, cooperatives immediately reformed their representative associations.

The importance of cooperative societies was recognised in the Italian constitution that entered into force on 1 January 1948. Article 45 stipulates that:

“The Republic recognises the social function of the cooperative with a mutuality purpose and that is not driven by private profit. The law both promotes and encourages the increase in the number of cooperatives through the most suitable means and guarantees its character and purposes through the application of appropriate controls”.

However, in 1947, the new Parliament had already passed law 1577/47 (“the Basevi law”), which is the “parent” law for all legislation concerning cooperatives. The main thrust of this law is summarised below:

The law recognises the cooperative movement’s national representative associations and entrusts them with “... *the duty to ensure the supervision of their member cooperative bodies*” through the undertaking of ordinary inspections², the purpose of which is set out in article 9:

“the main purpose of the ordinary inspections is to establish:

² The law also provides for the performance of extraordinary inspections, to be carried out by the Labour Ministry.

- *Strict adherence to the legislative, regulatory, statutory and mutual provisions;*
- the existence of the requirements imposed by general or special legislation regarding tax relief or advantages of any other nature from which the body is entitled to benefit;
- *the correct functioning of the body from an accounting and administrative point of view;*
- *the correct technical structure and performance of the activities promoted or undertaken by the body;*
- *the body's financial situation, as well as the state of its assets and liabilities.*

The inspection body is also required to provide suggestions and advice to the members of the board and to the workforce regarding the correct and efficient running of the body and to provide them with assistance”.

In 1948, Legacoop and Confcooperative were granted ministerial recognition, whilst the third large association, the Associazione Generale delle Cooperative Italiane (AGCI), was granted this level of recognition in 1961³.

Article 26 of the Basevi law defined the existence of the mutual requirements in order to benefit from tax relief in three clauses⁴ included in the statutes of the mutual society:

1. the prohibition of distributing dividends higher than the legally set level of interest rate in relation to the capital that has actually been paid;
2. the prohibition of distributing the reserves amongst the members during the lifetime of the company;
3. the transfer, in the case of the dissolution of the society, of all of the company assets – after deduction of the capital paid in and any dividends that

3 For the purposes of this research project, the term “representative associations” will be used as a synonym to indicate the three main associations: Legacoop, Confcooperative and AGCI. It should be remembered that in both 1981 and 2004, ministerial recognition was also granted to two other organisations, the Unione Nazionale delle Cooperative Italiane (UNCI) and the Unione Italiana Cooperative (UNICOOP).

4 Over the years, principles one and three have undergone several changes in terms of their form, rather than their substance. However, these three principles had already been recognised as being representative of the principle of mutuality in 1923 with the reform of the legislation on registration duties.

may have accrued – to a public utility purpose in keeping with the spirit of mutuality.

The other major steps in the development of legislation regarding cooperatives are as follows:

- Law 127/1971, prohibiting the conversion of a cooperative company into any other form of company, introduced regulations regarding financing by the members and also broadened the possibility for consortia to be created between cooperatives;
- Law 904/1977, establishing the system under which any profits that are allocated to the indivisible reserve are not liable for taxation;
- Law 381/1991, defining the establishment of social cooperatives, which is undoubtedly one of the most original aspects of the Italian cooperative movement;
- Law 59/1992, opening up the possibility for external financiers to become members of a cooperative; this law also provided for the creation of Promotion Funds through the allocation to the Funds of 3% of the annual profits declared by the cooperatives. For the very first time, the law also established the criteria according to which the annual financial statements must be certified by external auditors;
- Law 142/2001, defining the nature of the employment relationship that exists between a worker-member and the cooperative.

Between 1971 and 1994, a whole series of provisions were introduced regarding the members' financing system (social lending).

It should be pointed out that these laws have often been introduced as a result of the actions carried out by the cooperative associations and that, very often, have served to provide a legal endorsement to situations that had already become consolidated in the practices of the cooperatives.

The most important piece of legislation in this area goes back to 2003 and the entry into force of a thorough revision of the civil code (law 6/2003), which was the result of a dispute between the legislative authorities and the cooperative associations.

The most controversial point was the introduction of article 2512, which states:

“on the basis of the type of mutual exchanges, mutuality based cooperatives are those that:

undertake their activities predominantly in favour of their members, consumers or users of goods and services;

in carrying out their activities, make use predominantly of the loans provided by their members;

in carrying out their activities, make use predominantly of the goods and services provided by the members.”

The next article, number 2513, sets out the criteria for the definition of the term “*predominantly*”, which is defined as follows for a worker cooperative: “*the members’ labour costs are higher than 50% of the total labour costs*” as indicated in the financial statements.

This distinction that is made between cooperatives that are “predominantly” mutuality-based and those that are “un-predominantly” mutuality-based was fiercely contested by the cooperation movement since it introduces a groundless separation amongst cooperative companies⁵.

In fact, the legislative authorities wished to establish this distinction in order to introduce a different income tax scheme for the two types of company, so as to overcome the issues created by the fact that the part of the profits allocated to the indivisible reserves was not considered to be liable to taxation on the basis of the law passed in 1977. One element that continues to be difficult to understand today is that there was really no need to make this distinction (which is unique throughout the world) between the cooperatives in order to apply a different tax scheme on the basis of activities carried out with third parties.

As well as introducing this questionable distinction, the reform also brought about other substantial changes, notably with regard to financing, including venture capital, provided by the financing members, exceeding the categories established through law 59/1992, as well as providing for the admission of new members, allowing them to be considered to be part of a “special category” on

⁵ However, the Associations’ actions were successful in maintaining the unity of the cooperative phenomenon within the principle of its “social function”, as mentioned in the constitution, since the legislator had proposed to establish a clear distinction between the two forms of cooperative by drawing a distinction between those that are “recognised” by the constitution and those that are “not recognised”, thereby depriving the latter of their social function.

a temporary basis (for a maximum of 5 years) before becoming full members of the cooperative.

A further new element introduced was the broadening of statutory autonomy with regard to governance, thereby placing cooperatives in the same situation as joint-stock companies. The civil code provides for three alternative forms of governance. The “single-tier” system based on a Board of Directors and the “two-tier” system based on a Supervisory Board and Management Committee were added to the traditional system based on a Board of Directors and a Board of Auditors.

1.2. The statistical dimension

1.2.1 Cooperative companies

At present there is no exhaustive study on the quantitative aspects of the cooperative movement in Italy. Up until 2001, the only official data regarding cooperatives was taken from the censuses of industry and services, which took place every ten years.

Following the introduction of a ministerial decree on 23/6/2004, a new Cooperative Societies Register was established within the Ministry for Economic Development⁶. Since this Register allows for the systematic collection of data and information, then this has helped to establish greater knowledge about cooperative companies in Italy⁷.

Two main pieces of data emerge from the data collected by census from 1951 to 2001:

- a) The number of cooperatives as a percentage of the total number of companies increased from 0.7% in 1951 to 1.2% in 2001;

6 The establishment of the Cooperative Societies Register goes back to 1890; the 1947 law then re-established the registration scheme for cooperatives. However, in both cases, the Registers were kept inefficiently and the data they provided was not fit for use. The establishment of the new Register in 2004 would appear to require the application of more rigorous criteria.

7 C. Quattrocchi, who was still in charge of the Cooperative Societies Register in 2008, has written that talking about cooperatives in Italy in terms of statistics and data “...is the kind of thing to get pulses racing” [24] page. 7. Fortunately, the situation is improving.

- b) The number of workers in cooperative companies as a percentage of the total number of workers in all companies rose from 2% in 1951 to 5.8% in 2001.

Tables 1 and 2 show the number of cooperatives and of workers for the period 1951-2001. Both tables show that in the 1970s there was a period of stagnation followed by a strong recovery in cooperative growth, to coincide with the changes underway in the country as it became increasingly focussed on the service sector.

Up until 1971, the increase in the number of cooperatives was below the average growth rate for all companies and the number of workers employed by cooperatives remained constant at 2%.

Table 1 - Number of companies 1951 - 2001

| | Year | | | | | |
|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 1951 | 1961 | 1971 | 1981 | 1991 | 2001 |
| No. of companies | 1,504,027 | 1,938,724 | 2,236,044 | 2,847,313 | 3,361,634 | 4,319,198 |
| No. of Cooperatives | 10,782 | 12,229 | 10,744 | 19,900 | 35,646 | 53,393 |
| % coop/comp | 0.7% | 0.6% | 0.5% | 0.7% | 1.1% | 1.2% |

Source: based on data provided by Centrostudi Legacoop [8]⁸

Table 2 - Number of workers 1951 - 2001

| | Year | | | | | |
|--------------------------------|-----------|-----------|------------|------------|------------|------------|
| | 1951 | 1961 | 1971 | 1981 | 1991 | 2001 |
| All companies | 6,781,192 | 9,463,457 | 11,077,533 | 13,001,187 | 14,852,198 | 16,201,431 |
| No. of workers in cooperatives | 137,885 | 192,008 | 207,477 | 362,435 | 584,322 | 935,239 |
| % coop/comp | 2.0% | 2.0% | 1.9% | 2.8% | 3.9% | 5.8% |

Source: based on data provided by Centrostudi Legacoop [8]

After 1971, the number of cooperatives began to grow at a more sustained rate and the number of workers as a percentage of the total number of workers in all companies increased from 1.9% in 1971 to 5.8% in 2001.

8 The numbers in square brackets in this chapter refer to the documents and publications listed at the end of the chapter.

During this period, the active workforce increased by 5,123,898, and there was an increase of 727,762 workers employed by cooperative companies, a figure that represents 14.2% of the total.

Following the re-organisation of the Cooperative Societies Register in 2004, the Ministry began to publish some statistical data that make it possible to update the estimation of the size of the cooperative economy.

Table 3 - Number of cooperatives on the Cooperative Societies Register

| Year | Number | Index |
|------|--------|-------|
| 2006 | 72,274 | 100,0 |
| 2007 | 76,000 | 105.2 |
| 2008 | 79,400 | 109.9 |

Source: based on Ministry data [23]

94.5% of the cooperatives are predominantly mutuality-based.

The most complete study on the added value of cooperatives has been published by Unioncamere [25], although it only goes up to 2005, in which it is estimated that the added value generated by cooperatives is equal to 4.6% of the GDP. The same study estimates that some 1,056,108 workers were employed in the cooperative sector in 2006.

The Ministry has calculated that, in 2008, the turnover generated by cooperatives (not including cooperative credit banks) was equivalent to 95.6 billion Euros. In the same study, the Ministry provides the data shown in table 4 regarding the breakdown, according to gender, status and origin of the workers in cooperative companies:

Table 4 - Breakdown of workers in cooperatives in 2008

| | Workers | | |
|------------------|---------|-------------|-------|
| | Members | Non-members | Total |
| Male | 35.1% | 10.6% | 45.7% |
| Female | 29.8% | 13.4% | 43.2% |
| Non-EU nationals | 9.5% | 1.6% | 11.2% |
| Total | 74.4% | 25,6% | 100% |

Source: based on data provided by the Ministry [23]

There are two aspects of interest highlighted in this table:

- a) The number of women employed is not significantly lower than the number of men;
- b) There appears to be a strong tendency in favour of including non-EU nationals as members.

Another interesting piece of data regarding the presence of women in cooperatives is the existence of the so-called “pink companies”⁹. In 2005, it was estimated that there were 12,428 pink companies, which is the equivalent of 1% of the total number of “women’s companies”.

According to a survey carried out by Unioncamere [28], cooperative companies have a longer life expectancy than other forms of company (table 5).

This is a very interesting statistic since many economists believe that a company’s longevity is an indication of economic efficiency, in that, “... *the organisational form that survives in a given economic activity is the one that provides a product for which there is a demand at the lowest price*”¹⁰.

Table 5 - Breakdown of companies according to their year of creation

| Year of creation | Coop | Others |
|------------------|-------|--------|
| Before 1940 | 2% | 0.1% |
| 1940 - 1969 | 7.6% | 2.9% |
| 1970 - 1989 | 33.6% | 23.3% |
| 1990 - 1999 | 28.1% | 41.2% |
| 2000 - 2003 | 28.7% | 32.5% |
| Total | 100% | 100% |

Source: based on data provided by Unioncamere [28]

The data presented in tables 1 and 2 show the extent to which the proportion

9 According to the Ministry for Production Activities, “pink cooperatives” are those in which the number of women members represents at least 60% of the company structure, regardless of the amount of share capital held. For a limited company, “women’s companies” are described as those in which at least two thirds of the capital is held by women and two thirds of the members of the Board are women. In any case, we feel that both definitions are somewhat restrictive.

10 E. Fama – M. Jensen – Separation of ownership and control – 1983 – Journal of Law and Economics – vol. XXVI

of cooperatives in relation to the total number of companies is greater in terms of employment, rather than in terms of the number of companies, which means that the average size of cooperatives is bigger than that of other companies, as shown in the data submitted for the purposes of the censuses for the period 1971 – 2001 (table. 6).

In 1971, cooperatives represented barely 0.5% of the total number of companies, but they already represented 1.6% of the number of companies that had a workforce in excess of 1,000. In 2001, whilst the number of cooperatives as a percentage of all companies had doubled (1.2%), the incidence of cooperatives amongst companies with a workforce of more than 1,000 had gone up to 8.7%.

However, it is amongst the category of companies that employ between 50 and 1,000 workers that the increase in the number of cooperatives as a percentage of all companies has been so pronounced¹¹.

It would appear that over the course of this long period, the growth in the number of cooperatives has taken place in fits and starts, with two periods of significant growth in the 1970s and the 1990s, which were driven by two substantial structural changes that characterised the Italian economy:

- a) In the 1970s, the Italian economy experienced strong growth in the services sector, to the extent that it accounted for more than 50% of the GDP and employment, in keeping with what was happening in the other European countries;
- b) In the 1990s, the state’s fiscal crisis led to the creation of mechanisms designed to outsource services, particularly in the welfare sector.

Table 6
Incidence of cooperative companies in terms of workforce numbers 1971 - 2001

| Number of workers | Companies in 1971 | Companies in 1981 | Companies in 1991 | Companies in 2001 |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1 | 0.1% | 0.2% | 0.3% | 0.7% |
| 2 | 0.3% | 0.4% | 0.5% | 0,4% |
| 3--5 | 0.9% | 1,0% | 1.5% | 1.7% |
| 6--9 | 1.4% | 1.6% | 3.0% | 3.8% |
| 10--15 | 2.2% | 3.6% | 4.4% | 4.3% |

¹¹ This tendency has also been confirmed in recent years (2003-2006). See Unioncamere [29].

| | | | | |
|---------------------------------|------|------|------|-------|
| 16--19 | 2.8% | 4.0% | 4.7% | 5.3% |
| 20--49 | 3.1% | 5.2% | 6.6% | 7.2% |
| 50--99 | 3.9% | 5.6% | 8.0% | 1.2% |
| 100--199 | 4.4% | 5.3% | 8.7% | 11.5% |
| 200--249 | 5.4% | 6.7% | 7.0% | 11.0% |
| 250--499 | 4.5% | 6.8% | 8.0% | 9.8% |
| 500--999 | 2.9% | 5.6% | 7.8% | 9.2% |
| 1,000+ | 1.6% | 2.9% | 7.0% | 8.8% |
| Total | 0.5% | 0.7% | 1.0% | 1.2% |
| * excluding social cooperatives | | | | |

Source: Centrostudi Legacoop [8]

The first period saw a significant increase in the number of worker cooperatives in the services sector, whilst in the second period there was a sharp rise in the number of social cooperatives.

Whilst these tendencies have emerged over a long period of time, we would do well to ask ourselves what tendencies are emerging during this current period of economic crisis.

On the basis of statistics collected by both Istat and Unioncamere, we have put together graphs 1 and 2, which illustrate the trend of GDP, as well as, respectively, the birth and mortality rate of all companies and cooperatives¹².

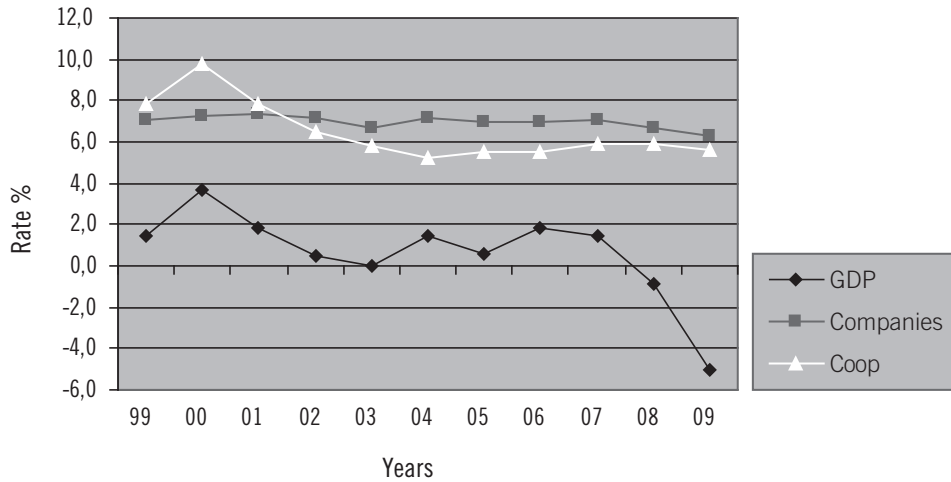
The birth rates trend show that the total number of companies has an almost constant trend, with a downturn from 2007 onwards, when GDP began to fall.

Cooperatives followed the GDP trend until 2007 when, despite the advent of the crisis, they continued to demonstrate an upwards trend in terms of their numbers.

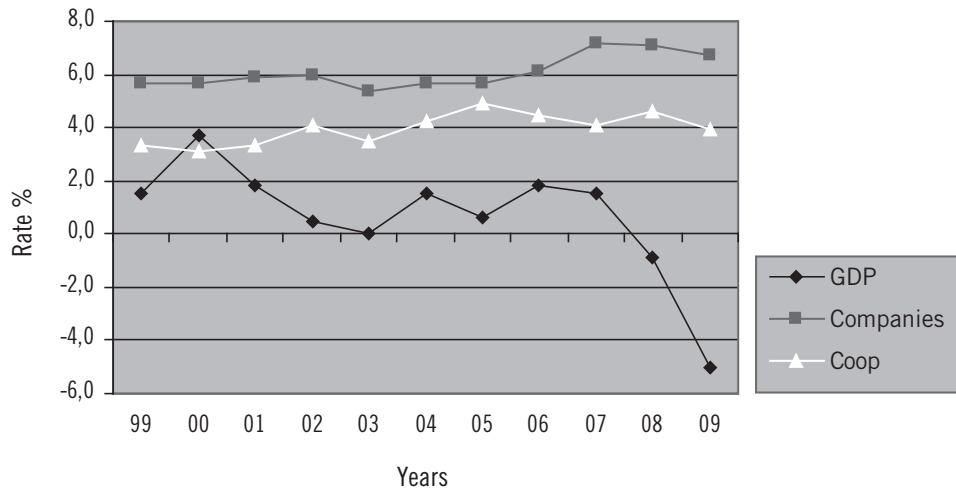
If we interpolate the three curves for the entire period, then they would appear to be three straight lines with more or less similar peaks and dips.

¹² In fact, the data collected by the Unioncamere do not make specific reference to cooperatives, but rather to “other forms” of company, a category that includes 40 different legal company structures. However, since there are far more cooperatives and cooperative consortia amongst this category than any other form of company, then the aggregate figure represents a good estimate of the number of cooperatives and their consortia.

Graph 1 - GDP trend and birth rate of companies and cooperatives



Graph 2 - GDP trend and mortality rate of companies and cooperatives

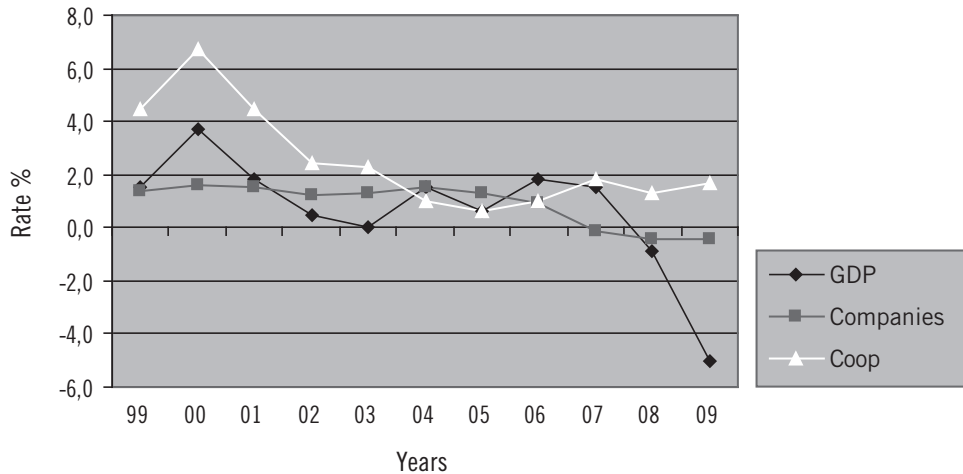


For both the total number of companies and cooperatives, the mortality rate increases when GDP falls, although it does so more slowly. The interpolated lines of the mortality rate show the same trend for both types of company.

By combining the birth and mortality rates, we have created graph 3, in which we have compared the GDP trend with the development rate of the total number of companies and of cooperatives.

It is interesting to note how the rate of development of cooperatives remains almost always higher than the rate of the total number of companies, thereby confirming the trends that has emerged since 1971.

Graph 3 - GDP trend and rate of development of companies and cooperatives

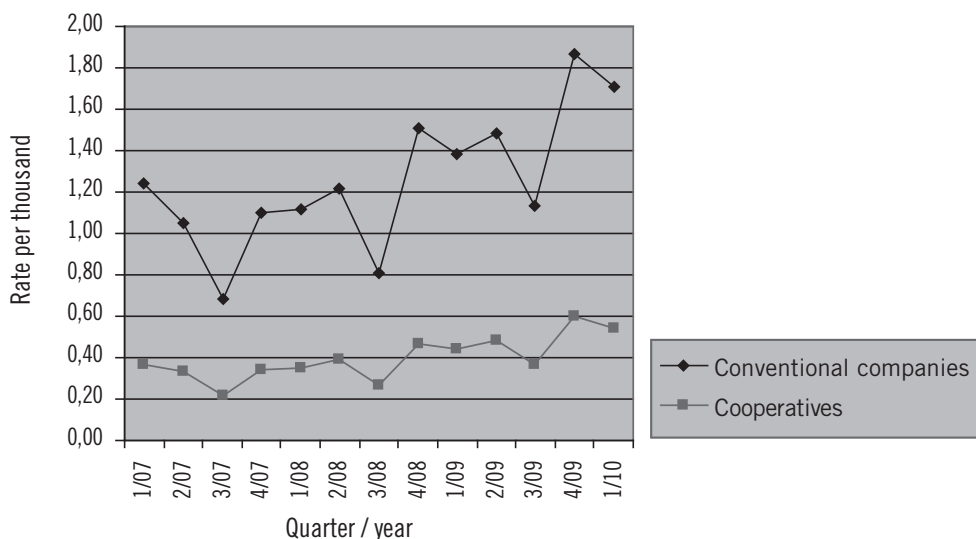


Amongst the many causes of company mortality, bankruptcy is probably the most dramatic.

On the basis of the Movimprese data provided by Unioncamere [30], it is possible to reconstruct the bankruptcy trend on a quarterly basis over the course of recent years, which have been most adversely affected by the crisis (graph 4).

The collected data would appear to confirm the hypothesis that cooperative companies are better able to withstand the crisis than limited companies: even though the rates vary in the same direction, the gradient for the interpolated straight line for cooperatives is not as steep as it is for limited companies.

Graph 4 - Company bankruptcies (per thousand) – For each quarter from 2007 to 2010



Whilst examining economic trends, we believe that it is also interesting to look at some of the data processed by Unioncamere concerning companies' training and employment requirements. This data has also been made available for cooperatives since 2008.

An overall view of the research highlights the fact that there are certain elements in the conduct of cooperatives that would suggest that they are more resilient than other types of company in general: *“there is no doubt that cooperative companies have not been so adversely affected by the crisis, first of all because their main field of activity is in the services sector, particularly care services and some types of company services, for which the demand is more stable and less likely to be influenced by the international economic situation. However, other factors probably also contribute to this lesser impact, notably the fact that these companies have their roots at the local level, which means that they are better placed than other forms of company to respond to the needs and requirements that are expressed at this level and are therefore able to implement specific intervention strategies. In this sense, it could even be said that the cooperative world carries out an anti-cyclical function”*¹³.

13 Unioncamere [27] page. 10

In 2008, the demand for new workers was still growing, despite the fact that the world economic crisis had already begun. In 2009, however, there was a fall in the demand for new workers.

The data in Table 7 show the strength of cooperative companies regarding employment.

Table 7 - Trend regarding the recruitment of new workers - All companies and cooperatives

| | 2006 | 2007 | 2008 | | 2009 | |
|----------------------|--------------|--------------|-----------|--------------|---------|--------------|
| | Non seasonal | Non seasonal | Total | Non seasonal | Total | Non seasonal |
| All companies | 695,770 | 839,460 | 1.079,480 | 827,890 | 781,600 | 523,620 |
| Cooperatives | 80,410 | 99,430 | 143,500 | 100,020 | 114,630 | 74,610 |
| | | | | | | |
| Coop / all companies | 11.6% | 11.8% | 13.3% | 12.1% | 14.7% | 14.2% |

Source: based on data provided by Unioncamere [27]

In 2009, the demand for the recruitment of new workers in cooperative companies represented 14.7% of total demand. If we consider the fact that, in 2006, employment in cooperative companies represented 6.2% of total employment, then it is easy to appreciate the role played by the cooperative economy in Italy in terms of employment stability.

Taking into account the disaggregated data per sector of activity, we have estimated that there are a total of close to 77,000 new recruits in worker cooperatives out of a total of 114,630 in all types of cooperatives.

There has been a substantial increase in demand within cooperatives for graduates, in keeping with the national average. There is also an increase in demand for new recruits with further education qualifications, although in this case the demand is below the national average.

It is worth pointing out that for 2009, 40% of cooperatives have estimated their number of new recruits to be twice the national average. According to Unioncamere researchers: *“this significant positive difference is due to the fact that... large companies (with more than 50 employees) are well represented amongst cooperatives and that they have a much higher than average propensity to recruit new workers. We can also observe that cooperatives that are increasing their turnover, as well innovative cooperatives (in other words those that have*

stated that they have carried out innovations in terms of product or services in 2008) are also far more likely to take on new workers. In fact, 53% of the cooperatives that recorded an increase in their turnover in 2008 recruited new workers (compared to close to 36% for all companies), whilst this figure rose to 54% for the cooperatives that introduced innovation (compared to the 40% figure reached by those that did not introduce any form of innovation)”¹⁴.

With regards to the type of contract of employment used, it would appear that cooperatives prefer more stable forms of employment. For non-seasonal staff, it is estimated that 51% of the new recruits within cooperatives are given a full contract of employment (the national average is 48%), whilst 43% are given a fixed term contract (compared to the national average of 41%). This means that the other, less secure, types of contracts account for only 6% of the contracts given out by cooperatives compared to the national average of 11%.

However, part-time contracts and the presence of workers from non-EU countries are more prevalent amongst cooperatives. The Unioncamere researchers believe that one of the main reasons for this is “... *the fact that many Italians are not prepared to do jobs that are considered to be tiring and low-profile ...even in the areas in which the economy is not particularly well-developed*”¹⁵.

The very nature of the sectors of activity in which cooperatives are particularly present probably goes a long way to explain the high demand for women workers.

Despite the virtuous conduct shown by cooperatives thus far, the serious economic crisis brought about a clear fall in the number of those employed by cooperatives. The figures for 2009 are shown in Table 8 and they indicate that cooperatives account for 12.2% of new recruits, compared to 10.4% of those leaving employment. They therefore represent only 3.7% of the negative employment balance and this rate is lower than their incidence on the total employment figures.

14 Unioncamere [27] pages. 22/23.

15 Unioncamere [49] pages. 28/29.

Table 8 - 2009 Estimated employment balance

| | All Companies | Cooperative Companies | Coop./ All Comp. |
|--------------|---------------|-----------------------|------------------|
| Recruitments | 781,600 | 95,220 | 12.2% |
| Leavers | 994,390 | 103,120 | 10.4% |
| Balance | - 212,790 | - 7,900 | 3.7% |

Source: based on data provided by Unioncamere [27]

Unfortunately at the moment there is no data available that makes a distinction between traditional companies and cooperatives regarding the use of public aid in order to support employment (social and employment allowances).

Amongst these various forms of public aid and support, we would like to mention the solidarity contract, which was introduced into the Italian system in 1984 with the purpose of regulating the measures being taken to reduce working time without terminating the contract of the workers deemed to be surplus to requirements. In this case, the surplus is shared out amongst the workers through a reduction in working hours. The workers who are covered by a solidarity contract receive a salary supplement that is equivalent to 80% of standard pay for the un-worked hours.

Best practice N° 1

Cooperativa Ceramica Imola:
an example of making use of the solidarity contract

The Cooperativa Ceramica Imola is Italy's oldest worker cooperative; it was founded in 1874, when the owner decided to retire and handed over the company to its employees, since he wished to contribute to the advancement of the industry and the improvement of the economic well-being of his workers.

There is no doubt that the cooperative has remained faithful to this spirit: it now has seven plants and a workforce of more than 1,900; its turnover in 2008 was close to 280 million Euros, 70% of which was generated through foreign exports, whilst its net assets are in the region of 240 million Euros.

The cooperative produces a wide range of products in the ceramics sector.

As the crisis hit at the end of 2008, it was one of the first major Italian companies that wanted to make use of the solidarity contract, even though it is complex and difficult to apply, so as to maintain a sense of cohesion in the company and to limit the social impact of the crisis, whilst at the same time preserving the skills and potential of its workforce, since

these were the key elements that had enabled the cooperative to thrive. The adoption of the solidarity contract model also meant that the cooperative did not have to make any of its workers redundant.

The solidarity contract was extended to all 1,900 members of the workforce and in this way they were all able to keep their job.

(www.imolaceramica.it)

With regard to training, then mention should certainly be made of the collaboration between the trade unions and the cooperative world, which led to the creation of Fon Coop in 2002, with the purpose of funding the ongoing training of member cooperatives.

Best practice No. 2

Fon Coop: cooperatives and trade unions join forces on training

Article 118 of Law 388/2000 provides employers' associations and trade unions with the possibility of creating "... joint national inter-professional funds for ongoing training" for company workers, including members of management, along the lines of the similar systems that already in existence in France and Spain.

The Funds are not designed to make a profit and their purpose is to finance ongoing training in the member companies by using a contribution from the companies that is equal to 0.30% of the total wage bill, which the companies are required by law to pay into the INPS.

In 2002, Fon Coop was set up between the three main Cooperative Associations (Confcooperative, Legacoop and AGCI) and the three main trade unions (CGIL, CISL and UIL) in order to fund ongoing training programmes within the cooperatives.

The projects that are eligible for funding may be national, territorial, sectoral or company-based.

At the moment, some 12,000 companies are members of Fon Coop (65% of which are micro-companies that have less than 9 workers) and the Fund covers more than 500,000 workers, 60% of whom work for new worker and social cooperatives.

Over the last five years, Fon Coop has financed training programmes to the tune of more than 62 million Euros and more than 106,000 workers from more than 2,600 have benefitted from them.

The training courses provided have covered the following areas (expressed as a percentage of the total number of training hours provided):

| | |
|-----------------------------|------|
| Personal skills | 14.9 |
| Work and production | 5.8 |
| Organisation and management | 12.8 |
| Accounting and finance | 2.3 |
| Socio-psycho-educational | 11,3 |
| Safety and work environment | 13.4 |
| Quality | 4.0 |
| Languages | 1.6 |
| IT | 4.4 |
| Cooperatives | 2.1 |
| Marketing and sales | 7.6 |
| Legislation | 1.8 |
| Others | 18.1 |

In April 2010, Fon Coop launched a new initiative that is closely related to the current crisis and set itself two priority objectives:

- to support both companies and workers who are feeling the impact of the crisis, by making use of training plans in order to improve their competitiveness and to maintain employment levels;

- to use training instruments to support the updating and vocational retraining of workers in jobs that are at risk.

Fon Coop has made 6 million Euros available in order to support these projects.

(www.foncoop.coop)

The analysis carried out by Unioncamere [27] also indicated that, in 2008, 40% of cooperatives carried out training activity, compared to the national average of 26%; furthermore, cooperatives provided training for 45% of their new recruits compared to the national average of 29%.

Efforts have also been made to develop “cooperative training.” The Cooperative Associations have had a relationship with many universities for some time, but they have always focussed their attention on training¹⁶, rather than upon the

¹⁶ It should be noted that for almost the last ten years a training course on the Economics of

need to disseminate the cooperative culture. In our opinion, this is an extremely important question, since the wider dissemination of the culture and knowledge of cooperative companies is essential in order to create an environment that is conducive to the creation and promotion of new cooperative companies, as well as to the efforts to overcome the ideological hostility that still exists today¹⁷.

1.2.2 Worker cooperatives

Having provided an overview of the cooperative movement in Italy, we will now focus our attention on worker cooperatives in the construction, manufacturing and service sectors.

The Istat data are based on sectors of activity rather than upon the nature of the mutualistic exchange and we can therefore only indirectly estimate the incidence of worker cooperatives. We have considered the following sectors of activity as sectors in which worker cooperatives are present:

- Construction¹⁸
- Manufacturing activities, not including agri-food companies, which may be defined as being agricultural cooperatives;
- Services, not including financial and property activities.

On the basis of these criteria, we have put together Table 9, which shows the number of worker cooperatives, as well as the number of workers in them.

Cooperation has been held on a regular basis at the University of Bologna. A similar initiative was started more than five years ago at the University of Rome. Other similar forms of collaboration have taken place on a less frequent basis at other universities. These initiatives have been launched thanks to the coordinating efforts undertaken by the Luzzatti Institute and the financing provided by the Funds for the development of cooperation.

17 The cultural question, as well as the teaching of cooperation (and of the social economy in general) was recently also taken up by Stiglitz, who has pointed out, almost by way of a contrast, that the market fundamentalism that has dominated thought and action over the last 30 years, “... was not based on economic science or historical evidence. It was sold by Thatcher in the UK and by Reagan in the USA” [Moving beyond fundamentalism to a more balanced economy – Annals of Public and Cooperative Economics – no. 80.3/2009 page 346].

18 Unfortunately, the Istat data also include housing cooperatives in this sector, which, although being substantial in number, have very little incidence in terms of the number of workers involved.

Table 9 - Number of worker cooperatives and workers in them 1971 - 2001

| | Number of companies | | | | Number of workers | | | |
|------------------------------------|---------------------|--------------|---------------|---------------|-------------------|----------------|----------------|----------------|
| | 1971 | 1981 | 1991 | 2001 | 1971 | 1981 | 1991 | 2001 |
| <i>Production Coops</i> | 1,446 | 3,447 | 8,776 | 13,960 | 47,995 | 93,575 | 124,032 | 100,464 |
| - Construction | 768 | 2,138 | 5,097 | 10,878 | 32,168 | 58,811 | 61,654 | 57,796 |
| - Industry | 678 | 1,309 | 3,679 | 3,082 | 15,827 | 34,764 | 62,378 | 42,668 |
| <i>Service Coops</i> | 1,773 | 3,991 | 6,683 | 13,611 | 48,874 | 66,697 | 108,468 | 237,941 |
| - Hotels and restaurants | 728 | 1,025 | 1,465 | 1,434 | 2,516 | 7,660 | 15,700 | 25,859 |
| - Logistics and communication | 897 | 1,517 | 2,442 | 5,650 | 44,475 | 44,495 | 64,166 | 154,146 |
| - Education | 10 | 107 | 488 | 793 | 129 | 1,250 | 6,037 | 6,415 |
| - Health and other social services | n.a. | 144 | 0 | 809 | n.a. | 1,989 | 0 | 17,709 |
| - Other services | 138 | 1,198 | 2,288 | 4,925 | 1,754 | 11,303 | 22,565 | 33,812 |
| Total | 3,219 | 7,438 | 15,459 | 27,571 | 96,869 | 160,272 | 232,500 | 338,405 |

Source: based on data provided by Centrostudi Legacoop [8]

If we compare the figures in Table 9 to the corresponding figures for all companies, then we can calculate the number of worker cooperatives and their workers as a percentage of the total number of companies (Table 10).

During the period 1971-2001, the number of worker cooperatives as a percentage of all companies increased from 0.3% to 1.5% and the number of workers from 1.3% to 3.7%. The table once again confirms that the average size of a cooperative is higher in almost all sectors and therefore that the incidence of the number of workers is higher than the incidence of the number of companies.

Table 10 - Incidence of cooperatives in relation to all companies, by their number and number of workers for the period 1971 - 2001

| | Number of companies | | | | Workers | | | |
|------------------------------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 1971 | 1981 | 1991 | 2001 | 1971 | 1981 | 1991 | 2001 |
| <i>Production Coops</i> | 0.3% | 0.4% | 1.1% | 1.4% | 0.8% | 1.4% | 2.0% | 1.6% |
| - Construction | 0.6% | 0.7% | 1.5% | 2.1% | 3.4% | 4.9% | 4.6% | 3.8% |
| - Industry | 0.2% | 0.2% | 0.7% | 0.6% | 0.3% | 0.6% | 1.2% | 0.9% |
| <i>Service Coops</i> | 4.0% | 0.7% | 1.0% | 1.6% | 4.0% | 6.1% | 6.6% | 10.3% |
| - Hotels and restaurants | 0.4% | 0.5% | 0.7% | 0.6% | 0.5% | 1.2% | 2.2% | 3.0% |
| - Logistics and communication | 10% | 1.1% | 2.0% | 3.6% | 4.9% | 6.5% | 5.7% | 12.9% |
| - Education | 0.2% | 1.2% | 4.0% | 5.5% | 1.0% | 2.8% | 9.5% | 13.0% |
| - Health and other social services | n.a. | 2.6% | 0.0% | 0.4% | n.a. | 2.4% | 0.0% | 4.6% |
| - Other services | 0.1% | 0.7% | 1.1% | 2.1% | 0.5% | 2.8% | 4.7% | 5.9% |
| Total | 0.3% | 0.5% | 1.0% | 1.5% | 1.3% | 1.9% | 2.6% | 3.7% |

Source: based on data provided by Centrostudi Legacoop [8]

For the more recent period, we have the data provided by the Cooperative Societies Register for the number of worker cooperatives and the data provided by Unioncamere for the number of workers.

Table 11 - Number of cooperatives on the Cooperative Societies Register

| | 2006 | | 2007 | | 2008 | |
|------------------------------------|--------|-------|--------|-------|--------|-------|
| | No. | % | No. | % | No. | % |
| All Cooperatives | 72,274 | 100% | 76,000 | 100% | 79,400 | 100% |
| Production and worker cooperatives | 26,656 | 36.9% | 29,154 | 38.4% | 31,378 | 39.5% |

Source: based on data provided by the Ministry [23]

Table 12 - Number of workers in cooperative societies by sector of activity - 2006

| | N°. of workers | Distrib. % | % of total economy |
|--|----------------|------------|--------------------|
| Other sectors of industry in the strictest sense | 42,457 | 4.0% | 1.0% |
| Construction | 65,213 | 6.2% | 3.5% |
| Canteens, catering, hotels and tourism services | 40,576 | 3.8% | 3.5% |
| Transport and postal activities | 184,037 | 17.4% | 16.9% |
| IT, ICT and other technology based services | 67,634 | 6.4% | 5.2% |
| Operational services for companies and individuals | 186,480 | 17.7% | 9.9% |
| Education and private training services | 16,753 | 1.6% | 22.7% |
| Health and private healthcare services | 192,049 | 18.2% | 51.3% |
| Other care services | 51,767 | 4.9% | 7.5% |
| All worker and social cooperatives | 846,966 | 80.2% | |
| Food and tobacco industry | 39,022 | 3.7% | 8.4% |
| Retail and wholesale trade | 88,115 | 8.3% | 2.6% |
| Credit, insurance and financial services | 82,005 | 7.8% | 14.2% |
| Total of other cooperatives | 209,142 | 19.8% | |
| Total | 1,056,108 | 100% | 6.2% |

Source: based data provided by Unioncamere [29]

1.2.3 Social cooperatives

The introduction of Law 381/1991 firmly established social cooperatives as being companies that have been created with “... *the purpose of pursuing the general interests of the community in the promotion of humankind and the social integration of the citizens through:*

- a) *The management of social, health and educational services (type A cooperatives);*
- b) *The carrying out of different activities – agricultural, industrial, commercial or services – with the aim of integrating disadvantaged persons into the labour market (type B cooperatives)”.*

The law therefore attributes a social purpose to social cooperatives, which is different to the purpose of limited companies (which are profit driven) or that of other types of cooperatives (which pursue a mutuality-based purpose), since their ultimate purpose is to pursue the general interest¹⁹.

