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## Workers cooperatives and regional economic development

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# **Worker cooperatives and regional economic development**

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Worker cooperatives are enterprises owned by employees who are sharing the decision taking. This form of enterprises is an old one in Europe but the recent crisis has underlined their capacity of resilience. Furthermore, worker cooperatives are non purchasable and non relocatable. So, it has given to this companies a new notoriety and created some interest from medias, politicians and researchers. This article will give an overview of the importance of workers cooperative in different regions in three countries of Europe: Emilia-Romagna (Italy), Basque region (Spain), West of France. The choice of these regions is based on the weight of worker cooperatives compared to other regions in their country. An analysis of the key success factors is tried in order to understand why worker cooperatives developed more in these regions.

## **Introduction**

Worker cooperatives benefit from a new interest since the beginning of the crisis. They are recognised to be more resilient to the crisis than their competitors, conventional enterprises. Focused on employment more than on profit, they have a long term vision and put more attention on humans. We have a lot to learn from this alternative model which seems to be as (more ?) profitable<sup>1</sup> but certainly are more responsible than conventional enterprises. In this paper, the object is to deal with worker cooperatives and local development and to try to understand their development in Europe, especially in the regions: Emilia-Romagna (Italy), Basque region (Spain), West region (France). In the first part of this paper, a general presentation of worker cooperatives is given. In the second part, the place of workers cooperatives in the three European regions is described and some key success factors are underlined.

### **I- Worker cooperatives: a general presentation**

At first, they are cooperatives which means that they refer to the cooperative principles and values which is explained in section 1. What is a cooperative. But they are cooperatives of a

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<sup>1</sup> A lot of researches have been done on this topic.



specific kind because their members are also their employees, which engenders some differences compared to other cooperatives, which is developed in section 2. What is a worker cooperative. In section 3, some figures are given concerning the number of worker cooperatives in Europe.

## 1. What is a cooperative

Cooperatives used to exist for a long time. In France, there is an example of this form of organisation in the 13<sup>th</sup> century, with *Les Fruitières du Jura*, a cheese cooperative. But in Europe, it is in the 19<sup>th</sup> century that this model of enterprises really became to develop in different industries, first, in agriculture, manufacture and bank and second in building, transport, hand-made activities, shipping industry. All these cooperatives are based on the Rochdale principles set out by the Rochdale Society of Equitable Pioneers in Rochdale, United Kingdom, in 1844 which are still the principles of cooperatives around the world today (Clerc, 2009)<sup>2</sup>.

On the ICA website<sup>3</sup>, here is a definition of cooperatives: “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.

So, cooperatives regroup members who have a common entrepreneurial project and who want to decide together, democratically, the way to conduct this project. There are different types of cooperatives depending on the characteristics of their members. “Co-operatives are businesses owned and run by and for their members. Whether the members are the customers, employees or residents they have an equal say in what the business does and a share in the profits.” (ICA). Another important point is that they are not driven by profit. Even if cooperatives have to be profitable in order to be sustainable, they are founded on certain values which are dealing with social responsibility. “Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others” (ICA).

There are seven principles which constitute the guidelines by which cooperatives are translating their values. The first one concerns the freedom of entry and exit to anyone, which is called **voluntary and open membership**. The second one deals with the democratic principle by

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<sup>2</sup> Clerc D. (2009),

<sup>3</sup> <http://ica.coop/en/whats-co-op>



which each member can take part of the decisions thanks to a voting right based on “one member equals one vote”, this is the **democratic member control**. The third principle consists in the fact that members contribute equitably to the capital and that capital is a common property. This principle refers to **member economic participation**. The fourth principle underlines the **autonomy and independence** of this type of organisation who cannot be the tool of government or any other organisations. The fifth principle concerns the role of cooperative in **education, training and information**. Cooperatives have to train their members in order to permit them to participate in the best manner to the life of their cooperative. But they have also a role of information outside. They have to communicate what are the nature and benefits of cooperation. The sixth principle underlines on the **cooperation among cooperatives** and the way cooperatives are working together through local, national, regional and international structures. The seventh and last principle mentions that cooperatives have a role inside their community, they have to support its sustainable development, which is called **Concern for Community**.

As Clerc (2009) underlines that what makes cooperatives different from other enterprises is the manner they manage capital. With a minimum of shares, each member can be associated to the economic decisions of the cooperative. But, the acquisition of shares has no financial interest because they deliver no retribution and they are sold at their purchase price. Furthermore, the statutes of the cooperative also impose an important putting in reserves of profits. It is impossible to share these reserves being non sharable because the purpose is to perpetuate the activity. So the cooperativists of today united those of tomorrow.

Today, all around the world, we can account 1 billion of individual cooperative members (ICA)<sup>4</sup>. The main country in terms of individual members is the United States with 256 million members and nearly 30 000 cooperatives. Asia is also an important place, with India following next behind the US with 93,7 million individual members and then Japan with 77 million individual members. Iran with 36.9 million individual members is the fourth largest country in terms of number of members<sup>5</sup>.

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<sup>4</sup> These statistics are calculated from the subscription formula on ICA's 272 members from 94 countries (as of 20 October 2013).

<sup>5</sup> All in all, five of the top ten countries, by membership, that the ICA represents - are in Asia.



