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Competere cooperando

Il distretto cooperativo di Imola

Compete to Cooperate

The Cooperative District of Imola

In appendice la presentazione di Benito Benati

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delle imprese cooperative in Italia e ad Imola

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them to compete in “mass” markets... and “niche” markets... Imola’s industry, most of all through technological innovation, has in fact responded to the new economic landscape with a high degree of flexibility in productive mix... oriented towards innovation and product differentiation with strong attention to quality and service...⁶⁴

By seeking positions of leadership in manufacturing in the global economy—and not retreating from competition—the cooperatives have been able to continue to drive wealth and employment creation locally. By aggressively competing to be the best globally, the cooperatives of Imola have contributed significantly to the creation of a vital local economy and to maintaining the high standard of living and low unemployment enjoyed by residents, even in the face of new and intense competition from developing countries.

The Imola Model

It should be mentioned that Imola is not a lone cooperative district in a sea of private enterprise. Emilia-Romagna, a region of about 4 million, is home to over 4,000 cooperatives and Italy boasts one of the highest concentrations of cooperatives per capita in the world. While cooperatives have flourished in Italy and elsewhere in the world, Imola is truly unique. Imola’s cooperative movement has demonstrated an ability to combine outstanding economic performance over time, integration into the global economy and competitiveness with a commitment to democracy in the workplace, community development, and solidarity within and across generations. Imola’s experience is perhaps matched only by the Mondragon Cooperative Corporation in Spain.

Intergenerational Solidarity

The analysis of the Imola model has to start from the unique view that Imola’s cooperators have of their cooperatives. Today’s cooperative leaders see the cooperatives as a community economic asset. Current members are simply beneficiaries of wealth created through the sacrifice, investment and careful management of their forebears. As such, members have the very serious responsibility of protecting that wealth and expanding it for future generations, just as the cooperators before the current generation did.

3elle, a worker-owned cooperative started in 1908, is today among the top three producers of wooden door and window frames in Italy.⁶⁵ Founded by 15 carpenters, technicians, teachers and others, 3elle’s first headquarters was the covered

⁶⁴ CLES, 26-27.

⁶⁵ Personal interview.

portico of the church of San Domenico (this fact, and the political orientation of the founders, earned them the nickname “the Red monks”⁶⁶). Today, 3elle has revenues of €62.28 million⁶⁷, exports 10% of its production⁶⁸ and employs 301 people. When I spoke with Giuliano Dall’Osso, the president of 3elle’s board of directors and a worker-member, I asked him if he saw the cooperative as a part of the labor movement. He reflected a moment, and answered that he saw the cooperative as a part of the “patrimony of the local community... wealth for the territory, something for my children... wealth for future generations.”⁶⁹ This sentiment was expressed by all of the cooperative leaders I interviewed.

Dall’Osso’s words capture what I would consider to be *the* core value of Imola’s cooperators today. It is this particular notion of the cooperative, an asset for future generations and part of the local community’s patrimony, that drives much of the behavior of the cooperatives, both in regards to how they compete in the marketplace, and how internal democracy manifests itself.

The most significant manifestation of this notion of wealth creation for future generations is the cumulative retained earnings, or “indivisible reserves,” of Imola’s cooperatives. The notion of indivisible reserves was codified into law with the 1947 Basevi legislation. In brief, the law required that all co-operatives establish indivisible reserves: earnings that the co-op will retain and account for on the balance sheet separately from shareholders’ equity. At no point during the life of the co-op can members receive any portion of these reserves as dividends or in any other form; they can not be “divided.” Further, the law required that, in the event the co-op ceases to operate, the indivisible reserves be “devolved” in their entirety and utilized in the “public interest.”⁷⁰

In 1977, to further encourage co-ops to self-finance, the Italian parliament modified the cooperative legislation to exempt from corporate income tax any earnings retained by the co-op, as long as they were placed into the indivisible reserves. Under the 1977 legislation, at the end of a co-op’s fiscal year the co-op had the option of retaining up to 100% of earnings, tax free, as long as those earnings are placed in separate, indivisible reserves. Today, Italian law requires that, in the event a co-op is liquidated or privatized, all remaining indivisible reserves be devolved to one of the national cooperative development funds, managed by the national cooperative business association of which the co-op is a member.

