Market Pressures Meet Social Values in North-Central Italy

MUEC 2004-2005

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Introduction

Emilia-Romagna, in North-Central Italy, represents one of the world's most important experiences in workplace democracy, or worker self-management. Emilia-Romagna, a region with a population of 4 million, is home to some 7,500 cooperatives, two-thirds of which are owned by their employees. Worker cooperatives operate in all sectors of the economy, ranging from the service sector, to construction, to social services and manufacturing. Nearly 10% of the total workforce in Emilia-Romagna is employed by cooperatives. This number is higher than in any other region in Italy, a country with more cooperatives, per capita, than any other country in the world. Emilia-Romagna doesn't only stand out for the sheer number of cooperatives, but for the prevalence of worker-owned cooperatives and their highly successful nature. The world leader, for example, in the production of machinery for making ceramic tiles (SACMI) is a worker-owned cooperative. Italy's largest retailer is a consumer-owned cooperative. One of Europe's leading producers of fruit juice and canned vegetables is a farmer co-op with its headquarters in Emilia-Romagna. In terms of the regional economy, the cooperative movement – consumer, worker, housing, agricultural, credit and social co-ops – is a major economic force, accounting for over €35 billion in revenues a year. The cooperative movement is one of the pillars of an economy that has produced some of Europe's lowest unemployment rates and highest standards of living.

The scale of the cooperative movement in Emilia-Romagna, as well as the numerous cases of excellence, are proof that private firms don't have the monopoly on innovation, competitiveness and performance. That, in fact, democratically run businesses can effectively compete in the global marketplace – without access to the financial markets as a source of capital – with often stellar results, and can be an important source of employment growth and economic development.

This paper focuses on how the tension between market pressures and social values has shaped the cooperative enterprises in Emilia-Romagna; in particular its impact on the business strategies adopted and the internal dynamics of the firm. I draw both on field research I conducted in a number of the region's most successful worker-owned firms, as well as literature on the development of the Imola cooperative "district," considered by many to represent a case of excellence, both in terms of the success of its many worker-owned cooperatives, and the levels of effective participation by the membership.

Imola, a small town in the province of Bologna with a population of 64,000 people, is home to 130 cooperatives, employing more than 8,000 people, with annual revenues of over € 2 billion and net profits of € 91 million.[1] The 15 worker-owned cooperatives produce 60% of the district's total revenues, and occupy positions of leadership in markets as diverse as the production of capital goods, ceramic tiles, industrial windows and doors, and dental equipment. Local industry is dominated by the cooperative movement. It's often said that every family in Imola has at least one member who works in a cooperative.

"I'm a Strange Communist," or Cooperatives and the Market

The tension between market pressures and social values is always present in the minds of the region's cooperative managers and leadership. In fact, many talk about the cooperatives as having two aspects, or "souls:" while the cooperative is fundamentally grounded in a *social* mission, it is also a business and has to be run as such. A private firm's mission is to maximize profit for shareholders, a cooperative sees profit, instead, as a tool, or a limit: in order to realize its social mission, the cooperative must turn a profit.[2] And turning a profit means competing on markets (increasingly on world markets) dominated by private firms, guided by the logic of profit maximization and not maximization of value for worker-members or the local community. Ignoring this reality, and prioritizing social goals over competitiveness, would endanger the long-term survival of the cooperative.

And if there's one thing that characterizes the cooperatives in Emilia-Romagna, it's that they're built to last. In fact, the cooperatives are driven by the mission of creating wealth – not just for its current members – but for future generations in the form of "indivisible reserves," or what some refer to as "inter-generational mutuality." Cooperatives are not taxed on profits that are reinvested in the indivisible reserves. The reserves represent a peculiar form of collective property: in return for the tax benefit,

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[1]Imola Insieme, Annuario 2005 della Cooperazione Imolese, Confocooperative, Legacoop.
[2]Mazzoleni, Mario, "The Excellence and the Cooperative Manager," accessed 9/2/05, http://www.mariomazzoleni.com/

members "renounce individual profit in favor of the destination of profits to indivisible reserves (to which the member renounces for ever) that are used to reinforce and develop the firm."[3] In the case of the failure or privatization (something that is almost unheard of) of the cooperative, the indivisible reserves are not distributed among the members, but are "devolved" to the cooperative movement, to be used for the creation of new cooperatives.

The indivisble reserves are one of the most important features of the Italian cooperatives. The individual reserves represent a key *structural* feature that distinguishes the co-op from, lets say, a closely held corporation or a family-owned firm, and that pushes the cooperative to pursue strategies that maximize long-term value through investments in productive capacity, innovation and quality. The most successful cooperatives produce capital goods, or other high-value added products (like ceramic tiles for industrial and home use, equipment for dentistry, industrial scales, etc.). In addition they compete based on quality and innovation and by aggressively breaking into new markets.

Cooperative Globalization

People are probably most familiar with the Low Road version of globalization. Firms in advanced economies close down plants, many of which represent the life-blood of a community, in order to take advantage of low-cost labor in the Third World. The result is job loss, transfer of equipment and plants abroad, and frequently disastrous impacts on the local community. The manufacturing co-ops here have, for the most part, taken the High Road: in most cases more than 60% (sometimes as much as 90%) of what is produced by the cooperatives is exported outside of Italy. This focus on exports, is one of the reasons why employment and sales in the co-ops have generally increased steadily over the last two to three decades. In order to further penetrate markets (increasingly international markets), the firms have followed a strategy of acquisition. The cooperative, or a holding company wholly owned by the co-op, purchases private firms whose products or services complement the co-op's core business, that allow it to expand into

[3]Poletti, Giuliano, Editorial, "Il Sole 24 Ore," 3 September 2005.

new product lines, or to reinforce its position in existing markets and penetrate new ones.

A typical example of this strategy is the relatively small cooperative Cooperativa Bilanciai, an industrial weighing instruments producer based in Modena. 90% of the firm's 260 employees are members. The co-op has total revenues of nearly € 40 million, and annual net profits of nealy € 4 million.[4] The cooperative itself only has two small plants located in Modena. But, through the Bilanciai Group, the cooperative has production sites and sales offices throughout Europe, Africa and the United States. Total revenues for the group top € 50 million. In the case of Bilanciai, at least one of their subsidiaries was a start-up, and not an acquisition: B-Tek, located in the United States is a new firm, a joint venture between Bilanciai and an American firm.

