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## **WORKERS' BUYOUT: THE ITALIAN EXPERIENCE, 1986-2016**

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**Abstract.** Workers' buyout (WBOs) are emerging during the present economic crisis as an alternative tool to maintain employment and production. In Italy, in the last thirty years, 258 cases have been recorded. What are their general characteristics? Why do WBOs develop and who are the main sponsors and financing tools? The present analysis aims at defining the phenomenon and the enabling environment. Moreover, primary sources collected from different actors will explain how WBOs have developed and thrived across Italy saving jobs and productive capacity.

**Keywords:** cooperatives; cooperative movement; worker cooperatives; employee participation; collective ownership.

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**Additional disciplines:** law; political sciences; sociology

### **1. Introduction**

The literature on the history of the cooperative movement refers to 1844 as the year when the first basic commodities consumer cooperative in Rochdale started near Manchester (Bernardi, 2007; Solera, 2012). The *Rochdale Society of Equitable Pioneers*, unlike the previous experiences, owes its success to the idea of securing members' loyalty through the mechanism of profit allocation proportionally to purchases, namely to the number of operations carried out with the cooperative (Bernardi, 2005; Memorie Cooperative, 2014). The breakthrough (Hansmann, 1996) and highly innovative concepts have been, and still are, the success of the cooperative movement: for example, the direct production of assets held from sales as well as taking deposits from members in order to capitalize the enterprise (Bernardi, Treu and Tridico, 2011). A few years later, in 1849, we witness the birth of the first cooperative in Italy: the *Società Operaia e Cooperativa di Consumo* (Scalera, 2011). Besides furnishing ordinary subsidies, the cooperative has promoted a number of activities useful to meet members'

essential needs including night schools, a social store and a bakery (Gera and Robotti, 1989). As far as self-management of a production site is concerned, Humberto Miranda reports the first international case when workers decided, in 1819, to occupy the English tobacco factory where they were working in order to start producing independently (Humberto Miranda, 2011). In Italy, the acquisition of a business by the employees can be traced back to 1874 when workers of a crockery and majolica factory created the *Cooperativa Ceramica d'Imola*, which is the oldest Italian production and worker cooperative (Brignanti, 1976; Reggi 1974).

The paper aims to present the workers' buyout model in Italy basing the analysis on primary sources acquired thanks to the collaboration with the *Alleanza delle Cooperative Italiane* – the Italian cooperative federation, the mutualistic funds and *Cooperazione Finanza Impresa* (CFI), which is one of the key financial actors involved in WBOs. The first part will lay out the ground in order to understand clearly what WBOs are, what kind of processes they are and the differences with other experiences in the world as, for instance, the recuperated factories in Argentina. Secondly, the study will focus the attention on the Italian cases, the importance of the cooperative model for WBOs and the enabling environment. Finally, the article shows up-to-date facts and data on the Italian WBOs from 1986 to 2016.

## **2. From employees to owners**

The *workers' buyout* (WBO) model is part of the Mergers & Acquisitions (M&A) macro-category and it refers to the purchase of capital stock by its own workers (Cataudella, 2016, p. 437). A more organic and detailed definition describes the WBO process as a business restructuring or reconversion where employees buy the majority share of the whole firm, a division or a subsidiary, and it is often characterized by an active participation of the workers in the management control (Bernardi and Monni, 2016; CECOP-CICOPA Europe, 2013; Vieta, 2014, 2015, p. 5). Lastly, in an interview published online on the Euricse website, the anthropologist Andrés Ruggeri describes WBO as “economic units that go through a process of transition from the private management and ownership to a collective business form” (Ruggeri, 2016b).

Historically, two main scenarios determine the beginning of the WBO process and researchers have studied and analyzed both of them: the lack of a successor in guiding the firm or the risk of failure and bankruptcy (CECOP-CICOPA Europe, 2013). In the first case, the owner decides to leave the business to the workers since there are no other viable options. Employees, then, transform the business type to a worker cooperative. In the second case, workers face the possibility that their workplace would close and, through an institutional path, they decide to save it as a cooperative (CECOP-CICOPA Europe, 2013).

