



## The Emilian Model - Profile of a Co-operative Economy

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### Introduction

Over the last two decades, the world has witnessed a near global conversion of regional economies to the ideology of corporate capital. Some of this development has been forced (through the practices of institutions like the IMF), and some has been freely adopted by governments and business communities as the only credible route to prosperity within a global marketplace. The embrace of this economic worldview is almost always accompanied by a kind of determinism that was best captured by Margaret Thatcher when she declared “There is No Alternative”. The language of globalization is nothing if not a liturgy of economic necessity.

But simultaneous to this embracing of free market capitalism, there has grown a sustained critique of its assumptions and outcomes. The emergence of the anti-globalization movement worldwide is one aspect of this growing resistance. Another is the examination of alternative models of growth rooted in community, as proposed by advocates of community economic development (CED).

Throughout this struggle, it has been difficult to formulate a credible alternative that is both socially progressive and economically viable in the context of a global capitalist system.

The experience of Emilia Romagna in northern Italy is a compelling story, because it demonstrates that there *is* an alternative that not only adheres to the values of a vibrant civil society, but has also transmitted these values to the creation of a highly successful commercial economy. The result has been a unique success for this region and its people. Even more important, the Emilian Model serves as a touchstone for rethinking economic theory and practice from the vantage point of community and economic democracy.

### Region Overview

Emilia Romagna is a region of 3.9 million people situated in the north of Italy, just below the foothills of the Italian Alps. Bologna, the region’s most populous city, is the commercial and communications hub of the area, and the home of Europe’s oldest university. As a commercial and political centre, Bologna has re-emerged in recent decades as one of the most vital and livable cities in Italy, echoing a status it enjoyed during the Renaissance when its political, cultural and commercial achievements placed it at the front rank of the humanist movement.

Rich in history and culture, Emilia Romagna continues to cultivate a tradition of fine arts and crafts production which accounts for a major portion of the region’s economy. (Bologna has the highest per capita expenditure on culture of any city in Italy). The *artigianati*, or self employed artisans, account for 41.5% of the companies in the region. Over 90% of these enterprises employ fewer than 50 people. This is typical of the small firms in the area. Indeed, there are only five firms that employ over 500. Two of these, SACMI and CMR, are co-operatives.

With barely 4 million people, Emilia Romagna has 90,000 manufacturing enterprises making it one of the most intensively entrepreneurial regions in the world. It is estimated that one person in twelve is self-employed or owns a small business. (By contrast, New York State, with over 18 million people has 26,000 manufacturing enterprises.) Nearly half of the region’s industrial products are exported.

In 1970, Emilia Romagna was near the bottom of Italy's 20 regions in economic performance. Today, it ranks first. The region also ranks 10th of the European Union's 122 economic regions, and its unemployment rate is lower in only 7 other European regions. Its per capita income is 30% higher than the national average and 27.6% higher than the EU average. The people of Emilia Romagna are aggressively entrepreneurial with a gift for cultivating and enjoying the fine food, clothing, and material goods that provide them with one of the most enviable standards of living in the world.

By any measure, these figures are impressive. What is even more impressive is the fact that the region's success derives from a cluster of ideas and practices that make it the antithesis of the corporate model of success as prescribed by mainstream economic ideology.

Much of this development is traceable to the political culture of the region, with its deep socialist roots and its long history of municipal republicanism. Emilia Romagna is well known as the "red belt" of Italy because of its unbroken succession of communist and social democratic administrations which have governed the region since the second world war. And historically, Bologna had always been a center of political and civil opposition to the authoritarian traditions of the monarchy and the papacy.

What has been most remarkable however, is the capacity of this North Italian brand of civil social democracy to transform the philosophical and operational character of the industrial firm by merging the values of civil society and community with the industrial requirements of small firm capitalism. Just as importantly however, the experience of Emilia Romagna holds fundamental lessons for the future evolution of civil society in industrialized economies.

### **The Emilian Model**

The Emilian Model, as it has come to be known, primarily refers to the region's diverse entrepreneurial structure, and its systems for supporting co-operative relations among small firms in local production systems serving global markets.<sup>i</sup> And, it is important to note that the model does not refer exclusively to co-operative firms. Rather, it illustrates how the classical conception of a "co-operative" has been transmuted to adapt to the needs of small firms operating on a global stage.

