

Matt Hancock

Competere cooperando

Il distretto cooperativo di Imola

Compete to Cooperate

The Cooperative District of Imola

In appendice la presentazione di Benito Benati

Profili giuridici e realtà economica
delle imprese cooperative in Italia e ad Imola

per il "Centro di Ricerca sul Lavoro Associato"

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BACCHILEGA EDITORE

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Contents

| | |
|-----|---|
| 9 | Foreward |
| 11 | Introduction |
| 17 | Preface |
| 19 | The Cooperative Movement of Imola: A Community Economic Asset |
| 21 | Historic Roots of Imola's Cooperative Movement |
| 29 | Socialist Influence Takes Root |
| 33 | 1890s to the First World War |
| 35 | Post War |
| 37 | Fascism |
| 39 | The Cooperative Movement during Fascism |
| 41 | Reconstruction |
| 47 | Economic and Social Impact on the Local Community |
| 53 | The Imola Model |
| 53 | Intergenerational Solidarity |
| 61 | Membership |
| 65 | Changes over Time in the Membership Base |
| 71 | Member Compensation |
| 73 | Board of Directors |
| 75 | Management |
| 77 | The Division of Labor |
| 77 | Human Resources Management in Cooperatives |
| 85 | Teams, decentralization, autonomy |
| 89 | Market Competition and Social Values |
| 93 | Other Sectors, the Cooperative League of Imola |
| 93 | The Cooperative League |
| 95 | Retail |
| 97 | Housing |
| 97 | Services |
| 99 | Social Services |
| 103 | Conclusion |
| 113 | <i>Legal and Economic Aspects of Cooperative Firms in Italy and Imola - Speech by Benito Benati at the Center for Labor Research Community, Chicago, Illinois, December 7, 2007</i> |
| 115 | 1. Distinctive Features of Cooperative Firms |
| 121 | 2. The First Cooperatives in Europe and Italy |
| 125 | 3. The Success of Italian Cooperative Firms Continues |
| 129 | 4. The Cooperative Firms in Imola |
| 133 | 5. "Governance" Systems and Social Policies in Imola's Cooperative |
| 143 | 6. Conclusion |

Foreward

Imola is the capital of the Italian cooperative movement. It is also the leading community of a district known at the European level for its high production and better distribution of wealth. The figures speak clearly and make Imola's achievements indisputable.

Our city is proof that a high density of cooperatives creates a high social and economic standard for the community. Our success confirms that the greater the amount of co-operation, the better the conditions of life for the whole community, due to a decrease in inequality and an increase in social cohesion and freedom.

The first reason for this are the basic values upon which cooperatives are founded, meaning, employment, solidarity and the idea that individuals have a better life when everyone else around them also enjoys a good life.

The second reason has to do with an intrinsic feature of a cooperative, i.e., its ownership structure, the fact that it does not belong to a few, but to the plurality of its members, is passed on through several generations to eventually become an asset for the whole community.

Another reason yet, is that cooperatives cannot be delocalized as they are not subject to scalability.

Finally it has to do with how the cooperatives tend to spread the social responsibility governing their own firm to the overall business environment. All of these factors contribute to a stronger, better and more peaceful life within the community.

It is for these reasons that our response to the violent attacks directed toward the cooperative movement over the last few years has been very firm. We have acted in our official role as representative of the whole city, for the effects of such attacks would have been devastating to the entire community. We were able to do this with pride because the cooperative movement is strong and prosperous in this city not because of partisan support from the local government but because it is able to meet the challenges on the Italian and world market. The cooperative movement does so by producing quality products in all sectors--industrial, agricultural construction and service.

In these following pages, the reader will encounter both the history and the present of our cooperative movement.

I call it "our" because it is an asset that belongs to the whole population of Imola

It is a heritage we are proud of, and hope will continue to represent those solid foundations necessary to guarantee a bright future both to the cooperatives and the whole city of Imola.

Founded 25 years ago the Legacoop strengthened the cooperative movement and reinforced Imola in its process of autonomy and growth.

The city of Imola expresses its sincere gratitude to the President of Legacoop, Sergio Prati, and to all those who preceded him, as well as to all the administrators of that organization.

Massimo Marchignoli
(Major of Imola)

Introduction

“The cooperative district of Imola represents an important model of sustainable, community economic development, combining competitiveness in the global marketplace, with long-term employment and wealth creation for the local community. It is my hope to be able to contribute to a greater understanding of this unique model so that other communities may benefit from this experience.”

We draw inspiration from these flattering words, taken from a book by Matt Hancock, that underline the importance of the cooperative movement in the district of Imola. His words reflect the appreciation shown not only by the local stakeholders but by the university as well, which has devoted much research and many studies to this subject.

Appreciated by many, at times criticized by a few, the cooperation in Imola represents a unique model inside the Movement as it contains the highest number of cooperatives with a socio-economic-territorial connection.

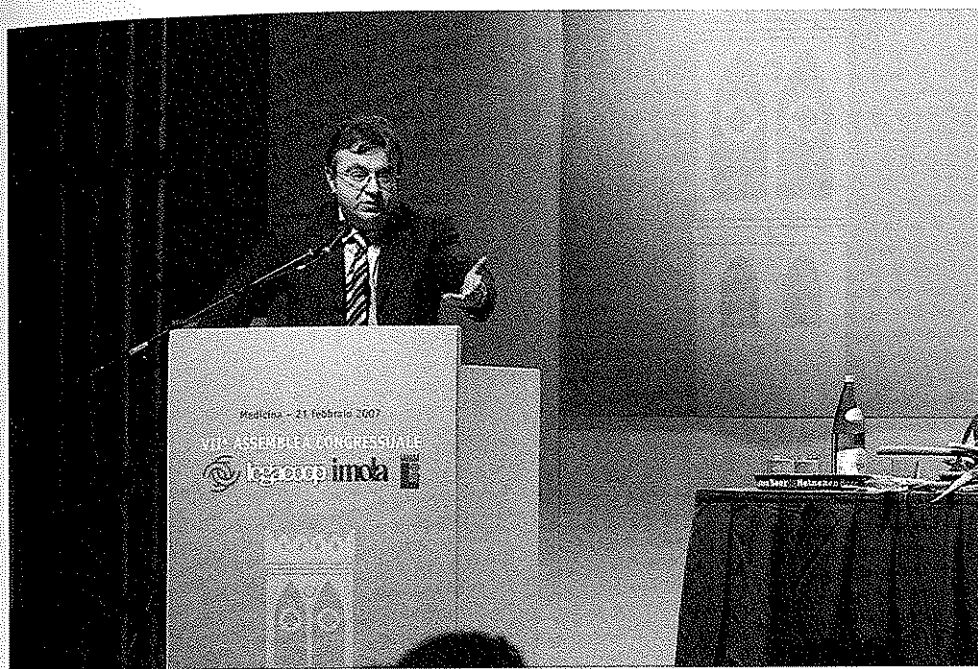
To talk about cooperation in Imola means retelling the history of the city, an area with a profound liaison with association movements, solidarity and the values of group labour.

It tells the story of various businesses and generations of men and women who organized for its creation, cooperated for its growth and consolidation, and won their daily battles with hard work, dedication, intelligence, passion, energy and competence for the advancement of the cooperative idea. Each generation maintained the spirit of service with the sole objective of contributing to the construction of a more just society where everyone would be guaranteed a life of dignity.

It is also a story of success and defeat, of joy and personal suffering interlaced with the history of our city, its economic fabric, institutions and the territory.

Imola, on a national and European level, has remained in the top categories for average income, employment, and standard of services given to its residents. We are fully aware that these achievements are not just the result of the present work but can also be attributed, if not mostly, to those who have toiled in the past. The cooperative movement today represents an element of absolute importance in the fabric of our local community. Without any doubt, we can say that Cooperation has a stronghold in this territory, as proven by the fact that the community appreciates its value and have created a favourable environment for its development.

The cooperative movement follows a progressive idea where development and social cohesion encounter each other and proceed at an equal pace. This



L'intervento di Massimo Marchignoli, Sindaco di Imola, alla VII Assemblea Congressuale di Legacoop Imola.

The speech of Massimo Marchignoli, Major of Imola, during the 7th Congress of Legacoop Imola.

is the future that we and the community envision and hope to achieve for our cooperatives.

We thank Matt Hancock for his words of appreciation and evaluation on the merits of the cooperative movement in Imola. We also thank him for his dedication to the development of the cooperative and association movement in 'his country', inspired by the cooperative model of the Legacoop and strengthened by the report furnished by Benito Benati at the Center of Labor Community Research of Chicago on December 7, 2007.

*Savio Sangiorgi
Vice President
Legacoop Imola*

*Sergio Prati
President
Legacoop Imola*

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The Cooperative District of Imola

Preface

Imola is a small, medieval town located in the flat, lush countryside of the Province of Bologna on the border between “Emilia” and “Romagna,” in north-central Italy. Perhaps this explains Imola’s traditional sense of autonomy and independence—a Romagnan city in the province of Bologna, a thoroughly Emilian city.

In 2004, the District of Imola was formally created, an official recognition of this area’s sense of autonomy. The district is made up of Imola, the capital, and the surrounding towns of Castel San Pietro Terme, Dozza, Medicina, Castel Guelfo, Mordano, Casalfiumanese, Borgo Tossignano, Fontanelice e Castel del Rio.

The District of Imola is a political and administrative distinction. Essentially, the district represents a middle layer of government between town and province; it’s also an attempt to decentralize certain powers from the region and province to the district. The district’s assembly is made up of representatives of each municipality, elected by the municipal councils. A sort of cooperative among local municipalities, the district of Imola enjoys a degree of autonomy, while the district’s cities remain a part of Bologna’s provincial government.

Imola is the largest city of the district—population-wise—with 64,348 residents, as of the 2000 census. The total district has a population of 119,417,¹ about the same population as Stamford, Connecticut in the United States in an area almost 200 square kilometers larger than Chicago.

A visitor to Imola is likely to be impressed by the city’s medieval architecture, the beauty of the surrounding countryside, and the quiet, calm feeling you get strolling around Imola’s stone-paved streets. Imola has at once a sleepy and vibrant feel. The high standard of living enjoyed by her citizens is obvious to even the casual passerby.

What may not be so obvious at first glance is the source of Imola’s high standard of living: a local economy driven by cooperative firms, active in all sectors: manufacturing, agriculture, retail, services, social services, banking and finance and culture. Over 50% of the district’s residents are members of a cooperative firm and 17% of the area’s workforce are employed directly by a cooperative—a business owned and managed by its employees, consumers, clients or suppliers. At least half of all manufacturing output is from cooperatives. In fact, some of

¹ 2000 census data, accessed online: http://www.regione.emilia-romagna.it/statistica/pop_propr/

Italy's most globally competitive and sophisticated manufacturers are worker-owned, industrial cooperatives that call Imola home.

The cooperative district of Imola represents an important model of sustainable, community economic development, combining competitiveness in the global marketplace, with long-term employment and wealth creation for the local community. It is my hope to be able to contribute to a greater understanding of this unique model so that other communities may benefit from this experience.

