

The Cooperative District of Imola
Forging the High Road to Globalization

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Progress Report

Research Project on the Cooperative District of Imola

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Introduction

The second, and final, half of the Master's Degree in Cooperative Economics at the University of Bologna consisted in an internship, either with a cooperative or one of the organizations in the cooperative movement, like one of the “apex” organizations like Legacoop or Confcooperative. For my internship I proposed an alternative: a research project on the cooperative district of Imola. This paper represents a sort of “progress report” with respect to my field research on the cooperative district of Imola. The bulk of my field research up until now has focused on interviews with the presidents of the individual cooperatives (the president is chosen by the Board of Directors, which is elected directly by the membership every three years).

Prior to beginning the interviews, I conducted a brief literature review to gain a better grasp of the social and economic aspects of the cooperatives in Imola. The list of interviews conducted, as well as the literature reviewed, are available at the end of this paper. During the month of November and December I will continue my research, interviewing representatives of the labor movement, local policymakers and managers at some of the cooperative movement's “auxiliary” organizations, like ASSCOOPER, a cooperative consortium founded in 1984 by the Imolan cooperatives. ASSCOOPER is a holding company which makes “strategic investments” for the cooperative movement, as well as promoting the “creation, development and consolidation” of new cooperatives.

So why did I choose Imola? Imola is an extremely unique social and economic “experiment” in democratic, alternative development. Home to some of Italy's oldest cooperatives – and probably the first worker-buyout as well – Imola is literally a town that has cooperation in its DNA. More than 50% of the total population of Imola are members of a cooperative, and more than half of total industrial output comes from the district's 15 industrial cooperatives, three of which are global market leaders and manage multinational networks of private subsidiaries, with sales offices and production on at least four continents. Besides industry, cooperatives are present in all sectors of the economy, from social services to agriculture and the food industry, from housing to banking, and from retail to the culture industry. There's even a cooperative of business consultants! When confronted with a problem, the Imolese choose to cooperate.

The cooperative movement produces more than €2 billion in annual revenues, and

with a total net worth of more than €1 billion, has become a significant part of Imola's socio-economic patrimony. Each cooperative is deeply rooted in the local community. The members of the cooperatives are more like temporary guardians of the wealth accumulated over the course of the last 120 years, than shareholders in a business. Indeed, most of the annual profits produced are reinvested in the business, and not paid out to members. The Imola cooperative district is a dynamic social and economic system, in constant expansion in terms of employment, total membership and number of firms. Most significantly, the Imolan cooperative district is hard proof that there is an alternative to the “low road” business practices that too often characterize globalization: speculative business practices that seek short-term profit at the expense of long-term company value, jobs and the health of local communities. Indeed, the cooperative movement in Imola shows that another kind of globalization is possible and that businesses can compete on the “high road,” building successful companies, strong communities and increasing participation and democracy.

Imola: Background

Imola is a “district” in the province of Bologna, Emilia-Romagna. If Emilia-Romagna is the land of cooperation, then Imola is its capital. The city of Imola counts just 64,000 inhabitants. The whole district, which includes the neighboring towns of Medicina, Castel Guelfo di Bologna, Castel San Pietro Terme, Mordano, Dozza, Casalfiumanese, Borgo Tossignano, Fontanelice, and Castel del Rio, has a total population of 122,777.¹

Half of the total population are members of a cooperative. And, as many in Imola will tell you, there isn't a family that doesn't count at least one person employed or a member in a cooperative. The cooperatives in Imola provide fixed employment to over 7,000 people and seasonal/temporary work to just over 1,000. Employment has steadily increased over the last four years, up from 6,023 in 2000. Growth in fixed employment has exceeded growth in seasonal employment, which has seen an overall decrease with respect to 2000, despite a 3% increase over 2004. It's worth pointing out that, between 2003 and 2004, employment increased in Italy by 5.9%. During that same period in Imola

¹<http://www.provincia.bologna.it/circondarioimolese/>

fixed employment alone increased 6.88%, with an additional 3% increase in seasonal and temporary work for a total increase in employment of nearly 10% from 2003 to 2004. Looking at the bigger picture, over the last four years, fixed employment alone increased by 19% between 2000 and 2004.

Imola is home to 130 cooperatives, up from 111 in 2000. The most dynamic sectors, in terms of *new* cooperatives, are social services and the service economy. The past twenty years have seen the birth, in Imola, of 28 “social cooperatives,” providing all kinds of social services, from drug treatment, to activities for the handicap, to job placement for the disadvantaged and handicap, home health care services and daycare. The social cooperatives are often an alternative to traditional, state-provided social services and frequently provide better quality, more humane services based on integration and empowerment. The social co-ops are divided into two categories: type “A” and type “B.”