The “brains” remain with the cooperative. R&D, as well as the manufacture of sensors and other hi-tech scale components are always done by the cooperative. Its subsidiaries purchase these components from the co-op and assemble the scale, using the technology and components developed and produced in Modena. The subsidiaries exist, not to take advantage of low cost labor, but to produce for local markets that the cooperative itself would not be able to penetrate. Generally, the employees in the cooperative's subsidiaries are not members of the co-op, nor do they participate in ownership through ESOPs or similar programs.

As many of the managers and cooperators I've met with have stressed, any firms that are aquired and operated by the cooperatives through their holding companies are “instrumental” to the mission of the cooperative, and not a betrayal of the principles of the cooperative movement. The networks of subsidiaries owned by the cooperative allow the cooperative to continue to grow its productive capacity and create new jobs at home, while frequently creating new jobs in other parts of the world, contributing to increasing productive capacity elsewhere and introducing new technology into developing economies. This is a win-win strategy for going global.

In addition to an aggressive acquisition policy, the manufacturing cooperatives have made significant investements in research. Both Bilanciai and SACMI, for example, have their own, advanced research laboratories. In interviews with the management in

[4]Cooperativa Bilanciai, Balance Sheet http://www.coopbilanciai.it/eng/turnover.shtml

industrial cooperatives, they all unanimously agree that their commitment to quality and leadership in innovation are the key to staying ahead of the competition, who often produce similar products using much cheaper labor.[5]

A similar strategy, with some significant tweaking, was followed in the services industry by Manutencoop, a cleaning services and facilities management co-op headquartered in Bologna. Manutencoop was started in 1938 to do railway maintenance – work that the state railway outsourced to third parties. Today the co-op has evolved into one of Italy's largest cleaning and facilities services companies. Up until the late 1990s, the cooperative provided all services directly, and then began to pursue a more limited version of Bilanciai's strategy through the absorption of a few other cleaning services co-ops and the acquisition of a small number of private firms.

But, since it's founding over 60 years ago, the market has changed significantly. Simply offering cleaning and janitorial services doesn't cut it. Clients are demanding more comprehensive facilities management services, requiring significant capital investments. Cooperatives in Italy have traditionally been plagued by problems of undercapitalization. Essentially, the only sources of new investments are retained earnings, membership fees or member loans to the cooperative. Faced with growing competition from European multinational firms, Manutencoop needed to come up with a a plan for raising a significant amount of capital or risk closing.

The decision-making process lasted several years and involved members, management and the larger cooperative movement. A number of different ideas were thrown around, including privatizing the co-op and using Manutencoop's reserves to start a foundation to benefit its former employees. What the cooperative finally decided was to radically restructure, while maintaining the cooperative intact. Manutencoop spun-off its core business into two closely held private corporations, each specialized in different areas. Outside, inststitutional investors were brought in to the new spin-offs.

Manutencoop the cooperative maintains the majority share in the new corporations and now plays the role of holding company and temporary labor agency. The cooperative *places* its members in one of the companies owned by the cooperative

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[5]One member of SACMI's Board of Director's told me that one of their competitors is a Chinese company called ACMI, whose machinery is almost identical in design to SACMI's equipment.

and its partners. Members still participate in the management of Manutencoop and, now, indirectly in the management of the spin-offs. This highly controversial solution allowed the cooperative to continue to exist while bringing in about € 40 million in fresh capital. Something that would have been impossible with the financial instruments available to the co-op.

While the Manutencoop case is clearly extreme – the mission and core business of the cooperative changed radically – it is a clear example of that tension between market and values, and how the cooperative is shaped by that tension. It is also an example, like Bilanciai, of using the market, and private capital, to strengthen the cooperative. A still more advanced case of cooperatives using the market to grow the cooperative movement is UNIPOL, one of Italy's top 5 largest insurance companies. FINSOE, a holding company, owns a 50.2% stake in UNIPOL. HOLMO, a holding company owned by about 30 cooperatives, owns 51% of FINSOE.[6] This arrangement allows the cooperative movement to effectively exercise control over UNIPOL, a private, publicly traded firm, while raising the majority of total capital on the market. Through Unipol, the cooperative movement provided itself with its own insurance agency, nice yearly dividends and a way to compete with international finance capital. In fact, UNIPOL, through funding from its cooperative-owners, out-bid a private bank in Spain for control of one of Italy's largest banks, the Banca Nazionale del Lavoro, to the tune of € 4.9 billion. UNIPOL has also been important for the development of new cooperatives in Italy. COOPFOND, LEGACOOP's mutual investment fund, is also an investor in UNIPOL. The dividends that UNIPOL pays to COOPFOND allow the fund to stay in the black, while continuing to make significant investments into the development of co-ops in the south of Italy – a business that so far has proved to be a money-loser for COOPFOND.

It's these kinds of tensions, and the innovative and sometimes controversial ways the cooperative movement deals with them, that prompted one leader to call himself a "strange communist." What he was trying to drive home was the fact that, regardless of his social and political values, as a cooperator he needs to think in terms of measuring up to the market. And that means out-competing private firms who may compete on the Low

[6]UNIPOL Assicurazioni Bilancio Sociale 2004, Edizione di Sintesi, 28.

Road, with access to much more capital than the cooperative movement has.As Italian sociologist Claudio Baglioni commented, the original values of the cooperative movement today represent a frame of reference for how the cooperative competes on the market.

The Market and Workplace Democracy

That same tension between market pressures and values has shaped the internal dynamics, models of participation, work organization, management and governance of the cooperatives as well. In fact, the cooperatives of Emilia-Romagna, with Imola unsurprisingly presenting the cases of excellence, have developed a unique model of governance, a model that has matured over the last 50 years out of the cooperative movement's attempt to maintain its founding values, while remaining competitive on the market.

