

The spatial dimension of productivity in Italian co-operatives



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THIS POLICY HIGHLIGHTS

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The spatial dimension of productivity in Italian co-operatives

Co-operatives need to find new ways to rebuild competitiveness after COVID-19

The pandemic casts a new light on the important role of co-operatives, as a specific type of social economy organisation, in meeting urgent societal needs. In operating at the forefront of the crisis, many have demonstrated their value in “repairing” social problems, e.g. labour market exclusion. In the future, co-operatives could develop a larger role to “transform” the economy, by fostering more inclusive and sustainable development models.

Like other firms, co-operatives are now facing the repercussions of the pandemic, including falling revenues and deteriorating funding opportunities.

These challenges call for the adoption of timely support measures to ensure business continuity and save jobs in the short term. In the long term, co-operatives need to find new ways to rebuild competitiveness and scale social impact.

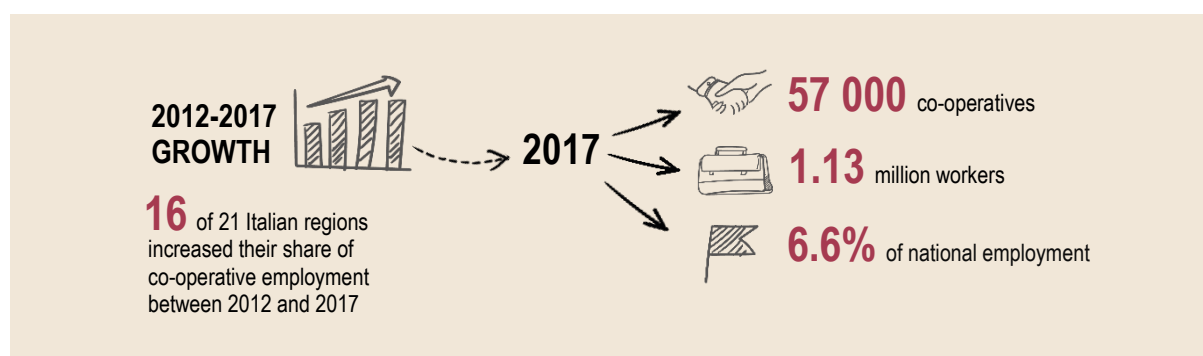
Boosting productivity is key to this, to ensure that co-operatives can compete, grow and, thus, scale their social impact in the future. A place-based approach can lead to a better understanding of productivity in co-operatives, in light of their many interdependencies with local communities.

Co-operatives play a counter-cyclical role in creating jobs during crises

In the aftermath of the Great Recession (2012-2017), the share of co-operative employment grew in 16 out of 21 Italian regions (in 9 of them, by more than 10%). By 2017, Italy's 57 000 co-operatives employed 1.13 million workers, accounting for 6.6% of total employment – a

particularly high share compared to the EU average, where the social economy as a whole (i.e. including also associations, mutual organisations and foundations) makes up 6% of total jobs.

Co-operative employment in a nutshell

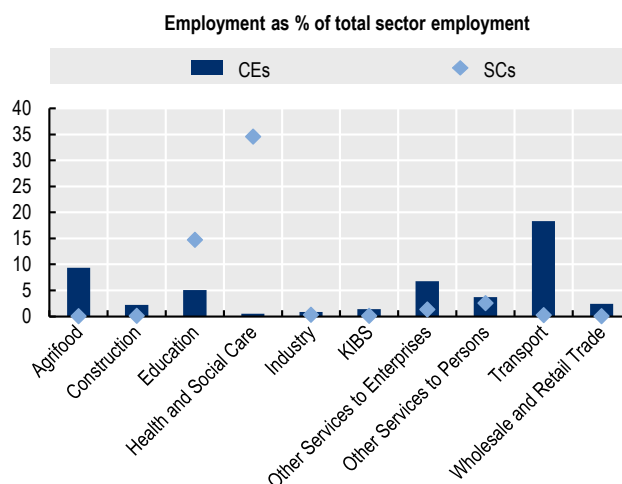


Source: OECD calculations based on ISTAT/ASIA and Eurostat.