Europe represents around 71 millions of members<sup>6</sup>. France is the leader in terms of number of individual members with more than 23 millions followed by Germany, around 20 millions and Italy around 13 millions. But Italy has more cooperatives in number (41 552), followed by Spain (24 276) and by France (21 000). Regarding the employment, Italy accounts more than one million of persons working in cooperatives, France around one million (3,5% of the total of workers) and Germany 830 000.

## 2. A worker cooperative is a cooperative whose workers are the owners

Worker cooperatives are cooperatives owned by their employees because the workers hold at least 51 % of the shares. These cooperatives evolve in all the different economic industries and are competing with traditional enterprises on these different fields. So they have the same constraints that their competitors and have to be profitable in order to be sustainable.

The workers benefit from a right of vote with the base principle of one man equals one vote, whatever is the amount of shares he holds. The workers have a power of decision: they decide on the major guidelines of their enterprise and appoint their leaders (managers, boards of directors, etc.)

The way of sharing the profit is also different from that of a traditional enterprise. The two main parts of the sharing concern the refunds to the workers, based on the work done and the reserves creation which permits to consolidate the enterprise. It refers to the two main concerns which are the recognition of the labour value and the sustainability of the enterprise with the idea that it has to hand it over the future generations.

In order to help the workers in the decision making, worker cooperatives promote employees information and training. The workers have to get a general idea of the functioning of an enterprise, of what the strategy means... The fact that all the workers, even non-administrative workers, get this overview of what is an enterprise facilitate the understanding of the role of each other in the enterprise and the exchangers between employees. All the workers are expected to participate at the life of the enterprise and in the decision process apart from their mission as employees.

Moreover, workers are more responsible in their tasks than in traditional enterprises and also more autonomous. It is considered that workers because they are working for their own company will do their best in order to increase the profit, to improve the reputation of the

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<sup>6</sup> Depending on the sources the number can be hugely different. Here the data uses are coming from <http://www.coopdefrance.coop/fr/96/entreprises-cooperatives-en-europe/>



enterprise for their clients, to invest for the future, to innovate... Because they directly benefit from the success of the enterprise, employees are more incentive to do efforts in order to enhance performance of the firm (Bonin, Jones, Putterman, 1993, cited by Artz&Kim, 2011)<sup>7</sup>. But, some researchers thought that there is also a risk of free-riding because individual rewards depends on the performance of the group (Kruse, 2002 in Artz&Kim,2011). In general, in worker cooperatives, there is few staff turnover and because of that it is really important to focus on employees training in order to offer carriers evolutions. So in worker cooperatives, it seems that training is also more important than in traditional enterprises.

Worker cooperatives even if they are founded on cooperatives principles have specific characteristics. The main distinction concerns the employee ownership which has different impacts on the functioning of the firm. Another model of enterprises is owned by employees: ESOP (Employee Stock Ownership Plan). ESOP are a bit different from other corporations too, but, even if they can share the fact of being owned by employees, they also differ from Worker cooperatives in different ways and especially in their purpose which is similar to those of a standard corporation<sup>8</sup>

**Table 1 : Comparison between Corporation, Cooperative, Worker Cooperative, ESOP firm**

	Corporation	Cooperative	Workers' owned cooperative	Employee Stock Ownership Plan
Ownership structure	One or more Shareholders (individuals or entities)	Members (individuals or entities)	One share per person of com	Very flexible. Predetermined formula from equal distribution to a complex formula based on salary, years of service and hours worked. Can be full or partial ownership
Purpose of the firm	To earn a return on owner investment	To meet member needs for goods or services; earn return on member investment	To provide employment for its members through operating an enterprise that follows the Co-operative Principles and Values	To earn a return on owner investment

<sup>7</sup> Artz G. and Kim Y. (2011), Business Ownership by Workers: Are Worker Cooperatives a Viable Option?, Iowa State University, Department of Economics  
[http://www.extension.iastate.edu/coops/presentations\\_publications/businessownership.pdf](http://www.extension.iastate.edu/coops/presentations_publications/businessownership.pdf)

<sup>8</sup> ESOP being an added statute to corporation statute



Voting rights	In portion of shares held	One person, one vote	One person, one vote	One person, one vote or one share, one vote. One share, one vote on supermajority issues
Allocation of profits	Based on shares held	Members in proportion to use; preferred shareholders in proportion to investment, up to 8%	Based on hours worked or wages earned. May take into account other factors, such as seniority.	Based on shares held

Source: Table designed thanks to information from Center of Cooperatives<sup>9</sup>, Canadian Worker Coop<sup>10</sup> websites and Northcountry Cooperative Development Fund (2003, p. 18) in Artz&Kim (2011, p.14)

### 3. Presence in different countries

Although the advantages of worker cooperatives are recognised and well underlined (Artz&Kim, 2011), the model is not so expended all around the world. The weak representation will be the result of a weak diffusion of information concerning the model.