The Cooperative Movement of Imola: A Community Economic Asset

The cooperative movement of Imola is one of the world's most robust, dynamic and certainly most deeply rooted in a particular community. Today, there are 132 cooperatives, active in all sectors of the economy. Each year the movement has added at least one start-up to the family of firms. Between 2005 and 2006, four new co-ops were born. Rarely does a co-op fail. One out of two residents is a member of a co-op and 17% of the area's workforce (9,204 people) is directly employed by a cooperative.² And when subsidiary firms—businesses owned by the co-ops but not themselves co-ops—are considered, jobs created by the cooperative movement increases to more than 13,487.³

Fundamentally, the cooperative movement is an engine for wealth and employment creation for the local community: a community asset. As we will see later, the business and market strategies pursued by the cooperatives are guided by the deeply-held notion that the cooperative is a community resource. The extent to which the co-op is able to compete in the market (increasingly an international market) and be profitable determines the level of benefit that flows to the local community.

The combined annual revenues of the cooperatives of Imola in 2006 were €2.4 billion. The combined net worth of the co-ops was €1.4 billion. Fixed employment between 2005 and 2006 increased 2.76%. Since 2002, the cooperatives have increased fixed employment between 2% and 7% each year. In what may seem like a paradox to some readers—particularly American readers accustomed to declining employment in manufacturing—Imola's economy and employment are driven by a robust, sophisticated and globally competitive manufacturing sector.

² 2000 Census, accessed online: http://www.regione.emilia-romagna.it/statistica/pop_prov/lavoro_ottobre.htm

³ Legacoop in numeri, Bilanci consolidati, http://www.imola.legacoop.it/web/index.php?option=com_content&task=view&id=51&Itemid=65

The main engines for this kind of growth and wealth creation are the district's fourteen worker-owned manufacturing cooperatives, the most important of which are: 3elle, Cefla, Cooperativa, Ceramica d'Imola and SACMI. Together, these four co-ops produce 47% of total fixed employment in the cooperative movement, 47% of annual revenues and 71% of the total net worth of all the cooperatives combined.

Historic Roots of Imola's Cooperative Movement

Today's cooperative and labor movements in Italy share a common heritage. Both movements were born out of the workers' mutual aid societies that emerged in the middle of the 19th century. Generally speaking, forms of organized labor historically emerged in Western societies following the development of capitalism. In Italy, though, the first working-class organizations (*societa' di mutuo soccorso*) preceded the development of industrial capitalism by about 40 years.

Historians have attributed this dynamic to the fact that ideas about working class organization made their way to Italy from more economically advanced societies like France and England ahead of the actual development of the industrial economy.⁴ The first workers' mutual aid societies emerged in the early 1850s, in what is now Italy's Piedmont region following the passage of the Albertine Statute of 1848 which guaranteed subjects of the Reign of Sardinia freedom of assembly.⁵

According to economic historian Vera Zamagni, a number of factors contributed to the development of the mutual aid societies: the lack of social welfare legislation, the weakening of the church apparatus, as well as changes in the economy and the resulting difficulties facing the traditional handicraft industries and skilled trades.⁶

The first mutual aid societies, "rose out of a necessity for self-defense and an irrepressible exigency for solidarity and social and professional identity..."⁷ Member-

⁴ Galassi, 20: "[...] ideas reached Italy before machines and capital. Experiences from workers in France and England became transplanted in Italy well before our country had reached a similar level of development in large industry. This had an important impact on the origins of our workers' movement..."

⁵ Zamagni, 21: "In the past, skilled urban workers had come together in craft-based guilds. However, these organizations were suppressed in previous decades, so now these workers initiated dozens of mutual aid associations, both in major and small towns all over the kingdom. Turin was the birth place for the Pious Union of Milliners, the Association of Couch Drivers and Grooms, the Hairdressers' Mutual Society, the Silk, Gold and Silver Workers Union as well as many others".

⁶ Zamagni, 22.

⁷ Zamagni, 22.

ship in the first societies was based on trade, though organizationally speaking they represented a more industrial form of working-class organization.⁸ The mission of these early societies included member education, mutual aid in the case of sickness and social security. The societies also provided credit to members, as well as raw materials at advantageous prices and the sale of staple products at cost.⁹

Not much is known about the first Mutual Aid Society of Imola, founded in 1856. Though politically "moderate," due to persecution by the papal police, the organization was forced to operate clandestinely until it eventually had to dissolve itself in 1859 and destroy all records. In 1860, following the annexation of Emilia-Romagna by the Kingdom of Italy, the Mutual Aid Society was re-formed as the Union of Mutual Aid Among the Artists of Imola, with just 66 members.¹⁰

Originally, the workers' society was heavily influenced by the political ideology of Giuseppe Mazzini. Mazzini, one of the fathers of the Italian nation-state, was a liberal democrat and insurrectionary. Mazzini believed in the importance of the free association of producers and sought an alliance between capital and labor. Mazzini's vision was of a liberal democracy and a capitalist economy whose social contradictions were moderated by moderated by institutions like cooperatives.

The more conservative wing of the bourgeoisie was suspicious and at times openly hostile to the mutual aid societies, while the more entrepreneurial section of the bourgeoisie saw the societies as useful for the development of a skilled workforce.¹¹

Following the Paris Commune of 1871, to which Mazzini was opposed, the young revolutionary leadership in Romagna began to move towards the political ideology of the Russian anarchist Mikhail Bakunin.¹² Under increasingly internationalist leadership, the Workers' Society of Imola began to think in terms of the "defense" of the working class, advocating the creation of consumer cooperatives and credit unions, which they successfully started in 1869 and 1871 respectively.

These first cooperatives were started in reaction to the rising cost-of-living in Imola, poor housing, and fraudulent behavior on the part of small store-own-

⁸ Zamagni, 22.

⁹ Zamagni, 22.

¹⁰ Galassi, 23.

¹¹ Galassi, 21.

¹² Galassi, 31: "Mazzini's hostility toward the Paris Commune resulted in turning the sympathies of revolutionary youth, especially in Romagna, towards internationalism, specifically Bakunin's brand, which had spread in Italy in the winter of 1871-2."

ers.¹³ Though the consumer co-op lasted less than a decade, it did succeed in forcing private retailers to lower their prices as a reaction to the co-op's lower prices.¹⁴ The credit union operated successfully until 1899. The credit union focused explicitly on investments in small industry. Ultimately, the credit union closed because of mismanagement, bordering on corruption, as the bank began to pay enormous dividends to its shareholders at the expense of its core mission. The equity left over after creditors were paid was used to create the new *Banca Cooperativa Imolese*, the Imola Cooperative Bank.¹⁵

It's interesting to note that the first co-ops started by the Workers' Society (those started before 1885) were, with one exception, not expressions of the working class. Instead, it was the small and medium bourgeoisie that gravitated towards cooperation as a practical response to their immediate problems. Guild traditions, holdovers from an earlier period, certainly contributed to their willingness to form cooperatives but were, at the same time, an obstacle to success.

According to historian Nazario Galassi, these early cooperators saw the cooperative as a temporary solution and were hindered by a "spirit of individualism, self-involved egotism, reciprocal distrust and frequently also opposing interests, all reasons why the production cooperatives, created by them, could not last long."¹⁶

Imola's working class at the time, "still lacked the knowledge of the means of which one class can avail itself in order to live and defend itself from others."¹⁷ The working class movement did not gravitate spontaneously toward cooperatives. Again according to Galassi the working class:

"pushed instinctively by its immediate needs toward wage demands, tended to organize itself in professional unions, uninterested, in general, in the advantages that cooperation offered, and labor remuneration had not reached a high enough level to make savings possible which, together with the creation of the consciousness of one's own rights, represents one of the indispensable conditions for the passage to more evolved forms of cooperation."¹⁸

¹³ Galassi, (1986, p. 34) [...] many mutual aid societies-- which tended to have more extensive programs-- contributed to the birth of leagues and cooperatives, often becoming their sponsors. Such was the case for Imola, where workers were more affected by the rise in the price of basic necessities, the fraudulent behavior of shopkeepers, the bad state of housing and high rents than by subordination at work. Small businesses had problems finding financing."

¹⁴ Galassi, (1986, p. 36).

¹⁵ Galassi (1986, p.38): "An agreement was reached with creditors based on a 70% allocation paid out from the 1899- 1900 budget. After that, the bank was left with the amount of 70,000 Lira which was used as a starting fund to reconstitute a new bank called "Banca Cooperativa Imolese".

¹⁶ Galassi, 46.

¹⁷ Galassi, 46.

¹⁸ Galassi, 46.

The exception was the *Cooperativa Ceramica*, founded in 1874. The ceramics co-op of Imola began as a family owned business dating back to the beginning of the 1800s. Following the death of Sante Bucci (the firm's owner) his son, Angelo, took over the family business. After tensions arose between Angelo and the firm's 50 skilled employees, Giuseppe Bucci, Angelo's brother, took over management of the firm. Bucci, "moved by his Mazzinian training and uncertainty about his own health," proposed that the workers create a cooperative to take over management and ownership of the firm.¹⁹

In 1874 the cooperative's statute was written and, following a probationary period, the workers took over full ownership in 1877. At least two factors converged to make the co-op a success initially, unlike many of the other co-op startups of the period that had extremely short life spans. According to Galassi, "the philanthropic spirit seems, in this case, to combine with the aspirations of an elite of highly specialized workers."²⁰ If the earlier attempts at starting co-ops failed, at least in part, due to the cultural baggage of the artisans and hand craftsmen which prevented them from moving beyond self-interest and egotism to successfully manage a business collectively, the *Cooperativa Ceramica* seems to mark a shift from individualism, to solidarity. Romeo Galli, founder of the central labor council of Imola, had this to say of ceramics co-op at the turn of the century:

Their selfishness melded into a sort of projection for the future, where the most faithful promoters saw the creation of a new workers' life which their lives were bringing closer in time and in the bare reality of the same environment. Imola's ceramics workers had already moved past the phase of the individual producer substituting that with a sentiment of profound human solidarity.²¹

The 1880s were a period of conflict among the liberals and socialists for the leadership of the Workers Societies in the Imola. Leadership passed definitively into the hands of the Socialists with the election of Andrea Costa – a founder of the Italian Socialist Party and a major political leader of the working class – as honorary president of the Workers' Society in 1890.²² This also marked a change in direction for the Workers' Societies: no longer was the main focus self-help; the Workers Societies were primarily weapons in the class struggle.²³ Under Costa's presidency the Workers' Society started a carpenter's cooperative, nurses league, the new Cooperative Bank of Imola and the central labor council.²⁴

¹⁹ Galassi, 51.

²⁰ Galassi, 52.

²¹ Galassi., 57.

²² Galassi, 40.

²³ Galassi, 43.

²⁴ Galassi, 43.

Socialist Influence Takes Root

The two most important political and ideological influences on the cooperative movement in Imola, and in Emilia-Romagna generally, were the Socialist and Communist Parties. The roots of this influence, which would extend well into the second half of the twentieth century, were laid down in the last two decades of the 1800s

Socialism took hold particularly in Imola thanks to the work of Andrea Costa, an organizer and political leader. Andrea Costa was a founder of the Revolutionary Socialist Party of Romagna in 1881 and would later become a leader of national significance. By championing the causes of freedom and self-government, deeply rooted political traditions in Imola, Costa was also able to bring sections of the local petit bourgeoisie under the influence of the Socialist Party, much to the consternation of the anarchists.²⁵ Primarily, though, the Socialist Party captured the aspirations of Imola's rural proletariat: landless peasants that made up as much as 8/10ths of the population in some areas.²⁶

Shortly after the formation of the Revolutionary Socialist Party of Romagna, the Socialists began to contend for leadership locally, with their first major victories in 1889. Between 1895 and 1897, Imola was governed by a coalition led by the Socialist Party. By 1898, the Socialist Party assumed sole control of the local administration.