Type A social co-ops are essentially worker-owned cooperatives that provide services to people. For example, the social co-op SEACCOOP manages day-care centers, day-care for the severely disabled, and residencies and communities for adults with severe disabilities, including mental disorders. The members of this cooperative are the social workers who provide the services.

Type B cooperatives, on the other hand, provide job placement services to disadvantaged people. Type B cooperatives are based on a multi-stakeholder model: by law, 30% of the membership and the board of directors must be made up of disadvantaged people, as defined by Italian law. That means that, frequently, parents, disabled people and social workers all sit on the board of directors together. Type B cooperatives are businesses that compete on the market with private companies. A good example is *Giovani Rilegatori*, a social cooperative that employs people with different disabilities: from those with hearing problems, to those with more severe mental and physical disabilities. *Giovani Rilegatori* produces stationary, provides copying services to private companies and even assembles components for Alfa-Romeo, the Italian automobile manufacturer.

The most unique feature of the Imola cooperative district is its strength in the manufacturing sector, both in terms of number of firms and competitiveness. Fifteen of

Imola's 130 cooperatives are in manufacturing, many of them, like SACMI, Cooperativa Ceramica and CEFLA are global market leaders. SACMI produces bottling machinery, machinery for the production of ceramic tiles and white wear, and plant engineering. Cooperativa Ceramica, a customer of SACMI's, produces ceramic tiles for industrial and home use. CEFLA has four different divisions: store fixtures and furnishings, wood finishing systems, civil works and plant engineering and dental equipment. Others, like 3L, Maglificio Adele, and CESI are leaders nationally and in Europe. 3L is a woodworking company. Maglificio Adele is involved in the research, development, production and distribution of knitwear. CESI, the result of the fusion in 1978 of six construction cooperatives, is among the top 15 construction firms in Italy.

Democracy and Competitiveness

Over the course of the last thirty years, a distinctive model of governance has emerged among the cooperatives in Imola. This model attempts to balance the two “souls” of the cooperative: on one hand internal democracy, on the other competitiveness in an increasingly hostile global marketplace. For the cooperatives in Imola, social values like solidarity, reciprocity and mutualism represent a frame of reference for the firm.² 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.”³

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 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

²Baglioni & Catino, 69-70.

³Baglioni & Catino, 113.

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.”⁴ The cooperatives in Imola, when compared with cooperatives in the rest of the region, tend to be highly selective regarding membership, admitting often only a handful of new members each year. Each cooperative stipulate rules and requirements for admission, laid down in the firm's by-laws, which have been approved by the membership.

A particularly selective firm – though by no means the most selective – is SACMI. SACMI is by far Imola's most successful manufacturing co-op. SACMI's by-laws requires that candidates to be of “good moral and civil conduct,” 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.”⁵ Aspiring members apply to the board of directors, who are ultimately responsible for admitting new members.

All new members pay a membership fee. In Imola, the membership fees are generally very high, frequently approaching the maximum allowed by law, or €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.⁶

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 conscious of the fact that the success of the

⁴Benati, “Impresa al Plurale,” 273.

⁵Benati, “Impresa al Plurale,” 274.

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 identification with the interests of the business.⁷ 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].”⁸*

In Imola, membership ranges from 15% of total workforce to 90%, with the larger manufacturing co-ops generally under 50%. 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.

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. In Imola it is not uncommon for the assembly to meet as many as 10 or 12 times a year. In these meetings, debate is often heated, with members actively participating. These meetings frequently exceed 5 hours in length, finishing after midnight. It is no surprise that the debate is more heated, and attendance higher, in those co-ops where members make a significant

⁶Benati, “Impresa al Plurale, 274.

⁷Minardi, 23.

personal investment in capital and not just labor. In one case I studied (not in Imola) only 30% of the total membership regularly participated in the assemblies. In Imola, 70-90% of members regularly participate. Participation – as measured by percentage of members present at the assemblies – is higher in those firms where membership is 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 dividends⁹) 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.

Membership is not extended to private subsidiaries acquired by the cooperative. It is not uncommon for the cooperative to appoint members as top management in the firms it owns, though. 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. 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 subsidiaries in its network. 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

⁸Baglioni & Catino, 70.

⁹In Italian, the term “*ristorno*” is used to describe patronage dividends.