Many of the region's cooperatives were founded in different waves, first in the late 19th century, in the wake of World War I, and then following the Second World War. The founders of these cooperatives were landless peasants, skilled laborers and artisans as well as unskilled laborers. Perhaps the biggest wave of cooperative startups came following World War II, as partisans were returning home with no work, large factories – unable to convert from war production – were closing, and employers began to try and eliminate agitators from their payrolls. These cooperatives were both a response to unemployment and poverty, and the desperate need to literally rebuild the local communities devastated by war. While the main stimulus for starting the co-ops was pragmatic, there was also a significant ideological component: these were to be egalitarian workplaces, democratically governened by the working class, the proletariat in the strictest sense. White-collar workers and technicians were often forbidden, by the cooperative's by-laws, from becoming members of the cooperatives. This was both an indication of the ideological motivations of these cooperators (who were largely members of the Communist and Socialist Parties) but also of the importance of manual and skilled labor in industry at that time. Value-added came from the shop floor, not the technical office or the R&D department. It certainly did not come from the marketing department at that time. As a consequence, administrative staff was easily kept to a minimum.

Many of these co-operatives failed in the months and years immediately following the end of the war. Others continued and expanded, effectively governed by the firm's blue collar workers, without any professional management. But those firms that did succeed often did so barely. Their survival and expansion depended on the solidarity of other cooperatives, and not on their success in the market.[7] Many of the cooperatives that were born prior to World War II were not very profitable (which impeded the kind of internal accumulation that self-financing depended on) and had difficulty reconverting to civil production and modernizing.[8] The cooperatives were very vulnerable to ups and downs in the economy, having to resort to enormous personal sacrifices by the membership, including lay-offs, in order to stay afloat.[9] While these cooperatives were effectively controlled democratically by shop-floor workers they were, at the same time, struggling to stay on the market. As Italian sociologist Claudio Baglioni observes, the supremacy of the social dimension over the business dimension, common in cooperatives up until the 1970s, was often the source of backwardness, waste, complications and other obstacles to the effective functioning of the businesses.[10]

A New Model

It was to overcome these problems that the movement began to experiment with the model of management and governance that characterizes the co-ops today. In the new cooperative, social values like solidarity, reciprocity and mutualism were no longer the dominant force, but a frame of reference for the firm.[11] Today, the social nature of the co-ops is “contained” in “predefined and non pervasive areas... the social aspect counts 'before and 'after'; 'during' (the daily life and functioning of the firm) it does not count, or should count very little.”[12]

That means that workplace democracy in the Emilian cooperatives is limited to the members' assembly, where members approve the budget, elect the board of directors

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[7]Stefanelli, 104.
[8]Stefanelli, 105.
[9]Stefanelli, 105.
[10]Baglioni & Catino, 69
[11]Baglioni & Catino, 69-70.

and set broad strategic goals. A significant amount of power is delegated to the Board of Directors regarding development of strategy and control of the professional management. Management, within the bounds set by the strategic goals decided upon by the board and the assembly, is then responsible for carrying out the will of the assembly and running the firm efficiently and effectively. Management enjoys a high degree of autonomy, authority and responsibility.

The Membership Assembly

Membership in the cooperatives is considered a responsibility and an “expectation,” but not a right. Being an employee does not automatically make you – or guarantee that you will become – a member. All of the co-ops, to a varying degree, have an open door policy regarding admittance of new members. With some it's wide open, with other's its only “slightly ajar.”[13] In general in the more successful, capital intensive, manufacturing co-ops, membership is highly selective. In others, for example cooperatives in the service sector, membership is much less selective. Regardless, all cooperatives stipulate rules and requirements for admission, rules laid down in the firm's by-laws, which have been approved by the membership.

Of the cooperatives I've studied (which I think can be considered representative of the broader movement as a whole) requirements vary from the more lax “full-time employee in good standing for at least a year”[14] to the more complex requirements in some of Imola's co-ops, like SACMI, that requires candidates to be of “good moral and civil conduct,” be at least 24 years old and no older than 40, have worked in the cooperative for at least 5 years, have demonstrated “discipline and cooperative spirit,” and have demonstrated a “proven technical and practical capacity.”[15] Aspiring members apply to the Board of Directors, who are ultimately responsible for admitting new members.

All new members pay a membership fee. In the co-ops that I've studied that fee ranges from anywhere from a few thousand euros to the maximum allowed by law, or €

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[12]Baglioni & Catino, 113.
[13]Benati, “Impresa al Plurale,” 273.
[14]Bilancio Sociale 2003, Manutencoop, 103.

100,000. Just as with the selectiveness of admission to membership, there is a general correlation between type of co-op and the size of the membership fee. Co-ops that are larger, capital intensive and that compete successfully on international markets tend to have higher membership fees.[16] (The exception is Bilanciai, whose membership fee was only € 2,500, relatively modest considering that Manutencoop – whose workers tend to earn less – has a fee of over € 7,000).

In those co-ops whose membership fees approach the maximum allowed by law, it is justified by the capital intensity of the business and the need to create a tight bond between the member and the cooperative. Leaders in the Imola cooperative district stress that the cooperative is a part of the local community's patrimony, making membership a significant responsibility. The high fees drive home this sense of responsibility. The members are not only in the cooperative for their own benefit, but to create wealth for generations yet to come. And they are very concious of the fact that the success of the cooperative today, and the often sizeable indivisible reserves accumulated, are the results of the sacrifices of past members.

Indeed, it might be more appropriate to talk about ownership rather than membership in many cases. Since, in many of the cooperatives, participation in the firm's equity has significantly increased over the years, to the point where workers are providing both labor and, effectively, capital to their cooperative. *For sociologist Everardo Minardi, the large, capital intensive cooperatives have moved from a "culture of cooperation to a culture of participation," distancing themselves from the historical roots of the self-managed firm. He sees this as part of a larger trend, linked to globalization, where the mutual bond among workers is replaced by common financial interests, and solidarity by the identifcation with the interests of the business.*[17] *On the other hand, the sociologist Guido Baglioni sees the fact that capital is still raised prevalently from the members or retained earnings – and not sources outside of the cooperative like the financial markets – as the "most intense element of continuity with the spirit and culture of the origins [of the cooperative movement]."*[18]

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[15]Benati, "Impresa al Plurale," 274.
[16]Benati, "Impresa al Plurale, 274.
[17]Minardi, 23.
[18]Baglioni & Catino, 70.