Dickstein (1991, in Artz&Kim, 2011) considers that cooperative development agencies should be created in order to promote worker cooperative in the United States in some specific sectors where worker cooperatives seem to well suit because of the low capital requirements, high labour requirements and high labour productivity such as printing, wood and furniture making, construction, services... In 1985, O'Connor<sup>11</sup> was already underlying the importance of the role of the government support in promoting the model in Ireland. In conclusion of his paper; he reminded that “the lack of a well funded national organisation to promote workers’ co-ops is a serious drawback in Ireland and is one which must ultimately be overcome if any real progress is to be made. In meantime however, Local Authorities can help greatly by showing interest, giving encouragement and probably supplying advance buildings and other accommodation” (p.550). In his opinion, the fact that the model stays modest compared with traditional firms requires more help in order to diffuse it.

Getting precise figures concerning worker cooperatives is not something easy and the validity of the data is not totally certain. Here the data are mainly coming from Cicopa<sup>12</sup> with one risk:

<sup>9</sup> <http://www.uwcc.wisc.edu/whatisacoop/BusinessStructureComparison/>

<sup>10</sup> <http://www.canadianworker.coop/worker-co-op>

<sup>11</sup> O'Connor (1985), Workers co-operatives: their employment potential, Annals of Public and Cooperative Economics Volume 56, Issue 4, pages 539–551, October-December 1985

<sup>12</sup> <http://community-wealth.org/content/international-organisation-industrial-artisanal-and-service-producers-co-operatives-cicopa>



an underestimation of the number of enterprises because Cicopa data are data from members. But not all workers cooperatives are members because it is a voluntary membership process. There are worker cooperatives all around the world but they are mainly located in Europe and South America. For example, the USA only account around 200 worker cooperatives (Artz & Kim, 2011). In Europe, there are about 90 000 enterprises (members of Cicopa) in the form of worker cooperative, social cooperative, artisans' cooperative and worker-owned enterprise, more than 13 000 in South America, (Cicopa, 2013).

So Europe is the main part of the world where those forms are represented. Inside Europe, two countries are dominant concerning the presence of those enterprises: Spain and Italy, with respectively around 31 500 and 54 200 enterprises. France and Poland which follow have a far less number of enterprises with only respectively 2 000 and 1 500 enterprises but most of them are workers cooperatives which is not the case for Italy and Spain which are at 2/3 workers coop (Corcoran & Wilson, 2010; Cicopa, 2013).

## II- Worker cooperatives and regional development: three regional case studies

On a regional level, as at a national level, there are big differences concerning the presence of worker cooperatives. In this paper, we focus on three different regions which are well provided in worker cooperatives compared with other regions in their countries: Emilia Romagna in Italy, Mondragon in Basque region in Spain, West region in France<sup>13</sup>.

The idea is to better understand what can explain the particular local develop of this model in some specific regions. What could be the local elements that can favour their development on a territory?

In a first session, we will describe the history of worker cooperatives and their impact in these 3 regions. In a second time, we will try to analyse the elements that permitted this development such as the role of institutions which is one element underlined in the literature (O'Connor, 1985; Cornforth, 1984<sup>14</sup>), the local culture (solidarity, cooperation spirit...) which is also mentioned but subject to controversies (Prades, 2005; Martine, 2008; Lezamik, 2013<sup>15</sup>)...

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<sup>13</sup> Inspired Corcoran H. & Wilson D. (2011), The worker co-operative movements in Italy, Mondragon and France: Context, Success factors and lessons, Canadian Worker Co-operative Federation

<sup>14</sup> Cornforth C. (1984), THE ROLE OF LOCAL CO-OPERATIVE DEVELOPMENT AGENCIES IN PROMOTING WORKER CO-OPERATIVES, Annals of Public & Co-operative Economy. Jul-Sep1984, Vol. 55 Issue 3, p253. 27p.

<sup>15</sup> Lezamik (2013) interview <https://www.youtube.com/watch?v=8bcNfbGxAdY>



## 1. Worker cooperatives in three European regions

Emilia-Romagna, Basque region and West of France are retained in this study. The choice of these three regions is driven by the weight of worker cooperatives in these three parts of Europe but also by opportunity. In fact, there is not so much information on worker cooperatives and particularly at a regional level. Mondragon Corporation in Basque region is the most famous worker cooperatives in the world and interests researchers all around the world so this case is easy enough to study. But, in this case, it is not a region which is studied but a group of cooperatives anchored in a region. But in Basque region, there are others worker cooperatives which do not belong to Mondragon Corporation so the comparison with other regions is not totally fair. Emilia-Romagna is the second region most studied in Europe because in a very different way from Basque region it is also a great success. More modest is the situation of the West of France, even if it is the first part of France in terms of number of worker cooperatives.

### a. Worker cooperatives in Emilia-Romagna

In the north of Italy, Emilia Romagna, a region which accounts nearly 4,5 millions of people is situated just below the Italian Alps. It is today one of the richest and most developed in Europe (in the top 15 European regions) with the third highest GDP per capita in Italy (21 025 € national average 16 315 €) and an unemployment rate of 6 % (2013)<sup>16</sup> compared to the Italian unemployment rate which reaches 12,8 % in November 2013<sup>17</sup>.

In Emilia-Romagna, it is estimated that there is one enterprise every ten inhabitants. Most of them are small and medium enterprises (an average of 5,4 employees per business) and they hire 76 % of the total workforce (about 1,8 million people)<sup>18</sup>. The region is well-known for its famous car makers: Ferrari, Lamborghini, Maserati and Ducati<sup>19</sup>.