In certain industries, the role of Italian co-operatives is even greater. For instance, social co-operatives (which aim to address the needs of society at large) employ about 35% of workers in

Health and Social Care, and other co-operative enterprises (whose focus is on members, be they workers, farmers, users, etc.) employ about 18% of all workers in Transport.

Co-operative employment as a share of total sector employment



Source: OECD calculations based on ISTAT/ASIA and Eurostat.

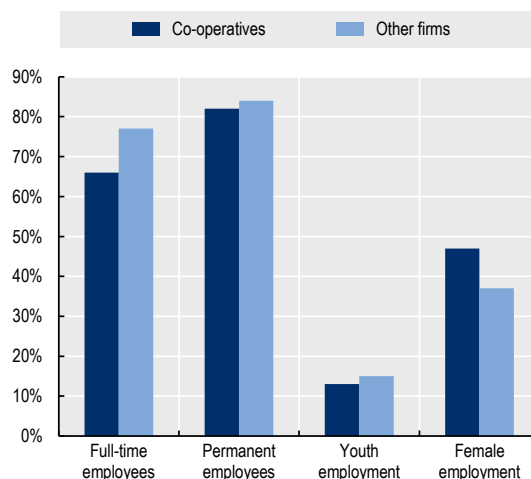
Co-operatives are more numerous, relative to population, in the south, but tend to employ more people in the north of Italy. While an average co-operative enterprise employs 9 workers in the south, a northern one employs more than 20.

The vast majority of co-operative enterprises and social co-operatives (77% and 60%, respectively) are micro-firms (less than 10 employees). Although few in number, large co-operatives (more than 250 employees), employ close to 37% of co-operative employment in the country and account for 2.4% of total national employment.

A characteristic of co-operatives is that each larger size class accounts for a larger share of total employment, whereas for other Italian firms we observe the opposite.

Co-operatives and other firms also differ in terms of employment and worker types. In proportion, Co-operatives employ considerably fewer full-time employees than other firms (66%, compared to 77%), slightly less youth and permanent employees (respectively 13% and 82%, compared to 15% and 84%), but substantially more women (47%, compared to 37%). These differences are partly explained by their concentration within particular sectors.

Composition of co-operative employment compared to other firms



Source: OECD calculations based on EURICSE tabulations from INPS data.

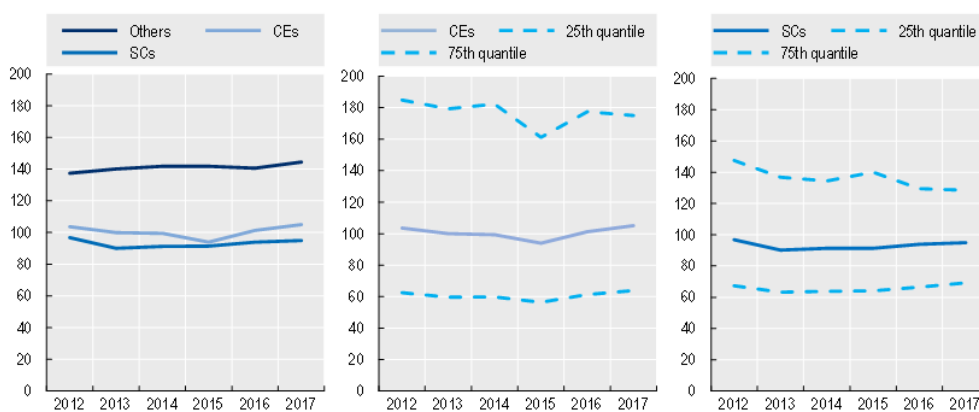


Local factors have proven effects on productivity of Italian firms, co-operatives and non-

This report suggests that co-operatives are on average less productive than other firms, even after adjusting for their smaller size and concentration in specific sectors. Yet, the difference greatly varies across space (e.g. it was lower than 40 p.p. in eight regions, and lower than 20 p.p. in another three regions in 2017). The different mission of social cooperatives is reflected in their average productivity, which is lower than in

other firms in all regions. However, social co-operatives outperform other co-operatives in the sectors of their prevalence, i.e. Health and Social Care, Other Services to Persons and Education. Similar to other firms, the productivity of co-operatives increases with size. However, the gap between the two groups generally increases with firm size class as well.