Costa's thinking about the cooperative movement evolved over time. Initially skeptical of co-ops because of the movement's domination by paternalism, he would soon become a major proponent of cooperation as a key part of the socialist, working-class movement. Inspired by the successes of the landless peasants' co-op of Ravenna, Costa concluded that the "[cooperative] Association seems to be the best means of which the proletariat can avail itself in order to win its human rights. Cooperative associations... can contribute to the emancipation of the working class."²⁷

In the context of the struggles of the landless peasants, cooperatives assumed a double importance for the socialist leadership: the cooperative was a means of resistance to economic exploitation which would lead to the increased well-being of the landless peasants, providing the working class with the material

²⁵ Galassi, 62-63.

²⁶ Galassi, 71: "From 1873 to 1890 the landless peasant class grew at an incredible rate, making up 8/10 of the population in some villages."

²⁷ Galassi, 79.

basis to think beyond their immediate material needs, towards the larger transformation of society. The cooperatives would at once be the concrete refutation of bourgeois ideology, by demonstrating that collective ownership and management was possible, and would constitute the nucleus of a future social order.²⁸

It was Andrea Costa's leadership of the cooperative movement, particularly as president of the landless peasant's cooperative of Imola, that catapulted him onto the national scale as a socialist deputy in the newly formed Italian Parliament. Costa's work as a member of parliament would prove indispensable for the growth of the cooperative movement of Imola.²⁹

The socialists played an important role in the development of the cooperative movement, with socialist leadership behind the formation of new co-ops in all sectors. The ascent of socialist leadership marked the end of paternalism in the movement and lent the co-ops a more working-class character. While Imola's earliest cooperatives represented attempts to lessen the conflict between labor and capital and often paid bigger dividends to investors than to members, the new co-ops were very clearly part of the working class struggle. Now dividends were paid in greater proportion to members than investors and creditors. Profits were used to build strike funds, workers' compensation funds and finance other solidarity activities. The statutes of the cooperatives frequently included socialist-inspired language requiring workers to receive the "entire fruit of their labor."³⁰ Under the leadership of the socialists, the labor and cooperative movements would also achieve a high degree of unity.³¹

The connection to the socialist movement was frequently quite explicit, as in the case of a worker-owned typography which printed materials for the Socialist Party as well as clandestine publications on the landless peasants' movement.³² The cooperatives also operated in close alliance with the labor movement. Cooperative statutes often required that workers' also belong to

²⁸ Galassi, 76.

²⁹ Galassi, 81.

³⁰ Galassi, 87: "The Typographers' Cooperative League stands out, in those years, for its intensely worker based and political character. It was formed February 4, 1886 by six typographers who contributed six 50 Lira shares each, for the purpose of *replacing wages with free production and assigning each worker the whole fruits of his labour*, according to the Socialist inspired formula which was broadly adopted in the founding charters in those years".

³¹ Casadio, 31.

³² Galassi, 88: "The Typographer's Cooperative League was the most important tool for propaganda supporting the Worker's Party, the Socialist party and Andrea Costa, personally. It printed the clandestine posters and publications about the early landless peasant and workers struggles, and thus, was often subjected to searches and seizures.

the central labor council. Many co-ops were started by the local labor council, particularly under the leadership of Romeo Galli.

In some cases, the socialist cooperative and labor movements achieved a total synergy, as in the case of the fight for increased wages and better working conditions for landless peasants:

The union would begin to impose new and more dignified wages and reductions in working hours; the cooperatives, in agreement with the unions, sought and often obtained land amelioration projects. The permeation of the unions with the cooperatives and the Federation that embraced both and disciplined both, kept private firms and speculators away from the public bidding process because, even when they would win contracts, they would not be able to hire labor to carry out the contract.³³

Indeed, in Imola, it seems that Costa came close to realizing his vision of a cooperative and labor movement unified in struggle and for the socialist transformation of society under the leadership of the Socialist Party.

1890s to the First World War

The last decade of the 19th century and the first two of the 20th century were, for Imola and the entire region, a period of intense social and class conflict: the application of modern farming methods dramatically increased the number of landless peasants in Imola of which the landholders took advantage to pit landless worker against landless worker forcing wages down; fissures developed between the nascent industrial working class and landless peasants, on the one hand, and the sharecroppers and small farmers, on the hand, who feared that industrialization and proletarianization of the countryside would bring about an end to their way of life.

This was also a period of intense cooperative activity in Imola as workers, farmers, landless peasants and artisans, spurred on by the socialists and leaders in the labor movement, saw in the cooperative enterprise a response to their immediate material needs and, increasingly, their own emancipation. The cooperative movement, in fact, would play an important role the elimination of sharecropping in Imola.

During this thirty year period, co-ops were formed in every imaginable sector, including:

more landless peasants' co-ops; a cooperative for the marketing and sale of produce, establishing Imola as a national leader in this market and inspiring the creation of a similar co-op

³³ Galassi, 84.

in Rome; the Cooperative Typographer's League and the *Galeati* Typography; a blacksmiths' cooperative; a shoemakers' cooperative; carpenters', silk workers', glass makers' cooperatives as well as a cooperative of decorators and painters; a metalworkers' co-op, a cooperative winery; the woodworkers' cooperative, 3ELLE; a co-op for the production of farm equipment, a bricklayers' co-op, a cart pushers' cooperative, pavers' cooperative, and a butchers' cooperative; a housing cooperative, the Cooperative Bank of Imola and a new consumer co-operative.

While the majority of these initial attempts would ultimately result in failure, for various reasons, from macro-level market conditions to governance to cultural factors, it was during this same period that some of the characteristics that, today, define the Imola model emerged.

Take the example of the Cooperative Bank of Imola. The first members of the Cooperative Bank voluntarily chose not to accept dividends at the end of the first year of the bank's operation, though this was stipulated in the co-op's statute, opting instead to reinvest 90% of the profits into the banks reserves. The founders of the cooperative also decided, voluntarily, to mandate that a part of the shareholders equity, should the bank close, would be used to benefit the public interest and not be paid out to individual shareholders, though they would have had a right to have done so.³⁴

Under the leadership of Romeo Galli, the Labor Council started a new consumer co-op, roughly based on the Rochdale model.³⁵ This time, the managers of the consumer co-op would avoid the mistakes of the past and establish the consumer co-op as a major economic force in Imola and the surrounding towns.³⁶ The co-op, this time, did not limit itself to selling only to members and refused to subordinate sound, profitable management to the impulse to sell goods at cost. Instead, by selling to members and non-members alike at fair prices, the cooperative was able to fight speculation, bringing down retail prices throughout Imola, while maintaining the financial health of the co-op. From one location in 1904, the cooperative grew, in just 5 years to include 12 locations producing strong net profits.

Post War

World War I arrested the development of Imola's major cooperatives. During the war *Cooperativa Ceramica*, for example, barely stayed alive, sustaining losses for two consecutive years as markets for non-military products all but

³⁴ Galassi, 139.

³⁵ Galassi, 147.

³⁶ Galassi, 152: "As of December 31, 1909, after five years, the cooperative had 12 sales outlets. It was already taking on the features of a very successful commercial and industrial enterprise and becoming a leading force in the economic life of the city and the surrounding areas".

vanished, raw materials became scarce and much of the co-op's workforce literally disappeared, having been called to arms. Through the sacrifices of its members during the war, *Cooperativa Ceramica* was able to resume production thanks to increased demand for its new product, glazed ceramic tiles, especially in the United States.³⁷

On December 2, 1919 nine unemployed metalworkers formed a new cooperative: SACMI, the *Società Anonima Cooperativa Meccanici di Imola*. With a loan from the Cooperative Bank of Imola, and the support of the municipal government, the nine founding members set up shop in a former gymnasium that they rented from the city at low cost. Because SACMI was started up entirely with debt financing, members initially were forced to work long hours and reinvest all profits back into the co-op's reserves. In 1925 the cooperative moved to the old headquarters of the *Ceramica di Imola*, which SACMI would then purchase in 1930.

The years immediately following World War I saw the creation of many new cooperatives, particularly in the agricultural sector as well as the increased role of the Catholic movement.³⁸ The socialists continued to advance politically, with major victories in 1919³⁹. As the economy continued to evolve, and with it the consciousness of Imola's cooperators, the old, guildist-mentalities began to fade away. The cooperatives took on even greater political and social importance for the people of Imola:

... the workers of the small rural villages, far from the urban centers, found in their cooperative not only a means for economic emancipation, but also a center for human relations, and social, educative and spiritual life.⁴⁰

Fascism

The fascists' earliest attacks were directed at the cooperative movement and against the cooperatives themselves, quite literally. On the evening of May 28, 1921 a band of *squadristi* attacked the Andrea Costa social center with bombs and firearms, gravely injuring many members.⁴¹ Shortly thereafter, fascists burned the administrative records of another cooperative. *Squadrsti*, armed by and sometimes made up of landholders, contractors and merchants, burned

³⁷ Galassi, 109.

³⁸ Galassi, 168: "[...] statistics for 1921 show 7950 companies that were members of the Italian Cooperative Association against 8200 that belonged to the National League. The others were divided between Republicans, war veterans and so called autonomous organizations."

³⁹ Galassi, 170: "Just in the city of Imola, the Socialist Party received 4406 votes, the Popular Party 1287 votes, the Liberal Party 148 votes and the Veteran's Party 257 votes."

⁴⁰ Galassi, 169.

⁴¹ Galassi, 175.

down the headquarters of many cooperatives. The aim of the fascists was to liquidate and in some cases take over control of the cooperatives.

The fascists combined illegal, violent assault against the co-ops with a legal assault, using the state apparatus, to destroy the co-ops. Following an assault on a cooperative, the state would send inspectors to inspect the cooperatives' books. When these co-ops could not do so, because the records had been physically destroyed by fascist attacks, the inspectors would mandate the closure of the cooperative.

In this way, the cooperative movement of Imola, the result of forty years of struggle and sacrifice for the construction of a new, more progressive society was "swept away like straws."⁴²

Fascism's attacks against the cooperatives were so violent for two major reasons: first, the cooperatives represented an autonomous form of organization for the working class⁴³; second, the degree of economic success reached by the cooperative movement following World War I. Even with all of the problems facing the cooperative movement, it nonetheless came to represent a real threat to the interests of local merchants and landholders. The most vicious attacks were directed against the landless peasants' cooperatives—the class that had benefited most from the cooperative form.⁴⁴ Through the cooperatives, the landless peasants were successful in securing land that they collectively cultivated. Fascism attempted to reinstate sharecropping and again make the farmworker subservient to the landholder.

The Cooperative Movement during Fascism

The fascist movement attacked both the Catholic and Socialist wings of the cooperative movement, culminating with the dissolution of both the red and white national cooperative associations, the League of Cooperatives and the Confederation of Italian Cooperatives, respectively.⁴⁵

After smashing the independent cooperative movement, Fascism attempted to use the cooperative movement to its own benefit. Stripped from the working class as an autonomous instrument for the emancipation of the working class, the cooperative movement was seen by Fascism as an instrument for building consensus, as well as a safety valve for social conflict.⁴⁶

⁴² Galassi, 178.

⁴³ Galassi, 182.