The changes in the welfare system over the last 20 years, which have been characterised by a demand for increasingly highly skilled social services and the State’s fiscal crisis, have not only triggered off a process of outsourcing of these activities from the public sector to the private sector, but have also given rise to the creation of new entrepreneurial configurations that are capable of establishing innovative forms for both the management and the provision of these services. This is not a mere transfer of function from the public provider to the private provider, since this transfer has led to the introduction of genuine and new processes of organisational and product-based innovation, thereby helping to expand the sector and to create new skills.

The fact that the purpose of social cooperatives to pursue the general interest has been recognised in law places them at an advantage in terms of overcoming the information asymmetries which may generate a lack of trust towards profit-making companies operating in the welfare sector.

For the most part, type A social cooperatives provide social, health and educational services through the management of sheltered homes, crèches,

¹⁹ It is well-known that the 7th principle of the ICA is concern for the community, but in this text we would like to emphasise the fact that concern for the general interest is not just a guiding principle for social cooperatives, rather it is a legal requirement and it is only on the basis of this purpose that they are accorded a favourable fiscal status.

day care centres, community facilities, health centres, home help and services provided to disadvantaged or socially marginalised persons.

Type B social cooperatives provide employment opportunities for disadvantaged persons who are excluded from the labour market for a whole host of reasons. They may be disadvantaged persons in the strictest sense (alcoholics, prisoners and former prisoners, persons with a physical or mental disability, drug-addicts) or people who, for reasons related to their poverty or to the fact that they have lost their job, have been excluded from the labour market for a long time.

Although social cooperatives have been the subject of many detailed studies, the quantitative analyses that exist at the national level only go up to 2005.

Table 13 shows the development of the number of social cooperatives²⁰.

Table 13 - Number of social cooperatives

| | 2001 | 2003 | 2005 | 2006 | 2007 | 2008 |
|----------|-------|-------|-------|--------|--------|--------|
| Active | 5,515 | 6,159 | 7,363 | | | |
| Inactive | 317 | 875 | 652 | | | |
| Total | 5,832 | 7,034 | 8,015 | 12,249 | 13,216 | 14,139 |

Source: based on data provided by Istat [18-19-20] and the Ministry [23]

Since social cooperatives were only firmly established in law with the introduction of law 381/91, then the average age of this form of cooperative is low (table. 14).

We believe that it is important to note that 28.3% of social cooperatives had already been created before the introduction of law 381/91, since this is an indication of the fact that a process was under way that the cooperative movement had understood at an early stage and had therefore already begun to

²⁰ The data for 2001-2005 were compiled by Istat, whilst the data for 2006-2008 come from the Cooperative Societies Register. We believe that the sudden increase between 2005 and 2006 is due to statistical errors. Since the data collected by the Cooperative Societies Register is compiled by the self-declarations made by the cooperatives themselves, it is likely that the Istat data underestimated the phenomenon up until 2005.

The figures suggest that the number of cooperatives increased by 76.4% between 2005 and 2008. For the same period, Ferdersolidarietà, which is the largest association in terms of numbers, recorded a 34.5% increase in the number of its own members.

provide a specific response to an emerging need within Italian society, despite the absence of specific legislation in this area.

Social cooperatives provided a response to a demand for services that had been generated spontaneously in order to resolve problems caused by market failure and was certainly not the result, as some critics claim, of action undertaken by the Public Administration “... which could then rid itself of responsibility for these services at any moment”²¹. There is no doubt that this critical interpretation of the role of social cooperatives should be rejected: this only serves to highlight the external aspects of the process of outsourcing the services from the public to the private domain and fails to consider not only that beforehand, “... the Italian welfare system had, above all, been based on the transfer of benefits and the local authorities had little experience in the management of social services”, but also the wide range of new forms of intervention or involvement of the users in the management of the services (multi-stakeholder governance).

Table 14 - Age of the social cooperatives active in 2005

| | Total Number | Before 1990 | 1991 - 1995 | 1996 - 2000 | 2001 - 2005 |
|-----------|--------------|-------------|-------------|-------------|-------------|
| Type A | 4,345 | 33.2% | 15.6% | 29.2% | 22.0% |
| Type B | 2,419 | 21.9% | 18.3% | 34.1% | 25.7% |
| Mixed | 315 | 26.0% | 17.8% | 36.8% | 19.4% |
| Consortia | 284 | 12.7% | 22.5% | 37.7% | 27.1% |
| Total | 7,363 | 28.3% | 16.9% | 31.5% | 23.3% |

Source: Istat [20]

From 2001 to 2005, the overall number of people employed in the sector increased from 201,422 to 263,579, an increase of 30.9%. However, the number of paid workers (employees, freelance staff, agency workers) increased by 40.9% in the same period (Table 15).

²¹ For a summary of this debate, see C. Borzaga in [17] page 23 onwards. Borzaga believes that the growth of social cooperatives was also favoured by other institutional reforms, such as the creation of the Regions and the related process of administrative decentralisation, which generated a greater awareness of the need to provide a response to the main social issues at the local level.

Table 15 - Number of people employed in social cooperatives for the period 2001 - 2005

| | 2001 | | 2003 | | 2005 | |
|---------------------------------|--------|---------|--------|---------|--------|---------|
| | Men | Women | Men | Women | Men | Women |
| Volunteers | 11,812 | 12,639 | 13,059 | 1,465 | 1,480 | 15,998 |
| Religious | 493 | 149 | 541 | 266 | 454 | 279 |
| Civil service | 2,981 | 0 | 1,890 | 1,467 | 893 | 252 |
| Employees | 37,618 | 109,548 | 43,353 | 117,895 | 55,058 | 156,249 |
| Freelance | 7,687 | 18,188 | 7,898 | 19,491 | 8,922 | 22,707 |
| Agency staff | 129 | 178 | 204 | 293 | 407 | 880 |
| Total | 60,720 | 140,702 | 66,945 | 140,877 | 67,214 | 196,365 |
| Total in receipt of pay (M + W) | | 173,348 | | 189,134 | | 244,223 |

Source: based on data provided by Istat [18-19-20]

It is also interesting to note that women represented close to 74% of the total number of paid workers in 2005, compared to 63% in 2001.

Over the course of the same period, 2001 - 2005, there was also a significant increase in the value of production, which was equivalent to 168.2%. This is shown in Table 16²².

Table 16 - Value of production of social cooperatives - 2001 - 2005 (€/000)

| | 2001 | 2003 | 2005 |
|-----------------|-----------|-----------|-----------|
| Type A | 2,615,102 | 3,106,648 | 4,132,604 |
| Type B | 812,779 | 1,019,792 | 1,353,616 |
| Mixed | 92,640 | 169,580 | 214,638 |
| Consortia | 398,456 | 529,941 | 680,417 |
| Total | 3,918,977 | 4,825,961 | 6,381,275 |
| Variation index | 100 | 123.1 | 162.8 |

Source: based on data provided by Istat [18-19-20]

However, the average size of the cooperatives remains modest, even though the

²² The growth rates over the ensuing period, 2005-2008, have probably fallen. In fact, the turnover of the members of Federsolidarietà has increased by 34.5% and by 37.4% for the members of Legacoop Sociali.

importance of the larger cooperatives is tending to grow. It is quite likely that the average size of cooperatives will grow over coming years.

Table 17 - Breakdown of cooperatives by size of turnover

| Category of VoP (€/000) | 2001 | | 2003 | | 2005 | |
|----------------------------|--------|-------|--------|-------|--------|-------|
| | Number | % | Number | % | Number | % |
| Up to 100 | 1,418 | 25.7% | 1,520 | 24.7% | 1,680 | 22.8% |
| 100 - 500 | 2,349 | 42.6% | 2,520 | 40.9% | 2,977 | 40.4% |
| 500 – 2,000 | 1,376 | 25.0% | 1,641 | 26.6% | 2,042 | 27.7% |
| above 2,000 | 372 | 6.7% | 478 | 7.8% | 664 | 9.0% |
| Total | 5,515 | 100% | 6,159 | 100% | 7,363 | 100% |

Source: based on data provided by Istat [18-19-20]

Given the general interest purpose of social cooperatives, we feel that it is also important to note their impact on users served by type A cooperatives and the number of disadvantaged persons integrated into the labour market by type B cooperatives.

Table 18 - Users and number of persons integrated 2001 - 2005

| | 2001 | 2003 | 2005 |
|--|-----------|-----------|-----------|
| Users served by type A Coops | 2,112,153 | 2,403,245 | 3,302,551 |
| Disadvantaged persons integrated by type B Coops | 18,692 | 23,587 | 30,141 |

Source: based on data supplied by Istat [18-19-20]

Almost 20 years after the introduction of the law on social cooperatives, the context is now changing and this represents new risks and opportunities²³.

The first issue is of an institutional nature and is related to the introduction of law

23 It is not our intention to deal with all of the issues concerning social cooperatives, but we are aware that questions such as fulfilment at work, vocational qualifications and relations with the trade unions are of particular importance for these cooperatives, just as a similar amount of importance is attached to volunteer work and donations. We have also excluded any discussion regarding the development of the welfare system, notably those related to:

- a) the development of an increasingly multi-ethnic society, with all of the issues related to reception facilities, integration and training;
- b) the development of new forms of poverty and the question of social housing; all of which would require a great deal of space in order to be addressed in an exhaustive manner.

118/2005 concerning the social enterprise. Very briefly, this law extends the possibility of operating in sectors that thus far have been largely dominated by social cooperatives to other companies that share the public interest purpose, but which may adopt a different legal form (joint-stock company or limited company).

However, in the first few years since the introduction of this new law, there does not seem to be a great deal of interest in this new form of company and so it is quite likely that social cooperatives will continue to be the main form of company in this sector.

The second issue is that social cooperatives are highly dependent upon funding provided by the Public Administration. According to Istat data [18-19], public demand accounted for 65.9% of the income of social cooperatives in 2005 and this figure rose to 72.8% for type A cooperatives (the largest segment). Furthermore, both of these figures represent an increase on 2003.

This is certainly a cause for concern if we consider the efforts being made to contain public spending and also the fact that the public administration is increasing the amount of time it takes to make its payment.

This naturally gives rise to the question as to whether there is a demand for social services and goods outside of the public domain and whether social cooperatives have actively sought to respond to this demand in the most appropriate way, by demonstrating their professionalism and the fact that they have all of the necessary economic and financial conditions in place, or, on the contrary, have they become too accepting of public intervention.

There are two sectors in which there is good potential for the development of private demand:

- a) The establishment of crèche facilities within companies;
- b) Residential services for people who are not self-sufficient, although this requires significant investment in property and facilities²⁴.

Another growing sector, which is related to the gradual aging of the resident population and the decline in the traditional system of the provision of a family-

²⁴ Legacoop has examined the possibility of creating a “Property Fund” for care homes for the elderly managed by social cooperatives, but the initiative failed to attract the required amount of interest.

based assistance, is home care services for the elderly. Demand for these services is currently being met, for the most part, by foreign carers, who have no specific qualifications and whose employment is not declared to the authorities.

Another avenue that has been explored is that of the creation of a “company label”, which certifies the quality of the services provided. The CGM (Consorzio Gino Mattarelli) is particularly active in this area and it was the first to launch the PAN label, together with Legacoop Sociali and Compagnia delle Opere, before going on to introduce its own label, “Welfare Italia” in the health sector (health centres, dental clinics, etc.).

However, not a great deal has been done to explore the possibility of diversifying services beyond the traditional welfare system, such as social tourism and social agriculture, which could become part of ad hoc circuits and networks similar to those established by fair trade shops.

A third aspect is the changing nature of the contracts that exist between social cooperatives and the Public Administration²⁵, which is designed to foster trust-based, long-term contracts, rather than the pursuit of the lowest possible cost.

The first approach would undoubtedly be favoured by the specific governance structure that is prevalent in social cooperatives and which, because it involves all of the social actors (multi-stakeholder governance), would improve the degree of trust between all of the stakeholders and would also provide for a more efficient monitoring system in order to achieve the shared social purpose.

1.2.4 Cooperative enterprises that are member of the representative Associations

Throughout its history, the Italian cooperative movement has organised itself through a dual system at federal and confederal level.

The cooperatives are member of federations according to their sector of activity and the federations join forces at confederal level. This system of representation applies at both the territorial (provincial and regional) and the national level. The three main representative associations, Legacoop, Confcooperative and Agci, represent the confederal level, which brings together the sectoral federations.

²⁵ For a detailed analysis of this question, see L. Fazzi and S. Longhi in [17] pages 103-139.

The framework for the representation of Italian cooperatives is set out in Figure 1. This chart only refers to the sectors of activity that are members of Cecop.

Figure 1 - The representative associations in Italy

| | | Associations | | |
|--------|-----------------------|------------------|------------------|---------------------------|
| | | Legacoop | Confcooperative | Agci |
| Sector | Industry construction | ANCPL | Federlavoro | Agci Produzione e Servizi |
| | Services | Legacoop Servizi | | |
| | Social | Legacoop Sociali | Federsolidarietà | AGCI Solidarietà |

The quantitative data presented thus far refers to the entire Italian cooperative movement. The various sources of these data, namely Istat, Unioncamere and the Cooperative Societies Register, do not give any indication regarding the association to which the cooperatives belong. The data regarding representation have been supplied by the individual associations.

Although there are differences in the criteria used to collect the data, we believe that it is possible to estimate the three main associations' degree of representation of the total number of cooperatives.

Out of a total number of 79,400 cooperatives on the National Register, the cooperative associations state that they have 41,725 members, including companies that are controlled by cooperatives and that are not included on the Register. Therefore, from a numerical point of view, just over half of the cooperatives are members of the associations, but they are considerably more important in terms of their turnover and employment levels.

In 2008, the Ministry estimated the value of the production generated by the cooperatives on the Register to be the equivalent of 95.610 million Euros, not including the 436 Cooperative Credit Banks. The Ministry also states that this figure applies only to the 46,093 cooperatives that submitted their accounts in 2008. We believe that the 33,307 cooperatives (41.9% of the total) who did not submit their accounts to be small and micro-cooperatives and that they did not carry out any activities over that period of time.

The cooperative associations, on the other hand, have declared the value of production generated by their members to be in excess of 120 million Euros.

The reasons for this discrepancy with the data presented by the Ministry may be as follows:

- a) The Ministerial data [22] does not include the Cooperative Credit Banks²⁶, whose value of production may be estimated to be in the region of 9.000 million Euros;
- b) The associations' data also includes the value of production of companies whose capital is controlled by cooperatives, some of which are of considerable size;
- c) A limited number of the larger cooperatives are members of more than one of the representative associations and this means that their turnover is recorded twice in the data provided by the associations.

We can therefore estimate that the turnover generated by the cooperatives that are members of the representative associations is, in any case, superior to their importance in numerical terms.

We have drawn up the estimated figures shown in Table 19 on the basis of the available data regarding the relative importance of worker and social cooperatives.

Table 19 - Worker and social cooperatives - 2008

| | Coop Register | | Members of Coop Associations | | | % of members of the Associations | |
|--------------|---------------|---------|------------------------------|---------|-----------|----------------------------------|---------|
| | Nº. Coops | Workers | Nº. of coops | Workers | VoP/mil € | Nº. Coops | Workers |
| Worker Coops | 31,378 | | 10,540 | 461,079 | 312,515 | 33.6% | |
| Social Coops | 14,139 | | 7,524 | 269,735 | 7,521 | 53.2% | |
| Total | 45,517 | 846,966 | 18,064 | 730,814 | 320,036 | 39.7% | 86.3% |

It is therefore highly probable that half of the worker and social cooperatives on the Register are members of the associations and that, in turn, these cooperatives account for close to 85% of the total turnover and number of worker.

Generally speaking, the cooperatives who are not members of the associations tend to be small, although they are large in number. Since the associations

²⁶ To date, the Ministry has exempted the Cooperative Credit Banks from the requirement to file their annual accounts with the Cooperative Societies Register.

are not able to monitor these cooperatives, some of them become what may be termed as “bogus” cooperatives, as not only do they fail to correctly apply the cooperative principles, but they also operate outside of the relevant legislation. This is a particularly serious problem since, to a far greater degree than conventional private companies, the public perception of cooperatives is that they are all the same. Any form of improper conduct, the existence of a scandal, etc. that only concerns one single cooperative is quickly perceived to involve all cooperatives, whilst a scandal such as what happened at Parmalat remains exactly that and is not perceived to be a scandal concerning all joint stock companies.

This phenomenon has triggered off a dispute between the Ministry and the representative associations regarding monitoring and supervision which, for the cooperatives that are not members of a recognised association, should be the responsibility of the Ministry but which, in fact, is not carried out on a regular basis.

2. THE RESPONSES PROVIDED BY COOPERATIVES TO OVERCOME THE CRISIS

2.1 The creation of new cooperatives and processes of growth

For the most part, cooperatives operate within institutional contexts that have been created for limited companies whose purpose is to generate value for their shareholders, without mentioning the clear cases of ideological hostility²⁷ held against cooperatives.

In this kind of context, the risk for cooperatives is that they may find themselves marginalised and being obliged to operate within niche sectors that are more or less protected by the public domain.

Cooperatives have to make greater efforts in order to be an active operator on

²⁷ “... *American society in general and in particular some key sectors (such as bankers) are against employee-ownership for ideological reasons and have used their own power to deprive this phenomenon of its own ideological legitimisation.*” H. Hansmann [15] page. 119. This ideological hostility would appear to be less dramatic in Italy, although there is no shortage of campaigns that set out to disparage cooperatives.

competitive markets than competing companies, for whom growth is imperative for their survival.

Each cooperative has to adopt an individual approach to growth, whilst at the same time addressing the issue of the growth of the cooperative movement as a whole. It is therefore not a coincidence that the cooperative movement has developed original forms of grouping together companies and forms of representation that are not merely limited to carrying out lobbying activities, but are also instruments devised to promote new cooperatives and processes of growth.

In this study we have developed eight growth models, sub-divided into two macro-areas:

A) Individual growth models:

- Start-ups: newly created companies;
- Spin-offs: companies that are newly created at the initiative of already existing cooperatives and are integrated within consolidated networks;
- Transfer of companies that do not have anyone to inherit them: companies that are economically sound and which are handed over to the workers by an owner who does not have a natural successor; the workers then convert the company into a cooperative;
- Transfer of companies in crisis: companies that run the risk of having to cease their activities and are taken over by their own workers who then convert them into a cooperative;
- Processes of internal restructuring: processes that are implemented within existing cooperatives that are faced with change in order to stabilise employment.

B) Growth models based on forms of grouping:

- Controlled companies: joint-stock companies that are set up and controlled through initiatives taken by one or several already existing cooperatives;
- Groups: processes of horizontal integration between already existing cooperatives;
- Mergers: processes that bring together existing cooperatives to form a merger.

In this section, we will look at growth processes of the first (individual) type, whilst in the next section we will turn our attention to growth processes of the second type (forms of grouping).

2.1.1. Start-ups

The data provided by the Cooperative Societies Register allow for a partial reconstruction of the demographic composition of cooperatives for the period 2005-2009, which is at the focal point of this study.

The Register's data indicate that there has been an increase in the number of worker and social cooperatives for the period 2006-2008 to the tune of 6,755 units and we can therefore assume that it is very likely that the net increase for the entire period 2005-2009 is in the region of 10,000.

The data provided by the Cooperative Associations for the same period suggest that 4,652 new cooperatives have been created and that, in 2009, they generated a turnover of 1.8 million Euros and provided employment for 55,000 workers. On average, the new cooperatives have a turnover that is slightly below 400,000 Euros and they employ 12 people²⁸.

Although the collected information has not enabled us to entirely reconstitute the growth processes according to the models set out above, it is nevertheless sufficient to allow us to identify some clear trends.

First of all, we have estimated that the start-up cooperatives created during the period 2005-2009 represent 70-75% of the total. Start-ups therefore constitute the main form through which new cooperatives are created.

The support of the Cooperative Associations is a decisive factor in the creation of these new cooperatives, although a number of the new cooperatives are created spontaneously and only establish a relationship with the Associations

²⁸ The data regarding turnover would appear to be realistic, whilst we consider the figures regarding employment levels to be excessive. It is highly likely that this is due to the large presence of part-time workers. On the basis of our own estimates of the number of part-time workers, it is likely that the number of workers in terms of full-time equivalents is in the region of 7/8 people, which is still above the average number of workers in newly created companies in Italy. However, some new cooperatives have achieved high turnover figures, some of which are in excess of 5 million Euros.

once they are up and running.

However, it is true to say that the Associations continue to attract a great deal of attention since they are able to provide essential services, both for the elaboration of the business plan and the launching of the activities of the new cooperatives. In the third section, we will examine the importance of the role played by the financial institutions, which are members of the Cooperative Associations, in the start up and consolidation of the cooperatives.

2.1.2. Spin-offs

The second main typology is represented by the creation of new cooperatives through the spinning off of activities from another company. We have estimated that the number of cooperatives created in this way varies between 25 and 28% of the total, although the majority would appear to come from the social cooperatives that are members of the sectoral cooperative organisation Federsolidarietà (which, in turn, is part of the Confcooperative representative Association). Indeed, it would almost appear to be a trademark of this organisation.

We believe that we need to spend some time looking at this typology because, regardless of any judgement we might wish to make regarding its merits, there is no doubt that it represents a highly original system.

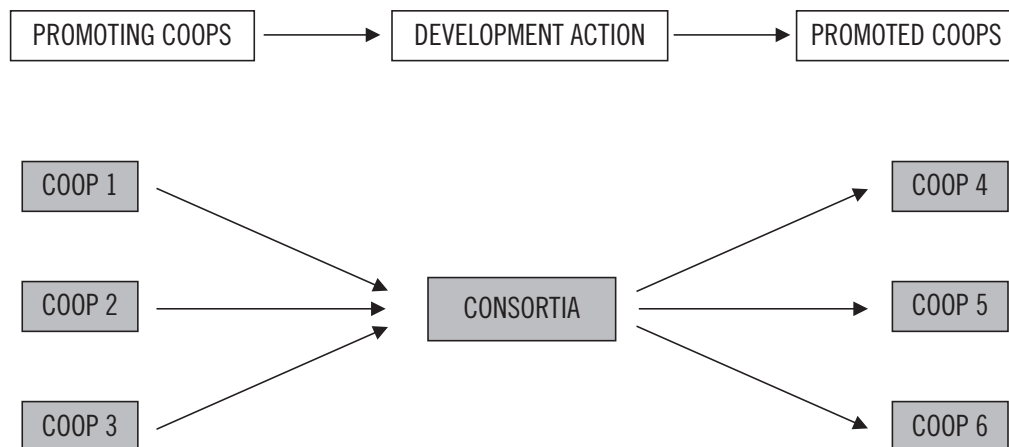
This system is defined as being a “strawberry field”, after the metaphor used to describe it by Felice Scalvini, the first President of Federsolidarietà and of the CGM consortium: *“I don’t know if you have ever taken the time to look at a patch of land up in the mountains on which a few strawberry plants are scattered here and there. They grow very quickly but none of them gets particularly big, but each plant puts down runners that then take root some distance away and give birth to another plant and once this plant has reached a certain size then it also reproduces itself in the same way.”*

I believe that this should be our strategy: lots of social solidarity cooperatives that are created thanks to the support provided by other cooperatives in terms of ideas, solidarity, experience and human resources. But each of these cooperatives must be rooted in their own local community and must be capable of growing independently so that they are then able to provide their own contribu-

tion to the birth and development of new cooperatives”²⁹.

In this strategy, the role of the runner, which spreads and creates new small plants, is played by the consortium based system, as illustrated in Figure 2.

Figure 2 - Consortia in the Federsolidarietà system



In section 2.2.1, we will take a closer look at the role played by consortia in the context of the development of cooperatives, although we should point out that, within Federsolidarietà, the role played by consortia is not the same as the traditional role³⁰.

On the left of the figure one can see the traditional consortium-based model, in which several cooperatives delegate some functions to a new entity, namely the consortium. On the right of the figure, on the other hand, one can see the original nature of the “strawberry field” model, in which the consortium becomes the promoter of new cooperatives.

²⁹ Although this model has been analyzed at great length, it continues to be the subject of discussion, even within Confcooperative (of which Federsolidarietà is a member), where not all of the views are unanimous (for example [38] page. 117).

³⁰ The survey carried out by Istat [19] suggests that the functions that are normally delegated to the consortium are those of commercial promotion and playing the role of general contractor.

Best practice N° 3

The Meridia consortium

The Meridia consortium was created in 1999 at the initiative of six cooperatives as a joint instrument to be used to tackle topics and issues related to social entrepreneurship.

From the very outset, the consortium has set itself the dual task of addressing the issues of integration between the members and the promotion of new cooperatives.

The efforts made to achieve the first objective were centred on the development of intensive training activities organised in two distinct areas of activity:

a) Quality system and social responsibility review

The group's quality system was introduced in 2001 and, to date, 18 members have been awarded certification, as well as the consortium itself.

In 2008, the consortium drew up its first social responsibility review and has already been emulated in this by 11 members.

b) Civil training and development.

The consortium has the task of anticipating and planning for the training needs, for both each individual cooperative and the entire group.

The promotional activities have also been organised into two areas of activity:

a) Active labour policies

This area includes all of the activities that are designed to integrate vulnerable categories of workers on the labour market, including some categories, such as the victims of violence, who are overlooked by present legislation.

These policies are often the fruit of research, the results of which are made public by Meridia through appropriate means of dissemination (the research reports are available on the consortium's website).

b) Development and Innovation

The consortium provides support for the start up initiatives of new companies, either through the elaboration of business plans or ad hoc market research.

This area also includes commercial activities in the stricter sense of the term, such as participation in calls for tender for complex, integrated services, sometimes assuming the role of lead general contractor.

The consortium began its promotional work during its first year of activity through the creation of the type B cooperative Tasha.

At the moment, 29 cooperatives are members of the consortium.

The group has an overall turnover of more than 20 million Euros and employs close to 2,000 people. We have broken down the persons who have been involved in the activities into the following categories:

- 1,600 elderly persons
- 1,400 minors
- 700 persons with some form of disability
- 340 families
- 40 drug addicts
- 70 immigrants

(www.consorziomeridia.it)

As well as the spin-offs created along the lines of the Federsolidarietà model, there are a few other examples of spin-offs, almost all of which have been created for one of the following reasons:

- To consolidate non-strategic activities in a company whose capital is controlled by cooperatives;
- To rationalise the management chain in cooperatives operating in different sectors;
- To initiate joint-venture strategies with joint-stock companies;
- To gain access, through a controlled company, to the venture capital market³¹.

Although we fortunately did not encounter any such examples in the cases we studied for the purposes of this study, another reason to create a spin-off could be to facilitate the process of demutualisation of the cooperative.

Start-ups and spin-offs therefore represent the most common forms used to create new cooperatives, meaning that the other forms covered in this study are strictly limited or sporadic.

2.1.3. Transfer of companies

Although, since 1994 [11], the European Commission has focussed a great deal of attention on the transfer of companies, either because they do not have a

³¹ The Coopservice in Reggio Emilia is a good example of this. Coopservice is one of the leading Italian companies in the service sector (cleaning, security, logistics, etc.) and has a consolidated turnover of almost 550 million Euros. The cooperative acquired a private company engaged in the industrial laundering sector. Within ten years it had transferred all of its own laundering services to the company it controlled, Servizi Italia spa, and generated a turnover of more than 110 million Euros in 2007. Servizi Italia spa has now been listed on the Milan Stock Exchange and Coopservice has kept its controlling majority share in the company.

natural heir or because they are in crisis, the discussion of this issue has never taken off in Italy and has never produced any significant legislative action, apart from the reduction of inheritance tax and the Marcora law (see later).

In the final report presented in 2002 [12] by the experts appointed by the European Commission, no mention is made of the cooperative option and for this reason the recommendations contain hardly any reference to possible interventions to support the financial commitments made by the workers in order to convert their company into a cooperative.

In 2003, ANCPL organised a conference on worker buy-outs [2] and one of the main themes to emerge was that of information: *“perhaps the biggest problem to be addressed when talking about the transfer of a company is that of information”*³². The same presentation pointed to the trade unions as a major source of information, but also pointed out that, for SMEs, *“...the very same trade union full time officers are not aware of the possibilities that may exist in the conversion of a company in crisis into a cooperative company”*³³.

This opinion was further endorsed by a well-respected trade union leader who was prepared to admit that, in his own experience, he had always *“... been inclined to consider the transfer of a company over to the workers as a last resort solution, once all of the other avenues had been explored and exhausted”*³⁴.

Against this background, it should come as no surprise whatsoever that very few of the cooperatives born in the period 2005-2009 were created as the result of the conversion of joint-stock companies into cooperatives.

32 [2] page. 20

33 [2] page. 23

34 [2] page. 41. It is worth remembering the fact that the conversion of a company in crisis into a cooperative is often the result of a lengthy fight led by the trade unions. A recent case in point is that of Nuova Bulleri Brevetti, which was created in 2010, having taken over the running of Bulleri Brevetti srl after a trade union-led struggle that lasted 18 months. Bulleri Brevetti is an historical Italian company that had reached a leading position in the manufacture of machinery used to work with wood (from electronic etching to laser cutting). In 1996, the company became part of the Sicar group, which decided to close the Bulleri Brevetti plant in 2009 in order to concentrate its activities in two other companies in the group. The workers then initiated trade union action designed to prevent the closure of the plant. They achieved their objective through the creation of the new cooperative.

From the data provided by the cooperative associations, we can conclude that very few cooperatives have been created out of the conversion of companies and that, in the great majority of cases, the cause has been the fact that the company was in a crisis situation, rather than the lack of any other type of entrepreneurial alternative.

In most cases, these companies are of a fairly modest size. They are almost always involved in industrial, rather than service, activities, with the exception of one or two cases in the IT sector³⁵.

2.1.4. Internal restructuring

It has been a far more complex task to evaluate the processes of internal restructuring adopted by cooperatives in order to stabilise employment levels, particularly since the effects of the crisis are still being felt and it is impossible to draw any definitive conclusions about these effects.

We have examined the trend of several balance sheet indices as a yardstick to measure these processes for a considerable number of cooperatives³⁶ for the two-year period 2007-2008, which should reflect the impacts of the current economic crisis. Although there had already been signs of the crisis towards the end of 2007, the data taken from the balance sheets reflect, to a certain extent, the decisions that had already been taken beforehand and for this reason the 2007 financial year can be considered to be the last “pre-crisis” financial

35 A couple of experiences should be mentioned in this sector: P.M.A. Engineering and Telea Sistemi. The first cooperative was created in 2003 as a result of the sell-off of one branch of a private company and it quickly established contact with engineering designers and constructors who were in need of support for the development of their project but preferred not to establish their own structure. Using integrated software, P.M.A. is able to work in perfect synergy with its own clients and, in collaboration with engineering workshops, is able to carry out precision engineering work, thereby meeting with its clients’ specific design requirements. Telea Sistemi was also created following the sell-off of a part of a private company. The company was created in 2005 and specialises in the provision of solutions for the telecommunications and networking sector and is involved in the design, production and management of integrated telephony, data, video and security systems.

36 The composition of our sample is as follows:

| | |
|---|-------|
| Worker cooperatives in the construction and industrial sector | 449 |
| Worker cooperatives in the service sector | 1,047 |
| Social cooperatives | 805 |

year, whilst 2008 already reflects the results of the decisions taken in order to cope with the crisis and therefore it may be used as a yardstick of the change in conduct. This data is summarised in Table 20.

There was a 9.25% increase in the overall value of production, accompanied by an increase in investments in the region of 53%.

The only negative piece of data is represented by the increase in financial debt (+18.51%), which may also be the result of a reduction in cash flow.

Table 20 - Trend of several balance sheet indices 2007-2008

| Indicators | Worker Coops Construction & Industry | Worker Coops Services | Social Coops | Total Cooperatives |
|---------------------|--|-----------------------------|--------------|--------------------|
| Value of Production | | | | |
| - 2007 | 9,464,996 | 4,534,871 | 1,424,981 | 15,424,848 |
| - 2008 | 10,370,615 | 4,886,591 | 1,594,643 | 16,851,849 |
| - Δ % | 9.57% | 7.76% | 11.91% | 9.25% |
| Net investments | | | | |
| - 2007 | 305,120 | 196,321 | 53,511 | 554,952 |
| - 2008 | 524,515 | 246,916 | 77,584 | 849,015 |
| - Δ % | 71.90% | 25.77% | 44.99% | 52.99% |
| Financial debt | | | | |
| - 2007 | 2,212,666 | 635,384 | 168,019 | 3,016,069 |
| - 2008 | 2,675,081 | 700,229 | 199,043 | 3,574,353 |
| - Δ % | 20.90% | 10.21% | 18.46% | 18.51% |

Source: based on data provided to us by C.R.M. srl

2.2 Cooperative groupings

Although cooperatives have always seemed intent on maintaining their independence, which is often the constituent element of their own anchoring at the territorial level, at the same time they have always been willing to seek out new entrepreneurial combined forms with other cooperatives in order to be able to grow.

Alongside the most conventional instrument that may be used to form a grouping, namely the creation of a merger, cooperatives have devised an original entity, the consortium.

Over recent years, larger cooperatives in particular, some of which have a history that goes back more than a century, have created enterprise groups, in which the cooperative has played the role of the lead company that exercises control over the joint-stock company.

We have therefore separated the growth processes achieved through the establishment of groupings into four distinct categories:

- Cooperative consortia
- Peer groups (horizontal groups)
- Mergers
- Groupings led by a cooperative (vertical groups).

2.2.1. Cooperative consortia and cooperative peer groups

2.2.1.1. Cooperative consortia

The main form of entity used by Italian cooperatives in order to favour processes of growth is the consortium, a cooperative company composed of cooperatives.

From an economic point of view³⁷, we can identify the following justifications for concluding an agreement to create a consortium:

- a) Consortia that lead to the process of integration of the production process. This form is particularly well developed amongst cooperatives that produce agricultural products.
- b) Consortia for the collective purchase of goods and services for their own members. This form has been developed, in particular, in the consumer cooperative sector.

³⁷ It should be pointed out that our approach is focussed entirely on growth and therefore may well undervalue the other vital functions performed by the consortium model. An exhaustive analysis of the role of the consortia should also take into account the mediation role that a consortium can play between the interests of the members, the promotion of management training (including the organisation of manager exchange schemes), training for the workforce, the dissemination of know-how and best practices between the members, etc.

- c) Consortia to which specific, although not exclusive, tasks are entrusted. The most common example of this form of consortium is represented by consortia that take part in a call for tender, which is then carried out by member cooperatives. This form of consortium has proved to be fairly popular amongst both worker (construction and services) and social cooperatives.

Type b and c consortia share the purpose of attempting to increase the negotiating power of the member cooperatives.

The historical origins of this entity go back to a law that was introduced in 1909³⁸ and which was designed to favour the participation of worker cooperatives in the execution of public procurement contracts, by making use of a company instrument big enough to compete with private companies and capable of giving the necessary guarantees to the contracting authority regarding the good execution of the works. This instrument enabled cooperatives to take part in the tendering process for large contracts, which would otherwise not be accessible to individual companies. This was immediately successful and within only a few years at least 20 consortia were formed across the whole of Italy. Indeed, the country's leading consortium in the construction sector, the Consorzio Cooperative Costruzioni, which has a turnover of more than 1.23 billion Euros, was created in 1912 on the basis of the abovementioned law.

The Italian legislator introduced law 127/1971 in order to regulate the question of cooperative consortia by placing two other forms of consortia alongside the cooperative consortia that are eligible to take part in a call for tender:

- Consortia of cooperative companies;
- Consortia of cooperative companies for the coordination of production and trade.

The first type of consortium refers, for the most part, to a consortium within the context of a secondary level cooperative. This broadens the possibilities of

³⁸ Law No. 422, introduced on 25 June 1909 and implemented by decree No. 278 in 1911. In the pre-World War I period, a whole series of provisions were introduced regarding cooperative companies, leading a well-known jurist to call this law the "... Italian legislator's best piece of legislation regarding cooperatives" [6] page. 44

establishing a new organisational instrument that is designed to facilitate the fulfilment of the mutuality-based purpose of the participating cooperatives, thereby expanding their activities beyond the original role that was limited to enabling the cooperatives to be eligible to take part in public tendering processes.

According to Bonocore, this provision is at the basis of “... *the explosion of cooperative at the upper level – the second, third, fourth level – which is essentially cooperation in the services sector and which has given a substantial boost to the re-launching of the entire cooperative movement by helping to save many cooperatives that, up until that point, had found themselves isolated on the market, from disappearing altogether*”³⁹.

The third form of consortium, on the other hand, refers to an entity that had already been present in the Italian civil code since 1942 (art. 2602 and ff.)⁴⁰, which is accessible to all companies of any legal form.

Consortia established between social cooperatives are regulated by an ad hoc piece of legislation (Legislative Decree 470/97).

Table 21 shows the number of consortia that are members of the Cooperative Associations.

Table 21 - Consortia that are member of the Cooperative Associations – 2008

| Sectors | Number |
|--------------|--------|
| Worker coops | 529 |
| Social coops | 314 |
| Total | 843 |

Source: based on data provided by the cooperative associations

39 [6] page. 323

40 The legal aspects of this form of consortium are rather complex and it is for this reason that they have not been addressed here.

Best practice no. 4

Consortia of cooperative companies

Case study no. 1 – Consorzio Nazionale Servizi – CNS

The CNS – Consorzio Nazionale Servizi – was created in 1977 by 11 worker cooperatives in the services sector, with the aim of acquiring contracts from private customers or public bodies for work that would then be carried out by the member cooperatives, particularly in the sectors of cleaning, logistics, maintenance, ecology, catering, arts and cultural services, reception and caretaking services and, finally, facility management services. The CNS has been so successful in its work that it is now one of the leaders in its field at the national level.

Unlike other consortia, which tend to be created at the initiative of their members, the establishment of the CNS was the result of a strategic choice made by the representative national association which, with a great deal of intuition, anticipated the beginning of a large-scale process of tertiarization of the Italian economy.

In the early years, the main problem seemed to be that of ensuring that the other cooperatives would be sufficiently trusting to join the consortium.

Between 1980 and 1995, the turnover grew from 11.4 million Euros to 91.69 million Euros.

During this initial phase, the CNS experienced a critical moment at the beginning of the 1990s and although the consortium served as a support for the small and medium-sized cooperatives, in these times of difficulty it was the larger cooperatives which lent their support to the consortium and even underwrote new capital stock.

Having emerged from this difficult situation, in 1996 the turnover of the CNS was in excess of 100 million Euros, triggering off huge growth to the point that, by the end of the 2008 financial year, its turnover stood at 581 million Euros, 534 million of which was generated by work entrusted to the member cooperatives.

The consortium recorded a profit of more than 500 thousand Euros in 2001 and it reached 5,349 thousand Euros in 2008. The CNS currently has 230 member cooperatives.

The CNS has nine regional and local representative offices and operates across the whole of the country. Several years ago, together with two cooperatives, it set up Armonia Holding, thereby acquiring work in Croatia, Serbia and Malta.

From the mid-1990s, the consortium's main sector of activity became the cleaning services sector and from the beginning of 2000, it became heavily involved in the facility management sector (in both 2008 and 2009 the CNS was awarded the Public Facility Best Price prize for the public facility management sector). At present, these two sectors account for close to 70% of the activity of CNS.

By allocating its profit to indivisible reserves and through the introduction of successive processes to increase its capital stock (with the support of the Coopfond cooperation development fund), the CNS has managed to accumulate the financial resources it requires to support its smaller members and has been able to shorten the Public Administration's

payment terms, which are particularly lengthy and inconvenient.

The CNS member cooperatives are of all sizes, from the very big to the very modest.

It is interesting to note that the smaller cooperatives that receive work from the CNS account for more than half of the total number of members (57%) and that although they receive the smallest share of the work (7.4%), they are the most dependent upon the consortium: 44.7% of their turnover is generated by work allocated to them by the CNS.