Small firms working in co-operative networks within industrial districts are the keys to the Emilian economy. In turn, 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. No less important is the fact that the policies of the Region government actively promote co-operative relations among firms.

### **The Role of Co-operatives in the Commercial Economy**

Co-operatives are the foundation of the region's economic makeup. Of Italy's 43,000 co-operatives, 15,000 are located in Emilia Romagna making it one of Europe's most concentrated co-operative sectors. In Bologna for example, two out of three citizens are members of a co-operative, with most belonging to several.

Co-operatives directly account for over 40% of the region's GDP. Indirectly, through their economic spin-offs and their involvement in production, distribution, training, and marketing networks, the co-operatives of Emilia Romagna account for a much higher contribution to the region's economy. At the national level, the co-operatives belonging to Legacoop, Italy's largest co-operative federation, employ 202,700 people.

The sectors in which co-operative firms are strongest include retail, construction, agricultural production, housing, manufacturing, and social services. In most of these sectors, co-operatives

predominate (for example in construction, agriculture, and retail). In retail, COOP is Italy's foremost retail distribution system and among the most successful consumer co-ops in Europe. Most public works, including large-scale engineering, construction, and heritage restoration projects, are carried out by building co-operatives owned by their employee members.

But the influence of co-operatives in the commercial economy extends far beyond the strictly economic activities they perform. The commercial success of the consumer co-ops for example, is a direct result of the conscious application of co-operative values to the procurement and marketing of consumer goods. COOP is as much valued by consumers for the attention paid to consumer education and protection as to the quality and variety of the products sold. In this regard, COOP is a European leader. Similarly, the region's agricultural co-ops are Europe's leaders in organic food production and environmentally friendly pest control.

### *System Supports*

At another level, the co-operative sector has had a direct impact on the development of systemic supports to all types of firms in the region, whether they are co-operatives or not. This includes working with government to create sector-specific strategies that aid the growth and competitiveness of small and medium-sized firms.

The model of co-operative organizations that provide shared services for their members has been applied to research & development, education & training, marketing & distribution, financing, technology transfer, workplace safety, environmental regulation, and a host of other services that help small and medium sized firms to compete in a global marketplace.

In this sense, the co-operative model has been exported to the broader commercial economy by promoting the involvement of individual firms in collective ventures that benefit both themselves and their sectors. One example of this phenomenon is the creation of the region's "real service centres".

Originally developed with the support of the regional government, these service centres concentrate on providing highly targeted business services to small firms in key sectors such as textiles, footwear, ceramics, building, and agricultural machinery.

What all these centres have in common is that they replicate the advantages of large corporate structures for the collection and application of global knowledge for production, while maintaining the strengths which are unique to small enterprise.

Service centres scan the globe for the most current information on markets, consumer trends, technological developments, and best practices which they then provide to their members. They are driven by the needs of small firms which they serve, and are situated in the industrial districts where their membership is located. What service centres make possible, in short, is global knowledge for use in local production.

Another key to the success of these small enterprises is the role of financial consortia which provide ready and inexpensive capital to local firms. Operating like lending circles, individual loans are guaranteed by every other firm in the consortium, and the resulting default rate is a fraction of what it would be for a bank.

### *Flexible Manufacturing Networks*

At the level of production, the co-operative model has been applied to the creation of Flexible Manufacturing Networks, which most exemplify the Emilian Model in the commercial economy.

Flexible manufacturing networks refer to a set of relationships that link small firms together in co-operative production systems. Typically located in industrial districts, these networks again

replicate the strengths of large corporate structures in production systems which maintain the scale, independence, flexibility, innovation, and specialization of small firms.

Most of these enterprises are family-owned firms or small co-operatives with an average work force of 10 to 20 people. They are highly specialized and technologically sophisticated. These key features allow them to concentrate on high quality production which places their products at the top rank of global markets. And how do such small enterprises survive in a global economy? Co-operation through involvement in manufacturing networks is the answer.

Typically, a manufacturing 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 specialize in one aspect of the production cycle. And, although the anchor firm 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.

The town of Poggibonsi is a good example. Located in Tuscany, the region is world renowned for the excellence of its woodworking and cabinetry. Over 80 small firms work in the industry and export over 95% their products world-wide. Once an anchor firm secures an order for say, a line of kitchen cabinets, the sub contracts may go out to a firm specializing in design, to another expert in milling, to a third excelling in finishing, and possibly to a fourth which will package the finished product.