There are several kinds of buyouts, all depending on the key actor who completes the operation. The main typologies are:

- The *Management buyout* (MBO) describes the action of a group of managers who acquires the company employing them, becoming manager/entrepreneurs. Usually, the success of the operation depends on the actors' knowledge of the target firm (Cataudella, 2016).
- The *Leveraged buyout* (LBO), where a group of professional investors (venture capital or private equity funds) buys the target firm with the idea of selling it when the value has increased in order to gain a financial surplus (Montalenti, 1991). Friendly and hostile LBOs can take place depending if the target approves or rejects the proposal of acquisition. Moreover, MBOs can be converted in *Leveraged Management buyouts* if managers deeply use the financial leverage in order to put in place the business acquisition (Morano, 1989).
- *Family buyout* are largely used as a successful generational tool in family businesses. The person interested in acquiring the ownership can find inside the firm itself the financial means to buy stakes from other family members (Bausilio, 2014).

- *Workers buyout* (WBO) are promoted, as said, by the employees of the target company who take on the acquisition and assume a managerial role.

MBOs and WBOs concern a specific reality: the crisis afflicting the target firm leads to a complete managerial and ownership restructuring with the aim of balancing the financial situation. The first difference occurring between these two measures, which emerges straight from their names, is the actor involved in the operation: workers in the WBO and the managers in the MBO. Secondly, WBOs are characterized by a low use of financial leverage since, in most cases, the structural issue of the firm is an excessive debt level. Moreover, leverage uses can be avoided thanks to the intervention of specialized intermediaries like institutional investors and cooperative sponsors that, as explained for the Italian case, finance selected WBO projects.

In addition, another form of acquisition and business conversion was born in the last decades, proliferating notably in South America: the “*recuperated factories*” (Petrovic and Cvejic, 2015; Ruggeri, 2016a; Ruggeri and Vieta, 2014; Vieta, 2013, 2014, 2016; Vigliarolo, 2011, 2016). First born in Argentina, these companies have increased in numbers after the economic crisis in 2001 but they are substantially different from the WBOs since workers replace the owners through the occupation of the industrial area of the enterprise. It is a process that can last weeks, even months, until the day when production restarts and the business takes the cooperative vest (Vieta, 2013, p. 7). Even if WBOs are not studied as their South American equivalents, nevertheless, they save jobs, businesses and local communities. There are different paths in order to acquire the ownership of closing factories by the workers. WBOs and, generally speaking, acquisitions are affected by many factors: the regional and national economic context, the strong presence of a workers union or a cooperative movement, public support through economic benefits such as tax reliefs and a legal framework (Borzaga, 2015). Generally, WBOs can be divided into categories based on the method used to buy the target company:

- Cooperatives born from workplace conflicts;
- Cooperatives born from negotiated plans;
- Using the so-called Employee Share Ownership Plan (ESOP).

The first option is gaining momentum as recent cases are arising in those communities more damaged by the economic crisis. This particular WBO model emerges from situations characterized by a certain degree of conflict between capital and labor such as in South America with the recuperated factories or due to deteriorated relationships between workers, managers and local or regional authorities (Vieta, 2015, 2016; Vieta and Depredri, 2015). Activists, local worker unions and social movements often back the process to help workers with an extensive support leading to the company rescue and job saves. Usually, the transformation of the business in the cooperative form ends all workplace conflicts. In this first scenario, the WBO starts after the physical occupation of the plant by the employees. Secondly, a negotiation phase takes place in order to gain control of the firm between the workers, the local authorities and the court (Vieta, 2015, 2016).

On the contrary, negotiated WBOs have a clear legislation like the framework created by the Marcora Law\* in Italy. At the same level, there are examples from other European countries: the “only payment” system (*pago unico*, in Spanish) in Spain as well as the French, Swedish and Belgian legislations over the “employment and enterprise cooperatives” (European Parliament, 2013). First, the negotiated plan needs a strong mediation from political authorities. Usually, workers of the company in crisis create a new cooperative and, at the end of the negotiation, members have the chance to participate in the management due to the deal reached with former administrators and owners (Lanzavecchia and D’Aurizio, 2013).

Lastly, WBOs following the ESOP model were born in the United States in the 1950s and, in these last years, the process is reappearing in the entire Anglo-Saxon world (Caragnano and Caruso, 2010). The plan moves from the

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\* Law n.49/1985 – so called Marcora Law – is the Italian national law that has recognized the important role of the economic partner in the WBOs and it has promoted their birth posing an organic system of benefits to the cooperatives.

acquisition of the target company by its own workers through a trust. Tax benefits are granted to the former owner while liquidating the activity and, differently from the other kinds of WBO models, the new property is divided between workers and other more “traditional” investors. As a result, the new cooperative is not configuring itself as a worker cooperative since the governance and the assets of the firm are not in employees’ hands (Delgado et al., 2014). A clear and famous example of ESOP is the acquisition in 1994 of United Airlines by its workers due to the prolonged crisis of the company and the complete failure of all bailout efforts (Rosen, Case and Staubus, 2005).