⁴⁴ Galassi, 182.

⁴⁵ Zamagni, 121.

⁴⁶ Zamagni, 125.

In Imola, Fascism impacted different cooperatives in different ways. Some were physically destroyed. Others were absorbed into the fascist order, for example, the consumer co-op which was too important economically to be destroyed and which served people from all classes, not just the working class. Other co-operatives were simply transformed into private corporations, with a minority of the members assuming ownership of a majority of the shares of stock. Imola's cooperators, from leaders like Costa and Galassi to individual members, saw in the cooperative a means for individual and collective emancipation from oppression and the seeds of a new social, political and economic order. Fascism would attempt to incorporate the cooperatives into its particular version of capitalism.

Fascism was not able to eliminate or transform all of Imola's co-ops. Historian Nazario Galassi points out that, because the tradition of cooperative ownership was so strong and deeply rooted in the *Ceramica di Imola*, its transformation into a private corporation would have been impossible. The *Ceramica* was not, however, untouched by Fascist influence. For example, the union contract in *Ceramica*, negotiated in 1927, called for non-member workers to share in the firm's profits—an expression of class unity and solidarity. Under Fascism, non-members never shared in the firm's profits.⁴⁷

Economic hardship for the co-ops was also compounded by economic crisis in the Italian economy. The members of SACMI, for example, made significant sacrifices so the cooperative could survive. Members stopped sharing in profits, reduced their hours and lowered wages to below the prevailing union wage. Life was particularly difficult for SACMI's worker-owners: Giulio Miceti, SACMI's director, was pursued by the political police because of his and his members anti-fascist, pro-socialist beliefs, something common to most of the worker-owned co-ops.⁴⁸ It's interesting to note that, what is today one of Imola's most important worker-owned, industrial co-ops, CEFLA (Cooperative of Electricians, Fountain Attendants, Tinsmiths and Related) was formed at the height of the Fascist dictatorship and the worldwide depression, in 1932, by nine, unemployed anarchists and socialist.

Reconstruction

Unable to maintain any semblance of an organized party under Fascist repression, the Socialist Party lost their position of leadership in Imola and the

⁴⁷ Galassi, 185.

⁴⁸ Galassi, 188: "For many years SACMI faced some real hardships, with a slight increase in sales from 22,554 Lira in 1922 to 491,233 Lira in 1929, and then a drop during the years of the Great Depression down to 313,438 Lira in 1932. As of 1927, there were only twelve cooperative members and just a few wage earners."

region to the Italian Communist Party (PCI)—the only political party in Italy to maintain a clandestine organization during the dictatorship.

The Committees of National Liberation (CLN), led by the Italian Communist Party, organized the armed resistance to Fascism in the latter years of World War II and liberated many of Italy's northern cities. The task of rebuilding Emilia-Romagna, and other regions of Italy, one city and one province at a time fell to the CLN.

The cooperative movement played a very important role in the physical reconstruction of cities and infrastructure, the distribution of basic necessities, the employment of ex-partisans and the development of a formal economy out of the, quite literally, ashes of the Second World War and the Italian war of resistance against fascism and the German occupation. This was particularly true in cities like Imola, with a strong cooperative and socialist tradition.⁴⁹

The cooperative movement continued to play an extremely important role, in close alliance with the labor movement in the struggles of the landless peasants and the transformation of the countryside, the end of sharecropping and the industrialization of agriculture.

Two different models existed side by side in the decades following the Second World War. On the one hand there were the "open" co-ops of the landless peasants. Membership was open to anyone who was a member of the labor union and belonged to the class of landless peasants, without a period of probation. This model was promoted by the labor union as well as the Communist Federation of Bologna at the time.⁵⁰ This model was not consistent with the material needs of the industrial co-ops, where profit, capitalization and reinvestment of earnings into capital goods were necessary for survival and growth. While the agricultural cooperatives were directly linked to the economic struggle of the peasants against the power of the landholding class, the industrial cooperatives rarely came into direct conflict with employers. The main challenge for these worker-owners was to survive and compete in a capitalist marketplace.⁵¹

While calls to open membership even in the industrial co-ops along the lines of the agricultural co-ops were short lived, a conflict did develop around the length of probation for aspiring members and what to do with the net profits.

⁴⁹ Galassi, 199.

⁵⁰ Galassi, LXII.

⁵¹ Galassi, LXIII.

The union, and some in the Cooperative League, called for as short as possible a period of probation and reinvestment of all profits back into the cooperative, to avoid the development of a "labor aristocracy" among members. The leadership of the Communist Party generally favored some period of probation for new members (up to three years) as well as the distribution of a part of the profits to members as long as the majority of earnings were reinvested in the firm. The latter approach would triumph, privileging the long-term development of the firm over the short-term benefit of the members and aspiring members, while at the same time allowing members to share in the profits made possible by their labors and prudent management of the firm.⁵²

The 1950s saw Imola's economy "take off," driven by the cooperative movement's industrial co-ops and the increasing role of cooperatives in the agricultural sector.⁵³ While large industry in Italy turned to scientific management and low-cost, low-skilled manual labor to turn a profit and increase productivity, Imola's cooperative movement leveraged the creativity, wisdom and dedication of its human resources to achieve growth. This focus on "quality" then "quantity" expanded workers' disposable income, which stimulated local demand for housing, which directly benefited the construction co-ops and the rest of the local economy. Galassi uses the growth of the Cooperative Bank as a proxy for economic growth during this period. The bank grew by 43.4% in 1952, 30% in '53, 41% in '54 and 50% in 1955. By 1955, the size of deposits in the cooperative bank had increased 700 times compared to 1938.⁵⁴

By 1980, the cooperative movement of Imola, in alliance with the labor movement, had transformed the relations of production in the countryside and the face of the local economy. Sharecropping, long the dominant form of employment had been all but eliminated. This was achieved thanks to the growth of industry (driven by the cooperatives) as well as the role co-operatives played directly in the countryside. Small, independent farmers, often former sharecroppers, now owned their own land and were able to purchase modern agricultural equipment through cooperatives, which in turn increased productivity and revenues. Small farmers joined together to form marketing and distribution cooperatives, eliminating middlemen and increasing the amount of value-added retained by the farmers. As a result, farmers were able to make greater

⁵² Galassi, LXIV.

⁵³ Galassi LXVII: "[...] the driving force was provided by the worker owned cooperatives, especially the Ceramica Imolese, SACMI, Cir, CEFLA, Cobai, Trasporti, and Sacadi. The countryside contributed as well, with the transformation of collectives into cooperatives and the ensuing consolidation of their increases in production and performance, compared to the previous practice of individual ownership".

⁵⁴ Galassi, LXVIII.

investments into machinery and technology. Finally, by forming cooperatives for the production of food, farmers were able to exert direct control of the entire value-chain of agricultural production, from harvest, to transformation, to distribution. By developing a complete cooperative system—agriculture, industry, consumption, housing construction and development—Imola was able also to avail itself of a counter-cyclical economic force, sheltering the local economy, especially during the tumultuous 1970s, from the ups and downs and employment shocks experienced by the rest of Italy.

Economic and Social Impact on the Local Community

In the absence of a significant, positive economic impact on the local community there would be little reason to study the cooperative district of Imola, aside from an academic interest in cooperatives per se. What is interesting about Imola is the convergence of one of the highest concentrations of cooperative firms in the world and extremely positive economic and social outcomes: a globally competitive economy that drives wealth and employment creation for the benefit of the local community. This convergence is by no means casual.

According to the latest available census figures, unemployment in Imola is 3.1%, compared to a national average of 9%. Disposable annual income per family in Imola (income after *all taxes* are paid) is €45,538—nearly €6,000 a year more than the national average for Italy. Per capita disposable income in Imola is €18,324, €3,288 higher than the national average. Residents of Imola also consume more than a typical Italian: €16,199 compared to €12,955 a year respectively.⁵⁵

To put these numbers in perspective, the *pre-tax*, median household income in the United States is currently \$48,451.⁵⁶ At today's exchange rate, that means that a typical household in Imola enjoys annual disposable income of \$66,604, \$18,000 *higher* than the median, pre-tax household income in the United States. While by no means scientific, this "back of the envelope" calculation should leave no doubt as to the high standard of living enjoyed by residents of Imola.

As I mentioned, the high concentration of cooperatives and positive economic and social outcomes in Imola is not a casual convergence. In fact, these positive results are driven primarily by the cooperative movement. 17% of Imola's workforce is directly employed by the cooperatives—even more when private subsidiaries owned

⁵⁵ "Reddito e Consumi," 100 Temi di Confronto, Comune di Imola, <http://temi.comune.imola.bo.it/allegati/numeri/RedditoConsumi.pdf>

⁵⁶ US Census, <http://www.census.gov/prod/2007pubs/acs-08.pdf>

by the cooperatives are taken into account. The cooperatives are also significantly larger than the average firm in Imola—in some cases by a factor of almost 200. Not only do Imola's cooperatives employ a sizeable percentage of the local workforce, in a highly fragmented business environment they represent the highest *concentration* of employment in the private sector of the local economy.⁵⁷

Imola is located in Emilia-Romagna, a region studied by scholars throughout the world for its globally competitive manufacturing economy, networks of small, locally-owned firms and cooperatives, low unemployment and high standard of living. Given this, it's interesting to note that Imola has outperformed the larger provincial and regional economy by some measures. For example, between 1991 and 1996, industrial value added in Imola grew at a 3% annual rate, compared to just 1.6% in the province of Bologna and 2.5% in the Emilia-Romagna region. Looking at growth in value added in manufacturing, a subset of industry, the numbers are even higher: 4.6% in Imola compared to 3.1% in the region and 1.7% in Bologna.⁵⁸ More than half of Imola's industrial output is produced by cooperatives.⁵⁹

In terms of employment, again, it's manufacturing that leads. Between 1991 and 1996 employment in industry in the province of Bologna *dropped* by 8 percentage points. In Imola, employment in industry held steady (increasing by 1%), driven by a 2.7% *increase* in employment in manufacturing, particularly in ceramics and automatic machines, sectors dominated by cooperatives like *Ceramica di Imola*, *SACMI* and *CEFLA*.⁶⁰ Strong performance in manufacturing also resulted in collateral benefits, with corresponding increases in employment in sectors that provide services to manufacturing.⁶¹

In 2006, Imola's co-ops produced total revenues of €2.4 billion, and net profits of €91.5 million. But looking beyond profit, to value added, gives us a better idea of just how much new wealth the cooperative movement produces for the community.

⁵⁷ As in the Emilia-Romagna region, most businesses in Imola can be classified as small and micro, with an average firm size of just 7.7 employees. By contrast, the largest co-op headquartered in Imola, *Ceramica di Imola*, employs 1,435, not counting employment in subsidiary firms.

⁵⁸ *Analisi e studi finalizzati all'organizzazione della Conferenza Economica del Circondario di Imola*

Rapporto Finale, Roma, Novembre 2000.

⁵⁹ Zamagni, 176: "Imola is one of the cities with the largest number of industrial cooperatives. In fact, more than half of its output is produced in cooperatives which have been operating for a long time in the ceramics and engineering sectors."

⁶⁰ *Analisi e studi*, 24.

⁶¹ *Analisi e studi*, 8.

Value-added is a measure of total wealth created by a business in the production or distribution of a good or service and is calculated by subtracting from revenues the cost of purchased goods and services. What's left over is what the company itself has produced. This new wealth is where wages and profits come from.