At any step of the production process, the small scale of operations allows the individual firms to make adjustments to the product, to respond to new requirements from the client, or to seek additional expertise if it is required. Flexibility is built in. Moreover, most of these deals are made on a handshake. Legal contracts are unnecessary and rare, and the transaction costs extremely low.

What is remarkable in these networks therefore, is the application of attitudes and principles which closely resemble the operations of civil society. Key among these is the principle of reciprocity, which sets these operations apart from the commodity exchanges of the commercial economy.

Unlike the profit principle which animates the private economy, the reciprocity principle entails a relationship based on trust and mutual exchange and which says, “I will help you now, on the understanding that you will reciprocate later”. This is precisely what the co-operating firms do in manufacturing networks. One firm will outsource to other firms on the expectation that those firms will reciprocate to them later. As in a classic co-operative system, the success of one firm is intimately bound up with the success of the others.

At a theoretical level, the success of this strategy highlights the direct relationship between the operations of a vibrant civil society, and the transmutation of social capital into economic value.<sup>ii</sup>

### **Co-operatives and the Social Economy – The Growth of Social Co-ops**

The emergence of the notion of “civil society” in recent years has placed a spotlight on what has previously been an ignored sector. This again, has been one result of the intense struggle surrounding the ascent and dominance of corporate ideology and the private sector in all aspects of society. Nowhere has this been more contentious than in the debate surrounding the role of government and the nature of public services.

In Canada, much of this debate has centered on the retreat of government from the provision of public services, largely as a response to the deficits of the ‘80s and ‘90s, and the contention that the private sector can do a better job.

In Italy, this same debate has raged as it has in all the western democracies, but the outcomes have been more diverse. In the north of Italy, in those regions where co-operatives and civil society is strongest, there has emerged a model of social co-operatives which places civil society at the forefront of how social services can be reformed in a progressive way.

In Italy, there are now over 3,000 social co-operatives which employ nearly 60,000 individuals, many of whom are handicapped or were formerly marginalized from mainstream society.

First organized in the early '70s, social co-operatives were formed by care-givers and families of people with disabilities to provide services to the disabled that were not available from the state. By 1980, the activity of these co-operatives greatly increased resulting in their formal recognition in Italian legislation in 1981.

Today, the economic turnover of the social co-operatives is over 1.75 billion dollars amounting to 13% of the Italian expenditure for social services. In Bologna, over 85% of that city's social services are provided through social co-ops.

As described in Italian legislation, social co-ops have as their purpose *"to pursue the general community interest in promoting human concerns and the integration of citizens"*. In this sense, social co-operatives are recognized as having goals that maximize benefits to the community and its citizens, rather than maximizing profits to co-op members. This is an explicit recognition of the role of the co-operatives in the creation of social capital. For this reason, social co-ops are exempted from the payment of social benefits to "marginalized" members if such members make up 30% of the employees.

There are two types of social co-ops:

- Type A, which provide the delivery of social, health, educational, and recreational services, and
- Type B, which provide for the gainful employment of the disadvantaged through training in the agricultural, industrial, business, or service sectors.

Type A, or social service co-ops, serve a large stratum of individuals which include the handicapped (30%), the elderly (31%), youth (17%), people with intellectual handicaps (5%), and such excluded groups as prisoners, ex prisoners, and drug addicts (9%). All these groups are clearly recognized in the co-op legislation. In fact, Italian legislation allows social co-ops to be exempted from paying employee benefits if 30% of their employees are drawn from these targeted populations. The state picks up this cost as an incentive to promote the hiring of people with employment barriers.

The experience of social co-operatives in Italy has led to a radical rethinking of how the public interest might best be served by entities other than the state. It has also pointed a way out of the traditional impasse between left and right on this issue. The solution indicated by social co-ops revolves around the notion of "relational goods", and what kinds of organizations are best suited to deliver such goods.

Relational goods are those goods such as care giving, which are services to persons and which are characterized by the exchange of human relations. In relational goods, the quality of the personal interaction lies at the core of what is exchanged between the provider and the recipient and can be optimally produced only by the provider and recipient *together*.

This of course, applies to the unique nature of social services. Services such as education, health care, and care for people with disabilities are "social" in part because they are not merely commercial commodities. They refer to social relations that are apart from the exchange of commodities for profit which typify commercial transactions.