Workers’ participation in the management could represent a valid entrepreneurial tool in order to face future challenges (Stiglitz, 2009) as well as to maintain employment levels and, as shown in several experiences, at European and global stages (Bernardi, Treu and Tridico, 2011). Moreover, it could contribute to a more sustainable development of societies and the economy (Caragnano and Caruso, 2010).

### **3. The Italian experience and the role of the cooperative model**

In Italy, similarly to other European and American countries, WBOs use the cooperative form for several reasons. First, cooperatives bring people to the very center of the business model putting them before profit (Zevi, Zanotti, Soulage and Zelaia, 2011). The distinctive element of the cooperative firm, as highlighted by many authors (Mazzotta and Sicoli, 2013; Minardi, Dell’Aquila and Zamagni, 2015), is the economic purpose pursued which lays on the concept of mutuality whereas, for all the other capitalistic firms, the aim is to maximize profits in order to split them between investors (Zamagni and Zamagni, 2008). As the Italian Civil Code notes, cooperatives develop main economic activities towards their own members (art. 2512 c.c.) and at most favorable terms in respect to market standards due to the elimination, in production and distribution processes, by the intermediation of other business actors. Additionally, these principles can be found in the Italian Constitution. While recognizing the social function of cooperatives, article 45 promotes “the increase [of cooperation] with adequate means and ensures, through effective controls, its nature and purposes”. Article 46 underlines the importance of democratic participation in workplaces and states that “in order to achieve economic and social growth bearing in mind the needs of production, the Republic recognizes the workers’ right to collaborate, under the terms and conditions established by the law, in managing firms” (Italian Constitution, 1948).

The *favor legis* towards the cooperative movement can be traced also in the Civil Code (c.c.). In fact, the cooperative firm is a variable capital company with no minimum social capital needed with the exception of those cooperatives involved in lending or insurance sectors (art. 251 and 2524 c.c.). Furthermore, each member counts for one vote while taking business decisions in the members’ meetings, granting equal rights regardless of stocks owned by each member (art. 2538, par. 1 c.c.). The possibility to nominate the board of statutory auditors only in particular cases (art. 2543 and art. 2477, par. 2-3 c.c.) as well as introducing the figure of the financing member in the company structure (art. 2526) help the cooperative born from a WBO process. This last possibility comes into play when states support public funding through financial companies. The European Union itself positively evaluates the role of the financing member in the already quoted 2013 Resolution that identifies among the positive points of a cooperative the “dispositions for the contribution of risk capitals, with or without voting rights, from third parties” (European Parliament, 2013). From the management point of view, the financing member’s stake cannot be higher than a third of the total, preventing any excessive interference in the life of the cooperative (art. 2526 c.c.). Lastly, tax benefits are granted for all cooperatives recognized by the law as “mutually prevalent” in the production sector – regulated under articles 2512 and ensuing of the c.c. (Cataudella, 2016).

### 3.1. Three decades of workers' buyouts in Italy: 1986-2016

Marcora Law has created a special fund to intervene against unemployment and a rotation fund for the promotion and the development of cooperation called Foncooper (Vieta and Depedri, 2015). In fact, the Italian state does not intervene directly in WBOs. Several financial agents finance these cooperatives. Among others, the most important ones are:

- *Mutualistic funds* of the three main cooperative centrals: Coopfond, Fondosviluppo and General Fond are the expression, respectively, of Legacoop Nazionale, Confcooperative Nazionale and AGCI. In 1992, Law n. 59 has created these funds with the aim to develop and promote the financial and economic growth of the cooperative movement through resources generated internally. In fact, resources come from the 3% of all cooperatives' profits, from the wealth of all cooperatives put in liquidation and, lastly, from the profits made by the different funds (Fossat, 2013).
- *Cooperazione Finanza Impresa* (CFI), born in 1986, is a second level cooperative and mutualistic funds together with the Minister for the Economic Development held its capital. CFI aims at analysing the feasibility and the competitiveness of WBOs projects and, lastly, at financing the approved ones. Between 2012 and 2015, last boards of directors sustained 138 interventions – 36,5% of which to finance WBOs – for a total allocation of 35,6 million euros and more than 6.000 workplaces saved all over Italy (De Berardinis, 2016). Industrially speaking, more than two thirds of the funds have been addressed to save factories and to help in the social sector, both strong sectors of the Italian system (CFI, 2016).
- *Banking institutions*, such as Banca Popolare Etica, Banca Prossima, Gruppo Bancario Iccrea and Unipol Banca. The role in the acquisition process is clear: support the financing of a WBO project earlier accepted by the other partners. If there are multiple banks involved in a single financing scheme, the effective financial advantage will increase (CFI, 2015).
- *Financial institutions* like Cooperfidi, Cooperfactor or the Consorzio Cooperativo Finanziario per lo Sviluppo (CCFS). The key action lies in granting immediate credit guarantees to the banks in order to unlock fast enough new resources needed to successfully finance the new-born WBOs (CFI, 2015). Moreover, they can support day-to-day financial activities and market prices.

The research focuses on the WBOs created in the last 30 years, from 1986 to 2016. The overall period was divided into three main stages: a first stage from 1986, when the Marcora Law established CFI, until 1993, a second phase starting from 1994 when the three main cooperative federations created the mutualistic funds due to law 59/1992 and, lastly, the period between 2008 onwards. Data most-likely represent the overall WBO phenomenon since all the information acquired come from different sources, each one with a different filing system. A deeper analysis could increase the number and the validity of all the information, especially those concerning the number of members, the WBOs lifespan and the financing actors. In any case, several considerations emerge about the Italian WBOs.

In the first period, between 1986 and 1993, CFI alone financed 107 WBOs. Keeping in mind the fact that CFI started financing workers' buyouts only in 1987, one year after being established, and a first comment arises: 15 WBOs were financed yearly in this first stage, resulting in the highest average overall. Between 1994 and 2007, only 67 new WBOs were created, less than five cooperatives each year, while in the last period the yearly average increases up to 10 WBOs with 82 cases between 2008 and 2016 (Table 1). The legislation changed during the second period due to the intervention of the European Commission that launched in 1993 an infringement proceeding towards the law regulating Italian WBOs, considering some of the measures as a distortion to competition (Vieta, 2015). Italy removed the obstacle only with law 57/2001 that adapted the internal discipline going beyond the safeguard of employment promoting the capital strength of all cooperatives (Simone, 2014). Another important element in the so-called second Marcora law was the transformation of the Minister for the

Economic Development that has become a proper member of the financing partners involved in WBO creation by intervening in the social capital (Cataudella, 2016). Finally, all cooperatives already established, including social cooperatives, can receive funding (Cataudella, 2016). As a result, the low number of WBO creations in the second period comes from the transition towards a new legal framework. Furthermore, the macroeconomic situation until the end of 2006 did not present particular challenges to firms in order to access credit. CFI as well as the mutualistic funds started to provide financing opportunities in 2010 and onwards, when the Italian economy and the industrial sector both started to show the consequences of the crisis started in 2008.

Another key issue to underline is the geographical distribution of WBOs in the last 30 years. In the first stage, central Italy records the highest number of cooperatives emerged from a WBO process: 57 out of 107, more than 53% of the total (Table 1). While Tuscany keeps a strong presence in all periods, Marche presents an incredibly positive record with 21 WBOs. At the same time, in Umbria 12 cooperatives opened up thanks to the WBO process, numbers much higher than the other two periods. In the North, Emilia Romagna, Veneto and Lombardy are the regions with more WBOs, respectively 14, 10 and 8 (Table 1). On the contrary, the South did not receive the same amount of financing: only 10 WBOs in all eight regions (including the two main islands – Sardinia and Sicily). In the second stage, central Italy remains the area with more WBOs thanks to Tuscany where 22 new cooperatives were created. Marche, as briefly mentioned before, dropped sharply together with all the other regions except for very few cases. The two main islands, as in the first period, do not show processes of WBO creation. In the final period, many important developments have occurred. First, WBOs opened in Sardinia and Sicily (respectively two and six new cooperatives), about 10% of the total for the period. Secondly, Northeast records more WBOs than central Italy: Emilia Romagna is the home for 32 new WBOs, more than all the cooperative firms established in central regions (27). Basilicata and Molise confirm to be indifferent to WBO creation while, on the opposite hand, Tuscany and Emilia Romagna have the lead: overall, on 256 cases from 1986 to now, these two regions record 107 WBOs, more than 40%. Both territories have always had a strong cooperative movement and linking the two could prove useful, but looking at data, other regions with a strong presence of cooperative firms are not in the highest positions for WBOs creation (i.e. Trentino-Alto Adige).