The CNS has managed to keep a balance between large, medium and small cooperatives, even within a governance system based on the cooperative system of one person one vote.

(www.cnsonline.it)

Case study no. 2 – Ciro Menotti – Ravenna

The Consorzio Nazionale Cooperative di Produzione e Lavoro Ciro Menotti was created in 1959 under law 422/1909, which was introduced to regulate the establishment of a consortium by cooperatives in order to be able to take part in public procurement tenders.

The consortium enables the members to take part in both public and private calls for tender, notably in the sectors of civil and industrial construction, infrastructure and plant works.

The consortium often operates in alliance with other companies in the sector or complementary sectors through the creation of Temporary Associations of Companies - Associazioni Temporanee d'Impresa (ATI).

The consortium is entitled to work in 26 categories of activity and in four of these categories there is no upper limit placed on the value of the contract.

Once the consortium has been awarded a contract, it entrusts the undertaking of the work to its member cooperatives, although it does retain responsibility for the coordination of the project, which is an essential role in cases in which the activities are carried out by a series of cooperatives. Unlike other similar consortia, the Ciro Menotti has not sought to play a direct entrepreneurial role through the establishment of controlled companies.

The consortium has 69 members throughout Italy; one of its main members is the ACMAR cooperative, which in 2008 recorded consolidated sales of more than 218 million Euros, making it one of the leading Italian construction companies.

From 2005 to 2008, the consortium took part in 5,559 calls for tender.

In 2008, Ciro Menotti achieved a turnover of almost 118 million Euros and has net assets of more than 3.5 million Euros.

(www.ciromenotti.it)

Case study no. 3 – CGM

There is no doubt that the Consorzio Gino Mattarelli (CGM) is the largest and most well-known consortium in the field of social cooperation.

Created in 1987 (before the introduction, in 1991, of law 381 on social cooperation) as a national consortium constituted by territorial consortia, it considers itself to be *“... a community based instrument that is close to the citizens and able to respond to the needs of the elderly and new needs by working together with the institutions and the other actors in the communities that can collaborate in the pursuit of the same objectives”*.

Since its very creation, the consortium has set out to develop the “strawberry field” approach, according to which the territorial level is covered by small cooperatives. The consortium believes that this can act as a deterrent against excessive bureaucracy and that it is *“... able to favour the flexibility and quality of the service provided, the attention to the person and also the quality of the relationships that are established and therefore of the life of the workers.”* At the same time, *“the fact that the cooperatives are small would not appear, on its own, to be sufficient to manage a process of accelerated growth”*.

CGM therefore performs an integrating function between the members, so as to compensate for their limitations that are related to their choice of being small and medium-sized cooperatives.

Not only does CGM act as a general contractor in order to acquire work, but it also provides a platform for the exchange of information, know-how and senior management and professional and managerial staff, as well as training.

Today, the system is an integrated network that works upon a basis that has been formed by consensus: it is composed of 78 consortia which, in turn, are made up of 1,200 cooperatives which employ more than 35,000 people and have an aggregate turnover of over 1.1 billion Euros.

In order to promote the specialisation of its own activities, CGM has invested a considerable sum of more than 1.3 million Euros in 15 different companies.

CGM Finance was created in 1998 in order to promote the development of links between the member companies. It raises funds through social loans or external lines of credit that can then be used to finance the social cooperatives experiencing the greatest amount of difficulties to access credit.

CGM created a peer group in 2006, of which it is the coordinator. The other cooperatives that participate in this group are:

- Luoghi per crescere (education and early years services);
- Comunità solidali (health);
- Accordi (environment);
- Mestieri (training and career advice);
- CGM Finance (finance).

They should shortly be joined by: Connecting people (integration and immigration), Welfare Italia (family services) and Solidarete (internationalisation of social companies).

(www.gruppocgm.org – www.cgm.coop)

2.2.1.2. The cooperative peer group [gruppo cooperativo paritetico]

In 2003, the legislative authorities decided to enhance the possible forms of grouping between cooperatives by introducing the notion of a “cooperative peer group”, as set out in article 2545 (7) of the Civil Code:

[1] A contract with which several cooperatives, which may belong to different categories, regulate, including in the form of a consortium, the management and the coordination of their respective companies, must state:

- 1) the duration;*
- 2) the cooperative or the cooperatives to which the management of the group has been entrusted, indicating its relevant powers;*
- 3) any participation of other public or private bodies;*
- 4) the criteria and conditions for admission to, and withdrawal from, the contract;*
- 5) the criteria for compensation and the establishment of a balance in the distribution of the advantages that derive from the joint activities.*

[2] The cooperative may withdraw from the contract without having to pay compensation of any kind in the event that, as a result of being a member of the group, the conditions under which it finds itself carrying out business are prejudicial to its own members.

[3] The cooperatives who are members of the group are required to submit their written agreement to take part in the group to the Cooperative Societies Register.

There are several areas in which this entity differs from a consortium:

- a) It is a contractual agreement that does not lead to the creation of new company.
- b) As well as cooperatives, both private and public bodies may become members of the group. This possibility is not available to traditional cooperative consortia⁴¹.
- c) A lead cooperative is identified and the management of the group is en-

41 M. Iengo [16] page 252

trusted to this cooperative, once its relevant powers have been established. There is therefore a transfer of managerial authority to the cooperative that acts as the group leader, whilst at the same time retaining its own legal autonomy.

In a certain sense, the peer group would appear to stand halfway between a consortium, in which the members retain complete statutory autonomy, and a merger, in which the cooperatives give up their own autonomy and entrust it to the incorporating company.

Although many conferences have been held to discuss this question, this entity was recently described as being an “unfulfilled expectation”⁴², since a mere 30 contracts (underwritten by just over 100 cooperatives) had been submitted to the Cooperative Societies Register by the end of 2009. However, there is a widely held conviction that this entity does have significant potential which has yet to be fully expressed.

Best Practice no. 5

Coos Marche Onlus: an integrated network in the Marche Region

The Coos Marche cooperative was established in 1979 as a type A social cooperative to provide social, health, assistance and educational services to the elderly people with a disability and minors.

It currently has a turnover of some 41 million Euros, employs 1,900 people and has opened five branch offices in the Marche Region.

In 2008, six cooperatives set up a peer group so as to achieve the following objectives:

- a) The integration of the commercial activities of the member cooperatives in order to obtain greater recognition from the public administration;
- b) To gain greater efficiency and economies of scale in the use of human resources operating within the group;
- c) To develop a wider and enhanced range of services to offer to both public and private clients.

The cooperative members of the joint group are:

42 C. Quattrocchi [24] page 23

- Zanzibar: a type B social cooperative that was created in 2000 and has 40 worker-members, close to 40% of which have some form of mental illness;
- Hostess, which was created in 1991 with a view to providing services for children and adolescents;
- La Gemma, which was created in 1996 at the initiative of 16 women and currently provides early years children's services and has a workforce of 120;
- Il Mosaico, which was set up in 2002 as a spin-off of the Cooperativa Il Tulipano and currently has 16 worker-members.

The coordinating role is played by Coos Marche.

The Group represents one of the largest entrepreneurial networks in the sector in the Marche Region.

(www.coos.marche.it)

The notion of the “network contract” was introduced into Italian legislation by law 33/2009. This is similar, to a certain extent, to the cooperative peer group, in that its objective is to create the formation of groupings amongst companies, without the companies losing their own legal autonomy.

However, there are two elements within the network contract that are fundamentally different from the joint group:

- a) it can be established by any type of company, not just by cooperatives;
- b) none of the participating companies is assigned the role of coordinator, which means that all of the companies remain at the same level, without there being any form of subordination.

This entity represents potential advantages, particularly for SMEs that intend to establish themselves on new markets but do not have the critical mass that would enable them to absorb considerable overheads, including costs related to representation and promotion.

At the moment, there are no statistics available regarding the number of network contracts that have been agreed, although this form of grouping may become more popular once the terms and conditions of the tax advantages set out in legislative decree 78/2010 have been clarified.

2.2.2 Mergers and cooperative parent company

2.2.2.1. Mergers

There is an abundance of literature and research regarding mergers. According to one of the most widely read manuals on company finance, then regardless of the reasons behind the creation of a merger, the important element is the economic benefit that can be achieved, “... *only if the two (merging) companies are worth more together than they are separately*”⁴³. However, it is difficult to adapt this principle to cooperatives, as the transfer of ownership means the disappearance of a cooperative.

Table 22 shows some of the data we have collected regarding the merger processes carried out by the cooperatives that are members of the Cooperative Associations from 2005 to 2009. This data shows that the creation of a merger is of only marginal importance compared to the other forms of groupings used by cooperatives.

Our examination of the mergers that have taken place between cooperatives suggests that there are two main reasons for the creation of a merger⁴⁴:

- a) As a system to resolve a company crisis, when a “strong” cooperative merges with a “weak” cooperative. These types of mergers are often promoted by the representative Association;
- b) As a system to increase the market presence of the merged cooperatives; in this case, the merger always takes place between cooperatives engaged in the same activities and may be designed either to achieve integration at the territorial level or to avoid an overlapping presence at the same territorial level.

43 [7] page 788.

44 A. Zevi [9] has correctly pointed out that the reasons for forming a merger are appropriate for both capital-based and cooperative companies, but that the mutuality-based purpose of the latter changes the framework of the reasons.

Table 22 - Number of mergers between cooperatives for the period 2005 - 2009

| Year | Cooperatives | | |
|-------|--------------|--------|-------|
| | Worker | Social | Total |
| 2005 | 8 | 2 | 10 |
| 2006 | 23 | 6 | 29 |
| 2007 | 10 | 7 | 17 |
| 2008 | 6 | 4 | 10 |
| 2009 | 30 | 12 | 42 |
| Total | 77 | 31 | 108 |

Source: based on data provided by the Cooperative Associations

Best practice no. 6

Pierreci and Codess Cultura:

the leading non-public capital group for cultural heritage services

A recent example of a merger designed to increase market presence is the merger of Pierreci and Codess Cultura, two cooperatives that operate in the cultural heritage services sector:

- The management of museums and archaeological sites, including book shops, guided tours and educational activities
- Management of libraries
- Front line services (ticketing, security, reception, caretaking and cleaning)
- Publishing
- Fitting out congresses and fairs.

Pierreci was mostly active in the centre and south of Italy, whilst Codess Cultura was active in the north of the country.

Almost 80% of the vast cultural heritage in Italy is still managed by the public sector, which is very reluctant to outsource and is more inclined to promote the creation of in-house companies. This means that the companies on the market are not particularly big.

As a result of this merger, the new company, Pierreci Codess Coopcultura has become the leading Italian private company in the sector.

The situation before the merger may be summarised as follows:

| | Pierreci | Codess |
|-------------------|------------|------------|
| Year of creation | 1990 | 1999 |
| Turnover | 16,160,000 | 14,776,000 |
| Operating profit | 489,000 | 6,000 |
| Capital invested | 9,854,000 | 10,130,000 |
| Net assets | 1,715,000 | 631,000 |
| Number of members | 197 | 350 |
| Number of workers | 500 | 627 |

(www.pierreci.it – www.codesscultura.it)

2.2.2.2. The cooperative as a parent company

Rather than growing through the establishment of a merger, the larger cooperatives prefer to grow not only internally through the investment of the resources they have built up in their indivisible reserves, but also through the implementation of other instruments, such as the formation of a group, in which the parent cooperative also assumes control over limited companies.

The legal aspects of the holding of controlling shares in a limited company by a cooperative have been discussed at great length. Article 18 of law 72/1983 finally gave legal approval to something that, in reality, had already been widely practised for some time: *“cooperative companies and their consortia may both form, and be members of, joint stock and limited liability companies”*.

However, this apparently simple statement has not brought an end to an on-going debate regarding:

- The quantitative limits of the investment in relation to the assets of the cooperative parent company;
- The retention of the mutuality-based purpose;
- The instruments used to ensure the supervision of the group.

The data shown in Table 23, which only refer to the members of Legacoop, would appear to suggest that this is a phenomenon which, for the most part, only concerns worker cooperatives⁴⁵ and that it is rarely used by social cooperatives.

⁴⁵ Some cases of great interest were presented at a conference in 2007 and were subsequently

Generally speaking, the cases in which a cooperative assumes the role of parent company are fairly limited in number and would only appear to be of interest to large cooperatives. Almost all of the worker cooperatives that are members of Legacoop and have a turnover in excess of 100 million Euros are parent companies and draw up a consolidated balance sheet⁴⁶.

Table 23 - Size of groups controlled by a cooperative parent company – 2008 (Millions of €)

| | Total | |
|---|--------------|--------------|
| | Worker Coops | Social Coops |
| Value of share: | | |
| - controlled companies | 1,285,1 | 19,6 |
| - associated companies | 347,9 | 11,0 |
| Number of companies that draw up a consolidated (Group) balance sheet | 64 | 6 |

Source: based on data provided by Centrali Cooperative

A. Zevi [9] has identified at least five reasons for making use of this specific instrument designed to increase company size⁴⁷:

- a) The creation of a group controlled by a cooperative parent company would appear to be the only way to expand activities abroad, either through the management of plants located in other countries or to manage commercial networks.
- b) For a range of different reasons, some cooperatives find themselves having to manage diversified activities. In these cases, they have spun-off some branches of activity into ad hoc joint-stock companies in order to either facilitate their control or to give greater autonomy to the management group responsible for the individual activities. This process has often been combined with operations designed to acquire already existing joint-stock companies.

published in [1]

⁴⁶ A. Zevi [32].

⁴⁷ We consider the hypothesis put forward by Bonocore to be less convincing. According to this theory, the development of the group controlled by a cooperative is a reflection of the decline of the consortium model, "... which is no longer able to satisfy the new requirements" [6] page 328. Similar opinions may also be found in the research carried out by [5].

- c) In some cases, the group's decision has been determined by the need to diversify the business risks, particularly in cases in which innovative initiatives are taking place.
- d) Entry onto new markets sometimes requires the creation of a joint venture with private entrepreneurs. In these cases, the creation of a capital-based company would appear to be the only possible option (sometimes even in the event that all of the interested parties are cooperatives, but with different contributions to make in terms of venture capital, meaning that the traditional system of governance, based on the principle of one person one vote, might not represent the different level of risk assumed by each party involved in the group).
- e) In a very limited number of cases, the concentration of part of one's own activity in a joint-stock company has become a way of accessing capital on the stock exchange, given the huge difficulties encountered when trying to list cooperative stock on the market.

Best Practice N° 7

Sacmi: a multinational cooperative parent company

Sacmi, which is based in Imola, is the largest multinational cooperative parent company in Italy.

The cooperative was created in 1919 at the initiative of nine mechanics with the purpose of "directly running one or several workshops for the repair of machines in general and the purchase and sale of machines".

Although the members were subject to both acts of violence and intimidation during the Fascist era, Sacmi began to grow as a company and in the 1930s it produced its first own-brand machine, which was used to clean oranges.

An important turning point was reached after the second world war, when Sacmi entered into a major collaboration agreement with another large cooperative in the local area, namely the Cooperativa Ceramica di Imola (see Best Practice no. 1).

The Cooperativa Ceramica began to receive large orders for decorative tiles, but its machinery and plant facilities had been badly damaged by bombing during the second world war.

Sacmi was asked to help restore and repair the machinery. This experience changed from being an opportunity for new employment into an opportunity to acquire know-how that would then lead to the cooperative becoming a leader in the field of the production of integrated plants for the production and firing of ceramic tiles in the 1950s.

At around the same time, Sacmi began to manufacture crown cap machines, which served as a basis for its successive development into the food packaging sector.

Sacmi quickly established a foothold on international markets and set up the first controlled commercial company in Milan, with the purpose of developing foreign trade.

The table below shows some important data regarding the group (values expressed in millions of Euros):

| Year | Turnover | Net Cap. | Workers |
|------|----------|----------|---------|
| 2006 | 1.074 | 510 | 3,751 |
| 2007 | 1.243 | 533 | 3,474 |
| 2008 | 1.172 | 541 | 3,658 |
| 2009 | 972 | 541 | 3,681 |

In this period, 14-15% of the turnover was been generated in Italy and the remainder was generated abroad.

Today, Sacmi is a cooperative that controls a multinational group that is organised into 6 operational divisions:

- a) Ceramics: design and manufacture of machinery and complete plants for the production of tiles, refractory tiles, extruded products, structural bricks and ceramics, sanitary ware, tableware, technical tiles, carbon anodes and metal forging;
- b) Beverage & packaging: design and construction of machines and complete plants for bottling, labelling, packaging, PET preforms, caps and plastic containers;
- c) Plastic injection: design and marketing of machines and complete systems for the injection moulding of plastic materials;
- d) Food processing: complete food processing lines for the production of chocolate;
- e) Process controllers: NIR fruit quality control inspection systems plus vision systems and olfactory systems;
- f) Service companies: international shipping and logistics services, technical and technological services for manufacturing companies, administrative services.

These activities are supported by a Research and Development Centre that employs more than 200 people and which, in 2009, made investments to the value of 25 million Euros. In 2009 alone, these research activities led to applications being made for patents at different levels:

- a) 21 at the international level;
- b) 11 at the European level;
- c) 119 at the national level.

Sacmi controls 70 production, distribution and service companies in 24 different countries.

In its own 2009 social report, Sacmi reiterates its own mission within the cooperative values: *“To offer our members and the community at large opportunities for development and mutual assistance, in full respect of the principles and values of cooperative democracy”*.

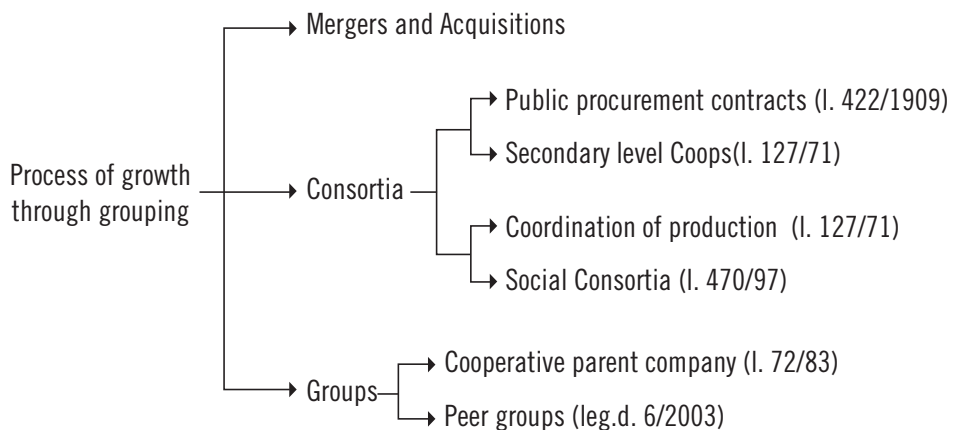
(www.sacmi.com)

There is not doubt that the development of this instrument opens up new areas of discussion within each cooperative, notably regarding:

- How to ensure that the activities carried out with the joint stock companies are guided by the mutual approach that underpins cooperatives;
- How to involve the workers of the controlled companies who are not members, taking into account the possibilities opened up by article 2349 of the Civil Code regarding *“actions and financial instruments in favour of the providers”* including those operating within a group controlled by a cooperative parent company.

Figure 3 shows a summary of the instruments that may be used to promote growth through the establishment of groupings.

Figure 3 - Processes of growth through the creation of groupings



Consortia, peer cooperative groups, mergers and cooperative parent companies are all entities that share the same objective, namely to promote the growth of cooperatives. However, they are different from one another in terms of the degree of autonomy enjoyed by their constituent parts (subordination versus autonomy) and the degree of integration (high versus low).

By combining these variables, we are able to describe the models as shown in Figure 4.

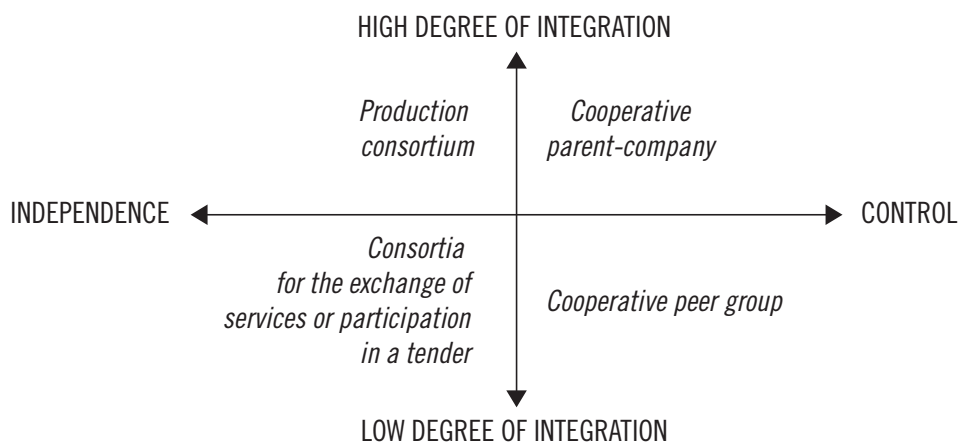
The creation of a consortium does not alter the relationship between the member cooperatives in terms of their legal autonomy: each member cooperative is an autonomous company and is not bound by any form of subordination.

The consortia that undertake a process of integration of the production process, which is often the case in the agricultural sector, establish a high degree of integration between the members in that they are created to perform a phase of the production process that is not carried out by the individual members.

Consortia that share an exchange of services, which is the case for a collective purchasing centre or for the purposes of taking part in a tendering process, are structures from which it is much easier to withdraw.

Groups controlled by a cooperative parent company and cooperative peer groups are characterised by a relationship in which some companies are subordinate to a “head of group”, which exercises control over the group either because it has a majority share (in the first case) or by contract (in the second case).

Figure 4 - Forms of grouping between cooperatives



3. FINANCING INSTRUMENTS TO PROMOTE GROWTH

3.1 Direct instruments: capital and reserves

In the first section of this chapter we have already provided statistical evidence of the fact that, since the 1970s, the processes of growth amongst cooperatives have been higher than those of non-cooperative companies.

The real point of interest is how cooperatives have managed to finance these processes, particularly if we consider that, historically, they have been created at the initiative of natural persons who did not have an abundance of capital and have experienced greater difficulty than joint-stock companies in their efforts to access the financial markets.

The difficulties experienced in accessing venture capital are easy to understand and related to:

- a) An ownership system that accords limited rights to its members regarding the availability of the value of the company;
- b) The profit distribution system, which gives priority to the granting of rebates and the allocation of the profits to the indivisible funds, rather than to the payment of dividends.

The subordination of the capital to the rights of the cooperative members would appear to represent an insurmountable obstacle for cooperatives that wish to directly access venture capital markets.

Given the members' limited capacity to directly finance their own cooperatives with the share capital, then the possibility of a cooperative achieving growth through its own internal resources is dependent, first of all, on the possibility of accumulating profits that are not distributed to the members. For a long time, cooperatives have used their indivisible reserves as the main instrument to finance their own growth.

According to current legislation, a cooperative's share capital may be subdivided into capital shares, but, as stated in article 2525, the value of the shares held by an individual cooperative member may not exceed 100,000 Euros⁴⁸.

⁴⁸ This limit may be higher in cooperatives that have more than 500 members, as long as this is

At the end of his or her mutuality-based relationship, the member is entitled to the reimbursement of the shares, of his or her own share of the divisible reserves and of any share premium, according to the modalities set out in the statutes.

In the case of the dissolution of the cooperative, the member's entitlements to the assets do not go beyond those set out above and any residual capital must be assigned to the Cooperative Development Funds⁴⁹.

The indivisible fund is fed by profits that have not been distributed and may not be distributed amongst the members, even in the event of the dissolution of the cooperative. Limitations also exist regarding its usage to cover financial year losses⁵⁰.

The indivisible reserve has been a decisive instrument in the process of capitalisation of the cooperatives, projecting the life of the company beyond the interests of the members⁵¹. However, it remains a process that is built up over time and therefore it cannot always be used in situations in which the cooperatives' own funds need to be made available in a short space of time.

There is no doubt that this form of accumulating funds has been encouraged

stated in the articles of incorporation, but a member may never hold more than 2% of the share capital. However, the shares or rights acquired through the distribution of the divisible rights or rebates are excluded from these calculations. These limits do not apply to members who are legal persons or to financing members who have voting rights (art. 2525 CC).

49 See § 3.2.2. below.

50 In the event that a cooperative does use its indivisible reserve to cover financial year losses, then it may not distribute profits until the amount used to cover the loss has been paid back into the indivisible reserves.

51 It can be surprising to see how many economists struggle to come to terms with the essence of this institution: how is it possible that the members, in their capacity as *residual claimers*, voluntarily renounce ownership of something that they have produced? Indeed, in many interpretative models of worker cooperatives, for example, the view taken by economists is that worker-members maximise the pro-capita income (this hypothesis was put forward by B. Ward in 1958), which is the equivalent of the complete distribution of the residual profit, once the relevant deductions have been made. In these models, there is no place for an indivisible reserve! One widely held view consists in the hypothesis that the members can also decide to reinvest the profits, but this is influenced by the amount of time spent in the cooperative by the average member, since their time line is finite, contrary to what happens in joint-stock companies in which the circulation of securities extend the time line into infinity (this hypothesis was put forward by Furubotn and Pajovich in 1970). So how can one explain this asymmetry between the flesh and blood cooperator and the economists' *Homo cooperativus*?

by the tax relief system⁵². The tax relief scheme applicable to funds that are assigned to indivisible funds was overhauled by the 2003 reform. It is difficult to summarise the current situation in a precise way because the reform has introduced many distinctions, either between the types of cooperatives (the tax system for worker cooperatives is not the same as the system for consumer cooperatives) or through the extension of the mutuality-based exchange (cooperatives that are predominantly mutuality-based versus those that are not predominantly mutuality based).

We will limit ourselves to describing the case of a worker cooperative that is predominantly mutuality-based, for which the current legislation provides the following types of indivisible reserves:

- a) Legal reserve: the cooperative is required to allocate 30% of its annual profits to the legal reserve. This reserve is indivisible by law and is not liable for tax.
- b) Voluntary indivisible reserve: once the legally required contributions have been deducted - the legal reserve (30%) and the payment to the Cooperative Development Fund (3%) – the cooperative can, at its own discretion, allocate the residual profits to the indivisible reserves. Up until 2003, the profits generated by cooperatives which opted for this solution were not liable for tax. However, under the new system, the cooperative is required to pay tax on an amount that is the equivalent of 30% of the profits, regardless of what the cooperative intends to do with the profit (although it should be pointed out that social cooperatives are not liable for tax, given their social purpose).

Alongside these instruments, in Italy the members may also participate in the

⁵² The issue of tax relief on profits allocated to indivisible reserves is the subject of ongoing and protracted discussions. Many commentators (including well-known managers of cooperatives) have proposed that this tax system should be compared to that applied to the profits of joint-stock companies that are reinvested in the company. In our opinion, this is an inappropriate comparison. The reason why the profits allocated to the indivisible reserves are not liable for tax is not because they are being reinvested, but rather because the members have renounced all claims on their redistribution. For a joint-stock company, the tax relief does not require the shareholders to give up their claim to the residual profit, since it simply replaces the possibility of claiming it as a dividend, with the possibility of claiming it as a capital gain (which is also more advantageous from a fiscal point of view).

financing of their own cooperative through the provision of voluntary loans (social lending) that are regulated by specific legislation. This notion was first introduced into Italian legislation in 1971, although it had already been used by many cooperatives for some time. The introduction of law 127/71 regulated the purpose of the loans (to help achieve the social purpose of the cooperative), the limits set for the individual deposits and the rate of interest payable. In the meantime, these limits have been adjusted to take into account inflation⁵³.

A cooperative cannot collect loans for a total amount that is higher than three times its net assets. This can be increased to five times its net assets on the condition that it is accompanied by suitable guarantees for the members providing the loans.

An intense debate has taken place in Italy since the 1970s regarding the possibility of financing members, who would only contribute capital, without being involved in any other form of mutual exchange, becoming part of a cooperative.

The possibility for cooperatives to issue stock to financing members was finally introduced by law 59/1992, which provided for two types of stock:

- a) Shares for financing members, which include dividend rights in proportion to the capital paid, as well as voting rights, such as the right to vote in assemblies (both ordinary and extraordinary), with the limit of a maximum of one third of the total number of votes and the right to have their own representatives on the administrative body, although these representatives would always be in a minority compared to the representatives of the cooperator members.
- b) Cooperative participation shares, which only give entitlement to dividend rights in the form of additional remuneration in respect of the other capital shares and pre-emption rights on cooperative's liquidation capital.

Although they have attracted some interest⁵⁴, for the most part these possibilities

53 At the moment, for worker cooperatives the loan cannot exceed 67,167 Euros per member, whilst the interest rate is variable and cannot be higher than the rate paid on interest-bearing postal bonds (plus 2.5%). The interest is taxed to the tune of 20% on the payment made to the lending member.

54 One noteworthy example is that of the CPL in Concordia, which was created in 1899 and now has a turnover of 260 million Euros and employs 1,300 workers.

have not been widely adopted as a solution.

Law 448/1998 then introduced the possibility for cooperatives to issue bond credits to an amount that is not above the capital paid in and the reserves shown on the most recent approved balance sheet.

To date, no social or worker cooperatives have issued bond credits, with the solicitation of funds from the public and consumer lending.

Finally, the reform of the Civil Code in 2003 placed cooperatives almost on an equal footing with joint-stock companies in terms of the possibility open to them to issue financial instruments, since they were granted the statutory autonomy to do so if they wished. The financing members and cooperative participation shares now represent a possible form of financial instrument amongst several others and not just the only two types provided for in law up until 2003.

The current institutional framework is somewhat varied, thereby providing the issuing cooperative with the autonomy to diversify the dividend (rights to remuneration and reimbursement) and voting rights (right to vote and to representation on the cooperative's governing bodies) attached to the shares⁵⁵.

These changes have opened up the possibility for cooperatives to issue stock that may be listed, but one could not say that these instruments have had the

In 1998, in order to consolidate part of its short term debt, CPL issued cooperative participation shares for a value of 10 million Euros through a prospectus that was approved by CONSOB, the company that supervises the functioning of the securities market. However the approval process was not without its difficulties, both because the shares were new and also because Consob was not particularly well acquainted with cooperatives or the relevant legislation.

The placing of these shares was guaranteed by a banking consortium and was broken down as follows:

| | |
|--------------------------|--------|
| - Members and workers | 6.78% |
| - Loan subscribers | 28.90% |
| - Cooperative financiers | 5.00% |
| - Guarantee consortium | 59.32% |

After 2003, the loan subscribers were entitled to ask for the repayment of the cooperative participation shares. However, as a result of the high dividends that had always been paid on them, 44.7% of the shares issued in 1999 were still in circulation on 31/12/2008.

⁵⁵ Amongst the most original notions introduced by this reform, we believe that particular mention should be made of article 2350, which allows for the issuing of shares “that are accompanied by voting rights correlated to the results achieved by the company's activities in a specific sector” and article 2447 decies, which allows for the possibility of participating in the financing of one specific area of the cooperative's business, rather than in the cooperative as a whole.

success hoped for over the last five years.

The reasons for this are still the subject of debate. At a Congress held in 2006, Professor Lamandini berated the cooperative associations and stated that: “... *each one of the major associations has followed its own path to address the same issue of listing, with the result that a system policy has been lost and we have seen the affirmation of different financing models that are uncritical imitations of systems adopted by profit-driven companies...*”.

Lamandini’s idea to create an ad hoc market for cooperative shares seemed to be gathering momentum in 2006 with the launch of the idea of the Alternative Capital Market (ACM) for small and medium-sized companies, although this idea was not further developed to include cooperatives.

It is a widely-held view that cooperative shares cannot find a secondary trading market because:

- a) They do not allow for the contestability of the ownership of the company;
- b) They do not allow for the achievement of capital gains.

However, in our opinion neither of these two reasons is particularly convincing.

With regard to the first point, one only has to refer to the fact that a number of “banche popolari” [a type of cooperative banks] are listed on the Italian stock exchange and that they are underpinned by the principle of democratic control based on one person one vote. The shares of these banks are regularly traded on the stock market, without the democratic principle representing an insurmountable constraint.

The issue of capital gains, in other words the possibility that the value of the stock may vary in relation to its nominal value, is a more complex question.

In cases in which a cooperative issues capital stock for financing members, we feel that it is essential to establish a system of remuneration that is in keeping with the nature of the risk and the profitability of the cooperative itself.

If the remuneration is based on external financial parameters (for example the Euribor or the postal deposit rate) then it would eventually take on the characteristics of bond credit, rather than of common stock, which is remunerated on the basis of the profits generated.

If, for example, the cooperative issues common stock that may be remunerated on the basis of a fixed percentage of the profits, then any variation of the expectation regarding future profits will create a variation of the trading value of the shares. If a cooperative decided to remunerate its financing members with X% of the profits, then should the profits double in size the financing members would also double their rate of return and the value of the shares could not fail to take this change into account.

If venture capital stock were to be remunerated in the same way as bonds, i.e. by a fixed interest rate that is not tied to any variation in the profits, why would an investor underwrite this type of stock, since its remuneration is completely disconnected from the cooperative's economic performance and yet the investor is still involved in the risks inherent in the management of the cooperative?

We therefore believe that there is a potential for the creation of a market for venture capital stock for financing members and that this could be achieved through the establishment of remuneration mechanisms that are better calibrated, whilst at the same time taking into account the need to “typify” these instruments.

The description set out above refers to cooperatives that are of a sufficient size to be able to issue tradable stock on the market. Smaller cooperatives, on the other hand, are excluded from this possibility and, in this regard, are no different from small joint-stock companies. It is not their legal form that denies small cooperatives access to the markets, rather it is their size.

However, it is more difficult to understand the difficulties experienced by cooperatives in their efforts to access the credit market. The reason that is most often heard to explain these difficulties is that cooperatives are insufficiently capitalised but, as many empirical analyses have shown, this argument cannot be generalised. This may be a major problem for recently created cooperatives, but should only be a minor issue for those that have been on the market for a long time and have built up considerable reserve capital.

Other reasons that are mentioned regarding these difficulties are:

- a) For a bank it is easier to deal with a handful of managers appointed by the shareholders than it is to deal with an assembly of worker-members that is difficult to govern in times of company crisis;
- b) On financial markets that are characterised by credit rationing, coopera-

tives are at an immediate disadvantage because they represent an exceptional form of company compared to the predominant model of joint-stock companies;

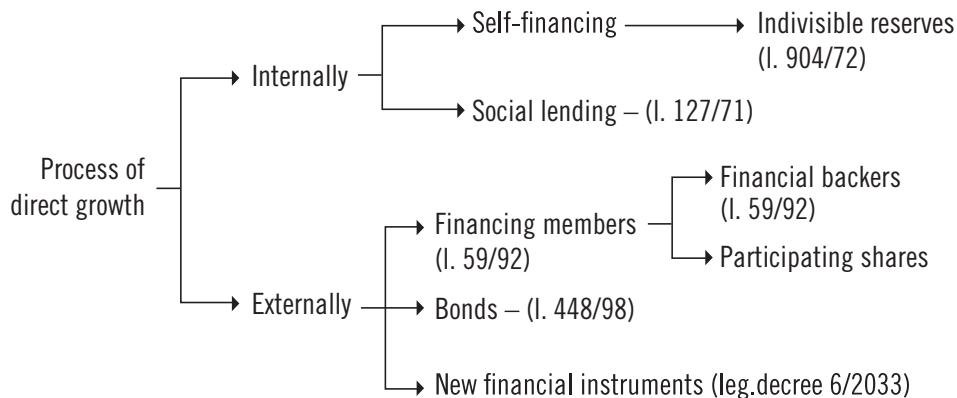
- c) One has to also recognise the fact that it would not necessarily be appropriate for the worker-members to concentrate all of their risks (work and savings) in one single activity.

In these critical times for the world economy, the issue of credit rationing is a problem for many companies. In crisis periods, many companies are prepared to pay the rate, but this is not enough to obtain the credit, leading to the introduction of rationing mechanisms that are not linked to the rules of supply and demand.

Although there is a strong cooperative banking system in the cooperative world, it is not reasonable to think that these cooperative banks can sustain the sheer volume of requests for financing made by cooperatives⁵⁶.

In Figure 5, we have set out a summary of the institutional framework of the financial instruments that are available to a cooperative in order to support its direct development.

Figure 5 - Financial instruments to provide direct support for growth



⁵⁶ In difficult times, in areas in which cooperative banks are predominant then the local banks do play a greater role in supporting the local economy than that played by the major international banks. For further discussion of this matter, please see Birchall-Ketilson [4]. It has been estimated that cooperative banks account for 22% of the credit granted to small craft companies, 16% of the credit granted to small companies and 11% of the credit granted to not-for-profit entities.

3.2 External instruments

In this section we will examine the institutions that have been developed by the cooperative associations in order to compensate for the lack of a venture capital market and the almost complete lack of interest in cooperatives shown by the private equity funds.

3.2.1 Cooperative development funds (“fondi mutualistici”) – Law 59/92

Without any doubt, the most innovatory aspects of law 59/92 were the establishment of the cooperative development funds and the introduction of the possibility to issue stock to financing members who are not linked to the cooperative by mutual exchange.

Article 11 of law 59/92 establishes the possibility for national associations engaged in the representation, provision of assistance and supervision of the cooperative movement, to create funds for the promotion and the development of cooperatives.

The three cooperative associations set up three limited companies to manage these resources:

- Coopfond – Legacoop
- Fondosviluppo – Confcooperative
- General Fond – AGCI.

Cooperatives are required, by law, to pay the following into the funds:

- a) a contribution equal to 3% of the annual pre-tax profits;
- b) the residual assets resulting from the dissolution of cooperatives that cease their activities.

Sub-paragraph 2 of article 11 of law 59/92 defines the social purpose of the cooperative development funds as follows:

“the social purpose must consist exclusively in the promotion and financing of new companies and initiatives to develop cooperation, with preference given to programmes designed to promote technological innovation, an increase in employment and the development of the South ”.

Sub-paragraph 3 defines the modalities of intervention which, quite rightly, may be implemented at the funds' discretion and are not subject to any control policy:

- a) To promote the creation of cooperatives or of companies controlled by cooperatives;
- b) To finance specific programmes to develop cooperatives and their consortia;
- c) To organise and to run vocational training courses;
- d) To promote studies and research on economic and social issues of major interest to the cooperative movement.

The funds have adopted their own rules in order to regulate their interventions to support cooperatives and are able to provide this support in the form of either venture or debt capital.

Coopfond, Fondosviluppo and General Fond share two basic types of financing:

- a) Promotion activities for the creation of new cooperatives and new companies controlled by cooperatives;
- b) Interventions to support programmes to invest in fixed asset items.

The maximum amount of the financial intervention provided by the fund is generally 50% of the total value of the investment, but in the case of the underwriting of venture capital, the value underwritten by the fund may not exceed the value underwritten by the worker-members.

Thus far, the funds have preferred to provide venture capital as a financing member, since this is a form that allows for the definition of the way in which the fund can exit the structure of the cooperative if it so wishes.

One of the three funds also envisages the possibility of providing financing for merger processes or other forms of integration between cooperatives and, within the geographical boundaries of the economically weak areas, it also provides for the possibility of financing the consolidation of a cooperative's debt structure, on the condition that the cooperative is in a healthy position from an economic and management point of view and that it has a good potential for growth.

Only one fund provides the possibility of issuing non-refundable grants in order to reduce the level of financing charges and to support specific training courses.

All three of funds also provide for the possibility of financing costs related to the promotion of studies, research and also feasibility studies for innovative investment projects.

They are also all prepared to provide support, for an unspecified term, for processes of capitalisation of companies that the Cooperative Associations consider to be of strategic importance for the entire cooperative movement.

A recent example of this approach occurred when the three funds joined forces to provide joint support for Cooperfidi Italia⁵⁷ (see 3.2.3 below).

Two of the funds have initiated incentive-based projects for the promotion of new cooperatives.

In 2009, Fondosviluppo launched the “Primi Passi” (First Steps) initiative to support the capitalisation of micro-cooperatives and to enable them to make significant progress. The fund may also assume partial responsibility for financial assistance activities so as to guarantee the smooth implementation of the financed growth project as part of an overall system.

The maximum amount that may be provided as a financing member for start-up operations is 25,000 Euros, whilst in other cases a maximum of 50,000 Euros is possible, such as for the medium-term financing provided to support the processes of capitalisation undertaken by the members.