Neither state bureaucracies, which tend to depersonalize and humiliate social service recipients, nor private sector firms, which may exploit recipients for profit, are suited to the provision of relational goods. In both cases, what suffers is the quality of a caring and reciprocal relationship which is at the heart of the service being produced. This is why co-operatives are well suited for such purposes.<sup>iii</sup>

One effect of social co-ops in Italy is a measurable improvement in the quality of services. In addition, the Italian experience has shown that co-operative models are more cost effective than state alternatives. In a recent study of elderly care in Emilia Romagna, it was shown that social co-ops provided a superior service at 50% of the cost of state programs. This can be traced to a number of factors: more flexible working conditions, lower labour costs, and higher commitment among workers resulting in higher efficiencies of service delivery. In addition, the services were freed of artificial costs associated with the maintenance of a state bureaucracy.

Most social co-operatives are worker co-ops whose members are professionals. They range in size from 10 or 12 individuals to over 500 as in the case of CADIAI, the region's largest social co-op which provides a range of services in the health services and senior care field. In almost all cases social co-ops provide their services under contract to municipal authorities or other public institutions. And although these contracts must be won through an open bidding process, services such as health, education, and senior care are restricted to organizations that are either non-profit associations or co-operatives. In this sense, social services remain a protected market.

But the success and phenomenal growth of social co-ops as an alternative to state delivery systems has spurred thinking toward the creation of a true social market in Italy. In such a market, many services would be provided by organizations operating within the civil economy. In these cases, the state would retain a funding and regulatory role. For other services, like public education and transportation, the state would remain the primary provider.

Nevertheless, an important shift is taking place through the recognition that while the state is still responsible for *providing* social services, it does not need to *produce* these services. Indeed, the inherent nature of government as set against the unique and changing needs of citizens argues against such a role.

In Canada, the articulation of civil society's role in the production of social services is still very unformed. But the same pressures of service quality and service cost which drove the Italian system to take seriously civil society's role continue to raise the issue of progressive alternatives in this country. Equally pressing is the pervasive influence of free market ideology on the operations of the public sector.

### **The BC Context**

On the face of it, comparisons between Italy and British Columbia might strike one as tenuous. But the Emilian experience does hold important lessons for us, both in our commercial and social economies.

BC has about the same population as Emilia Romagna, and its economy is likewise composed of predominantly small and medium sized firms which account for the bulk of economic production and wealth generation. Despite the dominance of large corporations in the resource sectors (and the public mind), small firms generate over 65% of new jobs in the province. In fact, small firms produce a larger share of the total value of employee earnings in BC than in any other province.<sup>iv</sup>

The great weakness of the small firm economy in BC however, is precisely the lack of systemic supports that can help small businesses succeed. Even more important is the role of co-operative structures to foster a sense that small firms have more to gain by working together than by struggling alone. In this, government can play a key role as it does in Emilia Romagna.

On another front, the continuing debate over the proper role of government in the provision of such services as child protection, services to the disabled, health care, and social assistance, invites the exploration of alternatives that take us beyond the fixed positions of left and right on these questions. There is much in the Emilian experience of social co-operatives that can break the current impasse.

The key here is a model that combines public support and oversight of public services through government, with the sensitivity, flexibility and accountability that comes with citizen control over *how* these services are provided. Co-operative models offer a mechanism to make this work. The same logic could be applied to the reform of other public assets such as BC Hydro.

Ironically, an opportunity to put some of these ideas into practice now presents itself with the policies being promoted by the current provincial administration. At the municipal level, and for very different reasons, new approaches to service delivery are also becoming possible. The electoral success of COPE in Vancouver points to a strong desire for progressive change in the city's electorate.

Needless to say, a strong sense of caution must be employed to ensure that any notions of service privatization or downsizing do not compromise the democratic goals of progressive reform.

Finally, there is in BC a strong tradition of communitarian values which predispose significant sections of the population to the co-operative model. The articulation of a clear and compelling alternative along these lines would find a responsive chord in many communities. This is one reason why the co-op model is experiencing an impressive rebirth in BC. The other factor in this resurgence is the economic crisis that has hit communities dependent on the traditional resource economies. A lot of people are desperately seeking out alternatives.

BC's co-op sector is now the second fastest growing in Canada after Quebec. It is evidence in fact, that it is perhaps the absence of a credible and progressive vision that has allowed the disaffected populism of BC (and elsewhere in Canada), to be captured by the rhetoric of the right.

