MAKING THE SOCIAL ECONOMY WORK WITHIN THE GLOBAL ECONOMY: AN EMPIRICAL STUDY OF WORKER CO-OPERATIVES IN QUEBEC, EMILIA-ROMAGNA AND MONDRAGON

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"The journey not the arrival matters"

T. S. Eliot, poet, 1888-1965

Awarded Nobel Prize in Literature in 1948

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The author apologizes for the inconveniences, but such deep feelings could not be expressed in English.

A pesar de no ser persona apegada al mar, alguna vez he pensado lo mucho que, geográficamente hablando, este viaje de casi cuatro años se parece a los emprendidos desde hace siglos por los pescadores vascos en busca de sustento al otro lado del Atlántico. He comprobado que aún se les recuerda por allí. Sea como fuere el autor simplemente quiere señalar que desgraciadamente solo una parte del viaje ha podido ser relatada en esta tesis, debido a que otros muchos capítulos permanecen en mi interior y por ser vivencias personales que nada tienen de académicas, no han podido ser reflejadas. Dejémoslo en que al arribar a puerto, soy una persona diferente a quien era cuando partí, y todas esas vivencias aflorarán en cualquier conversación nada más recordar esta aventura.

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PART I: THEORETICAL AND METHODOLOGICAL FRAMEWORK

PREAMBLE TO THE RESEARCH PROJECT

"I hope to motivate and encourage anyone who may be thinking
of writing his or her PhD. thesis:
the author swears it is a matter of willingness more than anything else."

0.1 Introduction

This research project titled "Making the Social Economy Work Within the Global Economy" was born after receiving support from Mondragon University by Dr. Inazio Irizar, who became one of its directors. Later on Dr. Gregory MacLeod became the second director of the project, and he assumed supervision onsite since most of the research has been done in Canada.

After the two directors and the student, Mikel Cid, met in May 2001, the preliminary ideas were presented and the conditions where the research was to be accomplished were agreed to be between Dr. Irizar as the postgraduate research director in the School of Management in Mondragon University and Dr. MacLeod as the director of the Tompkins Institute in the School of Business of the University College of Cape Breton in Sydney, Nova Scotia. The retirement of Dr. MacLeod during the research project produced the active participation of the new director of the Tompkins Institute, Dr. Harvey Johnstone, in addition to Dr. MacLeod's continued enthusiastic participation in the project.

The project has been accomplished in three and one-half years, seven semesters, from September 2001 to March 2005.

0.2 Motivation

The main motivation of this project came from the personal interest of the author about the co-operative enterprise in general and the Mondragon Co-operative Experience in particular. Co-operative action is a broad concept that assumes the activity of people working together toward a common goal, each member has the same power in the decision making process under the principle of one person equals one vote; of open membership, without any discrimination of sex, race, religion, politics; sovereignty of labour over any other factor; the instrumental character of capital to people; the participation of all the members in the management of the co-operative; the willingness to transform positively the community where the co-operative is located; and the promotion of solidarity with neighbouring less-favoured agents. If we add the economic and social success that during the last fifty years the co-operatives in Mondragon have enjoyed, we notice that they are a very rare phenomenon worldwide. This fact attracts interest in many parts of the world.

The author's increased when, as a student, he had the chance to work as an assistant within a research project called "The Reality of the Co-operative Principles in the Co-operatives of Mondragon," directed by Lecturer Amaia Agirre. From this work he got a preliminary glance and a basic knowledge of the Mondragon Experience. The author would like to increase this knowledge through this doctoral thesis. At the same time he wishes to state clearly that the co-operatives in this study go beyond the co-operatives in Mondragon, associated in Mondragon Corporacion Cooperativa (MCC), because co-

operatives are a universal phenomena with many different experiences all over the world, within which MCC is a big one. On the other hand the student is very interested in knowing what the term globalization means. This widely used word is sometimes the centre of controversy due to the fact that some people blame it for creating richness for a few and poverty for the majority all over the world.

Once the two bases of this study have been presented, the aim is to state where exactly those two broad terms, co-operatives and globalization, meet each other within this project. Globalization is a process that conceives the world as a whole where there are no borders to the movement of capital, goods, technology, information, ideas, and customs. This study seeks to answer to the following question: Is there a place for the co-operative philosophy in creating wealth as all of us are inevitably within globalization? As the concentration of capital in a few hands seems to be the dominant fact, the co-operative principle of one member one vote and using capital for the good of the members challenges firms to deal with very exigent demands on returns, productivity, and profit, due to very hard competition where only the strongest are able to survive.

The goal of this work is to ascertain if co-operatives and its principles of participation, democracy and solidarity are still alive today, and if these principles are able to survive within co-operatives that deal in global markets.

0.3 Objectives of the Research Project

As many authors state, firms dealing in global markets cannot ignore globalization as a phenomenon they are facing everyday. Such a great global competition makes firms necessarily think about the world as an entire market, with new and big challenges,

where things change very fast. A foreign firm can enter one's own national market anytime, defeating the local firm due to better competitive rates.

The main objectives of this research project are:

- Bibliographical review of the social economy, co-operatives and globalization of the economy.
- Design of a particular methodology to measure the social concern and the economic performance of a worker co-operative.
- Detailed description of three of the most successful co-operative movements in the world, located in Quebec (Canada), Mondragon (Spain) and Emilia-Romagna (Italy). This analysis of the specific social, political and economic context, where they have been located, is essential to explain why such firms succeed in those places and other co-operative do not do so well in other places.
- Building eight case studies, according to the methodologies proposed by R. K. Yin and R. Kaplan, and measured through the tools presented in the methodology chapter.
- Reach some conclusions based on the eight case studies and figure out the hypothesis explained in the first chapter about the fact that the seven co-operative principles of the International Co-operative Alliance (ICA) are complementary to high economic performance in global markets in the cases studied.

CHAPTER ONE

BACKGROUND

"Si queremos cambiar el mundo, empecemos por cambiar las empresas…"

"If we want to change the world, let's start by changing the firms…"

Greg MacLeod, Sydney, NS, Canada, 10th October 2002

1.1 Context of Research and Problematic

Looking at the situation of thousands of people in the world gives an idea of how the global market economy is selective in providing opportunities for development. Many people suffer from lack of opportunity, high inequality and unemployment (Olive, 1987, p59), even "in the richest country in the world" (Albert and Hahnel, 1991, p12). Davis and Donaldson (1998, pp. 108-109) add, "the oligopolistic control of technology and other capital in the market has increasingly led to labour's disadvantage and to the increasing incidence of social exclusion." Since uneven development is an inherent feature of the capitalist system of production (Smith, N., 1990), capitalism creates problems that it cannot solve. There are two clear kinds of exclusion around the world (MacLeod, 2003, personal communication): on the one hand class exclusion due to huge differences in income within a certain society, and on the other geographical exclusion derived from the increasing gap in opportunities for economic development among different regions (Hudson, 2000, p99, p106).

On these two kinds of inequalities, Allen says that "opportunities for upsetting the balance of equality among communities are comparable to those which lead to inequality

among individuals in the same community [because] local and national communities enter the marketplace game possessing differing degrees of geological, geographical and historical advantage" (Allen, 2000, p170; Diamond, 1999).

1.2 Theory as Point of Departure: Milton Friedman and The Chicago School

As in any research work, a fundamental theory upon which to base eventual statements is essential. In this way Rummel and Ballaine (1963, p. 14) point out "basic to good scientific research is a theory which serves as a point of departure for the successful investigation of a problem. In this respect a theory is a tool of science since it may be used to define the kinds of data to be analyzed." In this thesis, such theory is the one supported by Milton Friedman and other academics at The Chicago School when they state that social concern is necessarily an impediment for economic competitiveness and performance of firms. This theory had most of its acceptance in the 1970s but still today many people state arguments for and against it.

Thurow affirms that "market economies quickly convert equalities into inequalities" (Thurow, 1996, p243), but Friedman says that in spite of this inequality, poor people in capitalistic countries have a higher standard of living than poor people in less capitalistic ones (Friedman, 1980, p146). Because, according to Friedman, a free market system is a source of lower inequality than a closed market system. He argues that the free market system is the best way to spread development around the world; Friedman finds that the poor are better off under this system than under any other system because "the more capitalistic a country is, the smaller the fraction of income paid for the use of what is generally regarded as capital, and the larger the fraction paid for human services"

(Friedman, 1962, p168-69). Therefore, he considers inequalities inevitable. He bases his statement on the liberty and equality of opportunity for everyone to develop any economic activity. According to him, following this way will lead the world to the highest development possible. But he opposes the equalization of income as a way to development, because it acts against the individual's liberty to dispose of his own results. Friedman says that the ethical principle that would directly justify the distribution of income in a free market society is, "to each according to what he and the instruments he owns produces" (Friedman, 1962, p161-62).

In this regard, it is interesting to remember Adam Smith's statement that great property implies great inequality too (Smith, Wealth, op. cit., pp. 709-10, cited in Heilbroner, 1994, p44), and Heilbroner adds not only that the concept of wealth implies inequality, but also that economic power needs "wealth-inequality" to exist (Heilbroner, 1994, p45). Friedman recognizes not only the existence of offending inequalities in the capitalistic system (Friedman, 1980, p146), but furthermore that capitalism itself creates problems, that is, inequalities (Friedman, 1962, p169). Liberty and equality of opportunity for everyone in society are both consistent with freedom, but equality of income is not according to Friedman (Friedman, 1980, p140).

However, Friedman refuses any attempt to correct inequalities by government through taxation for income redistribution because it will only bring negative results to society (Friedman, 1980, p144, p145). Instead, he proposes a "negative income tax" system (Friedman, 1980, p122) that limits the quantity of low-income people's subsidies. Friedman justifies this limitation by the fact that this is just cash, and that it is up to poor people to decide for themselves what to do with the cash. The solution shifts from a political dimension to a market one, from the arbitrary decision of politicians and interest

groups to the decision of a market agent (Butler, 1985, pp222-223). Friedman justifies this change: "I do not believe that the fundamental value is to do good to others whether they want you to or not. The fundamental value is not to do good to others as you see their good. Neither is to force them to do good" (Friedman, 1978a, p3) (Friedman, 1978b, p11) (both collected in Frazer, 1988, p476). Finally, he proposes the value of charitable activity from rich to poor as a solution for inequalities (Friedman, 1980, p133, p139).

It is obvious that Friedman has no answer, further than charity, to the requirements of those people who are damaged by the inequality that he considers inevitable. Furthermore, he refuses governmental active intervention to aid them. Since Friedman says that the free market system, through the equality of opportunity, will enable "almost everyone" to prosper (Friedman, 1980, p148, p149), it implies that there is no an economic opportunity for those who are severely disadvantaged.

Friedman does not only recognize the existence of inequality but he considers it to be necessary, because complete equality would withdraw the incentive for enterprises and it would happen only by coercing equality of opportunity in a society (Butler, 1985, pp218-219). He does not conceive poverty as a limitation to purchase power, and he believes, "the economic market in which individuals can make daily choices between alternative products and continually select the quantity of each product they desire" (Butler, 1985, p203). Waligorski affirms that Friedman's point of view is that of an individualistic and self-interested society, where people with "little to offer in the market… are excluded from full participation in both polity and economy [and whose] non-market needs and demands must be ignored" (Waligorski, 1990, 151). Waligorski also adds unemployment to the list, making a big difference from the conservative point of view that "involuntary

unemployment is impossible in a free market; all will find work, and if all have the opportunity to work, freedom cannot be compromised" (Waligorski, 1990, 65).

On this point Keynes differs somewhat. He says, "there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist today" (Keynes, 1964, p374). He adds, that even though capitalism shows a "tendency for wealth to be distributed where it is not appreciated most" (Keynes, 1972, p285), "[if] wisely managed, [capitalism] can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organization which shall be as efficient as possible without offending our notions of a satisfactory way of life" (Keynes, 1972, p294).

Lepage agrees with Friedman in saying that "suppressing capitalism and the market economy will make society less just than it has been", and recognizing a minimal role to the state he proposes a slightly different approach called "the philosophy of economic and social freedom", to solve the "current corporative society", and the "interest groups with special privileges" derived from the government expansion (Lepage, 1982, p211, p212).

In support of Friedman's theory, Levitt defends competition, and says it is something not to avoid but "to make the most of," because history and religion consider conflict as "the subject, origin and life blood of society" (Levitt, 1958, p49, p50). He adds that altruism, self-denial, charity, and similar values are "alien to competitive economics." Similarly, Bowie believes that "competition draws out the best in people so that efficiency is achieved [and that] competition is a device for maximizing profit. Hence its value is instrumental rather than intrinsic" (Bowie, 1982, p66, p67). On this direction he

proposes the social audit as a valid tool to measure the costs of achieving a certain level of profit because, if adopted, "competition would not be solely for the highest profits, but rather for the highest profits consistent with the least moral cost" (Bowie, 1982, p108).

Luttwak distinguishes a difference between the capitalism at present from the capitalism of fifty-years ago. He calls the present "turbo-capitalism" and says that the difference, "is only a matter of degree, a mere acceleration in the pace of structural change at any given rate of economic growth" (Luttwak, 1999, 37), but that it creates "a sharp increase in income inequality, and an even greater increase in wealth inequality." However, he affirms that on the Anglo-American tradition inequality "is not a problem, but rather part of the solution [because] the greater the difference in rewards, the stronger the incentive, the more intense the competition, the greater the resulting prosperity" (Luttwak, 1999, pp51-52). But he continues to say that as turbo-capitalism increases efficiency and wealth, it also provides a "greater instability of firms and of jobs in a far more fluid economy, even in times of great prosperity" (Luttwak, 1999, p219).

In the same direction, but regarding communities, Allen foresees that "as long as current patterns persist, the less developed areas of the world will never achieve anything like parity with more developed areas" (Allen, 2000, p173). The challenges facing depleted communities are daunting: "for a new region to enter the global economy as a full participant it must, as a minimum, have a population of 5 to 20 million people with common consumer tastes, such as an international airport, a harbour for handling international freight, and the potential for TV advertising of branded consumer goods to several million people" (Ohmae, 1995, pp. 89-93) (cited in Allen, 2000, p194).

1.3 Free Market and Public Intervention

Free market is the clearest expression of letting supply and demand work with no external intervention. It refers to the freedom of market agents to work on their own. Price agreement, as any other issue, is the natural result of this dealing. Public administration, as the rule maker within a country, has the power to interfere in economic matters. Even the slightest external intervention has effects within the market system. There are different positions about the role that a government should play in economy.

Friedman, as the leader of the Chicago School, is one of the most important opponents to any intervention in the market system. He believes that the less governmental intervention in economic matters the better, because inevitably it limits individual freedom (Friedman, 1962, p32), and furthermore, the market will, through Adam Smith's "invisible hand," develop the society in a more efficient way than public intervention does.

Other than government intervention, the other way to correct economic inequality is through the organization of the business firm itself. Then the firm itself becomes an agent of positive social change. This position opposes that of Friedman. Testing such a well-known theory as Friedman's is the goal of this thesis. Therefore, showing that some firms perform well economically despite their social concern is the argument to be demonstrated by this research. If successful, we will have a successful counterargument to Friedman's theory. In this sense, as Goode and Hatt (1952) state, "the most important feature of scientific theories is that they are open to, and subjected to, test: they can be confirmed, or at least falsified. This process of testing involves comparing what the theory says should occur under certain circumstances with what actually does occur; in short

comparing it with 'the facts'" (Goode, W. J. and Hatt, P. K. 1952 Methods in Social Research. [New York: McGraw-Hill]) (in Hammersley and Atkinson, 1983, p.5).

It seems reasonable to think that theories are to be tested; otherwise they are useless until they have empirical evidence that supports what they claim. Hammersley and Atkinson (1983, pp. 18-19) support this statement when they state, "theories are made explicit and full advantage taken of any opportunities to test their limits and to assess alternatives." To conclude this point, it is interesting to underline what Whyte (1984, p. 250) says, "the first requirement for useful field work and theorizing is to get yourself a good orientating theory. Such a framework guides you toward data that will prove useful in later analysis without focusing the study so narrowly as to exclude data whose importance you do not recognize at the start of your project. The interaction framework has met these requirements for me, but I do not claim it is the only potentially fruitful framework."

1.4 Hypothesis

After explaining the theoretical background of the thesis, it is now time to present the hypothesis that will lead the field research of this project. A hypothesis is a statement that the empirical research will prove or disprove. Goode and Hatt (1952, pp. 56-57) state that "the hypothesis is a question put in such a way that an answer of some kind can be forthcoming. It is an example of the organized skepticism of science, the refusal to accept any statement without empirical verification. Every worthwhile theory, then, permits the formulation of additional hypotheses. These, when tested, are either proved or disproved and in turn constitute further tests of the original theory. In either case they may be of use

to existing theory and make possible the formulation of still other hypotheses" (William J. Goode and Paul K. Hatt, Methods in Social Research. New York: McGraw-Hill, 1952, pp. 56-57) (collected in Rummel and Ballaine, 1963, pp.14-15).

Therefore the hypothesis in this research project is:

"A Social mission, represented by a real attachment to the seven co-operative principles of the International Co-operative Alliance, is not an impediment to high economic performance, represented by Kaplan and Norton's Balanced Scorecard concept, for workers' co-operatives dealing in global markets."

CHAPTER TWO

METHODOLOGY

"Since no theoretical system can provide a complete and satisfactory explanation, we need to find ways of living critically and creatively with theoretical dissonance."

Derek Gregory, "Social Theory and Human Geography"

(in *Human Geography: Society, Space and Social Science*

Eds. D. Gregory, G. Smith and R. Martin, London: Macmillan, 1994. pp 78-108.)

2.1 Sources of Information

In order to accomplish this research project, I will consult different sources of data regarding various issues around the topics of the project. The techniques to collect data are classified in two groups: primary sources and secondary sources. Primary sources include interviews with people involved in the co-operative movements such as founders, members, managers, workers and professors; observation; and data collection regarding the eight firms chosen for the multiple case study. Secondary sources will consist of the academic review of books, articles, documents and other kinds of texts on social economy, co-operatives and globalization of the economy as well as visiting research centres.

The specific information to be used in this research project leads us to some conclusions. As long as the co-operative movement is a term with human, social and eco-

nomic implications, studying it deserves a holistic view and several different techniques for the collection of data. Therefore combining the secondary information from the literature review with primary information from interviews with the people involved in different organizations and tasks will be the foundation of this research project.

2.2 Research Types

This project is defined as Basic Research accomplished, as the Frascati Manual states, with the aim of getting new knowledge about the phenomena to be studied. Within Basic Research, this research is Basic Oriented Research, as long as it is to increase knowledge to enable one to identify and solve the problems that co-operatives in global markets have to face.

The analysis of the eight firms will be focused basically on areas such as Management, Strategy and Human Resources.

This research project is largely descriptive in order to present the social concerns and economic performances of such firms, and also the specific regional context where they are located. Finally the conclusion chapter will propose some future research topics trying to link the situation described with some explicative hypotheses.

2.2.1. CASE STUDY: SOCIAL SCIENCE METHOD: ROBERT K. YIN

A firm is basically an organization of persons that develops a business activity, so that its study belongs to the social sciences. There are some social science research methods, and among them the method chosen to accomplish it, is the case study method. The case study methodology proposed in this thesis is based on the work of Robert K. Yin. He

is the author of *Case Study Research: Design and Methods* (Second Edition, Applied Social Research Methods Series Volume 5, 1994: Sage Publications, Thousand Oaks, CA), which is a work that "is about the design and conduct of case studies for research purposes" (Yin, 1994, p. 1), and therefore presents the methodology upon which this case study will be based. Yin and his methodology are widely recognized among research academics using case study methods. Gillham praises Yin for "establish[ing] the case study as a legitimate mode of research" (Gillham, 2000, p103).

It is essential to show why the case study has been chosen as the way of accomplishing this research. This research has to do with both social and economic features, which are intrinsically located within the firms and the communities surrounding them. Studying them in a natural way, without any artificiality that might misrepresent reality, becomes essential in accomplishing the research project. In this sense, as Feagin, Orum and Sjoberg state, "a principal argument for case study research is that it provides a way of studying human events and actions in their natural surroundings" (1991, p. 7). In the same method, Hammersley and Gomm say that "in experiments, the researcher creates the case(s) studied, whereas case study researchers construct cases out of naturally occurring social situations" (introduction in Gomm, Hammersley and Foster, 2000, p3).

2.2.2. INDUCTIVE APPROACH

This research project was generated from some general theories about the motivation in accomplishing economic activity, specifically in opposition to the theories launched by Milton Friedman and other supporters of the Chicago School of economics. Testing the theoretical claim that social implication is necessarily an impediment for

achieving economic efficiency is the main goal of this project. Therefore this statement leads the author to propose an alternative hypothesis. Since this process leads from general theories to individual cases, it is evident that this is a deductive process. However, the testing process with the objective of building theory is inductive. After examining the empirical case study the researcher may be able to build some theoretical statements different than the ones brought to the hypothesis. Everything depends on the performance levels attained by the firms studied.

In the context of this purpose, the case study appears to be an appropriate method to develop an inductive study. The distinction between the object of study and the selected case studies is clear in this research project. The objects of study are the workers' co-operatives as a whole and the selected case studies are the eight workers' co-operatives selected from around the world. Case study methodology implies empirical study, in that "one of the main styles of social research used by empirically oriented social scientists is field research; a style of investigation that is also referred to as 'fieldwork', 'qualitative method', 'interpretative research', 'case study method' and 'ethnography'" (Burgess, 1982, p.1). Case study is a social science method that may be applied in business too, as social sciences have important connections with business (Rummel and Ballaine, 1963, p18). This study is in accord with the guidelines put forth by Rummel and Ballaine (1963, p. 172):

> A case study may deal not only with a business firm but with almost any unit – an individual, an industry, a city, or even an epoch in history. Its distinguishing characteristic is that it emphasizes the total situation. In doing so, it describes a situation or a sequence of events leading up to some particular behaviour.

The case studies presented in this work are located within the whole context of the territory where they are located. Rummel and Ballaine continue in saying that "the case-study method is to be contrasted with statistical methods, which yield averages and in which departures from average in one direction tend to be offset by departures in the opposite direction" (1963, p.172). The empirical study within this research project is to be partially the economic performance as long as it is the only one where general databases are available, compared with statistical series obtained from generally accepted sources in the business discipline, which is the Dun & Bradstreet database. The eight firms chosen are not considered as typical of the whole category of worker's co-operatives, but as interesting examples so this research project may produce some generalized hypotheses from the findings.

2.2.3. HOW, WHY QUESTIONS

The objective of this research project is to measure how socially responsible and competitive a firm can be. The investigator has no control over the firms' performance and they are contemporary phenomenon within some real-life context, the case study has been chosen as the best way to carry out this research. Since Yin says, "case studies are the preferred strategy when 'how' or 'why questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context" (1994, p. 1, pp. 7-9). Yin also mentions case studies as used in research dissertations and theses on such academic disciplines as business administration and management science among others (1994, p1). As long as this research is rooted in testing some firms in both social and economic dimensions, showing the em-

pirical evidence of those performances, the case study method is the research tool chosen. And this is the purpose of this project, to study each firm in its natural context, without any artificial influence.

In accomplishing this project, questions are an important part of the research; we can say that there are basically 50 indicators which constitute 50 questions. As Gillham (2000, p. 17) says "framing good questions is the most important part of research procedure. In real-world research they are not easily achieved and you will have to spend quite a long time developing or modifying them. 'Good' research questions are those which will enable you to achieve your aim and which are *capable of being answered in the research setting*. It's no use asking questions that can't be answered."

2.2.4. EXPLORATORY, DESCRIPTIVE AND EXPLANATORY

There may be three different case study strategies, depending on the depth that the reality is to be studied: exploratory case studies, descriptive case studies, or explanatory case studies (Yin, 1981a, 1981b) (collected in Yin, 1994, p4). In order to classify a certain research project within one of those three categories, "the first and most important condition for differentiating among the various research strategies is to identify the type of research question being asked" (Yin, 1994, p.7). Asking "what" requires an exploratory case study, asking "how" requires a descriptive case study, and asking "why" requires an explanatory case study. As stated above, this case study is descriptive; it describes the extent to which a firm can be both social and economic. The question in this case study is clear: how can a firm be social without losing its economic efficiency? Therefore, this is a descriptive case study.

Zonabend supports the value of the descriptive case study when he says, "[the case study] proves to be the descriptive study, par excellence and in depth. The case study thus serves as the most complete and detailed sort of presentation of the subject under investigation [made possible] by giving special attention to totalizing in the observation, reconstruction and analysis of the objects under study" (Zonabend, F. 1992 The monograph in European etnology. Current Sociology, 40 (1), 49-54), p. 52) (in Hamel, 1993, p.33). Hamel complements Zonabend's point of view stating, "the detail and depth of the description rendered by the case study permit an understanding of the empirical foundations of the theory" (Hamel, 1993, p. 33). Canadian epistemologist Gilles Houle's comments underline this point: "The known explanatory theories, much envied by the social sciences, were all preceded by *descriptive* theories on which they could base themselves" (Houle, G. 1986, Histoires et recits de vie: la redecouverte obligee du sens commun [Life stories: The compelling rediscovery of common sense]. In D. Desmarais & P. Grell (Eds.) Les recits de vie [Life stories] (pp. 35-51) (Montreal: Editions Saint-Martin) p. 45) (in Hamel, 1993, pp.33-34).

