

COMMUNITY-BASED ENTERPRISES IN ITALY: DEFINITION AND GOVERNANCE MODELS

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ABSTRACT

In recent years, a new form of co-operative business is taking shape in Italy: the community-based enterprise, a community acting collectively at both management and business level, to pursue common goals. Community-based enterprises grow on a system of networks of free relationships among the members of a local community, with a high degree of reciprocity; when individuals work together in a business systems, relationships become social relationships. The complex of the community members' relationships, objectives and expectations towards the company reflects necessarily on governance models that should follow a multistakeholder pattern. Multistakeholdership implies a direct and active participation of subjects bearing conflicting interests in the decisional process. This paper describes community-based enterprises in Italy, draws their governance models, and emphasizes how the passage from opening to different stakeholders to implementation of multistakeholder governance is very slow and difficult to put into practice.

KEY WORDS

COMMUNITY-BASED ENTERPRISES; COOPERATIVES; CORPORATE
GOVENANCE;

1. INTRODUCTION

The history of cooperation in Italy starts in 1854, when the first consumer cooperative was established in Turin. The movement developed in the context of social security institutions, driven by solidarity principles and promoting initiatives in the cultural and economic fields. In towns - but not in the country, differently from other European countries – many workers', farmers' and credit cooperatives were born. The quick and lively development of cooperation movement prompted the legal recognition of Italian cooperatives, before in the 1892 Trade Law and then in the Constitution of the Italian Republic some year later. Unlike other European cooperation movements, the Italian one has been characterized from the beginning by an inclination to social cooperation, enhancing the principles of mutualism and democratic management with the help of disadvantaged people. In 1963 the first assistance and social security cooperative, in which to mutualism¹ was added the ability to produce benefits also for external subjects, was founded. Social cooperation, in particular, received full legal recognition with the decree 381, 1991, that fixed the institute of Social cooperative and that has been largely copied by other countries.

The world history of cooperative movement underlines that the struggle of human societies for common advantages has brought to the creation of institutions and companies that were legally recognized only later.

The same happens again in Italy today with the development of a new cooperation model, shifting from social solidarity to social and environmental sustainability: the “community-based cooperation”. From 1999 up to now, many cooperatives have been founded, whose structure and organization follows international cooperation principles but with a wholly

¹ “Mutualism does not mean absence of a speculative intention [...] but finalizing it to the development of mutualistic aim, linking the presence of a profit not to a plus-satisfaction of the associate but to self-financing of the cooperative company, lacking, especially in the starting phase being a cooperative, in venture capital contributions, typical of private business”. A. Maticena, (1990 :18)

different mission: the community-based cooperative seeks indeed to reestablish the circular relationship of mutualism, social solidarity and subsidiarity that is the ground of every civic and political community.

This cooperative model is not well known, but it has been defined in its operative activities: more precisely, “the community-based cooperatives must have as its declared aim the provision of advantages to a community to which the associates belong or choose to belong. The aim must be reached through the production of goods and services, to leave a steady mark on fundamental aspects of social and economical life quality”. Nevertheless, its features and functioning are largely unknown. The research project partially reported in this paper aims at analyzing the model of community-based cooperation – that is still at embryo stage – and provide a description of this cooperative model through business economy investigation.

2. RESEARCH OBJECTIVES

Community-based looks as a new model of cooperation, with his own features distinguishing it from consumer cooperation, workers’ and farmers’ cooperation, credit cooperation and social cooperation. Its distinctiveness is the inclusion of sustainable development of local communities in its institutional aims. Community-based cooperatives mark a new stage in evolution for cooperatives, after the shift from mutualism to solidarity, and then to sustainable development. To avoid the risk becoming a precinct of experiences and not a promoter of new businesses, it is necessary to define the action area of community-based cooperatives, to establish and describe its mission, its corporate governance model, and its accountability and sustainability systems, finding similarities with other cooperation models and emphasizing its distinctiveness. The interaction with the community itself and the existing relationships network is to be studied and understood.

The community dimension of this sort of cooperation is not a “natural” phenomenon, pre-existing and taken for granted; it is rather the product of an intentional dynamic process,

starting and evolving through the ability to interweave informal relationships systems, grounded in personal bonds and memberships.