Ultimately, it is up to the organizations within civil society to fashion both a vision and the working models that illustrate the alternatives in practice.

### **Toward a Co-operative Economy in BC**

There has rarely been a time when the benefits of a co-operative approach were more relevant to the needs of both the commercial and social economies of BC.

In the commercial economy, the field is open to capitalize on the intrinsic need of small firms to organize themselves around co-operative ventures. One of the most promising may be the provision of both development and venture capital organized through small firm credit circles in targeted sectors. (Two sectors, which by their nature rely on the operation of reciprocal relationships in business, are the high tech sector and the film & television industry.)

In the social economy, the time is long overdue for a radical re-appraisal of public and social services from the perspective of citizen control and the public interest. One approach is the establishment of a true social market that places institutions of civil society, most importantly co-operatives, at the forefront of social service delivery.

For example, the development of a social market in the provision of services to people with disabilities would allow these persons to form co-operatives to provide themselves with services they now receive from the state as dependents. Similarly, professional care-givers would be free to develop co-operatives to provide such services to this market. In both cases, government would provide funding directly to citizens for the purchase of these services either individually or through co-operatives.

Another area of great need and certain growth is the provision of home care and services to the elderly. The recovery and potential re-investment of savings in senior care has already been documented in the use of social co-operatives in Italy. In Canada, the rapid growth of home care co-ops in Quebec speaks both to the viability of these services and to the unmet needs of this demographic in our society.

The operation of these kinds of services recycles an enormous amount of money within the social economy (over 1.5 B for services to the disabled alone). The margins that are saved through cost savings and increased efficiencies might then be reinvested in the social market for the generation of new services and additional supports that benefit both service providers and users (e.g. training & professional development, information systems, equipment design & purchase, the building of facilities, etc.)

Finally, there is a pressing need for the formulation and promotion of a new vision for the evolution of a co-operative economy in BC. Without such a vision, it would be difficult to make any headway on these fronts. Government decision-makers at both Provincial and Municipal levels need to understand and support this movement. Regulatory and legislative constraints need to be changed. Constituencies in civil society need to be mobilized. And, business leaders need to move beyond simplistic notions of economic development that foster in BC the mindset of a frontier town (no government, minimal regulation, and every man for himself).

## Summary

Co-operation is a highly effective strategy for meeting the many pressures facing communities in a global economy.

If the experience of Emilia Romagna is any indication, then the future of BC's economy in a global context may depend not so much on the competitive position of its individual firms as on the competitive performance of the region as a whole.

This in turn depends on the interpretation and application of co-operative strategies that link related economic agents in mutually supporting systems. Most important is the cultivation of a new entrepreneurial disposition which sees the success of a rival firm as intimately bound up in the success of one's own.

Or, as one commentator has said of the Emilian Model, *"It is not the size of a firm or the networks themselves that determine the success of our region. These are just the components. It is the attitude of co-operation that acts as the software which runs the system"*.<sup>v</sup>

This is not some kind of romantic notion which is a holdover from the past. In the commercial economy, it is a strategic choice that may spell the difference between economic survival and defeat for small firms and the communities they sustain.

In the social economy, it is a vision that restores community and civil society as the only context in which caring for others can flourish in a humane way.

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<sup>i</sup> Similar networks are also being used with high success in other regions such as Denmark, and the Rhine Valley of Germany.

<sup>ii</sup> See Robert D. Putnam, *Making Democracy Work – Civic Traditions in Modern Italy*, 1993

<sup>iii</sup> This fact is borne out by the concept known as the GHM Paradigm after "Grossman, Hart, Moore". This economic paradigm states simply that: "the optimum form of a firm is determined by how the source of return (the asset) is maximized". In those enterprises where returns are maximized by the application of capital, private firms have a competitive advantage because labour is generic but capital is "asset specific".

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The opposite is true in those areas where investment in human capital and in personal relations is crucial, such as in the provision of relational goods. In such sectors, research shows that co-operative firms hold a comparative advantage because capital is generic, whereas labour is asset specific. In such a firm, a co-operative structure that employs the reciprocity principle in carrying out its function will always perform better than a capitalist firm.- Stefano Zamagni, 1999

<sup>iv</sup> "Small Business Profile '98 – A Profile of Small Business Growth and Employment in British Columbia", 1998

<sup>v</sup> Oscar Marchisio