Emilia-Romagna is also a land of worker cooperatives with its 5 000 enterprises in a region<sup>20/21</sup>. The region suffered a lot from World-War II and was economically ruin at the end of the war. After the war, the region has been governed by a coalition of leftist parties. This

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<sup>16</sup> [http://ec.europa.eu/enterprise/initiatives/esic/large-scale-demonstrator/emilia-romagna/regional-example/index\\_en.htm](http://ec.europa.eu/enterprise/initiatives/esic/large-scale-demonstrator/emilia-romagna/regional-example/index_en.htm)

<sup>17</sup> <http://www.tradingeconomics.com/italy/unemployment-rate>

<sup>18</sup> <http://www.amicidelmuseo.org/System/Files/emilia%20romagna.pdf>

<sup>19</sup> <http://www.geo.coop/node/357>; E. Crowell

<sup>20</sup> Idem

<sup>21</sup> <http://ica.coop/en/media/co-operative-stories/emilia-romagna-cooperative-region-and-economy>



government has encouraged the development of small and medium enterprises and of cooperatives in order to generate employment, build housing.<sup>22</sup> The Emilian model is based on a system “supporting co-operative relations among small firms in local production systems serving global markets”<sup>23</sup>. These interrelations between co-operatives and small enterprises encouraged by local authorities is the key success factor of the region. “[...] the principles of co-operation and the adoption of reciprocity and mutual benefit for economic objectives are the philosophical and social bases of the system”<sup>24</sup>.

#### b. Basque region: Mondragon

The origin of Mondragon is linked to a republican Basque priest who fought against Franco’s dictatorship and created, in 1943, a technical training school with two objectives: promoting Basque culture and new ideas. Five of his students decided in 1956 to create their own business with a cooperative statute. One of the founders (in Prades, p. 102<sup>25</sup>) considers that this project was a Christian one because at the beginning the objective was to fight against poverty and then against social division and unequal revenues sharing.

Today, Mondragon group, even if it encountered difficulties is more resilient than other businesses in Spain and is the main employer of the region. This cooperatives corporation encountered 110 different cooperatives, 147 subsidiary companies and 40 other societies (foundations, education institutions, R&D centers) which represent 80 000 employees (equivalent full-time) of which 85 % are members<sup>26</sup> all around the world and the half in Spain , most of them in Basque region<sup>27</sup>.

Mondragon Group is constituted of four divisions: Finance with a bank and different insurance organisms of which a social security institution; Industry with different activities such as automotive, construction, equipment (37 000 workers in total); Mass distribution with Eroski supermarkets and cooperatives in agro-industry (46 000 workers – with part time); Knowledge with 17 Research & Teaching cooperatives.

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<sup>22</sup> <http://ica.coop/en/media/co-operative-stories/emilia-romagna-cooperative-region-and-economy>

<sup>23</sup> Restakis, John. The Emilian Model: Profile of a Co-operative Economy. Canadian Co-operative Association - BC Region (now BCCA), 2000.p.2

<sup>24</sup> Idem

<sup>25</sup> Prades J. (2005), L’énigme Mondragon : Comprendre le sens de l’expérience, RECMA, n°296, pp. 100-115.

<sup>26</sup> Mondragon Annual report (2012)

<sup>27</sup> Personal estimation after different readings



Cooperatives inside the group are mainly workers cooperatives. They can freely join and quit the group. They can have subsidiaries in other parts of Spain or in foreign countries which are not cooperatives<sup>28</sup>.

The Basque region is one of the more dynamic in Spain with an income per capita of 21 266 USD PPP compared with 15 806 in average in Spain and an unemployment rate of 14,9 % compared with 25 % in Spain in 2012<sup>29</sup>.

### c. West of France

In France, we counted, at the end 2010, 1 842 Scop with on average twenty employees. Their rate of survival after 3 years is upper to that of the French average of the other companies: 74 % against 66 % (according to the INSEE<sup>30</sup>). The main business sectors of Scop are the services and their original sectors, the building and civil engineering works and the industry. with a peculiarity: they are, compared with the French average, under-represented in the services<sup>31</sup> and overrepresented in the two other sectors<sup>32</sup>

We chose to concentrate on Scop belonging to the regional union of Scop of the region the West (Brittany, Pays de Loire, Basse-Normandie), the French network of Scop including thirteen regional unions (Urscoop). The choice of this zone is understandable by its dynamism regarding voluntary and united sector and more particularly regarding Scop. The region the West records 364 Scop, and is the first regional union in number of Scop in France, the second in employees' terms (with 7 028 employees against 10 038 in Ile-de-France-Centre Orléanais-Haute Normandie-Dom Tom).

In this part of France with corresponds to three different administrative regions, the GDP per capita is around 26 000 € in 2012 (Insee) and the unemployment rate is around 8,8 % (under the French average: 9,8 %).

In 2013, all the Western Scop generated a 1,12 billion euro turnover, for an accumulated profit of 28 million euros. The downward trend of the level of turnover and the profit was again smelt in 2013 (after an increase in 2011) because there is a reduction in 4,4 % of the turnover and in 13,8 % of the profit between 2012 and 2013<sup>33</sup>.