On this point, it is reasonable to think that after this research project is complete, further explanatory research is the next step due to the need to give some explanation to the reality described throughout this case study. This conclusion is to be related from the realities of each of the case studies, being that plurality is a strength rather than a weakness.

2.2.5. ANALYTIC GENERALIZATION INSTEAD OF STATISTICAL

This case study is what Yin calls an analytic generalization. As long as it does not represent any sample, it makes no sense to talk about statistical generalization. The point is to generalize to theoretical propositions and not to whole populations or universes: "In this sense, the case study, like the experiment, does not represent a 'sample,' and the investigator's goal is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization)" (Yin, 1994, p10) (Yin, 1989, p.21, collected in Hammel, 1993, p. 39). This project wishes to build theory from analytic generalization. As Gillham states, "the case study researcher, working *inductively* from what's there in the research setting develops *grounded theory*: theory that is grounded in the evidence that is turned up" (Gillham, 2000, p12). He concludes saying that even though theory generalization may be the goal of any case study, "theory is not primary; evidence is primary" (Id., p12).

To summarize, the methods of research the author will employ in this thesis will be induction and theory grounded in evidence. The hypothesis of this research project is whether social concern is necessarily an impediment for economic performance. This question has been the result of the literature review described in the first chapter. It is obvious that such a theoretical background is a deductive process of research that goes from the general theories on economic activity motivation to the formation of such a particular hypothesis. The hypothesis is then tested. However, the testing process that follows this deduction is inductive, and more precisely analytically inductive, because its purpose is to develop theory grounded on the analysis of data collected in some particular firms.

2.2.6. DEDUCTION-INDUCTION

As pointed out in the first section of this chapter, this research project is a combination of both a deductive and an inductive approach. It is deductive as long as the general theory is the place where the hypothesis is obtained, but it is inductive as well as long as this hypothesis is empirically tested in order to build a piece of theory based on such evidence. However, as pointed out by Bechhofer, the whole research process has to do with constant interaction of both deduction and induction, sometimes even at the same time. As he describes, "although induction is frequently used by the sociologist, it is not a straight choice between induction and deduction… The research process… is not a clear-cut sequence of procedures following a net pattern but a messy interaction between the conceptual and empirical world, deduction and induction occurring at the same time" (Bechhofer, F. 1974 'Current approaches to empirical research: some central ideas', in J. Rex (ed.), Approaches to Sociology: an Introduction to Major Trends in British Sociology (London: Routledge & Kegan Paul), pp. 70-91, p. 73) (Burgess, 1982, p.211).

In this sense, Burgess points out the three kinds of relationship that are to happen between theory and research in this project, each one resulting in a step forward. The first one is an exploratory approach called the hypothetico-deductive method that results in the proposal of the hypothesis. The second one is a descriptive approach and has to do with the design of the case studies, as an inductive source of evidence. Finally, the third one is an explanatory approach and it is the final goal of this research, which is to be able to build a theory to explain the observations made. However, and due to the ambitiousness of this final point, it deserves much further research and it is very likely to be superficially discussed in this project, becoming an issue to accomplish in following research

projects. Therefore, this case study research is the inductive stage of a project that must be considered to be deductive-inductive when we view the process in its entirety.

2.2.7. BUILDING THEORY, ANALYTIC INDUCTION

According to Eckstein the process of theory building has four different stages, which are: raising questions, restating them in problems or puzzles, formulating a hypothesis with a solution, and carrying out an appropriate and if possible definitive test. He adds that the process of theorizing does not end with the test, because it must "keep an eye out for contradictory or confirmatory observations, continues to look for more definitive tests, and continues to look for more powerful rules that order larger ranges of observations, or the same range more simply, or subsume the tested rule under one of a higher order, capable of subsuming also other tested rules […]" (Eckstein, H., 1992, Regarding Politics: Essays on Political Theory, Stability and Change. Berkeley: University of California Press, collected in Chapter 6, Gomm, Hammersley and Foster, 2000, pp. 126-128).

Going further in what analytic induction is, Znaniecki (1934) in "The Method of Sociology" introduced the idea of analytic induction, and the use of negative cases as a basis for furthering sociological analysis. This method was put into practice by Cressey (1955) in his study of embezzlers and by Lindesmith (1947) in his investigation of opiate addiction. Both have been criticized for their failure to pay heed to non-emblezzers and non-addicts or, in other words, their failure to utilize a control group within the context of some form of experimental design (Feagin, Orum and Sjoberg, 1991, p61). Mentioning Znaniecki (1934), Robinson says that "the method of analytic induction has come into important use [and that] Znaniecki holds that analytic induction is the true method of the

physical and biological sciences, and that it ought to be the method of the social sciences too. He contrasts analytic induction with what he calls enumerative induction, which is the ordinary statistical way of studying relationships with correlations" (Robinson, W. S., 1951, The Logical Structure of Analytic Induction, American Sociological Review, 16 (6): 812-18, collected in Chapter 8, Gomm, Hammersley and Foster, 2000, p187).

2.2.7.1.Steps in Analytic Induction

Robinson (1951) describes the main steps involved in analytic induction as:

- Defining the phenomenon to be explained.
- A hypothetical explanation of the phenomenon is formulated.
- One case is studied to see whether the hypothesis relates to the particular case.
- If the hypothesis does not fit the case, it is either reformulated or the phenomenon is redefined in order to exclude the particular case.
- Practical certainty is achieved with a small number of cases, but negative cases disprove the explanation and require a reformulation.
- The examination of cases, redefinition of the phenomenon and reformulation of hypotheses is continued until a universal relationship is established (in Burgess, 1984, p. 179).

Burgess concludes that "[analytic induction] has been used in studies to develop classifications and explanatory hypotheses" (Burgess, 1984, p. 179). However, Burgess says that Robinson (1951) and Turner (1953) "have criticized this approach by questioning its logic of explanation and whether universal propositions can apply to all case studies" (Burgess, 1984, pp. 179-180).

2.2.8. MULTIPLE CASE STUDY

This research project is a multiple case study, focused on firms located in three different places in the world. The firms are inevitably influenced by the territory where they are working; therefore, describing this context is essential in order to understand why these firms were able to succeed economically as well as socially. In this sense Yin says, "a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994, p. 13). Yin (1994, p. 13) outlines the goals and challenges of the multiple case study inquiry as the following:

- copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result;
- relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result;
- benefits from the prior development of theoretical propositions to guide data collection and analysis.

He concludes (Id., p. 14) saying "case study research can include both single – and multiple- case studies." Since this case study research is composed of eight different firms in three places, Quebec (Canada), Mondragon (Spain) and Emilia-Romagna (Italy), it is a multiple case studies research project.

The main advantage of a multiple case study in comparison to a single case study is the higher credibility due to its different sources of evidence about a certain fact. In this direction Herriot and Firestone (1983) state that "the evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust" (in Yin, 1994, p45). Therefore, this research is composed of multiple cases,

because the results in measuring performance in eight firms are more compelling and robust than doing just in one.

As Yin (1994, p. 45) states "every case should serve a specific purpose within the overall scope of inquiry. Here, *a major insight is to consider multiple cases as one would consider multiple experiments* – that is, to follow a 'replication' logic. This is far different from a mistaken analogy in the past, which incorrectly considered multiple cases to be similar to the multiple respondents in a survey (or to the multiple subjects *within* an experiment) – that is, to follow a 'sampling' logic."

In this research project the specific purpose each case serves is to show that social concern is compatible with high economic performance in different global markets. So the multiple cases in this research project don't follow a sampling logic, they are to follow a replication logic within the different kind of industrial firms that are competing in global markets. Each one has different features like size, location, market, and structure. Therefore, the wide evidence that is to be gathered from such a quite diverse group of firms lead us to be able to make theory generalizations. This is precisely what Yin and others call the replication logic, "*Replication, not sampling logic, for multiple-case studies*. The replication logic is analogous to that used in multiple experiments" (see Hersen & Barlow, 1976) (in Yin, 1994, p45).

According to Yin (1994, p. 46) "the logic underlying the use of multiple-case studies is the same. Each case must be carefully selected so that it either (a) predicts similar results (a *literal replication*) or (b) produces contrasting results but for predictable reasons (a *theoretical replication*). The ability to conduct six or ten case studies, arranged effectively within a multiple-case design, is analogous to the ability to conduct six to ten experiments on related topics: a few cases (two or three) would be literal replications

whereas a few other cases (four to six) might be designed to pursue two different patterns of theoretical replications. If all the cases turn out as predicted, these six to ten cases, in the aggregate, would have provided compelling support for the initial set of propositions. If the cases are in some way contradictory, the initial propositions must be revised and retested with another set of cases. Again, this logic is similar to the way scientists deal with contradictory experimental findings." Since the multiple case studies are different firms within three different places, and with different features, the study is more likely to become a theoretical replication, rather than a literal replication. The distinctive features of firms (tradition, law, economic space…) might make differences in their social and economic performances. Therefore, the theory building process carried out as a result of that study would be the result of a theoretical replication.

Yin (1994, p. 46) concludes saying that "an important step in all of these replication procedures is the development of a rich, theoretical framework. The framework needs to state the conditions under which a particular phenomenon is likely to be found (a literal replication) as well as the conditions when it is not likely to be found (a theoretical replication). The theoretical framework later becomes the vehicle for generalizing to new cases, again similar to the role played in cross-experiment designs."

The theoretical framework developed will be related to the specific co-operative structure of each firm tested and to the specific place it is located in. As long as industrial co-operatives are rooted and controlled in certain places, the context around them is even more important than it is in the case of conventional global private firms that can be found anywhere in the world and which have no relation to a particular community. Therefore, the conditions under which a socially concerned and economically successful industrial co-operative can be found will have to do with their particular condition of co-

operative and some other different features intrinsic to the place were they are located. They are place-based.

To conclude, as it has previously been affirmed, the firms tested in this multiple case study do not represent a sample at all, they are individual cases and they have been chosen according to different criteria. In Yin's words (1994, p. 47), "this replication logic, whether applied to experiments or to case studies must be distinguished from the sampling logic commonly used in surveys. According to the sampling logic, a number of respondents (or subjects) are assumed to 'represent' a larger pool of respondents (or subjects), so that data from a smaller number of persons are assumed to represent the data that might have been collected from the entire pool."

The definition, design, prepare, collect, analyze and conclude of this research project will be accomplished according to the pattern that Yin represents in his "Figure 2.5." (Yin, 1994, p49), that was originally created by Cosmos Corporation. Yin (1994, p. 50) concludes saying "when using a multiple-case design, a further question you will encounter has to do with the *number* of cases deemed necessary or sufficient for your study. However, because a sampling logic should not be used, the typical criteria regarding sample size also are irrelevant. Instead, you should think of this decision as a reflection of the number of case replications – both literal and theoretical – that you would like to have in your study…if you want to have a high degree of certainty, you may press for five, six or more replications." This multiple case study is composed by eight different firms, which will result in a high degree of certainty.

2.2.9. MULTIPLE SOURCES OF EVIDENCE

As Gillham (2000, p. 13) says "case study is a main method. Within it different sub-methods are used: interviews, observations, document and record analysis, work samples, and so on. Data accumulated by different methods but bearing on the same issue are part of what is called the *multi-method* approach. (…) This approach from different methodological standpoints is usually known as *triangulation*" (Gillham, 2000, p13). Such triangulation will be used in this research project since the case study will have three basic sources of evidence:

- Record analysis
- Interviews
- Observations

The most important of these is record analysis, so that we can say that this study is quantitative but not exclusively so because qualitative information is also gathered in the analysis of records. Furthermore, this mostly quantitative reality must be completed with a purely qualitative reality, and this is why interviews and observation become also important sources of evidence.

The holistic approach through what Gillham calls "triangulation" is to be used in this research project. As Gundry and Buchko (1996, p. 1) state, "field cases are holistic, have widely varying degrees of available information." This research project will have to deal with varying degrees of available information, caused mainly by certain privacy policies of the firms.

2.2.10 QUANTITATIVE AND QUALITATIVE INFORMATION

Even though qualitative methods are said to be primary in case studies (Gillham, 2000, p10) (Feagin, Orum and Sjoberg, 1991, p2), Yin explains that, "case studies can include, and even be limited to, quantitative evidence [and] …can be based on any mix of quantitative and qualitative evidence" (Yin, 1994, p14). This study will actually be based mostly on quantitative figures, but it will take qualitative evidence into account too. Quantitative evidence will be figures from indicators through interviews and record analysis, and qualitative evidence will be interviews and direct observation while the case study is being accomplished.

As Rummel and Ballaine (1963, p. 12) state, "as far as possible, it [scientific research] stresses a quantitative approach, seeking to know not only what but also how much; measurement is, therefore, an important aspect of scientific research." My research project is based upon measuring the challenging reality of social concern and economic performance of a firm through quantitative and qualitative approaches. For that purpose the case study is a recognized method to get qualitative information. As Hammel (1993, p. 39) states, "the case study has proven to be in complete harmony with the three key words that characterize any qualitative method: describing, understanding, and explaining."

A recognized case study researcher like Whyte (1984, p. 274), makes a point against the dichotomy of quantitative and qualitative methods, and states that integrating both is needed:

> I recognize that I am generally thought to be on that side of the conventional quantitative-qualitative dichotomy, but I object strongly to that very dichotomy. To use measurement for scientific progress we need to as: what to measure (sub-

jective states and/or over behaviour), within the context of what qualitative classificatory system we intend to measure, and how to integrate quantitative and qualitative data.

In this sense of combining quantitative and qualitative research, Yin (1994, p. 15) says that "case studies have a distinctive place in evaluation research." Based on such reflection done by Yin, this research project describes a phenomena and the real-life context in which it occurred through illustrating the socio-economic topics within an evaluation of its performance levels. In a descriptive mode, from an academic perspective, the performance of the firms will be represented according to the measurement indicators chosen in both the social and the economic scorecards.

2.2.11. PREPARING THE CASE STUDIES

Preparing the case studies is an essential part of the research project. Glazer (1972, p. 11) says that "in all research it is essential for the investigator to spend an initial period of time preparing the kinds of questions he wants to ask, developing his tools of data collection, and then venturing out and determining the extent to which his preconceived research design will fit into the actual field work situation. Gaining acceptance from informants and respondents is a crucial component of this process." This need to gain trust from respondents is shared by Johnson (1975, p. 141), but he does not consider it to be crucial: "developing trust is a necessary condition for valid observations but not a sufficient one; it doesn't open magic doors." In this research project the questions and the tools to collect data were prepared some months before the fieldwork. Acceptance from

respondents has been regarded as an important point and I have attempted to demonstrate ethical behaviour during all the time of contact with them.

2.2.12. The Process: Questions, Relevant Data, Collecting Data, and Analysis

According to Yin (1994, p. 20) "another way of thinking about a research is as a 'blueprint' of research, dealing with at least four problems: what questions to study, what data are relevant, what data to collect, and how to analyze the results" (see F. Borum, personal communication, Copenhagen Business School, Copenhagen, Denmark, 1991; Philliber, Schwab, & Samsloss, 1980). When Yin mentions four problems in any research, he starts with what questions to study. In this case the questions are contained in the two scorecards, and the hypothesis they are linked to, is one, if a firm can be socially engaged and economically successful, so that the degree of social engagement and economic efficiency will constitute the relevant data. About what data to collect, the main part of this methodology proposed in this chapter, is the design of the two scorecards with certain indicators to measure both social and economic performance. This is precisely the data to be collected. Finally, the results will be analyzed and compared in two different ways.

All the social indicators that were designed according to values and principles of cooperation established by the International Co-operative Alliance (ICA) in Manchester in 1995 will be compared "according to the model and the rules of the certification method of the quality ISO. This is to say that it evaluates the quality of the process of relevant decisions as practices of these values and principles of the cooperation, but it

does not evaluate the nature or the quality of these same decisions" (CDRQA, Oct 2003, p7).

According to Yin (1994, p78), there are three overriding principles in any data collection that substantially increase the quality of a case study which are: "(a) multiple sources of evidence, that is, evidence from two or more sources, but converging on the same set of facts or findings; (b) a case study database, that is, a formal assembly of evidence distinct from the final case study report; and (c) a chain of evidence, that is, explicit links between the questions asked, the data collected, and the conclusions drawn." Based on these principles it is interesting to point out that there are mostly four different sources of evidence in this study; document analysis, archival records analysis, interviews and direct observation. The two scorecards that contain each one the 25 questions to be answered through the document analysis and the archival records analysis, have each one a database, to fill the performance of each firm. Finally, a chain of evidence is to be kept in presenting the conclusions drawn in the final report. After testing the firms, the outcome will be declared as socially concerned only if their performance is high enough.

This study will be composed of documentation, archival records, interviews and direct observations during the time to be spent within the several firms. Those four different sources offer a complete overview of the reality that is being studied in this project.

As Hammel (1993, p. 45) says, one of the main features of the case study as a research method is its deepness and the variety of sources of information to get empirical materials to understand the object of study. Rummel and Ballaine (1963, p.11) strengthen this statement saying, "good research uses a number of methods. Nearly all research projects require the use of more than one technique or method."

One of the particularities of the field work, as a method to collect data within a

case study, is the multiple techniques that may be used to get the desired information, as Schatzman and Strauss (1973, p. 14) say "we would make clear that the field method is not an exclusive method in the same sense, say, that experimentation is. Field method is more like an umbrella of activity beneath which any technique may be used for gaining the desired information, and for processes of thinking about this information. As part of field method, the researcher can examine historical documents and other secondary sources – since most situations which are studied have histories and these documents often make some aspects of the situation more understandable. (In a sense, reading documents is equivalent to making critical, careful observations of the situation through instruments devised by others)."

On this direction Yin (1994, pp. 81-82) affirms that "except for studies of preliterate societies, documentary information is likely to be relevant to every case study topic…during field visits, you should allot time for using local libraries and other reference centers. You should also arrange access to examine the files of any organizations being studied, including a review of documents that may have been put into cold storage." As a similarity documentary information is very relevant in this study. Since the firms are highly influenced by the context where they are located, studying the literature about the economic features of the three regions where the firms are situated is essential. The three universities in each place, Laval University in Quebec City, Canada, Mondragon University in Mondragon, Spain, and University of Bologna, in Bologna, Italy, will be with other different sources of documentation, the places where the literature references will be consulted.

In this study, archival records are the key source of evidence because it is through them that the methodology is designed to assess the performance of each firm. Both ser-

vice (customers served by a firm…) and organizational (charts, budgets for a certain year…) records are to provide essential information to the socio-economic duality of the firms of which the study is composed (see Yin, 1994, p. 83). Yin (1994, p. 84) concludes saying "Sometimes, the archival records can be highly quantitative, but numbers alone should not automatically be considered a sign of accuracy." As mentioned above, archival records are very quantitative in this study, however, they will be combined with other qualitative data from documentation from literature, interviews carried out with people within the firms and direct observation during the field work.

Interviews are an essential part of the data collection process in this research project. As Yin (1994, pp. 84-85) states "the interviews may take several forms. Most commonly, case study interviews are of an open-ended nature, in which you can ask key respondents for the facts of a matter as well as for the respondents' opinion about events…A second type of interview is a focused interview (Merton et al., 1990), in which a respondent is interviewed for a short period of time – an hour, for example. In such cases, the interviews may still remain open-ended and assume a conversational manner, but you are more likely to be following a certain set of questions derived from the case study protocol….a third type of interview entails more structured questions, along the lines of a formal survey. Such a survey could be designed as part of a case study."

Within this case study project there are three kinds of different interviews. First ones are with the president of the general board of the co-operative, to check the reality of the social scorecard and with the general manager or the financial manager to check the reality of the economic scorecard, and contain very structured questions, they are the third kind according to Yin (1994, pp. 84-85). Second ones are with the members of the co-operative, both blue and white collar workers, those are focused interview of about an

hour, they are open-ended and assume a conversational manner but following the structure of seven principles of the International Co-operative Alliance, they are the second kind according to Yin. And finally the third ones are with people involved in the co-operative movement of those three places, they are open-ended and respondents answer the questions but also give their opinion about many things, they are the first kind according to Yin. As he says "a reasonable approach is to corroborate interview data with information from other sources." Therefore in the interview design of this research project interview data will be supported with other sources of evidence.

As Whyte (1984, p. 69) states, "the question is not whether to use formal interviews or observational methods, but when and under what circumstances," to which he adds, "in stressing the importance of linking interviewing with observation, I have noted that observation alone does not reveal to us what people are trying to accomplish or why they act as they do. Furthermore, interviewing may not lead us to the underlying dynamics in some cases unless we are armed with advance knowledge of the rewards people are seeking or of the penalties they are trying to avoid" (Whyte, 1984, p.94). Therefore he stresses "the importance of linking interviewing and observation. Observation guides us to some of the important questions we want to ask the respondent, and interviewing helps us to interpret the significance of what we are observing. Whether through interviewing or other means of data gathering, we need to place the observed scene in context, searching for the potential positive or negative sanctions, which are not immediately observable but may be important in shaping behaviour."

Regarding the use of several techniques in collecting data, Samuel (1975) "argues that documentary evidence needs to embrace personal experience and oral testimony, if we are to successfully interpret the past" (in Burgess, 1982, pp. 131-132). This study pro-

ject combines documentary evidence with several interviews. In the third, fourth and fifth chapter around sixty interviews are done to people involved in the co-operative movements in Quebec, Mondragon and Emilia-Romagna, and in the multiple case study around eight interviews are done in each co-operative.

In this sense Jackson (1987, pp.96-97) underlines that there are two kinds of interviews, directive interviews, that "involve specific questions posed by the researcher; the interviewee's comments are welcome only insofar as they are part of the answers to those specific questions" and nondirective interviews that "are totally open: the researcher listens, the subject talks." He adds that Whyte says, "a genuinely non-directive interviewing approach simply is not appropriate for research. Far from putting informants at their ease, it actually seems to stir anxieties" (Whyte, W. F., 1960, in Adams and Preiss, 1960, pp. 352-374).

The last technique is observation. Jackson (1987, p. 63) defines observation as "when you're outside what's going on and watching other people do it, or you're watching what other people have done," he concludes saying that participant-observation "means you're somehow involved in the events going on, you're inside them." Observation has been the less important technique is this research project as long as the time in the company has been reduced to the availability of the staff. Actually, Yin (1997, p. 87) says that "observational evidence is often useful in providing additional information about the topic being studied."

2.2.13. TRIANGULATION

Burguess (1982, p. 163) mentions three authors that have different ideas to over-

come the limitations of the social research methods, he says "Stacey (1969) suggests 'combined operations,' while Denzin (1970) suggests 'triangulation' and Douglas (1976) suggests 'mixed strategies'." Regardless of the name of the technique, the need to use multiple sources of evidence is obvious. To this aim Yin (1994, pp. 91-99) states three principles of data collection:

- Principle 1: Use Multiple Sources of Evidence

Triangulation: Rationale for using multiple sources of evidence. A major strength of case study data collection is the opportunity to use many different sources of evidence. The most important advantage presented by using multiple sources of evidence is the development of converging lines of inquiry, a process of triangulation mentioned repeatedly in the previous section of this chapter. Thus any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information, following a corroboratory mode….those case studies using multiple sources of evidence were rated more highly, in terms of their overall quality, than those that relied only on single sources of information (see Yin, Baterman, & Moore, 1983).

- Principle 2: Create a Case Study Database

Documentation generally consists of two separate collections: the data or evidentiary base, and the report of the investigator, whether in article, report, or book form. Independent of the need for a central repository, the main point here is that every case study project should strive to develop a formal, presentable database, so that, in principle, other investigators can review the evidence directly and not be limited to the written reports. In this manner, a case study database markedly increases the *reliability* of the entire case study.

- Principle 3: Maintain a Chain of Evidence

The principle is to allow an external observer – the reader of the case study, for example – to follow the derivation of any evidence from initial research questions to ultimate case study conclusions….In the aggregate, you have therefore been able to move from one portion of the case study to another, with clear cross-referencing to methodological procedures and to the resulting evidence. This is the ultimate 'chain of evidence' that is desired" (Yin, 1994, pp. 91-99).

Gillham (2000, p20, p95) also mentions Yin's concept of chain of evidence. Triangulation, the creation of a data basis and the chain of evidence are three objectives of this study.

2.2.14. PRIMARY-SECONDARY SOURCES OF EVIDENCE

As Rummel and Ballaine (1963, pp. 49-51) say "in general there are two sources of data – primary and secondary. Data from primary sources are those that are collected for the first time as part of such a project. Data from secondary sources are those that have been collected previously and reported by some individual other than the present researcher. (…) Primary sources are usually considered to be the most reliable because the researcher, himself, is more able than anyone else to understand and interpret what he recorded and to know the conditions under which the data were obtained. Secondary sources must be investigated to find out the conditions and the purposes for which the data were originally collected, and the distortions in reporting which might have taken place since their collection and subsequent publications."

In this project the base of the research will be primary sources of information that the researcher is to collect for the first time. However, bibliography about the multiple

co-operatives will be used as well as about the co-operative movements where such firms are located that are shown in the third, fourth and fifth chapters. This combination of primary and secondary sources has been supported by several authors like Schatzman and Strauss (1973, p. 127) when they say "concepts, models, and even data drawn from examinations of secondary sources can be utilized directly and openly by the researcher in any way which facilitates his understanding, not only of his field, but of any other field that conceptually bears upon discovered generalizable processes."