There is also extreme variability in the percentage of workers who are members. As is expected, the number of members in relation to total workers is lower in the more selective cooperatives, with higher membership fees. In Imola, membership ranges from 15% of total workforce to 90%, with the larger manufacturing co-ops generally under 50%. Again Bilanciai, in Modena, is an exception: 90% of their workforce are members of the cooperative. But this number should be kept in perspective. While as a percentage this is higher than many of the cooperatives in Imola, it is on par in terms of absolute numbers. Many of the leaders in the cooperative movement fear that, in very large firms, admitting too many members will make effective participation unworkable: there is the risk of too many differing views and less opportunity for members to actively participate in decision-making, resulting in a membership base that passively approves the budget and elects the Board of Directors every three years.

Manutencoop is an interesting case. Just 7% of employees are members of the cooperative. In fact, the cooperative has to aggressively promote membership just to keep the percentage of members to total workforce stable. Manutencoop faces two significant obstacles to increasing membership. On the one hand, very few people desire to make cleaning or janitorial services a career (not the case in the manufacturing co-ops, where a career in production as a skilled worker, technician or in R&D is highly desirable). On the other hand, the labor contract in the cleaning industry guarantees workers stability in terms of *where* they work, not for *whom* they work. Municipalities, governments and other firms that outsource cleaning services frequently change providers when contracts expire. In areas where Manutencoop manages a limited number of contracts there is little incentive for a worker, who may only be temporarily employed by Manutencoop, to become a member. It's no coincidence that most of Manutencoop's members work in Bologna: Manutencoop has enough clients in Bologna to guarantee members employment stability.

In all cooperatives, according to Italian law, the assembly must approve the budget and financial statements and elect the Board of Directors. Beyond these duties, it is up to the individual cooperative what role the members' assembly has. It is not uncommon, in Imola for example, for the assembly to meet as much as 10 or 12 times a year. In these meetings, debate is often heated, with members actively participating.

These meetings often exceed 5 hours in length, finishing after midnight. In other cooperatives, the assembly meets only when it is called to approve the budget, or vote for the Board of Directors. It is no suprise that the debate is more heated, and attendence higher, in those co-ops where members make a significant personal investment in capital and not just labor. In one case I studied, only 30% of the total membership regularly participated in the assemblies. In other cases, 70-90% of members regularly participated. With the exception of Bilanciai in Modena, participation – as measured by percentage of members present at the assemblies – was higher in those firms where membership was more selective and fees higher.

Leaders in the cooperative movement in Imola cite these participation rates (and of course often stellar annual profits) as confirmation of the effectiveness of their model. The combination of selective membership and high fees (and the normally high dividends on capital invested as well as patronage dividends) create an extremely strong bond between members and the cooperative. And because members have so much invested – not just their labor, but their capital as well – members actively participate in the assemblies. In fact, worker-owner is probably a better way to describe the relationship between members and their cooperatives in Imola.

As already mentioned, membership is generally not extended to those private firms aquired by the cooperative. It is not uncommon for the cooperative to appoint members as top management in the firms it owns. In some cases, the cooperatives have experimented with making managers owners through Employee Stock Option Plans (ESOPS). In general, there is a high degree of skepticism about the possibility of replicating the cooperative model in private firms started or purchased by the cooperatives. One cooperative leader put it this way: “you can't simply continue to replicate the cooperative model ad infinitum.” The important thing is that any private firms managed by the cooperatives are “instrumental” to the success of the cooperative.

This is one of the most significant contradictions in the cooperative movement today. As mentioned before, many of the cooperatives have followed a policy of expansion through acquisition and are now essentially multi-national firms, sometimes with as many as 60 firms underneath them. There is of course the obvious question of values: if participation is in and of itself a value, why shouldn't some form of participation be extended to those businesses owned by cooperatives? But there is also the business question: if ownership and participation has represented an important competitive advantage for the cooperatives (as everyone I've met with has stressed), why wouldn't extending employee ownership and participation in the private firms owned by the cooperatives have the same positive effect?

Changes in the Membership Base

The make-up of the membership base in Emilia-Romagna's co-ops has undergone significant changes over the last twenty to thirty years, and has reflected the larger changes in the economy, as Emilia-Romagna moves from a Fordist to a post-Fordist economy. As knowledge workers, skilled laborers and management have taken on a greater role in the production of value, they've also increased their importance inside the cooperative.

Those cooperatives that resisted welcoming these knew technicians, “knowledge workers,” and managers paid the price in the marketplace and inside the cooperative. Those co-ops that continued to exclude them from membership tended to create hostile internal environments, antagonism between the older workers and these new technicians and managers (sometimes disparagingly referred to as the “technostructure”), resulting in high rates of turnover, especially among top management.

In the 1970s and '80s there was significant debate in the cooperative movement regarding administrative workers and management. As former Administrative Director of SACMI, Benito Benati, observed, the consequence of not accepting these new figures (including management) into membership, and bringing them fully into the life of the cooperative (in effect, co-opting them), meant hiring on the private market. The cooperative would be forced into paying market rates for managers and technicians (whose high salaries would create further resentment among the members) who lacked the right approach to managing a democratic workplace, creating antagonisms inside the cooperative, leading to a high rate of turnover among management, all to the cooperative's detriment. Benati stresses: “A manager is not like a taxi-cab that you can pick up, use, pay and send back to the starting point."[19]

What Benati and others proposed was for the cooperatives to actively bring these new, skilled workers, technicians and managers into the democratic management of the firm as members, even cultivate their own management inside the cooperative. As Benati points out, many of these technicians and skilled workers are nothing more than "historic projection, in an evolved sense, of the highly skilled working class of thirty or forty years ago."[20] This is the general approach that the most successful cooperatives took, and maintain today.

Today, membership generally represents a cross section of the firm's employees: where front-line workers are prevalent, they make up the largest portion of the membership base, while technicians, administrative workers as well as mid and upper-management are accepted into the ranks of membership. Only in one cooperative in Imola is management still excluded from membership. In this cooperative, they make a distinction between "strategic management" and mid level management. Mid-level managers are accepted into the ranks of membership. While it is highly uncommon, today, for a worker to rise to the position of General Director, the cooperatives favor internal promotion and cultivating management inside the co-op rather than relying on the market. Far from having a difficulties in attracting talented management, leaders in the cooperative movement often comment that the quality of their managers is often superior to those in comparable private firms.