**Table 1.** Geographical distribution of WBOs per Italian regions, 1986-2016 †.

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† Table 1 follows three main timelines: the first period starts from CFI's birth after 1985 Marcora Law; the second stage starts when the mutualistic funds of the three cooperative centrals begin to operate in 1993; lastly, the period between 2008 onwards follows the path of the recent economic crisis.

Region	1986-1993		1994-2007		2008-2016		WBO Total	
	n.	%	n.	%	n.	%	n.	%
<b>North-East</b>								
Emilia Romagna	14	5.43%	6	2.33%	32	12.40%	52	20.16%
Friuli-Venezia-Giulia	1	0.39%	2	0.78%	1	0.39%	4	1.55%
Trentino-Alto Adige	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Veneto	10	3.88%	6	2.33%	5	1.94%	21	8.14%
<b>NorthWest</b>								
Liguria	3	1.16%	4	1.55%	0	0.00%	7	2.71%
Lombardy	8	3.10%	3	1.16%	4	1.55%	15	5.81%
Piedmont	4	1.55%	5	1.94%	1	0.39%	10	3.88%
Aosta Valley	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>Center</b>								
Latium	4	1.55%	6	2.33%	5	1.94%	15	5.81%
Marche	22	8.53%	0	0.00%	4	1.55%	26	10.08%
Tuscany	20	7.75%	22	8.53%	13	5.04%	55	21.32%
Umbria	12	4.65%	4	1.55%	5	1.94%	21	8.14%
<b>South</b>								
Abruzzo	3	1.16%	0	0.00%	1	0.39%	4	1.55%
Basilicata	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Calabria	2	0.78%	2	0.78%	0	0.00%	4	1.55%
Campania	2	0.78%	3	1.16%	3	1.16%	8	3.10%
Molise	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Apulia	3	1.16%	4	1.55%	1	0.39%	8	3.10%
<b>Islands</b>								
Sardinia	0	0.00%	0	0.00%	2	0.78%	2	0.78%
Sicily	0	0.00%	0	0.00%	6	2.33%	6	2.33%
<b>Italy</b>	<b>108</b>	<b>41.86%</b>	<b>67</b>	<b>25.97%</b>	<b>83</b>	<b>32.17%</b>	<b>258</b>	<b>100.00%</b>

*Source: our elaboration based on data acquired from CFI, Coopfond, Fondosviluppo and General Fond.*