2.2.15 UNIT OR OBJECT OF STUDY: FIRMS

The category of analysis is global manufacturing firms in general, and the case analysis is a group of selected global manufacturing co-operative firms. The cases are to be shown as particular cases out of the general category. The cases will be empirically tested for social engagement as well as economic success, measured according to generally accepted methods. Granger uses another concept to refer to case analysis; he states, "by object of study we mean that which may be used to construct [theoretical] models, which can be manipulated according to explicit rules and which can be evaluated using specifically defined and codified tests" (Granger, G.-G. 1989 Peut-on assigner des frontiers a la connaissance scientifique [Can we surmise the limits of scientific knowledge?]. In R. Bouveresse (Ed.), Karl Popper et la science aujourd'hui [Karl Popper and today's science] (pp. 9-19). (Paris: Aubier), p. 17) (in Hamel, 1993, p. 32). This definition is interesting as it mentions the use of specifically defined and codified tests, which is exactly the methodology used in this research project, which has been created by the author and inspired in some other existing models as explained later**.**

As the selected firms are located in regions well known for their strong co-operative culture, there is some available research literature on them. Before testing the firms, the author considers it essential to study the context that makes the particular place conducive to the development of such an unusual kind of firm, such as global worker co-operatives. As Madge says, "one characteristic of every community studied is its uniqueness. If the units of study are such that no discernible uniformities link them, there is little scope for the generalizations which it is the traditional function of the scientist to formulate" (1965, p.14). The author concurs with this point, and he considers studying the particularities of each place as essential in order to explain the specific nature of each firm within the case study. Even though the particularities are evident, the uniformities exist too, so that describing them is one of the points of this research. Therefore, the conclusion will be divided in facts regarding exclusively the firms and facts regarding the places.

2.3 Specifically Developed Methodology

The methodology specifically designed for this research project is based on the object of study: how the socially aware firm works as a business organization. An organization is first of all a group of people. It is the people who make an organization into a social structure that is capable of pursuing different objectives depending on its mission. A firm is a particular form of organization. A firm is specifically involved in doing business and pursuing evident economic goals. Therefore, each firm has, as a result of its nature, a socio-economic structure.

However, it is particularly within the co-operative organizational form which we may define an organization formed by a group of people who have developed an economic activity to meet their own needs (ILO, 1956, p.21); this dual socio-economic reality becomes more intense and manifest. Co-operatives must deal with a duality of purpose that, at times, generates conflict and division. Because co-operatives are more likely to encounter this reality, we would do well to see what others have said about the nature of this duality.

Cujes presents this duality as the social and economic improvement that co-operatives search for; he says that out of all co-operatives, it is worker co-operatives that set the highest goals because they strive to organize an industrial order. He concludes that "co-operatives have an additional characteristic which separates them from other types of businesses: They are essentially associations of persons as they are business organizations" (Cujes, 1986, pp. 11-12). This definition draws on the fact that co-operatives face the same economic difficulties as other firms, and that is exactly the point from which this chapter springs.

Keeping a balance between business and social aspects is essential. It is not a matter of making one more important than the other; rather, it is a matter of striking and maintaining a balance. Nonetheless within this balance there is a priority. Attaining economic goals makes it possible to attain social goals. Thus one strives for economic efficiency in order to be socially successful. Father Jose Maria Arizmendiarrieta, founder of the Mondragon co-operatives, makes a similar point when he implies that you must be excellent in your economic performance before you can be excellent in your social performance. Arizmendiarrieta concludes that "a company cannot, and must not, lose any of its efficiency just because human values are considered more important than purely eco-

nomic or material resources within that company, on the contrary such a consideration should help increase efficiency and quality" (The Mondragon Experiment, p.25) (found as well in Morrison, 1997, p.111).

Further support for this view can be found in Laidlaw, who sees the linkage between a group of economic goals and a group of social ideas as one of the pillars of co-operative philosophy so as to form an essential defining element. This view is shared with Alfred Marshall. Marshall has said that while some organizations may have high social-interests, and others may have a great economic-base, co-operatives are the only ones that have *both* (collected in Laidlaw, 1980, p. 122, collected in Mugarrra, 1996).

Laidlaw goes on to say that even though co-operatives have both economic and social objectives, co-operatives are fundamentally economic and they must be successful in business in order to survive. If a co-operative fails in doing business it cannot be a good influence in a social sense, especially if it disappears. Therefore, while economic goals and social ideas are like two sides of the same coin, viability as a healthy business must take priority (Ibid., p. 123).

Aranzadi also argues that social objectives will never be accomplished without economic success, and that efficiency and return on capital, which are a cooperative's business strengths, are essential conditions not just for its success but for its existence. Finally, it is precisely this economic efficiency that leads authors like Aranzadi to stress the importance of "entrepreneurship" as a key characteristic of the successful co-operative manager since social goals are not possible without economic success (Aranzadi, D., 1992, p. 18, p. 290) (collected in Mugarra, 1996). Kurimoto adds that success in business operations "is the precondition to support the fulfilment" of the ICA principles (1999). Marcus also supports this position saying that no co-operative can survive with-

out business efficiency, because meeting members' economic needs is an essential task for a co-operative; if not, it does not play any role at all (Marcus, L. 1988, p. 32) (collected in Mugarra, 1996).

There is widespread support for the position that if co-operatives are to fulfil their social goals, they must first be successful economically. However, even if we agree with this basic philosophy, the issue of *how* to achieve economic success remains a great challenge. In a modern environment, where increasing complexity is a daily reality, economic success is not easily earned. Therefore the methodology used to measure an organization's progress towards economic success as well as its performance along social dimensions is critical. In the following section I discuss the Balanced Scorecard, which is a measurement system now widely adopted by firms functioning in competitive environments.

2.4. *Measuring Economic Performance: The Balanced Scorecard (BSC)*

The Balanced Scorecard (BSC) was first created in 1992 by Robert S. Kaplan, a professor at Harvard University, and David P. Norton, a consultant from Boston (Kaplan and Norton, 1992, pp. 71-79) (Niven, 2002, p.11). Even though the BSC was created in the early 1990s, Kanji mentions that Epstein and Manzoni identify an antecedent in France in the beginning of the twentieth century under the name of Tableau de Bord (Epstein, and Manzoni, 1998, pp.190-203) (collected in Kanji, 2002, p.155). Kaplan and Norton (Kaplan, in Niven, 2002, p-vii) state that within the last ten years, the BSC has been adopted in every nation in the world and by every kind of firm, and that the BSC has evolved "from its initial purpose of an improved performance measurement system to become the basis of a new management system, one that aligns and focuses the entire or-

ganization on implementing and improving its strategy" (Kaplan and Norton, 1996; Kaplan and Norton, 2001). The BSC is now a critical business tool for thousands of firms all over the world (Niven, 2002, P-4).

2.4.1. FEATURES OF THE BSC

Kaplan and Norton describe the BSC as a tool containing around 25 indicators and divided in four different perspectives linked one after the other in this particular sequence:

- ***Learning and growth***: The priorities to create a climate that supports organizational change, innovation, and growth. Five measures (22 percent).
- ***Internal business processes***: The strategic priorities for various business processes, which create customer and shareholder satisfaction. Eight to ten measures (34 percent)
- ***Customer***: The strategy for creating value and differentiation from the perspective of the customer. Five measures (22 percent).
- ***Financial***: The strategy for growth, profitability, and risk viewed from the perspective of the shareholder. Five measures (22 percent) (Kaplan & Norton, 2001, p22, p23, p375).

Kaplan and Norton (2002, p. 48) state that these four perspectives have proven to be a model; they are not compulsory or sufficient because depending on each sector and strategy other perspectives may be as valid**.** Niven affirms that benchmarking studies between organizations implementing a BSC have shown that it usually contains 20 to 25 measures; however, as few as 15 or as many as 30 may be necessary to coincide with the

meaning and distribution of those measures between the four different perspectives given originally by Kaplan and Norton (Niven, 2002, pp.151-152).

2.4.2. STRENGTHS OF THE BSC

A particular strength of the BSC approach, according to Kanji, is that it, "puts together, in a single report, many of the seemingly disparate elements of a company's competitive agenda, ability to translate an organization's vision and strategy into tangible objectives and measures, holistic approach to performance measures and focus on a limited number of critical measures (avoiding information overload)" (Kanji, 2002, pp. 160-161). Clearly, any approach that is able to accomplish those objectives would be a valuable and effective measurement tool for managers.

Quite naturally similarities between the BSC and other approaches to management will be cited. For example, Lee, Lo, Leung and Ko (2000, pp. 407-23) relate the BSC to "McGregor's 'Theory Y', which assumes that the employee, if directly involved in the goal-setting process, can be relied upon for self-control." Martissons, Davison and Tse (1999, pp. 71-88) relate the BSC to "assumptions and theories that underlie business process re-engineering, as advocated by quality management." In the same direction, Lengyel (2000, pp. 40-8) states that "the novelties introduced in the year 2000 revision of the ISO standards, (in particular the idea that the documented process management system has to cover all business processes of the value-chain including the analysis of customer requirements, the monitoring of customer satisfaction and the cycle of revision and learning), represent a clear evolution tendency in the direction of the adoption of a BSC by companies that follow the ISO 2000 standards."

The BSC approach should not be seen as entirely novel and unconnected to other approaches – inevitably there is overlap. But the BSC is much more than old wine in new bottles. The BSC approach provides a fresh and unique way of packaging a family of management, performance, and strategic issues that enables companies to become more effective and more efficient.

2.4.3. WEAKNESSES OF THE BSC

As any other tool designed to improve organizations' performance, BSC has its own strengths and weaknesses. Among them, it is the cause and effect relationship that seems to be the most important. The absence of fixed criteria in choosing those links makes a firm not completely sure of having chosen the proper indicators. Norreklit (2000, pp. 65-88) thinks that such relationships are dubious because the four perspectives within the BSC are interdependent instead of linked by cause and effect relationships (in Kanji, 2002, p.157). Besides accepting this weakness, Kanji points out a new one when he says that the BSC "fails to explicitly recognize the contributions of important stakeholders, such as employees and suppliers" (Kanji, 2002, p.152).

Finally Kanji lists out all the weakness of the BSC approach:

- A conceptual model only (not easy to convert into a measurement model).
- Interactions between criteria are not clearly shown.
- Causal relationships are problematic (more like interdependence).
- Not a comprehensive system approach, focus is only on customers, forgetting other important stakeholders.
- Only focus on results.

- It fails to highlight employee and supplier contributions (see Norreklit 2000).
- It does not identify the role of the community in defining the environment within which the company works.
- It focuses primarily (and almost exclusively) on top-down performance measurement (Kanji, 2002, pp.160-161).

A last criticism made to the BSC has to do with the need that a given strategy has of its own specific measures, because according to Dixon, Nanni and Vollmann (1990) "measures are necessarily tied to strategy; as strategies change, performance measures must change to reflect those new strategies" (collected in CIMA, 1993, p.3). On this criticism Kaplan and Norton argue that, "the balanced scorecard is not a template that can be applied to businesses in general or even industry-wide. Different market situations, product strategies, and competitive environments require different scorecards. Business units devise customized scorecards to fit their mission, strategy, technology, and culture" (1993, p.150). Kaplan and Norton go even further, saying that "a scorecard makes sense primarily for business units and divisions with a well-defined strategy. Most companies have several divisions, each with its own mission and strategy, whose scorecards cannot be aggregated into an overall corporate scorecard" (1993, p.181).

2.4.4. THE EUROPEAN FOUNDATION FOR QUALITY MANAGEMENT (EFQM)

Even though BSC is a worldwide tool, its effect is greater in the USA than in Europe. Firms in Europe had already embarked on the development of new management tools. In 1988, fourteen leading companies established the European Foundation for Quality Management (EFQM). EFQM is an alternative management tool that bears some similarities to the BSC. The purpose of the EFQM was to promote excellence in quality

management in Europe through the Total Quality Management (TQM) model (Kanji, 2002, p.61).

Kanji (2002, p.75) defines the EFQM Excellence Model as "a non-prescriptive framework based on nine criteria. Five of these are 'Enablers' and four are 'Results'. The Enablers are (a) leadership, (b) people, (c) policy and strategy, (d) partnership and resources and (e) processes. The 'Enablers' criteria cover what an organization does. The Results are: (a) people results, (b) customer results, (c) society results and (d) key performance areas. The 'Results' criteria cover what an organization achieves. 'Results' are caused by 'Enablers'." Lengyel (2000, pp. 40-48) adds a precise comparison between Business Excellence Models (BEM) in general (and EFQM in particular) and the Balanced Score Card reveals the following: "the BSC covers most criteria of the EFQM Excellence Model… The BSC has one main advantage over the EFQM model: it connects strategic and operative planning not only by determining the objectives, but also by defining the way to achieve them. On the other hand, the EFQM model is a more uniform, standard system, making comparisons across organizations easier. The author suggests that integration between the two approaches can be beneficial and that some companies (such as the British Post Office and the Hungarian Telecommunications Company) apply both of them with positive results" (all collected in Kanji, 2002, pp.165-166).

Kanji (2002, pp. 36-39) contrasts the BSC's strengths, "low complexity, high flexibility, low cost, strong result orientation and excellent trend analysis," with its weaknesses, "low validity, low reliability (little guidance to measuring), low systems approach (cause and effect interactions), low coverage of TQM principles, low process orientation and low benchmarking." Similarly, the EFQM, possesses strengths like "high coverage of TQM principles, excellence benchmarking and trend analysis" and EFQM's weaknesses

include "low flexibility, high cost, low reliability (little guidance to measuring) and low systems approach (cause and effect interactions)."

It is not my intention to pit one approach against the other. Nonetheless it is important to indicate that while there is *some* overlap between these approaches, the BSC is gaining wide acceptance and appears to account for improved performances over a wide spectrum of business contexts. For example, Niven says that today the BSC is a widely accepted management tool that has been adopted "by thousands of organizations" (Niven, 2002, p.36). He further quantifies this acceptance by stating that almost half of the Fortune 1000 firms have adopted it (Niven, 2002, p.12, p.325) (Kaplan and Norton, 2001b, pp. 73-77, collected in Niven, 2002, p.4). He indicates that within the first four years of implementation, some organizations "achieved immediate results" (2002, p.11) and over longer periods (ten years) the BSC approach "has had a profound effect on the practice of management around the world" (Niven, 2002, p.324). Furthermore, "the potential for future growth and development of the Balanced Scorecard is dramatic" (Niven, 2002, P-324).

2.4.5. The Effect of the BSC: Benefits for Those Firms Adopting the Scorecard Approaches Like BSC / EFQM

Measurement is not an end in itself but a means to improve performance. Measurement assists firms in making better decisions to achieve real value for their organizations. According to Kanji (2002, p.69), "Peter Drucker (1964) believed two concepts that underlie organizational performance are *efficiency* (doing things right) and *effectiveness* (doing the right things)."

It is interesting to remark the relation between the two concepts and the BSC mentioned by Drucker. The BSC measures the improvement alongside different periods

of time, which is exactly doing things right, what Drucker calls efficiency. On the other hand, the BSC also links different features of the four perspectives that must lead the firm to financial success, which is exactly doing the right things, what Drucker calls effectiveness. Both are connected to measurement, a key concept in today's management.

As Niven says, measurement has never been as important as it is today. He also cites Drucker who observed that "few factors are as important to the performance of an organization as measurement, and measurement is among the weakest areas in management today" (Niven 2002, p.5). On the other hand, measurement must always be connected to strategy in order to be useful. Kaplan and Norton (2002, pp. 51-52) state that their idea of strategy is very close to Michael Porter's (Porter, 1980; Porter, 1985), and that they have checked that this approach works properly in dozens of organizations. Therefore, it is exactly this wholeness that makes the BSC so effective.

In supporting this point of view, Niven adds that besides a "proven and effective tool" the BSC also allows firms to "successfully implement differentiating strategies" (2002, p.xi-xii) with a 97 percent "of measurement-managed organizations achieving success in their last major change effort" (Niven, 2002, p. 34).

BSC has a dramatic "potential for future growth" (Niven, 2002, p.324) and going beyond this point, he concludes saying that in ten years the BSC "has had a profound effect on the practice of management around the world" (Niven, 2002, p.324). To illustrate the success of the BSC, he demonstrates examples of its use in different situations: "in a recent study by the Cost Management Group, the vast number of respondents believed it was worth implementing the Balanced Scorecard in their organization" (Niven, 2002, p.36). Also in a recent survey by the Institute of Management Accountants, 90 percent of

respondents said the Balanced Scorecard was worth implementing in their organization (Frigo, 2001, pp.1-4) (collected in Niven, 2002, p.34).

Frigo (2002) mentions a survey that said the BSC also helps to identify new performance measures, cause and effect linkages, and improves the effectiveness of performance measurement systems in communicating strategy to employees.

2.4.6. RESEARCH ON THE IMPACT OF THE BSC / EFQM

A study of organisations of different sizes and of different types within the UK manufacturing sector showed that "there is little variation between organisations in performance measures used, most responding organisations felt no need to specify performance measures outside the list provided, and those that did, provided variants, rather than truly novel, measures and that key aspects of financial performance are financial return and working capital" (CIMA, 1993, p.19). Before such an unsophisticated scene, the value of the BSC as a key factor to link measurement and the competitive environment becomes really important and a possible source of competitive advantage. In this sense, Rohm (2002) mentions the value of the former to link excellence in strategy and operations in order to survive in the latter.

2.4.7. IMPORTANCE OF THE BSC

Niven (2002, p. 34) states that besides its acceptance in thousands of organizations, the BSC has proven the effectiveness of an innovative and transforming way of doing things in firms, which means using measurement to drive "agreement on strategy and the communication of that strategy, leading to successful change efforts and ultimately

improved financial performance." Niven concludes that one of the main benefits of the Scorecard system is "the creation of a new language that galvanizes an entire organization toward the achievement of overall goals" (2002, p.34). Today the BSC is a widely accepted tool in management "by thousands of organizations" (Niven, 2002, p.36). In supporting this point of view, Niven adds that besides a "proven and effective tool" it also allows firms to "successfully implement differentiating strategies" (Niven, 2002, p.xi-xii) with a 97 percent "of measurement-managed organizations achieving success in their last major change effort" (Niven, 2002, p. 34).

He quantifies this acceptance stating that almost half of the Fortune 1000 firms have adopted the BSC (Niven, 2002, p.12, p.325) (Kaplan and Norton, 2001b, pp. 73-77, collected in Niven, 2002, p.4). Besides he states the BSC has a dramatic "potential for future growth" (Niven, 2002, p.324) and going beyond this point, he concludes saying that since it was introduced ten years ago the BSC "has had a profound effect on the practice of management around the world" (Niven, 2002, p.324), because "in a recent study by the Cost Management Group, the vast number of respondents believed it was worth implementing the Balanced Scorecard in their organization" (Niven, 2002, p.36) and "in a recent survey conducted by the Institute of Management Accountants, 90 percent of respondents said the Balanced Scorecard was worth implementing in their organization (Mark Frigo, "2001 CMG Survey on Performance Measurement, Trends and Challenges in Performance Measurement," Cost Management Update, March 2001, p-1-4) (collected in Niven, 2002, p.34).

Frigo (2002) mentions a survey that "also found that the balanced scorecard facilitated identification of new performance measures. As organizations used the balanced scorecard and related strategy maps, they discovered cause-and-effect linkages and new

performance measures that complete the linkages. The survey also found that the balanced scorecard improved the effectiveness of performance measurement systems in communicating strategy to employees" (Frigo, 2002).

2.4.8. RELEVANCE OF THE BSC

Empirical evidence from different sources leads us to think that using the BSC will improve competitive performance and will provide other positive effects for firms. There is clear and mounting evidence that the BSC is a management tool, which promotes business excellence by developing effective firm-based strategies for a new and complex business environment. For firms in competitive environments committed to economic survival and success, adopting the BSC will help to ensure that they reach their goals. The difficulty of course is that the BSC only addresses one aspect of the socio-economic duality that co-operatives face. Adopting the BSC approach may increase the likelihood that a co-operative firm will reach a level of economic stability. However, having achieved this stability the co-operative firm must continue on to pursue its social objectives.

But even this is an inadequate depiction. To portray the relationship among objectives as simply a sequence of independent outcomes, with one objective merely preceding the other, is to ignore the true complexity that co-operatives face. It has already been argued in this paper that *a co-operative's socio-economic duality requires a balance* between its social and economic objectives. Therefore, co-operatives are a special case and they will need *an expanded* scorecard if they are to achieve this balance through such a

management tool. In other words, *the duality* that is essential to the co-operative form has to be reflected in the management tool itself.

2.5. Building a Customized Balanced Scorecard

Kaplan and Norton (2002, p. 36) are well aware of the causality relations among indicators and different decisions yielding different outcomes in the short and the long run; for instance, increasing prices or reducing service can improve financial outcome in the short run but could damage customers' satisfaction and financial performance in the long run. As Kaplan and Johnson (1987, pp. 2-3) conclude, "managers under pressure to meet short-term profit goals can, on occasion, achieve these goals by reducing their expenditures on such discretionary investments. Thus, short-term profit pressures can lead to a decrease in long-term investment. Yet monthly accounting statements using the practices mandated for external reporting can signal increased profits even when the long-term economic health of the firm has been compromised."

2.5.1. COMBINING FINANCIAL AND NON-FINANCIAL MEASURES

Although I have stated that financial indicators are still important for organizations, I also propose the value of non-financial measures as well. The combination of both is essential. On the value of the combined use of such indicators, Smith says "the use of non-financial indicators is well accepted in the monitoring and control of process aspects of manufacturing industry (Smith, 1990, pp. 24-6)" (collected in Kanji, 2002, p.73).

Based on this fact, Kaplan and Norton's BSC contains both indicators, "while retaining an interest in financial performance, the Balance Scorecard clearly revealed the drivers of superior, long-term value and competitive performance" (Kaplan & Norton, 2001, p22, p23).

In this direction Kanji (2002, p.74) mentions Ridgeway (1956, pp.240-7) when says "concentration on a single measure of performance [financial or non-financial, instead of a combination] would be dysfunctional because it leads to maximization of that measure to the detriment of overall performance. The notion of a mixed measure of organizational performance is also supported by authors such as Sellenheim (1991, 50-3), Howell and Soucy (1987a, pp. 42-8); (Howell, and Soucy, 1987b, pp.25-31); (Howell, and Soucy, 1988, 22-9) and Grady (1991, pp. 49-53)." Again, the social and economic duality of the firms' goals needs to be kept balanced.

2.5.2. BALANCING PERFORMANCE

The word balanced has a significant meaning. As Niven points out, "it represents the balance between:

- Financial and non-financial indicators
- Internal and external constituents of the organization
- Lag and lead indicators" (Niven, 2002, p.24).

Creating the cause effect links is a crucial feature of the BSC (Niven, 2002, p.22), but as Kaplan and Norton add, those linkages should join all four perspectives (Kaplan and Norton, 2002, p.44).

Kaplan and Norton state that the BSC merges into a single management tool all the diverse elements that bring an organization to its desired results (Kaplan and Norton,

2002, p.43) and going further they conclude that besides "… the balanced scorecard lets them see whether improvement in one area may have been achieved at the expense of another. Even the best objective can be achieved badly" (Kaplan and Norton, 1992, 127).

2.5.3. THE CURRENT SCENARIO

Today intangible assets, individual workers as agents of innovation, are the key concept in differentiating a firm from others. According to Kaplan and Norton, the BSC "establishes goals but assumes that people will adopt whatever behaviours and take whatever actions are necessary to arrive at those goals. The measures are designed to pull people toward the overall vision. Senior managers may know what the end result should be, but they cannot tell employees exactly how to achieve that result, if only because the conditions in which employees operate are constantly changing" (Kaplan and Norton, 1992, 140).

It is this changing environment that an organization's strategy has to face. (Kaplan and Norton, 1993, 149).

Mentioning Mooraj, Oyon and Hosteller, Kanji pointed out the essential relationship that lies at the heart of any business, and on what the BSC is based, "financial results are obtained by successful implementation of strategic initiatives in key business process perspectives" (Mooraj, Oyon, and Hosteller, 1998, pp.481-91) (collected in Kanji, 2002, p.155). He goes further and concludes saying that "the assumption that there is a cause-and-effect relationship is essential because it allows measurement in non-financial areas to be used to predict future financial performance" (Norreklit, 2000, pp. 65-88) (Kanji, 2002, p.156).

Since the BSC mixes financial and non-financial measures, it is focused on both short-run and long-run performance (Horngren et al, 2000, 455), however, it is particularly a driver of long-term performance (Kaplan and Norton, 1993,181).

2.5.4. BSC'S INFLUENCE

Even though the BSC was created in early 1990s, Kanji mentions that Epstein and Manzoni identify an antecedent in France at the beginning of the twentieth century under the name of Tableau de Bord (Epstein, and Manzoni, 1998, pp.190-203)(collected in Kanji, 2002, p.155). Lengyel (2000, pp. 40-8) adds a precise comparison to Business Excellence Models (BEM) in general and the European Foundation for Quality Management (EFQM) in particular, he says that "that the BSC covers most criteria of the EFQM Excellence Model" and concludes saying that "BSC has one main advantage over the EFQM model: it connects strategic and operative planning not only by determining the objectives, but also by defining the way to achieve them. On the other hand, the EFQM model is a more uniform and standard system making comparisons across organizations easier. The author agrees that integration between the two approaches can be beneficial and that some companies (such as the British Post Office and the Hungarian Telecommunications Company) apply both of them with positive results" (all collected in Kanji, 2002, pp.165-166).