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<sup>28</sup> Inspired by Borrits B. (2011), Mondragon, des dizaines de milliers de travailleurs qui dirigent et coordonnent leurs entreprises : c'est possible. <http://www.autogestion.asso.fr/?p=127>

<sup>29</sup> <http://www.oecd.org/governance/regional-policy/Country-statistics-profile-Spain.pdf>

<sup>30</sup> INSEE : NATIONAL INSTITUTE FOR STATISTICS AND ECONOMIC STUDIES

<sup>31</sup> 46,4 % of Scop Employment against of 74,2% of French Employment

<sup>32</sup> With, for building and civil engineering works 28,8 % of employment in Scop against 6,8 % in France and in industry, 23,4 % in Scop against 14,9 % in France

<sup>33</sup> <http://www.les-scop-ouest.coop/sites/fr/unions-regionales/les-scop-ouest/les-chiffres-cles/>



## 2. Worker cooperatives Key success factors in the three different European regions

### a. Explanation of the success of worker cooperatives in Emilia-Romagna?

Different conditions are combined which permit the creation of worker cooperatives and their development.

Some of these conditions are not specific to Emilia-Romagna such as **the general legislative and policy environment** which is the same in the whole Italian country. In fact, the support for cooperatives is enshrined in the Constitution; the Article 45 stipulated that “the Republic recognises the social function of co-operation of a mutualistic nature and without purposes of private speculation. The law promotes and encourages them through the appropriate means and secures, through appropriate controls, their character and purposes.”<sup>34</sup>

Three main advantages are allowed to cooperatives in the opinion of Corcoran & Wilson (2010) concerning taxation, indivisible reserve and regional economic development agencies<sup>35</sup>.

On taxation, “Italian tax legislation treats worker cooperatives as non-profit entities requiring surplus to be invested for further job creation; i.e., in exchange for favorable tax statute, worker cooperatives are restricted from distributing profits among current members in favor of reinvesting towards new democratic employment”<sup>36</sup>. Profits reinvested in the cooperatives are then exempted from tax and a minimum of 30 % of the profit has to be allocated to an indivisible reserve. In order to benefit of the tax savings, another condition has to be filled: member labor costs must exceed 50 % of the total labor costs. On indivisible reserve, in case of cession of a worker cooperative or a bankruptcy, this reserve is donated to a federation or another cooperative. This can explain the resilience of these enterprises and that one of their objectives is to generate jobs for future generations.<sup>37</sup>

An easy **access to capital** is another favorable condition in the creation of worker cooperatives Italy. Different types of capitalization supports exist in Italy. In 1985, the Italian government created a cooperative fund in order to facilitate the transfer of private firms in worker cooperatives or, according to 2001 amendments of the law, also to help in existing

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<sup>34</sup><http://legislationline.org/download/action/download/id/1613/file/b4371e43dc8cf675b67904284951.htm/previe>  
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<sup>35</sup> Corcoran H. & Wilson D. (2011), The worker co-operative movements in Italy, Mondragon and France: Context, Success factors and lessons, Canadian Worker Co-operative Federation

<sup>36</sup> <http://www.geo.coop/archives/huet.htm> (Tim Huet, GEO 30)

<sup>37</sup> « Part of our mission is intergenerational mutuality. What we see is the fruit of generations of work. We receive wealth from past generations and we create it for future generations of members. Our objective isn't just to generate for this generation but also for future generations.”; Logue J. (2006), economics, Cooperation and Employee Ownership: The Emilia Romagna model – in more detail. Retrieved from <http://dept.kent.edu/oeoc/oeoclibrary/emiliaromagnalong.htm>



cooperatives<sup>38</sup>. Moreover, different federations provide many services to members such as accounting, payroll and legal services, training and development... Another interesting aspect of Italian tax law is that it requires 3% of each cooperative's surplus to go into a fund to develop new cooperatives.

A last important condition is that, even if there are three cooperatives federations in Italy, one linked with the Social Democrats, another with the leftist party and the third one with the Catholic centre right party, these federations have full **access to the government** which give them some power<sup>39</sup>.

Some conditions seem to be more specific to Emilia Romagna. At first, the **historical context** favoured cooperation and the creation of cooperatives because of the necessity to rebuild the region and the action of an active government which promoted cooperatives. The relations between cooperatives and local authorities were really tiny from 1943 to 1950 and the support of the Communist Party powerful enough. Cooperatives played an important role in the rebuild of Emilia Romagna (Menzani, 2011)<sup>40</sup>. The success of the cooperatives movement can be explained by some historical elements. Historically, the main activity was agriculture and because of the miss of water, farmers had to cooperate really early in order to manage this resource. Because also of the size of enterprises, technology used was adapted to their size and generally really specialised (Restakis, 2012)<sup>41</sup>. Local government and cooperatives have continued to collaborate in an idea of social justice and in the opinion of Menzani (2011), it contributes to the moralisation of public life on the territory because of the requirements of the cooperative practice.