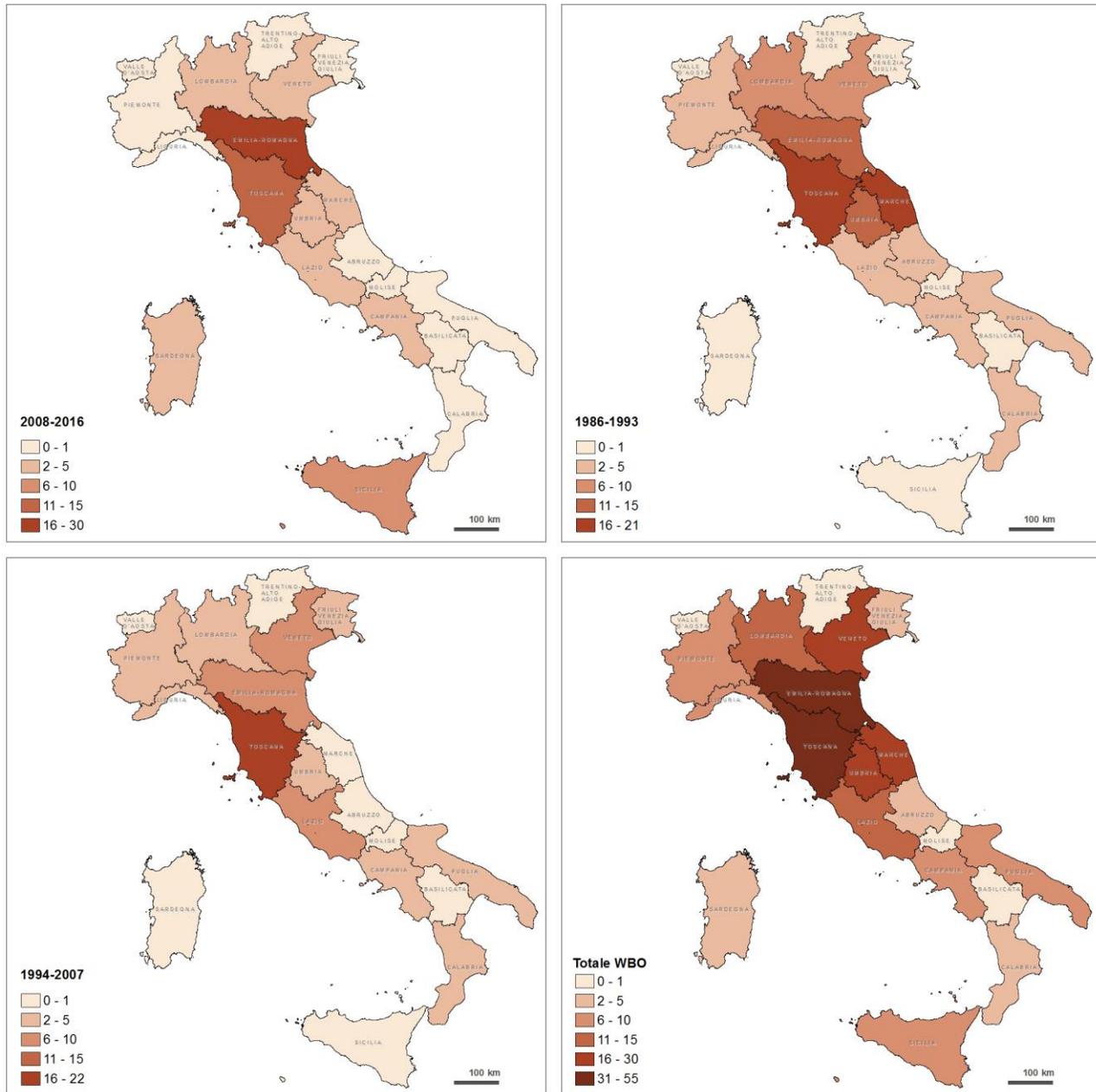


Figure 1. Geographical distribution of WBOs per Italian regions, 1986-2016.

Source: our elaboration based on data acquired from CFI, Coopfond, Fondosviluppo and General Fond.

Table 2. WBO dimension per workers (members and non-members), 1986-2016.

Workers	1986-1993		1994-2007		2008-2016		WBO Total	
	n.	%	n.	%	n.	%	n.	%
<10	5	1.94%	5	1.94%	25	9.69%	35	13.57%
10-49	79	30.62%	48	18.60%	49	18.99%	176	68.22%
50-249	23	8.91%	14	5.43%	9	3.49%	46	17.83%
> 250	1	0.39%	0	0.00%	0	0.00%	1	0.39%
<b>Total</b>	<b>108</b>	<b>41.86%</b>	<b>67</b>	<b>25.97%</b>	<b>83</b>	<b>32.17%</b>	<b>258</b>	<b>100.00%</b>

Source: our elaboration on CFI, Coopfond, Fondosviluppo e General Fond data.

As far as WBO dimensions are concerned, in all stages between 1986 and 2016, financing was primarily directed towards small cooperatives. Looking at Table 2, 176 WBOs out of 258 (68% of the total) have 10 to 49 workers. In the last period, between 2008 to the present, the trend concerning micro (less than 10 workers) and medium (50-250 workers) cooperatives has changed. The creation of 25 new WBOs with less than 10 workers has marked a stunning 500% increase in comparison with the other two phases where only five micro cooperatives were established. On the other hand, medium dimension cooperatives continue to show a declining trend recording only eight cases in the last period. The only large experience born from a WBO process with more than 250 workers is the cooperative Cometha, created in 1989 in Emilia Romagna that employs 377 workers. Overall, WBOs average dimensions reflect the Italian industrial model based on the small and medium enterprise. It must be said that CFI and the mutualistic funds cannot grant financing to large cooperatives without breaking the European legislation on State aids.