⁶⁶ Personal interview.

⁶⁷ http://www.3elle.it/3elle_cifre.htm

⁶⁸ Personal interview.

⁶⁹ Personal interview.

⁷⁰ Basevi Law of 1947, <http://www.movimentocooperativo.it/index.php?id=330>

This law has had a powerful, dual effect on co-ops in Italy: on the one hand, by exempting indivisible reserves from corporate income tax, cooperators have a material incentive to focus on long-term growth of the co-op through self-financing; on the other hand, they have a disincentive to speculate on a healthy co-op by cashing out through privatization. If a cooperative were to be sold, almost its entire net worth, minus the member dues plus interest, would go to the cooperative movement.

As Giuliano Poletti, former president of the Cooperative League of Imola and current president of the Cooperative League of Italy, put it: “members give up individual profit to invest profits into the indivisible reserves (which the members give up forever) that are then used to reinforce and develop the firm.”⁷¹ In Imola, each year, members voluntarily give up a majority of the profits they produce, in favor of the long-term health of their co-op. In 2006, for example, the cooperatives invested 69% of total profits into the indivisible reserves. This massive reinvestment of profits provides the co-ops with the financial resources needed to compete effectively in the marketplace. But fundamentally, the indivisible reserves represent a form of inter-generational solidarity, guaranteeing current and future members stable employment and high wages as well as insuring that the local community will continue to benefit from the current and future wealth created by the co-ops.⁷² Thanks to the sacrifice of past members, Imola’s cooperatives today have total reserves (roughly equivalent to net worth) of over €1.4 billion.

For Imola, the cooperative legislation doesn’t drive investments into indivisible reserves, it is merely the legal codification of this form of “external” mutual aid long practiced by the cooperatives here. In 1904, for example, in the absence of legislation requiring them to do so, the founding members of the Cooperative Bank of Imola chose to reinvest 90% of that year’s profits back into the bank. The founding members of the bank also voluntarily decided to require that a part of the bank’s reserves, should the bank close, be used in some way to benefit the collective interest.⁷³ These are choices that are both entrepreneurial (long-term growth of the business) and social (wealth should be set aside for the benefit of the larger community, not just the individual members).

Even more interesting is the way the cooperatives reacted to a recent change in legislation. In 2002, the Italian legislature passed legislation that distinguished

⁷¹ Poletti, Giuliano, Editorial, “Il Sole 24 Ore,” 3 September 2005.

⁷² Imola Insieme, 2007, p. 8.

⁷³ Galassi, 139: “The Annual Report on Returns and Expenditures as of the close of 1904, showed a net profit of 3,230,96 Lira, out of which, 90% was allocated to increase reserves. This followed a prudent administrative practice which led members to give up the dividend set by their Charter in favor of the business. Thus, the current value of each share increased to 24 Lira and the following year to 26 Lira.”

broadly between two types of co-op: prevalently mutual and non-prevalently mutual. In brief, a prevalent co-op is one in which more than 50% of the workforce is a member, a non-prevalent co-op is one in which less than 50% of the workforce is a member. No longer can co-ops enjoy exemption from taxes on 100% of retained earnings. Prevalent co-ops are exempt on up to 70% of profits retained in indivisible reserves, while non-prevalent co-ops enjoy the exemption on only up to 30% of retained earnings put into indivisible reserves.

Most of the industrial co-ops are not prevalently mutual, that is a minority of workers are also members. Nonetheless, as we've seen, this hasn't stopped the co-operative movement from continuing to reinvest the majority of annual profits into indivisible reserves.