The development of this cooperative sector "has had a direct impact on the **development of systemic supports** to all types of firms in the region"<sup>42</sup>. The fact that services such as R&D, education & training, marketing & distribution, financing, technology transfer, workplace safety, environmental regulation (...) are shared permits to realise economies of scale and so all the enterprises in the region even the small ones can accede to these services. These centres may collect information concerning evolution of worldwide markets or consumer trends or best practices. That helps a lot small enterprises in competing in a global marketplace. It has even led to the creation of the region's 'real services centres' as mentioned by Restakis (2000).

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<sup>38</sup> [http://www.cicopa.coop/IMG/pdf/Promoting\\_cooperatives\\_and\\_the\\_social\\_economy\\_in\\_Greece\\_Sep\\_2013.pdf](http://www.cicopa.coop/IMG/pdf/Promoting_cooperatives_and_the_social_economy_in_Greece_Sep_2013.pdf)

<sup>39</sup> In Cote, D & Vezina, M (2001), cited by Corcoran & Wilson (2010)

<sup>40</sup> Mezani T. (2011), « Collaborations vertueuses entre coopératives et municipalités. Le cas historique de l'Emilie-Romagne après la seconde guerre mondiale », *RECMA*, n°321

<sup>41</sup> <https://www.youtube.com/watch?v=bPpLaLcqz7E>

<sup>42</sup> Restakis (2000) p.3 op. cited.



**Presence of small family business** next to worker cooperatives certainly facilitates exchanges with these different businesses. These both types of businesses are in a long term vision and more inclined to develop long term relations based on mutual confidence.

Local authorities encourage **collaboration** between enterprises on the local level. They also facilitates cooperative networks which have the ability to specialise and deliver high quality products. Generally located in industrial districts, family-owned firms or small cooperatives (10 to 20 people) are organised as “**flexible manufacturing networks**”<sup>43</sup>. Highly specialised and technologically sophisticated, they concentrate on high quality production. Restakis (2000) explained the organisation as followed: “Typically, a manufacture network will come together to fill a contract secured by one of the local firms. This anchor firm will then sub contract elements of the production process to individual firms which specialise in one aspect of the production cycle. And, although the anchor form may change from one contract to the next, all members of the manufacturing network are known to each other, have long standing economic and social relationships, and see themselves as part of an organic, if informal, economic system.” An important principle in game in this system is **reciprocity**.

b. Key success factors in the case of Mondragon, Basque region

The **historical context** favoured the emergence of Mondragon. Basque inhabitants were suffering of Franco’s dictatorship, which reinforced equality and solidarity values. It helped a lot to mobilise local savings to finance a local project (Martine, 2008)<sup>44</sup>. The protection of the Spanish market with high tariff barriers and a weak part for mass distribution constituted during the 1960’s and the 1970’s ideal conditions for the development of Mondragon (Borrits, 2011).

But, also, the priest, Don Jose Maria Arizmendi, encouraged people to take in hand, to defend their culture and he promoted catholic values. He “stirred people to think and act” (Gutierrez Johnson and Foote Whyte, 1977, p.20)<sup>45</sup> and was considered as “**a trusted and revered advisor**” (op. Cit.). For example, the profit shares were not distributed to workers but put in accounts held with the firm which helped the firm to invest. Father Arizmendi incited to create a bank because he realised that it was too difficult to get money from private banks. He defended a cooperative education system accessible to the poorest. His research work on

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<sup>43</sup> Restakis (2000), op. cited

<sup>44</sup> MARTINE Joël, *Mondragón : des coopératives ouvrières dans la mondialisation. Adaptation ou contre-offensive ?* dans *Produire de la richesse autrement*, CETIM 2008, pp.91-113

<sup>45</sup> Gutierrez Johnson A ; and Foot Whyte W. (1977), The Mondragon system of worker production cooperatives, *Industrial and Labor Relations Review*, Vol. 31, N)1 (October 1977), pp. 18-30



social security and health care systems of the cooperative helped the cooperative in designing its own institutions.

The **economic and cultural context** is underlined by Gutierrez Johnson and Foote Whyte (1977). They explained that Basque country had a better industrial tradition than in other parts of Spain. There were numerous SMEs in metallurgy and manufacturing based in part on natural resources such as iron ore. They also insisted in the fact that manual work was well appreciated which was not the case in other part of Spain where to be considered hidalgo<sup>46</sup> “one must be above working with his hands” (p. 21). An “associative spirit” could be another specificity of the Basques who considered themselves as “nobles” so equals as they would be pure Christian blood.

One key point, in Borrits (2011) opinion, is **the establishment of a salary grid** shared by in the whole cooperatives. This is possible thanks to the surplus sharing mechanisms between cooperatives and to the common fund (inter-cooperative solidarity fund) which permit to reduce losses in cooperatives. When a cooperative is making a loss it has to reduce salaries but till a certain level because the corrective mechanisms can maintain a certain viability of the cooperative. When the activity has to be reduced a lot, workers can be trained if necessary and borrowed to another cooperative. The principal objective is to maintain employment. This solidarity is an effective tool for Mondragon.

The **financial independence** was perceived as something crucial at the origin and constitutes today a powerful element of Mondragon cooperatives whose bank is one of the most important in Spain with an outstanding of 10 billion €.

