Chapter 14

Distributing Mutual Advantages in Italian Cooperatives: An Analysis of Patronage Refunds

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ABSTRACT

Italian cooperative organizations contribute sensibly to the national growth and development, pursuing a social function of economic redistribution. Since they are based on the mutuality principle, the related accountancy and taxation systems follow such logic, in particular as far as the patronage refunds discipline is concerned. The aim of the chapter is to advance the understanding of such flows; the scope is pursued through an accounting records’ comparative analysis based on the main legislative acts and professional and scholar literature. The results converge into a cause-and-effect model built according to a system dynamics perspective.

INTRODUCTION

The global cooperative movement, accounting for 2.6 million of cooperative societies, more than 1 billion of members and a combined turnover of 3 trillion US-$, can be considered one of the largest organization in the world (Grace 2014), providing employment to many more people than all multinational companies taken together (Schwettmann, 2014)

Several researches (Birchall & Hammond Ketilson, 2009; Zevi, Zanotti, Soulage, & Zelaia, 2011; Accornero & Marini, 2011; Zamagni, 2012; Zanotti, 2013) show that since 2008 the cooperatives have performed anti-cyclically, in particular in countries where this form of organization has long-term and stable tradition (Roelants, Dovgan, Eum, & Terrasi 2012).

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Italy is one of these countries, characterized by a cooperative sector able to deal purposefully with the financial crisis, contributing sensibly to the economic growth and registering a greater impact on the social sector, services and agri-food (Alleanza delle Cooperative Italiane, 2018, May 15).

Some comparative analyses cooperatives-corporations (for example, Fontanari & Borzaga, 2013), explain the cooperatives’ anticyclical behavior looking inside the organizations and highlighting two elements: first, the diversity of objectives; second, the proprietary forms. Indeed, since the goal of cooperatives is to provide services or work to their members, they will tend to keep high levels of activity even putting the profit margins aside (Moore, 2000). Abate (2018) reports about the ability of agricultural cooperative organizations to develop ‘countervailing power’ and internalizing transaction costs. Thomson (2015) remarks worker cooperatives’ wider ability to develop productive knowledge than conventional firms. Altman (2016) looks at the demand side and argues that, contrary to what’s predicted by conventional economics, non-economic variables like consumer well-being in purchasing cooperative products, are relevant in the cooperative sector, so that the reactivity of the demand to the price for products sold by cooperatives is lower than for the ones sold by non-cooperatives.

Because of good performances of cooperatives in comparison with corporations, the attention of scholars and institutions towards the cooperative sector is growing and it emerges the need to further develop the knowledge of the phenomenon.

This chapter addresses the Italian case because this is among the countries with a well rooted cooperative tradition (Roelants et al., 2012), so that the cooperatives enjoy constitutional recognition (article 45 of the Constitution).

The relevance of cooperative organizations in Italy is undisputed as far as the number of entities, members and economic contribution are concerned. With a production value exceeding 108 billion, the cooperative economy accounts for 8.5% of Italian GDP (Borzaga, 2015). Indeed, such legal form of organization is a legitimate alternative to the corporation, pursuing a social function of economic redistribution whenever private lucrative purposes cannot be qualified as the main businesses’ objectives. Due to the mutual scope, cooperatives benefit of a favorable taxation regime, which represents one of the main incentives to the cooperative in comparison with the corporate form.

According to the Italian legislation, the cooperative organizations have to hold mutual purposes, i.e., to focus the needs of their members, called cooperators, so that the goods and services produced are mainly devoted to them. Regarding the accountancy and taxation system, the mutuality takes place also in the discipline of the patronage refunds, meaning the distribution of a certain percentage of profits to restitute a part of the price of the goods and services acquired by the members, or as additional remuneration for the goods and services provided by them.

The accounting of these economic flows can take place in two ways: through a direct charge in the income statement or by mean of profit allocation to the shareholders/cooperators. Although both accounting methods are allowed by the regulations, they affect the informative value of the balance sheet, the achievement of a certain level of “prevalent mutuality” to benefit of special tax supportive measures, the economic and financial situation of the gainer.

The aim of the chapter is to advance the understanding of cooperative patronage refunds by mean of an extensive document analysis based on the main legislative acts and professional and scholar literature about the cooperatives’ taxation and accountancy, together with numerical and accounting simulations. The results converge into a stock-and-flow model built according to a system dynamics perspective (Sterman, 2000).
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