In 2006, Legacoop Imola surveyed a representative sample of 40 cooperatives. These cooperatives produced €389 million of value added, or new wealth—one fifth of their total revenues. Out of this total, €259 million, or 67% of wealth produced, went to labor in the form of wages, 12% to amortization of capital, 12%, or €45 million, to net profits and Legacoop's cooperative development fund, and 9%, or €35 million, to the state in the form of taxes.⁶²

The cooperatives also distribute wealth and drive job creation in the local community through purchases of goods and services. Each euro spent locally by a cooperative creates more jobs in other businesses in the local economy. In 2006, out of total purchases of €1.3 billion, the cooperatives spent €270 million—over 20% of the total—in Imola. By purchasing locally, the cooperatives maximize their positive multiplier effect on the local economy.

Finally, the cooperative movement has impacted Imola positively by allowing the local community to effectively face the challenges of globalization—challenges that so many communities have been struggling with. Imola's manufacturing base is export driven, and it has been the cooperatives—which have positioned themselves as global market leaders in a diverse range of sectors—that have allowed Imola to project itself globally, while maximizing benefits locally.

Imola's leading industrial firm—SACMI—produces 85% of its revenues through exports, for example.⁶³ And 30% of the entire cooperative movement's revenues are generated by sales outside of Italy. According to research done in 2000 one the key factors in the success of Imola's economy globally are the cooperatives, an important economic asset that:

... contributes, among other things, to accent the interrelation among communities and wealth production. The cooperatives... in Imola... present a profound social and institutional rooted-ness, capable of pursuing successful strategies (like opening up to international markets, specialization and innovation in production, and positive industrial relations)... Imola's companies seem to represent an example of adaptation to the challenges and problems presented by fiercely competitive markets... the capacity to penetrate international markets, with the requirement of the necessary level of efficiency and quality which allows

⁶² Legacoop Imola, V Rapporto Sociale della Cooperazione Aderente a Legacoop Imola, 16.

⁶³ SACMI Annual Report 2006, 12.

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.

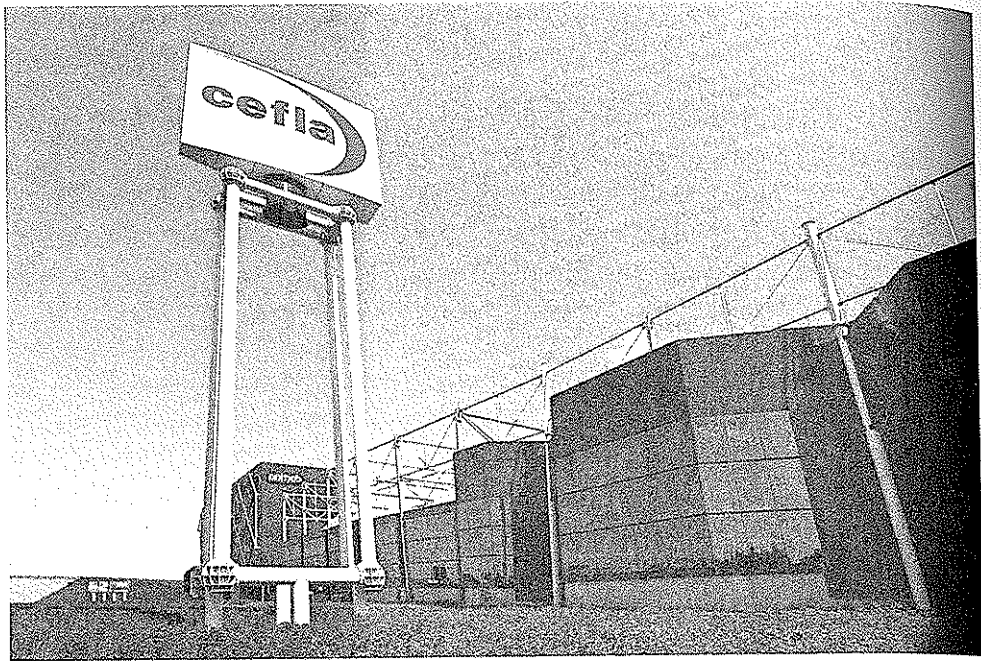
Membership is not extended to private subsidiaries acquired by the cooperative. It is not uncommon for the cooperative to appoint members as top management in the firms it owns, though. In some cases, the cooperatives have experimented with making managers owners through Employee Stock Option Plans (ESOPS). 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 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

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 Linguerra, 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 Linguerra, "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

¹⁰²Baglioni & 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.

Legacoop is an umbrella federation that represents cooperatives across sectors, providing a unified political voice to represent the interests of the cooperative movement. The President and Vice President of Legacoop Imola are elected by the member co-ops. In addition, Legacoop Imola has a small, full-time staff.

Legacoop's primary role is to coordinate the activities of the movement, lobby local government on behalf of the cooperatives and negotiate on behalf of the cooperatives with the labor unions. Legacoop does not influence the specific business strategies pursued by the cooperatives.

Legacoop plays an important coordinating role, by bringing together the presidents of the member-cooperatives' in the Council of the Presidency of the Cooperative League. The Presidency allows for dialogue among the different cooperatives of the district, and has been an important forum, in the past, for managing crises that have affected a limited number of Legacoop firms in the past.

Legacoop also plays an important role in the promotion of a cooperative culture and the creation of new firms. Through a project with the local schools, "Experiment," Legacoop sponsors a high school competition to promote cooperative entrepreneurship. Each year, students compete by designing cooperative business plans. Legacoop also provides technical assistance to individuals that want to start new cooperatives.

Legacoop's finance-arm is Asscooper, essentially a cooperatively-owned private equity. Asscooper makes investments in cooperatives as well as strategic investments in private firms. The mission of Asscooper is to contribute to the start-up of new co-ops, and the development of existing cooperatives, particularly social co-ops, cooperatives created by young people or by employees of firms in crisis. Asscooper also owns real estate, including the headquarters for a number of younger cooperatives as well as the headquarters of Legacoop Imola. Asscooper has intervened to help firms in crisis. For example, Asscooper holds 40% of the shares in Galeati Industrie Grafiche, which was recently transformed from a co-op into a joint-stock company.

Retail

Today, the consumer cooperatives of Imola are part of the national system of consumer cooperatives, COOP: the dominant retailer not just in Imola, but throughout Italy. Imola's three consumer cooperatives count 44,544 members and sell over €130 million in retail goods to the local community.

Housing

In addition to wealth and employment creation, Imola's cooperative movement has contributed in many ways to maintaining a high standard of living for residents. Housing cooperatives, in the last twenty years, have made homeownership possible for thousands of residents. Homeownership through a housing co-op costs, on average 20%, less than the market rate.¹¹⁰

"The two main problems today," according to Raffaele Mazzanti, President of Aurora 2, "are your job and your house. If you can solve both problems you've settled your life." Aurora 2, which has over 5000 members and has built more than 4000 units of housing in the last 30 years, is helping to solve the housing problem, as well work through the role it plays in stimulating demand for new housing construction. The cooperative invests its profits in the purchase of land for new houses. They build according a plan present in a public assembly and develop agreements with banks to allow members to have access to mortgages at more favorable conditions. Today there are 2,800 people on Aurora 2's waiting list. The houses they build are also eco-compatible (for some time, in fact, Aurora 2 has collaborated on research into bio-architecture). Purchasing a house through Aurora 2 also allows members to work with the architect to personalize their home. And although they don't pursue an explicit policy of favoring cooperatives as suppliers, they do source materials and labor from CEBI (a construction co-op), 3elle and Cooperativa Ceramica.

Services

New cooperative development has been driven in recent years by the service sector. One of Imola's newest cooperatives, Artemisia (named after Artemisia Gentileschi, the first female painter admitted to the *Accademia delle Belle Arti di Firenze*) was started by five young women, all recent college graduates who had studied arts and culture management at college. Instead of going out and looking for a job working for someone else, they decided to create their employment by starting a co-op. They chose to create a cooperative because, as President Ilaria Seragnoli, put it "we wanted equality among the firm's partners."¹¹¹ Today, Artemisia manages several historical landmarks in Imola, as well as the local theater and library. In addition Artemisia provides guided tours and plans private events. Recently, Artemisia has begun collaborating with two other of Imola's cooperatives, Mosaico, a social cooperative, and Ecosistema. Together

¹¹⁰ Imola Insieme, 2007, 9.

¹¹¹ Personal interview.

they are developing a project to create a new cultural and environmental center for the Santerno Valley.

Social Services

"If you know the language, you can translate. If you know the culture, you can make someone understand."¹¹² These are the words of Raissa Steptchenko, vice president and one of the founders Agave, cooperativa sociale che fa servizi di "mediazione culturale" nel territorio imolese. Another recently created cooperative is Agave. Started by a group of women who had all immigrated to Italy from Eastern Europe and Africa, Agave provides cultural mediation services for immigrant children in schools and the community. Through collective entrepreneurship, this group of women are meeting their own needs for dignified work as well as helping to address a novel problem for Imola: the integration of immigrants from outside of Europe into the local culture. Agave's founders were all women who were college-educated in their home countries; but in Italy, because of a combination of discrimination and the non-transferability of their degrees, they found themselves doing work, like taking care of the elderly, that they were overqualified for. Today, Agave provides one-on-one services to immigrant children in public schools as well as managing youth centers for Italian and immigrant children. Besides the social integration of immigrants, the cooperative decided to work toward the goal of greater integration among cultures. One of the things that impressed me the most about Agave is that, even though none of the members was born in Imola or Italy, they have a strong sense of historical continuity. Steptchenko told me, "We are a new page in the history of the cooperative movement,"¹¹³ In many ways, the things that moved these foreign women to start their cooperatives, are the same as those that moved the first cooperative pioneers of Imola 150 years ago.

Social cooperatives are also filling an important void left in Italy in the wake of the state's retreat from the direct provision of social welfare services, and redefining the nature of welfare in the process. Social cooperatives, co-ops that provide services to disadvantaged populations, are shifting the welfare paradigm from charity and dependency, to a new paradigm based on the concept of reciprocity between caregiver and care-receiver.

Sheltered workshops, like *Giovani Rilegatori* or *Quattro Castelli*, provide meaningful work experiences coupled with social services to disadvantaged populations, but with a twist. In both cases, those receiving the care are also involved in

¹¹² Personal interview.

¹¹³ Personal interview.

the management of the cooperatives through positions, alongside social workers, volunteers and parents, on the boards of directors. These sheltered workshops—a stationary producer in the case of *Giovani Rilegatori* and a provider of laundry, greenhouse and grounds keeping services in the case of *Quattro Castelli*—provide meaningful employment for the disabled, drug addicts, alcoholics, prostitutes and the mentally disabled. These “type B” social co-ops, which offer job placement services, don’t receive any help from the state, aside from a reduction in payroll taxes. Like any other firm, they must survive in the market.

Quattro Castelli was born out of a strong “grassroots” push. It was the idea of two social workers: Roberto Accorsi e Nicola Sandri, who started out more focused on the social aspect rather than the economic. They quickly learned the importance of effective business management, even in the social sector. “We practically gave our own blood,” said Accorsi, referring to the economic difficulties they encountered in the beginning. The first sector they operated in was providing laundry services. From there they moved into other sectors:

- industrial laundry
- supply of single-use paper products for institutions
- supply of cleaning products and disinfectants
- management of greenhouses and nurseries
- groundskeeping
- the design of job placement programs for the disabled

The next challenge for the *Quattro Castelli* is to enter into “supplier-partnerships” with their clients, as Accorsi put it, project partnerships that don’t see the co-op limited to simply supplying merchandise, but providing services that involved the co-op more and more in the core activity of clients to provide members with greater work opportunities.