Productivity levels of Italian co-operatives and other firms in 2012-2017



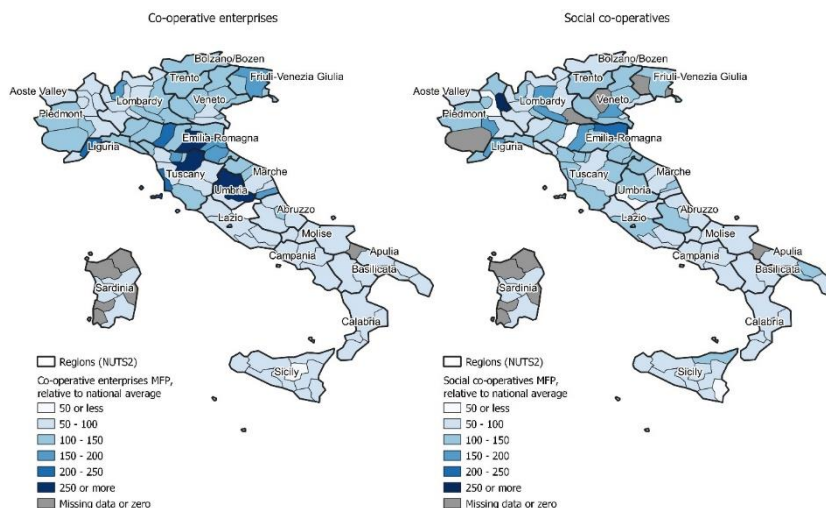
100 = CEs + SCs in 2017

Source: OECD calculations based on Orbis.

Co-operatives are generally more prevalent in regions with weak labour markets and fragile social fabric, i.e. the environments where their social mission is most needed. While relatively

more numerous, co-operatives also tend to remain smaller and be less productive in such places, typically located in the South, mirroring dynamics observed among non-co-operative firms.

Multifactor Productivity of co-operatives in Italian provinces (NUTS3)