2.5.5. BSC: A HOLISTIC APPROACH

As long as the BSC lies in a holistic approach of integrating the four different perspectives that compose any firms' strategy, it is interesting to make a reflection about the system- thinking approach and the BSC. According to Senge (1993), "the art of system

thinking lies in seeing through complexity to the underlying structures generating change. System thinking does not mean ignoring complexity. Rather, it means organizing complexity into a coherent story that illuminates the causes of problems and how they can be remedied in enduring ways'" (Kanji, 2002, p.9). This approach links perfectly to the BSC.

These are the different definitions of "a system" provided by Kanji (2002, p.10):

- "a system is a set of objects together with relationships between the objects and between their attributes related to each other and to their environment so as to form a whole" (Schoderbek, Schoderbek, Kefalas, 1990),
- "a system is a network of interdependent components that work together to try to accomplish the aim of a system. A system must have an aim. Without an aim, there is no system" (Deming, 1994), and
- "a system is a whole that contains two or more parts that satisfy the following five conditions:
    1. The whole has one or more defining functions.
    2. Each part in the set can affect the behaviour or properties of the whole.
    3. There is a subset of parts that is sufficient in one or more environments for carrying out the defining function of the whole; each of these parts is separately necessary but insufficient for carrying out this defining function.
    4. The way that the behaviour or properties of each part of a system affects its behaviour or properties depends on the behaviour or properties of at least one other part of the system.

5. The effect of any subset of parts on the system as a whole depends on the behaviour of at least one other subset" (Ackoff, 1994).

The three definitions fit perfectly in what a firm is. Therefore, Kanji concludes saying that "an open system interacts with its environment, whereas a closed system does not take in or give out anything to its environment. All social systems, for example, organizations, should be regarded as open systems" (Kanji, 2002, p.15).

Supporting this point of view Mugarra mentions Parra Luna who says that the General Theory of Systems defines an enterprise as a unit composed of interconnected elements whose output; the economic profit, will be maximized only by integrating adapted, integrated and participating social variables (Parra Luna, 1988, p. 15) (collected in Mugarra, 1996).

2.5.6. FINANCIAL PERSPECTIVE

One of the four perspectives of the BSC is the financial perspective. Even though in the past financial measures were once the *only measure* to pay attention to, today they are still a good indicator to determine if the strategy carried out by the firm is contributing to the overall improvement of the performance (Kaplan and Norton, 2002, p.39).

Simons states that the BSC combines the attention to the short-term performance through the financial measures with the long-term financial and competitive performance through revealing the value drivers (Simons, 2000, 199-200).

Kaplan and Norton state that the BSC must link the four perspectives, starting from the financial goals to long-term, linking them to the actions within the financial, customer, internal business process and finally with employees and systems perspectives,

in order to get the desired economic performance in the long term. This process is based in links created from increasing revenue, improving costs and productivity, intensifying the use of assets and decreasing risks (Kaplan and Norton, 2002, p.59).

Johnson and Kaplan point out a fundamental change in financial measurement saying "the role of short-term financial performance measurement has itself been undermined by rapid changes in technology, shortened product life cycles, and innovations in the organization of production operations. Short-term financial measures have become invalid indicators of the recent performance of the enterprise" (Johnson and Kaplan, 1987, p. 254).

Kaplan and Norton mention some specific indicators as the most used by firms today in order to get excellent results on the classical financial goal of getting the highest return on capital employed in business. Those indicators are the Return on Capital Employed (ROCE), the profit from activities and the gross margin, the Economic Value Added (EVA) and the shareholders' value (Kaplan and Norton, 2002, p.62).

They also mention that risk must be taken into account as another indicator. For instance, diversifying sources of revenue so as not to become dependant on a certain group of customers or geographical areas (Kaplan and Norton, 2002, p.63).

Niven (2002, p.6) proposes EVA as a prevalent concept at the present collection of evolved financial measures.

Kaplan and Norton (Table 3.1, 2002, p.65) explain that the financial indicators have to be chosen in light of the strategy adopted by the business unit, and they classify the indicators in three groups: (1) income growth and diversification, (2) reducing costs / improving productivity and (3) asset turnover / strategy of investment.

Kaplan and Norton (2002, p.75) conclude saying that linking financial goals implies that the goal of any firm in the long run is increasing shareholders income, so that all the strategies should be oriented to that end. However, as said before the goal of the chosen co-operatives is not so, but regarding the hypothesis of the thesis the co-operatives will be measured following same criteria used in measuring non-co-operative firms, even though the author accepts that the goal of co-operatives may not be to increase shareholders' income, but to fulfil the requirements from the seven principles of the ICA.

At this moment it is essential to remember that financial indicators are not important just as ends but as means to accomplish the social mission and also as indicators that economic activity is being performed well. Financial indicators are not driving indicators but they indicate whether the firm performed efficiently through ratios of liquidity, solvency and return.

2.5.7. CUSTOMER PERSPECTIVE

Within the customer perspective, Kaplan and Norton (2002, p.77) make an interesting point when they say that customers are not a matter of the more the better, rather it is a matter of focusing on only the most profitable customers, because strategy is not simply to choose what to do but as well choose what not to do (see Simons, 1995, pp. 47-55, 156). Customer retention is essential for Kaplan and Norton (2002, p.82), they mention Heskett et al. (1994: 164-174), and they propose using the percentage of growth in business from existing customers as a good measure of their loyalty. Finally mentioning

Jones and Sasser (1995, pp. 88-99), Kaplan and Norton (2002, p. 83) say that only when customers identify their purchase as extremely satisfying can the firm count on their repeating purchase habit.

2.5.8. INTERNAL BUSINESS PROCESSES

According to Kaplan and Norton (2002, p.41-43), the BSC makes two big differences in comparison to conventional measurement in internal business processes. First, while conventional approaches focus on existing processes, using the BSC enables the firm to identify new processes to satisfy costumers. The second difference is that the BSC contains innovative processes that go beyond serving present customers, to be able to satisfy customers in the future, which may place the firm in a really advantageous position. This distinction is based on the difference between a short value chain or a long value chain containing innovative processes. The BSC contains room for indicators at the short and the long value chains. Kaplan and Norton conclude this point saying that an organization's growth comes from three sources, which are its own persons, systems and procedures. Therefore, firms should invest in training employees, strengthening systems and coordinate procedures, all those objectives are within the learning and growth perspective of the BSC.

2.5.9. LEARNING AND GROWTH

Simons (2000, 186) says "the emergence of new information technologies and the opening of global markets has changed many of the fundamental assumptions of modern business. No longer can companies gain sustainable competitive advantage solely by deploying tangible assets. The information-age environment for both manufacturing

and service organizations requires new capabilities for competitive success. The ability of a company to mobilize and exploit its intangible assets has become decisive in creating and sustaining competitive advantage (Hiroyuki Itami, Mobilizing Invisible Assets (Cambridge, Mass.: Harvard University Press, 1987). Intangible resources and assets enable an organization to:

- Develop customer relationships that build loyalty
- Serve new customer segments and markets
- Introduce innovative products and services
- Produce customized high-quality products and services at low cost and with short lead times
- Mobilize employee skills for continuous improvements in process capabilities, quality, and response times."

Working within what is called the knowledge economy, firms around the world today have to pay special attention to promote learning activities among their employees. In this sense Kaplan and Norton (2002, p. 151) propose revolutionary indicators to measure time, quality and productivity (see A. Schneiderman, "Setting Quality Goals", Quality Progress (april 1988): 51-57; also R. Kaplan, "Analog Devices, Inc.: The Half-Life System", (Boston: Harvard Business School, 1990).

2.5.10. FEATURES OF A GOOD SCORECARD

Kaplan and Norton (2002, p. 164) say that a good BSC should have a proper mix of outcome (effect indicators) and drivers (cause indicators), all adapted to the indicators of the strategy of the business unit. They conclude saying that the causality rela-

tionship of all the indicators in a scorecard must be oriented to the financial goals (also in Horngren et al, 2000, 459-460).

Rohm (2002) says that the Balanced Scorecard was "originally developed as a framework to measure private industry non-financial performance" and that the causal analysis that lies in the heart of such system "identifies the causes and effects of good performance. We start with the result (the effect) we want to achieve and then identify all the causes that contribute to the desired result. The causal model is most useful for identifying input and process measures that are leading indicators of future results."

Smith (2002, introduction) mentions Kaplan and Norton (1992, 1993) to say that "firms should evaluate performance based on a 'Balanced Scorecard' of financial and non-financial performance measures rather than focusing only on current profits, which may not reflect the drivers of future profits. The firm benefits from the agents current actions via both current-period profits and future profits generated by current-period customer satisfaction" and he concludes that "identifying the multifarious links between operational activities and long-term financial outcomes is essential to the success of a Balanced Scorecard approach."

Kaplan and Norton (1996, p. 207) mention an interesting example of such links; they say, "the company found significant correlations between employees' morale, a measure in the learning-and-growth perspective, and customer satisfaction, an important customer perspective measure."

2.6. Proposed Indicators

Kaplan and Norton (2002, pp. 47-48) state that even though the Balanced Scorecard is divided into four perspectives, the financial indicators have to continue being essential in order to let the managers know that improving quality, timing, productivity and new products are a means towards an end, not the end itself. Those improvements will only benefit the firm if they can be translated in improvements in sales, in higher margins, in lower operative expenses and in higher turnovers of assets, because not all the long-run strategies are profitable. The system of indicators has become necessary to specify how those improvements are linked to a better financial performance.

Parmenter (2003) focuses on what he calls the "aim for the magic **20 [Key Performance Indicators] KPIs**" and says that although "Kaplan and Norton suggested 20 KPIs. The difficult part is whittling down hundreds of possible performance indicators to the 20 that really matter." So he finally proposes the different "characteristics of a good KPI" as: "often known to the organization, affects more than one BSC perspective, impact of movement in a day / week may be significant, responsibility can be tied down to teams individuals and positive movement positively affects many other indicators." He keeps on saying that "the top 20 measures need to be KPIs" and makes a point saying that "many people confuse result indicators with KPIs" because to him "sales, net profit, customer satisfaction and return on capital employed are not KPIs as they are a result of many events occurring. These result indicators (net profit etc) are measures that give a clear picture of whether you are travelling in the right direction. If a problem exists, they show it up but will not tell you what you need to do to correct it".

2.6.1. FINAL ECONOMIC SCORECARD

Before revealing the BSC built for this research project, it is worth reminding the reader that the BSC is to be linked to the specific strategy of a firm. At this point it is interesting to remember how Kaplan and Norton (2002, pp. 51-52) define strategy as the election of market customers and segments that the business unit of a certain firm is to serve, identifying the critical internal business processes where the business unit has to excel, to let customers in targeted segments know about the value provided in order to fulfill the internal, customers and financial goals through selecting internal individual and organizational capabilities. Kaplan and Norton also say this approach is consistent with the analysis of the industry and competitors that Michael Porter makes in some of his books on corporate strategy (M. E. Porter 1980 Competitive Strategy: Techniques for Analyzing Industries and Competitors (New York: Free Press)) (M. E. Porter 1985 Competitive Advantage: Creating and Sustaining Superior Performance (New York: Free Press). Finally they state that they have proved that his approach works properly in dozens of organizations and that several firms compete exploiting unique capacities, resources and central competences (see C. L. Prahalad and G. Hamel, 1990 "The Core Competence of the Corporation," Harvard Business Review (May-June 1990): pp. 79-91) (R. Hayes, 1985 "Strategic Planning-Forward in Reverse," Harvard Business Review (November-December 1985): pp. 111-119) (D. J. Collis and C. A. Montgomery, 1995 "Competing on Resources: Strategy in the 1990s," Harvard Business Review (July-August 1995): pp. 118-128).

After introducing the methodology, the next step is the presentation of the cases chosen to be studied in this research project. The selection of the cases was not something at random but a decision made after establishing and meeting several criteria.

2.6.2. MEASURING SOCIAL COMMITMENT (CO-OPERATIVE PRINCIPLES)

Having explained the value of the BSC as a tool to implement the strategy of a firm and measure its performance, it is time to focus on measuring the social dimension of the socio-economic duality of a firm that this methodology strives to quantify.

As Quarter, Mook and Richmond (2003, p62) state, "in general, social accounting statements tend to be non-financial and qualitative rather than an integration of the economic and the social". They continue saying "it is artificial to segregate the social from the economic. The social economy framework is predicated on the assumption that the social and economic are inextricably linked, a point also emphasized in the field of alternative economics (Daly and Cobb 1994; Ekins 1986; Mies 1986; Schumacher 1973; Waring 1996, 1999)" (Id., p57). They conclude by mentioning Grojer and Stark (1977, 350) when the latter state "'we decline [sic] financial accounting as a subset of social accounting because we think it is neither possible nor desirable to separate economic from social factors." (Id.,58).

2.6.2.1.The Co-operative Principles

Each of the following co-operative principles (International Co-operative Alliance, 1995, p16, p18) has different dimensions, and each dimension has different indicators. Each one will be arranged according to the importance given by the author, over an overall mark of 100. A calibration will be necessary to fix the limit between a positive "yes" answer and a negative "no" response.

- Voluntary and open membership.

- Democratic member control.
- Member economic participation.
- Autonomy and independence.
- Education, training and information.
- Co-operation among co-operatives.
- Concern for community.

As Cujes states the particular nature of co-operatives makes this socio-economic duality even more intense: "cooperatives are simultaneously a group of persons and a business enterprise. Both aspects must be kept in balance. The relationship may be expressed: priority of business, but primacy of social aspects" (Cujes, 1986, p.18).

Although the empirical study, where this methodology will be used for, will be based on the seven principles of ICA, it is appropriate to mention the remarkable existence of other co-operative principles, developed by other co-operative organizations, that are not in contradiction with those of ICA at all, but may show other points to take into account, too.

2.6.3. CO-OPERATIVE DIFFERENCE

Cujes (1986, p. 5) says "social reporting / auditing is especially vital for cooperatives on account of their dual nature. They are at the same time a group of people and a business enterprise. Manager's report and report of auditors reflect the activities of the cooperative in the business year as business. Social report and social audit reflect activities of the cooperative as group of people working together towards realization of social goals of the cooperative [and that] experience indicates that cooperatives do many things in this

area [social goals of the cooperative], but somehow they are not used to report on them, at least not with sufficient emphasis."

He (1986, pp. 11-12) states "modern cooperatives developed as a defense of the existence and a hope for social and economic improvement of groups endangered by the new industrial order," and among them, "workers' cooperatives set the highest goal of all co-operatives – to organize an industrial order without the exploitation and alienation of workers". He concludes that "cooperatives have an additional characteristic which separates them from other types of businesses: they are as essentially associations of persons as they are business organization (dual nature of cooperatives)". Finally in this sense Davis and Donaldson (1998, p. 105) say that "integrating Total Quality Management methods with the seven principles will add real value for customers and hence for the organization" (Davis and Donaldson, 1998, p.105).

2.6.4. PREVIOUS ATTEMPTS TO MEASURE

Throughout the history of co-operatives there have been different attempts to improve co-operatives' social performance by developing social indicators for measurement. Some of the most recent examples can be found in Japan (Kobe), Canada (Quebec) and Spain (Mondragon).

One of the most important advances in this field has been accomplished in Japan by Co-op Kobe, the biggest consumer co-operative in the world with more than one million members. In 1998, they developed the *'Comprehensive Evaluation'* conducting a survey where 1,776 persons out of 2,791 responded to the questionnaires (63.6%) (Kurimoto, 1999). This study represented the statistical illustration of four social perspectives based on the ICA's values, as "Sincerity and Caring for Others," "Participation and De-

mocracy," "Social Responsibility and Fairness" and "Autonomy, Solidarity and Improvement," and two business perspectives in numerical values, "Business Efficiency" and "Expansion Potential."

Kurimoto defines this method as "an elaborated method of evaluating co-operative performance from viewpoints of both co-operative values and business operations" that are to be exposed to "comparisons and benchmarking" (Kurimoto, 1999). As Tsuda, one of the advisors in the project, states "… comprehensive evaluation aims at evaluating co-operatives comprehensively from the two dimensions of basic values and management foundations and provides a frame for evaluating whole businesses and activities of Co-op Kobe by the six evaluation indexes" (Tsuda, 2003, pp. 1-2).

Kurimoto (1999) mentions some other antecedents in measuring principles like " Social Reports by Migros (Switzerland) or ICIMF, Social Audit Report by the Co-operative Retail Service (U.K.), Social Balance Sheets by Italian co-ops, Environmental Report by KF (Sweden) and so on."

In Quebec, Canada, under the direction of Perron (2003), the "Coopérative de développement régional, Québec-Appalaches" (CDRQA) has completed the Certification de la conformité aux pratiques coopérative*"* [certification of compliance with co-operative practices]. The project is exclusively based on the seven principles of the ICA, so that it has a wholly social dimension. As Perron (2003) says "the document is divided into seven parts, representing the seven principles of the International Co-operative Alliance. Each principle is then divided into dimensions."

The objective of the project, assisted by some consultants and academics, is "to develop a tool that will enable a co-operative to objectively evaluate its compliance, in terms of its co-operative practices, with the seven principles of the International Co-

operative Alliance; and thus to optimize the potential of the specific nature of co-operatives; and to maximize its overall performance" by "encouraging co-operatives to continually improve their distinctiveness by developing a system for certifying their compliance with co-operative practices; this certification will reward managers, administrators and employees for their efforts and enhance the increased value associated with the co-operative difference, resulting in provincial, Canadian and international visibility" (Perron, 2003).

In Spain, Mondragon Co-operative Corporation (MCC) has designed its own tool for measuring the social performance of co-operatives in the corporation. Based on the EFQM model, MCC first designed its management model *'Modelo de Gestion'* (Management Model) in 1996, and evaluated it in 2000. It is remarkable that MCC defines its strategy based on four pillars, one of those being the group of ten co-operative principles of the Corporation, which are very close in meaning to the ICA's principles. Later there are seven groups of agents that are to accomplish the strategy. The outcome of the overall performance of each firm is measured by five conventional business groups of indicators and a sixth one that is the social implication.

MCC divides social implication into different indicators classified as: Global satisfaction of the people; Quality of employment; Welfare, Labour Conditions and Safety; Motivation and Implication; Training and Personal Development, Remuneration and Job Promotion, Perception of the Society about MCC, Contribution to the Local Economy and to the Society as a whole, Implication in the Local Economy and in the Society as a whole; and Preservation and Concern in Environment (MCC, 1996).

On the other hand, the Department of Social Affairs in MCC is at present working on defining a group of indicators directly based on the ten principles of the corporation

(MCC, 2003). These independent developments strongly suggest that some form of integrative measurement/management tool is needed.

2.6.4.1. Design of Social Scorecard

Once the data is collected how to interpret them becomes a big difficulty. So far, as Kurimoto (1999) says "there are 3 ways of plotting the evaluation results; relative evaluation against the data of the basic year, absolute evaluation against the fixed criteria and fulfillment evaluation against the target figures (i.e. 5 year plan)." In the Kobe experience "since it was difficult to set the fixed criteria and the target figures for all items, the relative evaluation was adopted. Each item of fiscal year of 1996 and 1997 was evaluated and compared to numerical data for fiscal year 1995. Each item for fiscal year 1995 was given a value of 5 points for purposes of comparison. Results from relative evaluations of each year (points gained) were tabulated in numerical form on radar charts, to display satisfaction levels and identify problem areas."

Completing Kurimoto's point of view it is interesting to report the experience carried out in Quebec, Canada, using a different approach to evaluating results. Directed by Perron (Perron, 2003), a group of researchers used an "ISO approach" composed of three different degrees. The first degree determines if the information is available for the cooperative managers, the second degree determines if the managerial team analyzes that information and makes decisions and the third degree determines if there is any feedback and improvement from those decisions made before.

As Perron (2003) says "for each dimension, there are three degrees of requirements to be met. The degrees correspond to difficulty levels. The difficulty levels for each degree are essentially the same for all dimensions and principles. Generally, the first

degree is related to the gathering of information. The second degree is related to the decision-making and the third to putting the decisions in practice" (Perron, 2003). The author has chosen Perron's approach to accomplish this research project.

2.6.4.2. Perron's Method

It is interesting to notice how Kanji (2002, p. 167), a well-known specialist of the Balanced Scorecard, makes an interesting point strengthening the kind of approach used in this research project inspired by Perron when he says, "only if the data thus gathered is used to make better decisions and to drive improvement efforts, is the measurement system a real value to the organization."

Another interesting point is remarking the intention of complementing both scorecards with qualitative information. Quantitative information, essentially numbers have to be complemented with qualitative information from interviews. As Ronstadt (1978, p. 46) states, "by 'hard' analytic tools, I mean those techniques that involve some 'numbers pushing.' I have emphasized hard tools because my impression is that most students find them more difficult to apply compared to 'soft' or qualitative techniques once they are exposed to the latter."

The details of the indicators and interpretation of scoring are expressed in a practical way at the first part of the Chapter 3. The first case study presented, which is the first firm in Quebec, contains an explanation about what indicators were chosen, why they were chosen, and what is the interpretation of the scorings.

2.7. Criteria to Choose What Firms to Adopt as the Case Studies

Co-operative firms to be tested in the empirical study have been chosen according to the following seven criteria:

1. **Appearing to adhere to the ICA co-operative principles.** They must not only accept but adhere to the seven principles of the ICA according to the opinion and criteria of literature written of those firms or the opinion of academics contacted in the area. The purpose of this criteria in particular is to get some co-operatives in each area more likely to adhere to the ICA co-operative principles in the final test according to the designed social scorecard, which show how committed to those principles each firm is.
2. **Being manufacturing firms (Technology, automation, assembly lines, CAD/CAM…)**. As Kyambalesa states, "small manufacturing establishments are a significant feature in the majority of countries in the world today" (1994, p. 5). Small manufacturing firms are also more likely to be coping with global competitors than agricultural or service ones, because manufacturing firms are less likely to be geographically limited to the market of just a certain area, and their competitors are, too. As well the higher technology, automation and use of CAD/CAM or similar techniques a firm has, the more likely it is to have global competitors.
3. **Working within global markets**. Since global markets represent the clearest and purest form of capitalism, they are more likely to have a high level of competition. Markets protected by barriers limit global competitiveness. The more global the markets of a firm are, the more difficult it is to survive within them.
4. **Having at least one significant competitor that is not a co-operative**. Co-operative firms are supposed to be working with an apparent disadvantage compared to competitors that are not concerned with the seven co-operative princi-

ples. In testing a co-operative firm as being able to compete against a significant competitor that is not a co-operative suggests that the disadvantage is more apparent than real.

5. **Being economically successful**. They must be economically successful according to criteria (*footnote: these criteria were identified by academics and practitioners whom were contacted in Quebec, Emilia-Romagna and Mondragon*) such as market share growth, profit growth, sales growth, job growth and lasting more than 10 years. The purpose of this criteria in particular is to get a sample of firms a priori more likely to be economically successful in the final test according to the designed competitive scorecard, which will show how competitive each firm is.
6. **Being a formal co-operative**. They are legally registered as co-operatives according to the law in each country (Canada, Italy and Spain), so that they have a different structure of ownership in comparison to the limited firms.
7. **Being located in Quebec, Mondragon and Emilia-Romagna, environments where co-operativism is "embraced."** These places are well known to have a deeply rooted co-operative tradition, and therefore are more likely to have socially concerned co-operative firms.

PART II: EMPIRICAL STUDY AND CONCLUSION

Mikel Cid, PhD Candidate
Mondragon University, 2005

CHAPTER THREE

QUEBEC

"Nous sommes pauvres"
"We are poor"
(Versailles, Vidricaire, Boulais 1920, cite dans Saint-Germain, 1976) (in Poulin, 1994, p.39)

In Quebec Canada, I have chosen two companies with a social orientation as cases to illustrate my hypothesis. Both are co-operatives. The first company is Promo Plastik, a worker co-operative. The second is Maska, a worker-shareholder co-operative. Each of these was a conventional capitalist business, but each went through a transformation by which they added a new social dimension. I will show that these companies are financially successful and that their social dimension did not interfere with their financial success. I will use the Balanced Scorecard method to demonstrate this. Since these businesses grew out of a particular context in Quebec, I will first explain some of the history and context of the cooperative movement in Quebec.

Part One: History and Context

3.1. Geography

Located in the eastern part of Canada, between Ontario and the Atlantic provinces, Quebec is the largest of Canada's ten provinces. With 15% of the country's area, it is three times the size of France and, after Ontario, the second most populous province with 7.5 million.