Coopfond has become a partner in the project launched by Legacoop to promote the “One thousand cooperatives in three years” project. Applicant cooperatives can receive a maximum amount of financing of 100,000 Euros provided by the UGF Banca, backed by a guarantee provided by Coopfond.

The same funds have also initiated processes that favour members’ access to

⁵⁷ A further example of a case in which Coopfond and Fondosviluppo undertook joint action is the start-up of Obiettivo Lavoro spa, a company that was created in 1997 following the approval of law 197/77, which introduced the temporary employment contract in Italy, to be carried out by recognised companies. Obiettivo Lavoro was created at the joint initiative of the cooperative and trade union movement. After a somewhat difficult start, Obiettivo Lavoro stabilised its position and now has an 8/9% share of the market. Once the company became stable, the funds withdraw from the company structure, although overall control remains in the hands of two worker cooperatives.

banking credit in order to promote capital increases in their own cooperatives.

The funds often apply previously agreed monitoring systems and reserve the right to specify their representatives on the cooperative's administrative bodies. The funds do not express a power of veto over the decisions taken by the cooperative and nor do they impose any constraints on the appointment of the auditors⁵⁸.

A different type of initiative was recently taken by Coopfond when it established Cooperare spa, whose purpose is to work alongside cooperatives that are in the process of acquiring large private companies: the minimum amount of financing that can be provided by Cooperare is 4 million Euros⁵⁹. Cooperare has a capital stock of 246.5 million Euros, 46.5% of which is underwritten by Coopfond. Other financial companies that are controlled by cooperatives and operate at a territorial level are also members of Cooperare, as well as three banks that hold approximately 10% of the capital.

All three funds have underwritten agreements with banking institutions, notably the Istituto Centrale delle Banche di Credito Cooperativo (ICCREA) - the Central Institute of the Cooperative Credit Banks, UGF Banca (part of the UGF banking and insurance group, which is controlled by a cooperative) and Banca Etica, a cooperative bank.

During the period 2005-2009, the funds financed 310 operations in favour of worker and social cooperatives and provided a total amount of financing of almost 113 million Euros, more than a third of which was provided in the form of venture capital. The interventions in favour of worker cooperatives were slightly over twice the amount made in favour of social cooperatives, but they accounted for substantially higher amounts of resources.

⁵⁸ Only one fund provides for the somewhat limited possibility of imposing a veto.

⁵⁹ In the worker cooperative sector, in 2009 Cooperare supported the acquisition, by Manutencoop Facility Management – a company that is controlled by Manutencoop – of the facility management activities of Pirelli Real Estate and underwrote, to the tune of 20 million Euros, the capital increase that had been decided upon for a figure of 180 million Euros. Several private equity funds also took part in the capital increase.

Table 24 - Financial interventions made by the cooperative development funds 2005 - 2009 (€/000)

| | Worker Coops | Social Coops | Total |
|----------------------|--------------|--------------|---------|
| Interventions | 213 | 97 | 310 |
| Method of financing: | | | |
| Equity capital | 34,757 | 6,192 | 40,949 |
| Loans | 64,651 | 7,212 | 71,863 |
| Total | 99,408 | 13,404 | 112,812 |

Source: data provided by the Cooperative Development Funds

For two of the funds we have been able to reconstruct the financial interventions made over the period 2005-2009, according to the conceptual schema set out in paragraph 2.1.

Table 25 - Financing granted by the cooperative development funds per type of intervention – 2005 - 2009

| Type of Intervention | N° of Interventions | Number of jobs created | Financing granted (€/000) | |
|---|---------------------|------------------------|---------------------------|--------|
| | | | Equity capital | Loans |
| <i>Worker buy out</i> | | | | |
| - Workers coops | 5 | 51 | 275 | 2,000 |
| - Social coops | | | | |
| <i>Spin-off</i> | | | | |
| - Worker coops | 1 | 41 | 150 | 350 |
| - Social coops | | | | |
| <i>Mergers</i> | | | | |
| - Worker coops | 6 | 595 | 2,500 | 3,050 |
| - Social coops | 2 | 150 | 1,229 | 100 |
| <i>Development projects</i> | | | | |
| - Worker coops | 90 | 358 | 9,843 | 25,093 |
| - Social coops | 34 | 1,820 | 2,223 | 6,551 |
| <i>Creation of controlled companies</i> | | | | |
| - Worker coops | 21 | 362 | 5,279 | 13,566 |
| - Social coops | | | | |
| <i>Other interventions</i> | 39 | 797 | 10,289 | 12,191 |
| Total | 198 | 3,934 | 30,960 | 62,275 |
| - Worker coops | 162 | 2,204 | 28,336 | 56,250 |
| - Social coops | 36 | 1,970 | 3,452 | 6,651 |

Source: data provided by the Cooperative Development Funds

Development projects (new investments) account for the vast majority of the operations financed by the funds.

The workers that have been employed in the financed cooperatives are approximately 4,000.

3.2.2 Cooperazione Finanza Impresa

Law 49 (the Marcora law), which was introduced in 1985 with the intention of providing support to cooperatives that were created out of private companies in a state of crisis⁶⁰, was the result of fruitful collaboration between the cooperative and trade union movements.

Law 49/85 provided for the possibility of creating financial companies that had received non-returnable public funds in order to participate in the equity capital of new cooperatives that had been set up by workers who had been temporarily laid off or had been excluded from the employment market.

This intervention could be the equivalent of three times the equity capital underwritten by the members, with an upper limit that corresponded to three year's worth of the short-time allowance (known as the CIG) given to the workers. In doing this, the State was exchanging costs that it would have had to bear in order to support employment, namely the CIG and unemployment benefit, for a type of financing that, if it were successfully implemented by the workers, would turn the State's intervention into a form of participation.

The associations and the trade unions created CFI spa, the Compagnia Finanziaria Industriale (which was later renamed "Cooperazione Finanza Impresa") in order to promote new cooperatives.

From the very outset, CFI was determined to stand out from the crowd in terms of the rigour of its interventions, since it considered that it was purely demagogical and counter-productive to act merely as a provider of non-refundable financial resources and therefore set itself the aim of only investing in companies that were able to present credible business plans. CFI examines the plans very

⁶⁰ Recently, F. Dandolo [14] has recognized the historical genesis of this law, which lasted from 1981 to 1985.

closely, with a particular focus on the initiatives proposed, their possibilities of success, the managerial capacities of the promoters and the capacity of the new initiative to stay on the market, all of which are indispensable conditions that must be in place to enable the workers to guarantee their jobs.

CFI has approved regulations that set out its voting rights (the appointment of a representative on the Board of Directors, representation on the Supervisory Board) and economic rights (dividends and the return of the capital invested) to which it is entitled as a member of the new cooperative.

The reasoning behind the approach adopted by CFI was that if the capital invested leads to a successful outcome for the cooperative, then it should be paid back in order to feed a revolving fund, otherwise the resources provided by the State would run out very quickly, without providing any sense of continuity to this experience⁶¹. This approach was in stark contrast to the approach adopted by the Ministry for Industrial affairs.

As soon as the dispute with the Ministry had been resolved, in 1997 the European Commission's DG for Competition opened infringement proceedings against the Italian State, declaring the mechanism of the Marcora law to be a form of state aid and therefore incompatible with the EU's competition law.

The legal dispute continued until 2001, when the Italian State modified the law with the introduction of law 57/01.

Together with its implementing decrees, law 57, which was introduced in 2001, provides for a mechanism that is significantly different to its predecessor:

- a) The ministerial resources are used to underwrite the equity capital of CFI⁶²;
- b) CFI may intervene in worker cooperatives (there is no longer the requirement that the cooperatives have been set up by worker who have been

⁶¹ With the support of the Court of Auditors, the Ministry for Industrial Affairs held the opposite view, namely that the CFI's intervention represented a one-off payment and that it should therefore not be accompanied by a clause requiring the repayment of the investment. However, in the end CFI was successful in imposing its own approach.

⁶² At the moment CFI's equity capital is the equivalent of 83.6 million Euros, all of which is underwritten by the Ministry (24.5 million of which has yet to be paid).

- made redundant) and also in social cooperatives;
- c) The intervention may take the form of participation in the cooperative's capital or through financing or granting of guarantees;
 - d) The participation cannot exceed the capital held by the worker-members or other third parties or can be two times this amount in the presence of sufficient assets;
 - e) The intervention must be made at market conditions and must provide for an adequate remuneration of the capital invested;
 - f) The equity capital investment is temporary and cannot exceed more than a 10 year period. At least 25% of the intervention must be paid back within 5 years;
 - g) The intervention is reserved solely for cooperatives that fall within the parameters used to define SMEs.

Since the beginning of the new operational phase (2002/03), up until 31.12.2009, CFI had carried out 41 interventions to provide financial assistance, for which a total of 59 million Euros has already been paid out. Of this amount, 51% was provided in the form of participation in the equity capital, 6% to underwrite convertible bonds and 43% in the form of loans.

In 2008, the cooperatives in receipt of this financial assistance generated a total volume of production worth 384 million Euros (which represents more than an 81% increase on 2003).

Over the period 2003-07, the same cooperatives made investments in excess of 70 million Euros.

Since CFI has taken a stake in their equity capital, the same companies have increased their number of workers by 16%⁶³. It is important to note that the worker-members' share in the equity capital of the cooperatives financed by CFI represents a value of 43 million Euros. At 31/12/09, the total on-going investments made by CFI represented a figure of close to 40 million Euros.

⁶³ It is interesting to note that over the course of its first 15 years of activity, CFI had invested close to 80 million Euros in the equity capital of worker cooperatives created by workers from 159 companies in crisis, thereby saving almost 6,000 jobs.

The cooperatives financed by CFI operate in a wide variety of fields, from plant construction and shipbuilding to the engineering industry, from the utilities sector to the provision of services by social cooperatives, etc. Some of these experiences are highly original, such as, for example, *Fraternità Sistemi*, a social cooperative that operates within the Gruppo *Fraternità* from Brescia. It was created in 2003 in order to manage data bases used to process tax assessments in the municipalities of Brescia and Bergamo. However, in only a short space of time it moved into the area of direct tax collection and now operates in 80 municipalities. *Fraternità Sistemi* is the only cooperative to be included on the Register of Tax Collectors. In 2009, CFI provided 5 million Euros of financial assistance to the cooperative since, under the terms of the modified law, the cooperative was required to increase its own registered capital in order to continue to be eligible for inclusion in the Register of Tax Collectors; the *Fondo-sviluppo* also provided financial assistance in this case.

Another interesting case is that of *Industria Plastica Toscana (IPT)*, a cooperative that was created in 1994 out of the ashes of a company that had previously belonged to an American multinational. The cooperative began producing shopping bags and sacks for the retail and distribution market. The first time CFI gave financial assistance to the cooperative in 1996, it provided 2 million Euros under the terms of the original *Marcora* law. Despite the hard work and good intentions of the members, the cooperative failed to take off and had to cope with increasing competition from imports from China. In 2007, the State changed the legislation on plastic shopping bags, declaring that they would have to be removed from circulation by 2011 and be replaced by biodegradable bags. *Coop*, the major retail and distribution chain, decided to bring forward the introduction of new biodegradable shopping bags to 2009. This represented a huge opportunity for *IPT* to adopt new technology over a short space of time and to become preferred supplier. This operation, which required a new investment of 2 million Euros, was successful thanks to the commitment shown by CFI which, together with other financing bodies that work within the cooperative movement, as well as with two banks, provided the required amount of money in the form of a loan that could be paid back over the course of nine years. Between 2007 and 2010, *IPT*'s turnover increased by 50% and the cooperative returned a profit in its 2008 end of year results. Once again, this financial assistance was provided with the support of one of the cooperative development funds (*Coopfond*).

Whilst during the first phase CFI's attention was focussed exclusively on companies that were created out of private companies in crisis, in the second phase the possibilities for the provision of assistance have broadened significantly and preference is accorded to investments that will lead to the growth of the cooperative concerned.

Over recent months there has been an increase in the number of requests for CFI intervention due to the creation of new cooperatives that would like to take over the activities of companies in crisis. However, there are many differences between today's situation and the situation at the end of the 1980s. At that time, the majority of companies that found themselves in difficulty were in that situation due to managerial incompetence on a market that, once it had overcome the difficulties of the early 1980s, was engaged in a process of recovery. The current situation, on the other hand, presents objective difficulties that are more likely to be caused by the fall in the demand than any managerial shortcomings.

A final observation on this point is based on the comparison of the debates that led to the introduction of the Marcora law and the current situation which, as is stated in section 2.1, is not giving as much attention to cooperatives as a possible solution to rescue companies in a state of crisis.

So is it possible to identify similarities and differences between the crisis at the end of the 1970s and the current crisis, in terms of the role that cooperatives can play?

The detailed examination of this subject would require separate research, however some questions do emerge almost spontaneously, since the climate of the 1970s was very much different from the current climate, just as it is natural to ask oneself if the cooperative movement is failing in its efforts to promote the cooperative model so that workers are not aware of this possible solution to their company's problems or perhaps the trade union has changed its attitude to cooperatives and so is more inclined to defend the workers with other forms of intervention (such as broader and more long-term social benefits and allowed schemes), rather than seeking out autonomous business solutions such as the creation of a new cooperative.

Thus far, there appears to have been a lesser tendency to seek out cooperative solutions to resolve company crises, but the situation could change very quickly, particularly if, as the current situation persists, it proves to be impossible to

sustain employment levels solely through the extraordinary extension of social benefits and allowances.

3.2.3 Cooperfidi Italia

For a long time the Cooperative Associations have sought to facilitate access to banking credit for their own members, notably the small-scale cooperatives, by creating ad hoc companies that are capable of providing collateral, normally in the form of a guarantee, on the loans granted.

The most widespread form of intervention is represented by the creation of a Consorzio Fidi (Guarantee Consortium), which is generally established as a cooperative operating within a limited territorial area.

The resources of the Consorzi Fidi have been provided by the members, cooperatives that have benefited from the guarantees, territorial bodies (municipal, provincial and regional authorities) and Chambers of Commerce.

The operational instrument used for the purpose of the intervention takes the form of an agreement between the Consorzio Fidi and the banks, setting out the contractual basis for the provision of the guarantee.

The Consorzio Fidi deposits part of its equity capital with the contracting banking, which, when multiplied by the previously agreed coefficients⁶⁴, set a limit on the maximum amount that can be granted by the bank itself.

Generally speaking, the guarantee provided by the consortium is lower than the amount of financing granted, varying significantly from 20% to 80%, depending on whether or not the cooperative has directly issued any other form of guarantee (for example a mortgage guarantee).

The financing may be granted in the form of revocable lines of credit or as multi-annual credit that can be paid back over an agreed period of time (normally five years). However, the bank retains complete autonomy regarding its decision to grant the financing.

⁶⁴ If, for example, a Consorzio Fidi deposits 100,000 Euros with a contracting bank and the agreed multiplier is five, the amount of financing that can be granted can amount to 500,000 Euros on a revolving basis.

Although this system is used at the national level, as we have already said, the operational base of each Consorzio Fidi has never extended beyond the regional territory.

However, the rules set out for banks in Basle II have disturbed the equilibrium that had been achieved and has called the system into question as it has developed to date.

The Basle II rules establish capitalisation parameters for the banks, in other words ratios between their net assets and the investment portfolio. The value of the investments is weighted on the basis of the risk: the lower the level of risk attached to an investment, the lower the capital requirement for a bank.

The surety guarantees issued by third parties are amongst the recognised modalities to reduce the risk coefficient of the investments, as long as the guarantor has certain capitalisation characteristics that are stipulated by the banking legislation.

The existing Consorzi Fidi were not of the minimum size required by the law in order for their guarantees to be sufficient to reduce the risk coefficient according to the Basle II parameters.

Nine Consorzi Fidi, all members of the cooperative associations, merged in 2009 in order to create Cooperfidi Italia soc. coop.

On 31/12/2009, Cooperfidi Italia returned its first annual financial statements, which showed that it had built up a good level of capital funds, equivalent to 28.8 million Euros, 18.5% of which was held as share capital and 13.8% as indivisible reserves, with the remaining 67.7% composed of the accumulated risks funds.

On the basis of these capital funds, the company has issued guarantees for a value of close to 78 million Euros, with a ratio of guarantees issued and capital funds of slightly more than three.

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Chapter 2

Spain: Entrepreneurial Cooperation in the Regions

By Adrian Zelaia

1. WORKER-OWNED ENTERPRISES IN SPAIN

1.1. Explanation of the concepts of cooperatives and *sociedades laborales* ["workers' companies"]

One specific characteristic of worker-owned enterprises in Spain is their diversification between worker cooperatives and *sociedades laborales* [workers' companies].

While in all countries there are, to a greater or lesser degree, conventional companies with worker participation, Spain is notable for its stable and comprehensive regulations of corporate entities with majority participation of workers, which go by the name of *sociedades laborales* or workers' companies.

Although the legal bases and concepts are fundamentally different, both workers' cooperatives and *sociedades laborales* adhere to the ideological concept of the majority participation of workers in the company. Therefore, when analysing worker cooperatives in the broad sense, we should move beyond the legal substratum and also include *sociedades laborales* ⁶⁵.

1.2. The legal framework

A specific feature of Spain's cooperative legislation is the importance of the legislative powers of the *Comunidades Autónomas* (autonomous communities or regions).

In principle, nearly all the *Comunidades Autónomas* have powers to pass laws on cooperatives. While there is a national law, the *Law 27 of 16 July 1999 on Cooperatives* (general law), it is only applied directly to credit cooperatives

⁶⁵ On a point of terminology, in this paper we often refer to worker cooperatives and *sociedades laborales* together as "worker-owned enterprises".

and to a few large cooperatives. Consequently, in the specific case of worker cooperatives, they are nearly all governed by the laws of their respective *Comunidad Autónoma*. The prevailing general law acts as a supplement to the regional laws.

In light of the preceding and despite the scope of powers, there are no substantial differences among the various laws. The regional laws on cooperatives are all similar in their structure and their basic design. This similarity has been maintained over time because significant momentum for legislative reform has accompanied the ongoing exchange of ideas and good practices among the *Comunidades Autónomas*.

As a result of this dispersion, Spanish law has been criticised for being chaotic. However, this view deserves to be challenged.

In fact, although from an academic standpoint the complexity of Spanish cooperative law may be a major difficulty for universities, experts, etc., reality is very different in other areas. Worker cooperatives are governed by the law of the region where they are located and many, including the cooperatives themselves, legal experts, lawyers and advisors who are in touch with the cooperatives, do not regard this dispersion as a problem.

On the other hand, as a result of this regional dispersion, there is no doubt that Spanish cooperative law is very close to society, to the reality of cooperatives and is very flexible. Consequently, Spanish cooperative law is probably the most innovative in the entire European Union.

Lastly, some specific regional regulations were brought in to supervise micro-cooperatives, which are very useful for promoting new activities, and cooperatives without distribution of profits that have various names such as “social” cooperatives, “public utility” cooperatives, “social initiative” cooperatives, etc.

Worker cooperatives are recorded in each *Comunidad Autónoma* in a register that is separate from the Commercial Registry. Cooperatives governed by the general law are recorded in a registry of the Ministry of Labour and Immigration (MLI).

Moreover, the Spanish cooperative sector has its own accountancy standards. Spain is the only EU member state that has developed detailed and specific accountancy standards for these entities. In 2010, these standards were in the

process of being updated.

Finally, from the tax point of view, the legislative panorama is different. Navarra and the Basque Country have their own legislative powers in this area, but the rest of the country is governed by the 1990 Law on the fiscal regime of cooperatives. This body of law has a significant foundation in concepts and analysis and has been adapted to the particular social and economic characteristics of cooperatives.

Sociedades Laborales are governed by the *Law n° 4 of 24 March 1997 on Sociedades Laborales*, a much more concise law than the one regulating worker cooperatives. In this particular case, the substantive regulation applies throughout Spain, with the exception of its tax provisions, in which area Navarra and the Basque Country have their own powers.

Unlike what happens with worker cooperatives, *Sociedades Laborales* are entered in the Commercial Register, although they must also be recorded in an administrative register usually located in the Labour Departments of the *Comunidades Autónomas*.

***Sociedades laborales* [workers' companies]**

Source: CONFESAL

A *Sociedad Laboral* is one that has the legal form of a limited liability company or a public limited company with **the majority of its capital in the hands of the workers, who are under a permanent, full-time or part-time labour contract.**

Share capital

There is a **maximum share capital limit** for **each shareholder**, set at:

One-third of the share capital, with the following exceptions:

- Public administration (state, autonomous community, local entities).
- Public enterprises in which an institution has a participation
- Not-for-profit associations or entities.

Types of shareholders

- Worker-members
- Members of general type (non-workers)

The law places a **limit on the hiring of permanent non-shareholder workers:**

- **A *Sociedad Laboral* with less than 25 worker-members: maximum limit of 25% of the total of hours/years** worked by the worker-members.
- **A *Sociedad Laboral* with more than 25 worker-members: a maximum limit of 15% of the total of hours/years** worked by the worker-members.

The **transfer of shares and equity participations held by the workers is governed by a special regime:**

- Unrestricted to permanent workers and worker-members.
- In all other cases a preference must be observed in the following order:
 - ✓ Non-shareholder permanent workers
 - ✓ Worker-members
 - ✓ Non-worker-members
 - ✓ Temporary workers
 - ✓ The company itself
 - ✓ Third parties not connected to the company
- **Compulsory transfer:** When a worker-member's labour relationship comes to an end, he must offer to sell his shares or equity participations pursuant to the right of preferential acquisition.

A *sociedad laboral* must set up, in addition to other applicable legal reserves established by the general laws, a **Special Reserve Fund** with the following requirements:

- Funded with 10% of the cash profits from each accounting period
- The rate of 25% must be applied if the company avails itself of tax breaks
- Compensation for losses only if other available reserves are insufficient.

Sociedades laborales are formally set up as public limited companies or limited liability companies subject to specific legislation requiring them to maintain a majority of the capital in the hands of the workers. In a certain sense, they are conventional share companies that are *cooperativised*. These mechanisms for allocating shares or participations to the workers exist in all countries. What is specific to Spain is that these companies with worker majority capital participation have been legally regulated.

1.3. Statistics and data

Worker-owned enterprises are an important part of social reality in Spain and are among the most numerous in the European Union.

I. Figures from the Yearbook of the *Confederación Empresarial Española de la Economía Social* (CEPES)

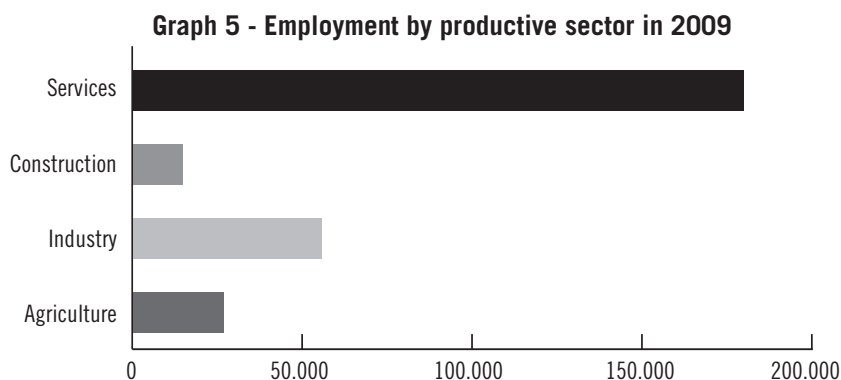
Table 26 - Worker cooperatives and *Sociedades laborales* – number of enterprises and jobs

| | Enterprises at 31 Dec. 2009 | Workers at 31 Dec. 2009 |
|-----------------------------|-----------------------------|-------------------------|
| WORKER COOPERATIVES | 17,414 | 251,300 |
| <i>SOCIEDADES LABORALES</i> | 15679 | 88,241 |
| TOTAL | 33,093 | 339,541 |

Source: CEPES, *La Economía Social en España [The Social Economy in Spain] 2009-2010*. Data at 31 Dec. 2009.

II. Data from the *Confederación Española de Cooperativas de Trabajo Asociado* [Spanish Confederation of Worker Cooperatives] (COCETA)

On the basis of the data drawn up by COCETA, the numbers of persons employed per sector in Spanish cooperatives at 31 Dec. 2009 were as follows:

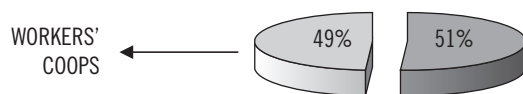


Source: COCETA

Among the additional data contributed by COCETA, the significant presence of women in Spanish worker cooperatives is worthy of note. The following diagram indicates the present situation.⁶⁶

⁶⁶ More complete data are found in the report on the situation of women in worker cooperatives drawn up by COCETA in 2009.

Graph 6 - Gender breakdown in worker cooperatives



Source: COCETA

III. Data from the ministry of labour and immigration⁶⁷ (MLI)

Cooperatives

Data from the Ministry mainly refer to all cooperatives because there are no sufficient data on worker cooperatives. Nevertheless, a historical estimate shows that employment in worker cooperatives accounts for 80% of total employment in cooperatives. Applying that percentage to the Ministry's figures gives us a worker cooperative employment figure of 217,411 at 31 Dec. 2009.

The COCETA confederation draws up its own statistics based on reports and papers prepared at its main office and by its affiliated organisations, in addition to data from the Ministry. These statistics are checked against the various registers of cooperatives in the regions and autonomous communities, to which we referred in the previous section.

⁶⁷ Data from the Ministry do not include figures of *sociudades laborales* enterprises and worker cooperatives. Information on the latter can be extracted from more detailed information on the group of all cooperatives. By contrast, the Ministry also provides information submitted by the Treasury from 2007 company tax declarations. According to this information, in 2007 there were 14,020 worker cooperatives and 27,323 *sociudades laborales*.

In the MLI's data, there is a series of variables that point up differences vis-a-vis the data contributed by the sector, which is explained by the fact that the registries do not always send their data to the Ministry on the same date, and there are discrepancies among the social security contribution regimes, between the so-called general regime and the special regime for self-employed workers, both of which apply to worker cooperatives. Furthermore, the COCETA Confederation, which represents the cooperative sector in Spain, has data obtained from the registries of the regions and autonomous communities by the affiliated organisations. Based on these data, the number of worker cooperatives was 17,414 at 31 Dec. 2009.

Sociedades Laborales

Table 27 - Employment in *sociedades laborales* by sector

| | Quarter 2/2010 | Variations | | | |
|----------------------------|-------------------|-------------------|-------|----------------|--------|
| | | Preceding quarter | | Preceding year | |
| | | Absolute | % | Absolute | % |
| Number of companies | 15,303 | - 73 | - 0.5 | - 1,249 | -7.5 |
| Employment (general) | 87,651 | - 275 | - 0.3 | - 6,387 | - 6.8 |
| Employment in agriculture | 1,452 | - 87 | - 5.6 | + 343 | + 31.6 |
| Employment in industry | 21,486 | +3 | 0.0 | - 2,581 | - 10.6 |
| Employment in construction | 16,142 | + 812 | + 5.3 | - 3,352 | - 17.2 |
| Employment in services | 48,570 | - 1.003 | - 2.0 | - 822 | - 1.7 |

Source: MTIN

1.4. The institutional setting

Worker cooperatives and *sociedades laborales* are grouped in Spain's autonomous communities into federations that in turn are brought together in country-wide sectoral confederations: COCETA in the case of worker cooperatives and CONFESAL in the case of *sociedades laborales*.

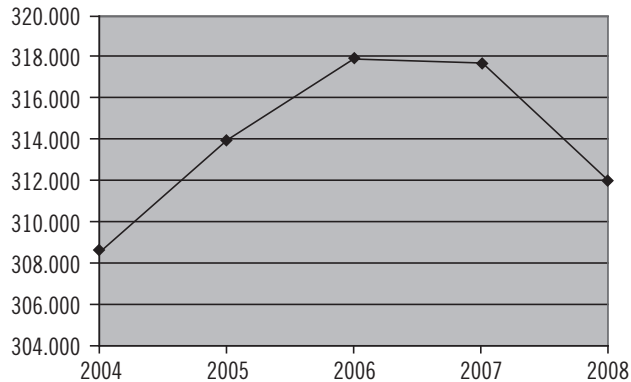
Both COCETA and CONFESAL work together, along with other organisations, in the *Confederación Empresarial Española de la Economía Social* [Spanish Entrepreneurial Confederation of the Social Economy] (CEPES).

1.5. Worker-owned enterprises in the pre-crisis years

From 2002 to 2007, a time of extraordinary economic expansion in Spain, worker-owned enterprises pursued their usual task of self-managing business arrangements, achieving a good rate of growth but lower than the market average.

The following diagram based on information prepared by COCETA shows changes in employment:

Graph 7 - Variation of jobs 2004-2008



Source: COCETA

The reasons behind the relatively low growth of this type of business are structural and derive from the basic logic of worker-owned enterprises, i.e. the lower incentives to invest in the enterprises during cyclical bull markets. The origin of lower incentives is quite obvious: the need to distribute profits from new investments, not only among the members who take the decision to invest, but also among worker-members who recently joined the new activity.

In particular, worker-owned enterprises are usually very wary of high-risk investment projects and this is probably why, in upward cycle periods, worker cooperatives and *sociedades laborales* tend to reduce their overall weight in the economy.

Following are a few clarifications concerning the aforementioned point:

- A particular characteristic of the last upward cycle (2002-2007) was the hiring by worker-owned enterprises of new workers as salaried employees in proportions higher than in the past. Until that time, with few exceptions, cooperatives had systematically hired worker-members. In recent years, cooperative legislation has introduced more flexibility into the hiring of non-member workers and Spanish cooperatives have made use of this legal option on a massive scale.
- The practical consequence of this massive hiring of salaried employees has been that the economic activity of the cooperatives has come to resemble that of conventional companies. In particular, this has been observed in a greater willingness to make new investments during an upward cycle period.

- This conservative or prudent behaviour that is customary in worker-owned enterprises takes on different forms in different types of enterprises. It is evident in small ones or those with significant participatory or democratic features. On the other side, it is less pronounced in several large cooperatives and *sociedades laborales* or in those where there is less democratic control by members and a tendency of the directors to promote growth policies over the interests of the worker-members, who are generally more cautious.
- The upside of this less aggressive stance towards investment is that the cooperatives in general have assumed lower risks and, more important, have taken on less debt than conventional companies. But, as we will see, this places them in a more favourable position for coming to terms with the current economic climate.

1.6. The 2007 financial crisis

Starting in the autumn of 2008, the full impact of the crisis was beginning to be felt in worker-owned enterprises. The direct macroeconomic effects on workers' cooperatives and *sociedades laborales* could be summarised as follows:

- A fall in international sales.
- A fall in consumption and investment
- Decreased credit to companies.

Naturally, these effects varied from one company to another.

The first effects of the crisis on the Spanish economy were felt when domestic consumption fell sharply in 2008. Worker-owned enterprises in the consumer goods sector and construction-related sectors were the first to suffer the impact of lower domestic demand. However, exporting companies barely noticed any negative effects during the first nine months of the year.

From the autumn of 2008, it was evident that a negative cycle had begun when, as a result of the collapse of the external market, the fall in sales spread to various sectors of the economy. Even robust exporting companies were deeply impacted by the turn around in the cycle, with a drop in sales of 20 to 30%.

When we compare the initial reactions of the cooperatives and *sociedades*

laborales to this cyclical change with those of conventional companies, it is important to distinguish between their basic goals and the instruments available.

The initial basic goals are conceptually the same in cooperatives, *sociedades laborales* and conventional companies and can be summed up as follows:

Basic challenges

- a) Overcome the fall in demand
- b) Remedy the fall in bank credit

Basic goals

- a) Introduce cost adjustments to overcome the fall in demand
- b) Obtain additional or alternative financial resources to bank credit

As we will see, the means used were, for the most part, different from those used by conventional companies.

The means

Some common aspects of the means used:

- Delays in planned investment
- Suspension of investments underway
- Reduction of unnecessary contracting expenses
- Search for alternative financing sources

On the other hand, the means used for containing or reducing personnel costs were, understandably, quite different.

2. STRATEGIES AND INSTRUMENTS FOR GROWTH AND ANTICIPATING CHANGE

2.1. Worker-owned enterprises and the crisis

2.1.1. Basic initial steps to deal with the fall in demand

The immediate reaction of worker-owned enterprises to overcome the fall in

demand was similar to that of conventional companies, i.e. to introduce cost cuts to compensate or offset the fall in income. The following table shows, in a very concise way, the typical responses in conventional companies and the different reactions in cooperatives and *sociedades laborales*.

| CONVENTIONAL COMPANIES | WORKER-OWNED ENTERPRISES (Distinct responses) |
|---|---|
| <ul style="list-style-type: none"> · Cost containment · Bringing forward of holidays · Temporary redundancies · Permanent redundancies, dismissals · Use of subcontracting · Reduction of investments | <ul style="list-style-type: none"> · Decisions by workers to reduce or contain pay · Sharing of employment among cooperatives in networks or groups |

2.1.2. Basic steps to deal with the reduction in credit

The reduction in bank credit raised a similar problem in conventional companies and worker-owned enterprises.

For that reason the reactions were to a certain extent similar as well. The common and different aspects could be summed up as follows:

| CONVENTIONAL COMPANIES | WORKER-OWNED ENTERPRISES (Distinct responses) |
|--|--|
| <ul style="list-style-type: none"> · Review of financing and leveraging models · State aid | <ul style="list-style-type: none"> · Loans among cooperatives · Credit cooperatives 'cooperative · Mutual guarantee schemes |

It should be noted that, in this case, the distinct responses from the worker-owned enterprises do not refer to all types of cooperatives *and sociedades laborales*, but to those included in specific networks or environments, such as:

- a) Cooperatives belonging to networks or groups of cooperatives, in which internal transfers of financial resources (loans between cooperatives, mutual investment funds, etc.) are systematically structured.
- b) The cooperatives set up as credit cooperatives and involved in the worker cooperative sector. In Spain this refers essentially to the *Caja Laboral*.

- c) The worker-owned enterprises are involved in specific financial networks in the cooperative sector such as mutual guarantee schemes (Oinarri), venture capital funds in the social economy, etc. There are many worker cooperatives in the Coop57 network. In addition, we should include support for ethical finances and social economy projects from entities such as FIARE and the *Red de Economía Alternativa y Solidaria* (REAS).

All these companies have made use of these specific resources and funds in the cooperative sector and the social economy, in addition to the usual resources of conventional companies.

2.1.3. Basic steps: preserve investment, especially in innovation

Alongside the defensive strategies of responding to the fall in demand and short-term credit restrictions, all the companies must position themselves in relation to the structural consequences of the crisis and, in a resolute fashion, invest the means to improve their competitive position. Because of reduced demand, improving one's competitive position becomes a matter of life and death for many companies.

A. Worker-owned enterprises must make the necessary investment or innovation effort to improve their competitive position in their sector

If reduced demand becomes structural, only an improved competitive position of worker-owned enterprises can ensure that they will survive in their sector.

B. Now is a difficult time to make or maintain this effort

There are many reasons to make such a statement but the main ones are:

- It is not easy to maintain or increase investment efforts in times of cost cuts.
- In the first months, reactions to the fall in demand occurred very fast in many worker-owned enterprises. The seriousness and urgency of the situation, the need to take up immediate challenges, etc., made it all the more difficult to devote time to medium-term considerations.

C. Once the short-term adjustment problems are sorted out, additional resources are needed to maintain investment and innovation

Logically speaking, if income has been seriously reduced in many companies, not only is an adjustment policy needed to compensate the income shortfall and maintain the economic performance to avoid losses. In addition, extra resources are needed to maintain or increase efforts in investment or innovation.

D. Therefore, the ability of workers to deploy special efforts is crucial for cooperatives and *sociedades laborales*

Where can additional resources for investment or innovation be obtained? In other circumstances worker-owned enterprises could attract external funds in the form of risk capital or bank loans. But given today's climate, only exceptional circumstances would enable cooperatives or *sociedades laborales* to gain access to such resources.

Consequently, it will most likely be the extraordinary efforts of the worker-members themselves that will enable worker-owned enterprises to take up this challenge. These efforts must be able to fulfil the investment and innovation needs, along with the compensation for the loss of income caused by the fall in demand, and they should also meet investment and innovation needs. The following basic instruments can be used to channel such efforts:

- a) Pay containment or reduction
- b) Compulsory capital contributions
- c) Voluntary capital contributions

2.1.4. Basic steps: review the strategies

The radical changes in the context call for an urgent review of strategies.

There is no doubt that these radical changes have indeed occurred; they include one-off or short-term changes in addition to medium- and long-term structural changes as well.

The following related considerations are noteworthy:

A. Despite the evidence of structural changes, a review of the strategies of

worker-owned enterprises during this period has been far from easy.

This is so, first of all because the urgency of the measures to be adopted on the short-term by the management of worker-owned enterprises as a result of the fall in demand and credit tightening have made it much more difficult to devote time to strategic aspects.

In addition, the very tense psychological situation of the enterprise directors when dealing with these short-term challenges makes it all the more difficult to find the time and effort for a strategic review.

- B. Even in the short-term, in these past two years it has been difficult to anticipate changes in the environment. Along with the natural evolution of the market, public policies and their impact to boost demand and the threat from financial sectors awaiting restructuring are still on the table. They must be carefully taken into account as essential factors in the short- and medium-term economic evolution, especially in countries such as the United States, the United Kingdom and Spain.

To sum up, it has been, and still is, difficult to foresee the seriousness and the duration of the crisis. But cooperatives and *sociedades laborales* have some decisions to make. For that reason, many Spanish worker-owned enterprises opted in 2008 to review their strategies on a permanent basis every quarter.

2.1.5. Strategies to contain labour costs

As often happens in critical situations, worker cooperatives and *sociedades laborales* tend to adhere to a quantitative, qualitative and fundamentally different conduct to manage personnel costs.

In conventional companies, the basic strategies to reduce labour costs could be summarised as follows:

- a) Reduction of contracts via redundancies, labour force reduction plans, etc.
- b) Reduction or containment of wage costs, as far as possible.

By contrast, in worker-owned enterprises, the point of departure is a fundamental strategy to defend employment. Consequently, the cost-reduction strategy is based on the adjustment, i.e. reduction and containment, of pay, decided by the workers themselves or by their representatives in corporate bodies in

cooperatives or *sociedades laborales* (the annual shareholders' meeting, the board of directors or the executive council).

Nevertheless, it should be noted that in this crisis, the first reaction from Spanish worker-owned enterprises to achieve the goal of cutting personnel costs has not been so "different" as it had been in previous crises. The objective circumstances that explain this insignificant difference in conduct was explained above by pointing to the large employee recruitment that cooperatives had carried out in the previous decade. During the first year's reaction to the fall in the market, worker cooperatives resorted to a substantial level of sacking of temporary employees, as did conventional companies in Spain.

As we will see, this did not mean that the move was not compatible with other measures particular to worker-owned enterprises that are designed to uphold the specific nature of this system in their responses to crises.

The fundamentally different strategies pursued by worker-owned enterprises to reduce labour costs have deep-seated and very clear motivations.

The fact that ownership remains in the hands of the workers logically means that when defining business strategies to deal with the crisis, priority will be given to defending jobs over other goals, such as, more specifically, a return on capital.

In practice this also implies, although at first glance it might seem paradoxical, that the pay of the worker-members in worker-owned enterprises will be more quickly and more substantially impacted by the fall in income caused by the crisis.

The basic reason for this is found in the fundamentally different attitude held by workers in worker-owned enterprises, compared to those in conventional companies, in response to plans to adjust pay. Workers in conventional companies logically take a defensive stance towards pay cut proposals put forward by the owner. As an argument to oppose any pay cuts, the workers in these companies point to the fact that they did not receive their fair share of the positive results generated during the economic cycle's high point.

Workers in cooperatives, on the contrary, accept more readily the relationship between pay cuts and the defence of their own jobs. They often recognize that a pay cut must be accepted in order to preserve employment. They know that any income generated will go first and foremost to that purpose and not to

defending the interests of investors.

As a result, the pay of workers in cooperatives and *sociedades laborales* is adjusted more often and more rapidly in order to deal with a crisis.

It should be noted that such adjustments are carried out via techniques that differ fundamentally among worker-owned enterprises.

While in some cooperatives these adjustments, in response to the crisis, are introduced through specific agreements with corporate bodies, such as the executive council or the general members' meeting, in other cooperatives or *sociedades laborales* year-to-year changes in remuneration are regulated by specific rules that provide for their more or less automatic adaptation in step with the company's economic and financial situation.