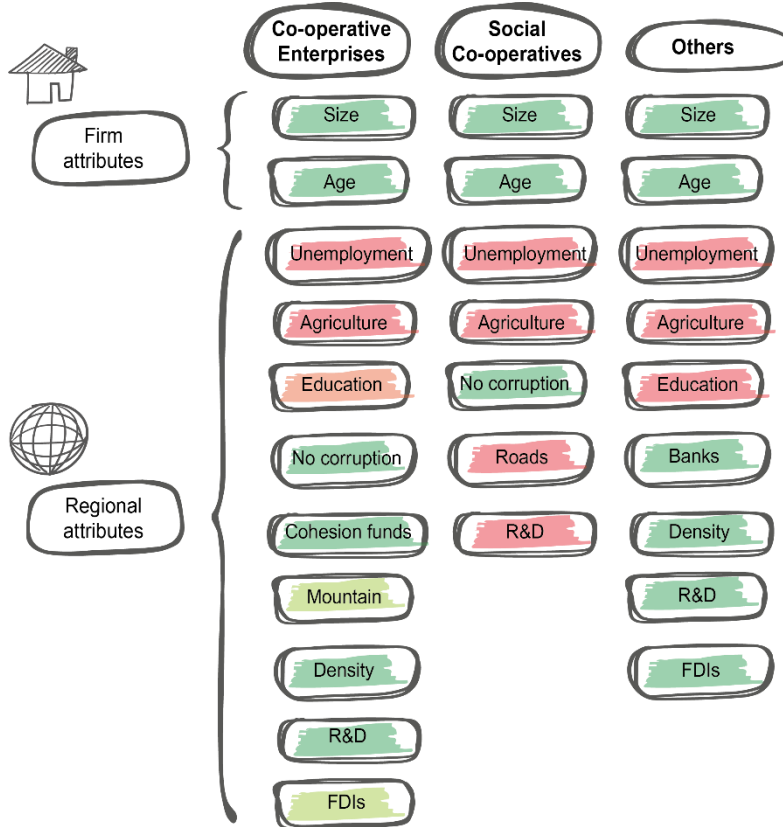


Source: OECD calculations based on Orbis.

Through a framework of twelve mechanisms affecting spatial productivity, econometric analysis ascertains that regional conditions do matter for productivity performance of Italian

individual firms (co-operatives and other) even after the effects of size, age and industries are accounted for.

Spatial factors correlated to productivity in Italian co-operatives and other firms



Note: Green hues indicate positive correlations, whereas red are negative. Darker hues indicate stronger correlations.



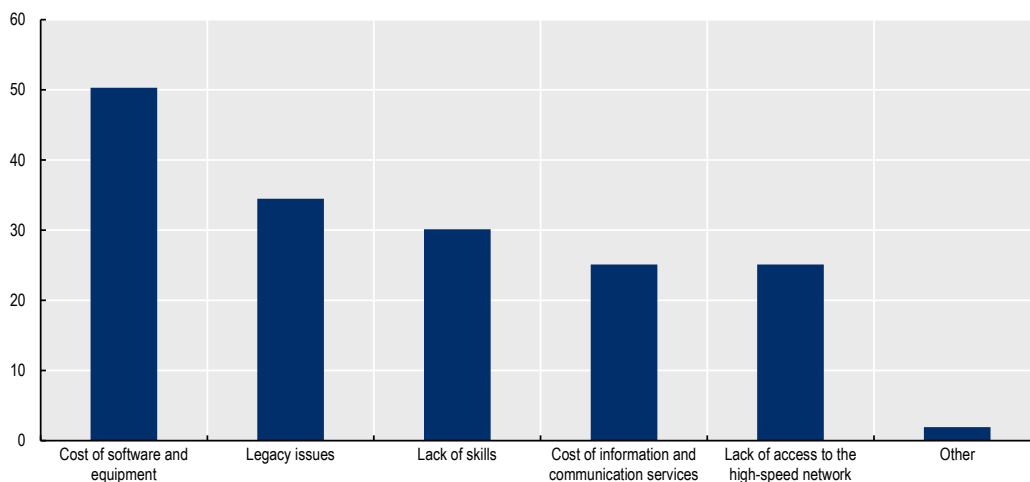
More in detail, co-operatives tend to be more productive in regions with lower levels of corruption. This factor does seem to play a lesser role among other firms. This strongly suggests that the quality of local institutions is particularly important for the ability of co-operatives, which often work at the intersection of the public and the private sectors, to succeed economically.

In addition, productivity of all firms, including co-operatives, tends to be lower in regions with higher unemployment rates and where agriculture accounts for a larger share in employment. Despite being on average less productive in regions with weaker labour markets and lower economic development, co-operatives are more numerous in such regions, indicating a role in filling in the voids left by the private sector.

Finally, a survey on co-operatives conducted in mid-2020 by the Italian Ministry of Economic Development (MISE) suggests that the average productivity of co-operatives is higher in regions where more co-operatives are engaged in innovation and digitalisation.

The survey also highlights that many Italian co-operatives have embarked on digitalisation during the COVID-19 pandemic, by switching to teleworking, adopting new technologies and new ways of communication during the pandemic. Yet, multiple barriers hinder the digital performance of Italian co-operatives, including costs and shortages in skills, absorptive capacity and digital infrastructure. Innovation patterns and the related barriers also show a clear geographical variation among co-operatives.