One of the most committed of the co-ops to the idea of intergenerational solidarity is CEFLA. From its humble beginnings during the height of fascism, CEFLA today employs nearly 900 people, with 293 worker-owners and produces annual revenues of about €250 million, €102 from exports.⁷⁴ CEFLA has four divisions, and is a market leader in each:

- 1) Retail shopfitting
- 2) Dental equipment
- 3) Automatic wood varnishing machinery
- 4) Heating and electrical installation

Like the other cooperatives, CEFLA invests a majority of profits each year into its indivisible reserves. In addition, by statute, members *must invest* enough profit into the firm each year to grow the indivisible reserves by at least one percentage point above inflation. Additionally, the amount that members can earn (the sum of salary + interest + profit sharing) is *capped* at an amount lower than that allowed by law.

Under the recent legislative changes, CEFLA is considered a non-prevalent co-op: less than half of the workforce is a member, which means the co-op enjoys a tax exemption only on 30% of their retained earnings. Nonetheless, the co-op continues to invest a majority of its annual profits into indivisible reserves, even in the absence of the tax benefit.⁷⁵ As Giovanni Antonelli, President of CEFLA, told me, "We continue to behave like a mutually prevalent cooperative, but pay taxes like a non-mutually prevalent cooperative."⁷⁶

⁷⁴ Imola Insieme, 2007, 23.

⁷⁵ Benati. "Impresa al plurale", 273: "As of 12/21/1996 Imola's industrial cooperatives gave permanent employment to 3722 workers, including 1760 members. As can be noted, the number of members is slightly higher than 47% of the total labor force."

⁷⁶ Personal interview.

Membership

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 the door is wide open, with other’s it’s only “slightly ajar.”⁷⁷ The cooperatives in Imola are 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 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.”⁷⁸ 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, more capital intensive and that compete successfully on international markets tend to have higher membership fees.⁷⁹ As the former president of CEFLA, Claudio Casini, told me, “members need to be willing to risk their own money... without money, social values and ideals are just chit chat. Values become real when money is involved.”⁸⁰

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. Ultimately, members become stewards of wealth created by those who came before them and bear the responsibility, to the community and future generations, to protect and grow that wealth. 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

⁷⁷ Benati, “Impresa al Plurale,” 273.

⁷⁸ Benati, “Impresa al Plurale,” 274.

⁷⁹ Benati, “Impresa al Plurale,” 274.

⁸⁰ Personal Interview.

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 identification with the interests of the business."⁸¹ 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]."⁸²

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 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

⁸¹ Minardi, 23.

⁸² Baglioni & Catino, 70.

members present at the assemblies – is higher in those firms where membership is more selective and fees higher. In 2005 in Imola, membership assemblies met a total of 95 times.

Leaders in the cooperative movement in Imola cite these participation rates (and of course stellar annual profits) as confirmation of the effectiveness of their model. The combination of selective membership and high fees (and the normally strong interest on capital invested as well as profit sharing⁸³) 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.

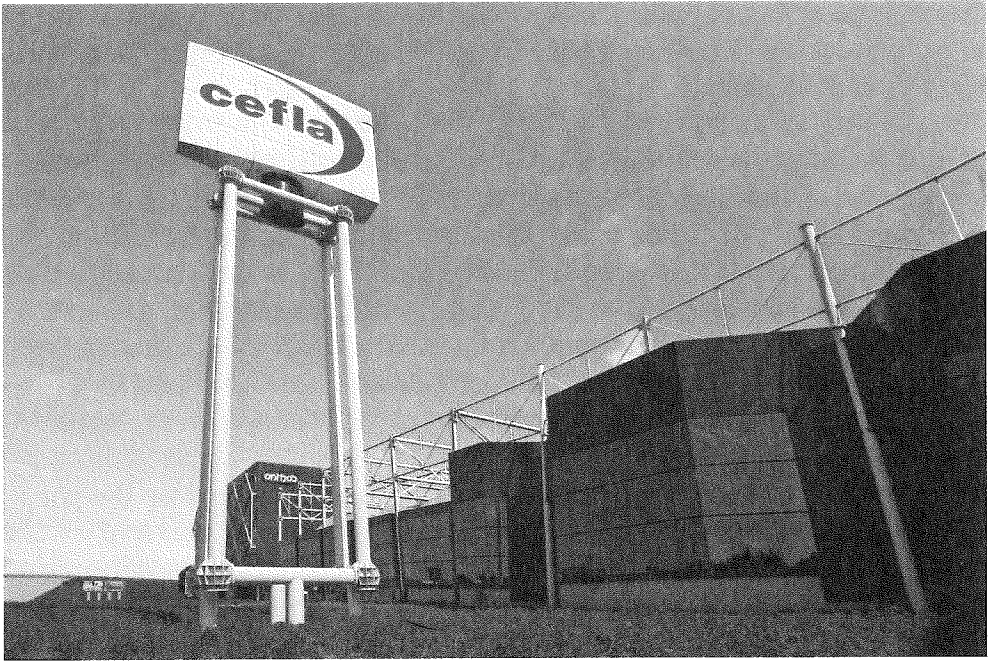
Membership is not extended to private subsidiaries acquired by the cooperative. It is not uncommon for the cooperative to appoint members as top management in the firms it owns, though. In some cases, the cooperatives have experimented with making managers owners through Employee Stock Option Plans (ESOPS). 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, that is, acquisitions of subsidiary firms are not speculative in nature; they contribute directly to reinforcing the co-op’s position in the market.