Wages tend to be in line with the going market rate. In all cases, members and non-members alike, are paid according to a contract negotiated with the labor union. Management's wages, too, are generally in line with the market, with differences between highest paid and lowest paid going from 1:4 to 1:10. It is this aggressive policy of bringing in skilled employees and management into the cooperative, and into the ranks of membership, that has allowed many of Imola's cooperatives to become global leaders.

It's important, though, to keep in mind that, while wages tend to be in line wih the market rate patronage dividends for members can boost yearly salaries by as much as 30% over the salary of a non-member, in addition to dividends on capital invested of

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[19]AROC, 84.
[20]AROC, 85-86.

nearly 9% in some cooperatives. Of course, members also make a significant financial investment in the cooperative (often approaching € 100,000).This is a very large sum, considering that the average worker on the shopfloor makes under € 2,000 a month. So, yes, in a successful worker cooperative like the industrial co-ops in Imola, the rewards of membership are quite significant, but so is the responsibility.

One final comment must be made regarding the membership base. One of the features of many worker-owned cooperatives in Emilia-Romagna, and Imola in particular, is the employment of the labor of non-members. In rare instances, the percentage of members to total workforce can approach single-digits, with the cooperative employing 90% *non*-members. In Italian law, these are called “non-prevalently mutual” cooperatives. This is a complex issue.

On the one hand, from a business standpoint, cooperatives need to have the flexibility of employing non-members. And the cooperative that takes on new members without being able to guarantee them employment and improved conditions is irresponsible. Many cooperatives prefer to keep the membership base small, in order to ensure homogeneity and make real participation possible. There is also the fact that many workers simply aren't interested in making the kind of commitment, in terms of investment, risk and responsibility, that is expected of a member. Many others will become members as they meet the specific requirements. It must also be mentioned, by their own admission, there is a natural tendency to make membership, in particular access to the benefits of membership in a successful firm, exclusive.[21]

Board of Directors

By law, the co-op's Board of Directors is elected directly by the membership according to the criterion of one person one vote. As a rule, the cooperatives attempt to make sure that the different parts or structures of the cooperative are adequately represented. In one case, though, management outnumbered employees. In Imola this possibility is avoided by the fact that management, though they can usually become members, cannot serve on the Board of Directors.

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[21]Benati, “Impresa al Plurale,” 274.

Some cooperatives choose to allow people other than the worker-members to serve on the Board of Directors, for example supporting members (essentially outside shareholders) or members of the community. In Imola, this is not the case. As Baglioni stresses: in the case of Imola, the cooperatives are managed directly by the membership, without the mediation of outsiders. Only employees can serve on the board of directors. Top management is excluded from serving on the Board.[22]

By Italian law, Boards of Directors are elected every three years, for a term of three years. Elections are contested, though incumbent presidents are almost never defeated. Boards of Directors, not surprisingly, are highly involved in management of the firm. It is not uncommon for the board to meet once a week to monitor progress or make important decisions. The board's responsibilities are threefold: handling membership and personnel matters, setting strategic goals – together with management – for the co-op, and monitoring and controlling management. The board president plays a “crucial” role.[23] This is generally a full-time position. There is generally a very close, “collaborative” relationship between the president and the management team.

Management

Baglioni describes the role of management in the cooperatives in these terms: “In the division of labor between Board and management, to the former go the company problems, the strategic choices and constant control; to the latter, the organizational management (in the widest sense of the term). This 'textbook' scheme must be seen in the context of the progressive move by the cooperatives toward recognizing autonomous authority to management.”[24]

Not only does management enjoy a high degree of autonomy, at the operational level, but they have also increased their overall influence over time. Again, Baglioni explains, “the owners make the most important decisions or those with social implications; everything else in between (and there is a lot in between) is decided by

[22]Baglioni, 72.
[23]Baglioni, 72.
[24]Baglioni, 73.

management."[25] Despite some concerns that management has, or will come to have, too much power over the strategic direction of the firm, in the eyes of members and union representatives alike, the management has full legitimacy.

As mentioned already in the section on the membership base, managers – as long as they have met all of the requirements for admission into the co-op – are generally fully accepted into membership. This, combined with the high degree of authority and autonomy given to management by the membership, is significant considering that the membership base of many of the cooperatives was traditionally blue-collar. This was not an easy change to implement, and was often marked by internal antagonisms.

The transition from a wholly "workerist" vision of the co-op, to a co-op that included workers, technicians, mid *and* even upper-management was facilitated by "the presence in each of these firms of people with elevated potential and with a significant dedication to the firm, exemplary figures, in some cases almost mythical, to whom the membership attributed gradually great trust and great responsibilities for that which they were able to accomplish in the field."[26]

In cooperatives where there is a high degree of member – and especially *worker* – participation, this creates an interesting "dialectic." Day-to-day, management enjoys a high degree of both authority and autonomy, but in meetings with the assembly the same managers must defend the choices they've made with a "broad base of worker-members who are capable of evaluating the correctness of the decisions taken by the managers because they are also involved directly in the business."[27] In those cooperatives where management frequently meets with the membership to discuss management's decisions, the Board of Directors and President of the Board play an extremely important role as a "filter," explaining to the membership the reasons behind management's choices and verifying, with the membership, whether or not management has been successful in following the directives of the assembly.[28]

Not all cooperatives have been successful in reconciling the need for professional management, the growing importance of technicians and white-collar positions over

[25] Baglioni, 73.
[26] Pontiggia, 32.
[27] Assetto, 32.

traditional, blue-collar employees with the desire for real employee-control. As mentioned before, there are cases where management outnumbers employees on the Board of Directors, and where less than 50% of the membership regularly participates in assemblies, which may often be restricted to passively approving the budget and electing members to the Board of Directors every three years. In fact, in larger cooperatives, it's not uncommon to hear members lament that they feel more like employees than owners. In many cases, Professor Minardi's observations aptly describes the situation, characterized by the absence of shared cooperative values, a growing antagonism between management and membership and the concentration of decision-making power in the hands of a small group.[29]

The Division of Labor

As we've already mentioned, participation and the role accorded to the assembly and Board of Directors varies greatly from cooperative to cooperative. In some cases the membership votes only on the budget, approves financial statements and elects members to the Board of Directors. In this case, the assembly generally meets only 3 times a year. The meetings are less places of debate, and more moments for the formal approval of decisions that have been effectively made by management or the Board of Directors. A small percentage of total membership regularly attends the meetings.