(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 Imola's co-ops has undergone significant changes over the last twenty to thirty years, and has reflected the larger changes in the economy, 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 new 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.”¹⁰

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 “the

¹⁰AROC, 84.

historic projection, in an evolved sense, of the highly skilled working class of thirty or forty years ago.”¹¹ 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 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 with 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 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 shop floor makes under €2,000 a month. So, yes, in a successful cooperative, 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

¹¹AROC, 85-86.

features the worker-owned cooperatives of Imola 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 85% *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 that there is a natural tendency to make membership, in particular access to the benefits of membership in a successful firm, exclusive.¹²

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 Imola management, though they can usually become members, cannot serve on the board of directors.

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.¹³

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

¹²Benati, “Impresa al Plurale,” 274.

¹³Baglioni, 72.

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.¹⁴ 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.”¹⁵

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 management.”¹⁶ 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

¹⁴Baglioni, 72.

¹⁵Baglioni, 73.

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.”¹⁷

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.”¹⁸ 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.¹⁹

The Division of Labor

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.

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.²⁰ “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.”²¹

¹⁶Baglioni, 73.

¹⁷Pontiggia, 32.

¹⁸Assetto, 32.

¹⁹Assetto, 32.

²⁰Pfeffer, 56.

²¹Pfeffer, 56.

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."²²

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 possible for the business to **decentralize decision-making** and encourage **broader worker participation and empowerment in controlling their own work**. Pfeffer points out that increasing participation increases both satisfaction and productivity. In particular, Pfeffer argues for reducing levels of management hierarchy 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

²²Pfeffer, 59.

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, implementing 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 never be laid off.

While I can't say whether or not hiring 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 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 performance. The membership accepts this as a necessary trade off.

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. 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.²³

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 Imola layoffs, for members and non-members alike, are unheard of. It's simply

²³Baglioni & Catino, 175.

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 more than just solidarity and politics at play: in the industries the cooperatives operate in, people are important. Frequently, the skills the cooperatives are looking for can't be found on the market. That means it often takes months and sometimes years to effectively train a skilled worker or technician

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.).”²⁴ 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.²⁵ 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.²⁶

If the private sector is increasingly producing examples of radical reorganization, flattening hierarchies 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. Often, management is jealous of the authority and autonomy it's won. In many cases, “authority and hierarchy are... indicated as a 'conquest,' as a sign of maturity.”²⁷ A sign that the cooperatives have “overcome the limits of the cooperative tradition prior to the 1970s and 1980s.”²⁸

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

²⁴Qvuale, 3.

²⁵Brodner, 3.

²⁶Pfeffer, 61.

²⁷Baglioni & Catino, 110.

²⁸Baglioni & Catino, 85.

construction of parishes inside of which the bishop can't enter.”²⁹

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 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.

²⁹Baglioni, 82.

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 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 involves 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.

Market Strategy: Imola Globalizes

The cooperatives' business strategies are fundamentally grounded in their social mission. Before moving into market strategies, let's take a step back and look at what that social vision is. In a recent interview with the president of one of Imola's small industrial cooperatives, I asked the president if he saw the cooperative as part of the labor movement. My interlocutor provided a very thoughtful, articulate response. “No,” he said, “the cooperative is a part of the local community's patrimony... and this is the hardest thing to do, communicate this value to the younger generation.” Considering that we were talking about a business, the concept that he expressed – the cooperative as the patrimony of the local community – is profound and radical. I think this response, better than anything, expresses the social mission that drives the cooperative movement in Imola.

The cooperative, then, sees profit as a tool, or a limit: in order to realize its social mission, the cooperative must turn a profit.³⁰ 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. As almost all cooperators are likely to remind you, ignoring this reality, and prioritizing social goals over competitiveness, would endanger the long-term survival of

³⁰Mazzoleni, Mario, “The Excellence and the Cooperative Manager,” accessed 9/2/05, <http://www.mariomazzoleni.com/>

the cooperative.

And if there's one thing that characterizes the cooperatives in Imola, it's that they're built to last. The cooperatives create 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 in Italy 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, 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.”³¹ 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 total net worth of the cooperatives in Imola, most of which is accounted for by the indivisible reserves, is nearly €1.3 billion.

The indivisible 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, human resources, 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, machinery, 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 taken the high

³¹Poletti, Giuliano, Editorial, “Il Sole 24 Ore,” 3 September 2005.

road: between 60-90% of what is produced by the leading cooperatives is exported outside of Italy. This focus on exports is one of the reasons why employment and sales in the manufacturing 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 new product lines, or to reinforce its position in existing markets and penetrate new ones.