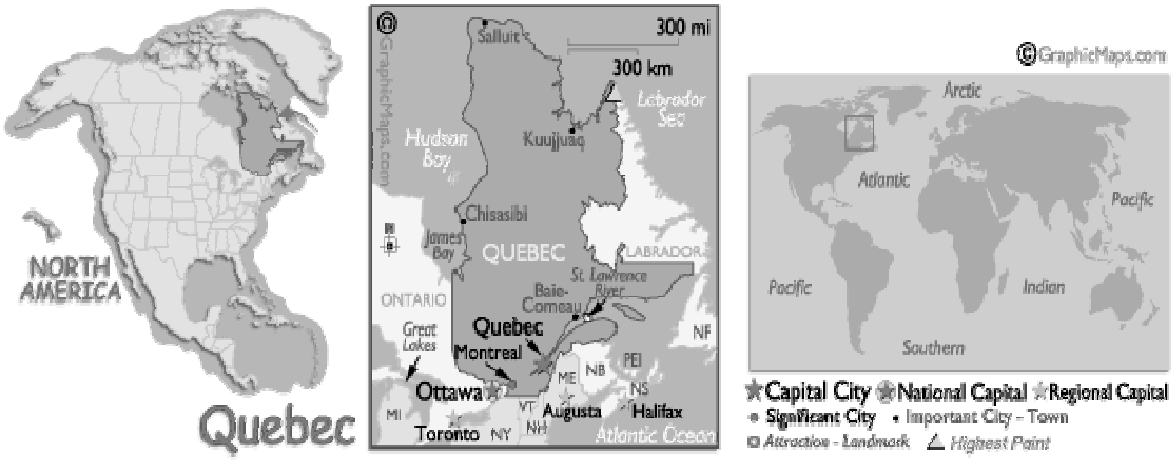

Figure 1 – Canada's Province of Quebec

Quebec, then called New France, was discovered in 1534 by Jacques Cartier. Quebec City, the capital, the oldest city in North America, was founded in 1608 by Champlain; it has half a million inhabitants and is the seat of the provincial government. Like most of Quebec (the largest French-speaking society in North America), the capital is French-speaking. On the other hand Montreal, the largest city in the province with some 2.5 million inhabitants, is about half English and half French-speaking, making it the second largest French-speaking city in the world after Paris. Because of its history, Quebec is the most European part of North America.

Most of the population lives in the southern part of the province, in the St. Lawrence Valley from Montreal in the west, along the St. Lawrence River, to Quebec City in the east. Quebec City is located exactly where the river meets the Atlantic Ocean between the Laurentian and Appalachian mountain ranges. The St. Lawrence Valley has the mildest weather, the best transportation systems, and the best agricultural lands. The northern and eastern parts of the province are sparsely populated.

Except for the mountain ranges around Quebec City, and some other small ranges shared with the USA, Quebec is mostly flat. The climate is continental with very cold winters (an average -15ºC in January), and hot summers (an average 25ºC in July in the St. Lawrence Valley). Rainfall is moderate, and snow is common from November to April. Most of northern Quebec has an arctic climate.

The flat and fertile land, especially in the St. Lawrence Valley, has given rise to a large agricultural production, strong industry, and an important service sector in both Montreal and Quebec City. This economic activity has brought remarkable economic prosperity to the region, making Quebec one of the wealthiest provinces of Canada. Historically, Canada has been ranked by the United Nations to be among the best countries for quality of life.

Quebec's prosperity, however, dates only from the second half of the 20th century. Before that time, compared to other provinces, especially Ontario, Quebec was poor. Thus Quebec provided fertile ground for what became one of the most successful co-operative movements. Most activity is concentrated in Quebec City, which became the heart of the movement.

3.2. The Culture

The fact that economic power in Canada was in the hands of English Canadians made people in Quebec feel dependent on others. The economic crisis of the 30s made the economy of Quebec even more depressed. In 1933, unemployment in Canada was over 25% and in 1939 it stood at 14%. The rate in Quebec was even higher than the national average (Linteau, Durocher, Robert, et Ricard, 1989, p. 79; collected in Poulin, 1994, p.177).

The social philosophy of the Catholic Church and of traditionalists Jacques Maritain and Emmanuel Mounier, both of whom appealed to youth, brought together personalism and Catholic social action. They promoted spiritual and community values in opposition to liberal individualism. It was within this climate that co-operation was advanced as a solution to the problem of improving the economic situation of French Canadians, to fight against economic centralization, to establish a more person-centered and equitable economy and, also, to check the progress of socialism, and preserve social peace (Poulin, 1994, pp. 180-181).

3.2.1.THE CATHOLIC CHURCH

Alfonse Desjardins was one of the leaders who arose from this movement. He will go on to become the key leader in Quebec co-operative movement. Desjardins kept his co-operative project in Quebec closely allied to initiatives of the traditional elites and especially to those of the Church. The support provided by the Church and Quebec nationalism played a major role in the success of the movement started by Desjardins (Poulin, 1990, p.288). Poulin says that Desjardins found in credit unions a tool to develop social action (Ibid., p. 289).

3.2.2.NATIONALISM (FIRST GENERATION)

Quebec nationalism is a social phenomenon that distinguishes Quebec from the other provinces. It is evident that nationalism has had an effect on the development of the co-operative movement in Quebec. Determining to what extent and how essential this effect has been is the key question.

According to Poulin (1990, pp. 96-100), Desjardins' thought emerged not from nationalism but from the social problem, because the problem he tried to address was not

the economic weakness of French Canadians only but of all low-income people in Quebec. However, this does not exclude the fact that Desjardins was an ardent nationalist, and that nationalism was an important factor in his promoting co-operative initiatives. In any event, the driving force of Alphonse Desjardins' thought was not nationalism but providing people in Quebec with means to overcome the concentration of economic power, and the economic and political domination of English Canadians. Poulin concludes, however, that Desjardins' project really benefited from nationalism (Poulin, 1990, p. 289), and from the support nationalist leaders gave to the credit unions (Ibid., p.231).

Martel says that even though nationalism was not a central concern between 1940 and 1960, it was really a deep source of unity between the leaders and institutions that encouraged greater development of co-operatives. The importance of nationalism, however, diminished as the co-operative movement became concerned with other matters (Martel, 1991, p.110). Martel (ibid., pp.105-06) also maintains that nationalist economic thought changed in that period. It evolved from a focus on controlling small savings to building a national economy controlled by French Canadians. Towards this end, they tried to create new businesses but also to buy existing foreign ones.

3.2.3.Progressive Nationalism (Second Generation) and Trade Unions

Levesque says that trade unions, like Confédération des Syndicats Nationaux du Québec (CSN; called Confédération des travailleurs catholiques du Canada, CTCC, until 1960), have always been very close to co-operatives and the social economy, that their relationships turned from simple support to the CSN's proposing in the 60s a new, alternative vision of the co-operative movement. However, some years later CSN became directly involved in creating and supporting the new social economy in Quebec. (Levesque,

2004.) Levesque emphasizes collaborative relationships as a reason for the fact that both Catholic trade unions and the Desjardins credit unions were started at the same time (between 1901 and 1907) (Levesque, 2004).

Levesque goes on to say that the collaboration between trade unions and co-operatives, periodically confirmed between 1921 and 1961, was actually the same as the one existing between production and consumption (Levesque, 2004). Even though CTCC participated in the Conseil Superieur de la Cooperation, founded by Fr. George-Henri Levesque, the fact of proposing an alternative vision of the co-operative movement, and the labour conflicts between co-operatives and trade unions, changed the idea of "common cause" between them. In the early 60s, debt was a great problem for workers and working-class families (Levesque, 2004). The basic cause of the rupture in their relationship was the belief of trade unionists that the co-operatives' management methods such as the profit motive, and even worker exploitation, were making them more and more like conventional businesses (Levesque, 2004).

In the 90s, the CSN changed its position and became active in building Quebec's new social economy. This was due to their new global outlook. Different from that defended more than twenty years earlier by André Laurin, it was much closer to the idea of transforming capitalism through a new social economy that emphasized democratization more than building a new economic sector completely separate from capitalism (Levesque, 2004).

3.3.Political Support

Quebec's *Revolution Tranquille*, the Quiet Revolution, began under the Lesage government in the 1960's. Previous to this, the very conservative Duplesis government

maintained control through an alliance with the Church and rural constituencies. The Lesage forces represented a more urban, modern constituency. During the quiet revolution, relations between the co-operative movement and trade unions with the provincial government improved greatly (Lamarre, 1991, p. 66). After gaining power in 1976, René Levesque and his Parti Québécois brought to Quebec a still stronger relationship between the provincial government and the co-operative movement, one that promoted cooperative development. The creation of the Société de Développement Coopératif, with Desjardins credit unions providing 84% of the financing through the co-operative sector, is the best example of this will to promote socio-economic development (Lamarre, 1991, pp. 102-104; Poulin, 2000, p.112). In 1984 this society became the Société de Développement des Coopératives. Controlled and managed by the provincial Ministry of Industry, Commerce and Tourism, it had the mission to develop in several regions co-operatives, and to improve people's participation in socio-economic activities (Lamarre, 1991, p.122).

Levesque (chapter in CIRIEC-Canada, 1981, pp. 96-97), citing Fournier (1978, p. 147), concludes that since the Quiet Revolution the provincial government of Quebec has significantly helped the rapid development of the Desjardins movement and the co-operative sector as a whole. The Office de Planification et de Développement du Québec (1980, pp. 139-40) says that one reason for the government's help lies in the co-operative movement's being based in local communities, thus providing a tool for people's participation in the economy.

3.3.1. GOVERNMENT FINANCING PROGRAMS

The government of Quebec has several programs for the financing of co-operatives:

1. *Entrepreneurial collectif*: This program promotes collective entrepreneurship and the creation, maintenance, and development of businesses in the social economy.

2. *Programme de capitalization*: This program promotes capitalization for creating, maintaining, and developing businesses in the social economy. Financial aid ranges between $25,000-$500,000.

3. *Le Regime d'investissement cooperatif (RIC):* Workers' co-operatives and producers' co-operatives can take advantage of this program. It offers increased and more stable capitalisation, and loans at reduced interest. By investing in the co-operative, members receive a tax benefit.

4. *Ristourne a impot differé (RID):* Members of previously authorised co-operatives are allowed to postpone declaration of their profits from the co-operative.

5. *Les cooperatives de developpement regional (CDR):* This program promotes job creation through start-up and technical advice through local co-operative federations.

6. *Programme Audace:* Created by the *Federation des cooperatives de developpement regional du Quebec* to promote initiatives by young entrepreneurs between 18 and 35 years of age (Conseil de la cooperation du Quebec, 2003).

3.4.The Co-operative Movement

According to Lamarre (1991, pp. 7-8), the co-operative tradition in Quebec has its origins in the insurance companies of the late 18th century, the fire insurance companies of the 19th century, and several other kinds of early 20th-century co-operatives. However,

he says that the co-operative movement that we know today was born in the 30s right after the economic crisis that made co-operatives spread quickly over Quebec, many of them being Desjardins credit unions, agricultural co-operatives, and fire insurance companies.

Beauchamp, on the other hand, claims that even though 19th-century Quebec knew several co-operative initiatives, it was not until the 20th century that co-operatives really spread. He concludes that the 20th-century evolution of co-operatives in Quebec can be divided into three periods: a first period between 1900 and 1940, a second between the Second World War and 1960-65, and a third between 1960-65 and 1980 (Beauchamp, chapter in CIRIEC-Canada, 1981, pp. 23-24). Bariteau (ibid, p. 106) mentions three historical facts to distinguish three different periods (they have a certain resemblance to the three given by Beauchamp): the crisis in 1929, the Second World War, and the crisis in the 70s. In each of them new co-operatives were created and old ones were strengthened.

After the Second World War, many co-operatives took advantage of the economic prosperity that war in Europe brought to Canada. Thus in 1951 there were twice as many co-operatives in Quebec than there were in 1939 (Lamarre, 1991, p.16). Martel agrees that co-operatives grew after the Second World War, but he says that this growth was insignificant in comparison to that enjoyed by non-co-operative firms (Martel, 1991, p. 109).

3.4.1. THE DESJARDINS MOVEMENT

Co-operative history in Quebec, at least in its modern history, begins alongside that of the Desjardins movement. We can say that co-operativism in Quebec, as currently understood, while born in the second half of the 19th century, is mostly a 20th-century

movement.

Since co-operatives were unknown before the Caisse Populaires, it is not possible to talk about a consistent co-operative movement in Quebec before Desjardins (Poulin, 1990, p. 288). His credit union project was the pillar of an economic and social reform meant to improve the standard of living of low-income people, and to develop the economic power of French Canadians (Poulin, 1994, p.11).

Attracting outside investors was part of the provincial government's strategy for economic development; this fact reduced the relative power of French Canadians in Quebec by strengthening Anglo-Saxon domination. Later, the crisis of the 30s will ruin many French Canadian firms (Belanger and Fournier, 1987, p. 30; in Poulin, 1994, p.38). They were more regionally based, while national firms were in Anglo-Saxon hands (Poulin, 1994, p.39). In 1930, only 4.6% of managers in Canadian firms where French Canadian (Linteau, Durocher, and Robert, 1979, p. 464). The French at that time said of themselves, "Nous sommes pauvres" -- we are poor (Versailles, Vidricaire, Boulais, 1920; as cited in Saint-Germain, 1976; in Poulin, 1994, p.39). This situation inspired the Catholic Church and traditionalists to promote, in opposition to industrialisation and economic liberalism, the preservation of a rural, agricultural lifestyle (Couture, 1991; in Poulin, 1994, p.40).

After the First World War (1914-18), in Canada as a whole, the USA replaced the UK as the main foreign investor (Poulin, 1994, pp.37-38).

Given that they are part of the general society, co-operatives at the time of their birth were strongly influenced by the evolving history of Quebec.

3.4.2. THE QUIET REVOLUTION

As mentioned above, the general transformation that took place in Quebec in the 1960s is known as the Quiet Revolution. The modernization process that started in 1960 in Quebec had the goal of changing the economic, social, political, and cultural structures of the province. The Liberal government of Jean Lesage, which replaced Maurice Duplessis' traditional government, gave birth to the modernization process. While Duplessis' Union Nationale was a rural party, the Liberal Party was urban. While the former practiced a laissez-faire economic strategy, the Liberals practiced an interventionist strategy with a huge increase in public spending. One consequence of this strategy was the strengthening of French Canadian economic power, and the creation of various organizations to finance the new economic initiatives, and to control development of Quebec's natural resources (the nationalization of Hydro Quebec, for example) (Poulin, 1984, pp. 223-25).

One example of the Quiet Revolution is the remarkable fact that it was not until the 1960s that women were given the same legal right their husbands had to have their own savings in the Desjardins credit unions (Poulin, 1998, pp. 340-341).

3.4.3. FACTS

As stated above, co-operatives in Quebec arose in the second half of the 19th century precisely from, and to combat, the socio-economic difficulties of the times. Desjardins is the best example of this fact. Early 20th-century Quebec was a traditional society with most of its inhabitants living in the countryside. In the cities, industrialisation resulted in bad living conditions for workers. As well, the owners of the means of production were at that time mostly English Canadians (Poulin, 1990, pp.25-26).

Agriculture was by far the main activity in Quebec's rural society of the late 19th cen-

tury. Some people involved in the dairy industry and agriculture were the first to think of co-operatives as a means to overcome their marketing problems; they were inspired by some European examples of co-operatives.

Immigration was important at that time. Between 1840 and 1920 more than 780,000 citizens of Quebec left for New England (Linteau, Durocher et Robert, 1979, p. 42; collected in Poulin, 1990, p. 17); between 1850 and 1900, almost 500,000 people left Quebec for Western Canada and, mostly, New England. Thus in 1900 the population of Quebec was 1,650,000, of whom 65% lived in rural areas; agricultural production was also 65% of the economic production in Quebec (St-Pierre, 2001, p.60). Manufacturing accounted for just 6% of economic production in 1891 (Ibid., p.62). In addition, obvious difficulties due to the rough climate and its effect on agriculture, with long winters without enough crops, left Quebec's rural society underdeveloped (Hamelin et Roby, 1971, p. 164; collected in Poulin, 1990, p. 19).

One example of Quebec poverty is that, in the late 19th century, Montreal was one of the most unhealthy cities in the world. According to Copp (1978, p. 23; in Poulin, 2000, p.8) only one other city in the world had a higher rate of child mortality: Calcutta.

In regard to this situation, Alphonse Desjardins did not hold the traditional view that idealized agriculture. He criticized economic liberalism; to him, the problem was not capitalism but the lack of capital in French-Canadian hands (St-Pierre, 2001, p.65).

It is when working to overcome the crisis of the 30s that co-operatives in Quebec had their golden age: from 1937 to the end of the Second World War in mid the 40s. There was a co-operative boom, Desjardins credit unions and agricultural co-operatives multiplied greatly, and co-operatives were started in new sectors such as fishing and forestry. This development was supported by a co-operative education campaign, and the co-

ordination of action in the co-operative movement (Poulin, 1994, p.183). From 1937 to the end of the Second World War, co-operatives in Quebec had their highest growth ever (Poulin, 1994, p. 193).

In late 1930s and early 40s, the most vigorous years for the co-operative movement in Quebec, people involved in the movement were a heterogeneous group with different attitudes towards capitalism and economic liberalism. On the one hand, there was a group supportive of "economic democracy" that was influenced by the Antigonish Movement, and represented by the Social Sciences School at Laval University in Quebec City in the 1940s.

In the years of the Quiet Revolution, the Desjardins credit union system was acknowledged as one of the few institutions by which Quebec could attain its economic liberation (Poulin, 1998, p.176).

3.4.4. THE KEY LEADER

Alphonse Desjardins (1854-1920) was born in Levis, just opposite Quebec City. The eighth of fifteen children, he grew up in a very poor family (Poulin, 2000, pp. 9-10). His father, a journalist, did not have a full-time job, so his mother had to work to support the family. Alphonse had to leave school at sixteen. Perhaps it was the poverty of his childhood that gave him his orientation in life (St-Pierre, 2001, pp. 32-35). He concluded, as a result of his experience, that people should use their own resources and collective action to solve their problems (Francois Jacques, Chapter 1 in Laflamme et al., 1982, pp. 4-5).

Desjardins has been described as a hard-working (St-Pierre, 2001, p.45), meticulous, tenacious man extremely faithful to his commitments (Poulin, 2000, p.17). Although not a charismatic leader, he was able to gain the confidence of people—first of people in

Levis (Poulin, 2000, p.17) and then from many other people in Quebec—by his intelligence, competence, and consistency. A fervent Catholic, religion and family were the two pillars of his values (Poulin, 1990, pp. 63-65).

Desjardins was studious. When working as a stenographer in Ottawa (1892-1917), he had access to the Library of Parliament (St-Pierre, 2001, p.66; Poulin, 2000, pp. 11-12). At this time he also showed a keen interest in the history of co-operativism. In Parliament in 1897 Michael Quinn, a Conservative member, presented a bill against usury that got Alphonse Desjardins' attention (Poulin, 2000, p.13). This fact is widely considered to be the turning point in Desjardins' life, one that would lead to his later involvement with credit unions.

He became a dominant leader in his day, and we can say that before him co-operativism was almost unknown in Quebec (Poulin, 1990, pp.287-88). In 1891, after working in parliament in Ottawa for eleven years, Desjardins quit his job (the reason is unclear). He was 37, had six children to raise, and he was unemployed. However, his later work as founder and general manager of the credit union movement did not provide him with an income; he asked only for travel expenses. Therefore, his entrepreneurial activities were not motivated by desire for personal wealth but by the common good (St-Pierre, 2001, pp. 27-28; ibid., p. 48).

Desjardins has been recognized as one of the most important individuals in the history of Quebec (St-Pierre, 2001, p.39). One of his main skills was uniting the different social groups of his time—the political as well as the religious and economic (St-Pierre, 2001, p.42). To accomplish this, he used only his own words and writings (Ibid., p.45).

3.4.5. DESJARDINS' CONTRIBUTION

Disgusted by the poverty of most of the citizens of Quebec, Desjardins founded the credit union in his hometown of Levis on 6 December 1900.

Usury was a common practice in those times. Access to credit was restricted to rich people. This fact led Desjardins to set up the first credit union branch. Greatly impressed by the success of some credit co-operative experiments in France, Germany, and Italy (Poulin, 1990, p.28), Desjardins designed his own model, adapting it to conditions in Quebec. In 1898, after being very impressed by Henry W. Wolff's *People's Banks* (Wolff was president of the recently created International Co-operative Alliance), Desjardins contacted him to get information about successful experiments in credit co-operatives in Europe. In this regard, through their friendship and their many letters, Henry W. Wolff was no doubt the person who most influenced Desjardins' credit union project (Poulin, 1990, p. 44; St-Pierre, 2001, p.43, pp.68-69; Poulin, 2000, p.13; Francois Jacques, Chapter 1 in Laflamme et al., 1982, p. 7).

Desjardins' movement went beyond a solution to usury. It was the basis for a great reform, with the objective of addressing the economic and social problems caused by capitalism and economic liberalism (Poulin, 1990, pp. 67-68). At this point, it is interesting to point out that any credit union is an enterprise whose activity depends on decisions made by other economic entities (Roy, chapter in CIRIEC-Canada, 1981, p.222).

While he was a member of the Chamber of Commerce in Levis, an industrial enterprise collapsed. After looking for solutions in Levis, he went to Montreal, where he met different businessmen. During this process, he learned a clear lesson: in order to be an attractive town and to develop economically, Levis had to have financial resources (St-Pierre, 2001, p.37). This experience might have been the initial step towards his forming

the idea of starting the first credit union in 1900.

A good example of Alphonse Desjardins' personality is the *Catechisme des Caisses Populaires*, which he authored with Fr. Philibert Grondin (Morency, 2000, p.13); it puts forth the fundamental evangelical values of any co-operative association (Ibid., p. 191). Therefore, it can be considered a means of communication, an instructional text, to promote the vision of social transformation shared by both Alphonse Desjardins and the Catholic Church (Ibid., pp. 199, 207).

One of Alphonse Desjardins' most outstanding successes was to integrate economic, social, and religious issues in a society where the Catholic hierarchy controlled social and political debate and were strongly opposed to economic reform. Therefore, Filion says, the Desjardins credit union movement could not have succeeded without the complicity of parish priests who presented his project as a means of survival, and helped integrate the credit unions into the community (Filion, L. J., 2001, preface in St-Pierre, 2001).

It is not possible to understand Desjardins' entrepreneurial vision without taking into account his religious faith and charitable activities (St-Pierre, 2001, p.38). However, Alphonse Desjardins considered philanthropic help, as well as help from the state, damaging because they decrease people's self-reliance. In his view, funding must come always from the personal savings of the people in trouble, rather than from government or private donations. This is why he thought of credit unions, because saving was a real provider of economic independence, but he always understood this wealth as something collective. Due to the situation of French Canadians, his first speeches always centred on connecting his ideas to national wealth as a means to protect French Canadians, and to provide them with means for development (St-Pierre, 1998, pp.53-54.)

Influenced by the social doctrine of the Catholic Church as expressed in Pope Leo

XIII's 1891 encyclical *Rerum Novarum* (Poulin, 1990, p. 77), Desjardins perceived that the Pope departed from what had been the Catholic Church's usual attitude towards such social problems as workers' misery. In his encyclical the Pope supported certain kinds of associations of persons, like co-operatives (St-Pierre, 2001, p. 67). As a result, Desjardins thought that capitalism in itself was not the problem; the problem within a capitalist system is the lack of means in the hands of low-income people for economic development. Therefore, he was not interested in trade unions because he thought they interpreted the problem in a wrong way. Finally, he refused to give the state the responsibility of meeting people's economic needs; he thought that private initiative by itself is the best way towards people's economic emancipation (Poulin, 1990, pp.82-83).

Alphonse Desjardins, like all the great thinkers of economic co-operation, thought that the basis for co-operative action is self-help, the solving of their difficulties by members themselves (St-Pierre, 2001, p.74).

Alphonse Desjardins designed credit unions first as a way to provide credit to low-income people, but then to generate new economic growth through investing their savings in new co-operatives (Poulin, 1990, p.88). Also we can say that Alphonse Desjardins' view had some resemblance to Raffeisen, the German credit union movement (Vaillancourt, and Faucher, 1950; collected in Pelletier, Chapter 2 in Laflamme et al., 1982, pp. 76-77).

Choosing the local parish church as the territory to set up a credit union branch in was based on his knowledge of rural life organized around the local church. Desjardins was clever to note the specific characteristics of Quebec's rural society; it became a factor in the success of management (Alphonse Desjardins. La Caisse Populaire I, Montreal, L'Ecole sociale populaire, 1912, op. cit., p. 14, 32p [brochure n. 7]; in Poulin, 1990, p.

91).

Alphonse Desjardins was a traditionalist; he preferred the healthy lifestyle of the country to city life (Desjardins, in Vaillancourt and Faucher, 1950, pp. 132-228; in Poulin, 1990, pp. 95-96). As proof of his conservatism, he even helped organise some electoral campaigns for the Conservative Party (Poulin, 2000, p. 9).

Capital, according to Desjardins, must be a whole comprising thousands of small amounts belonging to individuals. This approach directed savings from the credit unions specifically to agriculture, and later on to consumer co-operatives, producer co-operatives, and distribution co-operatives. Poulin expresses Desjardins' idea very forcefully when he says that far from limiting himself to criticising the abuses of capitalism, and lamenting an idealised past, Desjardins advocated the tactic of the adversary: economic organization (Poulin, 1990, pp.100-01).

In North America, credit unions have felt the influence of Desjardins (Poulin, 1998, p.87). As an example of his influence, Desjardins was invited by U.S. President William Taft to address Congress concerning agricultural credit, but he declined the offer (St-Pierre, 2001, p.110).