Main barriers to digitalisation reported by Italian co-operatives

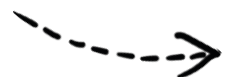


Source: OECD calculations based on MISE survey.

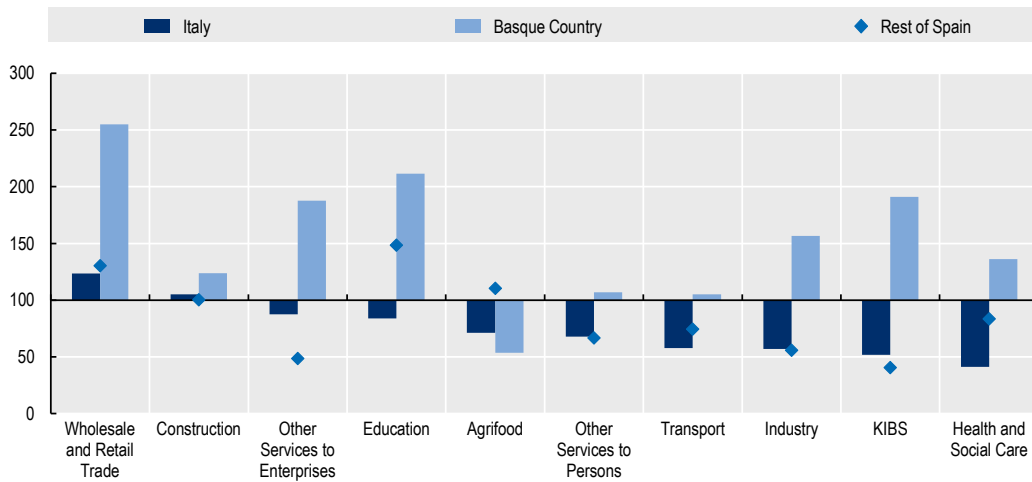
Comparison with Spain hints at productivity dispersion at play in Italian co-operatives

This report also offers a brief comparison between Italian and Spanish co-operatives, illustrating how geography, industrial composition and firm size affect the productivity of co-operatives in a comparable context. Co-operatives account for only about 1.2% of national employment in Spain, and are significantly less numerous compared to Italy (about 20 000 vs. 57 000). Crucially, the Basque Country hosts about half of all co-operative jobs in Spain. Basque co-operatives are highly productive and outperform both co-operatives

located in other regions and other firms anywhere in Spain. Other Spanish co-operatives, while more productive than other firms on average, perform similarly to their Italian counterparts when compared against other firms in their respective national sectors. Ultimately, even beyond the outstanding case of the Basque co-operatives, the comparison with Spain suggests that productivity dispersion resulting from the presence of a high number of, mostly small, firms may be at play among Italian co-operatives.



Co-operatives mostly lag behind other firms both in Italy and Spain (but not in the Basque Country)



Source: OECD calculations based on Orbis.

Data, Awareness, Governance and Instruments: four key areas for policy improvement

Beyond generating empirical evidence on productivity in the narrow sense, research conducted for the aim of this report has expanded the body of knowledge in a wide range of policy relevant areas, allowing for a comprehensive approach to enhancing co-operative productivity.

Areas for recommendation



Data

Expand the evidence base on co-operatives and their key performance indicators, including productivity



Governance

Foster institutional co-operation and multi-stakeholder dialogue for effective policy design and implementation