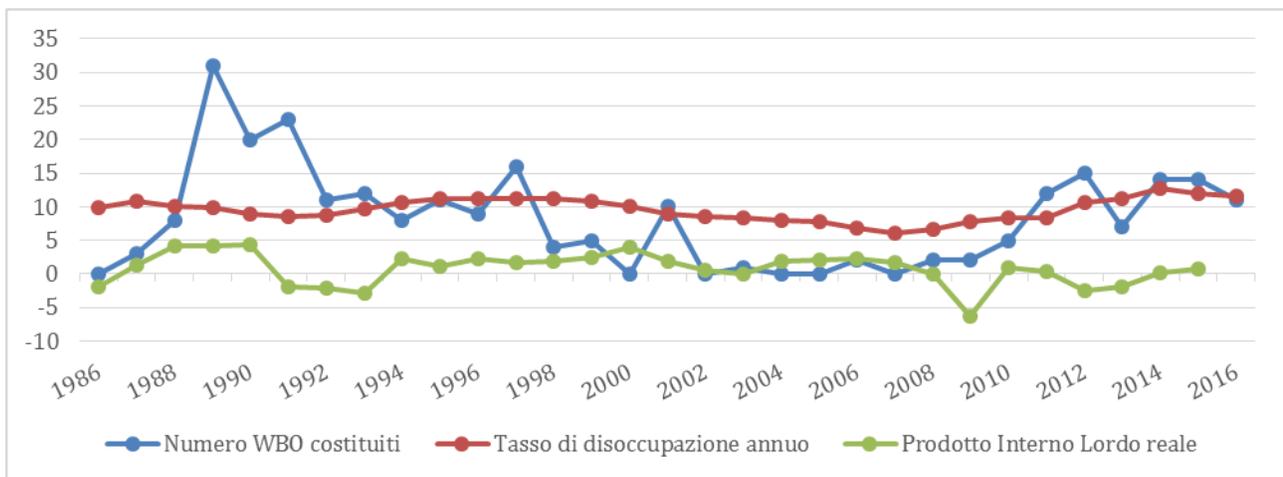


Figure 2. Evolution of WBOs, real GDP and unemployment rates (1986-2016).

Source: our elaboration on ISTAT, CFI, Coopfond, Fondosviluppo and General Fond data.

Some final considerations concerning a possible link between WBO creation and the overall performance of the Italian economy before the conclusion. Confronting both the number of WBOs established annually and the yearly unemployment rate between 1986 and 2016 (Figure 2), a similar trend might be observed. The moment

when the link became more evident occurred during the last economic crisis started in 2007-2008 when the two indicators started to increase proportionally. The WBO process, therefore, might be described as a tool used especially during an economic slowdown when standard business models cannot fully guarantee the stability of the national productive system.

## Conclusions

In Italy, the workers' buyout model has small numbers but, at the same time, it has an important social and cultural value, granting job opportunities to thousands of workers and the survival of parts of the Italian industry. Between 2010 and 2011, as showed in the data, the process started to accelerate thanks to the bigger role played by CFI and the mutualistic funds that, in a difficult socio-economic moment, financed an increasing number of viable WBO projects. In the last years, taking into account CFI estimation, only 5% of the production value, 7% of the investment and job places were lost on the overall total of WBOs approved (CFI, 2016). WBOs take time to implement and workers find themselves in the role of managers while financing partners often play the role of tutors in order to save the cooperative from bankruptcy. There is not only the transformation of a business but also, and most importantly, a strong social and cultural transformation of actors involved who decide to hold their future in their own hands even in a difficult economic period (Birchall, 2011, 2014). WBOs are mainly labor-intensive cooperatives that can compete in different sectors since their main goal, the mutualistic purpose, does not aim at maximizing profits and investments made, but it focuses on maintaining job places, steady incomes and profits to be reinvested in innovation and in the enhancement of the cooperative. In conclusion, WBOs are created usually in stable and homogeneous contexts both from a sectorial and a geographical points of view due to workers' low willingness to move as well as the strong ties the cooperative has with the territory and the existing social relations (Vieta, 2015; Vieta and Depedri, 2015). Workers cooperatives arising from WBO processes save not only jobs, acting as economic shock absorbers, but they safeguard workers' productive capacity strengthening the economy of different territories and creating social capital.

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