Which of the two pay regulation systems is better? Opinions vary, although in cooperatives and *sociedades laborales* the positive opinion expressed by worker-members of adapting pay in line with the economic or financial situation is in the majority.

On the one side, some claim it is preferable to have clear regulations that provide for a nearly automatic adjustment of pay in step with the activity's economic position. In that way, the adjustment is more natural and problems from the usual and obvious difficulties in having to explain and convince the company's governing bodies of the need to contain or reduce pay are avoided.

On the other side, it is argued that adjusting pay in line with the level of activity is already reflected in the share of the positive or negative results that worker-members receive and that it is therefore not necessary to adjust pay automatically in accordance with the activity's positive or negative results.⁶⁸

68 In that connection, the scope of the legal framework provided by the *Ley de Régimen Fiscal de Cooperativas 20/1990*, and in particular concerning average market pay, is sufficient to avoid legal problems for the members who decide to adopt these measures:

“Article 8. Worker cooperatives - The worker cooperatives that fulfil the following requirements shall be provided particular protection:

2. The average amount of total pay effectively accrued, including advances and amounts payable as profit-sharing, must not exceed 200% of the average standard pay in the same sector of activity, which would have been received if the worker's position vis-a-vis the cooperative had been that of an employee.”

In any event, it is obvious that the adaptability of workers' pay to the company's economic and financial circumstances amounts to a big and significant competitive advantage for the worker-owned enterprises when having to take up the challenges of a crisis.

Worker cooperatives blame the economic crisis

Empresa y trabajo.coop. Issue 14. May-June 2009

In 2008, fewer worker cooperatives were created than in previous years. Owing to the effects of the economic crisis, 1.7% fewer were established than in 2007. These figures were published in the latest report of the *Confederación Española de Cooperativas de Trabajo Asociado* [Spanish Confederation of Worker Cooperatives] (Coceta), recently unveiled at the organisation's annual general meeting held in Murcia. While the numbers are negative, they are better than those generated by trading companies, which suffered losses of 7%. In addition, in worker cooperatives, the employment rate increased by 0.12% in relation to the rate for all of Spain. *"This crisis is affecting the cooperatives just as it impacts the rest of companies; it is a financial crisis"*, explained Juan Antonio Pedreño, who was re-elected president of Coceta during the meeting in Murcia. *"What is happening is that this is also a crisis of values and in that aspect the cooperatives have an advantage because our model pursues certain principles that are closely tied to our way of building and being a company"*, he pointed out. Today in Spain there are 18,625 worker cooperatives that provide jobs to 300,000 persons (members plus employees). This figure accounts for 1.64% of all people in employment in Spain, where most of the cooperatives are worker cooperatives. Next come housing cooperatives, which number 3,200, and then the agricultural cooperatives, of which there are 2,400. One of the most important features of the worker cooperative movement in 2008, which has been a constant throughout its history, is that the majority of people who work in these companies are members of their cooperative and the remaining 20% hold temporary jobs. In the last two years two characteristics have differentiated worker cooperatives: their smaller average size and their growing presence in the services sector.

Employment of women and immigrants

One leading facet of worker cooperatives concerns the employment of women. According to studies from the Ministry of Labour and Immigration, the percentage of women in cooperatives taken as a whole (worker cooperatives, agricultural, housing, consumer, educational, maritime, credit cooperatives, transport and services cooperatives) is greater among people who have a temporary job than among people with a permanent job. However this trend is reversed in the case of worker cooperatives because the female members - owners account for 73.7% of women employed in the company. Furthermore, the percentage of women in managerial positions in cooperatives is 39.4%, much higher than in other types of companies. Another revealing figure from the past year is the growing interest of immigrants in this type of business. Similar to 2007, 10% of persons who created cooperatives came from other countries. In 2008 and thus far in 2009, Coceta and its associated organisations have been striving to improve the situation of their companies, seeking agreements with financial institutions to ensure that the autonomous communities endorse the aid that cooperatives receive. Mr Pedreño asserted, however, that the aid *“is a shared responsibility among governments (federal, autonomous communities and local authorities), financial institutions, cooperatives and social economy companies.”*

Cooperation between trade unions and cooperatives

On 2 April last, representatives of the CCOO and UGT trade unions in Murcia, speaking at the *“European Forum for the Promotion of Information, Consultation and Participation of Workers in the European Cooperative Society-SCE”*, expressed their desire to join forces with worker cooperatives. Trade unionists and cooperative leaders from Spain and Italy analysed and discussed the involvement of workers in the European Cooperative Society (ECS) and relationships between cooperatives and trade unions, which is a starting point for cooperation.

The individual as focal point

Empresa y trabajo.coop. Issue 14. May-June 2009

If you type *“solutions to the crisis”* in Spanish into one of the leading search

engines, you will have more than 5 million results. Of them, a significant portion concerns articles of opinion from various media, economic and others, that link to a good number of blogs in which people put forward opinions on ways to solve the crisis. These range from very liberal positions in favour of strictly financial solutions without bearing in mind individuals or even disregarding them, to other solutions that require a real social revolution including the disappearance of the financial markets and the destruction of any kind of currency and a return to a barter system. There are also solutions from recognised business schools that, to sum up, set out five solutions to the business crisis. Of them, two are noteworthy: one concerns the idea of “retaining talent within the company” and the second is “always keep an eye on corporate social responsibility”, referring to a series of measures dealing with environmental sustainability, combining work and family life and gender equality, for example. In other words, the focus is on measures centred on the individual as a fundamental element in solving the crisis and this is where we must express our full approval of such solutions for companies. And this is exactly what cooperatives are doing. Cooperatives consider individuals as the backbone of the enterprise; they are the ones who preserve jobs in existing cooperatives and, as can be seen in the report on this issue, new cooperative entrepreneurial projects are reaching the territorial organisations in which the good work of the people who head them helps turn them into entrepreneurial initiatives. This does not prevent cooperatives from experiencing difficult and fragile times. In 2008, 20% fewer cooperatives were created than in 2007. However, employment increased by more than 25% in the same period, a noteworthy and hopeful figure. This weakness in cooperative creation, as well as the difficulties of those already operating, is caused in most cases by a lack of cash to keep the business afloat, which in turn comes from delays in payments from various government agencies and individual customers. In other cases, the cause is the fact that financial institutions have decided to restrict or shut off credit and loans, whether or not the customers have assets to put up as security, because the institutions cannot afford to take on new business initiatives or back the consolidation of activities already under way. These circumstances, along with the generalised fall in consumption and the accelerated increase in unemployment, are thwarting the creation of cooperatives and the growth of those already operating. People in the cooperatives may tell us they are following numerous recipes to solve the crisis. The leading recipe is surely not among the first of the five million found by the search engine because what is most important is to focus on the PERSON as the main source of business activity. That is our most important asset in the cooperatives.

2.1.6. The challenge of bank credit

Compared to other types of entities, do worker-owned enterprises in Spain act differently when dealing with bank credit restrictions?

A number of arguments have been put forward but it is not easy to see clear-cut conclusions from them.

On the one hand, as mentioned above, cooperatives and *sociedades laborales* in general at the onset of the crisis had a level of debt from risky investments that was lower than the usual market level.

On the other hand, the usual difficulties of worker-owned enterprises in attracting and accumulating capital and equity meant that in certain cases, at equivalent levels of investment, the net asset/receivables ratio is, in general, lower in worker-owned enterprises, especially in large cooperatives.

In the absence of reliable statistics, it is difficult to draw clear conclusions from these contradictory considerations. The fall in bank credit has logically also affected worker-owned enterprises but the size of this impact varies substantially, depending on the sector and the particular enterprise.

As we will see, the problem of restricted bank credit does have particular characteristics that call for measures to overcome it.

The corporate and financial characteristics of worker-owned enterprises have always constituted an essential distinction in the policy for financing these entities.

- On the one hand, access to bank credit has been fraught with structural problems that prompted worker-owned enterprises to promote financing entities that are close to the cooperative movement, to the social economy or to specific cooperative groups or associations, such as credit cooperatives, cooperative banks, mutual guarantee schemes, venture conventional companies, unit trusts, etc.
- On the other hand, access to capital markets has also posed specific problems in worker-owned enterprises that have been an ongoing challenge for worker cooperatives and *sociedades laborales*, especially the larger ones.

2.1.7. Worker-owned enterprises in the second phase of the crisis

Despite the time elapsed since the start of the crisis, it is fair to say that so far we have only seen its initial effects: cost adjustments and reductions.

The continuation of the current economic crisis will lead to the second phase, in which decisions will be taken, not to respond immediately to the initial effects of the crisis, but rather strategic decisions for the medium- and long-terms.

We could situate the start of the second phase at the beginning of 2011. The continuation of the economic crisis will bring with it the need to adopt measures that are different from the adjustments introduced heretofore.

The strategic measures will be introduced mainly in the following areas:

- a) Strategic positioning decisions
- b) Innovation decisions
- c) Investment decisions

2.1.8. The basic working guidelines

In order to define the working guidelines for positioning worker-owned enterprises on the medium- and long-terms, we must try to envision our companies' position in the medium- and long-term future that will be shaped by the financial and economic crisis.

Without conducting an exhaustive analysis, which is beyond the bounds of this chapter, we can refer to basic positionings that cooperatives and *sociedades laborales* must bear in mind.

We can summarise as follows:

Figure 5 - Basic working guidelines of worker-owned enterprises



Obviously, no one of these working guidelines can be developed on its own without bearing in mind the evolution of the others.

In light of the goal of this report, we will try to elucidate one of the four points of these basic working guidelines, “Strengthen the business project”. But we must realise that the future of worker-owned enterprises depends both on internal conditions (the business and social project) and on external factors (public policy, social transformation). And, naturally, we must not overlook that co-operatives and *sociedades laborales* are not only a business project; they are also a social project.

2.1.9. Promoting business

The medium-term future of worker-owned enterprises, and their capacity to respond to the crisis, is related of course to their capacity for innovation and their capacity to promote new activities.

In what we have called the “second strategic phase” of the economic crisis, the policy for promoting new activities is an area where cooperatives and *sociedades laborales* are essentially different and able to preserve the enterprise’s ability to generate value-added and, consequently, defend jobs.

Under this strategy to promote new activities, or *diversification*, in worker-owned enterprises, the organisational mechanisms used for that purpose are of particular interest.

In particular, we must be aware of the need for a differentiated analysis of the promotion of new activities that are organised in an independent fashion and, secondly, of the promotion of new activities by enterprises that are already operational.

The promotion of new and independent activities has special characteristics in worker-owned enterprises and, logically, in times of crisis.

The general reduction of margins caused by the crisis makes it particularly difficult to take on new and independent activities that pursue a capitalistic business logic.

But the business logic of worker-owned enterprises is substantially different. Taking on a new activity, even though the advantage from the accountancy

standpoint may be reduced, inexistent or even negative, can be worthwhile for those involved in worker-owned enterprises. Therefore, the promotion of new and independent activities in cooperatives or *sociedades laborales* is often boosted in times of crisis.

The policy for promoting new activities in cooperatives and *sociedades laborales* that are already operational has several variations from the organisational angle:

- A. New activities without specific organisational independence.
- B. New activities with organisational independence.

In the latter area is where the organisational features are most noteworthy.

In particular, the following structures are significant subjects for a specific analysis:

- a) The sections
- b) The cooperative subsidiaries
- c) Diversification within the same hierarchical group
- d) Diversification under the “cooperative group” regime.

When promoting new activities, the sections can be a useful instrument as an intermediary between the internal development of new activities and their channelling through a subsidiary or other type of independent business.

The sections in a cooperative can go much further in attaining organisational independence than an area or a department in a conventional company. They may have their own bodies, such as a board or a general meeting, although subject to the general bodies of the cooperative, and they may pursue their own policies concerning return on capital, distribution of profits, workers’ pay, etc.

Hierarchical or vertical groups are not often established in cooperatives.

Of course, while there are legal restrictions in some legislations, cooperatives can develop new activities via the creation of subsidiaries set up as conventional companies.

Although not well known and little used, Spanish legislation offers an interesting possibility for subsidiary cooperatives that combine full company consolidation through a hierarchical or vertical relationship with partial cooperativisa-

tion of the new activity. Use of this possibility has become systematic and has grown in recent years in the Mondragón Group. It has helped to resolve the traditional dialectic between internal promotion and subsidiaries that are not cooperatives, allowing at least a partial cooperativisation that is organisationally incorporated in or coordinated by the parent cooperative.

Lastly, we must not overlook the function carried out by the *horizontal* cooperative groups that act as an intermediary instrument between the development of new activities through independent cooperatives on the one hand, and the integration in a single entity on the other hand.

We will cover all these organisational instruments in greater detail in the following section.

2.2. Internal instruments

We have already explained the reasons for the better conceptual and structural positioning of worker-owned enterprises when dealing with the crisis. But how is this better positioning achieved?

Following are, in principle, the guidelines.

- a) The transformation of conventional companies into worker-owned enterprises
- b) The development (investment and/or innovation) of the activities of cooperatives or *sociedades laborales* that are already operational
- c) The *ex novo* creation of new cooperatives or *sociedades laborales*
- d) The diversification of activities of companies already operational via the creation of new cooperatives or *sociedades laborales*.

Because of their specific transcendence, we will examine in this section the cases of transformation of conventional companies into cooperatives or *sociedades laborales* and we will look at a standard-setting instrument that has aroused much interest in Spain: the capitalisation of unemployment benefits and its significance in the conversion of activities in worker-owned enterprises. Lastly, we will refer to the sections and how they can be an instrument for the internal configuration of Spanish worker cooperatives.

In the following section, we will cover in greater detail the creation of new cooperatives or *sociedades laborales* by worker-owned enterprises that are already operational.

2.2.1. Transformations

The transformation of conventional companies into worker-owned enterprises is frequent in times of crisis.

This phenomenon is nothing more than the logical consequence of the general rule of the best strategic positioning of worker-owned enterprises in response to the general fall in the profitability rate. Companies that are no longer sufficiently profitable for the capitalist investor continue to be profitable for the workers to the extent that the activity enables them to preserve their jobs.

Companies that have been transferred to the workers in the form of a cooperative or a *sociedad laboral* often overcome crisis periods and over time their activities become highly profitable.

Following are several cases of good practices⁶⁹:

THE CASE OF LOW POWER

At the end of 2007, the workers of Low Power, a metallurgy company in Aragon, Spain, began to realise that something was not right. The usual suppliers began to balk at delivering orders and it was only in January of this year that they were paid November's wages. Far from providing explanations, the director denied that there were any problems, but at the end of March, Low Power closed down. All the employees were thrown out of work, there were millions in debts and, most surprising, many projects could not be completed. After several disputes, the workers formed a cooperative called Metalva. Now they are recovering their clientele and are resuming their metallurgy activities. They are getting training assistance from some suppliers.

THE CASE OF COSEMAP

“This was initially not a cooperative. We were workers in a Basque company until one day in 1982, it closed and left us on the street without even any severance pay. We did everything we could to continue with the company: demonstrations, occupations,

⁶⁹ Source: The “*Empresa y trabajo.coop*” periodical, COCETA.

hunger strikes, etc., so that we would get our pay. And in the end, after a long struggle, we were able to keep the machinery and the customer portfolio”.

THE CASE OF MOL-MATRIC

Mol-Matric is a company born out of similar circumstances to Cosemap. Mol-Matric began operating in the 1970s with great hope but with problems. The worker-members had no idea of how to run a business and the director's posts were handed out based on each person's ability. The production head became an employee who was known for his methodological organisation and the current director, who began in the company as a cleaner, took over information technology 15 years ago because of his deep interest in computers. Today it is a highly profitable company.⁷⁰

THE CASE OF SHER-LIMP

The carpet cooperative Sherlimp, created by 42 workers who bought the company from the owner, decided to hire a manager. Many people, including the Labour Ministry, thought the cooperative would last only two months.

THE CASE OF CARTONAJES AITANA

Some company owners were simply unable to pay and they would decide to leave the factory to the workers as payment in kind. Cartonajes Aitana, a company located in the region of Valencia that failed in the 1970s not only was not profitable when the workers took it over, in addition the workers decided to bring in the sons of the former owners as members. To make ends meet, everybody worked day and night like ants. Today they pursue well-established activities in the region.

THE CASE OF MANCLÚS

Another company with a similar experience, also in the Valencia region, is the Manclús family business that repairs bell towers. The company owners decided to close and turn the business into a cooperative. Salvador Manclús, one of the founders, explained that, “When you leave behind a conflict situation, there is some mistrust among the parties

⁷⁰ To assist in the start-up of cooperatives like Mol-Matric and Cosemap, the government created the *National Fund for Work Protection*, which granted easy loans to get the cooperative off the ground and a special loan to hire a manager for one year. “*It was a crisis, like today, related to oil*”, according to Rafael Calvo Ortega, the labour minister in 1978, who put together the measure. He added that, “*It was a very appropriate measure because the rate of survival of these companies, cooperatives and sociedades laborales, was much higher than the others. The employees, since they were the owners, got much more involved.*”

and the way to clarify everything and ensure that everybody could participate was to opt for a cooperative.”

THE CASE OF PANIFICADORA DEL NOROESTE

The bakery cooperative Panificadora del Noroeste, located in Galicia, was the result of the conversion of the Paefsa company. The Panificadora del Noroeste acquired the plant thanks to the efforts of 35 workers along with a mortgage tied to the old company and difficult to repay. To stay afloat, they had the backing of another cooperative, Meirás, currently a consumers' and users' cooperative, and they managed to become a very well known bakery in the Ferrolterra area, where they are located.

The fact is that a substantial share of today's worker cooperatives and *sociedades laborales* in Spain started as conventional companies that were transformed into cooperatives as a result of crisis situations.⁷¹

Mecanización y Rectificado de Precisión (MERPRESAL) S.A.L.

by Carla Herrera in *Economía Social*, April-May-June 2010

Twelve workers decided to buy the facilities and machinery of their former company in order to save jobs and try to position the company as a leader in its sector.

The *Sociedad Laboral Mecanización y Rectificado de Precisión*, Merpresal, was created in June 1995, in Logroño (La Rioja), thanks to the courage of twelve members working in a private company on the verge of closing. At that time, the members were between 20 and 50 years old. They decided to buy the machinery and the facilities of the former company in order to create a new one, Merpresal. Since then, the workforce has grown but has always pursued the same principle i.e. to be trained by highly qualified professionals who make unique machined parts, short and medium series, prototypes and tools.

71 “Many worker cooperatives started in the 1970s and 1980s as a result of companies that closed but managed to convert.” (Paloma Arroyo, “Empresa y Trabajo”, 2008)

Difficult beginnings

Similar to any company, the beginnings were not easy. In the case of Merpresal, the battle was waged on two fronts: the lack of trust on the part of the customers, who associated the new company with broken promises and debts of the previous company and the lack of liquidity, which meant that for two months they had to work 60 hours a week to meet expenditure. Fortunately, things changed for the better. Invoicing in 2008 amounted to 1,400,000 euros and that of 2009 was 600,000 euros, 60% less, owing to the economic crisis. However, invoicing in 2010 is expected to be between 800,000 and 1,000,000 euros, which would enable them to continue working with guarantees. Today, there are 15 active workers, 14 members, 1 employee (the manager) and 5 non-worker-members. The current economic climate has forced them to take a series of measures to avoid cessation of business activities. They have made a big commitment to training from a twofold viewpoint, as workers in the shop and as businessmen. They have also made great efforts in the quality and risk prevention department and have had to take the drastic step of setting up a redundancy plan this year until mid-2011. This is where they are most grateful that they created a *Sociedad Laboral* because, they noted, *“If it had been a conventional company, dismissals would have occurred and agreements would not have been reached.”* Another advantage they highlight is that, *“The workers get more involved in their work because the company is theirs.”* A further high point is the reconciliation of family life and work because, as they mentioned, *“If people get involved there are advantages in flexible scheduling.”* Yet another positive point of this business model is that decisions are taken by everyone and the aim is not the benefit of a single person (the owner), as is the case in conventional companies. *“Here, we always work for the benefit of the company as a whole because the owners are the workers.”* But there are some disadvantages. One area for improvement is the succession of shareholders in a way that avoids conflict, *“because the interests of the worker-members and the non-working shareholders are totally different”*. Looking to the future, they hope to avoid losses in 2010 and in 2011 to incorporate new workers and members, *“in the hope that the market recovers”*. Recent statistics show that their hope is justified. The pillars of their identity, as outlined by the company itself, are to *“guarantee high-quality, precision products, providing serious, complete, efficient and punctual service”*.

Although most of their work is done based on plans or samples provided by the customer, they also manage design and machinery, including assembly and adjustment of assemblies, of moulds, tools, machinery or elements of

verification. One of the advantages of this leading company is its broad range of machined parts of different sizes and shapes, lathed parts and milled and/or rectified parts. Merpresal manufactures all types of parts with very-high precision and quality standards that have been demonstrated by this company that stands head and shoulders above its competitors who have fallen short of market demands. Merpresal handles the complete manufacture of the product, from the purchase of the material and its machining to superficial finishes, thermal and chemical treatments, rectifications and/or various coatings, where required. The company has long experience in machining parts for the rubber, extrusion and general machining sectors. It has diversified its markets and has become especially active in a number of sectors such as aeronautics, engineering, matrices and moulds, among others. Its facilities include an industrial complex able to take on large-scale production, consisting of digitally-controlled machinery, lathes, jig borers, core grinders, milling machines for any type of material with the highest precision and reliability and under efficient quality control. The company's machine shop is located in a 900-square meter shed with climate control, divided into three departments: offices, meteorological laboratory and mechanic's shop. Merpresal is a member of the *Agrupación de Empresas Laborales y de Economía Social de la Rioja* (AREL). The company's spokesman ensures that *"the characteristics of the social economy company require in La Rioja an organisation exclusively dedicated to the sector in order to offer the right advice to companies that require it. The role of AREL is very important for the development of a Sociedad Laboral."* The owners of Merpresal believe that, *"Sociedades Laborales can be a driving force of the Spanish economy as they were in the 1990s, provided that the competent bodies take seriously the creation of social economy companies. That will require a reform of the current law."*

MAIN DATA

Merpresal S.A.L.

La Portalada, 46, 26006 **Logroño**

Tel.: 941 242049

Founded: 2005

The workforce consists of

15 active workers,

14 members,

1 employee (company manager)

and 5 non-working members.

<http://www.merpresal.es/>

merpresal@merpresal.es

The transformation of conventional companies into worker-owned enterprises usually begins with one of the following scenarios:

- a) Capitalist owners who, upon retiring and with no one in the family to take over, decide to transfer ownership of the company to the workers.
- b) Companies in a critical situation or without prospects whose owner decides to transfer or sell to the workers.

Obviously, the first is usually less traumatic. The economic situation of the company is not necessarily difficult, which enormously facilitates the transformation. Often the change is planned several years in advance and is organised in an orderly and gradual way. The directors stay on and the workers gradually get used to the idea of assuming the responsibility of shareholders and owners of the company.

But the second, and more typical, hypothesis occurs during a crisis period.

Tying in with the point mentioned above, it should be noted that these transformations, with exceptions, usually are not contemplated in the first days of the crisis (the adjustment period). At first, companies hope that the crisis will be short and they therefore avoid structural measures that might be premature.

It is at the start of the second phase, which in the current case starts in 2011, when conventional companies begin to position themselves strategically. While profitability expectations are clearly negative or insufficient, doubts arise immediately about the advisability of maintaining the activity, searching for a buyer or, occasionally, transferring ownership to the workers.

Nor Rubber SAL

Jose Luis Nuñez, *Economía Social*, Jan-Feb-March 2010

A *Sociedad Laboral* located in Galicia, maker of rubber-based products, such as conveyor belts, supports and joints and marine fenders, among others.

In the face of adversity, solutions abound in a *Sociedad Laboral*

Nor Rubber, S.A.L. is a business devoted to the manufacture of rubber products. Nor Rubber makes a variety of rubber products that are required by the most

demanding and competitive industries, which enables the company to position itself among the leading rubber products companies at world level. According to the company's board chairman, José Manuel Quintana, *"In Nor Rubber, S.A.L. our priority to achieve success as a company is to pay close attention to the customer's needs and to the QUALITY of all our products and, faithful to this idea, we launch ourselves all our productive processes"*. This is a *Sociedad Laboral* that began in 2001 following the failure of GESRUBBER, S.A., the former company in which 200 employees worked, of which 133 got involved in the Nor Rubber *Sociedad Laboral*. According to Mr Quintana, *"That's how the company started, with a small customer portfolio but with good products and a lot of enthusiasm to make a success of this project on the part of the 133 workers who also wanted to preserve their jobs."* Today, and after many initial difficulties, the company forecast is for 8 million euros in invoicing. Of the 133 initial workers, 119 remain and the total workforce amounts to 130 persons. Mr Quintana added that, *"We are in the process of selling on the external markets, but already 25% of our invoicing is generated outside the country"*. The company's products in the rubber sector are situated among the leaders for quality and marketing. *"We are the only manufacturers in Spain of metal-core conveyor belts and in textile belts we are among the top three. Companies such as La Robla (León), Pajares, Buñol (Valencia), Cementos del Cantábrico (Leon) and Endesa will vouch for the quality of our belts that we export to Morocco, Tunisia, Jordan, Cuba, Germany, India, Algeria, the United Kingdom, Portugal, France and others. We make fenders for tug boats and ports, supplying Spain's main shipyards: Armón, Zamakona, Const. Navales Paulino Freire, Union Naval de Valencia and Balenciaga, among others"*. Their elastomeric bearings have been accorded EU certification, which is required for the sale of structural bearings for bridges and highways. The company's bearings have been installed on Spain's main roadways and customers such as Sacyr, Acciona, Dragados, F.C.C., Ferrovial, Preconsa, Prainsa, Castelo, etc., use these bearings. Mr Quintana added that *"We also export around the world. We have a wide range of rubber coverings and among the projects completed is the largest desalination tanks ever made in Spain, measuring 18 metres by 5 metres in diameter for the Barcelona desalination plant. Other products include hoses, solid wheels for lift cars and any type of rubber part"*. The chairman of the board of Nor Rubber SAL, José Manuel Quintana, without hesitation talks of the pros and cons of a *Sociedad Laboral*. He asserted that this type of company is more dynamic and more able to integrate human capital and stated that *"We are all in the same boat."* In the face of adversity, possible solutions abound. Among the disadvantages, he points to the fact that 121 pairs of eyes each see

things in a different way and “*that can lead to a lot of discussion. On the other hand, financial institutions and governments do not like this system.*” But it is obvious that if they hadn’t opted for a *Sociedad Laboral*, the adverse situations would have been resolved in other ways. “*We surely would have suffered more and the workers would not be so involved in the management and running of the company. We would have needed external financing, which would have complicated the situation*”. But Nor Rubber is a company able to overcome its problems and, looking to the near future beset with an unprecedented business crisis, “*We will have difficulties, but I believe that we can confront the situation with optimism; we are a company used to hard times and are able to move ahead under our own steam, we have a very good product and our quality is excellent. We have put forward several projects in R&D, the environment (waste recovery) and have fine-tuned our facilities. We hope that with the help of the Galician government we will be able to succeed*” company director José Manuel Quintana said.

MAIN DATA

Nor Rubber SAL
San Martiño / Areas
36700 - Tui
Pontevedra, Spain
Tel: +34 986 603 510
info@norrubber.com
Forecast invoicing: 8 million
Facilities: 32.000 m²
Member workers: 119

THE RED VALENCIANA DEL EMPRENDEDOR Y LA ECONOMÍA SOCIAL

In order to do more to support the social economy, the *Fundación Foment del Cooperativisme de la Comunitat Valenciana* (FOCOOP), along with the *Federación de Empresas Valencianas de Economía Social* (FEVES) and the *Federación Valenciana de Empresas Cooperativas de Trabajo Asociado* (FEVECTA), has set in motion the *Red Emprendes* that has received financing from the *Consellería de Economía, Hacienda y Empleo* of the *Generalitat Valenciana*. The *Red* was created to promote the social economy in the hinterland of the *Comunidad Valenciana* where this sector has a strong presence, although for geographic reasons it has not received promotion and advice services in its own area.

Therefore the *Red Emprendes* was set up as an instrument for decentralised activities in the region of Valencia. Its three main entities, FOCOOP, FEVECTA and FEVES, as well as various local governments, all contribute resources and efforts to the *Red*.

2.2.2. Single unemployment benefit payment

In Spain, worker-members, those registered with the General Social Security Regime and those registered with the Self-Employed Regime, have access to state unemployment benefits, in keeping with the option that the cooperative decided.

A worker-member can apply for unemployment benefits when the labour relationship with the cooperative has been terminated, in the circumstances described in the law, or if employment is suspended, in which case a collective procedure is involved that requires judicial approval via a labour force adjustment plan.

Worker-owned enterprises in Spain have the option of receiving unemployment benefits indirectly, which is called unemployment capitalisation or, as indicated in the law, the *single unemployment benefit payment*.

This is a long-established provision in Spain that enables an individual who is entitled to unemployment benefits to transfer an outstanding amount of benefits to the capital of a cooperative or a *sociedad laboral* that he will be joining as a worker-member, either with the aim of establishing a new cooperative or *Sociedad Laboral* or joining as a member an existing cooperative or *Sociedad Laboral*.

Frequent references have been made to this option as a very important consideration in public policy to promote worker-owned enterprises in Spain.

Nevertheless, opinions vary. The impression is that the effective use of this benefit is not very widespread. The government, the cooperative movement and the *Sociedades Laborales* are now reflecting on this matter and examining why it is scantily used and how it can become more dynamic.

The figures below show that, indeed, the effective use of this capitalisation/single payment benefit has not been as generalised as we could have expected.

Table 28 - Beneficiaries of benefits at contributory level registered with the capitalisation (single payment) system per type of employment, days capitalised and amount per worker

| YEARS | TOTAL | Self-employed | Cooperative members | <i>Sociedades Laborales</i> members | Average number of days capitalised per worker | Cash amount in euros per worker |
|-----------|---------|---------------|---------------------|-------------------------------------|---|---------------------------------|
| 2000 | 10.833 | 93 | 4.198 | 6.542 | 455 | 10.298 |
| 2001 | 11.950 | 119 | 4.504 | 7.327 | 457 | 10.617 |
| 2002 | 11.873 | 573 | 3.612 | 7.688 | 413 | 9.859 |
| 2003 | 30.795 | 20.919 | 2.453 | 7.423 | 184 | 4.544 |
| 2004 | 61.560 | 50.250 | 3.176 | 8.134 | 146 | 3.482 |
| 2005 | 90.468 | 78.869 | 3.260 | 8.339 | 127 | 3.075 |
| 2006 | 125.944 | 114.776 | 3.380 | 7.788 | 140 | 4.166 |
| 2007 | 154.473 | 143.573 | 3.598 | 7.302 | 136 | 3.888 |
| 2008 | 164.196 | 153.932 | 3.838 | 6.426 | 130 | 3.693 |
| 2009 | 158.952 | 150.005 | 3.612 | 5.335 | 150 | 4.201 |
| 2009: | | | | | | |
| (Jan-May) | 128.648 | 122.090 | 2.214 | 4.344 | 79 | 2.182 |
| 2010: | | | | | | |
| (Jan-May) | 122.101 | 116.218 | 2.051 | 3.832 | 88 | 2.517 |
| 2008: | | | | | | |
| Dec | 107.135 | 102.186 | 1.385 | 3.564 | 15 | 413 |
| 2009: | | | | | | |
| Jan | 105.131 | 100.268 | 1.417 | 3.446 | 17 | 455 |
| Feb | 105.439 | 100.506 | 1.446 | 3.487 | 20 | 562 |
| Mar | 104.347 | 99.506 | 1.422 | 3.419 | 20 | 555 |
| Apr | 103.578 | 98.762 | 1.401 | 3.415 | 20 | 563 |
| May | 103.370 | 98.612 | 1.401 | 3.357 | 20 | 556 |
| Jun | 102.843 | 98.195 | 1.380 | 3.268 | 19 | 545 |
| Jul | 102.165 | 97.447 | 1.461 | 3.257 | 20 | 553 |
| Aug | 99.851 | 95.383 | 1.350 | 3.118 | 17 | 486 |
| Sep | 99.832 | 95.166 | 1.524 | 3.142 | 20 | 570 |
| Oct | 99.431 | 94.931 | 1.397 | 3.103 | 21 | 590 |
| Nov | 99.271 | 94.838 | 1.359 | 3.074 | 22 | 606 |
| Dec | 96.818 | 92.576 | 1.298 | 2.944 | 18 | 520 |
| 2010: | | | | | | |
| Jan | 95.885 | 91.672 | 1.276 | 2.937 | 19 | 550 |
| Feb | 96.182 | 91.893 | 1.299 | 2.990 | 23 | 670 |
| Mar | 96.333 | 92.089 | 1.336 | 2.908 | 24 | 684 |
| Apr | 95.573 | 91.354 | 1.340 | 2.879 | 23 | 650 |
| May | 95.561 | 91.378 | 1.365 | 2.818 | 22 | 650 |

*Starting in September 2002, beneficiaries established by the R.D.L. 5/2002, and later by the law 45/2002, are indicated).

Source: MLI (Ministry of Labour and Immigration)

2.2.3. Sections as means of restructuring

Among the instruments used for differentiation and incorporation of activities, in Spain the so-called sections are worthy of note. These are areas of differentiated activities with a scale of organisational, legal and corporate independence that is unknown in other types of companies. The following fundamental arrangements are found in Spain:

- a) The so-called “credit sections” are for the cooperative members’ deposits and loans. These sections have undergone significant expansion in the east of Spain. We will examine them in the section on financial instruments.
- b) The sections can be used as an instrument for differentiated business activities. They are now being used in experiments as an alternative organisational instrument in the place of cooperative groups and in the merger of cooperatives.

This latter possibility is of greater interest as an organisational instrument. As mentioned above, the sections help to differentiate activities within the cooperative to a greater degree than that of business areas and departments in all other types of companies. Economic and organisational differentiation can reach a level that in other types of entities can only be achieved through the constitution of separate entities.

Based on very conceptual normative references⁷², these sections have, in practice, been developed mainly in agricultural cooperatives and have generated very relevant practical experiences.

The following two cases are noteworthy:

- a) The common sections in agricultural cooperatives and second-degree cooperatives (cooperatives whose members are other cooperatives).
- b) Experiences with sections in industrial cooperatives.

The regulation of sections in Spain features the following two highlights:

- a) The general cooperative law of 1999, which expressly recognises that sec-

⁷² “*Las secciones cooperativas: novedades en la regulación de la Ley Vasca de 1993*”, Enrique Gadea Soler. Boletín de la Asociación Internacional de Derecho Cooperativo/Journal International Association of Cooperative Law, ISSN 1134-993X, No 30, 1998 , pages 37-46

tions may distribute profits using differentiated criteria.

- b) The *Euskadi Cooperative Rules* of 2005, whose article 20 offers detailed possibilities of economic and organisational asset differentiation by the sections.

As is easily observed, the distribution in a differentiated fashion of profits, returns on capital and transactions involving the members, organic differentiation, etc., are concepts difficult to understand by those outside the world of cooperatives but they have their own logic, if we consider the difficulties cooperatives have in differentiating their activities via groups of members. In that way, the organisational differentiation of activities in the sections of a cooperative can be taken to their maximum degree.

2.3. External instruments

In this section on instruments and arrangements of external restructuring, we will examine a few instruments that are useful in Spanish worker-owned enterprises, are important or significant from the business restructuring standpoint and are of certain referential interest for other geographical areas.

In particular, we will look into the so-called combined cooperatives, subsidiary cooperatives and networks as well as cooperative groups.

2.3.1. The combined cooperatives [cooperativas mixtas]

The combined cooperatives constitute a unique solution in the Spanish cooperative movement to the challenges posed by the legal system in Spain.

Throughout the world, there is a lack of appropriate legal forms for accommodating entities that are in between cooperatives and conventional companies. The cooperative form is designed for purely cooperative arrangements in which all the company's authority is granted based on democratic criteria to the workers, consumers, etc.

The consequence of this lack of regulation of intermediary forms is that, in practice, people around the world resort to conventional companies to accommodate their activities, usually through the issue of company shares or participations. This has significant practical consequences given that this type of

form has a natural tendency to evolve towards conventional companies and towards a gradual reduction of the influence of workers.

In Spanish law, there have been two major attempts to take up this challenge. The most well-known, and quantitatively more significant, concerns the *sociedades laborales* that, with a legally capitalistic form, introduced adjustments to ensure that the workers carried the majority weight “as owners of shares or participations”.

The second attempt, less known outside Spain, concerns the “combined cooperatives”. These cooperatives, under law, are a blend of conventional companies and cooperatives to the extent that the law allows up to 49% of voting rights and profits to be granted to outside investors in the form of participations with voting rights.

The notion of “investing member ”, with variations and different names, is known in nearly all regulations concerning cooperatives. However, the following two features are almost always included:

- a) The total voting rights for these members is limited to 20 to 30% of the total at the annual general meeting.
- b) The rights and obligations of these members are usually distributed among them based on the “one member one vote” rule and not on a capitalist criteria.

The Spanish combined cooperative took a big leap forward. With 49% of the voting rights and the attribution of this percentage on the basis of capitalist criteria, third-party non-members, or capitalist investors, could hold a controlling stake in the cooperative. Obviously, this would nearly always depend on the degree of dispersion of votes among the cooperative members resulting from their numbers.

The aim of the original regulation, based on the 1993 cooperative law of the Basque region, basically was to enable combined cooperatives to channel strategic operations between cooperatives and conventional companies by means of joint ventures formalised via the acquisition by other companies of strategic participations, along with voting rights and a share of the cooperative’s profits.

However, the practical application of these provisions has not been even-handed

in the various Spanish regions, but they have raised a lot of interest.

In particular, it has been shown that these notions are very useful in promoting cooperatives in various sectors.

The two most useful considerations are:

- a) Facilitated promotion of new independent cooperatives.
- b) Facilitated diversification of the activities of existing cooperatives through subsidiary or investee cooperatives.

In the first place, combined cooperatives in regions in which they have been adequately made known are helping to encourage promoters involved in new activities to make use of cooperatives in a way that is compatible with the promoter's proviso for a significant share of the entity's power and profits.

In addition, this business form has meant that new activities promoted by the cooperatives have found new outlets in the form of cooperatives. These new activities, to the extent that they ensure the cooperative's independence, were in the past given shape by conventional companies. The dissemination of the combined cooperative has enabled these new activities to be developed via this alternative form of cooperative.

2.3.2. Cooperative subsidiaries

Through the existence of various legal forms (combined cooperatives, services cooperatives, second degree cooperatives, etc.), the concept of the cooperative subsidiary has gradually been accepted in Spain, or at least in some regions. In a word, this is a cooperative that, through various legal techniques, may be dominated by another entity. This is not a *contractual* domination that may be arranged by the transfer of powers to cooperative groups, but rather a *participatory* domination, achieved via the control of the cooperative's governing bodies.

There are two clearly different legal options: cooperative subsidiaries that may be dominated by any type of entity, and those that may only be dominated by other cooperatives, which is the more frequent of the two.

Similar to the combined cooperatives, the main feature of the subsidiary co-

operatives is that it acts as an instrument to facilitate the development through other cooperatives of new activities promoted by cooperatives or within cooperative groups. In practice, this is a useful instrument to prevent de-cooperativisation of cooperatives or cooperative groups via the development of activities through capitalist subsidiaries.⁷³

2.3.3. Cooperative groups

Among the instruments for business consolidation found in Spanish law, the concept of the cooperative group is of particular interest.

We should bear in mind that the aim of regulations on cooperative groups in Spanish law is basically to clarify and systematise.

In order to avoid the usual misunderstandings, it should be recalled that these provisions are not designed to regulate a “new form”, which is unnecessary and would only have added to the complexity of the various forms of the administrative centres of cooperative groups.

The goal of this regulation is to clarify specific normative uncertainties concerning a range of situations that already exist in practice and that cooperative business circles have been calling *cooperative groups*.