Finally, social cooperatives like *Seacoop*, owned by social workers and caregivers, are providing social services previously managed directly by the state: an entrepreneurial approach that meets the needs of residents for a diverse range of more personalized social services while promoting quality employment for social workers and caregivers. *Seacoop*, which has operated for more than 20 years, and has 193 members out of 270 employees and revenues of €6.1 million provides services to the elderly, children, the disabled and people with mental problems. These cooperators are redefining what it means to provide social services, focusing not only on the quality of work for the individual social worker, but on the transformation of the person receiving the services. “I’m driven by the idea of sharing in value created,” said Roberta Tattini, President of *Seacoop*, “each person, according to their own abilities, has the

right to share in the value they've helped create; the cooperative is the highest expression of this."¹¹⁴

Conclusion

Most communities aren't really in control of their own futures. Even in modern democracies like the United States, most communities—though they may vote for their elected officials in government—don't have control over the major economic decisions that determine their standard of living and livelihoods. As a result, communities, more often than not, suffer the consequences of the economic decisions made by others.

One community that provides a good example of what I'm talking about is the Austin neighborhood on the west side of Chicago. About the same population size as the city of Imola, up until the 1970s Austin had a relatively vibrant economy, anchored in a strong manufacturing sector that provided good paying jobs for its residents. This community has largely been the victim of low road globalization, as company-after-company closed or moved away, taking with them the good jobs they provided and wealth they generated, leaving nothing for future generations. As a result 30% of Austin's residents live in poverty and unemployment rates are as high as 26%.¹¹⁵

Imola is an example of a community that, through cooperative ownership of economic assets, *is* in control. We've seen how, at several critical historical junctures over the past 150 years, Imola's cooperative movement has proven to be an indispensable community asset. It was largely through the cooperative movement that landless peasants and small farmers were able to secure for themselves a fair return for their labor and a decent standard of living. The early experiments with credit unions contributed to the development of small industry in Imola. And, of course, it was the cooperative movement that literally rebuilt Imola following the devastation of the Second World War, helped abolish sharecropping and develop a modern industrial economy. And it is the cooperative movement, particularly in the manufacturing sector, that has projected Imola onto a global scale and maintained a high standard of living and low unemployment even in the face of intense competition from low-wage countries. While we see the impoverishment of many communities that were once wealthy, Imola also shows how a local community can become a positive factor in helping firms more effectively compete in the global market.

¹¹⁴ Personal interview.

¹¹⁵ 2001 Census.

I would argue that we are currently in one of the most complex and potentially dangerous historical periods yet. On the one hand the globalization of the economy has created many new opportunities; on the other hand, the emergence of transnational, hyper-mobile capital (no longer linked to a particular community or nation-state) and the dominance of low road, speculative business practices represent new and serious threats.

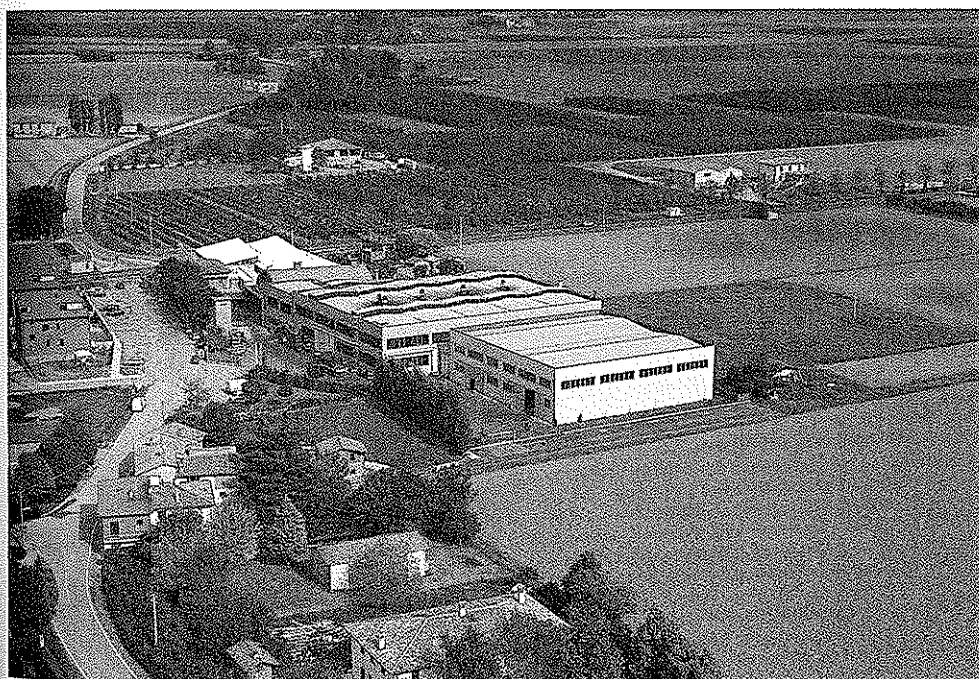
In the face of such dramatic, historical changes, labor, community movement and even states have been unequipped and ill-prepared to manage this period. The traditional instruments of the strike, the protest and state intervention—all instruments that tend to keep people away from the process of wealth creation—have proven ineffective as the suffering of communities has only increased. This is why Imola's experience is more important today than ever.

In Chicago, we're beginning to apply what we've learned from experiences like Imola with the creation of Austin Polytechnical Academy: a new high school that will prepare students for careers and leadership positions in the local manufacturing economy. In addition to preparing students with the technical skills needed for highly skilled positions in production, Austin Polytech will expose students to the experience of the cooperative district of Imola, the Mondragon Cooperative Corporacion' in Spain, as well as our own history of employee ownership in the United States. Most importantly, Austin Polytech will expose students to the entrepreneurial and social values that have made Imola so successful. The students' first exposure to Imola will come in December of 2007 with the visit of Benati Benati – former CFO of SACMI Imola and Controller for the SACMI Group – to Austin Polytech for a meeting and discussion with students and faculty.

While the damage to many communities has already been done by low road globalization, Imola offers an important example of how we can begin to rebuild our communities (just as they did after the Second World War) around an economic and social model capable of competing in the global market through a focus on people, mutual aid and a profound sense of solidarity, especially toward future generations.



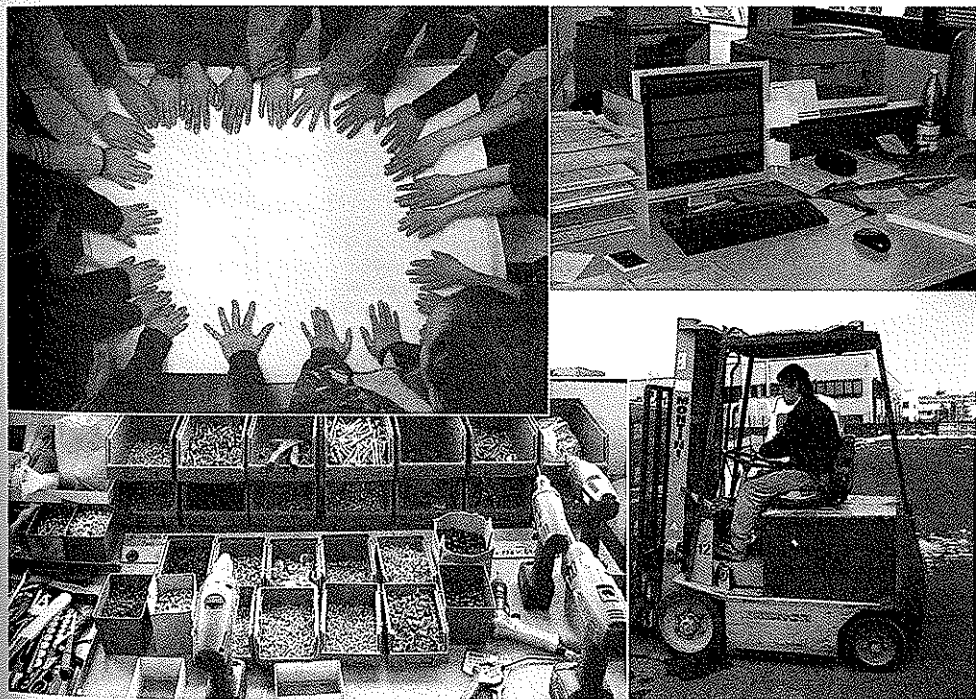
Coop. Capri.



Coop. Muzzi.



*Giuliano Poletti, Presidente Legacoop Nazionale inaugura la nuova sede di Seacoop (6-10-2007).
Giuliano Poletti, President of national Legacoop open the new headquarter of Seacoop.*



*Alcune immagini della coop. Sociale Giovani Rilegatori
Some pictures of Giovani Rilegatori social cooperative.*



Coop. CESI.



*Nuove case per i soci della Coop. Aurora 2^a.
New houses for the members of Coop. Aurora 2^a.*



Benito Benati

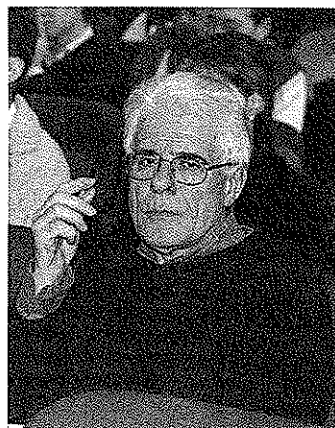
Profili giuridici e realtà economica
delle imprese cooperative
in Italia e ad Imola

*Chicago - Illinois, 7 dicembre 2007,
presentazione tenuta presso
il "Centro di Ricerca sul Lavoro Associato" (*)
in collaborazione con
la Camera di Commercio Italo-americana*

Legal and Economic Aspects of Cooperative Firms
in Italy and Imola

*Speech by Benito Benati at the Center for Labor Research Community,
Chicago, Illinois, December 7, 2007*

(*) "Center for Labor and Community Research": l'associazione coinvolge insegnanti, ricercatori e dirigenti; si tratta di un ente il cui fine è promuovere forme di lavoro associato.



Benito Benati

Ladies and Gentlemen,

From a legal point of view, Italian cooperative firms are regulated by the Italian Civil Code, and by a number of specific laws which are typical of the fields in which they operate.

The Italian Civil Code was written in 1942, and has remained unchanged for over 60 years. The sections concerning firm law were revised in-depth just a few years ago. The revisions affected all types of firms, and therefore cooperative firms as well.

1. Distinctive Features of Cooperative Firms

The first article of the Civil Code dealing with Cooperative Firms (no. 2511) defines them as follows:

“Cooperative firms are firms with a mutual aid purpose and variable subscribed capital.”

The variable subscribed capital and mutual aid purpose are explained as follows:

a) Variable subscribed capital

The amount of subscribed capital is not pre-established, but rather it increases or decreases depending on the partners entering or leaving the firm.

This rule – which sets cooperative firms apart from other types of firms where the amount of subscribed capital is fixed beforehand, when the firm is set up - results from two specific features of cooperative firms:

- Cooperative firms are essentially non-stock firms and partially joint-stock firms.