Changes over Time in the Membership Base

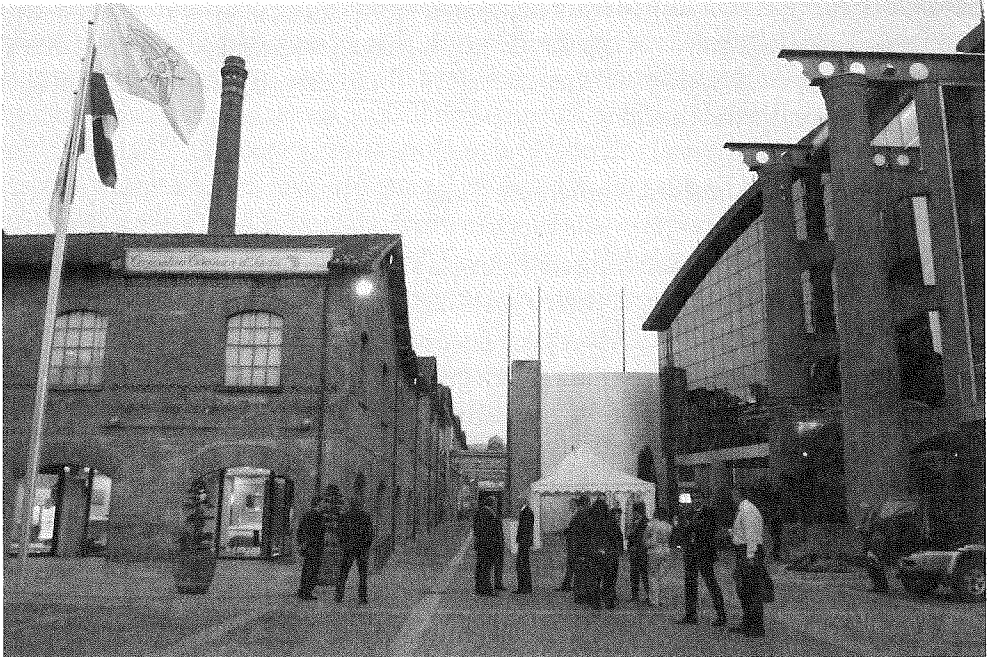
The make-up of the membership base in Imola’s co-ops has undergone significant changes over the last twenty to thirty years, and has reflected the larger changes in the economy, from a Fordist to a post-Fordist economy. As knowledge, skilled laborers and management have taken on a greater role in the 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

⁸³ In Italian, the term “*ristorno*” is used to describe patronage dividends.



Coop. Cefla



Coop. Ceramica



Coop. Sacmi



Coop. 3 Elle

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.”⁸⁴

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 historic projection, in an evolved sense, of the highly skilled working class of thirty or forty years ago.”⁸⁵ 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. 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. According to Luca Linguerri, Vice President of the Cooperativa Ceramica, “It's the air that you breath... everyone is fascinated.. The managers stay for the climate, because there's a human condition.”⁸⁶

⁸⁴ AROC, 84.