In order to be a member, each co-operator has to bring 14 000 € which can be paid on his revenue in 3 or 6 years. Worker-cooperativists receive a mensual advance on work which is different from a salary because there is an adjustment at the end of the year in function of the profits or losses of the cooperative. On this advance, 11 % are taken for the social security contribution and a 25 % more for the supplemental health insurance. Workers revenues follow a grid and cannot exceed or be lower than 10 % of the level of the grid. The gap between the highest and the lowest revenues is generally from 1 to 3 but can be more depending the activity (from 1 to 8 in the bank). But it is considered that the lowest revenues are 15 % higher than in private firms and that highest revenues are 30 % lower than in private firms.

Concerning the sharing of cooperatives profits, 20 % are shared between the different cooperatives, 10 % are given to MCC Inversiones (Investments), 2 % for education

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<sup>46</sup> Hidalgo = somebody special



institutions of the group, 2 % to a common funds (which diminishes the losses of cooperatives). Then, cooperatives pay 10 % of revenues taxes. Net income is shared as follows : 10 % education fund, 20 to 60 % in reserves, 30 to 70 % to workers<sup>47/48</sup>. “This fund that belongs to cooperativists is paid annually and in cash an interest that can reach 7,5 %. The key point is that the largest part of the profit stay in the cooperative, the funds that workers accumulate are removed only when workers retire, die, or leave a position voluntary”<sup>49</sup> (Flecha&Santa Cruz, 2011, p. 160).

Investments in **innovation, training and education** are certainly another explanation of Mondragon success whose industrial activities have evolved in order to stay competitive in a worldwide market.

Compared to Emilia-Romagna, in the different articles collected, few is said about local authorities and State<sup>50</sup>. Even if cooperatives benefit from a tax reduction (only 10 % of revenue tax compared with 28% for private firms<sup>51</sup>), other advantages are not mentioned. If good relations between local authorities and Mondragon are underlined, there is no information concerning subsidies, advantages given to Mondragon.

Although an effective **intercooperation**, no cooperatives being on the same activity<sup>52</sup>, today Mondragon encounters some difficulties specifically with bankruptcy of Mondragon and some other traditional areas of manufacturing of the group are weakened because of the crisis<sup>53</sup>. Moreover, some contradictions between the strategy and the cooperative model are underlined because in order to internationalise the group purchases foreign competitors and restructures them. When bought it is not given the possibility to employees to become co-operators.<sup>54</sup>

### c. Some explanation concerning the place of Scop in the West of France

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<sup>47</sup> Borrits(2011) and Prades (2005)

<sup>48</sup> By the law “30 % of the benefits must be assigned to the reserve fund and the contribution for education and cooperative promotion or other purposes of public interest. The general assembly must allocate the remaining 70 %.” [...] “The LCBC (Cooperative Legislation in the Basque Country) offers three different points: to benefit the mebers in proportion to their transactions with the cooperative (that is to say, to assign patronage refunds), to create voluntary reserve funds and to distribute among the workers of the society.” In [www.smu.ca/webfiles/IzaskunAlzolaBerriozabalgoitia.doc](http://www.smu.ca/webfiles/IzaskunAlzolaBerriozabalgoitia.doc)

<sup>49</sup> Flecha R. and Santa Cruz I. (2011), Corporation for Economic Success: The Mondragon Case, *Analyse&Kritik*, 1/2011, pp. 157-170

<sup>50</sup> Corcoran & Wilson (2011 ) wrote « mondragon has not received much direct financial support or assistance from the government” (p. 16)

<sup>51</sup> Corcoran & Wilson (2010)

<sup>52</sup> Gomez-Acedo F. et Pradès J.

<sup>53</sup> The Guardian (2013), Nov.15 Worker occupy plant as Spanish co-op goes under <http://www.theguardian.com/social-enterprise-network/2013/nov/15/spanish-co-op-workers-occupy-plant>

<sup>54</sup> Gomez-ACedo F. et Pradès J., Mondragon : une holding de coopératives face à la mondialisation, le Journal d el’ école de Paris, 2006/3 (N)59, pp. 29-35. <http://alternatives-economiques.fr/blogs/abherve/2013/11/04/il-faut-debattre-a-partir-de-la-situation-de-fagor-et-de-la-cecabgad/>



In France, the cooperative movement In France, it is mainly in the East and the South-West that cooperatives developed around 1830's. Different theorists wrote on cooperatives, Philippe Buchez (1796-1865), Charles Fourier (1772-1837), Charles Gide (1847-1932). The idea is to emancipate workers to make them taking decisions<sup>55</sup>.

If some forms of cooperatives have grown and concentrated a lot from their creation to nowadays such as Mutual Organisms, cooperative banks, agriculture cooperatives, others disappeared in the 1960's, the consumption cooperatives which didn't manage to face the competition of mass distribution. Concerning the worker cooperatives, they have slowly increased but modestly.

But during the 1970's and 1980's, thanks to the May 1968 movement, different forms of cooperation and solidarity were born, especially under the associative form (Associations - Law 1901)<sup>56</sup>.

In 1978, a law is adopted establishing the definition of worker cooperatives in France (Scop, sociétés coopératives ouvrières de production – worker cooperatives societies of production). A new law, named Benoît Hamon law<sup>57</sup>, has been recently adopted whose aim is to facilitate the creation of Scop and permit to workers to just bring 30 % of the capital. The idea is to favour the development of Scop in France<sup>58</sup>. The promotion of Scop model is related to its resilience to crisis and its anchorage to territory.