Ivano Barberini (2009) in one of his essays about cooperation and crisis, wrote that cooperation, in case of crisis of unusual gravity, can be crucial for a positive recover, and also to promote a new world order reducing social inequalities and assert the idea of sustainable development. As a result, in a context of crisis, cooperation finds new spaces for expansion. Cooperative companies, being market operators, must follow its logic and rules, but as they pursue not only economic aims they promote the regeneration of the market itself, filling the spaces left empty by the public and private entrepreneurship, in harmony with the principles of mutualism and social solidarity.

The ability of cooperatives in providing sustainable development should express itself in the regeneration of community fabric and creation of human relationships. This is the main goal of community-based cooperatives, whose main interest is the growth of a widespread network allowing preserving and enhancing local communities.² These are themes very interesting for the researchers, from sustainable development to social capital, from accountability and participations models to their governance.

We think it is necessary to answer the simplest and most specific question: what is a community-based cooperative and what is its governance model? The project strives to analyze the rules and behavior structures chosen by group of individuals transformed in social communities, to pursue a long-lasting economic activity with meta-economic goals.

3. RESEARCH DESIGN

² “With the project of community-based cooperatives – says Giuliano Poletti, president of Legacoop – we aim at offering a support to people that wants to gather together and organize themselves to meet their own needs. We think cooperation is a flexible and powerful instrument, offered to every person and community willing to take on the responsibility to give shared solutions to his own problems and be protagonists in their future. We think not only of traditional utilities, but also of green energy and broadband connections, crucial crossroads for the capacity of the country in producing innovations: an opportunity to which all the territory must have access, also the minor villages, where a protagonist of citizens and businesses in associate form could be decisive to reach this objective”.

The research project aims at understanding, describing and analyzing the phenomenon of community cooperation. The understanding relies on the ability to read the phenomenon and emphasize its character in business economy terms, to design a pure type of community-based cooperative. The description will allow explaining the features of community-based cooperative and the analysis will explain the actual state of the phenomenon and in a future phase will allow tracing evolutionary scenarios. The process is made clear in the research question: “what is a community-based cooperative and what is its governance model?” The research design runs as follows:

- A recognition of all experiences in Italy and a report of the development path of the activities and sectors of intervention (here reported in a short synthesis)
- The literature review on governance and multistakeholdership
- The definition of community-based cooperative models, through the documental investigation
- Understanding the involvement of the local community in the governance of cooperatives, through an online survey.

4. RESEARCH BACKGROUND

Non-profit-organizations, like community-based enterprises, have a broad mission; they aim at maximizing collective advantages and are oriented to answer the needs of a plurality of subjects. In non-profit organizations not only shareholders, but also many of the interested subject find an answer to their needs. NPOs are not single subjects but plural subjects, in terms of goals, people involved in governance and users. NPO’s complexity cannot be adequately described by traditional for-profit business theories: these companies’ aim is profit and the subjects involved in their governance share the same strategic goal, the maximization of the capital. The classical distinction between shareholder and stakeholder is meaningless in

non-profit companies (Glaeser, 2002) as there are no shareholders (Alexander & Weiner, 1998; Low, 2006) because profits are not redistributed.

As the mission is open and widespread, many authors have questioned how responsibilities should be redistributed and how to develop decision processes; in short, whose form of governance NPOs should adopt (Brown, 2005; Du Bois, et al., 2009; Jegers, 2009). Scientific investigation on governance in non-profit companies has started from the separation between ownership and management and then focused on board composition, resulting in an enlarged governance approach. The Stewardship theory (Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991) explains how managers in non-profit companies have their primary aim not in our own profit but in various psychological, cultural and humanitarian motivations. Stewardship theory assumes managers and executives are members of the community and share the same political-cultural background, and they can go towards the maximization of collective advantages, because companies' interests and the interests of the community coincide. Another debated theoretical approach is the one derived from Freeman's works, the so-called stakeholder theory (R. Freeman & Reed, 1983; R. E. Freeman, Wicks, & Parmar, 2004): organization hold a direct responsibility towards all who have interests in it. Stakeholder theory proposes a governance model in which the company must maintain strict relationships with stakeholders, to ensure transparency on management and all activities of the organization. According to stakeholder theory, the company must respond at the same time to many interest groups whose positions may be diverging or conflicting. Wellens and Jeger (2013) in a comparative reading of scholarly researches on NPOs governance practices and main stakeholder expectations have emphasized positive results for NPOs in transparency and stakeholders' involvement. The study demonstrates also the impossibility of coupling managers' and board members' needs and expectations about governance with other stakeholders' expectations. Stakeholder theory is a highly realistic representation of no-profit