Alphonse Desjardins' personal and professional qualities, his motives, his entrepreneurial vision, his leadership, and his talent in marketing make him a model entrepreneur (St-Pierre, 2001, p.29). His entrepreneurial vision conceived credit unions also as a generator of other associations and enterprises to exploit the richness of Quebec (Ibid., p.76). Alphonse Desjardins was the main writer of the law for credit unions (St-Pierre, 2001, p. 140). Alphonse Desjardins never had any financial support from government (Poulin, 1990, p.289).

3.4.6.REGIONAL DEVELOPMENT CO-OPERATIVES

The Cooperatives de Developpement Regional (CDR), Regional Development Co-Operatives, are created by a federation of single co-operatives located in particular places or regions all over Quebec. Their mission is to unite and represent the co-operatives by region, and to create an environment where co-operatives can flourish and develop.

Delegates from member-co-operatives compose the general board of each of the CDRs in Quebec. The CDR is financed three ways: public money from the provincial Ministry of Industry and Commerce, income from their services, and the annual contributions of their members. The CDR offers such services as establishing internal norms, training courses, and they assist the general board in handling administrative issues.

Born from some proposals made by the co-operative movement in the 1980s, the CDRs have played a very important role in the co-operative development in Quebec in the last twenty years (Quintin, 2003, p.7). It was Benoit Tremblay, professor at Hautes Études Commerciales (HEC) in Montreal who, taking advantage of the new financing policy approved in 1984, insisted on creating the CDR. It had the objective of starting up ten organisations—one for each economic region in Quebec—for promoting the institutional and sustainable development of co-operatives. The Centre for Co-operative Management at HEC was in charge of starting up the first three CDRs in three regions close to Montreal (Quintin, 2003, pp. 22, 25).

The CDR as an economic reality had the support of the provincial government through the Ministry of Industry and Commerce for the years1986-88; but it always lived with the worry of a change of government, and the non-interventionist policy of the Liberals; that happened in 1985 (Quintin, 2003, p. 27). As a result, in 1987 all the CDRs but the ones in the regions of Montreal, Quebec, Sherbrooke, and Ottawa received notice that

they were not going to be funded in 1987-88 (Ibid., p. 29).

According to a study done by the Direction des Cooperatives in 1999, statistical evidence showed that the CDRs achieved a very remarkable degree of success. The study showed that after their first five years of existence, the survival rate of co-operative businesses is 80%, and 70% after ten years. To focus on workers' co-operatives, one of the most difficult sectors: the study showed that after five years the survival rate is 41 % for conventional worker co-operatives (except ambulance and forestry), and 51% for worker-shareholder co-operatives (Quintin, 2003, pp. 75-76).

The CDR as a model of development has been offered to other provinces in Canada, to some countries in Africa, and to some universities in Central and South America (Quintin, 2003, p. 95).

The CDRs have the mission of promoting the regional development of co-operatives by providing technical support at start-up, management services to boards, and support in human resources, accounting, project management, and training (Quintin, 2003, p.101).

The most notable statistics on the CDRs include these facts: there are eleven CDRs in Quebec; there are 1,050 co-operatives that are members in all the regions in Quebec; their annual turnover is $4 million and since 1991 they have created 656 co-operatives, 4,146 jobs, and have helped to maintain 5,147 (Quintin, 2003, p.102).

IMPACT OF REGIONAL DEVELOPMENT CO-OPERATIVES

YEAR	CO-OPERATIVES STARTED	JOBS CREATED	JOBS MAINTAINED
1991-1992	23	90	345
1992-1993	12	209	764
1993-1994	14	109	118
1994-1995	16	250	454
1995-1996	35	258	605
1996-1997	49	334	430
1997-1998	94	491	331
1998-1999	132	561	812
1999-2000	68	475	175
2000-2001	112	668	635
2001-2002	101	701	478
2002-2003	118	589	549
TOTAL	774	4,735	5,696

Figure 1

(Quintin, 2003, p.103).

3.4.7. LES FEDERATIONS

In 1978, several federations advocated greater participation of the Desjardins Movement in regional economic development and inter-co-operation (Quintin, 2003, p.15). In 1985, the provincial committee of workers' co-operatives started the Federation Quebecoise des cooperatives de travail (FQTC); it embraces all the worker co-operatives except forestry (Quintin, 2003, p.22).

The Federation des Regional Development Co-operatives of Quebec (FCDRQ) has

the mission of co-ordinating and developing the network of Regional Development Co-operatives, and of representing them at the national level (Quintin, 2003, p. 63).

3.5.Present Situation of the Co-operative Movement

Even though the present situation of co-operatives in Quebec can be called good, the period of proliferation of co-operatives was between 1933 and the end of the Second World War. With Desjardins credit unions as the main expression of this fact, the success was the result of interaction among social forces: agricultural trade unionism, the Catholic Church, nationalism, and the co-operative movement itself. Almost all the new credit unions were rooted here (Poulin, 1994, pp. 205-206). About this point, Quintin (2003, p.11) says that even though insurance organisations existed in Quebec since the 18th century, and several other kinds of co-operatives appeared in the 19th and early 20th centuries, Desjardins credit unions being the most well-known example, the co-operative movement we know today in Quebec was created in the late 30s due to the economic needs created by the economic crisis (consumer co-operatives, forestry co-operatives, fishing co-operatives, agricultural co-operatives, …).

The contribution of the co-operative movement to economic development in Quebec is basically focussed on finance (Rioux, Chapter 3 in Laflamme et al., 1982, p. 151). Besides, as a whole the presence of co-operatives and their effects on the economy have been marginal historically. The dominant model of development in early 80s is called anti-co-operative due to the primacy given to the influx of foreign businesses (Ibid., p. 155).

It is interesting to note the change that, according to Martel (1991, pp.109-10), hap-

pened in the co-operative movement in Quebec between 1940 and 1960. In the general growth process in that period, co-operatives developed new technocratic structures that replaced the previous co-operative entrepreneurs who had initiated the different projects of local development in many sectors. He concludes by saying that the new co-operative law of 1963 is a good indicator of this substantial change, because it was a law adapted to the particular needs of each co-operative sector, and it also contained some specific features to satisfy the new co-operative management class.

After the Quiet Revolution, it was precisely another crisis in the 80s that made possible the birth of some new co-operatives. However, as Lamarre points out (1991, p.117), in contrast to the crisis in the 30s where co-operatives were based on solidarity, this new generation of co-operatives, because of a crisis of values, was based purely on economic self interest.

Immediately after the economic crisis in the 80's, Quebec's economy was largely dominated by non-co-operative firms; therefore the influence of co-operative was diminished (Office de Planification et de Developpement du Quebec, 1980, p. 20). Prevost, however, makes an interesting point about this fact: he says that each region in Quebec had enough co-operatives to bring significant pressure to bear on the economic structure (Prevost, Chapter 5 in Laflamme et al., 1982, p. 199). In addition, there is the remarkable fact that statistical research from Direction des cooperatives show that the survival rate of co-operatives is 64% after 5 years, and 46 % after 10 years; for conventional firms the numbers are 36% and 20% (Direction des cooperatives, 2001).

Today there are 3,200 cooperatives in Quebec. They generate 79,000 direct jobs and comprise 7.5 million members (Conseil de la cooperation du Quebec, 2003b).

Federation	Total co-ops in the fed.	Total co-ops in QC.	Total members/ customers in the fed.	Total members/ customers in co-ops in QC.	% of market share	% of the co-op market share	Assets	Turnover
$M = MILLION DOLLARS								
Housing	705	1,160	13, 281	22, 474		59%	$1,000M	$150M
Funeral	27	35	125,000		12% (55,000 a year)	95%		
Consumer	64	89	100,000					400 M $
Scholar	59		300,000					111 M $
Desjardins	608		5,162,662				94 700 M $	
Forestry	41		3 908				120 M $	295 M $
Worker-Share.	15	90	5 000					
Worker	~ 40							
Co-op Federee	~ 100		62 000					
Promutuel	34							415 M $
Mutuelle Fonctionnai-res QC	9		650 000				1 700 M $	
SSQ Groupe Fin.			550 000				2 000 M $	

Figure 2

(Conseil de la cooperation du Quebec, 2004b, pp. 12-34)

3.5.1. CAISSES POPULAIRES

In the golden age between 1933 and 1944, credit unions had the greatest growth among co-operatives with 724 new credit unions in Quebec (Poulin, 1994, p.197). In that period, Quebec was truly a traditional society. Most credit unions, therefore, were located in an agricultural milieu, so their members obviously had a different profile compared to the members of urban credit unions (Poulin, 1994, p. 227).

In the early 40s, the Desjardins movement was mostly rural; eight out of ten credit unions were in rural areas (Poulin, 1998, p.20). However, the process of urbanisation in

Quebec had an effect on membership, diminishing the importance of agricultural workers in favour of the increasing number of salaried workers (Ibid., p.21).

Regional credit unions are second-level co-operatives serving local credit unions (Poulin, 1994, p.268). There is a two-level structure within Desjardins, namely the ten regional credit unions and the provincial federation (Poulin, 1998, p.24).

The regional credit unions played an interesting role in financing small local industries, and agricultural and fishing co-operatives; their number grew a lot from 1937. The regional co-operatives in places with more of these co-operatives (like the Gaspe and Rimouski) were more involved in this process and had more risk than others (Poulin, 1994, p.270).

The Second World War provided jobs to the whole population of Quebec. It was the first time ever that the general population of Quebec had disposable income and was able to save money. Most consumer goods were rationed, and therefore from 1935 to 1945 credit unions in Quebec increased from 239 to 912, their assets from $11 million to $125 million, and membership from 47,000 to 389,000 (Desforges and Giroux, 1983, pp. 14-18; collected in Martel, 1991, p. 5). It is notable that during the years when the new patterns of domestic consumption of durable goods took hold in Quebec, some managers of the Desjardins Movement refused to liberalise credit because it fostered family debt (Poulin, 1998, p.174).

From 1950-60 the Desjardins Movement tripled in size from $235 to $739 million (Martel, 1991, p.81). In the 50s, Desjardins maintained its rapid growth by adding new services to existing fire insurance such as automobile and general insurance (Poulin, 1998, p.192).

The Quiet Revolution, during the 1960's, also had effects within the Desjardins

Movement. Since it was the main economic player in regard to French Canadian capital in Quebec, the climate of change within Quebec society imposed new demands on the Movement. These demands, pressures in some cases, came from outside and inside Desjardins. They were based on changing credit policy, on designing new methods of economic education, on expanding its sphere of operations and on strengthening involvement in economic development. This pressures forced structural changes upon the Quebec credit union system giving Desjardins its own Quiet Revoution (Poulin, 1998, p.227).

One of the most remarkable examples of their involvement in economic development was Desjardins' participation in Societe Generale de Financement du Quebec (SGF), an enterprise started by the Liberal government to strength the economy of Quebec (Poulin, 1998, p.233). Later, because of difficulty among the different participants in reaching agreement on objectives, the government bought all the shares of SGF (Poulin, 1998, pp. 235-36). In addition to this experience in SGF, Desjardins participated only slightly in industrial development until 1971 (Poulin, 1998, p.273). Later, the Liberal government of Bourassa authorised the creation of the Societe d'investissement Desjardins with a mission was to manage funding of investment in starting-up and developing industrial and commercial enterprises (Lois du Quebec, Loi concernant la Federation de Quebec des Unions regionales de Caisses Populaires Desjardins, chap. 80, (1971); Debats de l'Assemblee nationale, 18 et 23 decembre 1971; "Le Bill 91 prevoit la nouvelle Federation", La Revue Desjardins, 38, 1 (1972), p. 54-55; Poulin, 1998, p.277). This expansion of Desjardins, one of the main players in the modernisation of Quebec (Poulin, 1998, p. 362), was a great contribution to accomplishing the social and economic objectives of the Quiet Revolution (Ibid., p. 285).

According to Dupuis (in Levesque, 1997, pp. 211-17; collected in Poulin, 2000,

p.111) the new relations with the provincial government in the 70s, and the founding of Societé d'Investissement Desjardins, provided the Desjardins Movement with the tools to participate actively in the social and economic development of Quebec, to become one of the main agents of the "development model of Quebec."

As a result of Desjardins' attachment to the Catholic Church, 80% of the existing 160 credit unions had a priest in management, and 40% had a priest as president (Roby, 1964; Poulin, 1990; Rudin, 1990; collected in St-Pierre, 2001, p.128); Desjardins considered the credit union a prolongation of the parish (Ibid., p. 73). This lasted until the 1950's. Today, Desjardins is the number one financial institution in Quebec and sixth in Canada (Poulin, 2000, p.1). Today Desjardins has $85 billion in assets, and it is the only financial institution in over 400 villages in Quebec (Conseil de la cooperation du Quebec, 2003b).

YEAR	NUMBER OF CREDIT UNIONS	NUMBER OF MEMBERS	TOTAL ASSETS (In millions $)
1915	114	23,614	2
1920	140	31,029	6
1930	201	45,767	11
1940	544	119,668	21
1950	1,097	599,517	224
1960	1,253	1,211,041	688
1970	1,330	2,496,080	2,136
1980	1,372	3,350,000	11,655
1990	1,329	4,505,895	37,128
1999	1,143	5,125,557	63,031

Figure 3 (Poulin, 2000, p.127)

3.5.2. WORKER-SHAREHOLDER CO-OPERATIVES

In general, worker co-operatives are associated with industry. Before 1939, Quebec was mainly an agricultural society but things began to change with the war. From 1939 to 1944 industrial production in Quebec grew from $1.04 to $2.92 billion (Vallieres, 1979, p. 133). Unemployment totally disappeared and salaries grew more than prices (Poulin, 1994, p.193). Within the next ten years the growth was huge as well: from 1946 to 1956 industrial production grew 165%, from $2.5 to $6.6 billion (Linteau, Durocher, Robert and Ricard, 1989, pp. 237-238; collected in Poulin, 1998, p.41). However, even though this growth was really huge, in 1961 only 15.4% of industrial production in Quebec was produced by French Canadian enterprises that were local traditional industries with no need of big investment; they dominated only two sectors: wood and leather (Poulin, 1998, p.48).

The first worker co-operatives in Quebec were created in the last days of the 19th century by some ship builders in Quebec City (Interviews, personal communication; Poulin, 1994, pp.193-196). However, after this isolated experience, forestry co-operatives became by far the most common worker co-operatives in Quebec with their greatest success in leading to the Second World War (Minville, 1988, p. 135-41; collected in Poulin, 1994, pp.193-96; Martel, 1991, p.8).

Workers' co-operatives were united in 1977-78 in the Comite provincial de la cooperation du travail (Quintin, 2003, p.15). Today, forestry co-operatives contribute 20% of the replanting of forests in Quebec (Conseil de la cooperation du Quebec, 2003b).

The Cooperative de travailleurs actionnaire, the Worker-Shareholder Co-Operative,

is a variation in that the workers form a co-operative and own only a percentage of the voting shares. This, according to their percentage of equity, permits workers to participate in the decision-making process. Other shareholders also benefit from the workers' greater commitment. This structure also provides a method for ownership succession when individual entrepreneur owners die. Worker Shareholders Co-operatives (W-C Co-ops) are present in the manufacturing, computer, and multimedia sectors (Direction des cooperatives, 2001).

It is interesting to note that the worker-shareholder co-operative is a subsystem that works according to one member–one vote within a capitalistic system that works according to the number of shares owned. The W-C Co-op law was created in late 80s (Quintin, 2003, p.19).

Between 1993 and 1996, W-S Co-ops caused some controversy in the co-operative movement in Quebec. Some federations did not want to recognise the W-S Co-ops as real co-operatives, but the CDR defended the opposite position. After some discussion, Mr. Beland, president of the Desjardins movement, was crucial in accepting the W-S Co-ops in the Conseil de la Cooperation du Quebec, with the condition that the W-S Co-ops should become, in the short run, the dominant shareholder in each enterprise (Quintin, 2003, p.43).

3.5.3. NEEDS MET BY CO-OPERATIVES

According to the Conseil de la Cooperation du Quebec, these are the sectors were co-operatives can be successful:

- Enterprises with succession problems, where owners are retired and there is no heir to continue managing them.

- Enterprises in repositioning sectors, where new market needs require that the firms increase their productivity or diversify their activities.
- Enterprises in the new economy, where the main asset is workers' knowledge, where the worker-shareholder co-operative can be a good way to get capital, stability, and high productivity.
- Enterprises meet needs that government privatised, especially in health and social services.

Self-employed persons make up 30% of the labour force in Quebec today, and this could be 50% in twenty years. These people can be a new source for worker co-operative development in the future, according to the Conseil de la Cooperation du Quebec (2003).

The Worker Co-operative Movement in Quebec is one of the weakest co-operative sectors in the province. They are not as strong as the credit or insurance co-operatives.

The Worker-Shareholder Co-operatives are a particular creation of the Regional Development Co-operatives, with support from the Provincial Government. In the other Canadian provinces they tend to be small and marginal. In Quebec they have been a successful way to both involve and commit workers in their companies and to increase the equity and investment possibilities of generally family-owned small enterprises. In the coming years they might prove to be a successful way to replace retired entrepreneurs who have no entrepreneurial heirs by selling ownership to the employees and letting them manage the companies.

The main difference between a Worker Co-operative and a Worker-Shareholder Co-operative is that while the former owns 100% of equity, and workers are the sole owners of the firm, the latter owns only a percentage of the equity; that may vary from one case to another. In the case of Maska, the co-operative owns only 8%. This means that in that

case capital hires mostly labour instead of the classical co-operative concept of doing it the other way around.

In the social dimension, the possibilities of the worker-shareholder co-operative are much more limited than those in the full worker co-operative. The worker-shareholder co-operative owns a percentage of the equity while private individuals or a family owns the other shares. The Regional Development Co-operative, located in Quebec City, is responsible for the organization of the two industrial cases that we have chosen to study.

Part Two: The Cases

3.6. Case One: Poulies Maska Inc.

Poulies Maska Inc.
180 Gagnon Blvd.
Sainte-Claire, Québec G0R 2V0
CANADA
Tel. : (418) 883.3322
Fax : (418) 883.2020
E-mail : **sales@maskapulleys.com**
www.maskapulleys.com

Maska consolidated 2002 Figures (in millions CAN)

Equity: 12.48
Assets: 32.51
Sales: 24.72
Exports: 60 %
Profit: 1.61
Workers: 130
Members: 110
Created in: Maska in 1964, the worker's co-operative within in 1993

3.6.1. AN OVERVIEW OF POULIES MASKA

The worker co-operative is a worker shareholder co-operative (WS co-operative), cooperative de travailleurs actionnaire (CTA) in French, and owns 12% of the votes of Maska and 8% of the capital.

Since 1964 Pulleys Maska has been able to get a good position, both in Canada and the USA, in the market of designing, producing and distributing commercial and industrial pulleys. Involved in an approach of excellence and quality, the firm has turn towards the participating management where each worker makes a contribution to the correct functioning of the production and the improvement of the work environment. This is the reason of the creation of *Cooperative des travailleurs de Maska*, Maska WS co-operative in English, second shareholder of the firm. Members of the co-operative participate in making big decisions of both management and result. All together they own 12% of the votes and 8% of the capital. In 1995, in an award organized by Arthur Andersen and the Financial Post, Maska has been qualified among the 50 best-managed private-capital firms in Canada (Commerce Monde, 2003).

Pulleys Maska, an industrial firm established in Sainte-Claire-de-Dorchester, in the region of Quebec-Appalaches, found in his workers the ideal investors to finance its exportation plans. In 1994 they set up the Maska WS co-operative. Maska had then 44 workers; today they export to three continents and provide work to 160 people. It is the second consecutive year that Maska is qualified among the 50 best managed private-capital firms in Canada according to the award established by Arthur Andersen, Mallete & Maheu et Canadian Imperial Bank of Commerce (Conseil de la cooperation du Quebec, 2003).

Maska is a family owned firm. Albert Fortier purchased an existing small business in 1964 specialized in manufacturing commercial pulleys. In 1974 his son Yvon Fortier continued managing the firm.

Maska today is considered one of the most important Canadian firms in the Canadian metal sector, awarded Platinum status as one of the 17 elite companies in Canada after being among the 50 best managed firms in Canada for six consecutive years. Such award distinguishes the firms that have maintained a certain level of excellence and leadership in all their business procedures and have succeeded in getting the award for at least six consecutive years.

Maska produces pulleys and transmission components for many industries like agro-food, construction, civil engineering, mines, iron and steel, automobile, energy, environmental, chemistry and materials. Getting an excellent reputation and position in the American market and selling products in the European Union too.

Mr. Fortier, the owner, proposed the idea of sharing part of the equity of Maska with the employees. At the beginning a survey was accomplished and all the workers decided to become members of the WS co-operative. Workers had to invest money in the WS co-operative. The WS co-operative did a campaign to make people feel members and part of the company. This process was strongly assisted by the Cooperative de Development Regional de Quebec-Appalaches (CDRQA), who proposed to the Provincial Government the creation of WS co-operative as a new kind of co-operative in Quebec. The CDRQA, as explained later in this chapter, is a co-operative that supports the federated co-operatives in each region of the province.

The CDRQA helps the WS co-operative-s in general, in the case of Maska they send a person to visit and assist in management. Most of the white-collar workers invest in both the WS co-operative and the trade union (FTQ) fund.

The fiscal benefits are very important. There are advantages in both the provincial and the federal level. RIC (Quebec) and Pension Funds (Quebec and Federal) Régime Enregistré d'épargne-retraite (REER), they exist for both WS co-operative and trade unions. Members share the profit of the company. Each member pays 5% of the salary to the WS co-operative. In addition, the FTQ, the second largest trade union in Quebec, came and some members left the WSC to invest in the FTQ. The maximum fee to the FTQ fund is $5,000 per year.

The risk of the crisis times in Maska is transmitted to the workers, specially blue collars, so this is why they prefer investing in the FTQ, they think it is safer, since FTQ is a huge organization. FTQ competes with the WS co-operative, the more members for the WS co-operative the better, same for FTQ.

The WS co-operative owns 8% of the capital in Maska, the family that owns most of the capital wants to increase WS co-operative's share. The WS co-operative has relationships with other co-operative organizations. 52% of workers are members of the WS co-operative, and most of the white collars are members.

3.6.2. ECONOMIC SCORECARD

The Financial perspective of the Balanced Scorecard refers to the performance of the firm on issues related to increasing productivity and income, reducing costs, increasing turnover of assets and reducing risk. Financial objectives and indicators have a double

function, they describe what is to be the desired performance of a chosen strategy and they reflect what effect the performance on the other three perspectives has had.

I have picked the following variables to test the levels of learning and growth:

- Customer Profitability, also called Return on Sales (ROS), which is measured by dividing income by sales. It is a profitability ratio.
- Sales to Net Working Capital, which is measured by dividing sales by net working capital. Net working capital is current assets minus current liabilities. It is an efficiency ratio.
- Return on Assets (ROA), which is measured by dividing income by assets. It is a profitability ratio.
- Return on Equity (ROE, which is measured by dividing income by equity. It is a profitability ratio.
- Current Ratio, which is measured by dividing current assets by current liabilities. It is a solvency ratio.
- Total Liabilities to Net Worth, which is measured by dividing total liabilities by net worth. Net worth is equity. It is a solvency ratio.
- Total Assets to Net Sales, which is measured by dividing total assets by net sales. It is an efficiency ratio.

These indicators have been picked, because:

- I have picked Customer Profitability (Return on Sales) because it is a key point to reveal the profit (margin) made by each monetary unit in sales, so it represents the efficiency of sales.
- I have picked Sales to Net Working Capital in order to know if the firm is maintaining sales in a proper level, or is misusing assets.
- I have picked Return on Assets (ROA) because it is a key indicator that reveals the profitability of the firm in relation to the assets owned to make such profit.
- I have picked Return on Equity (ROE) in order to know the profitability of the capital invested by the shareholders.
- I have picked Current Ratio to determine the extent to which current assets are financed by long-term liabilities (long term debts), which is the most desirable situation. However, it is the price of the debt the factor that makes eventually debt desirable.
- I have picked Total Liabilities to Net Worth because it is a key indicator to determine the domination of shareholders over creditors in participating in the firm as long as it relates debt and equity.
- I have picked Total Assets to Net Sales in order to know if the firm is having a balanced performance in sales, as long as it relates total investment in assets to sales.

Before showing the table it should be clear that the financial indicators are interpreted in a particular way. The existence of a widely accepted standard statistical data base as Dun & Bradstreet enables the direct comparison of the financial indicators in a way that is unfortunately impossible in all the other indicators due to the lack of similar statistical

data bases. Therefore, and according to the Dun & Bradstreet database classified by economic sectors,

- "1" means that the performance of the co-operative is among the lowest quartile (among the 25% worst firms in the sector in that specific indicator),
- "2" means that such performance is among the second lowest quartile (between 25% worst and 50% worst firms in the sector in that specific indicator),
- "3" means that such performance is among the second highest quartile (between 50% best and 25% best firms in the sector in that specific indicator),
- "4" means that such performance is among the highest quartile (among the 25% best firms in the sector in that specific indicator).

3.6.2.1. Dun & Bradstreet

Dun & Bradstreet (2003) is an independent system of measurement, which is widely accepted by most business analysts all over the world. The Desk-Top Edition, which is the edition used in this research project is based on "over one million financial statements" and "this file consists of U.S. corporations, partnerships and proprietorships both public and privately owned, in all size ranges, and includes over 800 different lines of business as defined by the U.S. Standard Industrial Classification (SIC) code numbers" (Dun & Bradstreet, 2003, p-i).