In the more participatory cooperatives – generally speaking, those that are more successful, have large, indivisible reserves accumulated throughout the history of the cooperative, with selective membership practices and high membership fees – the Board of Directors and the management work closely together in proposing the annual budget, new investment plans, the organization of work, and the strategic direction of the cooperative. The membership base tends to be more informed, consensus is arrived at through a dialectical process, involving management, the board and the membership base. Day-to-day, management has complete authority, but must answer to the membership, who often meet once a month.

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[28]Assetto, 32.
[29]Minardi, 23.

Human Resources Management in Cooperatives

Stanford University Professor of Organizational Behavior Jeffrey Pfeffer argues that sustained, competitive advantage in today's economy depends not on "technology, patents or strategic position," but on how firms manage people.[30] "As other sources of competitive success have become less important," explains Pfeffer, "what remains as a crucial, differentiating factor is the organization, its employees, and how they work."[31] With the private firm in mind, Pfeffer describes 13 practices for building competitive advantage through the management of a firm's human resources.

The workplace should be governed by the norm of reciprocity: if an employer expects loyalty and commitment from employees, it must reciprocate by guaranteeing **employment security**. Doing this depends, to a large extent, on **selective hiring** to finding qualified employees who will fit in well with the new work environment. Likewise, **higher than average wages** will attract more people to the hiring process, providing the firm with a larger applicant pool, which, in turn, allows more selective hiring. Paying employees higher wages is also a symbol of how much the firm values its human resources, and will lead to better performance, and an increase in the overall level of profit, despite increasing labor costs. Businesses should introduce some kind of **incentive pay** system. People should be appropriately rewarded for their contribution to improved performance, as Pfeffer points out "... if all the gains from extra ingenuity and effort go just to top management or to shareholders... people will soon view the situation as unfair, become discouraged, and abandon their efforts."[32]

Employee ownership has the dual advantage of reducing the conflict between capital and labor and encouraging employees to take a long-term view of the business, with positive effects on performance. Management must provide employees with the **information** necessary to be successful. Sharing enough information makes it possibile for the business to **decentralize decision-making** and encourage **broader worker participation and empowerment in controlling their own work**. Pfeffer points out that inreasing participation increases both satisfaction and productivity. In particular, Pfeffer

[30]Pfeffer, 56.
[31]Pfeffer, 56.
[32]Pfeffer, 59.

argues for reducing levels of management heirarchy and creating **self-managed teams** with a high degree of autonomy and responsibility. Likewise, for employee participation to be truly effective, the business must make significant investments in **training.** Employees should also be **cross-trained** so that they can rotate jobs. Job rotation makes work more interesting, makes it easier for the business to guarantee employment security and can lead to innovations in work organization. **Symbolic egalitarianism**, or reducing visible signs of difference, diminishes "us" versus "them" thinking, and at least symbolically reduces the difference between thinkers and doers. **Wage compression**, or reducing differences in pay, can reduce opportunistic behavior, leading to higher overall performance. Finally, prioritizing **promotion from within** encourages the business to invest in training, facilitates decentralization and participation, provides a non-monetary way of rewarding employees and ensures that management actually knows something about the business they are managing.

As Pfeffer points out, implenting any of these practices is not easy, and requires having a long-term vision of the firm. This is something that's difficult to do in firms whose owners are focused on the numbers in the short-term. Building sustained, competitive advantage is facilitated by firms whose ownership structure favors a long-term vision. Though Pfeffer doesn't mention it, the cooperative, and in particular cooperatives in Italy with their indivisible reserves, have a built-in bias towards thinking long-term. As one person I interviewed put it, "the member thinks of the cooperative as something that never dies."

As we've already seen, the cooperatives examined have, for some time, implemented many of the high performance practices Pfeffer talks about. In fact, many of the practices Pfeffer writes about *are* part of the co-ops' competitive advantage, starting with job security. All of the co-ops examined have a no-layoffs policy. That means, when times are tough, or the cooperative restructures (perhaps more common in the private firms owned by the co-op), they work closely with the union to find positive solutions, including early retirement, re-training and shifting workers from one company to the other. In a conversation with one union representative, who was generally critical of the cooperatives in Imola, he stressed nonetheless the high degree of job security afforded employees: if you work for one of the cooperatives in Imola, or one of the firms owned by the cooperatives, whether you're a member or not, you will neve be laid off.

While I can't say whether or not highering in co-ops is more selective than in private firms, membership is often highly selective, as we've seen, and is used as an incentive. Members are approved based, not only on skill, but on their dedication to the cooperative. They need to put their money where their mouth is by frequently paying a hefty membership fee. Patronage dividends and dividends on capital invested are tied directly to the performance of the firm. But unlike in a private firm with incentive-based pay systems, members of the cooperative are actively involved in shaping the strategic choices of their business. This means that a sizeable portion of the workforce not only benefits when the cooperative does well, they actively shape the strategy that determines firm performance. This seems, to me, to be much more powerful than the typical incentive scheme in a private firm where workers get to share in the benefits of good performance, but nonetheless risk being the victims of poor management decisions – decisions outside of their control.

Many of the cooperatives, aside from patronage dividends to members, also have some form of incentive-based pay system in place. In addition, there is a degree of wage compression in some of the cooperatives. (In one co-op I visited, the difference between highest and lowest salary was 1:4.) As a consequence of this wage compression, lower-skilled workers often earn above market wages, while management earns below market wages. In one cooperative I visited, regarding wage compression, a distinction was made between difference between highest and lowest paid *member* and highest and lowest paid, including top-management, which is excluded from membership. In this co-operative, the salary difference between lowest paid worker and highest paid middle-manager was 1:5. But if top management, hired prevalently on the market, is taken into consideration, the difference is more like 1:10, in line with private firms in the same market. According to the Vice President of this particular cooperative, there is no significant antagonism between members on the professional management, because management's high salaries are contingent upon the firm's perfomance. The membership accepts this as a necessary tradeoff.

The cooperatives as a whole (even those who exclude management from the ranks of membership) tend to favor internal promotion, indeed management often comes up through the ranks, entering as administrative staff, or mid-management. Even a cooperative like Manutencoop, with a higher rate of front-line employee turnover, has been quite effective in pursuing a strategy based on internal promotion. Manutencoop prefers to fulfill its needs for mid and upper-management internally. In one case, out of 127 employees interviewed in the Hygene Division, 90% had seen their responsibilities increase over time with respect to when they were hired.