companies where the principle of democratic inclusion and participatory choice brings different subjects with different goals (owners, workers, volunteers and consumers) to decisions about future developments of the organization. The presence of decision makers with different goals, called multistakeholdership (Gao & Zhang, 2006; Travaglini, 1997; Zhao & Gijssels, 2011) is certainly a peculiarity of NPOs but some remarks could be expressed about governance models:

- The decisions of multistakeholder boards could be less than optimal for the organization, as a result of a negotiation between subject with conflicting interests (Jensen, 2010; Sternberg, 1997);
- The complexity of the relationships in the board needs participants with high decision-making competences, if not, the negotiation would slow down the decision process too much.
- Multistakeholdership supporters uphold that the presence of plural subject in NPOs boards allows a better confrontation on needs, more transparency in activities and a direct control by consumers, making the organization itself more long-lasting through the legitimation from all its stakeholders (Fazzi, 2012; Mandel & Qazilbash, 2005).

The passage from Stakeholdership to multistakeholdership governance models is very challenging regarding board composition and the role of external and internal subjects in choices and strategies, as multistakeholdership implies the direct and active participation in the decisional process of subjects with conflicting interests. Even if some of the researchers uphold that external subjects should represent the majority of the board, to maximize wellbeing in NPO (Fama & Jensen, 1983), this hypothesis hasn't been verified in empirical researches conducted in subsequent years (Callen & Falk, 1993; Dyl, Frant, & Stephenson, 2000); moreover, there are no conclusive evidences on the better number of board participants. Up to now researches have mainly focused on description of real

multistakeholder governance cases (Ansell & Gash, 2007; Daley, 2002; Mersland & Øystein Strøm, 2009) trying to make clear the implementation, in different activity sectors, of a participatory governance between subjects with conflicting interests. This paper tries to describe participatory governance in community-based cooperatives, the emerging phenomenon of a community that becomes an entrepreneur to meet collective needs

5. COMMUNITY-BASED ENTERPRISES AND MULTISTAKEHOLDERSHIP

Community-based enterprises (Peredo & Chrisman, 2006) are a relatively recent phenomenon in Italian business landscape, and they have no legal recognition, differently from what happens in Anglo-American context, where Community Interest Company³ and Low Profit Limited Liability Company⁴ are wholly recognized juridical form, with specific regulations about activity sectors, governance and ways of accounting the results. In Italy, community-based enterprises have had a volunteer-based genesis, with the sole aim at regenerating a territory void of relationships or business activities allowing the members of community to respect the environment, find an answer to their needs of a paid job and at the same time not to leave their birthplaces. Community-based enterprises in Italy are a grassroots phenomenon, originating from a specific exigency of citizens and communities to engage in business. Nevertheless, the absence of a proper juridical form, the exigency of a democratic participation structure, and the active support of cooperative centers to their development has persuaded the to-be executives to choose the cooperative as juridical form. Community-based enterprises – community-based cooperatives, in Italy – are engaged in an adaptive path of development, referring to other business models and adapting them to their own mission. The

³ A community interest company (CIC) is a new type of company introduced by the United Kingdom government in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004. A CIC is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community; CICs tackle a wide range of social and environmental issues and operate in all parts of the economy.

⁴ A low-profit limited liability company (L3C) is a legal form of business entity in the United States that was created to bridge the gap between non-profit and for-profit investing by providing a structure that facilitates investments in socially beneficial, for-profit ventures.

adaptive principle is also followed in order to structure governance, starting from the participatory logic of cooperation and aiming to include a plurality of subjects with conflicting interests, in a multistakeholder logic. Multistakeholdership governance of community-based enterprises is an exemplar of the evolution in the management of public services towards an enhanced participation and control by the citizens, through the form of cooperative company.