Regarding the processing of data Dun & Bradstreet says that "after the common-size percentages have been computed for the particular sample, the actual financial statements are then sequenced by both total assets and total sales, with the median, or mid-point figure in both these groups serving as the "typical" amount"" (2003, p-ii). Therefore, "each of the fourteen ratios is calculated individually for every concern in the sam-

ple. These individual figures are then sequenced for each ratio according to a rating of "best to worst", and the figure that falls in the middle of this series becomes the median (or mid-point) for that ratio in that line of business. The figure halfway between the median and the best condition of the series becomes the upper quartile; and the number halfway between the median and the least favourable condition of the series is the lower quartile. In a statistical sense, each median is considered the typical ratio figure for a concern in a given category" (Page ii). However, "upper quartile figures are not always the highest numerical value, nor are lower quartile figures always the lowest numerical value. The quartile listings reflect judgmental ranking, thus the upper quartile represents the best condition in any given ratio and is not necessarily the highest numerical value. (For example, see the items Total Liabilities-to-Net Worth or Collection Period, where a lower numerical value represents a better condition)" (2003, p-ii).

Such statistical data addresses the needs of "everyone interested in the financial workings of business-business executives and managers, credit executives, bankers, lenders, investors, academicians and students" (2003, p-ii).

As Dun & Bradstreet (2003, final note) states "the SIC categories in this directory reflect those appearing in the 1987 edition of the Standard Industrial Classification Manual", all the co-operatives studied had no problems in identifying its activity category according to the Dun & Bradstreet classification and the codes provided in it, because actually most of them use it regularly.

Dun & Bradstreet (2003, final note) adds that "the D&B Financial Information Base includes over one million U.S. companies and is the most extensive and complete source of financial information of its kind", but "this compilation of data should be regarded only as a source of financial information, to be used in conjunction with other sources of

data, when performing financial analysis", this is why the study of the other three perspectives of the Balanced Scorecard, such as the "Learning and Growth", "Internal Business Processes" and "Customer", gain importance to check and contrast the outcome of the direct comparison to the Dun & Bradstreet statistics. Dun & Bradstreet concludes saying "when utilizing these figures, remember:

- Because of the size of this database, and in order to facilitate the many calculations and rankings, many of the very large group samples have been randomly reduced.
- On the other hand, some of the samples from our file are very small, and, therefore, may not present a true picture of an entire line of business. In these small groups there is a chance that a few extreme variations might have an undue influence on the overall figures in a particular category.
- The companies composing our database are organized by principal line of business without consideration for multiple-operation functions.
- With the primary SIC numbers, no allowance has been made for differing accounting methods, terms of sale, or fiscal-year closing date, all of which might have had an effect on the composite data.
- Therefore, D&B advises users that the Industry Norms and Key Business Ratios be used as yardsticks and not as absolutes."

Interpretation of this table is similar to the previous ones, the black shade is the final score and quartile, and there is no grey shades because obviously a firm's performance can only belong to one quartile.

Table 3.1.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)					**X**
Sales to Net Working Capital			**X**		
Return on Assets (ROA)				**X**	
Return on Equity (ROE)				**X**	
Current Ratio				**X**	
Total Liabilities to Net Worth			**X**		
Total Assets to Net Sales		**X**			

In the case of Maska, it scores in the upper quartile in "Customer Profitability", in the second upper quartile in "Return on Assets", "Return on Equity" and "Current Ratio", in the second lowest quartile in "Sales to Net Working Capital" and "Total Liabilities to Net Worth" and finally in the lowest quartile in "Total Assets to Net Sales."

Therefore overall the data collected and illustrated in the table show that Maska gets average marks in this perspective. Maska gets high marks in profitability, medium marks in solvency and low marks in efficiency. As sales are taken into account in the two indicators of efficiency it looks as if Maska trades under its possibilities.

3.6.2.2. First Perspective: Learning and Growth

The Learning and Growth perspective of the Balanced Scorecard refers to the performance of the firm on issues related to research and development as well as innovation. It considers both employees and facilities, and their continuous improvement. The objective of continuous improvement is to get the best out of those employees who are closest to the internal business processes and to the customers.

I have picked the following variables to test the levels of learning and growth:

- Employee Satisfaction, which is measured through internal or external surveys to the employees.
- Employee Productivity, which is measured by Added Value per Worker minus Materials and Services Bought Outside, divided by Labour Costs.
- Investment over Sales, which is measured by dividing sales by investment.
- BET (Break-Even Time), which is measured by the time required for all the accumulated expenses in the product and process development cycle including equipment acquisition to be recovered by the product's contribution margin (the selling price less manufacturing, delivery and selling expenses).
- Employee Turnover, which is measured by the fraction of key employees who have left the company annually.

These indicators have been picked, because:

- I have picked Employee Satisfaction because it is a key point in order to increase the employee productivity and to maintain a low rate of employee turnover. Only satisfied employees will satisfy customers and get good financial performance.

- I have picked Employee Productivity because it is a key point in order to develop and maintain an effective production process oriented to provide high value added at a good price to customers: Effective production leads to good financial performance. This indicator, Employee Productivity, also reveals if the Research and Development policy of the firm is getting good results.
- I have picked Investment over Sales because it is a key indicator that compares effort with outcome. The effort is measured as investment in production processes including Research and Development. The outcome is measured in sales revenue with outcome. This assumes the firm aiming for a good yield and good financial performance.
- I have picked Break-Even Time (BET) because it is a key point in order to increase the effectiveness of the production development cycle, so that the firm can reduce costs and get good financial performance. It also reveals if the Research and Development policy of the firm is getting good results.
- I have picked Employee Turnover to measure loyalty from key employees. It is important that a competitive firm's know-how remains within the company. Therefore high employee turnover is undesirable. Retaining key employees and training them will continue to add value to the production process and yield good financial performance.

These five factors are being reported here with the use of the chart / table see figure.

INTERPRETATION OF THE CHART:

- Irrelevant / Confidential: When a firm indicated that this indicator is not used because either it has little significance for them or has been reported as secret due to privacy policies.

0. Not Collected Information: A firm received this score if they indicated that the information had relevance but was nonetheless not collected.
1. Collected Information: A firm received this score if they regarded the information as relevant and invested effort to collect and store the information but rarely used the information.
2. General Board Has Access: A firm received this score if collected and stored information is disseminated to the board for disclosure purposes.
3. General Board Analyzes Information: A firm received this score if disseminated information is considered and analyzed by the board to assist them in decision making.
4. Decisions Put in Practice: A firm received this score if the board used its analysis of information to take action and also monitor the results of their actions.

It should be clear that as we move from "-" to "4" the care and effort invested in attending to these indicators is increasing. A score of 4 shows the highest level of effort and attention. Why is this significant?

Because Kaplan and Norton argue that non-financial indicators trace the root causes of financial performance, they are the drivers. Financial indicators must show the final results of our effort but do not show the causes of those results. Therefore financial indicators must necessarily be complemented with non-financial ones if we are to under-

stand how performance is improved! The real comparison point, and real source of empirical evidence is in the financial indicators, but non-financial ones drive the general performance and actually determine the competitive position and financial performance in the following years.

In the table, interpretation is as following:

- Grey shade in a certain cell means that the firm scores such mark but that goes, as the arrow represents, beyond up to the cell in black shade.
- Black shade is the final mark of the firm in each indicator.

Regarding the comments of each table, some indicators have additional information in between "(" and ")". This information is the result of the transcript notes that the author collected in the interviews in each co-operative. They are presented as information that complements and enriches the key information, which is collected in the tables and whose interpretation described above.

Table 3.1.1.2.	Irrelevant / Confidential	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction		→	→	→	
Employee Productivity		→	→	→	
Investment over Sales		→			
Break Even Time					
Employee Turnover		→	→	→	

This scale varies according to the value of the practices of the firm in each indicator. Therefore all on the left is of low value and everything on right is of high value. The

more in the right an indicator is scored the better the performance of the firm in this indicator.

In the case of Maska, "Employee Satisfaction" (Maska reports the existence of an annual survey containing issues as relation with supervisors, identification with the values of the firm, trust on the direction, importance of his/her job), "Employee Productivity" (Maska reports the existence of productivity indicators by each worker, number of items / hour, number of items / packed, individually controlled, related to labor costs, and also manpower costs related to the production in market prices and value added controlled for blue-collar workers) and "Employee Turnover" (Maska reports the lack of analysis because the % does not go up, otherwise it would be analyzed. No difference is made between key and non-key employees) are reported as information that lead to decisions in practice, so Maska places great importance on these three indicators. Finally Maska places moderate attention to "Investment over Sales" (Maska reports that there is some investments in R&D, but not related to sales), reporting such indicator as information to which the General Board has access. "Break Even Time" is not very important as far as Maska is concerned because it was reported as not collected information.

Therefore, overall, the data collected and illustrated in the table show that Maska gets high marks in this perspective. Our findings indicate that Maska has a quite high level of concern with learning, research, growth, and development processes.

3.6.2.3. Second Perspective: Internal Business Processes

The Internal Business Processes perspective of the Balanced Scorecard refers to the performance of the firm on issues related to cost, quality, production and time in each department in a firm. The objective of this perspective is to meet the needs of the targeted

customers trough getting excellence from the reception of the order of the customer to the stocks, planning, production and delivery.

I have picked the following variables to test the performance on the learning and growth perspective:

- On-Time Delivery, which is measured through the percentage of deliveries at the time promised.
- Time from the Customer Call to the Solution of the Customer's Problem, which is measured by the time interval between the call and the solution.
- Manufacturing Cycle Effectiveness (MCE), which is measured by dividing processing time by throughput time. Processing time is basically the production of the product and any other process that adds value to the product. Throughput time is processing time plus inspection time plus movement time plus waiting or storage time. The processing time is the only one considered as value-added time.
- Yield, which is measured by the percentage of zero-defect finished items to total items entering the production process.
- Returns, which is measured by the number of returns over the total deliveries.
- Cost of repairs, which is measured by the cost of the repairs done to the production facilities.
- Rates of Cost Reduction (due to improvement in the production process), which is measured by the reduction rate of costs in each process.
- Defect Rate, which is measured by how many defective products in each 1,000,000 units produced.

These indicators have been picked, because:

- I have picked On-Time Delivery because it is a key point in order to increase customers' satisfaction and loyalty. Both factors guarantee good financial performance.
- I have picked Time Interval from the Customer Call to the Solution of the Customer's Problem because it is a key point for increasing customers' satisfaction and loyalty. As said above, both factors guarantee good financial performance.
- I have picked Manufacturing Cycle Effectiveness (MCE) because it is a key indicator that compares value added time to no value added time. Value added time is simply processing time while the remainder is no value added time. This assumes the firm aiming for avoiding time-wasting activities and getting a good yield and good financial performance.
- I have picked Yield because it is a key factor in order to increase the efficiency of the production process. Reducing defects means cost reduction and improved financial performance.
- I have picked Returns because it is a key indicator to know if the firm meets the quality requirement of customers. Customer satisfaction and loyalty lead the firm to good financial performance.
- I have picked Cost of Repairs because it is a key indicator to know if the firm meets the quality requirements in the production process. Having low number of repairs reduces costs of repairs and leads the firm to good financial performance.
- I have picked Rates of Cost Reduction because it is a key indicator to know if the firm meets the quality requirements in the production process. Continuous im-

provement means reducing defective products in each production process in order to get low costs and attain good financial performance.

- I have picked Defect Rate because it is a key indicator to know if the firm meets the quality requirements in the production process. As said above, continuous improvement means reducing defect rate in order to get low costs and attain good financial performance.

These eight factors are being reported here with the use of the table see figure.

Table 3.1.1.3.	Irrelevant / Confidential	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery					
Time Interval from the Customer Call to the Solution of the Customer's Problem					
Manufacturing Cycle Effectiveness					
Yield		→	→	→	
Returns		→	→	→	
Cost of Repairs		→	→	→	
Rates of Cost Reduction					
Defect Rate					

In the case of Maska, the performance in Internal Business processes is very uneven. "Yield" (Maska reports the measurement of yield not in units, but in money terms, and of different input-output rates every month to know how much has been produced in terms of high quality), "Returns" (Maska reports that they measure this indicator in money terms, not in units) and "Cost of Repairs" (Maska reports that they do not repair, because they replace the item. If a product is wrong, they return the whole new item. They

measure the costs of no satisfaction) are reported as information that lead decisions in practice, so Maska places great importance on these three indicators. Maska reports "Manufacturing Cycle Effectiveness" (Maska reports that they do not measure the quantity, because they produce by inventory-stock. To Maska this indicator makes no sense) as an irrelevant indicator due its particular production process. Finally Maska places no attention to the other four indicators.

Therefore the data collected and illustrated in the table show that Maska gets both high and low marks in this perspective. Overall our findings indicate that Maska has a modest level of concern with the internal business processes. However, those indicators to which Maska pays no attention have to do with time and defect rate, two issues that Maska reports as relevant but not extremely so. Maska produces pulleys, which are products where time and defect rate do not play a critical role in their markets, according to its managers.

3.6.2.4. Third Perspective: Customer

The Customer perspective of the Balanced Scorecard refers to the performance of the firm on issues related to getting loyalty from targeted customers. In order to have a good financial performance in the long run a firm has to deliver products that provide value to customers that have been previously targeted. Only satisfied customers are loyal.

I have picked the following variables to test the levels of learning and growth:

- Customer Retention, which is measured by the percentage of customers that are loyal and continue buying from the firm.

- New Customer Acquisition, which is measured by the percentage of new customers over the total.
- Sales Growth per Segment, which is measured by the percentage of growth in sales classified by segments.
- Market Share in Targeted Segments, which is measured by the percentage of market share of the firm in the segments selected as targets.
- Customer Satisfaction, which is measured by the number of complaints from customers or surveys done.

These indicators have been picked, because:

- I have picked On-Time Delivery because it is a key point in order to increase the customers' satisfaction and loyalty. Only satisfied customers are loyal, and it is loyal customers what makes possible a good long-term good financial performance.
- I have picked Time from the Call to the Solution of the Problem of the Customer because it is a key point in order to increase the customers' satisfaction and loyalty. As said above, only satisfied customers are loyal, and it is loyal customers what makes possible good long-term good financial performance.
- I have picked Sales Growth per Segment because it is a key indicator that classifies sales growth by segments. This growth is really vital in those segments identified as targets to guarantee good financial performance.

- I have picked Market Share in Targeted Segments because it is a key point in order to increase the sales revenue from the most profitable customers. The result is good financial performance.
- I have picked Customer Satisfaction because it is a key indicator that makes possible customers' loyalty and good long-term financial performance.

These five factors are being reported here with the use of the table see figure.

Table 3.1.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention						
New Customer Acquisition			→	→	→	
Sales Growth per Segment			→	→	→	
Market Share in Targeted Segments			→			
Customer Satisfaction			→	→	→	

In the case of Maska, "New Customer Acquisition" (Maska reports it is measured by the sales department), "Sales Growth per Segment" (Maska reports this indicator is measured geographically and by product groups) and "Customer Satisfaction" (Maska reports the existence of a questionnaire for each order we deliver and this information is analyzed, there is also an annual survey (quality of the service, product, price…)) are reported as information that lead to decisions in practice, so Maska places great importance on these three indicators. Maska places moderate attention to "Market Share in Targeted Segments" (Maska reports the they do not make a difference by segments, because hav-

ing the accurate information is not possible, the figures on "Power Transmission" generally are available, they do have the figures on the "Power Transmission" sector: they have 66% in America and 30% in Canada), with the General Board having access. Finally Maska reports "Customer Retention" as not collected information, so it does not pay attention to it.

Therefore overall the data collected and illustrated in the chart/table show that Maska gets very high marks in this perspective.

3.6.3. SOCIAL SCORECARD

3.6.3.1. First Principle: Voluntary and Open Membership

The first co-operative principle refers to the openness of the co-operative organization to future members regardless of their origin, therefore the ICA states "co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination" (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- "Relative Effort" relates the annual membership fee and the lowest annual income, which means if the co-operative controls if the membership fee is established according to the economic possibilities of the lowest paid new members to offer them the best conditions of payment.
- "Amount of Co-operative Work" relates the hours worked by members and the total worked hours in the co-operative, which means if the co-operative controls non-members' work in order to remain as scarce as possible.

- "Membership Growth" relates the new members this year and the amount of members the first day of this year, which means if the co-operative controls the percentage of membership growth in order to be the highest possible.
- "Ease of Redemption of Share-Capital" refers to the time spent to give all the fee back to a member that quits, which means if the co-operative controls the if the openness of entrance is completed with the openness to leave in order to be the easiest possible for a member to get the paid fee back.

Table 3.1.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort			→	→		
Amount of Co-operative Work						
Membership Growth			→	→	→	
Ease of Redemption of Share-Capital			→	→	→	

Regarding "Voluntary and Open Membership" principle, Maska scores high marks. "Membership Growth" and "Ease of Redemption of Share-Capital" are reported as information that lead decisions in practice, so Maska places great importance on these two indicators. Maska places quite high attention to "Relative Effort", reporting such indicator as information that the General Board analyzes and uses to make decisions. Finally Maska reports "Amount of Co-operative Work" as irrelevant information because Maska is that is not a conventional worker co-operative but a worker-shareholder co-operative that owns certain part of the equity of Maska, which is as said above, a family-

owned company. This fact makes the amount of co-operative members directly depending on the amount of employees that Maska hires.

Overall the chart/table shows that Maska gets mostly the two highest marks, which implies that they can be considered as concerned with the openness of their co-operatives.

3.6.3.2. Second Principle: Democratic Member Control

The second co-operative principle refers to the democracy as the way to deal with the governance of the co-operative organization, therefore the ICA states "co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner" (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- "Remarks per Member at AGM" relates the amount of total remarks done at the AGM with the attendance rate, which means if the co-operative controls the average participation in the AGM in order to increase it.
- "Renewal within the Councils" relates the amount of members that have participate in councils ever with the total amount of members, which means if the co-operative controls the percentage of members that have participated in order to increase it.

- "Number of Members Attending Voluntary Communication Events" relates the amount of members attending voluntary communication events with the total amount of members, which means if the co-operative controls such percentage in order to increase it.
- "Total Man Hours of Meetings Held for Democracy" refers to the total hours of work spent in meetings to improve communication and democracy, which means if the co-operative controls it in order to increase them.
- "Blue-Collar Members at the General Board" relates the amount of blue-collar members in the General Board with the total members of the General Board, which means if the co-operative controls if blue-collars are represented in such board in order to adapt its amount up to a representative and proportional size according to the total of blue-collar members.

Table 3.1.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM						
Renewal within the Councils						
Number of Members Attending Voluntary Communication Events			→	→	→	
Total Man Hours Held for Democracy						
Blue-Collar Members at the General Board						

Regarding "Democratic Member Control" principle, Maska scores low marks. "Number of Members Attending Voluntary Communication Events" is reported as information that led decisions in practice, so Maska places great importance on this indica-

tor. Maska places little attention to "Blue-Collar Members at the General Board", reporting such indicator as collected information. Finally Maska reports the other three indicators as not collected information, so does not pay them any attention.

Overall the chart/table shows that Maska gets very low marks, which implies that they can be considered as not especially concerned with internal democracy.

The involvement of members in Maska is not as deep as in a conventional worker co-operative due to the fact that members in many cases conceive their co-operative as an investment fund or pension fund, and not as their job provider as in a conventional worker co-operative.

3.6.3.3. Third Principle: Member Economic Participation

The third co-operative principle refers to the importance and correct management of the economic participation of each member in the co-operative organization in a particular way in comparison to the conventional shares in a non-co-operative firm, therefore the ICA states "members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership" (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- "Remunerative Gap" relates the highest remuneration in the co-operative with the lowest one, which means if the co-operative controls internal solidarity in order to increase it and also to control and relate the salaries in the co-operative to the average in the region.
- "Percentage of Absenteeism and Extra Hours (Overtime)" refers to the percentage of people that don't attend their jobs due to illnesses or accidents and the average percentage of overtime in the co-operative, which means if the co-operative controls the quality of labour in order to increase it.
- "Remuneration Average" relates the average salary in the co-operative to the average salary of the competitors, which means if the co-operative controls if pays according to the average in its sector in order to adapt its salaries to such average.
- "Indivisible Common Capital" relates the indivisible capital of the co-operative to the total equity, which means if the co-operative controls the amount of communitarian ownership in order to maintain it at a meaningful level.

Table 3.1.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap						
% of absenteeism and % extra hours (overtime)						
Remuneration Average						
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Maska scores diverse marks. "Indivisible Common Capital" is reported as information that lead decisions in practice, so Maska places great importance on this indicator. Maska places little attention

to "% of Absenteeism and Overtime", reporting such indicator as collected information. Finally Maska reports "Remunerative Gap" and "Remuneration Average" as irrelevant information because Maska is that is not a conventional worker co-operative but a worker-shareholder co-operative what really makes a difference in issues as remuneration and labour conditions as long as those as issues regarding Maska, as a family-owned firm and the provider of jobs. Therefore two out of the four indicators are reported as irrelevant.

Overall the chart/table shows that Maska gets very diverse marks, which implies that Maska can be considered as slightly concerned with the economic participation of their members.

3.6.3.4. Fourth Principle: Autonomy and Independence

The fourth co-operative principle refers to the autonomous nature of the co-operative organization that has to be exclusively controlled by its members, therefore the ICA states "co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy" (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- "Dependence to Three Major Customers" relates sales to the three major customers to total sales, which means if the co-operative controls if there is certain concentration of risk in order to avoid it.

- "Degree of Independence from Other Institutions" relates the percentage of borrowings and donations from other institutions, financial or public, to the budget of the co-operative, which means if the co-operative controls if there is certain risk in order to avoid it.

Table 3.1.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers						
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Maska scores diverse marks. "Degree of Independence from Institutions" is reported as information that led decisions in practice, so Maska places great importance on this indicator. Finally Maska reports "Dependence to Three Major Customers" as irrelevant information because Maska is that is not a conventional worker co-operative but a worker-shareholder co-operative within a family-owned company. The fact that Maska is a worker-shareholder co-operative makes a difference in the fact of the dependence to customers, because it is the family-owned firm that buys and sells and not the worker-shareholder co-operative.

Overall the chart/table shows that Maska gets diverse marks, which implies that they can be considered as slightly concerned with the dependency of their co-operative.

3.6.3.5. Fifth Principle: Education, Training and Information

The fifth co-operative principle refers to the commitment of the co-operative organization to the education and intellectual development of its members and the people

around the organization, therefore the ICA states “co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation” (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- “Endowment to Education / Profit” relates the total endowment to education within the co-operative to the profit made, which means if the co-operative controls such percentage of reinvestment in human capital in order to increase it.
- “Investment in Education in Direct Jobs / Total Investment in Education” relates the education in blue-collar workers to the total investment in education, which means if the co-operative controls if the investment is done in a representative and proportional way in order to adapt it.

Table 3.1.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→		
Investment in Education in Direct Jobs / Investment in Education						

Regarding "Education, Training and Information" principle, Maska scores diverse marks. Maska places quite high attention to "Endowment to Education / Profit" (Maska reports that his indicator is established by the Provincial Law at 1%), reporting such indicator as information that the General Board analyzes and uses to make decisions. Finally Maska reports "Investment in Education in Direct Jobs / Investment in Education" as not collected information because even though they consider it relevant for the co-operative, Maska is not a conventional worker co-operative but a worker-shareholder co-operative that owns certain part of the equity of Maska, which is as said above, a family-owned company. Even though they assume their responsibility to education they think that such information is mostly up to the family-owned firm and managerial staff. It is the family-owned firm who takes care of most of the education programs and not the worker-shareholder co-operative. In Maska the fact of being a blue-collar or white-collar is not a factor taken into account when deciding about education or training issues, so investment in education is not measured according to the specificity of each job.

Overall the chart/table shows that Maska gets diverse marks, which implies that they can be considered as slightly concerned with the education, training and information of their members.

3.6.3.6. Sixth Principle: Co-operation Among Co-operatives

The sixth co-operative principle refers to the commitment of the co-operative organization towards the co-operative movement at any level in order to make it stronger, therefore the ICA states "co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures" (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- "Reconverting Profit" refers to the percentage of profit shared with other co-operatives, which means if the co-operative controls how much does inter-co-operate in order to increase it.
- "Inter-co-operative Funds" refers to the percentage of profit directed to inter-co-operative funds, which means if the co-operative controls how much does direct to common use funds with other co-operatives in the same or different sectors in order to increase it.
- "Moving persons (unemployed members)" refers to the amount of members moved to or received from other co-operatives due to a lack or excess of work, which means if the co-operative controls how much does it co-operate with other co-operatives in terms of employment in order to increase it.

Table 3.1.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit						
Interco-operative Funds						
Moving persons (unemployed staff)						

Regarding "Co-operation Among Co-operatives" principle, Maska scores low marks. "Reconverting Profit" and "Interco-operative Funds" are reported as not collected information, so Maska places no attention on these two indicators. Maska reports "Moving Persons (Unemployed Staff)" as irrelevant information because Maska is that is not a conventional worker co-operative but a worker-shareholder co-operative that owns certain part of the equity of Maska, which is as said above, a family-owned company. This fact makes that hiring staff is up to the family-owned firm and managers, and not to the worker-shareholder co-operative.