The term cooperative groups is used in the cooperative entrepreneurial field in a sense that is broader than the expression *business groups* or *company groups*

73 We should point out that, regardless of the usefulness of these hybrid forms of combined cooperatives and cooperative subsidiaries in broadening the scope of cooperatives, there is a general awareness that “not everything should be allowed” under cooperative law. Or that, at the very least, the use of the name *cooperative* should be limited to a few specific scenarios that would prevent the cooperatives’ deterioration or loss of identity. In particular there is a feeling that, in light of legal regulations and the registration arrangements of combined cooperatives and cooperative subsidiaries, a limit to the expansion of the regulatory scope of cooperative law has been attained. This does not mean that the importance of regulation of these entities is being challenged. They can accelerate the expansion of the cooperative movement and avoid the unnecessary avoidance of the use of the hybrid cooperatives, which are in between cooperatives and conventional companies. Often, both combined cooperatives and cooperative subsidiaries are essential tools for legally channelling an activity during the first years of an entity and, when the business or organisational situation is firmly in place, these entities can gradually advance towards one of the conventional cooperative models that are in step with the principles and values of the International Cooperative Alliance (ICA).

in the field of conventional companies.

Existing cooperative groups are structured horizontally, are federative and have business goals. They normally have some kind of common management.

But this set of characteristics, in the field of conventional companies, would clearly be insufficient to allow this type of structure to use the name “group” and, in the legal, corporate, fiscal, accountancy and commercial fields, they would not be accepted as groups unless they also fulfilled the basic requirements of *unitary management* and *economic unit*. In the absence of this latter requirement, from the legal standpoint, they would probably be classified as groupings, networks, or something similar.

Cooperative groups have a horizontal and federal structure in which specific functions or decision-making powers are placed in the hands of a central structure. Strictly speaking, only if these decision-making powers go so far as to configure the whole as an economic unit would it be justified to call it a *group*.

The aim of the 1999 regulation, and similar regulations in the Spanish regions, was to provide clarification. More specifically, it was meant to spell out uncertainties concerning the extent to which the transfer to cooperative groups’ administrative centres of specific decision-making powers of a corporate or business nature is legally viable and, if such a transfer is legally viable, to elucidate the requirements of form and procedure.

The regulation of cooperative groups has served to overcome these conceptual uncertainties. Nevertheless, the lack of regulation of the term “group” has given rise to two proposals to clarify the term:

- a) A differentiation between *integration groups* and *coordination groups* introduced in the Basque cooperative law via the implementing Regulation 2005 of the Basque cooperative law.
- b) A doctrinal proposal to draw a distinction in the current legal concept of *cooperative group* between *cooperative groups*, in the strict sense of the term, and *cooperative networks*, reserving the term *group* for structures with an economic unit.

The legal concept of the cooperative group: 1999 General Cooperative Law

Article 78. Cooperative group

- 1. A cooperative group, in this law, refers to a group formed by various cooperative societies, of whatever class, and the administrative centre of the group that exercises powers or issues compulsory instructions to the grouped cooperatives in such a way that a decision-making unit is formed that is endowed with those powers.*
- 2. The issuing of instructions may impact various areas of management, administration or supervision, among which the following:*
 - a) The establishment in basic cooperatives of common statutory and regulatory standards.*
 - b) The establishment of associative relations among the base entities.*
 - c) Agreements for the periodical contribution of resources calculated on the basis of the business evolution or profit and loss accounts.*
- 3. The approval of incorporation into the cooperative group must specify the initial agreement of each of the base entities, in accordance with their own rules on powers and functions.*
- 4. The general agreements entered into with the group must be formalised in writing, either in the statutes of the head unit if it is a cooperative, or by means of another contractual document that must include the duration of the contract and, if limited, the procedure for its amendment, the procedure for withdrawal of a cooperative and powers, whose exercise is to be agreed and assigned to the group's head unit. The amendment, expansion or elimination of these agreements may take place, if so established, by means of an agreement of the highest governing body of the head unit. The contractual document must be recorded as a public instrument.*
- 5. The agreement to join a group shall be annotated on the appropriate page of each cooperative in the relevant register.*
- 6. The responsibility deriving from the operations that cooperatives in a group carry out directly with third parties incorporated into the group shall not impact the group nor other cooperatives that are members thereof.*

Cooperative groups and the crisis

Cooperative groups have been a highly important structure in the development of cooperatives in Spain particularly in the case of the Mondragón Group (currently the Mondragón Corporation) and the ASCES Group (previously known as Valencian Cooperative Group).

As a whole, cooperative groups are a very important alternative for the business consolidation of the cooperative movement. Basically, the groups provide the cooperatives with a structure of institutional coverage that is vital if the cooperatives are going to overcome their customary solitude on a market dominated by conventional companies.

Indeed, conventional companies usually have the state's institutional protection for resolving structural problems that they are unable to resolve themselves. Owing to historical logic, Western countries have arranged themselves in a way that provides institutional coverage or, if one prefers, the means to deal with problems left unresolved by the conventional companies.

This is why, in the absence of institutional coverage from the state, the cooperatives also need alternative instruments for institutional coverage. It is basically the cooperative groups and the cooperative associations that are structured in such a way as to achieve this type of foundation and institutional coverage.

Cooperative groups have been extraordinarily important in carrying out experiences such as Mondragón. Instruments such as the pooling of results, common management of unemployment, common financial and social funds, etc., have been of utmost importance to the creation, development and establishment of this movement and are very worthwhile in times of crisis, such as that of today.

The cooperative groups pool their ideas and strategies, work together to overcome the crisis, achieve common management of financial deficits and surpluses, common management of unemployment, etc.⁷⁴

⁷⁴ One of the usual characteristics of cooperative groups in Spain, such as Mondragón and ASCES, is their cross-sectoral or *conglomerate* nature. One competitive advantage of these cross-sectoral cooperative groups is their ability to overcome sectoral crises, ensuring that the healthy situation in other sectors can help the sectors in crisis to move ahead,

2.3.4. Other means of cooperation

However, business cooperation is not limited to cooperative groups.

We have already noted that one of the key functions of the cooperative groups is to provide strategically key institutional coverage to worker-owned enterprises. This function, although with significant variations, is also quite often developed by associations of cooperatives and *sociedades laborales* (federations and confederations). Contrary to other countries, in Spain the federations of cooperatives and *sociedades laborales* have not developed significantly outside of their representative and institutional environments. This can be explained by a number of factors.

The federations of cooperatives and *sociedades laborales* have a relatively recent history, dating from the post-Franco period of the 1980s. As a result, federations emerged in the Basque country and Valencia when group structures, such as Mondragón and ASCES were already in existence in those regions, and were welcoming the cooperatives most interested in introducing common structures. The development of these federative structures has acted as a complement to or a replacement of functions already being carried out by cooperative groups.

This has not prevented specific associative structures from taking on a role in some ways comparable with the cooperative groups in the sense that, alongside institutional functions, they also incorporate rule-setting functions, services, etc., that bolster their entrepreneurial nature. Such is the case of some structures between *Sociedades Laborales*, e.g. ASLE in the Basque country and ANEL in Navarra.

THE ASLE CASE

Source: ASLE.

ASLE is the *Agrupación de Sociedades Laborales de Euskadi* (Basque grouping of *Sociedades Laborales*). It represents *Sociedades Laborales* in the Basque country.

restructure, etc. Instruments such as the pooling of results (*conversion of results*), common inter-cooperative funds, common management of unemployment, etc., are highly important instruments.

Services

The *Agrupación de Sociedades Laborales de Euskadi* provides a number of general services, among which are the following:

- Institutional representation
- Participation in institutions and public and private agencies and companies
- Agreements with financial institutions
- Agreements with other business organisations
- Legislative studies
- Industrial promotion
- Information on subsidies and aid programmes (industrial, economic and training-related)
- General information (circulars, the GATZA magazine, news, events and seminars).
- Legal advice
- Cooperation with Lanbide, the employment service of the Basque government
- Scholarship programmes
- Training
- Offices: the possibility of companies' using offices for their own business
- Personal attention: all the affiliated companies have access to all the technicians of the organisation for any consultation relating to their activities.

In a word, we can say that the function of institutional and entrepreneurial coverage, which, as we have mentioned, is essential for the future of worker-owned enterprises, is being developed, at times through cooperative groups and networks and at other times through associations and federations. Federations often gradually take on the provisions of business services and they manage to take on a role similar to that of cooperative groups in other contexts.

Furthermore, the need to overcome solitude on the market leads cooperatives and *sociedades laborales* to use mechanisms other than groups and federations that we could call, generically, cooperative networks, to the degree that they enjoy a degree of stability.

Ucomur

Resist together the economic crisis

Ucomur and Fecoam work for the creation of an inter-cooperative market.

La Verdad, 8 April 2009

One of the models for inter-cooperative relations, of which there are various examples in Spain, are the *social markets* that are formed in most cases thanks to organisations that bring together a specific type of company.

Murcia took the first step in this direction. The Ucomur and Fecoam associations laid the groundwork last December of the region's inter-cooperative market by signing an agreement designed to intensify as far as possible trade among the affiliated companies.

Another model for inter-cooperative relations that has expanded in Spain is that of companies coming together around a specific objective. This type of arrangement goes by three different names. The first is horizontal inter-cooperation, which is a group of entities devoted to the same activity in the same sector, for example, contracting of specific services or carrying out investments.

The second is vertical inter-cooperation, which happens when companies carrying out different activities in the same sector join their lines of work so that they cover production, processing, distribution, etc.

The third is inter-sectoral cooperation, which is when different sectors join forces, for example, to share warehouses.

Other cooperatives join together to obtain financing. The most obvious case that works very successfully is the Coop57, consisting of 28 entities. Its members take part by contributing a sum of money that is then used to finance social initiatives.

Apart from the legal formalities, there are also some very useful cooperative networks that share knowledge or areas. This format allows for much more flexibility in the individual character of each cooperative. The main objective is not internal growth, but rather to share.

GROUPS AND NETWORKS: GOOD PRACTICES

COOPERATIVES THAT HAVE JOINED FORCES

<http://www.focoop.com/cooperativismo/red-empresas>

- **AKOE EDUCACIÓ:** Nine teaching cooperatives in Valencia joined to develop together educational and entrepreneurial projects. www.akoe.org
- **COMUPA-HIPARÍA:** A second-degree cooperative, involved in complete cleaning and gardening services. These cooperatives joined together to carry out a common project in the Las Lagunas nature park.
- **COOP57:** Consisting mainly of entities from various economic sectors, its members contribute a sum of money that is then spent on financing initiatives. www.coop57.coop
- **GRUPO ASCES:** With its head office in Valencia, while its scope is state-wide, the member cooperatives are involved in different activities, although food-related activities predominate. www.grupoasces.com
- **GRUPO AVANZA:** This group is made up of 25 cooperatives, most of them located in Villena. <http://proyectoavanza.com>
- **GRUP CLADE:** This is the largest business cooperative group in Catalonia. It was founded at the end of 2004 and consists of the following cooperatives: Abacus, Suara (made up of other cooperatives), Escola Sant Gervasi, Grup Qualitat, Grup Cultura 03, La Fageda and Plana de Vic; and the following *Sociedades Laborales*: La Vola, Telescal and the Fundación Blanquerna. www.grupclade.com
- **GRUP CONSOP:** Created in 1998 and currently consisting of seven companies providing care services for children, young people, the elderly and families. www.consop.org
- **GRUPO EL YATE:** In addition to managing social and health resources, this group works on the implementation of technological innovation projects in this field and operates as a purchasing centre for the group's cooperatives. www.grupoelyate.com
- **GRUPO LA VELOZ:** Bicycle messenger services, legal advice bureau for the social economy and sales and promotion of bicycles. www.grupolaveloz.com
- **GRUPO NIÑOS:** Devoted to the educational management of nursery schools, it is made up of two other educational cooperatives: Florida and Grupo Sorolla, both with more than 25 years of experience in the sector.
- **LA MADEJA:** This is an area for relationships among entities, teams and professionals involved in social intervention. Even the premises are shared. www.lamadeja.net
- **LA TRAVIESA:** Established by eight cooperatives that exchange ideas and experiences and facilitate the creation of new companies via loans and advice. www.latraviesa.coop
- **MONDRAGON:** The outcome of the cooperative movement that started in 1956 in Mondragón, Guipúzcoa. Today it is the largest business group in the Basque country and the seventh largest in Spain; it is active in the industrial, financial and distribution

sectors. www.mondragoncorporation.com

- **NOVOCARE:** This is the first third-degree cooperative in Andalucía. At first it focused on the start-up and management of various residences throughout Andalucía. www.novocare.es
- **NTIC:** A second-degree cooperative consisting of two cooperatives in Malaga: *Andaluza de Informática* and *Nuvitel*, both devoted to providing IT services and with more than ten years' experience in the field. www.ntic.coop
- **SITE SERVICIOS COMUNITARIOS:** Devoted to early childhood education, management of canteen facilities and sports activities.
- **SUARA COOPERATIVA:** This cooperative rapidly became a giant in the field of dependent care; it is active more or less throughout Catalonia. www.suara.coop
- **TRASSA:** This group brings together three cooperatives; their leading services are health and social management, construction and development of urban planning, health and social consulting as well as the preparation of social integration projects. www.trassa.es

3. FINANCIAL INSTRUMENTS

The financing of company restructuring is an essential link in this type of process. As we will see, the particular nature of worker-owned enterprises in the area of finances requires a specific analysis.

At the root of the current financial crisis, accompanied by a fall in demand, is restricted credit that has been the second most immediate challenge that Spanish cooperatives and *sociedades laborales* have had to face.

In light of this situation, the instruments that the cooperative movement and the social economy are using to meet financing needs have taken on great importance, both to meet the traditional needs of worker-owned enterprises, that have now become more acute, and those that have emerged as a result of the crisis.

3.1. Credit cooperatives

The role of credit cooperatives and cooperative banks is well known. They have been used around the world specifically for financing cooperatives and for correcting the problems of cooperatives by means of access to the credit market.

Credit cooperatives in Spain appear, as a whole, to be in a better position vis-a-vis the crisis than savings banks and banks set up as public limited companies. The basic reason is that credit cooperatives have taken a smaller part in speculative investment and, consequently, a smaller part in the housing loan market.

In Spain, credit cooperatives were at their start agricultural credit cooperatives. The connection to worker cooperatives mainly arose through two entities that worked with cooperative groups: the *Caja Laboral* in the Basque country and *Caixa Cooperativa* in the Valencia autonomous community, in addition to Caja Mar, which brought together small rural cooperatives and local credit cooperatives.

The importance of *Caja Laboral* in the development of the Mondragón Group is well known. This role lost its relevance over time as a result of the growth of *Caja Laboral* and the diversification of financing sources of the cooperatives in the Corporación Mondragón. In any event, the example of cases such as *Caja Laboral* is very relevant as a historical reference of the role that financial instruments such as credit cooperatives can play in the development of cooperatives active in other fields.

3.2. Credit sections

Credit sections, or departments, in cooperatives are specialised in the financial management of cooperative members' resources, attracting deposits from members and granting them loans. These sections have had a big part in the development of Spanish agricultural cooperatives.

In recent decades, credit sections have been the target of some criticism from financial circles, leading to their increased control by bank supervisors or by regional or federal economics departments.

However, in recent years the conceptual foundation of this criticism has been undermined. The physical and conceptual proximity between the investors/depositors and the recipients of the investment is no longer routinely seen as a bad thing for the management of financial resources. Quite to the contrary. In this new context, credit sections, along with credit cooperatives, can be a very relevant instrument for leveraging the development of the large cooperatives, cooperative groups, etc.

3.3. Instruments for attracting net capital assets

While a few decades ago the fundamental challenge of cooperatives on the financial markets was to achieve adequate access to credit, for which purpose they used instruments such as credit cooperatives and credit sections, in recent decades the challenge has been access to the capital markets in order to attract net capital/asset resources.

In light of restrictions and difficulties stemming from the economic crisis on the capital and credit markets, the strategies of cooperatives and *sociedades laborales* to penetrate the fixed capital market have been a highly topical subject.

The strategies to gain access to the capital markets feature two main goals:

- a) Access to open capital markets via organised markets;
- b) Access to the local market of members and the local environment.

Given the social and economic characteristics of cooperatives, it is very possible that in the medium-term the cooperatives' own environment and their local area will arouse greater interest for leveraging, over time, the development of cooperatives.

Nevertheless, efforts to attract capital on the organised market usually generate a great deal of media and doctrinal attention.

In that connection, the following two strategies should be highlighted:

- a) The adaptation of cooperative legislation to allow and facilitate this type of operation.
- b) Specific experiences in issuing capital instruments by cooperatives or specific groups.

Legal regulation of capital funding

The legal regulation of capital funding in Spain has pursued two main goals:

- a) Regulation of specific financial instruments, designed to facilitate the funding of capital resources.
- b) The clarification of the legal viability relating to the use that cooperatives make of various financial and legal instruments for capital funding.

This latter goal has been furthered through various regulations that have established the following:

- a) The ability of cooperatives to use any type of financial instrument, barring regulatory provisions stipulating the contrary. Such regulations usually limit the issue of shares with voting rights.
- b) Specific provisions that empower cooperatives to formalise the raising of capital using contractual legal instruments such as bonds, contracts of joint ventures, etc.

The regulation of financial instruments that are specifically used for the raising of capital has been a controversial strategy. In the absence of a sufficiently systematic analysis, the various national and regional legislations have been introducing casuistic regulations for specific financial instruments with excessively specific conditions. These cases have had little impact on cooperative practices.

On the other side of the coin, there has been a parallel systematic analysis that has led to the legal regulation of sufficiently generic financial instruments that have defined regulatory limits based on a systematic and not a casuistic analysis.

By way of conclusion to this doctrinal and legislative work, there are two cases in point that, from a systematic standpoint, should be noted:

- a) Participations with voting rights in the combined cooperatives
- b) The cases of capital considered to be special participations by the general cooperative law (called subordinated financial contributions in the Basque cooperative law).

Participations with voting rights in combined cooperatives are of major interest because they provide for the raising of capital with voting rights, the rights and obligations of which are defined in a way equivalent to those of holders of shares and capital participations.⁷⁵ The difference is that, with the aim of making this scenario compatible with the cooperative nature of the entity, the combination of voting rights and profit-sharing attributed to these shareholders is defined in

⁷⁵ Section 3 of the cited article 107 of the general cooperative law sets down the following: *“In the case of shares with voting rights, the holders’ rights and obligations and the regime of contributions shall be regulated by the Statutes and, as a substitute, the legislation on public limited companies with capital shares.”*

the Statutes and may not be greater than 49% of the total.

3.4. Special participations

For regulatory purposes, the contribution of capital without voting rights is called special contribution.

Following is the regulation of this figure in the general cooperative law:

“Article 53. Special participations

- 1. The statutes may provide for the possibility of collecting subordinated financial resources from members or third parties with a minimum due date of five years. When the due date of these participations falls after the approval of the liquidation of the cooperative, they will be considered share capital. Nevertheless, these resources may be repaid, at the discretion of the company, following the procedure established for capital reductions via reimbursement of contributions found in the legislation on public limited companies.*
- 2. These special participations may be freely transferred. Their issue in a series requires an agreement by the general meeting in which clauses shall be included for their issue and, where necessary, the fulfilment of the requirements established in stock market regulations.*
- 3. The provisions in the present article will be applicable to credit unions and insurance cooperatives only when their regulatory provisions expressly stipulate their application; they will be able to collect subordinated resources with the prior agreement of the executive council, regardless of the instrumentation, and provided that such a possibility is expressly provided in the statutes.”*

This is an example of capital without voting rights, regulated in generic terms. The option of the due date prior to liquidation did not require legal regulation because the subordinated contributions may be used for the same purpose.

This arrangement is equivalent to what at times is called, in regional legislation, “special participations” and, in Basque legislation, “subordinated financial

contributions”.⁷⁶

The regulatory challenges of this arrangement have evolved over time. In the first phase, the aim was mainly to clarify its use by cooperatives and the conditions under which it qualified as capital.

Once the new regulations, based on the International Financial Reporting Standards (IFRS), entered into force, the main concern shifted from the concept of capital to the concept of net assets. The basic concern of issuing enterprises is to ensure that issues of special participations qualify as net assets and not as receivables. However, this is an issue that is being resolved more in the accountancy sector than in cooperative legislation.

3.5. Raising capital without voting rights

Cooperatives that have carried out issues of capital without voting rights are deemed cases of good practice.

There are two scenarios:

- a) Locally targeted issues: members, cooperatives in the same group, etc. There have been many such issues, both in specific cooperatives and in cooperative groups. The inter-cooperative funds of the Mondragón corporation are channelled through these issues.
- b) Organised market issues. So far, two cooperatives have issued special participations on organised markets: Eroski, S. Coop. and Fagor Electrodomésticos, S. Coop. In both cases, the issues were quoted on the fixed-income market of the Madrid stock exchange.

The financial difficulties caused by the crisis on the credit market have once again brought to the fore the problems posed in cooperatives by the difficult access to the market for raising and accumulating capital.

In spite of the relevance of experiences already established, the overall results

⁷⁶ Given the fact that it has been more developed through regulatory provisions, the regulation established on this subject in section 5 of article 57 (Share Capital) of the Basque legislation for “subordinated financial contributions” may be of great interest. In order to clarify certain specific aspects of this regulation’s practical application, it was included in the 2005 Regulation.

of raising capital without voting rights have so far been rather modest.

There are two basic challenges standing in the way to a significant expansion of these financial instruments:

- a) The use of these arrangements as an instrument to channel compulsory contributions from the members.
- b) The expansion of these capital arrangements without voting rights to areas close to the issuing cooperative, such as members, members' families, the local area, etc.

These two challenges may be directly associated, in the sense that if one is energised, it will open the door to an expansion of the arrangement in the second area presented as a challenge.

In our opinion, and from the standpoint of the practical application of theoretical and regulatory advances in this area, the fundamental challenges raised here for Spanish cooperatives are:

- a) To give impetus to the use of capital without voting rights defined in the regulations as instruments for channel the members' compulsory contributions and transferrable to third parties.⁷⁷
- b) To achieve in this way, or through open issues, the creation of a cooperative capital market without voting rights in local areas close to the issuing cooperative (members, family, local environment).

⁷⁷ Moreover, various proposals for legislative reform have raised the idea of allowing a share of the cooperatives' compulsory contributions to reserve funds to be replaced by compulsory contributions to transferrable capital funds, thereby making long-term capitalisation compatible with the creation of a financial market in the local area through contributions from members that are transferrable to third parties.



Chapter 3

France: an Endeavour in Enterprise Transformation

By François Soulage

Introduction

In France, worker cooperatives are governed by specific legislation which partially constitutes an exception to the general status of employee. For example, they benefit from tax incentives for their development.

However, since from the outset there has been a lack of a strong commitment on the part of the trade-union movement due to the French tradition of demands-oriented trade unionism, French worker cooperatives (known in France as “SCOP”) have not developed in the same way as in the other two countries covered by our survey, namely Italy and Spain.

In order to better define the role of worker cooperatives in the creation or development of enterprises, and to assess their resilience, we have confined our observation to the last twenty years.

1. DATA ON WORKER COOPERATIVES IN FRANCE FROM 1989 TO 2009

1.1. General statistical framework

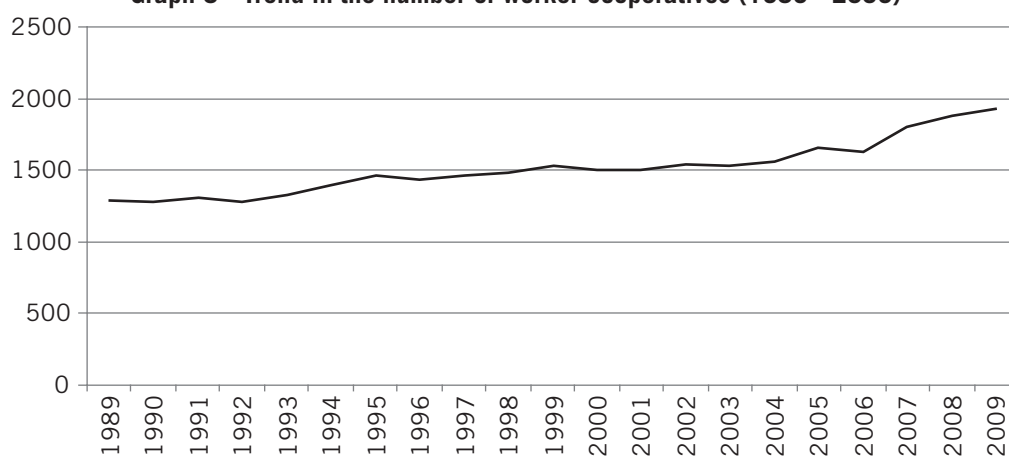
The table below shows the trend in the number of worker cooperatives affiliated to CGSCOP (the vast majority of French worker cooperatives) and the number of their employees over 20 years (1989-2009):

Table 29 - Number of cooperatives and workers (1989-2009)

| Year | Number of cooperatives | Number of workers |
|------|------------------------|-------------------|
| 2009 | 1927 | 40,595 |
| 2008 | 1884 | 41,832 |
| 2007 | 1806 | 40,112 |
| 2006 | 1628 | 36,881 |
| 2005 | 1654 | 36,699 |
| 2004 | 1563 | 35,397 |
| 2003 | 1535 | 34,954 |
| 2002 | 1536 | 34,568 |
| 2001 | 1505 | 33,535 |
| 2000 | 1498 | 32,464 |
| 1999 | 1530 | 31,200 |
| 1998 | 1481 | 30,154 |
| 1997 | 1459 | 29,449 |
| 1996 | 1437 | 28,964 |
| 1995 | 1460 | 29,806 |
| 1994 | 1392 | 28,691 |
| 1993 | 1332 | 28,805 |
| 1992 | 1275 | 29,719 |
| 1991 | 1309 | 31,794 |
| 1990 | 1275 | 31,718 |
| 1989 | 1289 | 30,868 |

Source: CGSCOP

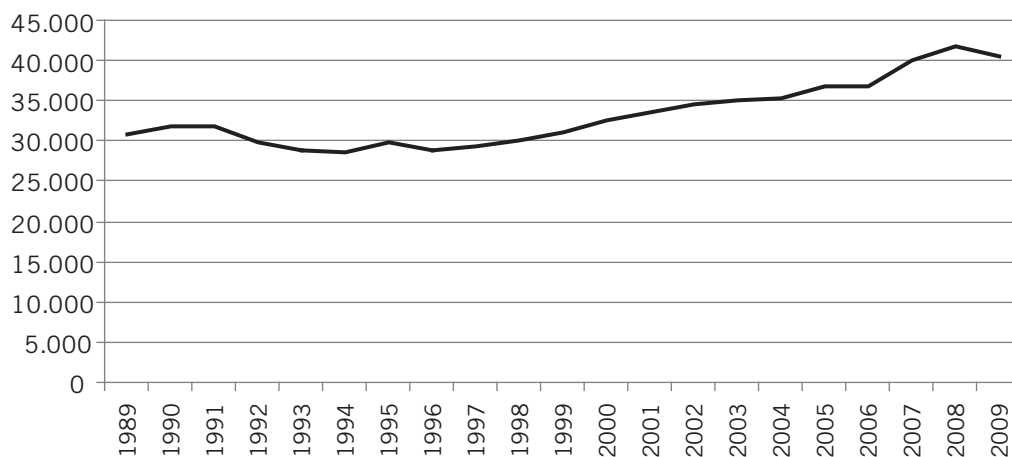
Graph 8 - Trend in the number of worker cooperatives (1989 - 2009)



Source: CGSCOP

Net growth of the number of cooperatives was 49% during this period, which is an average growth rate of 2.5% per year. In 2009, in the middle of the crisis, this growth rate was only slightly lower (2.2%).

Graph 9 - Trend in the number of workers in worker cooperatives (1989 - 2009)



Source: CGSCOP

Employment growth in worker cooperatives was 32% in 20 years, which is an average of 1.6% per year. Growth was steady except in 1991-1992 (down by 2.6% in 1992 compared with 1991) and in 2009 (3% down compared with 2008).

1.2. Creation and “mortality” of worker cooperative enterprises from 1989 to 2010

3,451 worker cooperatives (SCOP) were created between 1989 and 2010.

In 2010, 1,583 were still in existence and 1,868 had gone out of business, which is a survival rate of 46%.

- 77% were created ex-nihilo;
- 12% were transfers of sound companies;
- 9% were resuscitations of ailing businesses;
- 2% were transformations of associations.

The survival rates by type were as follows:

- Creations ex-nihilo: 42%.
- Transfers: 62%.
- Resuscitations: 49%.

In terms of sectors:

- The construction industry accounts for 19% of total creations during the period, with a survival rate of 39%.
- Manufacturing industry accounts for 14%, with a survival rate of close to 45%.
- Scientific and technological activities account for 21%, with a survival rate of 59%, the highest of the major sectors.

1.3. Analysis by reasons for formation

The reasons for forming cooperatives have changed.

In 1989, resuscitations of ailing businesses accounted for 14% of the total number of enterprises created. They accounted for only 6% over the period.

In contrast, transfers of sound companies increased from 12% to 16% and ex-nihilo formations from 74% to 78%.

Table 30 - Formation of enterprises by reasons for formation

| PERIODS | TOTAL | | | EX-NIHILLO | | | TRANSFER | | | RESUSCITATION | | | TRANSFORMATION OF ASSOCIATIONS | |
|-------------|-------------|---------|------------------------|-------------|---------|---------|-------------|---------|---------|---------------|---------|---------|--------------------------------|---------|
| | Enterprises | Workers | Average no. of workers | Enterprises | Workers | Average | Enterprises | Workers | Average | Enterprises | Workers | Average | Enterprises | Workers |
| 1990 / 1994 | 691 | 4576 | 6.6 | 551 | 2244 | 4.1 | 63 | 1 250 | 19.8 | 77 | 1082 | 14.1 | 0 | 0 |
| 1995 / 1999 | 841 | 7 181 | 8.5 | 662 | 2701 | 4.1 | 89 | 3 004 | 33.8 | 89 | 1406 | 15.8 | 1 | 70 |
| 2000 / 2004 | 661 | 5247 | 7.9 | 533 | 2480 | 4.7 | 68 | 1610 | 23.7 | 58 | 1094 | 18.9 | 2 | 63 |
| 2005 / 2009 | 920 | 6196 | 6.7 | 671 | 2246 | 3.3 | 148 | 2168 | 14.6 | 55 | 1192 | 21.7 | 46 | 590 |

Source: CGSCOP

The number of formations varies greatly from one period to another and appears to be related to a policy of the General Confederation of worker cooperatives (CGSCOP) rather than to external factors. We note, however, that over the period 1995/1999, the increase was significant, due undoubtedly to the French government's policy in favour of business creation during a period of steady growth of the economy.

From 2005 to 2009, the very strong increase in the number of transformations of sound companies into cooperatives concerned increasingly small enterprises. It is a trend that has been accentuated over the years. Conversely, resuscitations of enterprises in crisis, though fewer in number, concern a medium number of workers, even though that number is growing.

1.4. Survival of the enterprises

This table indicates, by period and type of formation, the survival rate in late 2009, of the enterprises created during the period under consideration. One can note the greater soundness of cooperative enterprises created by way of a transformation of sound companies.

Table 31 - Survival of cooperatives

| Periods | Ex-Nihilo | | Transformation | | Resuscitation | |
|-----------|-----------|---------------|----------------|---------------|---------------|---------------|
| | Number | Survival rate | Number | Survival rate | Number | Survival rate |
| 1990/1994 | 551 | 18% | 63 | 37% | 77 | 27% |
| 1995/1999 | 662 | 29% | 89 | 53% | 89 | 53% |
| 2000/2004 | 533 | 55% | 68 | 63% | 58 | 57% |
| 2005/2009 | 671 | 81% | 148 | 89% | 55 | 84% |

Source: CGSCOP

1.5. Analysis by business sector

Resuscitations were most numerous in the sectors of manufacturing industries, information and communication, transportation and construction.

Ex-nihilo formations were most numerous in the scientific and technological activities sectors.

Since 2000, the latter sector has exceeded construction, whereas in 1994 it was the converse.

Manufacturing industry remains at 15%.

The Information and Communication sector is strongly up.

Table 32 - Formations by business sector

| Periods | Construction | Industry | Information and communication | Transportation | Scientific and technological activities | Real estate | Services | Commerce |
|-----------|--------------|----------|-------------------------------|----------------|---|-------------|----------|----------|
| 1989/1994 | 163 | 106 | 32 | 19 | 87 | 2 | 20 | 47 |
| 1995/1999 | 207 | 149 | 46 | 34 | 174 | 4 | 39 | 88 |
| 2000/2004 | 124 | 106 | 49 | 20 | 173 | 2 | 48 | 54 |
| 2005/2009 | 148 | 141 | 80 | 14 | 242 | 5 | 68 | 83 |

Source: CGSCOP

Analysis of this table highlights the changes facing the world of worker cooperatives. The traditional sector of development was construction and more generally all activities related to building/public works. The share of this sector is constantly declining. It was the one in which there were the most resuscitations.

The real-estate crisis since 2007 also explains why the survival rate is so low. The companies that survive and expand invariably belong to related sectors such as rural electrification, interior works in the building trade and interior fittings. But the major construction cooperatives have almost all disappeared.

Conversely, the sector of scientific and technological activities is constantly expanding. Invariably they are ex-nihilo formations, which explains the increase in this type of formation. But they are small units, which is the reason for the steady decline in the workforce per enterprise formed.

Although there were fewer resuscitations as a proportion of the total number of formations, their average size has increased, posing new problems for the financing of takeovers and the maintenance of long-term jobs. The survival rate of resuscitations is substantially lower than that of transfers, which led the

General Confederation of worker cooperatives to change its policy in the period 2000/2004. This probably explains why the activity figures of this period are lower than those of the previous and subsequent periods.

1.6. Changing profile of the jobs created

When they were created, the enterprises had 23,200 employees during the period under consideration, from 1990 to 2009.

However, in 2010 the enterprises that were still in existence originally had 11,948 employees and today they number 19,454, which represents a 63% increase.

But this development is very varied.

The construction industry has a survival rate of only 41%, but the remaining businesses appear to be in good shape and have created jobs. These enterprises employed 68% of the number of workers at the time of establishment.

Manufacturing industry suffered more since the sector has kept only 64% of the jobs present at the time of establishment.

Scientific and technological activities, with an enterprise survival rate of 59%, account for 183% of the jobs present at the time of establishment. This is the most dynamic sector of French worker cooperatives.

Table 33 - Trend in employment.

| Periods | EX-NIHILO | | | TRANSFER | | | RESUSCITATION | | |
|-----------|------------------------|--|-------------------|------------------------|--|-------------------|------------------------|--|-------------------|
| | Employees when created | Workforce at time surviving businesses were formed | Current workforce | Employees when created | Workforce at time surviving businesses were formed | Current workforce | Employees when created | Workforce at time surviving businesses were formed | Current workforce |
| 1990/1994 | 2244 | 406 | 873 | 1250 | 635 | 512 | 1082 | 403 | 759 |
| 1995/1999 | 2701 | 688 | 1691 | 3004 | 1898 | 2358 | 1406 | 662 | 922 |
| 2000/2004 | 2480 | 1047 | 4483 | 1610 | 1085 | 1435 | 1094 | 501 | 613 |
| 2005/2009 | 2246 | 1580 | 2405 | 2168 | 1628 | 1949 | 1192 | 694 | 757 |

Source: CGSCOP

It is ex-nihilo formations that have the greatest job creation potential. Although many enterprises have gone out of business, those that remain have experienced a very strong increase in jobs, but it is not sufficient for them to regain their initial workforce.

Transformations and resuscitations have by no means succeeded in maintaining the initial numbers of jobs. But it must be remembered that it is a matter here of saving jobs that otherwise would have been lost owing to the situation of the enterprise that was taken over.

2. LEGAL PROVISIONS FOR THE FUNDING OF COOPERATIVES

2.1. Provision of equity capital by common-law measures adapted to cooperatives

Subscription to the capital of cooperatives benefits from all the common-law provisions that exist under French law. But in several cases there are derogations which favour subscription to cooperatives' capital.

In some cases subscription to participation certificates benefits from the same measures.

- Any subscription to the capital of an SME (as per the European definition of the term, which is less than 250 employees and a turnover of less than 50 million) benefits from a tax reduction of 20% of the subscription amount on the tax on profits. Subscription to the capital of a cooperative benefits from this provision if it meets the SME criterion. Thus cooperative members can benefit from it on direct subscriptions.
- The second measure is connected with the solidarity tax on wealth, known as "ISF". Subscription to the capital of an SME and the cooperatives that are part of this category allows one to deduct 75% of the amount of this subscription from the sums due in respect of this tax. A person is currently liable for the ISF tax as soon as his/her wealth exceeds 790,000 euros. This possibility has also been made available for subscription to the capital of instruments specializing in the subscription of SMEs' capital. For cooperatives, the benefit of this measure is exclusively for cooperative members and

few of them are currently liable for the ISF tax.

- The third measure is connected with the existence of profit-sharing. Profit-sharing is the payout of a share of the enterprise's earnings to its workers. It is totally linked to the existence of a profit for the enterprise. The amount of this share of profits is entirely deductible from the tax base applied for the tax on profits. If the amount received by the worker is frozen for five years on an account of the enterprise or through an investment fund, this sum is also non-taxable.
- Moreover, all enterprises benefit, to the tune of an amount equal to 25% of the share of profits distributed, upon establishment and excluding tax, from a special profit-sharing reserve which has to be used for an investment within five years. In the case of cooperatives, the amount of this special profit-sharing reserve is equal to 100% of the amount of the share of profits.
- When the workers deposit the funds from their share of profits in mutual investment funds known as "FCPE entreprise", these savings benefit from an additional payment made by the enterprises, called a "supplementary payment", which for enterprises benefits from a strong tax incentive. Thus a cooperative may reduce or even cancel out its taxable earnings by means of the share of profits paid out, by the allocation of funds to the special investment reserve or by the supplementary payment.
- The fourth measure is the incentive payment. It is not linked to the enterprise's results but is deemed to be an additional income paid out to the workers. For the company, this incentive payment is exempt from corporation tax and, for the worker, it is also exempt from income tax paid by natural persons if this incentive payment is frozen for five years. In practice, worker cooperatives propose to keep these sums within the enterprise for this duration. No supplementary payment is made in connection with the incentive payment but if these sums are paid into a mutual fund, the supplementary payment is possible.
- The fifth measure is salary-related savings and in particular the solidarity salary savings scheme introduced in French law in 1998 in order to encourage the channelling of these savings made by the employees of companies of any status, but mainly of large companies, to companies of the social economy. On the one hand, they are resources coming from incentive payments and profit sharing, and on the other from voluntary deposits which are invested in mutual funds and which may also benefit from a supplementary payment as explained above.

When the funds are deposited in solidarity mutual funds intended for the social economy, the tax break available to the enterprises is increased compared with conventional investment funds. This form of savings must, as for profit sharing, be kept frozen for five years in order to benefit from these tax breaks.

Limits of these equity raising measures

Cooperative enterprises may form, internally, equity capital which is different from the external capital authorized by the laws of 1983 and 1992. But these contributions are reimbursable. The sums of the share of profits frozen in the enterprise are frozen only for a period of five years, at the end of which the employee may request that they be paid out. This renders the cooperatives' financing system more fragile.

2.2. The new possibilities opened up by the laws on cooperatives of 1983 and 1992

Until the law of January 3, 1983, there were hardly any instruments – other than shares and convertible bonds – for providing cooperatives with equity, apart from the formation of their indivisible reserves.

This law, and subsequently that of July 13, 1992, endeavoured to come up with new solutions by putting in place a series of instruments intended to allow cooperatives to procure the necessary equity from both outside investors and members of the cooperative without the latter being subjected to the constraints of membership.

But in order to increase their equity capital, cooperatives need to overcome a number of obstacles that result notably from their specific modes of governance, viz. power-sharing: one person = one vote, limited remuneration of the capital, reinvestment of surpluses and the existence of indivisible reserves, which leads to individual non-appropriation of the assets generating capital appreciation. The shares of a cooperative's capital benefit from low or non-existent remuneration, reimbursement of the shares is at face value, which however is compensated by the collection of a discount or, in the case of worker cooperatives, of additional remuneration in the form of the labour share (distribution based on work).

The traditional mechanisms for raising equity capital - subscribing to shares and allocating profits to reserves - had become inadequate. The first stage was therefore to encourage the existence of specific financing instruments for the social economy, in particular instruments capable of investing in the acquisition of participation certificates created by the law of January 3, 1983. This marked the creation of IDES – which will be described in detail below. Other instruments were created as the different laws on cooperatives were adopted: the cooperative certificate, the member's cooperative certificate, shares with special benefits and shares with a priority dividend.