Multistakeholdership in the cooperative represents the assumption of the role of economic actors by the whole system of social partners, not by a single one (workers, users, consumers, providers of venture capital). With the assumption of the role of economic actor, the partners take on themselves leadership and economical risk and not only the role of representatives of peculiar interests in public services' organization.

Community-based cooperatives are trying to promote a double innovation in the same act of going back to the roots of cooperation, revisiting participation and direct control by the citizen and the assumption by the cooperative of the challenge of managing public services.

The community-based cooperative take shape in the contexts of public services seen as marginal (as the revitalization and promotion of tourism in marginal territories) or too innovative (the management of utilities like solar power..

The community-based cooperative adopt this model to develop and control local public services, through the direct involvement of citizens in the economical management of the service.

The model aims at enacting more participation and direct control, reactivating forms of collective entrepreneurship in public services that are inscribed in the history of cooperation.

This represents (in the better cooperative tradition) innovation through a comeback to origins: it should be reminded that some cooperatives were among the first "social" management of

public services, both in the field of the network services and in the field of welfare regarding sickness, inability and ageing.

The passage from cooperatives of local economical actors pursuing public interest goals (as tourism or environment workers' cooperatives) to community-based cooperative implies the broadening of interests involved and enlarging the number of controlling subjects, from groups of businessmen to all the citizen interested (in broader sense, and not only through the municipality as political representative).

A reflection must be made about the way in which multistakeholdership is enacted: in literature multistakeholdership is defined as an "enlarged social management" that gives to subjects void of property rights some decisional and control rights on business choices. In other contexts multistakeholdership means the total inclusion of all categories in the social basis of the cooperative, with the abolition of mutuality perspective between groups, to converge on goals of general interest, as common to the different social partners.

In recent years, multistakeholdership has been tried out in Italy in social cooperatives active in social security services and in employment of disabled people (even if these are very few experiences) and we can make about these experiences some interesting remarks, that can also been applied to community-based cooperatives.

Multistakeholdership, indeed, does not belong to cooperative tradition, deeply rooted in mutualism, and implies an effort to open the company management to participation and control instances proper of some services, as tourism or environmental services, that operating on the territory require participation and control from the inhabitants to act effectively.

Multistakeholdership situations in community-based cooperative assume different sorts and models:

- Tourism promotion cooperatives, including workers and municipalities

- Energy cooperatives, including providers, users and municipalities (with a “third contributor”, the national funding for green energy)
- Fair employment cooperative, including workers and citizens interested in inclusive development of the territory.

Common features are the research of a broader participation and social inclusion through the involvement of local subjects, providing innovation and direct participation.

In the diversity of situations, typical of an ongoing process in promoting and wide spreading innovative models in services’ management, we can find some common conditions for the enacting and long lasting of multistakeholdership.

A first reflection must be made about the necessity of “long-lasting multistakeholdership”, meaning that the participation of peripheral subjects (the ones whose income does not rely on the cooperative, differently from workers or executives whose activity is strongly linked to the cooperative itself) must be continuously refreshed and renewed.

The experience of social cooperatives shows that in the entrepreneurship phase (the founding and starting the cooperative) multistakeholdership governance can be easily maintained, but that in later phases it must be sustained, avoiding the “job drift”, that is the growing disengagement in the cooperative of non-working subjects and its inertial transformation of multistakeholdership cooperative in a workers’ cooperative.

Multistakeholdership not as an acquired fact, but as a process to maintain all along the life of the cooperative, applies in our opinion also to governance, information and control, the other elements of peculiar cooperative governance, and to destination of profits, .

The inclusion of new associates, the turnover in task assignment and appointments, can act as a mighty instrument to open the cooperative to contributions from its territory.

The opening of the cooperative to different subjects and instances from the context and to the groups of subjects and interests present in the community, and their composition in associate

decision processes instead of political-representative one, asks for the empowerment of information, control and participation processes proper of the cooperative.

In this sense, community-based cooperative has the same governance issues of all cooperatives: namely, how to secure a good level of democratic control in presence of a managing group and of a broader group of associates not directly involved in the management, and how to promote in these associates the business participation, enhancing their inclusion (social and entrepreneurial) in activities and productive processes of the cooperative. Good acting methods proposed in multistakeholdership cooperative are similar to other cooperatives' ones – and they can indeed be seen as a mere expression of mutualism principles) and can include, e.g.:

- full transparency not only inside the cooperative but also towards the outside, necessary for a democratic control on the company decisions;
- full transparency on redistribution of value produced by the cooperative and the related profits;
- faster turnover of the appointments and most participatory decision rules, even maintaining a company management, not a mere assembly governance.