Training is more of a mixed bag. In analyzing training in the Imolese co-ops Maurizio Catino commented that the cooperatives have stuck to a more traditional, classroom-approach to training. And while they pay lip-service to the importance of workforce training, in reality, little emphasis is placed on training.[33] Manutencoop, in Bologna, on the other hand, is an example of a very progressive approach to training. Not only does Manutencoop provide training – the majority related to safety – to its employees, it also organizes training courses for the unemployed. The aim is to train these people in skills that Manutencoop needs, but is unable to find on the labor market, so that they can then be hired by the cooperative.[34]

The cooperatives are increasingly implementing job rotation. In general, given the choice between functional and numerical flexibility, the cooperatives tend to choose the former. Part of this is physiological: in the worker-owned cooperatives, numerical flexibility (hiring and firing workers as demand rises and falls) is nearly impossible. In the firms I studied, layoffs, for members and non-members alike, are unheard of. It's simply unthinkable – except in times of extreme crisis – for an assembly of worker-members to vote to layoff a fellow member. And labor-law in Italy combined with the strength of the unions makes layoffs very difficult, both technically and politically. Many of the co-ops are also very proud of their generally good relationship with organized labor, and their commitment to job security for members and non-members alike.

But there's also more than just solidarity and politics at play: in the industries the cooperatives operate in, people are important. This is true in the case of the manufacturing firms – all of whom produce highly sophisticated capital goods – where it takes months and sometimes years to effectively train a skilled worker or technician, and

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[33]Baglioni & Catino, 175.
[34]Manutencoop, Bilancio Sociale, 56.

also in Manutencoop, the cleaning services co-op. For example, in order to provide facilities-management services for public hospitals, Manutencoop had to make significant investments in training in hygene and safety. In one case, Manutencoop lost a contract in one of the public hospitals. At that time, very few of the workers employed by Manutencoop in that particular hospital were members. Because Manutencoop had made significant investments in training these workers, they made a commitment to guarantee employment stability for those workers who opted to become members of the co-op (which meant loosing a sure position in the hospital and being moved to another site). Manutencoop's commitment to its employees paid off: they increased their membership base, and had a core of workers with the skills needed to provide services in other hospitals in Bologna, a growing market because of the relatively recent turn to outsourcing in the public hospitals.

The point is that, for all of the cooperatives I've studied, layoffs represent a significant *cost*, and they are well aware of this. As a consequence – and because of the guiding values of the firms – cooperatives emphasize functional flexibility – job-rotation, cross-training, re-training and re-deployment – allowing the cooperative the flexibility it needs, guaranteeing members and workers alike long-term employment stability, and keeping precious skills inside the company.

Regarding sharing of information, the cooperatives receive generally high marks from members and non-members. In all cases, members have access to all of the company's financial information, much of which the cooperatives make public through the publication of social accountability reports and, in some cases, their financial statements. In addition, it's not uncommon for the assemblies to be involved in periodic (monthly or quarterly) monitoring of progress towards meeting both strategic and short-term goals. This necessarily requires that members are provided with a significant amount of information (and that they are trained in being able to effectively comprehend that information).

Teams, decentralization, autonomy

While the term “knowledge economy” is often misused and abused today, we are nonetheless in the midst of a profound change in how value is produced. As Thoralk

Qvuale of the Work Research Institute in Norway puts it, “There is a new identity emerging in industry... the future of worklife depends on its ability to develop and utilize knowledge. Competitiveness is less and less dependent upon... access to (cheap) natural resources, cheap labour or nearby, protected markets, but rather on the ability to learn and create new products and processes - to innovate. New, non-bureaucratic ways of organizing and managing therefore are... necessary (teamwork, regional networks across enterprises, sectors etc.).”[35] There is significant evidence that introducing new forms of work organization, devolving power downward to autonomous teams of employees, in combination with other high road practices, leads to greater productivity and efficiency, increased innovativeness, reduced throughput, improved products and services, and increased sales.[36] Management should give more autonomy and power to act to lower-levels. Employees, not management, often have more or better information. They, not management, are often better poised to enhance performance.[37]

If the private sector is increasingly producing examples of radical reorganization, flattening heirarchies and placing employees in self-managing teams with increasing levels of responsibility and autonomy – in everything from work organization, to managing relationships with clients and suppliers, to hiring new employees – the cooperatives still have a significant amount of catching up to do. The management in the cooperatives seems to be highly skeptical about forms of direct participation that including delegating *power* to teams of workers. (In fact, during interviews there is often confusion as to what constitutes participation, with incentive-based pay systems confused with participation.) Often, management is jealous of the authority and autonomy it's won. In many cases, “authority and heirarchy are... indicated as a 'conquest,' as a sign of maturity.”[38] A sign that the cooperatives have “overcome the limits of the cooperative tradition prior to the 1970s and 1980s.”[39]

Attempts at adopting team-based approaches, or involving employees in decision making outside of the members' assembly, have been limited. Generally, it is

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[35]Qvuale, 3.
[36]Brodner, 3.
[37]Pfeffer, 61.
[38]Baglioni & Catino, 110.
[39]Baglioni & Catino, 85.

management that decides to involve certain employees (almost always the highly qualified) in specific instances where their input is deemed necessary. Some cooperatives have experimented with setting up teams, modelled on the quality circles developed in Japan. Where teams have been set-up, though, autonomy is limited to certain, pre-conceived areas of responsibility. The following quote, from a manager in one of the manufacturing co-ops, probably best sums up the attitude to direct participation: “It's okay to do a little bit of democracy in production, but guided: you have to avoid the construction of parishes inside of which the bishop can't enter.”[40]

There was one cooperative in which I did find a higher degree of autonomy among frontline employees: CADIAI, a home healthcare and social services provider in Bologna. CADIAI is a Type A social, co-op, essentially a worker-owned co-op that provides social services.[41] In CADIAI, the cooperative's professionals, along with the agency or person paying for the services, jointly define the program, services to be provided and goals to be met. A budget for each case is created, and a team of professionals then have complete autonomy, within the parameters previously defined, in managing the team's budget and planning the specific, day-to-day activities. When asked why they chose this form of organization, the response was that it would be impossible to provide quality care without this kind of autonomy at the operational level. The nature of the business requires that professionals working directly with clients have a degree of operational autonomy.