The most advanced example of this strategy is SACMI. The *Societa' Anonima Cooperativa Meccanica di Imola* was founded in 1919 by nine, unemployed metalworkers. SACMI was originally specialized in the repair of agricultural machinery. Following World War II, Cooperativa Ceramica asked SACMI's mechanics for a hand repairing equipment that had been damaged during the War. At that time, Cooperativa Ceramica purchased its presses from a German supplier. This initial contact between SACMI and Ceramica led to SACMI's foray into the ceramics press market. From that moment on, SACMI began to build ceramics presses for Cooperativa Ceramica, a relationship that still endures today. The production of ceramics presses would come to represent SACMI's core business, "that productive activity that would have assured the fortunes of SACMI for the five successive decades..."³² Today, SACMI is the world leader in the production of ceramics presses. A few years later, SACMI added another line: presses for the production of "crown caps," a product that it continues to produce today.

In the 1960s, SACMI produced the two lines just mentioned, and employed a total of 120 people. It was at this point that SACMI made several key decisions that would prove decisive for its success in the following directions: a focus on quality and customer service; entrance onto international markets; SACMI began producing whole production lines in addition to the single machine; significant investments in upgrading and modernizing production; and the hiring of highly qualified technicians, including engineers. Today, SACMI produces machinery and production lines for four different sectors: ceramics, beverage and packaging, plastics and food processing. SACMI has

³²Benati, 266.

increased employment in the cooperative from 120 in 1960, to over 1,000 today, while at the same time expanding production through its wholly owned subsidiaries in Italy and throughout the world, including plants in Mexico, Brazil, Germany and China. SACMI is at the head of a multinational system of 67 “controlled” companies, the majority of which (38) are located abroad. Total employment for the SACMI group is 3,463. The Imola plant is still the most important plant of the group.

While aspects of production are frequently decentralized to the subsidiaries, the “brains” remain with the cooperative. Research, technological innovation, “strategic,” high value-added production or high knowledge-content production is kept inside the cooperative, or as close as possible to the cooperative. Overall, as certain aspects of production have been decentralized, total employment in the cooperative has increased through a corresponding *increase* in design, marketing, finance and research done *inside* the cooperative. In 1989, for example, SACMI created – at the main plant and headquarters in Imola – a Center for Research and Development, that carries out R&D for the entire group. The Center includes chemistry and physics labs, a “technological” lab for packaging, and experimental areas for prototype testing. In addition to the production of packaging machinery, SACMI has been testing new, high-tech olfactory systems that will allow a company that packages perishable goods to detect, in line and before an entire order is packaged, possible problems.

As many of the managers and cooperators I've met with have stressed, any firms that are acquired 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. The industrial cooperatives, with SACMI in the lead, have successfully integrated themselves with the global economy in ways that are consistent with their values, that increase employment and productive capacity at home, while safeguarding and increasing that patrimony that has accumulated over the last century, and that will benefit future generations.

Conclusion

In the paper, *Building the Bridge to the High Road*, author Dan Swinney identifies the low road trend in business as the major threat to the well being of local communities today. Swinney writes:

Influential sections of the business community have increasingly abandoned the obligations of stewardship for our economy that under girded the social contract of the 20th century. Rather than working to increase the productive capacity of key industries and the standard of living, they pursued strategies that led to the destruction of productive capacity as well as a dramatic decline in the standard of living for the average worker...³³

The high road, on the other hand, “seeks the highest and best use of our human and material resources and is possible by values that seek the broadest distribution of wealth and human development as an objective of the economy.”³⁴ The Imola cooperative experience is diametrically opposed to the low road. If the low road emphasizes short-term returns for shareholders, the cooperatives of Imola emphasize the long-term value and competitiveness of the firm, and the accumulation of wealth for future generations. If the low road seeks to compete by cutting costs and undercutting labor, the cooperatives in Imola make participation and involvement a part of their competitive advantage. The cooperatives in Imola take their role as stewards for the local economy seriously. The Imola cooperative district represents an important example of a high road alternative development strategy capable of building healthy companies, encouraging participation, and strengthening the local community for current and, most importantly, for future generations.

³³Swinney, 28.

³⁴Swinney, 40.

Interviews Conducted

3L, Industrial Cooperative

-President

4 Castelli, Social Cooperative

-Founders (2 interviews)

Artemesia, *Piccola Societa' Cooperativa*

-President

Aurora 2, Housing Cooperative.

-President

-Administrative Director

Cooperativa Ceramica, Industrial Cooperative

-President

-Vice President

Ecosistema, Eco-Tourism

-Member

Galeati Tipografia, Industrial Firm (owned by cooperative movement)

-Director General

Giovani Rilegatori, Social Cooperative

-President

Legacoop, Imola

-President

-Vice President

Legacoop, Italy

-President

Mayor of Imola

SACMI, Industrial Cooperative

-Former Administrative Director

-Financial Director

-Member, Board of Directors

Unicoop, Housing Cooperative.

Zappettificio Muzzi, Industrial Cooperative.

-President

-Vice President

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