⁸⁵ AROC, 85-86.

⁸⁶ Personal interview.

While it is highly uncommon, today, for a worker to rise to the position of General Director, the cooperatives favor internal promotion and cultivation of management inside the co-op rather than relying on the market. SACMI, for example, recently made changes in its top management. Rather than hiring from the outside, the co-op promoted SACMI Imola's General Manager (Eugenio Emiliani) to General Manager of the SACMI Group. The former head of SACMI's Whiteware Division (Pietro Cassani) is now General Manager of SACMI Imola.⁸⁷ Cassani began his career at SACMI in 1993, moving up the ranks to his current position. 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 in their industry.

Member Compensation

Wages in the cooperatives 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.

Total compensation to co-op members is limited by law. Generally speaking, members must be primarily compensated for their labor, and not through passive gains on capital invested. In addition to wages (which, again, are no different for members and non-members), members can receive interest on their membership dues (which can range by law from anywhere between €25 and €100,000). Interest on dues is limited to no more than 2.5% above the interest rate on a particular type of low-interest state bond (*buoni fruttiferi postali*). Members are also entitled to a share of profits (*ristorno*, often called "patronage dividends" in the US) to be distributed on the basis of the quantity and quality of their labor. Profit share cannot exceed 30% of a member's total compensation, which includes wages, interest earned on member-loans to the cooperative and membership dues, and dividends on shares held by the members.⁸⁸

One final comment must be made regarding the membership base. One of the features, mainly of the worker-owned cooperatives, of the Imola model 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.

⁸⁷ "Sacmi - changes and continuity at the top," Press Release, 10/16/2007 <http://www.sacmi.com/DetailNews2003.aspx?IdNews=910>

⁸⁸ See "La Cooperativa: Istruzioni per l'uso," Legacoop Imola, 2005.

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.⁸⁹

In my experience, selectivity in the admission of new members is primarily driven by the desire to insure the active participation of members in the management of the firm and the deep sense of responsibility that current members feel as stewards of this community wealth.

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.⁹⁰

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

⁸⁹ Benati, "Impresa al Plurale," 274.

⁹⁰ Baglioni, 72.

and controlling management. The board president plays a “crucial” role.⁹¹ 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.”⁹²

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.”⁹³ 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.”⁹⁴

In cooperatives where there is a high degree of member – and especially *worker* – participation, this creates an interesting “dialectic.” Day-to-day, management

⁹¹ Baglioni, 72.

⁹² Baglioni, 73.

⁹³ Baglioni, 73.

⁹⁴ Pontiggia, 32.

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."⁹⁵ 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.⁹⁶

Imola's cooperators are aware of the risk that management could become too strong and become more powerful than the assembly.⁹⁷ It's this risk that further justifies the selectiveness in admitting new members and the decision to restrict the total number of members in the cooperatives. But the solution to excessive managerial control is not just in the quantity of members, but most of all in their quality. So that members can exercise real control over management, what's required, according to Linguerri, "is a day-to-day relationship with the assembly... a constant exchange of opinions." In this way, "the member exerts, daily, control over management and can understand if the day-to-day operations are in harmony with what the assembly has decided."⁹⁸

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 meets 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.⁹⁹ "As other sources

⁹⁵ Assetto, 32.

⁹⁶ Assetto, 32.

⁹⁷ Personal interview.

⁹⁸ Personal interview.

⁹⁹ Pfeffer, 56.

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.”¹⁰⁰ 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 find 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.”¹⁰¹

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 reducing differences in pay, can reduce opportunistic behavior, leading to higher overall performance. Finally, prioritizing

¹⁰⁰ Pfeffer, 56.

¹⁰¹ Pfeffer, 59.

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 only on 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. Profit sharing 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 profit sharing 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. Interestingly in one cooperative I visited, *Cooperativa Ceramica*, 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. There is no significant antagonism between members and 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—another of the elements of a high performance firm identified by Pfeffer—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.¹⁰²

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 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 easily bought on the market. That means it often takes months and sometimes years to effectively train a skilled worker or technician

¹⁰² Baglioni & Catino, 175.