Concerning information, more transparency and an enlarged information on decisions and choices of the cooperative are the basis for democratic participation and control on the decisions of social bodies.

Transparency about decisions and more frequent occasions for participating (for the associates themselves and the external world) are a precondition for participation and inclusion processes.

A social report to account on values, explain the vision, emphasize the relationships with social partners and the ways in which value is produced in the cooperative's production

processes and distributed to the stakeholders, is the right way to show its activity and make it open to plural contributions, external or internal to the cooperative.

Mere information is in itself not sufficient to promote a shared governance of multistakeholder structure, lacking provisions to enhance turnover in appointments and participation, as limitations to the length of appointments or quotes in social bodies reserved to disadvantaged groups.

The path towards participation and sharing in community-based cooperatives, through these provisions, aims at transforming a private business structure in an instrument for sharing and participating economical and social management of public services, offering, even in the limited number of cases, interesting ideas to develop cooperation and management of public services.

The experience of community-based enterprises in Italy takes the form of community-based cooperative, a no-profit organization in which profits are fully reinvested and whose ultimate aim is responding to the needs of the community: regeneration of social fabric, preservation of social and environmental capital, inclusive employment for community members, in full compliance to international cooperation principles.

The research highlights that community-based cooperation has made its first steps in Italy in the 2000's with two trial experiences on the Reggio Apennines, and now includes eight cooperatives in operation and three ready to start their activity in the current year.

A crucial passage for the development and expansion of community cooperation has been the institution, in 1999, of a partnership between Legacoop and the association "Borghi autentici d'Italia", to provide operational support and widespread diffusion for the project of community-based cooperatives at a national level. The collaboration of the two actors has enlarged the diversity of activities of community-based cooperatives, before oriented almost exclusively to social and environmental preservation through farming/farm tourism and nature

park management, to more complex forms of responsible tourism involving the entire community. Community-based cooperatives now in operation are active in four main sectors: agriculture, floriculture/forestry, tourism (farm tourism and private hospitality) and green economy public utilities (solar power).

The trial projects born to improve the conditions of their community and promote employment, especially for young people, have centered their actions on activities able to qualify the environment and give sense to declining communities. Not incidentally, these experience have started in little mountain villages with few inhabitants and a lack of business and social infrastructures.

The development and growth of these activities has prompted a reinforcing of local community, regenerating the relationships among citizens the community has become aware again of its human capital and has opened more and more to tourism activities involving a strong interaction between community members and tourists. The first generation of community-based cooperatives has developed preservation activities in the primary sector, tracing the path for the second generation of community-based cooperatives engaged mostly in eco-sustainable and responsible tourism services.

The community-based cooperatives engaged in green economy public utilities have a different genesis. These communities have transformed themselves in entrepreneurs to respond to collective needs, selling the power surplus provided by photovoltaic panels mounted on their home roofs. In this case, the common features of environment preservation, satisfaction of collective needs and direct involvement of community members are confirmed, but very different is their way to interact with the context to promote the sustainable development of the local community.

6. CORPORATE GOVERNANCE IN ITALIAN COMMUNITY-BASED ENTERPRISES

The relationship between cooperative and community is especially relevant, because birth and growth of the cooperative rely on its capacity to respond to community needs; more the satisfied needs, more the regeneration of cultural identity of the community. The relationship with the local community is the crucial focus for these NPOs, whose implicit aim is at regenerating the local community where they operate. The strong bond with the community poses a serious problem in choosing governance models for these organizations. The ordinary structure of a cooperative requires two bodies, the assembly in which all associates participate on an equal basis, and a management board, a restricted group of associates that enacts the general lines expressed by the assembly. According to the size of the association, this general model is adapted to a stakeholdership logic (when only a portion of the community members is associate in the cooperative) or multistakeholdership (when all the members of the community are associates). The trial project were born with a partially open logic, in which some members of the community have prompted the creation of the cooperative community starting from a little number of associates, slowly growing in the subsequent years. Community-based cooperatives managing public services have followed a totally different development model, because of the high investments and the necessity of economies of scale possible only with high numbers, making compulsory the participation of all or a very large majority of the local community. Different company structures imply that local community is in a different position; in stakeholder perspective, it is one of the interest actors, to which the cooperative must account in full transparency the use of collective resources and their behavior. In multistakeholder perspective, all members of the community are associates and sit in the assembly or in the management board with multiple roles: associates, citizens and often workers.