Awareness

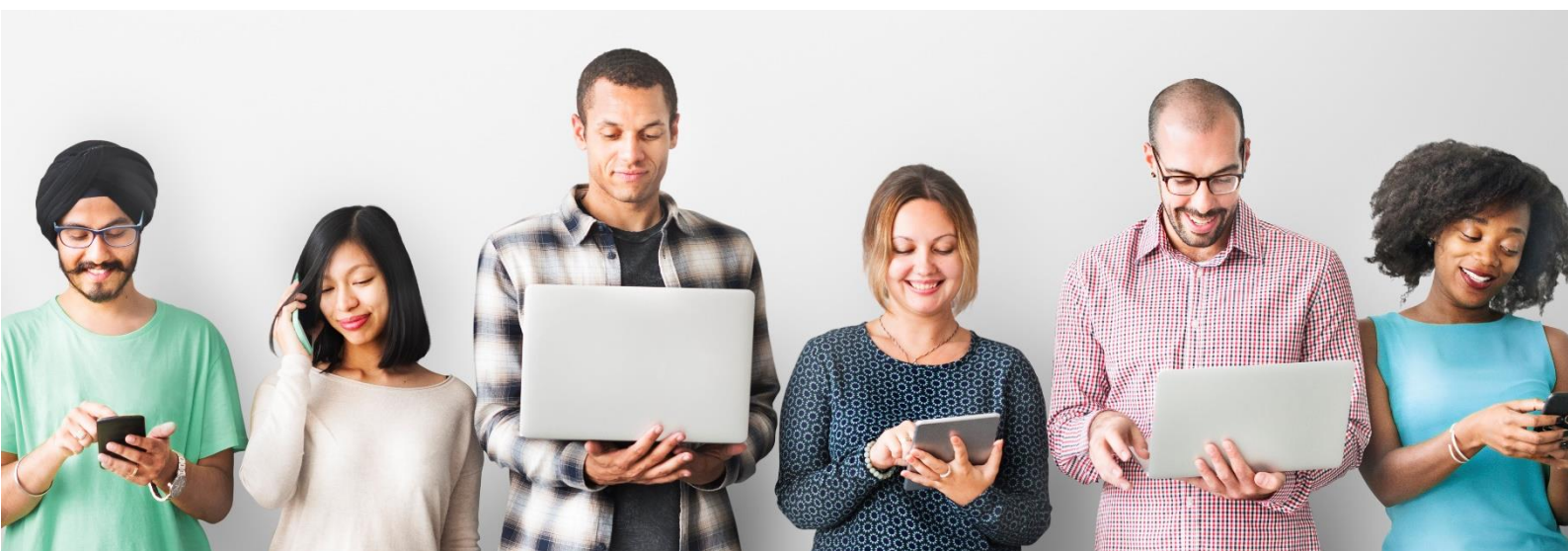
Increase public awareness of the economic and social value of co-operatives and how enhanced productivity can boost their impact



Instruments

Devise fit-for-purpose policy tools to make co-operatives more resilient and productive

These four areas are interlinked, and should be considered as part of a broader package of efforts aimed at enhancing the productivity of Italian co-operatives.



Examples of the policy recommendations

Data

- Ensure data consistency between the Register of Co-operatives (managed by MISE) and the national Business Register (Chambers of Commerce), to facilitate general-interest data analysis and research.
- Harmonise and, to the extent possible, unlock audit reports data, allowing researchers to access key information such as wages and patronage refunds.

Awareness

- Foster a stronger narrative on the nexus between productivity, regional development and social impact: pursuing productivity and social impact are not opposing objectives.
- Ensure that policies generically aimed to SMEs are accessible for smaller co-operatives by default, removing legal barriers and information asymmetries in dissemination.

Governance

- Consider revamping the role of co-operative auditors appointed by central government, from mere law enforcers to network enablers contributing to up- and downstream transfer of quality information.
- Ensure coordination across different levels of governance on co-operative issues, making the most of regions' legislative powers and EU Cohesion Funds.

Instruments

- Review incentives to spur co- growth, as productivity increases along with size. When growth at firm level cannot be achieved, consider incentivising mission-oriented consortia between co-operatives and other firms.
- Unlock firm-level productivity-enabling factors, especially digitalisation, by enhancing co-operative capacities on the ground (i.e. skills, equipment, infrastructure, etc.), with a focus on advanced digital technologies.



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