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.)”¹⁰³ 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.¹⁰⁴ 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.¹⁰⁵

If the private sector is increasingly producing examples of radical reorganization, flattening hierarchies and placing employees in self-managing teams with

¹⁰³ Qvuale, 3.

¹⁰⁴ Brodner, 3.

¹⁰⁵ Pfeffer, 61.

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."¹⁰⁶ It is a sign that the cooperatives have "overcome the limits of the cooperative tradition prior to the 1970s and 1980s."¹⁰⁷

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 construction of parishes inside of which the bishop can't enter."¹⁰⁸

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

¹⁰⁶ Baglioni & Catino, 110.

¹⁰⁷ Baglioni & Catino, 85.

¹⁰⁸ Baglioni, 82.

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.

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 Competition and Social Values

The business strategies pursued by Imola's industrial cooperatives are the result of the tension between social values and what it takes to remain competitive in the global marketplace. The result has been bold, and sometimes controversial, business strategies. I would argue that these strategies are consistent with, and even promote, the social values at the core of the cooperative movement: local development, dignified work opportunity and employment stability and intergenerational solidarity.

All of the industrial cooperatives have sought and achieved market leadership nationally, and in many cases globally, by focusing on producing the highest

quality products in diverse sectors from machine tools, to ceramics, to packaging lines to carpentry. To do this, Imola's cooperatives have made significant investments in new technology, R&D, and process and product innovation.

Growth has been driven almost entirely by exports. All of the industrial cooperatives have pursued a strategy of internationalization—not delocalization—to a greater or lesser extent. Some have focused on simply increasing sales abroad of products produced locally. Other cooperatives have pursued an aggressive strategy of internationalization through acquisition of private companies and setting up sales and service offices, as well as production plants, throughout the world, including developing countries from China to Brazil. SACMI has by far been the most aggressive in this regard, with 80 subsidiaries in 24 countries. Over 80% of Sacmi Imola's sales are exported.¹⁰⁹

In many ways, Imola's cooperatives flip the common perception of globalization on its head: instead of going abroad to take advantage of cheap labor, opening up production plants in other parts of the world has allowed Imola's firms to increase their percentage of market share by increasing their ability to be close to their global markets. This strategy has allowed the co-ops not only to increase sales and market share, but employment in Imola as well.

While aspects of production are sometimes 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 which 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 possible problems, in line and before an entire order is packaged.

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 serve to

¹⁰⁹ Sacmi, Annual Report 2006, 8.

reinforce the competitive position of the co-op. The networks of subsidiaries owned by the cooperatives allow them to continue to grow 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, and that increase employment and productive capacity at home, while safeguarding and increasing that patrimony that has accumulated over the last century, and that will continue to benefit future generations.

Other Sectors, the Cooperative League of Imola

I've focused mostly on worker-owned, manufacturing co-ops for two reasons:

1. Because the high concentration and economic success, over time, of these cooperatives constitutes, perhaps, the defining feature of Imola's cooperative movement; and
2. The wealth produced by these cooperatives, and the culture they've contributed to creating, is the foundation upon which Imola's larger cooperative system has been built.

Over the last 150 years, Imola's residents have turned, overwhelmingly, to the cooperative form to meet their basic needs and drive the development of the local economy: not just to create wealth, but also to distribute that wealth equitably through retail, housing development, services, culture and social services. In the final section, we'll examine some of the other sectors of the economy the cooperative movement is active in, as well as the role that the Cooperative League plays.

The Cooperative League

In 1982, the Federation of the Cooperatives and Mutuals of the Imola Territory (Legacoop Imola) was created. Though some cooperatives are members of Confcooperative, the cooperative federation closer to the Catholic tradition, Legacoop Imola—given the particular history of Imola as a center for the socialist and communist movements in Italy—is by far the dominant force. Of 132 cooperatives, 78 are members of Legacoop, including the principal industrial co-ops in the district.