In the time span between November and December 2013 a survey has been conducted on the eight community-based cooperatives active in Italy to understand the degree of inclusion of

the community in the structure of the cooperative. Six cooperatives, in a total of eight, have participated to the survey and completed the questionnaire (75% redemption). The research has been conducted on different topics: the president, the management board, the general assembly, and the community. The questions answer to the aim to understand features and inclusion degree.

The presidents of community-based enterprises have in a strong majority between 45 and 55 years of age, and almost always have been on appointment more than once (only in two cooperatives, on a total of eighth, the presidents are at their first appointment). They usually qualify as leaders that founded the cooperative and goes on tracing its leading lines, and it is interesting to observe that the turnover in presidency in community-based cooperatives is more difficult in older cooperatives, more attached to the founder-president, than in recent ones. The educational level of presidents is average-high, all of them has a high-school certificate, two of them also a university degree. Management boards are usually composed of few individuals ranging from three to seven; they are nine in only a case. Board members have a good instruction; half of them have a degree coherent with the activities of the cooperative; the others have a high-school certificate. Gender equality in boards is low, one woman every four board members, and very low (almost absent) the participation of external subjects. Only associates sit in boards, and at this level the inclusion of external subjects is totally lacking; nevertheless, in most cases workers and local authorities are associates of the same cooperative. The assembly including all the associates is the place of participation and transparent accounting and, in some cases, dialogue with external subjects. The size of the assembly is very diverse, ranging from micro-community-based cooperatives with seven associates to big cooperatives with over 130 associates; the bigger are of course the cooperatives managing utilities. The assembly of cooperatives that have answered the questionnaire meets several times a year in ordinary session, with the sole presence of

associates; the assembly has full rights of deciding and directing the life of the cooperative (80% of those who compiled the questionnaire have declared that assembly is where strategic decisions are taken). In community-based cooperatives managing public services, the assembly is convoked also in public session, opening its door to non-members. The interaction with local community acts at various levels, interpersonal relationship is the preferred, and then follows active participation to the cooperative action. The survey makes visible a fundamental ambiguity: cooperative members acknowledge that local community has a great interest in the cooperative, expressed in the active participation to initiatives and sometimes in a prompting role, communicating new needs of the community. But most people prefer to conduct confrontation outside the cooperative, instead of bringing it inside. This model of relationship with local community, informal and only partially inclusive in management processes, brings anyway some positive results. Cooperators declared in all cases that local authorities are attentive and interested in community-based cooperative activities. Moreover, the degree of conflict between community-based cooperative and citizens is extremely low, when not absent; only in a case, on a total of eight, local community has hostile behaviors towards the cooperative.

7. CONCLUDING REMARKS

Community-based enterprises in Italy have generated on a fully volunteer-based process, responding to the needs of community, and lacks legal recognition and juridical status. As a consequence, it followed an adaptive pattern, imitating other business experiences and integrating them in the cooperative form.

Especially relevant is the problem of adaptation in governance forms chosen for these companies, as the relationship with the community can be managed making the community presence inertial in the cooperative, giving life to multistakeholder governance models or

simply accounting in a transparent way to interest actors, following governance models referring to stakeholder theory.

In practice, multistakeholder models are implemented only in community-based enterprises providing public utilities, where the participation of a large portion of local community is made necessary by high investment and the necessity of realizing scale economy, possible only in large numbers.

Italian community-based cooperatives seem indeed more oriented to stakeholdership governance models rather than multistakeholdership models; they prefer an interaction based on personal relationships in local community; in other cases, they involve the community as active subject in the production process, so that the community can see in first person the use of resources by the cooperative. In fewer cases, local community receives a real report of external actions of the organization activities on the community. In no cases, boards and bodies are open to external subjects, and they not seems able to operate with a multistakeholder governance model.

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