As was mentioned above, the public authorities have created numerous instruments for raising equity or quasi-equity, but such equity has some very specific characteristics which need to be detailed.

2.2.1. The participation certificate

The participation certificate was created by the French savings development law dated January 3, 1983. Its creation was initially envisaged for public enterprises at the end of the period of nationalizations. Action had to be taken to ensure that enterprises which could not raise funds on the financial markets by issuing equity securities should be able to have a special financial security adapted to their specific legal characteristics. The cooperatives satisfied this definition and they therefore had access to this new product.

The participation certificate is a transferable security

As such, it is subscribed mainly by financial investors in the social economy, in particular through an entity created for this purpose – IDES – but it may legally be subscribed by any natural person or corporate entity. It does not give its holder any voting right or any right to the net assets, but by way of compensation holders benefit from a minimum fixed remuneration and a variable additional amount indexed to the enterprise's results. Finally, when any reimbursements are made, the subscriber may demand, in the subscription contract, a price higher than the face value of the certificate, based on the returns previously earned on those certificates. This increases the rate of remuneration obtained by the subscriber to the participation certificates.

Mediocre results from using the participation certificate

Today, 30 years after the participation certificate was created, the result is positive in that a financial instrument specializing in subscription to this certificate has existed in France. On the other hand, it has not been possible to mobilize investors, except very marginally. Yet the internal rate of return earned by successful operations should be able to interest investors looking for a steady return. It is clear that one of the reasons for the success has been the existence of IDES as a mutualization instrument allowing the risks of issuing certificates to be spread among several entities.

We can observe today that the participation certificate is used in three specific cases:

- When an enterprise has, in the past, earned a worthwhile return but has distributed most of its earnings in the form of profit-sharing, and has therefore not formed a sufficient amount of equity. The participation certificate is a way for a financially sound company to endow itself with equity.
- In the case of a company which has a strong expansion plan and is earning considerable rates of return. The participation certificate is then intended to supplement the contributions that the enterprise makes from its equity, but avoids the need to mobilize all of the latter in an expansion operation, in particular large investments for which financiers require a substantial proportion of equity capital.
- The third reason for using the participation certificate is probably the most interesting one. It involves contributing to a cooperative enterprise engaged in an external growth operation the equity capital it requires in order to avoid the always-dangerous recourse to high indebtedness. It should be recalled that the participation certificate does not constitute debt in the sense that the subscriber cannot obtain its reimbursement. It is therefore important for the acquiring cooperative, in the case of external growth, to have genuine equity capital at its disposal and not borrowed funds, so as to be able to take the risks involved in growth.

Limits of using the participation certificate

In view of its special characteristic of limited remuneration, the participation certificate is not a good risk-taking instrument. This is because risk-taking requires being able to generate high capital gains when a business is successful

in order to be able to offset losses in the event of failure. The participation certificate is therefore not a good instrument for developing the formation of enterprises. On the other hand, it proves extremely worthwhile and useful for financing external growth or fast expansion of an enterprise once the market outlook is satisfactory.

Owing to the limits of the participation certificate, we cannot neglect the solutions for having an enterprise taken over by a cooperative in the form of a conventional joint-stock company, with the target being transformed into a cooperative only at the end of a limited period of time. This takeover scheme is described in section 4 below.

Participation certificates have the characteristics of equity capital

In order to qualify as equity capital, which is indispensable in view of accounting regulations, and to allow the financiers to be able to classify this investment security in known categories, the participation certificate has the characteristic of equity capital in that the subscriber may not demand that it be reimbursed. Reimbursement is possible only at the issuer's initiative and after a minimum period of seven years. Like any transferable security, this certificate is freely transferable and can be traded on the markets.

The existence in the case of the participation certificate of a minimum fixed remuneration and an indexed variable additional amount may allow a sufficient rate of return to be earned. The indexing chosen may not be the net profits or net income but an operating result indicator, which is defined when the issuing contract is concluded. It is invariably cash flow. It is essential that the details of the composition of this indicator be calculated each year.

Since participation certificates are equity capital, they benefit from the public guarantee for corporate equity capital, which is managed by OSEO, a public financial guarantee agency for the bank loans and financial assistance provided to enterprises. This guarantee is provided to specialized financial intermediaries and banks investing in corporate equity capital. However, and this is normal for venture capital, OSEO's guarantee is limited in time and amount and, above all, is geared to enterprise formation.

Rules for issuing the participation certificate

It is the general meeting of shareholders – or members in the case of a

cooperative – who decide to issue such a certificate. It is the same general meeting that decides on fixed remuneration and finally it is this general meeting which every year determines the sum of the variable additional amount indexed to an operating result indicator.

An interesting tax status

Under French law, remuneration of the participation certificate is treated in the same way as that of convertible bonds. In fiscal terms, it is the remuneration on a receivable. It is therefore an operating expense and not a dividend, within a limit identical to that of convertible bonds.

A high return

The participation certificate has proved it is worthwhile to use since today the reimbursements that take place at the issuer's initiative generate an internal, i.e. annual rate of return calculated at the time of reimbursement, of higher than 10% when the additional price stipulated in the contract is added to the rate paid every year, at the time of reimbursement.

The fixed remuneration, taking into account the risk taken, is fixed at the average rate of bonds plus a margin that varies between 1.5% and 3.5%. The variable additional amount indexed to the results of the enterprise adds about 3% once the cash flow has doubled. Finally, reimbursement is carried out with a bonus that is added to the nominal amount, according to the trend in cash flow, during the period for which the participation certificates are held.

2.2.2. The other “quasi-equity capital” certificates

The cooperative certificate

It is a transferable security with no voting rights but bestowing – and this is its original feature – a right to the net assets of the issuing enterprise in the proportion of the capital that it represents, but within a limit of 50% of the assets. Only the cooperative bank Crédit Agricole used it right away because it was the only player for which this right to the net assets could be guaranteed by the existence of a genuine market funded and driven by Crédit Agricole itself.

The associate member's cooperative certificate, created in 1992

This is a certificate without any voting right but also giving a right to the net assets. It is reserved for associate members only and has enabled the Caisse Nationale du Crédit Agricole (Crédit Agricole's central banking entity) to acquire 20% of the capital of the Regional *Caisses*.

Shares with special benefits, created in 1992

These shares, known as B shares, are reserved for exclusive use by members, who must therefore necessarily have subscribed to A shares. These B shares, the unit amount of which is significantly greater than that of ordinary shares, usually benefit from remuneration greater than that of the latter and, for example, account for a substantial portion of the total equity capital at Crédit Mutuel (another cooperative bank). The law has provided a legislative basis for a practice that already existed in the statutes.

Shares with a priority dividend

The same law of July 13, 1992 created shares with a priority dividend. These are shares with no voting right which can be subscribed or purchased by members who are not original cooperative members or by third parties who are not members and for whom the choice of subscribing to such shares is due to the fact that interest is the prime consideration and that when there are results, the holders of these shares are initially entitled to a guaranteed minimum amount. These shares have hardly been used.

Revaluation of shares

The law of 1992 created the possibility, for cooperatives, to revalue shares by partial incorporation of the reserves up to a limit of 50% of the current reserves in the first year and 50% of the annual results thereafter. Hardly any use has been made of this possibility.

Involvement of outside capital. External members

The law of 1992 opened up cooperatives' capital to outside investors. These investors are not users of the cooperative and they have the possibility of becoming members with a voting right proportional to the capital held within

the limit of 35% of the total voting rights even if they may hold 49% of the capital; this means that they have the possibility of holding the blocking minority, which enables them to ensure that no modification be made to the statutes without their consent in the cooperative in which they have invested.

We should note that, in order to encourage the inflow of equity capital from other cooperatives, the law of 1992 has raised to 49% the limit on holding capital and voting rights when an investor is a cooperative, the idea being to allow genuine cooperative groups to be formed. This has made it possible, according to the conventional parent/subsidiary model, to form groups between cooperatives. Finally, there is still the possibility for a worker cooperative to hold the majority of the voting rights in another worker cooperative for 10 years. In fact, two articles of two different laws allow for such an organization.

- Article 25 of the law of 1978 allows a parent worker cooperative to hold more than 50% of the votes in the subsidiary for 10 years. It provides for collective representation of the parent's associate members in the subsidiary by giving the parent as many votes in the subsidiary as it has worker-members, but the law limits this possibility to take account of the principle laid down in article 1 of the law of 1978 (worker cooperatives are managed by their worker-members) by reducing, if necessary, the parent's votes in the subsidiary to the number of the subsidiary's worker-members. Thus one can see that, after 10 years, the parent may hold up to 50% of the subsidiary's votes.
- New Article 3a of the law of 1947 modified by the law of 1992 introduces to cooperative systems the possibility of giving investor members votes that are proportional to their capital. But in order to comply with the principle of article 1 of the law of 1978, the percentage of votes at a general meeting is limited to 35% if they are conventional investors and to a maximum of 49% for a parent cooperative. However, it is planned that in the specific case of worker cooperatives, if more than 50% of a SCOP's capital is held by non-worker-members, the regime of article 25 will apply (more than 50% of the subsidiary's capital for 10 years).

Furthermore, article 3a has allowed the intervention of outside members with a proportional vote to be opened up fairly broadly since the previous restrictive conditions have been abolished, which enables a parent worker cooperative to intervene in a subsidiary worker cooperative as soon as it is created, which was previously impossible.

It should be noted that this 35% limit, which bestows the blocking minority, whereas the remaining 65% are held by a large number of members, potentially gives power to the outside investor. This has been seen in several cases of newspaper publishers in the form of production cooperatives where the publisher very quickly became in control of the decisions.

3. INSTRUMENTS FOR FINANCING COOPERATIVES' EQUITY AND QUASI- EQUITY

3.1. Equity originating from the cooperative movement

In order to be able to make optimal use of all these instruments, the General Confederation of worker cooperatives (CGSCOP) has endowed itself with instruments of its own.

SOCODEN is the main internal financing instrument for the worker cooperatives' movement, and is financed by the cooperatives' contributions. It has also developed a system of personal lending to cooperatives' members to boost share subscriptions, that is, by means of this personal loan the cooperatives' members anticipate the amounts they will have to contribute each year to the capital by virtue of the provisions of the statutes specific to cooperatives. The loans are granted by the cooperative bank Crédit Coopératif.

In order to reinforce and supplement the resources at its disposal, the cooperative movement has had to create, with the assistance of close financial partners, a diversified range of instruments to meet the principal long-term financing requirements. The entities SOFISCOP West and SOFISCOP South-east are regional guarantee societies established with the support of Crédit Coopératif, which carry out about 100 operations a year. SOCODEN intervenes quite regularly in conjunction with the society SPOT, which was established jointly by the General Confederation of worker cooperatives and the ESFIN Group in order to be able to inject equity capital into small businesses.

The society SPOT intervenes mainly in participation certificates as a complement to other structures such as France Active which, like SPOT, are endowed with internal or solidarity capital that can accept a very low rate of return. SPOT

intervenes mainly for small amounts, where it is more difficult for IDES to intervene in view of its operating costs and capital structure.

The specific characteristic of SPOT is mainly to handle operations involving the takeover and transformation of enterprises into worker cooperatives, in which we are primarily interested in the context of this survey.

3.2. An instrument for subscribing to participation certificates: the Institute for the Development of the Social Economy (IDES)

The founding of IDES

The Institute for Development of the Social Economy was established in France in order to allow for subscription to the participation certificates. In order to make it possible to launch the participation certificate on the market, it appeared to be necessary at the same time to mobilize capital intended mainly for subscribing to participation certificates. Thus IDES was formed on March 10, 1983 in an original approach, since it brings together the main financial institutions of the social economy: cooperative banks, mutual insurance companies, cooperative federations and mutual health insurance organizations, in addition to the State. IDES thus forms part of a system of resource mutualization, as its shareholders do not expect substantial returns from it but sound and balanced management that enables it to generate the resources needed to continue its activity in view of the characteristics of its products. When it was first established, IDES was endowed with a capital of € 9 million, which was then increased to 15 million and then to 30 million in 2002 and is currently undergoing a new capital increase.

According to its statutes, IDES has had two missions since it was founded:

- To provide equity capital to the enterprises of the social economy or to their subsidiaries in the form of participation certificates or convertible bonds.
- At the request of the State, to perform public-interest missions aimed at creating situations that foster the development of the social economy sector and at facilitating enterprises' access to new markets.

Hence the State has always kept a percentage of around 26%, with the remainder of the capital being held either by State agencies (10% by the Caisse des Dépôts et Consignations), or by the social economy's institutions with a

financial mission (cooperative banks and mutual insurance companies).

The role of IDES in providing equity capital

Traditional venture conventional companies seek above all to increase the value of the capital they invest in a company. Consequently they are reluctant to invest in social economy enterprises in which, by design, this objective cannot be achieved.

IDES is the only venture company capable of acting at high levels of equity in the social economy and of subscribing to participation certificates or convertible bonds.

IDES's interventions

In the course of 27 years of work in favour of the social economy, IDES has invested € 59.95 million in 403 enterprises in this sector, 280 of which are worker cooperatives.

As at December 31, 2009, it was a stakeholder in 105 enterprises with stakes worth a net € 20,438,000 euros. Furthermore the partners SOFICATRA and SPOT are committed alongside IDES to the tune of € 3.8 million in a dozen operations.

The average amount of IDES's investments in worker cooperatives is still lower than € 200,000. It is higher for retailers' cooperatives or networks such as BIOCOOP. The exceptions concern external growth operations for which the requirements can be as high as € 1 million, but they are few in number.

In half of its actions, IDES finances the expansion operations of enterprises. 40% of its ongoing investments go to more risky operations involving the formation, restructuring and takeover of enterprises. Lastly, 8% of its ongoing investments concern operations involving the passing on of enterprises to a successor.

3.3. The instruments created by IDES

SOFINEI

This company was founded in 2005 in order to be able to utilize the provisions fostering investment in the social economy. It is intended to finance work

integration enterprises, which, in France (differently from Italy), are generally not cooperatives, but whose operating principles are very similar. Its resources come from a public call for savings. SOFINEI, like IDES, allows the risks to be mutualized.

COOPEST

COOPEST is a development fund for countries that have just joined the European Union or which are preparing to do so shortly. It was founded in Brussels in October 2005. As a *Société anonyme d'investissement* organized under Belgian law, it is aimed at central and eastern European countries.

The cooperatives, mutual insurance companies, associations, foundations and other enterprises of the social economy in these countries are having difficulty in obtaining long-term private and public capital owing to the fragile nature of their financial structure. COOPEST's mission is therefore to provide them with long-term financial support, in particular in the form of subordinated loans, which are similar to equity capital.

COOPEST has €30 million at its disposal. Its current investments are mainly directed towards professional microcredit institutions whose vocation is to support small projects in under-developed regions of the countries that joined the European Union in the first decade of this millennium or those that are currently involved in an accession process.

SICOOP: A CATALAN IDES

SICOOP is an investment company investing in cooperative growth projects. Its head office is in Barcelona. It invests in enterprise development and creation projects in the social economy in Catalonia in all sectors, except for real estate and finance. It intervenes, preferably for five-year durations, with amounts ranging between € 300,000 and € 1,500,000, with stakes that cannot exceed 50%, totalling almost € 3.4 million for three enterprises.

3.4. Access to guarantees

As far as guarantees are concerned, the cooperative movement effectively has, through SOFISCOPE, a guarantee instrument, in particular for Crédit Coopératif, but the amounts are relatively low. On the other hand, all bank loans extended to cooperatives can benefit from the same guarantee as loans granted to all

enterprises through “SOFARIS”, a French risk insurance company which is a public instrument that provides its guarantee to all lenders and, under limited conditions, to capital providers.

4. GROWTH, ANTICIPATING CHANGE AND SURVIVAL OF THE ENTERPRISE

For company heads, passing on their company to the next generation is a constant concern. Numerous financiers are taking an interest in this market which, prior to the 2007 crisis, appeared to be an Eldorado with good prospects of a very substantial financial return. In this climate, passing on a company in the form of a cooperative appeared to be a little-used alternative. Yet an analysis of the figures for the durability of these successions, as set out in the first part, is a reason for optimism if they are compared with the results obtained for conventional successions.

4.1. Transfer of a company without a successor

Some viable companies experience a considerable problem owing to the absence of a successor to take over their management. Under these conditions, the hypothetical possibility of converting the company into a cooperative is envisaged in order to be able to ensure this succession.

4.1.1. Why sell the company?

- The present or potential heirs of the company feel that it is in their interests to sell the company at a high price in order to be able to obtain a result in terms of their inheritance.
- The head of the company himself wishes to enhance the value of his assets and thinks that by selling the company he will benefit more from it. The whole question is to know in what case such a succession phenomenon can lead to the creation of a cooperative.

4.1.2. Why choose to create a cooperative to ensure the transfer?

We think that three main reasons can be highlighted:

- The first is that if the company head wishes to sell his business at the market price, he may think that by selling it to persons who know it well he will be able to obtain the desired price for it. This version is connected with the fact that today, after having experienced an extremely positive period, the takeover of companies in the form of leveraged buyouts (LBO) no longer makes it possible to obtain high valuations in view of the outlook for economic activity. This is because the banks are proving to have more and more reservations about LBOs, both on account of too-high valuation levels and an excessive amount of debt. Moreover, the arrival of new senior executives within a company that has been the target of an LBO has not proved very positive.
- The other possibility is that the company *per se* does not have a high value in the absence of its founder and that maintenance of its value depends on the buyer's ability to retain the know-how and markets and, in certain cases, only the employees can ensure that this value is maintained.
- A third scenario is also possible: sale to the employees in order to prevent the company from being sold to a competitor. However, at the time he wishes to sell, the company head does not wish to see the company he has built fall into the hands of a competitor, which is often the case for conventional companies.

In all three cases envisaged, it is the company head who takes the initiative for the transformation. This relates to the information that he may have to make his choice between the different possibilities open to him, so as to enhance the value of his assets.

4.1.3. Conversion into a cooperative is complex

Should one of the current senior executives remain in the company to manage the transition?

IDES's experience shows that this solution, which had been envisaged initially, does not function well in reality. On the contrary, it appears to be necessary for the current chief executive to stay on for a short transition period in specific

areas, for example sales prospection or preparation of cost quotations, provided it was he who performed this function, but the transition has to be very short and the company must itself come up with new senior managers capable of giving it a new direction, or else must find them outside the company.

It appears that the chief executive who is selling may want to do something else with the proceeds of the sale. On the other hand, it seems to be important that he should be able to validate, or in any case to help select, the future senior executives. This is because he is the only person who knows the constraints of the market the company has to contend with.

Absence of outside shareholders

When it has been converted into a cooperative, the enterprise is no longer subject to the will of outside shareholders such as the family, or no longer bears the substantial operating expenditures connected with the existence of “sheltered” jobs. If this is really the case, transformation will be beneficial because the operating result will be sustainably improved due to the fact that profits will no longer be distributed to outside shareholders and will thus remain at the enterprise’s disposal.

The fact that dividends are no longer distributed to outside shareholders appears to be an important factor in motivating employees to buy out a company, in particular due to the existence of a profit-sharing mechanism already described above. But the absence of outside scrutiny and financial constraints also involves a risk of giving priority to the employees over investment. Thus the law of 1992 attempted, by introducing external shareholders - unfortunately without much success - to remedy this risk.

Can jobs be safeguarded?

It appears that in many cases the seller’s main motivation in favouring a cooperative solution is continuity of employment and preservation of jobs in areas in which the seller thinks that if the company has to shed jobs, the persons dismissed will have difficulty in finding new employment. But after conversion, this may lead to overstaffing being kept on.

Mode of financing

In the eyes of the banks, financing is facilitated if the company's managerial staff remains within the cooperative. Furthermore, due to the existence of profit-sharing mechanisms, financing - even by way of contracting debt - is facilitated since the results can be mobilized on fairly satisfactory fiscal conditions.

Financing by way of contracting debt or with quasi-equity capital that necessitates reimbursement of the sums borrowed is thus less costly than in the case of a conventional takeover.

Use of the participation certificate allows access to outside capital, in particular because when the certificate is subscribed by IDES, it gives easier access to outside capital related to the cooperative movement, in this case Crédit Coopératif, which is often the lead manager of a financing round with other financial institutions. Moreover, it should be recalled that remuneration of the participation certificate is an operating expense and not the distribution of a profit.

Finally, because a specific financing system exists for worker cooperatives, the Regional Unions that supervise the takeover operation can find the necessary financing more easily. They know they can mobilize substantial resources as soon as the profitability outlook has been proved.

4.1.4. The deferred transformation processes

In the French cooperative world there are two modes of deferred transformation into a cooperative: buyout by a worker cooperative and maintenance in the form of a subsidiary prior to possible conversion; or formation of a de facto group with a parent cooperative and one or more subsidiaries which are themselves not-yet-autonomous cooperatives.

A third, more recent solution can be added to these two traditional solutions: creation of a takeover holding company.

a) Buyout by a worker cooperative

This consists of being bought out by an existing cooperative, which does not necessarily lead to immediate conversion into a cooperative but defers the process until later.

The creation of one or more worker cooperative subsidiaries meets some fairly specific external expansion objectives:

- acquisition of an enterprise converted into a subsidiary, rather than being integrated into the buying cooperative;
- entry into a new market when it appears preferable not to integrate diversification into the pre-existing activities so as not to cause the initial worker cooperative to take excessive risks;
- search for optimal costs at the level of the parent plus subsidiary assembly, while preserving the flexibility of the smaller size of each of the components;
- subsidiarization of an existing business so as to allow other partners to be involved in it under article 3 a of the law of 1947 modified by the law of 1992, because it would not be possible or desirable for these partners to join the parent worker cooperative.

In any case the parent worker cooperative will obey a strategic motivation: the risks are such that the parent worker cooperative will have to act like conventional parent companies, by giving priority to the power afforded by its stake of the capital, while keeping the share of profits of the subsidiary's employees within limits such that the parent enterprise's power is not affected by risks of dissidence.

For a long time it was thought that an enterprise taken over in this way in the form of a subsidiary of a cooperative was itself going to be converted into a cooperative. In reality, this is not the case and it can be observed that in the majority of cases the subsidiary remains a common-law subsidiary.

The result is that, in the case of small takeovers, the enterprise is usually integrated into the cooperative effecting the takeover. When larger cooperatives are involved which have in particular drawn heavily on outside capital, they remain in the form of a subsidiary. This is all the truer when, to finance the takeover, use has been made of conventional capital to provide the equity capital of the joint-stock company subsidiary. The capital providers themselves want to be able to enhance the value of their intervention.

b) Formation of a group with a parent cooperative and subsidiary cooperatives

In French law, it is extremely difficult or even impossible beyond 10 years

(law on worker cooperatives) to organize a cooperative group in which the cooperatives would themselves entrust competencies to the parent society in order to ensure globalized management of the whole.

That is why a more careful look needs to be taken at the so-called “solidarity group” approach, which is the one that has currently allowed for the expansion of the cooperative bank *Crédit Mutuel* in France. It is also the approach of the Italian peer groups (*gruppi paritetici*), which were examined in Chapter 1. This solidarity group approach demonstrates that it is possible to create instruments which do not necessarily involve the links of capital alone. In order to create reciprocal solidarities, it is possible to use pooling of resources, pooling of human resources, pooling of specific functions or resources by means of contracts between the different stakeholders, which means that the whole can be governed in the form of a group without there being any capitalistic links between the structures.

c) Formation of a takeover holding company

IDES has devised a new process that applies to large-scale transformations.

The organization of the takeover is carried out according to three combined modalities:

The company taken over is a wholly-owned subsidiary of a holding company majority-owned by the cooperative

By this means, the subsidiary is *de facto* controlled by the cooperative. But the search for leverage is assured thanks to the participation of minority financial partners. The holding company takes out the maximum amount of debt that is compatible with the channelling of dividends back to the holding company carrying out the takeover. By going via the assets of the holding company, it is possible to limit the portion of equity capital that the worker cooperative will mobilize for this takeover. The first stage towards an exit in the form of a cooperative depends on the repayment of the holding company’s debt to the banking partners by means of dividend paybacks, while seeking a fiscal cost that is as low as possible.

The investors' exit

Following reimbursement of the acquisition debt, a record was kept of the exit in the shareholders' agreement when the financiers entered the takeover holding company alongside the cooperative. It is compulsory for the shares owned by the financial investors to be sold to the cooperative, which then owns 100% of the holding company.

Merger of the holding company and the company taken over

The company taken over becomes a subsidiary of the worker cooperative, which can proceed, as it wishes, either to conduct a merger of that company with itself, or to maintain a wholly-owned subsidiary under the conditions indicated previously, that is, for 10 years, following which it will have to gradually sell - but this is perfectly possible - the shares to the employees who eventually can hold only 34% of the subsidiary company.

4.1.5. The risks of transformation into a cooperative

A debt that may be high

In practice, whatever the system used and in view of the limited equity capital capacity on the part of the buyers, be they cooperatives for a subsidiary or directly employees becoming members, there are high debts which, whatever the duration, will necessarily have to be reimbursed one day. The enterprise must therefore make sure it forms equity capital so as to quickly reduce its gearing ratios.

Loss of customers

The clientele may be very closely linked to the seller and the risk customers face is of seeing the quality of the product deteriorate. However, this factor does not appear to be crucial today in that, except in the area of services, it is production equipment that appears to be determining.

Haphazard profitability

The third risk is that previous profitability by no means guarantees future

profitability, in particular in the current economic situation and with sectoral changes. This profitability, which has already been impaired, in terms of its being able to be used for investments by the debt contracted for the takeover, must therefore be all the greater than in a traditional company. But today competition is such that it is the least indebted companies that weather the crisis with the fewest difficulties.

The question of leadership

Employees are ill-prepared for management and consequently often call on an outside manager for whom the transfer may or may not succeed. That is why, when taking over an enterprise which has no successor but which has experienced difficulties, the existence of a trade union leader today appears to be essential in the experience of IDES.

4.1.6. The key factors for success

Existing savings

Employees in quite a number of conventional companies have profit-sharing funds which they can mobilize and they therefore have existing savings at their disposal. On the other hand, the attempts that have been made to prepare for passing on the company by forming advanced savings with a view to a takeover have not been fruitful. French law does not provide for any particular arrangement to allow employees to take over their company when it involves taking over a sound company. On the other hand, when it is an ailing company there are special arrangements, based on obtaining substantial bonuses which can be capitalized.

Nature of the sectors concerned

Experience shows that passing-on operations are easier to carry out when they do not mobilize a lot of capital. Thus we are currently witnessing a number of company transmissions in the services sector. The company's value depends to a large extent on the boss's address book and his relational skills. Thus conversions into cooperatives are greater in number if the sectors mobilize little capital.

Transformations of the production sector

The sectors that are developing most favourably today are those that mobilize human intelligence more and capital less. This mobilization of human intelligence is facilitated by the cooperative structure since the takeover of an enterprise in the form of a cooperative is initially a group venture more than an individual venture.

Selling price

A few years ago the fourth facilitating factor would have been the selling price. Today the latter remains very high when a company is transformed into a cooperative and perhaps it would be even higher than in other scenarios if the company taken over by its employees is more certain of its durability than other companies, particularly once the managers are heavily involved in this takeover.

Conclusions on the conversion of a company having no successor into a cooperative

There are not many factors that facilitate the takeover of an enterprise as a cooperative and this probably explains why, in France at least, the takeover of companies in the form of cooperatives should have experienced mixed results. It should be added that professional organizations of SMEs have not, for their part, made the effort to obtain information which would have highlighted very clearly the cooperative solution. This link with professional organizations, which is undoubtedly connected with the lack of interest shown by workers' trade unions in takeovers as a cooperative, is not a favourable factor. In France the trade union tradition is not one that has links with cooperative organizations. All too often trade union organizations have experienced conversion into a cooperative as the last solution for a company's survival under financing and staff management conditions that do not create a very favourable atmosphere. The lack of links with workers' trade union organizations is also an unfavourable factor for passing on a business as a cooperative.

The four characteristics of successful transformation into cooperatives are as follows:

- The company was in good shape.
- The senior executives, the former owners, remained in the company but were determined to assist in the development of the cooperative.
- The chief executive of a cooperative becomes the chief executive of the new cooperative, but no managerial staff are brought in from outside.
- The enterprise's results allow growth to be financed and substantial shares of profits and incentive payments to be distributed, enabling the workers to quickly reimburse the sums made available to them to acquire the company.

4.2. Transfer of an ailing company into a cooperative

These are companies that have been or are about to be placed in liquidation, or which are very likely to be placed in liquidation due to a crisis: management crisis, sectoral crisis, general economic crisis or a specific crisis in a sector and which, to prevent their going out of business, are transformed into cooperatives by means of a transfer of assets to a newly-created cooperative.

4.2.1. The main possible reasons for converting ailing companies into a cooperative are:

The management and leadership problems

In the experience of IDES in particular, we observe that most of the companies which have been converted into cooperatives and which continue to exist a few years later had had management and leadership problems either because the bosses had neglected research or investment; or because family successions sometimes went off badly and it was not necessarily the most competent persons who took over; or, lastly, because in the face of the necessary changes, the management did not take the necessary decisions at the right time. Conversion into a cooperative is not the consequence of these management problems, it is merely one of the forms that the enterprise can take when, upon liquidation, takeover plans are submitted to the court.

Lack of reserves

The company did not have sufficient reserves to cope with the inevitable changes. This important reason is quite common in family businesses which in reality do not seek to accumulate reserves but to keep the business going as best they can.

A sectoral crisis

It will require significant wage and salary sacrifices and it is conceivable that conversion into a cooperative may allow the difficulties that led to liquidation, or in any case very serious difficulties, to be resolved. Although the reason appears to be theoretically important, over time it is not certain that it is a success factor. However, in the eyes of the courts, the cooperative has the theoretical advantage of being able to get the employees to accept wage sacrifices.

Relocation strategies pursued by groups and investment funds

The logic of financialization of the economy, prompting groups and investment funds to close down businesses not on account of a genuine crisis but in order to make higher profit margins by relocating production elsewhere, is an increasingly frequent scenario.

4.2.2. The changes that occur are as follows:

Accepting internal changes

The possibility for the workers, who have thus become the owners of the enterprise, to accept changes in production modes that have been made necessary by sectoral developments is a scenario that might be seen increasingly often in connection with the far-reaching changes undergone by the world of industrial production in recent years. The workers are likely to accept sacrifices or even a social plan more easily than if the conversion had not taken place.

But the difficulty is to have sufficient leadership for the employees to be able to understand that the sacrifices are indispensable. This raises the question of the arrival in the enterprise of a chief executive who is accepted by the members and of the need to have this social plan implemented by a person who is convincing enough to enable the workers to have confidence in the relevance of the sacrifices they are being asked to make.

The result of the sacrifices made is perceptible

The members quickly see the results of the sacrifices made through the increase in the equity capital that enables the newly-created cooperative to build up capital. It will also be necessary to ensure that the workers can quickly receive repayments.

Fostering self-financing

The advantage of conversion into a cooperative is to be able to cover a much greater proportion of the investment by self-financing than in a conventional company and thus to reassure the bankers about the durability of their own investments. This is particularly true when the company is small in size and

it has not required a financing plan for the takeover in the form of an LBO, as described above. It is true that the existence of a financing network linked to the movement also renders the approaches made to the bankers more credible.

The second facilitating reason is the lack of shareholder remuneration and the existence of the participation certificate which, by means of self-financing, allows for better capitalization of the results. The existence of an autonomous financing system allows one not to be entirely dependent on traditional lenders and therefore to be able to reassure the banks more easily. Lastly, and provided that the plan is respected and that the workers fully agree, the enterprise thus taken over will be more crisis-resistant by using net income to allow for better capitalization, totally for the benefit of the enterprise and with the members' agreement.

Public measures as an incentive

One factor in favour of conversion into a cooperative is the existence of a wide range of public measures, not only through participation certificates but also by making use, through the cooperatives, of all the mechanisms intended to foster the formation of business enterprises, be it ex-nihilo formation or formation from a takeover. Thus for example there is a measure that exempts the enterprise taken over from social charges for one year. But the most important factor is that by creating the cooperative there is a mutualization of the assistance received by each of the persons who may have been dismissed and that this mutualization of assistance allows considerable equity capital to be formed. There is, however, a limit on large takeovers because the total amount of the assistance is capped by virtue of European regulations. The French State is tending to gradually withdraw from this system, and it is now the Regions that are tending to take over.

A takeover is an opportunity for essential changes

Conversion into a cooperative and its possibilities of being successful are explained if the takeover is accompanied by changes. If the new chief executive sets about the task properly, it is an opportunity to re-mobilize the employees. This being the case, history shows that this re-mobilization has a limit which is around two years during which the initial energy is, it is true, still there but tends to become diluted. Consequently if at the end of two years the enterprise has not been put back on the rails, the initial enthusiasm tends to quickly fade away.

The network effect

In fact, the most essential reason for a successful takeover as a cooperative is probably what is called the network effect. This network effect consists of the existence of an advisory environment and substantial financial arrangements. This means that the buyers are always accompanied by specialists connected with the cooperative movement when they have to appear before the Commercial Court and submit a takeover plan.

This network effect, which is developing particularly in certain regions of France in connection with the Regional Unions of Cooperatives, demonstrates its full efficiency when sporadic sectoral crises occur during which poorly capitalized SMEs have difficulty in resisting and in which solutions involving takeovers as a cooperative had been seen to enjoy an extremely favourable outcome.

Such a network effect does not exist outside the world of cooperatives because other enterprise networks are not based on a determination identical to that of the cooperatives in defending their specific characteristics. The same effect can be found in the desire to have financing instruments that are specific to them. In order to set up these instruments, worker cooperatives and their members accept a considerable financial sacrifice in order to be able to pay contributions that allow mutualized capital to be accumulated. It is thanks to this mutual capital that the cooperative movement, through its instruments, can participate in the takeover of ailing enterprises, alongside other investors such as IDES, while accepting a higher level of risk than a traditional investor would be able to accept.

4.2.3. The risks of taking over a business as a cooperative

Time

In most cases, conversion into a cooperative is carried out for want of other solutions. It does not result from a genuine choice but above all suffers from a considerable time-lag during which the situation has deteriorated seriously, customers have left and in many cases the best employees as well. It should be noted that in many cases the different potential buyers present at the Commercial Court are not always in a hurry to submit their proposals because most of them are not seeking to take over the enterprise and its employees but simply the

business itself and therefore the fact that the situation is worse economically has only a weak impact on the value of the business whereas it has a very great impact on the possibility of retaining all the employees.

The shortage of equity capital

The fundamental question, once a fair proportion of the financial support is coming from instruments of the cooperative movement, is the size of the financial instruments available for takeover operations. The lack of equity capital, which may be partly remedied by the intervention of institutions like IDES, is also dependent to a great extent on the time-lag referred to above because the later the operation takes place, the less the financiers - even if they were linked to the cooperative movement - will be able to bear substantial risks.

A misevaluation

This misevaluation of the causes of the crisis at the outset often leads to the enterprise not being adequately capitalized or stumbling very soon, once the takeover is taken care of, in order to finance expansion when the upgrade has taken place. This capitalization crisis is extremely important because the risks taken today in cooperatives are often of an industrial nature and require considerable capitalization.

The purchase price of the company is too high

If the price is too high or if the “corpses in the cupboards”, i.e. the hidden risks following a first evaluation, have not been properly evaluated (which amounts to the same thing), this naturally leads, after takeover as a cooperative, to the same difficulties being found as those that led the company into crisis in the first place.

The workers are afraid of the future

In this takeover in the form of a cooperative, and because it is often a transformation carried out for want of other solutions, the workers have not chosen to take on new responsibilities and they are naturally mistrustful of the arrival of new bosses. In short, transformation into a cooperative of a company that has filed for bankruptcy is today very often more an acceptance out of

fatalism than a deliberate choice. This makes itself felt fairly quickly in the life of the enterprise over the following years.

Accepting transitional situations

Wanting to forge ahead too quickly, looking for large companies to take over and therefore being required to accept transitional situations that will not give rise to the creation of a cooperative is the experience that IDES is having at the moment with the takeover of companies on the verge of bankruptcy by cooperatives which turned them into subsidiaries for reasons of capital provision and which find that it is simpler for them to keep this enterprise they have taken over in the form of a subsidiary rather than to convert it into a cooperative, which would deprive it of the possibility of intervening directly in its management.

Conclusions on the transfer of ailing companies in the form of cooperatives

The experiments carried out in France in this context are not entirely satisfactory since conversion into a cooperative is often carried out for want of other solutions. It therefore takes place late, after the company's situation has deteriorated. It is thus necessary to make a considerable effort to inform the commercial courts, liquidators and other agents so that the cooperative solution can be presented very soon to the employees with the advantages that this may represent, particularly in the case in which the allowances paid to the employees are used to create enterprises, which makes it possible - though unfortunately with limits that should be abolished - to raise quite quickly equity capital that can have a leverage effect together with bank loans.

The question of the bank loan is apparently one of the difficulties encountered when an ailing company is today taken over in the form of a cooperative. The equity capital contributed by the creators is inadequate and, despite the intervention of IDES, the loans are not numerous enough. Moreover, the delay accumulated for the takeover, which is not attributable to the cooperative members, nevertheless creates a fragile situation, particularly for cash flow credits. But taking over an ailing company may also involve opportunities, particularly

when, on this occasion and perhaps because it is the last solution, the inventory is sold at a relatively low value and the customer base may not be lost if the situation is explained to them under good conditions.

It often appears that takeover as a cooperative is considered by the customers to be a greater factor for sustainability than a conventional takeover in which there is constantly the risk of a breakup into small parts.

Finally, one of the main advantages and one of the main reasons for the success of a takeover as a cooperative is the network effect. The potential collective buyers are systematically accompanied when they appear before the Commercial Court to submit a takeover plan. This is the whole benefit of the existence of the Regional Unions of Cooperatives, as they can take advantage of, and allow others to take advantage of, this network effect. However, recent history teaches us to be cautious about the immediate takeover of a company as a cooperative. One will probably have to accept transitional situations so that takeover as a cooperative is not imposed immediately on ill-prepared workers. From this point of view, we think the system devised and implemented by IDES of a temporary takeover holding company, in particular when this takeover is carried out by another cooperative, is perfectly satisfactory. On the other hand, we do not think it is possible today to take over an ailing company in this form, with a view to its future transformation into a cooperative, because the buyout by the future cooperative members always proves difficult. The latter will find it difficult to accept, after a period that can be as long as one or two years, to purchase the enterprise at a value higher than that at which the investor acquired it, when they have the – often justified - feeling that the appreciation in value they are being asked to finance is the result of their own work. Takeover as a cooperative must therefore be swift or be done through a contractualization plan determined very specifically as soon as the takeover operation is assembled.

4.3. Cooperation between enterprises, a means of development

4.3.1. An old, little-used solution – the Union of worker cooperatives

However, since the law of 1947 worker cooperatives (SCOP) have enjoyed the statutory option to establish unions among themselves, and although the union has a subsidiary vocation, that is, it should normally be charged with peripheral functions serving the different parent worker cooperatives, it may often appear to be a good possibility. However, it is difficult today for a union to satisfy the formal conditions of the 1978 law, which governs worker cooperatives. This concerns, for example, payment of the professional tax or the allocation of votes at the general meeting. Hence the Union of worker cooperatives exists only in specific professional sectors, such as construction, for the joint purchase of goods.

4.3.2. The Social Economy Unions, an instrument for cooperation

French law has also created, through the Social Economy Unions (UES), a specific structure that may be of interest to allow enterprises to cooperate without, in legal terms, having any capital link between them. The Social Economy is a cooperative of corporate entities which all have the status of social economy, and therefore *a fortiori* of a cooperative governed by the general cooperation statute, namely the law of 1947. But by way of an exception to the cooperative statute and even to the specific worker cooperatives' statute, the voting rights may be multiple, based either on the volume of business done with UES or on the number of members of the constituent entities without taking into account the proportion of capital held. It may comprise enterprises with very different statuses, unlike the other unions which concern only enterprises governed by identical statutes.

Thus, UES has the following advantages compared with the worker cooperatives' union:

- The voting rights are based on the size of each of the cooperatives present within the union.
- Such a union may possibly, for reasons of complementarity and business activity, comprise, in addition to cooperatives, associations, mutual insurance companies or other forms of enterprise, which is obviously a considerable advantage. And as the UES are cooperatives, the reserves formed are indi-

visible, the remuneration is limited and they may issue participation certificates. But only two thirds of the voting rights can be held by social economy entities, which means that the UES structure allows for wide cooperation with other types of enterprise in order to ensure the complementarities referred to above.