- Cooperative firms are, as a matter of principle, firms open to anybody who may want to join them.

b) Mutual aid purpose

Although Italian law has yet to provide precise definitions, based on common practice we can safely assume that mutual aid purpose concerns *groups of citizens organized in cooperative firms, who maintain democratic principles and equal rights in order to meet a number of primary needs.*

A few examples are as follows:

- 1) Work cooperatives have the specific purpose of providing their partners with better working conditions than those offered by the conventional "labor market".
- 2) Consumers cooperatives' purpose is to provide food and consumer goods for partners' families at prices lower than those prevailing on the market.
- 3) Housing cooperatives's goal is to build affordable housing for the cooperative's partners, eliminating real estate agents' fees, and part of the builder's fees.

I would like to point out that, together with the two elements discussed so far (variable registered capital and mutual aim purposes), several other factors distinguish cooperative firms from other kinds of firms:

A. Democratic management.

In meetings, every partner casts a single vote, irrespective of the amount he or she contributed to the overall firm's capital, confirming the basic fact that cooperative firms are mainly non-stock firms.

In addition, decisions taken at the partners' assembly play a major role in cooperatives' life. Indeed, the so called "Dual System" which restricts the power of assemblies has been adopted by very few cooperatives, whereas the conventional management system which gives powers to the partners' assembly has been maintained in the majority of cooperatives.

B. Limited dividends.

Cooperative firms have special social implications striving to address a large number of citizens so as to meet their general needs.

Because of this, firms with stable economic situations are required. As a result, today dividends cannot exceed the rate of 6.55%.

This rule has also been established because cooperatives are non-profit firms which do not aim at generating profits for the shareholders, but do have mutual aid purposes.

This does not mean cooperatives should not make profits: profits are obviously welcome, as they are required to maintain the cooperative life and

development. However, profits are regarded as a means, not as a goal! If there are profits, part of them are distributed among the shareholders (striving to attain a fair remuneration of capital) whereas the remaining portion is allocated to Corporate Assets.

C. *"Multi-generation" corporate assets.*

In compliance with the Italian Constitution – which safeguards mutual cooperation without any private financial speculation – special regulations regarding the non-tax status of the dividends allocated to a special reserve fund have been in effect for 30 years. These funds are not available to the cooperative's partners either during the life of the Company or at its dissolution.

This regulation is a good example of "economic democracy", as it helps workers and the weakest members of society, who have very few economic means, to become entrepreneurs, playing a major role in cooperative firms.

The rule is based on a "double renunciation": of the Government, which, in order to assist the cooperatives, renounces to collect taxes due on the profits of these firms; of the shareholders, which in turn, resign their rights to collect the dividends earned.

The reserve funds accumulated by the cooperative become the assets of the cooperative firm itself, which can be used without restrictions for firm development to benefit future generations.

This is a good example of mutual aid and "multi-generation" solidarity that helps expand and develop the cooperative movement in Italy.

The new partners who join the cooperative to replace those who retire can use the firm assets allocated by the earlier generations. In fact, the shareholders cannot make use of the assets but they must leave them (incremented if possible) for future generations.

I've worked for a big cooperative firm in my town where I could see three generations (grandfather, father and son) who took over "the baton" from those who preceded them and finished off their working period.

Cooperatives are special firms, the life of which is basically renovated throughout the generations. It is a firm of a private nature with strong social implications of which the law safeguards its specific functions (while its economic activity is carried out inside the free Market without any special relief).

It is important to say that the "non-availability" of the reserve funds, combined with the "no-tax regime", has shown itself to be a powerful instrument of economic growth (as we will see below), as over the last decade the economic performance of cooperative firms was superior to that of the rest of the Italian economy.

Another factor differentiating cooperative firms from other types of businesses is:

- D. *Cooperative firms are deeply rooted in, and involved with the area where they operate, and cannot be sold to third parties.*

Cooperative firms are linked to the territory they are based on and the communities they belong to.

Cooperatives cannot be disposed of or sold to third parties. They can only be transferred to new shareholders having the same characteristics as those who resign. These elements contribute to making cooperative firms especially stable in the areas where they operate, so that they establish mutual synergies.

Firms which are not managed *via* cooperative methods are often exposed to takeovers, mergers, break-ups, etc., whose main aim is not the organic growth of the firm, or the improvement of workers' employment conditions, but rather strictly to generate profits.

Cooperative firms are not usually exposed to these types of risks due to their nature.

2. The First Cooperatives in Europe and Italy

The first cooperative was founded in England in 1844 when 28 workers – today known as the “valiant pioneers of Rochdale” – gave rise to a cooperative firm, whose purpose was to “*adopt provisions aimed at improving the welfare and the living and social conditions of its partners*”.

In Italy, the first cooperative firm was set up ten years later, in 1854, in Turin, where a consumer's cooperative, known as the “Providence Store”, was established by a workers' association.

Two years later, the first work cooperative, organizing workers of the glassware business, was set up in ALTARE (Savona).

The first cooperatives were established as a means of defense and survival, dealing with the problems afflicting workers of that time, such as unemployment, housing lack and the high cost of foodstuffs.

The founding principles of the cooperative movement received “bipartisan” support from both intellectuals and politicians with different political views. GIUSEPPE MAZZINI – together with GARIBALDI, one of the Fathers of Modern-day Italy – regarded cooperation, especially that related to work, as a means of joining capitalists and working classes together, thereby eliminating class conflict.

ANDREA COSTA, a socialist leader, regarded cooperation as a means for workers to put an end to capitalism, and improve their living conditions.

LUIGI LUZZATI, liberal and Catholic, regarded cooperation as a peaceful instrument to improve workers' material conditions.

In 1886, the Italian National Cooperative Federation was created, which later on became the NATIONAL COOPERATIVE LEAGUE. The latter is currently a major organization of cooperative firms in our country.

After 35 years of hard work and development interrupted by World War I, in which Italy paid an especially high price, in 1921 fascism seized power in our country, and the cooperative movement went through especially hard times.

Hundreds of cooperatives were set on fire and destroyed. Some of them had to stop their activities. The cooperative firms that stayed open for business were stripped of their authority, and were managed by members of the fascist regime.

Then, World War II broke out, bringing about more death and destruction.

Finally, in 1945, Italian cooperatives resumed their activities and development, leading to current goals and achievements, which are still continuing today.

This development is firmly based on the Italian Constitution which, in article 45, states that: "*The Italian Republic recognizes the social function of mutual cooperation without aim of private speculation. The law promotes and favors its development with suitable means while providing the relevant controls to ensure that the distinctive features and aims are achieved*".

We have already spoken about the tax reduction on the net earnings allocated to the indivisible reserve funds granted in compliance with article 45 of the Italian constitution.

Although these advantages were diminished a few years ago, when the Civil Code was amended, they are still playing an extremely important role in the Italian Cooperative development. It must be said that the Italian Cooperatives have made good use of this support reaching particularly high levels of development and excellence.

Today, cooperatives are involved in all economic sectors of the nation, often in prominent positions.

- In the retail sector, Coop is certainly the largest supermarket store chain in Italy.

- In the insurance sector, the UNIPOL group, controlled by the cooperative movement, is the fourth group in the nation.

- In the construction industry, the cooperatives count for 6 of the twenty most prominent building firms.

In the Banking field, the "Cooperative credit bank system" accounts for 11.6% of all the Bank counters in our country.

3. The Success of Italian Cooperative Firms Continues

As we intend to give you a complete scenario of the entire Italian Cooperative Movement, we also provide you with the following data:

Table 1 shows the extent of the Italian Cooperative Movement as of December 31, 2005. The data include both cooperative firms which have joined the national associations, and those which do not belong to any organizations. They are then compared to the whole of the Italian business sector.

TABLE N° 1

- TOTAL FIRMS AND EMPLOYEES IN THE INDUSTRY AND SERVICES IN
ITALY AS OF DECEMBER 31, 2005
- COOPERATIVE FIRMS AND EMPLOYEES OPERATING
IN THE SAME SECTORS

| | FIRMS | EMPLOYEES |
|---------------------------|--------------|------------------|
| TOTAL IN ITALY | 4.371.087 | 16.813.193 |
| TOTAL COOPERATIVES | 50.475 | 996.193 |
| Cooperatives % | 1,20% | 5,9% |

As the table clearly shows, the Italian economic system as a whole is characterized by a large number of small firms, with the average number of the employees being equal to 3.8 per firm. Cooperative firms, on the other hand, mostly have larger dimensions, so that, taken as a whole, they account for 1.2% of total firms and 5.9 percent of total employees which is found in the industry and service sectors.

A phenomenon deserving special attention concerns the growth rate among cooperative firms compared to the Italian economy's overall trend growth rate.

At its 37th Congress last Spring, the National Cooperative League – the major Italian Organization associating cooperative firms – provided data on the growth rate of member firms over the last decade.

Table 2 shows the growth rates recorded over the last decade by the cooperative firms which are members of the National League, together with the number of shareholders, production value and employees.

TABLE N° 2

FIRMS BELONGING TO THE NATIONAL COOPERATIVE LEAGUE
1955-2005 EVOLUTION

| DESCRIPTION | 1995 | 2005 | Absolute increment | % Increment |
|----------------------------|-----------|-----------|--------------------|-------------|
| No. of firms in the league | 10.621 | 15.255 | +4.634 | +43,6% |
| Shareholders | 3.937.435 | 7.536.977 | + 3.599.542 | +91,4% |
| Sales (in million Euro) | 22.041 | 48.268 | +26.227 | +119,00% |
| Employees | 224.568 | 404.224 | +179.656 | +80,00% |

Table 3 compares the growth rate, over the last decade, for firms which are members of the Cooperative League, with that of the entire Italian economy, concerning sales and employment trends.

TABLE N° 3

FIRMS BELONGING TO THE NATIONAL COOPERATIVE LEAGUE
1955-2005 EVOLUTION
COMPARISON WITH CORRESPONDING NATIONAL DATA

| DESCRIPTION | 1995 | 2005 | Absolute increment | % Increment |
|---|------------|------------|--------------------|-------------|
| National production (in Millions of Euro) | 1.769.835 | 2.752.042 | +982.207 | +55,59% |
| Coop League production (in Millions of Euro) | 22.041 | 48.268 | + 26.227 | 119,00% |
| Nationwide employment | 20.240.000 | 22.691.000 | +2.451.000 | +12,10% |
| Coop league employment | 224.000 | 404.000 | +180.000 | +80,00% |

The figures reported in the table suggest that the Italian Cooperative Movement is in good health, and represents a dynamic growth factor for the Italian economy, whose performance is not usually impressive.

Production has grown twice as fast as that of the entire national economy, while employment has increased by 6.6 times more than the national employment rate.

I believe that it could be extremely useful if a group of economists conducted a survey to find out the reasons for such remarkable discrepancy between growth rates for the overall country and for cooperative firms.

I would like to remind you that several economists (some of them Nobel prize winners) have devoted their attention to the Italian Cooperatives for some time now.

- at the end of the 1980s, James Meade devoted a whole day to discuss the industrial cooperatives of Imola at a conference in London.

