OWNERSHIP ADVANTAGE

Ownership Culture and the Italian Employee Ownership Experience

Alex Moss recently interviewed colleague Matt Hancock about Matt's experience working in the Italian employee-ownership sector. Moss, a Principal with the Praxis Consulting Group, is a long-time member and past chair of the Ownership Culture Committee.

Q: You received your masters in "cooperative economics" from the University of Bologna. Why did you pursue your MBA in Italy?

A: I wanted to see, up close, how an economy built around employee- and cooperative-ownership worked, and to see what we in the United States could learn.

In Emilia-Romagna, the area where I lived and studied, there are just over 1,000 employee-owned cooperatives for a population of just over 4 million. So, this is one of the highest concentrations of employee-ownership per capita in the world, and these firms have developed into sophisticated, multinational companies that have helped to make Emilia-Romagna one of the most innovative and wealthy economies in Europe.

Q: What is different about employee ownership in Italy and the United States? What is similar?

A: The governance structure is somewhat different, but the underlying issues around ownership culture and business success are quite similar, in many ways.

Employee-ownership in Italy is achieved through cooperatives—there is no equivalent to the ESOP. This means that employees become members of the firm. They participate in governance on the principle of "one person, one vote." Members vote for the Board of Directors every three years, and vote for the budget annually.

"Governance" is also a full time job. Usually the board is made up only of members, and the president and vice president of the board serve in those positions full-time. Members pay a fee to join the co-op. They receive interest on the fee—which remains invested in the co-op while they are employed—and an annual dividend. So the legal ownership and governance structure is not what we're used to seeing here in our ESOPs.

In Italy, cooperatives have been a great vehicle for startups. And over time, a number of those startups have become large, highly successful, multinational firms. (For example, SACMI is the global leader in beverage bottling equipment—think Coca Cola—and ceramics tile presses. Another, CEFLA, manufactures sophisticated medical equipment like digital dental x-rays. And many others.)

However, in Italy there is not a good mechanism —like the ESOP—for transitioning ownership in an existing, healthy firm from the founder to the employees. In the U.S., our model is really better suited to taking established firms and transitioning them to employee-ownership, to provide liquidity for the sellers and continuity and opportunity for employee-owners.

In terms of similarities, you see the kinds of careful succession planning and leadership development at all levels in the co-ops that you see in strong ESOPs. They have been doing this for a long time, much longer than we have had ESOPs. The Italian experience confirms that the key to leading in an ownership setting, and staying employee-owned over time, requires deliberate succession planning and an approach to identifying, cultivating, and training leadership at all levels.

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When there isn't a strong leadership pipeline internally to develop smart leaders who understand the value of employee-ownership, Italian co-ops have run into real challenges—very similar to what our domestic ESOPs have experienced. This makes sense: Being employee-owned doesn't make the challenges of running a healthy business disappear, though it does give us the opportunity to draw on the talents of our people to address those challenges more effectively.

Q: What best practices can our ESOP community learn from Italy?

A: I think that the experience in Italy can teach us a number of lessons, particularly when leadership is interested in long-term, or "generational," employee-ownership.

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First, going back to their governance model, the Italian co-ops do a very good job of educating their members so they can deeply understand the business and can participate meaningfully in governance. In order for their governance model to work, they also have to make clear the distinction between strategy development and execution. Management is given a lot of autonomy to implement the strategies, once they've been approved.

ESOP firms are increasingly concerned with the same issue: What issues are decided by the Board, what lives with management, and at the employee-owner level, what voice do employee-owners have? Basic education about business is one of the keys to successful ESOPs too.

Second, Italian employee-owners have access to a lot of information, including the firm's complete financials. Members don't vote on individual salaries, but often do participate in developing the budget, and in all cases approve the budget annually. This is parallel, though more extensive, than practices common in open book management.

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Up front, this level of engagement does take more time. The Board really has to "sell" employee-owners on the strategies. But the result of the process is an organization that is fully informed and committed to the strategy. You really get this high degree of strategic alignment at all levels of the firm. ESOPs often struggle with getting people to understand and execute strategy effectively, and the Italians have really developed this aspect of their communications.

Third, I think the Italian experience shows us what is possible when leaders lead with values. In the case of the co-ops, one of the core values is that members have a responsibility to their community and future generations. So, all decisions that leaders make balance the interests of current members with the interests of the larger community—and even with the interests of future generations. What kind of a company are we building for the employee-owners who will come after us?

The result is highly capitalized firms with strong reserves and an ability to pursue long-term strategies—something that is often difficult for U.S. firms to do, given the short-term stock-market pressures they face. A long-term business view is often common among ESOPs as well, though the Italians are even more focused on long-term sustainability of their firms under employee-ownership.

In fact, in an Italian co-op, members have an explicit fiduciary responsibility to take into account these broader interests. Although employee-owners in ESOPs do not have personal fiduciary responsibility, it's extremely common for ESOP companies to aspire to remain independent and employee-owned for the long-term. Just look at the rapidly increasing numbers of Silver ESOPs (25+ years as ESOPs).

Q: What might employee-owned firms in Italy learn from our experience with employee-ownership in the United States?

A: I think employee-owned cooperatives could learn a lot from our experience in building strong ownership cultures. You can see that governance in co-ops is quite different than in ESOPs.

While member participation in co-op governance is real and meaningful—people really do think, act, and feel like owners—you don't often see the kind of high-engagement practices on the shop floor or frontline that you find in U.S. firms. (Those practices in the U.S. might include, for example, building a continuous improvement culture, establishing a communications committee, and other participation vehicles.)

That's a real missed opportunity for employees and the firm. The ESOP community has developed effective ways of engaging employees as owners each and every day, and as a result these are better places to work that out-perform their non-ESOP competitors. I think we have learned a lot about how to do these things well in our ESOPs, and our community has a lot to teach the Italians and others.

Finally, I think employee-ownership in Italy could benefit from some type of mechanism (along the lines of an ESOP) that allows for a transition in ownership in a successful, mature firm—the way the ESOP has made that possible in the United States.

The real bottom line is that we tend to compare ourselves here in the U.S. with best practices in our own back yard, and in some ways that has served us all very well. It's also the case that we have a wonderful opportunity to leverage that experience by comparing ourselves with, learning from, and sharing our best practices with those living and working in other employee-ownership contexts around the world.

The author reviewed this article with the Chair of the Advisory Committee on Ownership Culture, Rod Reinertson, Van Meter Inc., Cedar Rapids, Iowa.