- It is a commercial company having a share capital, and so is subject to common-law taxation and is managed by corporate representatives.
- Legally, UES is not controlled by its members on the basis of the capital held but of the volume of business activity or the number of members in each associated structure.
- Finally, UES does not at all resolve the issue of the equity capital ratio since, like any cooperative, earning financial gains connected with the holding of its capital is totally excluded. UES derives its full usefulness from the fact that it is established to pool resources in order to be able to produce more efficiently the goods and services and achieve the corporate purposes of the constituent entities. UES, like all cooperatives, may distribute repayments or excess amounts collected that are returnable.

In view of the way in which it is established, UES is legally a subsidiary and not a parent society. But in a number of cases, transfers of most of the assets to UES or of essential economic functions to UES make the latter the decision-making centre. UES is therefore perfectly adapted to our research because in every case it is the constituent organizations that retain their decision-making right. The status of UES is too little known today for definitive conclusions to be drawn about it. However, it appears that it is quite well used for commercial activities in a non-profit status. This is the case of printing worker cooperatives which have pooled their commercial activity, or again of carpentry worker cooperatives for the purchase of raw materials.

4.3.3. The Collective-Interest Cooperative Society (SCIC)

The status of the Collective-Interest Cooperative Society (SCIC) originated from the same approach. SCIC is a new form of cooperative enterprise the purpose of which is “*the production or supply of goods and services in the collective interest, which have a character of social usefulness*”⁷⁸. As an enterprise, SCIC

⁷⁸ Scanzi F. (2004) *IDES, 20 ans après – Regards sur 20 ans d'économie sociale*, see <http://www>.

has the status of a commercial company. It is therefore subject to the imperative requirements of performance and good management.

As a cooperative, SCIC respects the power distribution rules according to the principle of one-person = one vote.

Finally, like all social economy enterprises, SCIC stakes out its social usefulness dimension by allocating some of its net income to indivisible reserves.

SCIC is the practical embodiment in France of the advent of multiple-member cooperatives which makes it possible to bring together individuals and corporate entities that have different relationships with the activity, and to get them to work together: workers, users, financiers, voluntary workers, etc.

The social purpose of a SCIC forms part of a social utility-oriented approach.

The members may be divided up into colleges, with each college having a number of votes freely determined in the statutes, within the limits set by law, that is, a minimum of 10% of the votes and a maximum of 50% of the votes.

It is compulsory to apply for an approval from the Prefect of the *département* (district) in which the SCIC has its registered office. The approval is valid for five years. The assessment of the social usefulness of the project will take account of “*the contribution it makes to emerging or unsatisfied needs, to social and occupational integration, to the development of social cohesion and to accessibility of goods and services*”⁷⁹.

In order to allow it to grow, a SCIC will be able to benefit from several forms of financing:

- contributions from associate members by subscription to shares or deposits made on a current account;
- net income allocated to reserves;
- contributions from solidarity mutual investment funds in the context of salary savings schemes;
- contributions from venture-capital financial institutions in the form of sub-

esfin-ides.com/esfin-anciensite/pages/publications/LIVRE_20_ANS_IDES.pdf

⁷⁹ *Ibid.*

scriptions to issues of participation certificates;

- contributions from savers benefiting from the tax reduction for subscription to the capital of unlisted companies.

Since December 2007 the constitution of the SCICs' indivisible reserves has been exempt from corporation tax, which heightens the attractiveness of this new status. This enables it, in particular to constitute its funds, like worker cooperatives.

The SCIC may also issue participation certificates.

Due to the composition of its "multiple member" capital, it is not the aim of the SCIC to distribute repayments on a massive scale but to create jobs and business activity according to the criteria used to gain its "social usefulness" approval.

Conclusions

By Alberto Zevi

1. This work covers three countries that have a significant, albeit different, tradition of experiences of worker and social cooperatives, as well as other forms of worker ownership.⁸⁰

The Spanish and Italian experiences have involved the largest number of companies and workers. Whilst the French experience has involved a lower number of both companies and workers, it still presents many aspects of undoubted interest.

It is quite clear that worker cooperation, in all of its various forms, has developed significantly over the last few decades in the three countries covered by this study. In Italy, both worker and social cooperatives have displayed greater growth rates, in terms of the number of workers employed, than the private sector as a whole. In Spain, although there has been a substantial increase in the number of people employed by cooperatives and the *sociedades laborales*, up until 2009 this increase in employment figures was lower than the increase in private companies⁸¹. The development of worker cooperatives (in terms of the number of companies and of workers) in the service sector is perhaps one of the most notable aspects to emerge from this study. In both France and Italy (notably in the service sector in the latter), the increase in the number of enterprises can be attributed, for the most part, to the multitude of *start up* initiatives that exist. On the other hand, in France there are also a great many examples of traditional companies that have been converted into cooperatives. Since 2010, there has been a significant increase in the number of cooperatives that have been created at the initiative of workers who have taken over crisis-stricken business activities. There are only a limited number of examples (with the exception of France) of companies that have been transferred over to the workers for reasons other than those related to difficulties experienced by the companies themselves, such as, for example, the absence of a natural heir.

80 Henceforward, the term worker cooperative will be used to indicate worker cooperatives, social cooperatives and other forms of worker-owned enterprises (including the *sociedades laborales*).

81 In Italy, the GDP (and therefore employment in general) grew fairly slowly. In Spain, on the other hand, GDP grew at a fairly fast rate up until 2008.

Even though the study has been able to establish that the general rules applied to regulate cooperatives in the three countries are similar, there are still several differences that require greater examination in future research.

Similarly, the context in which the cooperatives have operated in the past, and in which they continue to operate at present, is somewhat different in terms of the public policies implemented by the States concerned. I will expand upon this point later on.

With regard to development, notably in Italy and Spain, the growth of cooperatives has introduced significant processes of reorganisation. Indeed, in many cases, the enterprises have structured themselves into authentic entrepreneurial groups.

Although the available data in this case is far from being exhaustive, there would appear to be many similarities in the conduct adopted by the cooperatives since the beginning of the current major financial crisis, the first signs of which began to appear in the second half of 2007, before later transforming itself into an economic crisis.

There are many similarities to be found in the methods used by worker cooperatives to cope with the crisis. It is quite clear that cooperative companies (notably those in industrial sectors and, to a lesser extent, those active in the service sector) could not fail to be affected by the crisis. However, the nature of their ownership structure and the members' involvement in the governance of their own company have enabled cooperatives to adopt a series of approaches, notably in terms of flexibility (of all kinds), that have often allowed them to manage short-term issues more efficiently than other companies. This has led most cooperatives, within the limits of their possibilities, to thus far prefer to adjust their salary levels or the number of hours worked, rather than to cut jobs. There has been no lack of job cuts that have focussed their attention on non-member workers but, generally speaking, the cooperatives have always attempted to safeguard employment levels (even, in some cases, by internalising some of the activities that they had previously out-sourced). The contribution to social cohesion made by this type of conduct should certainly not be underestimated. Unlike the conventional private sector, only limited usage has been made of the practice of delocalisation. This is the result of the very close ties that, by the very nature of the cooperatives, bind them to the territory in which they

originally became established.

By the same token, the non-cyclical nature of the crisis currently underway in the three countries has served to strengthen the long-term approach which, in many respects, is more typical of cooperatives. As long as this approach is supported by appropriate policies designed to compensate for the sacrifices made during the first phase of the crisis, then it could well enable worker cooperatives to play a more important role in the near future. Furthermore, the long-term view that would seem to be one of the main characteristics of the attitude adopted by cooperatives in the three countries would appear to be an important and appropriate pre-condition that is required both to address changes and to create the conditions to anticipate them.

2. The same issues would appear to emerge from the close examination of the strengths and weaknesses of worker cooperation in the three countries.

There are two issues in particular that would appear to have an impact on all cooperatives and *sociedades laborales* in the countries considered for the purpose of this publication.

The first concerns the availability of appropriate financial resources to support the creation and the development of the enterprises.

The second concerns the systems of relationships that exist between worker cooperatives, between worker cooperatives and other forms of cooperatives, and between cooperatives and their interlocutors (both public and private).

2.1. With regard to the first point, the reports from the individual countries indicate that worker cooperatives encounter structural difficulties in accessing sufficient amounts of venture capital and, at the same time, they also lament the fact that the banking or near-banking sector is reluctant to grant them credit.

These problems are worthy of further consideration.

With regard to the capitalisation of cooperatives, the common denominator is the fact that they are normally promoted by owners who do not provide a great deal of capital themselves. It is for this very reason that the members prefer not to risk both their job and savings at the same time. Taking this into consideration, then, historically, worker cooperatives have managed to increase their assets by

investing either all, or the majority, of their profits in the company. In general, this has been achieved, in the experiences covered in this publication, by the allocation of the profits to the cooperative's indivisible reserves. Where this has happened, the cooperatives have been able to consolidate and to develop. However, in many cases, either because the profits and available *cash flow* were insufficient, or because the need for innovation (of both product and the market) had become more pressing or, finally, because the market conditions had changed, then the internal creation of investment resources has proven to be insufficient to support sustainable development. In these cases, since they were not able to find an easy way to increase their capital, then the cooperatives began to be faced with fairly serious problems.

As a result of the growing awareness of this problem, legal provisions were introduced in all three countries at around the same time in order to create conditions under which external parties could invest in the cooperatives. These provisions were introduced in France (in 1983 and 1992), in Italy (in 1992 and 2003) and in Spain (in 1999).

The introduction of these provisions in the three countries has enabled cooperatives (including worker cooperatives) to have members who are not involved in the mutual exchange but who are, more to the point, capable of providing new capital. The provisions have also enabled cooperatives to issue stock that is of a quasi-capital nature.

Although this experience has proven itself to be very useful, it has not really delivered the expected results. Furthermore, it is interesting to note that the body of instruments implemented in the different countries is highly diversified. From this point of view, this publication provides the cooperative organisations with interesting elements that may be used to assess their possible application to individual situations.

Although the innovations introduced in the 1990s proved themselves to be less effective than had been originally envisaged, this does not mean that they were completely ineffective. Upon closer examination, it would appear that the one limitation that is common to all three countries is to be found in the lack of incentives to reach the general capitals market. The reason for this is that a great deal of effort was made to leave the nature and logic of worker cooperatives

unchanged⁸².

Moreover, although they failed to meet with expectations, the issue of stock that represented capital or quasi-capital enabled other cooperatives and/or institutions that specialise in the provision of assistance to the cooperative sector to contribute capital to the cooperatives. This took place in different ways in the three countries under consideration. In France, thanks first of all to IDES and then, later on, to other companies that were created in the cooperative or banking context, one of the most important experiences was developed around the usage made of stock granting participation rights. In Italy, as a result of the support provided by the Cooperative Development Funds and Cooperazione Finanza Impresa (CFI), some of the most interesting experiences involved the direct intervention of the abovementioned organisations as financial backers or financing members. In Spain, one of the most interesting experiences is represented by the support provided by other cooperatives (and in the case of the Basque cooperatives of the Mondragón Group, and then with the other financial instruments created by the Group) and the issuing of subordinated and perpetual debt stock issued by some of the larger cooperatives.

As a result of these experiences, many cooperatives have been able to gain access to financial resources in the form of venture capital or of quasi-capital, which they would otherwise not have had.

It is interesting to note that this contribution was provided not only to large cooperatives (this was the case of the stock issued by Eroski and Fagor in Spain), but also to smaller ones.

It is equally interesting to note that the contribution made by these specialised institutions (financed by the public sector or resources provided by the cooperative world itself) has produced at least four major effects.

- 1) It has helped cooperatives to become accustomed to having “external”, albeit “friendly”, members, thereby making them accountable for resources made available to them by third parties;
- 2) It has enabled the specialised institutions to gain a better understanding

⁸² The innovations introduced all attempted to take into account the fundamental characteristics of a cooperative entity. From this point of view, the incentives to attract the involvement of third parties was considered to be insufficient by the third parties themselves.

of the distinctive conduct and dynamics of worker cooperatives;

- 3) It has enabled the cooperatives involved in these processes to improve their dialogue with the other financing bodies (starting with the banks);
- 4) It has fostered and sustained (both directly and indirectly) the creation of a closer relationship amongst the cooperatives.

The following experiences are worthy of mention:

- a) Funds for the Development of Cooperation (Italian experience);
- b) CFI (Italian experience) and IDES (French experience);
- c) Guarantee consortia (French, Italian and Spanish experience);
- d) Single payment and advance payment of unemployment benefit (Spanish and Italian experience);
- e) Incentives to increase capital (French experience).
- f) Cooperative groups (Italian and Spanish experience).

It is worth taking the time to look briefly at each one, although, of course, a more detailed account is to be found in the individual chapters.

- a) In Italy, the requirement incumbent upon individual cooperatives in all sectors to allocate 3% of their annual profits to a Fund which, in its turn, is required to use the funds it has received in favour of new cooperatives and the consolidation and development of existing cooperatives, continues (in part thanks to the policies specifically applied by the Funds themselves) to have positive and significant consequences⁸³. Under closer inspection, this would appear to be an operation based on cooperative mutuality. In terms of the policies, one should bear in mind the fact that the flow of fund resources has been engaged, for the most part at least, not in order to provide a generic contribution to the cooperatives, but rather as the underwriting of capital or as financing. This has enabled the Funds to accumulate an increasing amount of funds to be used in favour of the proposed objectives. By the same token, the intervention in the form of capital, with diversified forms of mechanisms for capital return, has made it possible, on the basis of the experience acquired over the course of time,

⁸³ For more details regarding the characteristics of the Funds, see Chapter 1.

for the Funds to participate in the capital of the cooperatives, thereby helping them to gain an increasingly detailed knowledge regarding the internal issues within each individual cooperative. In turn, this process has made it possible to constitute an experience and know-how of huge value and this, of course, is in the interest of the entire cooperative movement. The intervention of the Funds in the form of capital and loans has been, and continues to be, a formidable instrument to encourage the cooperatives' worker-members to increase their contribution in terms of venture capital. Both of these actions have also significantly strengthened individual cooperatives in their relations with third party financing bodies (starting with the banking system).

One aspect that should not be underestimated is the fact that the resources collected by the Funds come from cooperatives of all types (worker, consumer, agricultural, credit, etc.) and may also be used in different types of cooperative. This has meant that the annual amount of resources collected by the Funds has remained, at least to a certain degree, relatively independent of the economic cycle in each individual sector. As a consequence of this, the possibilities for the usage of the funds have not undergone substantial variations and this has made it possible to overcome particularly complex phases through the usage of funds contributed by cooperatives of a different type in another sector. If the Funds had been sector-based, then this could not have happened. In this regard, it is important to point out that this is part of the added value generated when cooperatives of a similar type create a form of network amongst themselves and, of course, the added value is even greater in cases in which relations are established between different types of cooperatives.

In many respects, the Mondragón experience (through the Mondragón Corporation), which is not based on legislation, but is instead based on voluntary agreements, has made it possible (and continues to make it possible) to achieve similar results to those achieved by the Funds⁸⁴.

- b) The Italian experience of CFI is similar in many ways. Unlike the funds, CFI is a sectoral instrument (that is designed to assist only worker and

⁸⁴ For further details of the Mondragón experience, see the relevant chapter. The agreements between the cooperatives that are part of the Group provide for commitments that are significantly more demanding than those envisaged for the cooperatives that feed resources into the Italian Cooperative Development Funds.

social cooperatives that fall within the European definition of an SME). A further difference is related to the fact the majority of the resources are provided by the State, even though they have to be used at market conditions. Once again, the policies specifically implemented by CFI have made it possible to acquire experience and to transfer it to the cooperatives that benefit from the financing over the course of time. Similarly, the provision of resources in the form of venture capital has also served to strengthen the cooperatives and has encouraged the worker-members to make a greater financial commitment to their cooperative⁸⁵.

The IDES experience is equally interesting. In some ways it would appear to be similar to the CFI experience if one considers the fact that it is based on a public initiative⁸⁶. However, unlike CFI, IDES carries out activities not only in favour of worker cooperatives, but also in favour of other types of cooperative. A further point of interest in the IDES experience is the development of specific techniques to provide assistance to cooperatives. Here I am referring to the participation certificates, further details of which may be found in the Chapter on France⁸⁷.

- c) One method of public intervention in favour of the capitalisation of worker cooperatives that would appear to be of great interest is that of the single payment system in Spain. This has the merit of allowing the capitalisation of a cooperative by unemployed workers and this would appear to be extremely positive for the start-up of the cooperative initiative and, at the same time, makes it more credible in the eyes of any third party financiers. Perhaps one limitation is that this does not contribute to the creation of the conditions required to establish relations between cooperatives and the fact that this makes it more difficult to transfer the experience from one cooperative to another. In any event, the provision referred to represents a means of public intervention that certainly makes matters easier for people who, as members of the unemployed, would find it difficult to encounter a possibility such as this under any other circumstances. A similar provision has been in existence in Italy since the 1990s. It is important to note that, in both cases, the result of the public intervention is

85 For a more detailed account of the way in which CFI works, see chapter 1

86 Furthermore, the public form of intervention was then followed by the private intervention of the French cooperative organisations.

87 For further details of the way in which IDES operates, see chapter 3

that public resources (unemployment benefit) that would otherwise have been used merely as a form of income support for unemployed workers are instead, through the single payment scheme and the advance payment of unemployment benefit, put to use in a company and, as a consequence of this, support both employment and production.

- d) Of particular interest here is the French legislation, which both supports and encourages the workers' participation in the companies' capital in a variety of ways. This regulation, which is applicable to not only cooperatives but to all companies, has proven itself to be particularly effective for worker cooperatives⁸⁸. It would be very interesting if similar instruments were made available in other countries.
- e) Finally, further mention must be made of the experience (which often assumes a cooperative form) of the guarantee consortia. The forms adopted by these bodies tend to differ from one country to another. In some cases, the most important role is played directly by the public structures that provide guarantees to the providers of the financing to the cooperatives (as is the case in France, where there are also guarantee consortia that receive funding from the member cooperatives), whilst in other cases the development of such bodies is the result of the autonomous organisation of the cooperatives themselves. The bodies that provide guarantees to third party financiers of the cooperatives are particularly useful instruments to facilitate relations between cooperatives and credit institutions or third party financiers, and are particularly useful for smaller and younger cooperatives.

In the context in which it operates, each of the practices set out above has helped to facilitate relations between cooperatives and the banking and finance system. However, one cannot hide from the fact that these relations continue to be problematic when, in order to support growth or to allow for the restructuring of debt, the banking system asks cooperatives to increase their capital quickly and substantially or to provide collateral security⁸⁹. The very same stock that the cooperatives have been able to issue (share stock for financial backer members and financing members, participation certificates, permanent bonds)

⁸⁸ For more details of the French experience regarding employee share ownership, see chapter 3

⁸⁹ This happens when development requires significant technological progress or when the entrepreneurs are asked to provide personal guarantees. For worker cooperatives, it is much more difficult to adopt the latter option, which is different to what happens in the case of SMEs that are not cooperatives.

has proven itself to be highly attractive, but only to a very few categories of investors, mostly the specialised institutions we have considered in this publication. It is very likely that the Basle III rules will require all companies to substantially increase their venture capital⁹⁰. From this point of view, if worker and social cooperatives fail to be adequately prepared, then they will run the risk of being further discriminated against on the credit market. Nor is it possible to hypothesise that individual cooperatives may be able to place their own financial products directly onto the market. Whilst this possibility may be feasible only for a handful of large cooperatives, the possibilities available to the smaller cooperatives to gain access to the capital market and, in particular, to the venture capital market, will be dependent upon the presence, on the market, of intermediaries who both participate in the capital (or underwrite the quasi-capital) of the cooperatives and are also capable of accumulating the resources required to do so on the market.

In other words, it will be necessary to create the appropriate conditions so that financial institutions that specialise in the provision of assistance to cooperatives appear on the capital markets.

- f) Over the last few years in the countries covered by this publication, there have been many examples of the reorganisation of individual cooperatives, of the constitution of groupings between cooperatives and also of the affiliation of companies in the cooperative or other form.

These different approaches are a reflection of the need felt by cooperatives to adapt their structure to market changes. Even the legislation has changed in order to take these new issues into account. The mixed cooperatives in Spain and the cooperative peer groups in Italy are examples of the changing legislation. Furthermore, to a certain extent, experiences of this type assume that some kind of relationship already exists between the cooperatives. The links that will be referred to in the next section would appear, in other terms, to be the very basis for the development of the merger (or, indeed, the breaking up) operations that are often a pre-condition for the strengthening of the individual cooperatives.

3. The second point to clearly emerge from the study regards the system of links

⁹⁰ Agreements such as Basle III concern the operational aspects of the credit institutes. The envisaged conditions will have the effect of requiring all companies that can be financed to significantly increase the contribution made to their capital or quasi capital by their members.

and relationships developed between the cooperatives.

On this particular matter, a comparative analysis of the three reports would suggest that there is a positive correlation between the spreading of worker cooperatives and the development of the networks that connect them to one another.

The Italian example is particularly striking in this regard. Unlike what has happened in the other countries, in Italy (a country that is characterised by a multitude of cooperative representative associations) all types of cooperatives (worker, consumer, agricultural, etc.) are members of the same representative organisations. This situation has allowed for the development of at least two types of relationships: on the one hand, those that are more political in nature, since the organisations must take into account the multiplicity of issues that are specific to the different types of cooperative, whilst on the other, there are those that are clearly economic and social in nature and which have led to the establishment of horizontal economic structures that are capable of meeting with all of the economic requirements of the plurality of cooperatives involved.

In the first case, the activities undertaken to represent the interests of the cooperatives and to lobby the authorities have given a voice to cooperative sectors that, on their own, would not have had the strength to put forward their requirements regarding the policies implemented by the governments and as a result of the pressure brought to bear by society. In many ways, social cooperation in Italy, which was initially only a marginal phenomenon, has been able to develop on such a large scale by anticipating the major changes that have taken place in the welfare state, due to the fact that the innovative ideas advanced by civil society have found, in the representative associations of the cooperative movement, a platform on which they could come together and be expressed.

In the second case, it has been possible to tackle issues within a multi-sectoral framework that would have otherwise been difficult to address at the sectoral level. By way of an example, we can refer here to the horizontal financial and insurance institutions, such as the Guarantee Consortia, CCFS or Unipol and Assimoco, the initiatives in the area of training and, finally, the Cooperative Development Funds.

The horizontal links between the sectors have always been, and continue to be, a factor of great importance. The history of the last 40 years confirms

that, thanks to the existence of the links and the consequent possibilities of transferring human and financial resources, as well as experiences, from one sector to another, many sectors have been able to cope with even the most difficult moments in their history, moments which, under different circumstances, may well have proven themselves to be insurmountable.

In many ways, the Spanish Mondragón experience (even though it is very different) has produced similar outcomes.

Furthermore, similar importance should be attached to the connections that have developed in the world of worker and social cooperation between cooperatives through the establishment of consortia and which have their origins in the legislative provisions that were introduced at the beginning of the 20th century and in the 1970s.

The creation of secondary level cooperatives (consortia) in the construction and associated sectors, those created in the service sector (CNS) and those (of secondary and tertiary level) created in the area of social cooperation have been, and continue to be, a formidable instrument in favour of the consolidation and development, in particular, although not exclusively, of the more modest sized cooperatives.

Here once again, analogies may be drawn with the Mondragón experience in Spain.

The networks that have been developed in this way constitute an important factor of cohesion between cooperatives and probably also go a long way towards explaining the success achieved by worker cooperatives in the countries covered in this publication. Indeed, the smaller presence of worker cooperatives in France could be explained by the fact that the networks are not particularly well developed.

The contents of the three chapters of this book quite clearly indicate that, once the described obstacles have been overcome, worker cooperation can provide a major contribution not only to the efforts being made to cope with change, but also to anticipate it. In particular, worker cooperation could make it possible to minimise the loss of material and human resources that occur when a company is transferred. Despite the fact that the policies designed to address this issue have often been promoted by the European Union, even with a specific reference being made to the involvement of the workers, they have thus far failed to

produce significant results. It is highly likely that this may be attributed not only to the lack of appropriate incentives, but also to the fact that the company owners are not able to imagine that their workers may become responsible for the continuation of their activities and that the very same workers are not able to imagine themselves as protagonists of a cooperative initiative. From this point of view, policies designed to provide information about these possibilities and to support them (through the provision of training, amongst other things) would allow for a further increase of the capacity of worker cooperation to both shape and to anticipate change.

Together with the other indications, this final point is part of the general recommendations formulated in the next section which, following discussions and exchanges with the representative organisations of worker cooperation that are members of CECOP, represent the final results of the work carried out.



Policy recommendations in the field of restructuring and the anticipation of change

Approved by the Board of the European Confederation of Worker Cooperatives, Social Cooperatives and Social and Participative Enterprises (CECOP CICOPA-Europe), and based on the research presented in this book

The European enterprise network of around 50 000 cooperatives and other employee-owned enterprises active in industry and services that are under the constituency of CECOP as a European confederation has a responsibility to provide responses to the ongoing needs and challenges of the European economy at large, and in particular the economic sustainability of the European regions, enterprises, and jobs, and thence capital accumulation and the development of general wealth.

In this spirit, while most of the following policy recommendations are specific to industrial and service cooperatives (and other employee-owned enterprises), some of them concern the wider enterprise world, while being entirely based on the concrete experience of our enterprises, both in normal times and in periods of crisis, as reflected in the present research. In addition, some recommendations are connected with two fields in which the cooperative system interacts with the wider enterprise (in particular SME) world: a) business transfer to employees, and b) cooperatives of SMEs.

Overall focus on employment

All the recommendations below are linked to the creation and maintenance of economically sustainable employment, which is part of the core mission of our enterprise network, and which our experience proves to be a fundamental element of enterprise sustainability. Thus, they are all linked in a cross-cutting fashion to employment policies at both EU and national level, and a general reading of these recommendations should be done, *inter alia*, from the point of view of employment policies.

Some of these policy recommendations are addressed to the EU institutions, while others are targeted at the national level, because key policies aimed to promote the anticipation of change in enterprises are under the competence of both levels. The necessary interaction between the two levels is also highlighted in the text, where it occurs.

1. Policy recommendations at the EU level

1.1. Improve EU state aid regulation and industrial policy

- *State aid regulation.* We request the establishment of specific state aid provisions (in coordination with fiscal policy at the member-state level - see 2.1. below), in favour of saving and developing economically sustainable activities that are threatened by closure, and in particular through projects of business transfers to employees, carried out in an appropriate business support environment,
- *Industrial policy.* It is key to developing an overall EU industrial policy (in coordination with industrial policy at the member-state level - see 2.1. below), which contains policies aimed both at anticipating change in existing enterprises and at promoting the creation of economic activities that respond to emerging needs (in particular new social/health and environmental needs), while being also focused towards the creation of stable and long-term employment, with internal firm mobility, training and the encouragement of employee expertise etc. Indeed, such form of employment is a key component of entrepreneurial sustainability (as reflected by the concrete entrepreneurial experience of industrial and service cooperatives and other employee-owned enterprises),

1.2. Launch a specific action under the Open Method of Coordination (OMC)

We propose the launch of a specific action led by the European Commission under the Open Method of Coordination to favour the national-level policies mentioned below under 2.2. (policies aimed at supporting capital accumulation) and 2.3. (policies aimed at supporting the creation and reinforcement of entrepreneurial systems, networks and clusters). Under this action, convergence between a first selection of members-states, which could then be extended to others, possibly from different European sub-regions, should be sought.

1.3. Promote EU level financial mechanisms

The EIB and the EIF should be involved in the national-level policy recommendations under 2.2.3.2. below (creation and strengthening of non-banking financial institutions for the development of cooperatives). They should help banks ease access to capital for cooperatives and SMEs.

1.4. Engage in further EU-level research

Launch further European level research on different aspects linked to restructuring and the anticipation of change, and, *inter alia*, on the following topics:

- the lever effect of various financial instruments being used onto external financial sources;
- the impact of the structure and nature of enterprise reserves on enterprise longevity and long-term strategy;
- the impact of business groups and consortia on the anticipation of change, in particular in terms of structural change;
- the internal enterprise governance measures that favour the anticipation of change and the capacity to respond to emerging needs;
- the mechanisms that cause a higher or lower level of enterprise indebtedness.

1.5. Promote measures in favour of sustainable employment and, thence, against poverty and exclusion

European employment policies should promote the creation of sustainable employment. Sustainable employment should be seen not only from a social cohesion point of view, but also from the point of view of the enterprise's long-term economic development: indeed, long-term enterprise development without any continuity in jobs is difficult to achieve. Sustainable employment generates long-term wealth and development of the territories. In order to resolve the current employment crisis which the EU is presently going through, all the efforts should not be concentrated only on the creation of new jobs, but also on maintaining existing jobs through innovative measures like business transfers to employees. Successful transfers of business preserve more jobs on average than those created by new start-ups. Maintaining existing jobs is also a way to prevent poverty and social exclusion for many workers.

1.6. Reform the European Cooperative Society (SCE) regulation.

The European cooperative Society (SCE) regulation should be revised in order to take into account the needs of already established cooperative groups.

2. Policy recommendations at the national level

2.1. Policies aimed at creating an enabling environment

- *In the educational domain*, the concrete entrepreneurial experience of industrial and service cooperatives and other employee-owned enterprises, notably in terms of organisational innovation and anticipation of change, should be taught in basic educational curricula (in compliance with art. 8. 1. f) of ILO Recommendation 193 on the Promotion of Cooperatives, which was approved by all 27 present EU member states⁹¹) as well as in university and business school curricula, so that this experience can be better understood by the European society in general, and by future policy-makers and business leaders in particular. Better knowledge about cooperatives should also be promoted in trade unions and among persons/structures (accountants, lawyers, bankruptcy courts, etc) whose mission is to inform about the creation or transfer of businesses.
- *In the field of industrial policy* (in connection with industrial policy at the EU level, examined under 1.1. above), we call for more encouragement of innovation aimed at a) anticipating change in existing enterprises and b) promoting the creation of economic activities that respond to emerging needs (in particular new social/health and environmental needs, and all types of services of general interest), with a vision that the creation of stable and long-term employment, with internal firm mobility, training and the encouragement of employee expertise etc. is a key component of entrepreneurial sustainability. The concept of innovation should clearly include organisational innovation, in which the cooperative democratic governance pattern should be seen as a model.
- *In the field of enterprise support and promotion policies (including fiscal ones)*, we request the establishment of specific provisions in favour of saving and developing economically sustainable activities that are threatened by closure, and in particular through projects of business transfers to employees that take place within an appropriate business support environment, in coordination with state aid policy at the EU level (see 1.1.1. above).

⁹¹ “National policies should notably (...) promote education and training in cooperative principles and practices, at all appropriate levels of the national education and training systems, and in the wider society” (see www.ilo.org)

2.2. Policies aimed at supporting capital accumulation

2.2.1. Employee participation to enterprise capital

- Considering that their financial shares are, in most cases, not immediately redeemable, worker-members in industrial and service cooperatives should be granted complete de-taxation on their financial participation in their enterprises, and they should be able to borrow with limited guarantee mechanisms for this purpose.
- In particular, direct financial mechanisms aimed at helping employees to invest in enterprises in crisis or without successor in order to engineer business transfers to employees, in particular under the cooperative form, are strongly urged.
- Similar policies encouraging employees to take part in the capital and results of their enterprises should be encouraged through concrete fiscal mechanisms in other forms of enterprise as well, and with the necessary legal protection and corresponding ratio of participation in the governance, oversight, decision-making and responsibility in the enterprise.

2.2.2. Promotion of enterprises reserves

If better financing of cooperative enterprises is to be encouraged, complete de-taxation of indivisible reserves (namely reserves that are not divisible even in case of liquidation, and which are then used to promote cooperative enterprises in general) should be envisaged.

- Legal provisions instituting fully de-taxed indivisible reserves (namely reserves with asset lock) in cooperatives in all EU member states where indivisible reserves are not already enshrined in legislation are strongly urged. In countries where indivisible reserves are already enshrined in legislation, total de-taxation of these reserves is advocated. Indeed, reserves that are indivisible even at liquidation have proven to be a powerful instrument for the long-term permanence and development of enterprises in the territories where they are located, and the jobs therein. They are also a major component of the intergenerational solidarity systems.
- Other accompanying mechanisms in industrial and service cooperatives and other employee-owned enterprises such as the non- (or not immedi-

ate) distribution of cooperative returns, the revaluation of members' shares (according to mechanisms to be defined and independent from the stock market) should be encouraged and protected by law.

- Options for other forms of accumulation of non-redeemable capital helping enterprises to de-leverage and reduce their level of indebtedness while engaging in productive investment programmes aimed at anticipating change should be explored and encouraged in all forms of enterprises.

2.2.3. Systemic financial mechanisms for productive capital accumulation

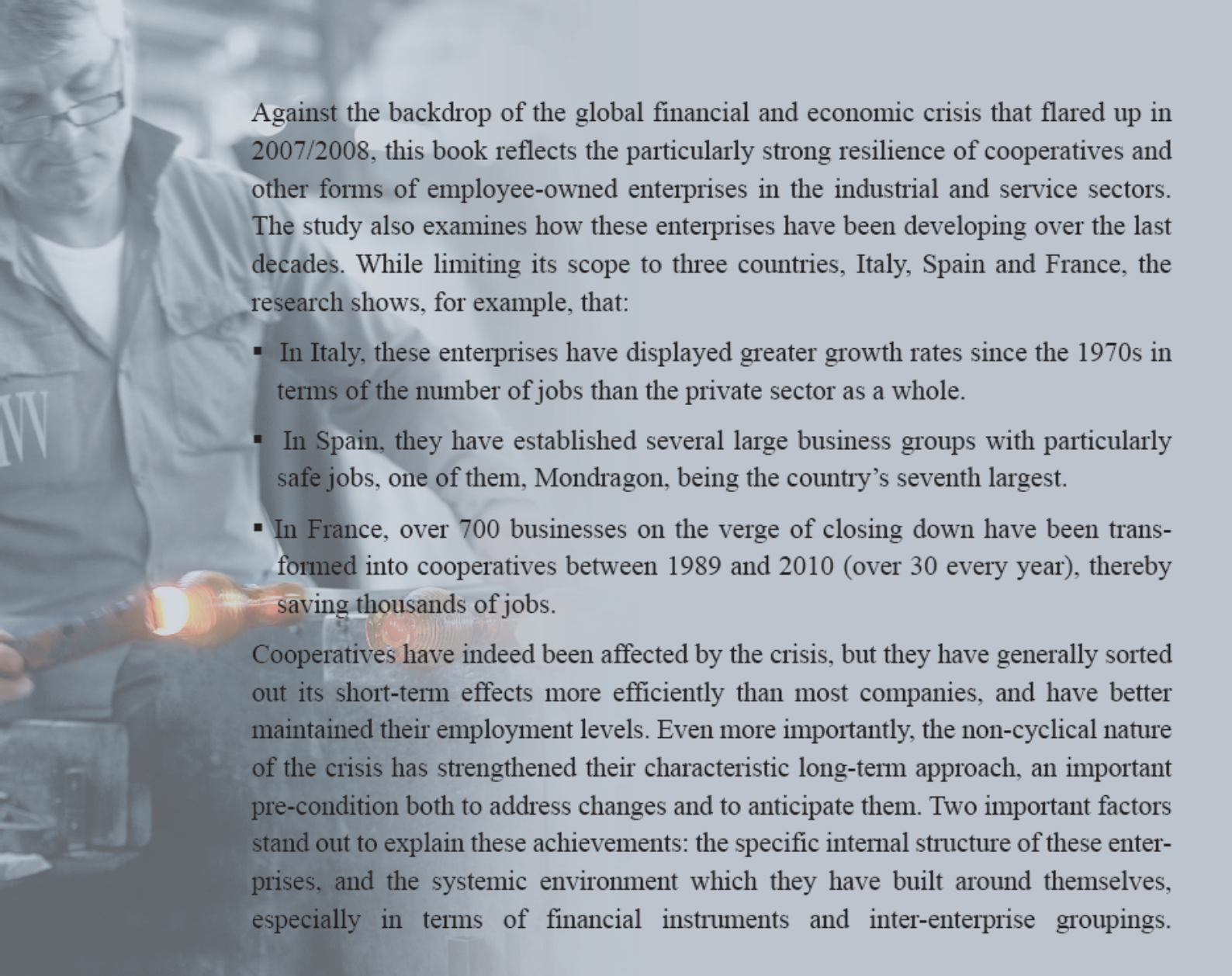
- We advocate the establishment of legislation making it compulsory for all cooperatives to dedicate a percentage of their turnover or results to help establish new cooperatives, reinforce existing ones, and restructure enterprises threatened by closure into cooperatives (as is already the case in Italy with a national law making compulsory for all cooperatives to dedicate 3% of their results to solidarity funds for the development of cooperatives, see Italian chapter of this research). Those solidarity funds should be managed under the supervision of the cooperative organisations themselves for all cooperatives affiliated to such organisations. As a real instrument of economic policies, those solidarity funds should be used in order to invest in certain strategic sectors.
- We also request policies in favour of the creation and reinforcement of non-banking financial institutions dedicated to the development of industrial and service cooperatives and other employee-owned enterprises, that are deeply rooted in the cooperative movement and cooperate among each other, and that can, *inter alia*:
 - Act as intermediaries between these networks on the one hand and the financial markets, the banks and institutional investors on the other, with the emission of non-voting financial instruments, both redeemable ones (such as classical bonds) and non-redeemable ones (such as participative bonds that can remain as equity funds for an indefinite period in enterprises, and can thence increase the capacity of the enterprises to obtain bank loans for productive purposes). In addition, the policy environment should promote interaction with banks and institutional investors with the aim to encourage the subscription of these new financial instruments.
 - Favour joint guarantee mechanisms.

- Manage common funds among enterprises.
- The possibility to apply similar provisions to those above to enterprises in general should be explored.

2.3. Policies aimed at supporting the creation and reinforcement of enterprise networks and clusters

- The creation and reinforcement of mutualised business support institutions among industrial and service cooperatives, in the field of financing, training and education, entrepreneurial and legal advisory services etc., jointly owned and controlled by enterprises that use them, should be promoted.
- In particular, we urge the promotion of the creation and reinforcement of business support institutions that are partly or totally dedicated to advising teams of employees in enterprises threatened to be closed down in order to deal with the whole process of business transfers to employees.
- The creation and reinforcement of various kinds of groups, consortia and networks among industrial and service cooperatives, in particular peer groups (groups among equals) aimed at elaborating common entrepreneurial strategies and at mutualising common business support services (e.g. in R&D, training, counselling, common production/service platforms etc) is key to enterprise development and should be strongly promoted.
- The development of cooperatives and other similar horizontal groupings aimed to generate common strategies and mutualising business support services should be encouraged not only among cooperatives, but also among SMEs in general.





Against the backdrop of the global financial and economic crisis that flared up in 2007/2008, this book reflects the particularly strong resilience of cooperatives and other forms of employee-owned enterprises in the industrial and service sectors. The study also examines how these enterprises have been developing over the last decades. While limiting its scope to three countries, Italy, Spain and France, the research shows, for example, that:

- In Italy, these enterprises have displayed greater growth rates since the 1970s in terms of the number of jobs than the private sector as a whole.
- In Spain, they have established several large business groups with particularly safe jobs, one of them, Mondragon, being the country's seventh largest.
- In France, over 700 businesses on the verge of closing down have been transformed into cooperatives between 1989 and 2010 (over 30 every year), thereby saving thousands of jobs.

Cooperatives have indeed been affected by the crisis, but they have generally sorted out its short-term effects more efficiently than most companies, and have better maintained their employment levels. Even more importantly, the non-cyclical nature of the crisis has strengthened their characteristic long-term approach, an important pre-condition both to address changes and to anticipate them. Two important factors stand out to explain these achievements: the specific internal structure of these enterprises, and the systemic environment which they have built around themselves, especially in terms of financial instruments and inter-enterprise groupings.

This, therefore, is a book that helps one to ponder, to understand and to act.

Felice Scalvini,

President of Cooperatives Europe,
Vice President of the International Cooperative Alliance

About CECOP

CECOP – CICOPA Europe is the European confederation of cooperatives and other employee-owned enterprises in industry and services. It groups national federations in 16 EU countries, which in turn affiliate approximately 50,000 enterprises in those sectors employing 1.4 million workers. 9,000 are social cooperatives, employing around 270,000 workers.

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