- Joseph Stiglitz, on July 2-3, 2004 at a conference in Genoa, said "one of the reasons for Italian success over the last decades (lies)...in the capacity of small and medium firms, in particular those belonging to the Cooperative Movement"

- On October 27, 1998, Amartya Sen, in a presentation at the Cooperative League Congress, said:

"I was impressed by the experience of Emilia Romagna's Cooperative firms, and by the excellent results they have achieved. From my studies, it emerges that certain means of achieving success are clearly visible in the economic practices of this region".

4. The Cooperative Firms in Imola

Now, I would like to talk about the main features and activities of the cooperative movement of Imola, the town where I live and work. Imola is a small town located in the Emilia Romagna region of Northern Italy, with a population of over 65,000 people. In this area the cooperative movement, which started expanding in 1874, is the main economic force in the city, it is present in all economic and social aspects, and it is characterized by two special features:

- first, cooperative firms are especially widespread in the industrial sector;
- second, in several cases cooperative firms are world leaders in the sectors they operate in, and export a significant fraction of their production.

Table 4 below – updated to December 31, 2006 – provides, under this respect, important data.

TABLE N° 4

COOPERATIVE FIRMS IN IMOLA
2002-2006 EVOLUTION

| DESCRIPTION | 2002 | 2006 | % variation |
|--|--------|--------|-------------|
| Cooperative firms in operation | 120 | 132 | + 10% |
| Full-time employees | 6.490 | 7.705 | + 19% |
| Other employees | 1.264 | 1.499 | + 19% |
| Total turnover (millions of Euro) | 1.952 | 2.443 | + 25% |
| Export revenue (millions of Euro) | 700 | 823 | + 18% |
| Shareholder's financing (millions of Euro) | 107 | 140 | + 31% |
| Shareholders' equity (millions of Euro) | 1.170 | 1.442 | + 23% |
| No. of shareholders | 55.617 | 70.117 | + 26% |

The following comments can be made:

- I. The growth rate exhibited by Imola's cooperative firms over the last 4 years is quite impressive once you consider that Italy's annual GDP growth never exceeded 1.5% per year;
- II. In Imola seven citizens out of ten, including children, are shareholders in a cooperative firm. This is an especially high figure even if you consider that some people can be shareholders of more than 1 cooperative at a time;
- III. Imola's cooperative firms have particularly large corporate net worth, as the shareholders' equity is 59% of their total turnover. In Italy, the average shareholders' equity rarely exceeds 20% of the turnover.
- IV. The favorable trend seen over the last 4 years is still continuing. A recent survey shows that the 2007 turnover will increase by 9.8%, exports by 9.7%, investments in fixed assets by 24.5%, employment by 1.2% and shareholders by 2.9%.

Before examining the second part of my report, which is concerned with "governance" issues, and with the social policies implemented by Imola's cooperative firms, I would like to show table 5 below, indicating the business sectors Imola's cooperative firms operate in.

TABLE N° 5

IMOLA'S COOPERATIVE FIRMS' BUSINESS SECTORS

| |
|---|
| - Mechanical industry |
| - Building industry |
| - Wood-working industry |
| - Ceramic industry |
| - Textile industry |
| - Typographic industry |
| - Banking |
| - Insurance firms |
| - Education (schools, universities and culture) |
| - Elder and disable care service |
| - Newspapers |
| - Environmentally friendly systems |
| - Catering |
| - Small/large distribution centers |
| - Agriculture |
| - Food industry |
| - Housing to benefit shareholders (houses to let or for sale) |

5. "Governance" Systems and Social Policies in Imola's Cooperative

It is not easy to provide a clear picture of the "Governance" systems adopted by and – above all – of the social policies implemented by Imola's cooperatives, as the sectors they operate in are numerous, and the specific situations differ considerably from one another.

It is possible, however, to indicate a "prevailing tendency", with the *caveat* that the information I will discuss next mainly refers to the largest industrial cooperative firms.

A. Cooperative firms' governance

Cooperative firms's governance is based on the principles of democracy, participation, responsibility, separation of powers and control systems.

- At the top level of the cooperative firm governance is the "Partners' Assembly", where each partner casts one single vote regardless of the amount of registered capital owned. The Assembly appoints the Board of Directors and the Auditors' Committee, approves the financial statements, and makes decisions on multi-year plans, and on important statutory changes.
- The Board of Directors manage the firm and makes decisions on firm policies according to the general guidelines for budgets and general plans as approved by the shareholder assembly.
- The General Manager, who controls the single department directors, takes care of day-to-day management in accordance with the powers he or she received from the Boards of Directors.
- The Auditors' Committee performs an oversight function.
- Finally, an external auditing firm makes sure the firm books have been kept properly, and controls the balance sheet at the end of the year in order to make sure that it complies with current regulations, and with prevailing accounting rules.

B. Participation

Shareholders are encouraged to participate in firm management through the assembly (which are often numerous, in some cases 10/12 assemblies per year) and work commissions on specific subjects. Moreover shareholders take part in complex procedures and assemblies leading to budget planning, which is the most significant moment of the shareholders participation in cooperative life.

C. Responsibility

Participation means no "anarchy" or confusion of roles. Shareholders exercise their powers in the assembly. Therefore:

- C.1. the shareholders must strictly comply with their roles and once the directors have been appointed and basic strategies for the firm's development have been decided, they should not interfere with the decisions of the Board of Directors.
- C.2. On the workplace shareholders are regarded as simple employees, without any particular right derived from their position within the Cooperative. Like everybody, they simply ought to obey their superiors.
- C.3. Once the General Manager and the Departmental Managers have been appointed and given their tasks in accordance with budget planning, the Board of Directors will not interfere with the tasks of the single managers. The latter will be judged according to the tasks and objectives that have been carried out.
- C.4. In especially complex firms, an Internal Control Body not connected to general management (reporting only to the Board of Directors) is often deemed as necessary. This control body evaluates the performance of top managers, checks for deviations from budget plans, and for failure to reach planned objectives. In the absence of a control body like this, the Board of Directors – which is often composed of simple workers – risks being out of its depth when dealing with the General Manager and the department managers.

D. Personnel recruitment and training, and membership rules.

Imola's cooperative firms have personnel recruitment and training policies aimed at recruiting highly qualified people with an increasing level of education and training. As a result, those jobs requiring lower qualifications, which therefore create little value added, are contracted out. Cooperative firms concentrate on technologically advanced jobs and on high added value activities. In addition, policies for the admission of new shareholders are sometimes quite restrictive. Concerning the controversial issue of the "open door" policy towards all new potential members, it is fair to say that for a significant number of Imola's cooperatives the door is "partially open". The situation differs from firm to firm: in most cases, the "open door" policy concerns firms with lower profits, whereas firms with "a partially open door" usually generate higher profits. The reasons behind this attitude can be explained with three main justifications:

First, experience has shown that several cooperative firms with "open doors" policies had to be closed down because of poor economic results, whereas those with "partially open doors" and a more selected shareholders' body obtained better results.

Second, a large number of shareholders is more difficult to control, and it becomes especially complex to have all shareholders agreeing to specific plans.

Third, plain selfish motives, tending to restrict membership so as to share its benefits among a restricted group.

E. Participation in the cooperative's capital stock and the relationship between the shareholder and cooperative firm

In Imola shareholders have a deep involvement with their own cooperative firm. This partly stems from historical reasons. The main reason behind this is a strong economic interest:

- a) According to Italian law, an individual shareholder can own shares for an overall value between 50 and 100,000 Euros. Individual cooperative firms' statutes can also allow for higher minimum amounts. Several cooperative firms in Imola require their shareholders to own shares for an overall value close or equal to the maximum amount.
- b) Italian law allows shareholders to receive higher wages and bonuses if economic results are satisfactory - up to a maximum of 30% of their salary. This rule is applied by several cooperative firms for either the full 30% amount, or for a significant fraction of it.
- c) In case of good economic results, cooperative firms can pay shareholders a dividend of up to 6.55% of the nominal value of the share they own.

As you can see, the shareholder in a cooperative firm is entitled to substantial benefits related to firm profits, in addition to the normal wages resulting from the National Work Contracts stipulated with the Italian Trade Unions.

I believe that this is the main reason for the positive economic trend in our firms.

F. Links and synergies with the territory, mutual aid and support to the poor.

Over 130 years have passed since the first cooperative was set-up in Imola, and the old workshops of the cooperative partners - established as a means of defense and self-support - have turned into modern firms successfully competing in the global marketplace.

In spite of a world where individual egoism often prevails, the cooperative partners of Imola have not yet forgotten their long-dated origins.

The cooperatives provide substantial aid and donations to sustain private and public solidarity projects all over the territory.

Their solidarity has also extended abroad by financing charitable projects of Italian missionaries in the shanty town of Sao Bernardo, on the outskirts of San Paolo in Brazil.

The intervention of the cooperatives of Imola has recently been extended to Africa, in Senegal, where initiatives were taken to drill wells so that water can be drawn and small farmers can sell their products directly in Coop stores in Italy through the "fair trade network".

We are very proud of these examples that prove how the spirit of mutuality and solidarity - typical of the origins of the cooperative movement - is still deeply rooted one century later, even if men, politics and society have changed radically.

G. Management of firms where workers are deeply involved

My personal experience of 40 years working in cooperative firms managed through the involvement of shareholders has led me to think that:

- a) Cooperative firms where shareholders are involved in management have significant competitive advantages because that the workers never go against the firm since their interests are normally identified with those of the firm.
- b) Participation requires firm conviction, honesty and modesty. The Directors (president, director and managers) should avoid paternalism and arrogance, and should not act superior towards the workers. Times have changed. In the assemblies of Imola cooperatives, there are a large number of graduates well integrated into the firm. If the President and the managers attempted to conceal or manipulate the truth, they would be soon discovered. The will of the workers/shareholders must never be overcome. It is better to make a decision six months later with the workers' consent, rather than making immediate decisions without their consent.
- c) More time should be devoted to teach and spread the culture and techniques of management within the firm. A well-educated worker/shareholder aware of firm management provides a great competitive edge. The balance sheets, financial problems, marketing techniques, budget compilation and control systems should be well explained.

The worker/shareholder should be allowed to participate in the main decisions that concern firm life and issues should be explained until they are understood. Much patience must be exercised when doing so.

- d) Firm management must be particularly strong where the workers are deeply involved as the managers are liable to face contrasts and criticism to which adequate and convincing answers are to be given. The most difficult fights that a manager will face are often the ones with the workers within the firm. Once worker's consent has been attained, things will be much easier as the firm gains a significant competitive edge on the competitors thanks to the convinced and compact action of the employees.

6. Conclusion

I've come to the conclusion of my study on Imola cooperatives and I would like to correct the false impression that my statement might have provoked, i.e. the Imola cooperatives have no problems! Obviously this is not true. Besides a number of positive aspects and competitive advantages, cooperative firms show a number of serious problems the most relevant of which are the following:

- First, A long time is taken to make decisions due to the fact that the consent of a large number of shareholders is required.
- Second, The danger that the desire of the shareholders to participate in the cooperative may lead to unending discussion and deprive the power of the management which is to be free to take decisions and operate according to the power delegated to them.
- Third, The extreme difficulty to carry out corporate restructuring processes - more and more required - because the men which are called to decide are often the same that will be affected by the decision to be taken.
- Fourth, The danger of selfish attitudes (when the cooperatives have good results) that tend to divide the company into deserving people (appointed shareholders) and *not deserving people* (not accepted as shareholders).

Although the cooperatives have numerous limitations and defects, the experience of Imola is certainly a piece of history of our country that deserves in-depth studies and special consideration.