This is, however, the exception. While many aspects of high road, high-performance practices – job-rotation, internal promotion, employment stability, and information sharing – are part of the DNA of the cooperatives I studied, participation is very deliberately limited to the assembly. This apparent rigidity needs to be put in perspective, though. In Imola, the membership often meets once a month with the Board of Directors and management to monitor progress regarding strategic goals and discuss, often heatedly, the operational decisions made by management, problems of work organization... even problems with suppliers, the quality of raw materials and relations

[40]Baglioni, 82.
[41]A Type B social co-op, on the other hand, provides job-placement and other integration services and is based on a multi-stakeholder governance structure, at least 30% of the membership base must be made

with clients. So there is a process of feedback and criticism of management – a type of participation – that is not present in private firms. Often management is the subject of harsh criticism during the assemblies. But, on the shop-floor, membership does not "interfere" in management's job and is totally subordinate, just like any other worker. It's a circular system: day-to-day, management is "authoritarian," and the workforce (members included) takes orders (*conscious*, many have stressed in interviews, of why they are given certain orders because they participated in approving overall strategy). Then, in the periodic assemblies, the same worker-members, who are subordinate to management daily, become management's controllers.

As everyone I've interviewed has stressed, this governance model is the key to success. Management is able to run the cooperative efficiently, within the parameters set by the membership and the underlying values of the cooperative movement. And because the members, though often a small percentage of the total workforce, are spread among all levels of the firm, they represent an extra set of eyes and ears, with their finger on the pulse of what's happening everywhere, able to provide feedback and criticism to management regarding many things that management is not capable of seeing. "It's like a big brother," one former manager put it. What's more, the worker-members are not against the firm, they are all working toward the same, shared goals: the success of the cooperative. The members monitor other workers' performance and police themselves. The results are much higher levels of productivity, little shirking, greater efficiency and quality.

The intense levels of participation – and the frequency of – assemblies in Imola are not indicative of the entire cooperative movement, though. Cooperatives with a larger membership base often meet less frequently, with attendance in the meetings much lower. In other cooperatives, especially where the membership base is larger, making managing participation more difficult, member's are given a voice in strategic matters, but are not called to provide feedback or monitor management's progress.

On the one hand, I can understand why the cooperatives have not experimented with new forms of work-organization. The full recognition of management's authority

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up of the "disadvantaged" population served by the co-op.

and legitimacy (not to mention *existence)* inside the cooperative is a relatively recent "conquest." To some, these new forms of work organization may seem like a step backward, toward inefficiency and lower productivity. Emphasizing the "social" aspect over effective management to the detriment of the co-op. Work organization that involved all employees in self-management might also appear to be reducing the benefits and privileges of membership. But the evidence is clear: in the "new economy" *people* are the most important source of competitive advantage. The cooperatives must make tapping the potential of all employees, not just members, their priority. Not just because it's the right thing to do, but because the market demands it.

Conclusion

If there's one thing that the cooperative's I've looked at have in common, it's that, in the face of market pressures, they have all gotten bigger – gone after a bigger share of the market – by expanding internally (the cooperatives in consideration have all seen, over the last thirty to forty years, consistent increases in employment) and through strategic acquisitions in new markets. In the case of the manufacturing co-ops, this has meant opening up sales offices and plants abroad, and focusing increasingly on R&D and the production of the highest value-added products at home. This is in marked contrast with the general trend in the advanced economies towards plant closings here and opening up shop in developing countries, using foreign labor to push costs down. The most successful cooperatives have integrated with world markets, but on their own terms. This is a solution that is largely in tune with the cooperative movement's social values. Indeed, another globalization is possible. Competition is not on cost, but on quality and innovation. The degree of embeddedness of the cooperative in the local community becomes a competitive advantage on world markets.

The profound changes in markets over the last thirty years have also required changes in the internal dynamics and governance model of the cooperatives. As one member commented, in the past, it was enough just to produce a product, there was always a market. But this is no longer the case, skilled workers, technicians and managers are essential to competitiveness. This is why the most successful cooperatives have successfully brought in skilled workers, technicians and management into the cooperative, to varying degrees. Indeed, these cooperatives have become *employee,* and not worker-owned. At the same time, the cooperatives have seen a redefinition and redimensioning of the social or democratic aspect. Management has become increasingly important and has gained a high degree of autononomy. Day-to-day, members are employees, just like anyone else, and are subordinate to management. Democratic decision-making takes place in the periodic meetings of the assembly. In the most participatory cooperatives, the assembly meets once a month to monitor progress, and provide feedback and criticism to management.

But it's true, the cooperatives' values have not gone untouched. Indeed, a key to the success of the cooperatives I've studied, in my opinion, has been their capacity to *re-interpret* the concept of mutuality. From a narrow (but noble) vision of maximizing value for the membership (internal mutuality) the cooperatives have increased the scope of their mutuality to include the concept of external mutuality, *solidarity*, in other words the maximization of value for the collectivity.[42] The highest expression of this external mutuality are the indivisible reserves, that wealth accumulated inside the cooperatives for future generations. Each year, the membership of the cooperatives voluntarily agrees to invest the majority of profits into these reserves. The membership will never be able to directly benefit from these indivisible reserves. This represents a clear inclination toward managing the cooperative for the maximization of long-term value, and the benefit of the local community.

I think Professor Matacena provides the best explanation of the significance of this concept of external mutuality: “In synthesis, being a cooperative means economically managing the socio-economic objectives of few in the hypothesis that they can become the objectives of many and, finally, of all.”[43] This is what the best cooperatives are doing today.

[42]Matacena, 4.
[43]Matacena, 7.

Persons Interviewed

President and Vice-President, Cooperativa Ceramiche, Imola.

Former Administrative Director, SACMI, Imola.

President, Cooperativa Bilanciai, Modena.

Vice President, Legacoop, Imola.

Financial Director, SACMI, Imola.

Responsible for Social Affairs, Manutencoop, Bologna.

President, CADIAI, Bologna.

Responsible for Industrial Cooperatives, Legacoop, Modena.

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