Another incentive to create a Scop could be other **legislative and policy environment** advantages. It has not to pay the territorial economic contribution and income on worker shares is exempt from income taxes. In average, in France, 40 % of the profits are put in reserves, 40 % are redistributed to workers and 20 % redistributed to shareholders.

The Scop movement is organised in order to provide **financial, legal and training support** to the Scops at different levels of their development. This support is financing by Scops fees of 0,32 % of revenues. First, to facilitate the **access to capital**, different tools exist: providing equity loans (Socoden = financial institution managed by the Scop since 1965), intervention in capital, in equity shares and convertible bonds (Scopinvest), offering loan guarantee, Financing in need in bottom of rotation (Sofiscop). Second, the network helps worker

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<sup>55</sup> France Inter – La marche de l'histoire – Les coopératives ouvrières et lesScop – 10/04/2014

<sup>56</sup> This historical part is inspired by Vindt G. (2014), 1834, la naissance de l'économie sociale et solidaire, Alternatives Economiques, n°334, avril 2014

<sup>57</sup> Benoît Hamon is Minister Delegate attached to the Minister for the Economy and Finance, with responsibility for the Social and Cooperative Economy and Consumer Affairs and is at the origin of a law on the Social and Cooperative Economy

<sup>58</sup> The objective is to double the number of Scop in 5 years <http://www.gouvernement.fr/gouvernement/projet-de-loi-ess-ce-qui-va-changer-pour-l-economie-sociale-et-solidaire>



cooperatives to apprehend cooperatives law and third, offers different possibilities of training especially in order to improve the understanding of firms functioning to members<sup>59</sup>.

In each region, the network being subdivided in 13 'regional unions', a support network of professionals is available to help create and develop worker cooperatives.

In West of France, social economy and cooperatives movement have an important position because 13 % of employees are working in this field (10 % at the national level)<sup>60</sup>. The weight of this economy in this part of France can be explained by economic, social and culture elements. This territory was not an industrial one, the main activities were agriculture and shipping and was considered to be poor enough compared to the North and East of France. It also suffered a lot from World War II because of the bombing of many harbours. After World War II, a huge will of **rebuilding and development** engages a new dynamic sustained by Catholic Church which was powerful there. Youth movements such as JAC (Jeunesse agricole chrétienne = Christian Farmer Youth) and JOC (Jeunesse ouvrière chrétienne = Christian Worker Youth) encouraged the creation of enterprises and particularly cooperatives. These movements were a mix of the 'left' party and the Catholic Church with the support of some worker-priests, so dominated by values such as solidarity, helpfulness...

Today, region councils are working with the worker cooperatives network in order to promote the creation of worker cooperatives, offering some financial support (subsidies). Other organisations such as Chambers of Commerce are also diffusing information concerning this model which was not the case in the 1970's, for example. At a local level as at a national level, the advantages of these enterprises are recognised: they cannot be purchased or relocated, they give a good purchase power to their workers, they also participate to the community, mainly because their workers are more aware of their economic environment and often more implicated in the local life<sup>61</sup>.

So the French worker cooperatives movement is far less developed than in Italy or Spain and what happened in Western France less impressive than in Emilia-Romagna or Basque region, but it could increase in the next years thanks to the support of the government and local authorities.

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<sup>59</sup> <http://www.les-scop.coop/sites/fr/>

<sup>60</sup> Alternatives économiques (2014), L'économie sociale et solidaire : un emploi sur dix en France, juin 2014, n°336, pp.22-23.

<sup>61</sup> This part is written thanks to different interviews done in different Scop in Western France with different people: chief executives of Scop, workers, people working in the Scop network, in local administration.



## **Conclusion**

Considering the different key success factors in the three cases, some common points could be the weight of Catholic religion, which influences values and an historical context because these three regions faced difficulties and poverty after World War II. Perhaps, can also be underlined the influence of socialist ideas.

Some regional support of local authorities can be noticed too. It is more evident for Emilia-Romagna but in Basque region where tax policy is regional it seems that it is favourable to worker cooperatives. In France, the support is more recent and limited because tax policy is a national policy. But, in France, it seems that at a national level some evolution is in favour of the Scop model such as the Benoît Hamon's Law. At a regional level, it really depends on the interest of regional councils. In West of France, regional councils are sensitive to social economy and to worker cooperatives but their support is limited to subsidies and some priorities in calls for tender.

In France, although, the model is still modestly developed and the Scop movement does not constitute an important network which reduces the diffusion of information concerning this alternative model. Moreover, many cooperatives are blamed today because of their behaviour which is similar to those of big companies and are not a good example of cooperation.

But France could learn from Spain and Italy and Western France which seems to be a good field in which the worker cooperatives could develop should look at the two other regions studied here.

In order to be more precise concerning the key success factors, it would be necessary to get more data concerning these three different regions and to collect primary data. Another point is that it would be interesting to enlarge the sample and work on other regions in Europe which would necessitate some investigations because of the few publications available.

Finally, worker cooperatives could grow more in Europe in the next years because crisis generate generally a new interest on this model but in order to be sustainable some support is necessary at a region and/or national levels.