Overall the chart/table shows that Maska gets low marks, which implies that they can be considered as not concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in the region of Quebec of not having links related to profit, funds or staff among co-operatives.

3.6.3.7. Seventh Principle: Concern for Community

The seventh co-operative principle refers to the concern the co-operative organization has to be concerned about the community where it is located; therefore the ICA

states “co-operatives work for the sustainable development of their communities through policies approved by their members” (International Co-operative Alliance, 1995).

I have picked the following variables to test the levels of learning and growth:

- “Annual Growth of Staff” refers to the amount of net job creation, which means if the co-operative controls the amount of jobs it creates in order to increase it as much as possible as a contribution to the community or communities where it works.
- “% of Profit to Indivisible Capital” relates the profit the co-operative directs to indivisible capital reserves that belong to the community to the total profit made, which means if the co-operative controls its annual contribution to the common equity in order to increase it.
- “% of Profit to Community” relates the profit the co-operative directs to promote community activities such as culture, sports… to the total profit made, which means if the co-operative controls its annual contribution to the community activities in order to increase it.
- “Investment and Expenses in Environment” relates the profit the co-operative directs to environmental issues to the total profit made, which means if the co-operative controls its annual contribution to the sustainability of the environment around.
- “% of Capital Belonging to Workers” relates the part of the equity belonging to the workers to the total equity, which means if the co-operative controls whether members are the only owners of the co-operative in order to maintain it or eventually make it.

Table 3.1.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff						
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→	→	→	
Investment and Expenses in Environment						
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Maska scores diverse marks. "% of Profit to Indivisible Capital", "% of Profit to Community" (Maska reports that this indicator is established by the General Board at 1% - 2%) and "% of Capital Belonging to Workers" are reported as information that lead decisions in practice, so Maska places great importance on these three indicators. Finally Maska reports "Annual Growth of Staff" and "Investment and Expenses in Environment" as irrelevant information because Maska is that is not a conventional worker co-operative but a worker-shareholder co-operative that owns certain part of the equity of Maska, which is as said above, a family-owned company. It is up to the managers of the family-owned firm to deal with hiring staff and environment issues.

Overall the chart/table shows that Maska gets diverse marks, but gets the highest mark in the indicators reported as relevant, which implies that they can be considered as concerned with the community.

As in other principles related above the fact that Maska is a worker-shareholder co-operative and not a conventional worker co-operative produces a difference in the way Maska approaches this principle.

3.7. Case Two: Promo Plastik

Promo Plastik Cooperative de Travailleurs
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G0R 3G0
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Fax: 418-598-7047
E-mail: **pplastik@quebectel.com**
http://www.promoplastik.com

Promo Plastik consolidated 2002 Figures (in millions CAN $):

Equity: 0.129
Assets: 0.637
Sales: 1.325
Exports: 40 %
Profit: 0.1
Workers: 17
Members: 13
Created in: 1992, before was a division in Plastiques Gagnon Inc, located in the same town and created in 1958.

3.7.1. AN OVERVIEW OF PROMO PLASTIK

In 1992, Plastiques Gagnon Inc., a family-owned firm, decided to sell the printing division, which was what today is Promo Plastik. At the beginning three workers wanted to buy the division but they had to risk their own belongings to accomplish the purchase, and they changed their mind. However, even though the family that then and still today owns Plastiques Gagnon Inc. had an offer from some businessmen from Montreal and

Toronto, the Gagnon family wanted to sell the division to someone who would not move the firm out of Saint-Jean-Port-Joli. It was then when those three workers met, through a local authority, the Cooperative de Developpement Regional Quebec-Appalaches (CDRQA), which informed them about the possibility to buy the printing division by taking advantage of the financial aid provided by the provincial government to start-up workers' co-operatives. Finally the firm stayed at the local community and not anywhere else.

Therefore, Promo Plastik was set up November 1st 1992 by those three members plus six others. Today they are thirteen members. In 1995 Promo Plastik had great financial difficulties due to the fact that two customers did no pay their orders. Consequently, 1996 was a year of re-investment by capitalizing ten percent of their salaries during two years.

Nevertheless, in 1998 Promo Plastik got the order to produce the effigy representing the French national football team in the 1998 World Cup celebrated in France. As a result, Promo Plastik won in the USA the SGIA (Screenprinting & Graphic Imaging Association International) Award in Printed Products. This order also guided Promo Plastik to make new investments in the production process that make of Promo Plastik a firm in constant growth.

Promo Plastik works in the Promotional Items in Plastics sector and "has developed over the strong basis of producing advertising items in national and international markets. Among others, the co-operative has being producing the effigy of *Bonhomme* at the Carnival of Quebec for some years, the credit card protector of Movement Desjardins, a effigy for Poste Canada and recently the effigy of the mascot of the French Soccer team in 1998 World Soccer Cup" (Commerce Monde, 2003).

There are thirteen members and four non-members working. There is no any "membre auxilier", who are future members that spend a year in this status, with neither vote nor participating in capital nor in profit.

3.7.2 ECONOMIC SCORECARD

Table 3.2.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)					**X**
Sales to Net Working Capital			**X**		
Return on Assets (ROA)					**X**
Return on Equity (ROE)					**X**
Current Ratio			**X**		
Total Liabilities to Net Worth				**X**	
Total Assets to Net Sales			**X**		

In the case of Promo Plastik, it scores in the upper quartile in "Customer Profitability", "Return on Assets" and "Return on Equity", in the second upper quartile in "Total Liabilities to Net Worth", in the second lowest quartile in "Sales to Net Working Capital", "Current Ratio" and "Total Assets to Net Sales".

Therefore overall the data collected and illustrated in the table show that Maska gets over average marks in this perspective. Maska gets very high marks in profitability, average marks in solvency and slightly under average marks in efficiency. As sales are taken into account in the two indicators of efficiency it looks as if Promo Plastik trades under its possibilities.

3.7.2.1. First Perspective: Learning and Growth

Table 3.2.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction			→	→	→	
Employee Productivity						
Investment over Sales						
Break Even Time						
Employee Turnover			→	→	→	

In the case of Promo Plastik, "Employee Satisfaction" (Promo Plastik reports the existence of a survey with 14 questions about motivation, labour subjects, shortening production times, training… twice a year) and "Employee Turnover" (Promo Plastik reports that key employees are not controlled and that employees do not leave the company) were reported as information that lead decisions in practice, so Promo Plastik places great importance on these two indicators. Promo Plastik places little attention to "Investment over Sales", reporting such indicator as just collected information. "Break Even Time" (Promo Plastik reports that time is not controlled, but that the amount of pieces it is) and "Employee Productivity" (Promo Plastik reports that the Value Added is controlled in a collective way, but not individually) is not important an indicator as far as Promo Plastik is concerned because this indicator is reported as not collected information.

Therefore overall the data collected and illustrated in the table show that Promo Plastik gets medium marks in this perspective. Therefore, our findings indicate that Promo Plastik has a moderate level of concern with the learning, research, growth, and development processes.

3.7.2.2. Second Perspective: Internal Business Processes

Table 3.2.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery			→	→	→	
Time Interval from the Customer Call to the Solution of the Customer's Problem			→	→	→	
Manufacturing Cycle Effectiveness			→	→	→	
Yield			→	→	→	
Returns			→	→	→	
Cost of Repairs			→	→	→	
Rates of Cost Reduction			→	→	→	
Defect Rate			→	→	→	

In the case of Promo Plastik, the performance in Internal Business processes is the highest possible. All the eight indicators, "On-Time Delivery" (Promo Plastik reports that this is the Golden Rule for them), "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Promo Plastik reports that this is a priority in the sector), "Manufacturing Cycle Effectiveness" (Promo Plastik reports that the processing time of each order is individually controlled), "Yield" (Promo Plastik reports that this indicator is controlled by order), "Returns", "Cost of Repairs" (Promo Plastik reports that if an order is returned, there is no any repair, the order is totally restored, this cost is controlled and leads to decision-making), "Rates of Cost Reduction" (Promo Plastik reports that this is measured individually by each worker, not by steps in the production process. Analyzed only if it is important) and "Defect Rate" (Promo Plastik reports that before delivery, internal quality is controlled and only analyzed if it is important) are reported as information that lead decisions in practice, so Promo Plastik places great importance on these eight indicators.

Therefore the data collected and illustrated in the table show that Promo Plastik gets the highest marks possible in this perspective. Overall all our findings indicate that Promo Plastik has a very high level of concern with the internal business processes.

3.7.2.3. Third Perspective: Customer

Table 3.2.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention						
New Customer Acquisition						
Sales Growth per Segment			→	→	→	
Market Share in Targeted Segments						
Customer Satisfaction						

In the case of Promo Plastik, "Sales Growth per Segment" (Promo Plastik reports that this indicator is used for marketing decisions. Sales growth is not controlled but profitability of each segment it is) is reported as information that lead decisions in practice, so Promo Plastik places great importance on this indicator. However, all the other four indicators, "Customer Retention" (Promo Plastik reports that total customers is controlled, but loyal customers is not), "New Customer Acquisition" (Promo Plastik reports that total sales is controlled, but sales to new customers is not), "Market Share in Targeted Segments" (Promo Plastik reports that this indicator is not collected globally, because there is no any discrimination by segments. Discrimination is just in the selling place, trying to convince the customer of the usefulness of the products with the best margin) and "Customer Satisfaction" (Promo Plastik reports that complaints are not collected statistically,

there is not any survey either), are reported as not collected information, so Promo Plastik doest not pay attention to it.

Therefore overall the data collected and illustrated in the table show that Promo Plastik gets low marks in this perspective, so our findings indicate that Promo Plastik has a low level of concern with the customer perspectives.

3.7.3. SOCIAL SCORECARD

3.7.3.1. First Principle: Voluntary and Open Membership

Table 3.2.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info/Decides	Decisions Put in Practice
Relative Effort			→	→		
Amount of Co-operative Work			→	→		
Membership Growth			→			
Ease of Redemption of Share-Capital			→	→		

Regarding "Voluntary and Open Membership" principle, Promo Plastik places high attention to "Relative Effort" (Promo Plastik reports that this is an amount decided by CDRQA, and as well by a loan from the government (Systeme d'Investissement Co-operatif)), "Amount of Co-operative Work" (Promo Plastik reports that the law establishes this indicator as a rate to respect) and "Ease of Redemption of Share-Capital" (Promo Plastik reports that the law says that the membership fee must stay at least three years in the co-op. There are fiscal deductions too), reporting such indicators as information that the General Board analyzes and uses to make decisions. Finally Promo Plastik reports "Membership Growth" as quite important information because it is information to which the General Board has access.

Overall the table shows that Maska gets mostly high marks, which implies that they can be considered as quite concerned with the openness of their co-operatives.

3.7.3.2. Second Principle: Democratic Member Control

Table 3.2.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM						
Renewal within the Councils			→	→	→	
Number of Members Attending Voluntary Communication Events						
Total Man Hours Held for Democracy						
Blue-Collar Members at the General Board			→			

Regarding "Democratic Member Control" principle, Promo Plastik scores mostly low marks. "Renewal within the Councils" is reported as information that lead decisions in practice, so Maska places great importance on this indicator. Maska places some attention to "Blue-Collar Members at the General Board", reporting such indicator as information to which the General Board has access. Promo Plastik places little attention to "Remarks per Member at AGM" (Promo Plastik reports that 100 % of member attend the AGM, even though attending is not compulsory) because it is information reported as just collected. Finally Promo Plastik reports the other two indicators as not collected information, so does not pay them any attention.

Overall the table shows that Promo Plastik gets low marks, which implies that they can be considered as not especially concerned with internal democracy.

3.7.3.3. Third Principle: Member Economic Participation

Table 3.2.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap			→			
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→			
Indivisible Common Capital			→	→		

Regarding "Member Economic Participation" principle, Promo Plastik scores diverse marks. "% of Absenteeism and Overtime" (Promo Plastik reports 0 % of absenteeism and over time work under the maximum rate established by the general board) is reported as information that lead decisions in practice, so Promo Plastik places great importance on this indicator. Promo Plastik places quite important attention to "Indivisible Common Capital" (Promo Plastik reports that the law, "Investissement Cooperatif", says there is a minimum to capitalize compulsorily from this year 2004), reporting such indicator as information that the General Board analyzes and uses to make decisions. Finally Promo Plastik pays some attention to "Remunerative Gap" (Promo Plastik reports that this indicator is collected within the co-op) and "Remuneration Average" because they are reported as information to which the General Board has access.

Overall the table shows that Promo Plastik gets quite high marks, which implies that Promo Plastik can be considered as concerned with the economic participation of their members.

3.7.3.4. Fourth Principle: Autonomy and Independence

Table 3.2.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Promo Plastik scores the highest marks possible. "Degree of Independence from Institutions" and "Dependence to Three Major Customers" are reported as information that lead decisions in practice, so Promo Plastik places great importance on these two indicators.

Overall the table shows that Promo Plastik gets very high marks, which implies that they can be considered as very concerned with the dependency of their co-operative.

3.7.3.5. Fifth Principle: Education, Training and Information

Table 3.2.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→		
Investment in Education in Direct Jobs / Investment in Education			→	→		

Regarding "Education, Training and Information" principle, Promo Plastik scores high marks. Promo Plastik places quite high attention to "Endowment to Education / Profit" (Promo Plastik reports that the law says that you have to invest 1 % of your total salary expenses in training) and "Investment in Education in Direct Jobs / Investment in Education" (Promo Plastik reports that they respect the percentage established by law),

reporting both indicators as information that the General Board analyzes and uses to make decisions.

Overall the table shows that Promo Plastik gets high marks, which implies that they can be considered as quite concerned with the education, training and information of their members.

3.7.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 3.2.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit						
Interco-operative Funds			→			
Moving persons (unemployed staff)						

Regarding "Co-operation Among Co-operatives" principle, Promo Plastik scores low marks. Promo Plastik pays some attention to "Interco-operative Funds" (Promo Plastik reports not to have any funding in common with other organisations) because it is reported as information to which the General Board has access. "Reconverting Profit" (Promo Plastik reports not to share any profit. The Federation of Worker Co-operative in Quebec wants to accomplish something like that in the future, but there are no enough members) and "Moving Persons (Unemployed Staff)" (Promo Plastik reports not to transfer any job) are reported as not collected information, so Promo Plastik places no attention on these two indicators.

Overall the table shows that Promo Plastik gets low marks, which implies that they can be considered as not concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in the region of Quebec of not having links related to profit, funds or staff among co-operatives.

3.7.3.7. Seventh Principle: Concern for Community

Table 3.2.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→		
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→			
Investment and Expenses in Environment						
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Promo Plastik scores diverse marks. "% of Profit to Indivisible Capital" (Promo Plastik reports that 100 % of profit after bonus goes to reserves, 80 % of profit goes in bonus (as advance of profit)) and "% of Capital Belonging to Workers" are reported as information that lead decisions in practice, so Maska places great importance on these three indicators. Promo Plastik pays quite high attention to "Annual Growth of Staff" because it is reported as information that the General Board analyzes and uses to make decisions. Promo Plastik pays some attention to "% of Profit to Community" because it is information to which the General Board has acess. Finally Promo Plastik pays no attention to "Investment and Expenses in Environment" (Promo Plastik reports it as not controlled, law says nothing yet, Promo Plastik

does nothing either, perhaps eventually law will say something regarding co-ops) because it is reported as not collected information.

Overall the table shows that Promo Plastik gets diverse marks, but clearly over average, which implies that they can be considered as concerned with the community.

3.8. General Findings from Maska and Promo Plastik

To conclude, this chapter shows enough empirical evidence to state that both firms show, given their particular circumstances, that a remarkable social concern and a successful economic performance; being profitable and competitive, is possible in global markets. Actually the two firms are ranked among the most efficient firms in their sectors. Besides the fact that both firms have gone beyond the critical age of ten years old and have got different awards as said above are strong reasons to state that both firms are successful in economic terms.

I have chosen two examples from Quebec to illustrate my basic hypothesis. Also, I have explained the context and history out of which these two cases arose. Then I used the Balanced Score Card to show that these two cases are successful from both a business point of view and from a social point of view. These two cases from a Canadian context are part of my argument to show that, contrary to the position of writers such as Milton Friedman; social orientation does not always interfere with business efficiency.

CHAPTER FOUR

EMILIA-ROMAGNA,

Dopo venti anni Costa dettava la lapide che ancora si puo leggere ad Ostia: "Pane e lavoro | gridando | e brandendo le lucide forti armi de la fatica | uomini donne fanciulli | esercito di pace | dai dolci campi di Romagna | qua trassero | per restituire alla cultura e a l'igiene | a la civiltà nuova | le zolle che l'antica civiltà seminò di ruderi | ed ignavia di principi e prelati | ed inerzia colpevole di governi | la malaria omicida | lungo i secoli | abbandonò | e pane e lavoro ebbero tutti e molti morte..."
(in Zangheri, Galasso and Castronovo, 1986, p. 138).

During 1884-1885, some workers from Ravenna, members of the General Association of Landworkers, won a public contract to drain the Ostia marshes near Rome. Hundreds died of malaria in the process (Earle, John, 1986, The Italian Cooperative Movement: A Portrait of the Lega Nazionalle delle Cooperative e Mutue, London, UK, Allen and Unwin, chapters 1-2)" (Dow, 2003, p.68).

I have chosen three socially oriented companies located in Imola, Emilia-Romagna, Italy as cases to illustrate my hypothesis. These companies are worker co-operatives: Cefla, Sacmi and Ceramica d'Imola. Since these businesses grew out of a particular context in Emilia-Romagna, I will first explain some of that context, and the history of the co-operative movement in Emilia-Romagna.

Part One: History and Context

4.1. Geography

Emilia-Romagna is a region located in central Italy, situated between Lombardia in the north and Piamonte and Rome in the south, at the same latitude as Toscana. It is situated on the southern plain of the River Po, bordered by the Apenino mountain range and the Adriatic Sea. Emilia-Romagna is composed of nine provinces and has a population of about four million people.

Located 100 kilometres from the Adriatic Sea, Bologna is the capital and the biggest city of Emilia-Romagna. Bologna is situated in the centre of the region, with a distance of about 30 kilometres to Imola and to Modena, 60 kilometres to Reggio-Emilia, 75 kilometres to Parma and 130 kilometres to Piacenza, the other main cities in Emilia-Romagna. Bologna is home to Europe's oldest university.

The Emilia-Romagna region is renowned for its fertile soil where one of the best agricultural practices in Italy's history is celebrated. Various products are cultivated on the flat land depending on the season. The Mediterranean climate on the coast of Romagna (Ravenna, Rimini, Forli and Imola [this city belongs to the province of Bologna but it is part of Romagna]) is mostly dry with hot summers and mild winters. Inland, the region of Emilia (Bologna, Modena, Ferrara, Reggio Emilia, Parma and Piacenza) experiences increased amounts of precipitation and therefore higher humidity, hotter summers, and colder winters.

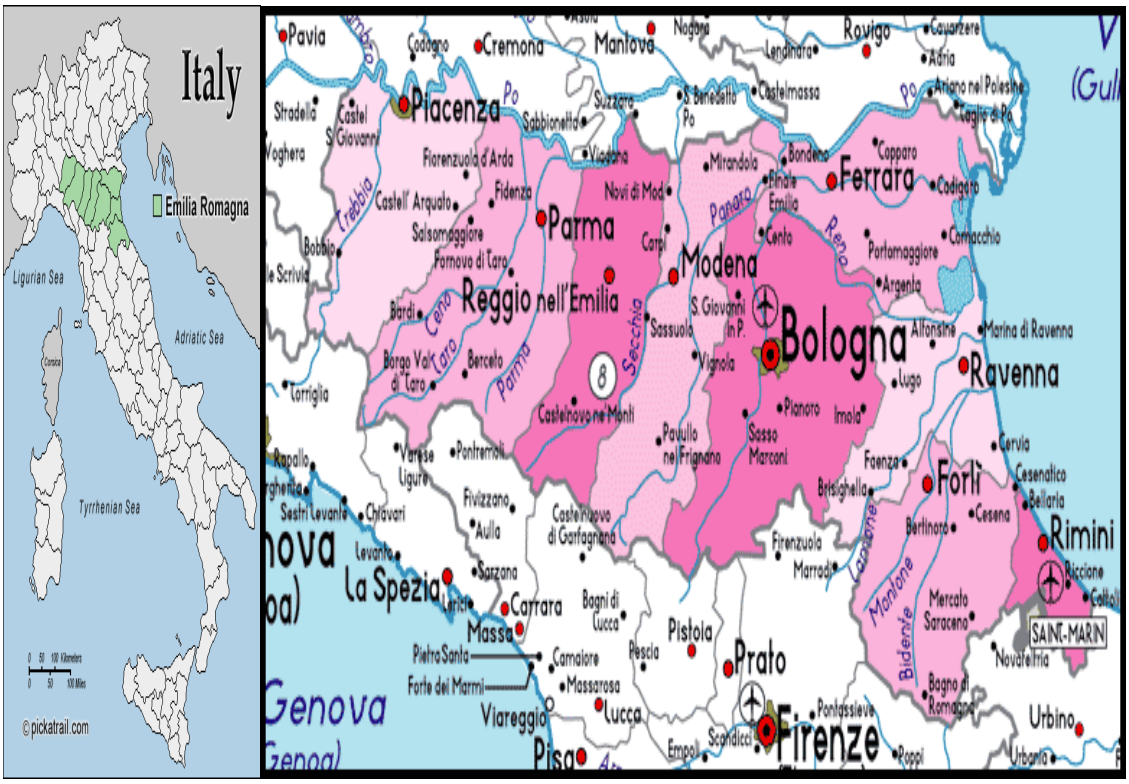
The landscape of this part of Italy is totally flat. The Apenino Mountains lead to the Toscana and also to the Lazio, where Rome acts as the imaginary border between the north and the south. However, Emilia-Romagna is not the most northern region of Italy, and its citizens do not consider themselves as people of the north, reserving that distinction for cities such as Milano, Turin or Venice.

The region is divided into nine provinces, each one having a city as its centre. Even though Bologna is the capital of the region, all the capitals of the provinces have different histories and personalities. Cities such as Piacenza, Parma, Reggio Emilia, Modena, Ferrara, Imola, Forli and Ravenna have been historically important and today they each retain distinct identities.

The highway and the train link all the main cities of Emilia-Romagna, from Rimini on the sea to Piacenza almost on the border with Lombardia. Transportation and communication were traditionally based on Via Emilia, an ancestral way built by the Romans that follows exactly the same route as today's train.

Economic activity historically based on agriculture has given those provinces a landscape combining the traditional agricultural labour in the countryside with industrial factories in urban areas. Originally such industrial activity was based in producing tools and machines for agriculture. However, the industrial revolution made it possible to produce metallic and mechanical products related to other fields such as food, automotives, and clothes. It is also interesting to note the existence of some industrial districts in specialized products such as ceramics, furniture, and shoes.

Economic activity has brought about remarkable prosperity to the largely agricultural region, creating a sharp contrast to the main industrial centres in the North, specifically Torino and Milano. Emilia-Romagna's industrial activity has been conducted in a different way, based on the Small and Medium Enterprise (SME) rather than the big industrial firms as in the North. Over 90% of firms employ fewer than 50 people; most employ between 10 to 15 workers on average. There are only five firms that employ more than 500 people, and three of them are co-operatives (Restakis, 2003).



GDP per capita is 30% above national average and 27.6 % higher than the European average, making Emilia-Romagna the second ranking economic region in Italy and tenth in Europe. However, in 1970 the same region was near the bottom of Italy's twenty administrative regions in economic performance. Today its unemployment rate is lower in only seven other European regions (Restakis, 2003). The economic welfare Emilia-Romagna enjoys today was not so in the past. Putnam (1993, pp. 153-154) says that in 1901 Emilia Romagna had 65% of its workforce in agriculture and 20% in factories.

Cooke and Morgan appreciate the value of Putnam's statement when he said that Emilia-Romagna is the most civic region he studied in Italy and his point in linking this fact with its prosperity depended on its tradition of working together. However, Cooke and Morgan argue that it is the regional reform of 1970 that has made the real difference

in the governance of the region by transforming the social economy in Emilia-Romagna "into a cohesive politico-cultural identity for the newly amalgamated provinces of Emilia and Romagna" (Cooke and Morgan, 2000, p.117).

Economically Emilia-Romagna is based on the "artigianati" or self-employed artisans who represent more than 41% of the companies in the region (Restakis, 2003). This trend may be linked to politics; Emilia-Romagna has been governed by communist and social democrats since World War II. Also, Bologna has traditionally opposed the authoritarian traditions of the monarchy and the papacy (Restakis, 2003).

The region boasts an impressive industrial centre that is well known all over the world because of its many commercial relations with international firms. Emilia-Romagna is sometimes referred to as "the Third Italy" by some academics due to its many differences from the classical dichotomy between the developed North and the depleted South. The reputation of the co-operative movement in Emilia-Romagna as being one of the most important in the world has been strongly influenced by this development of the Third Italy. Emilia-Romagna has had a particular evolution in both interior territorial subareas and productive typology:

a) a general industrialization and movement of the production towards the service sector;
b) a decrease of the influence of Via Emilia as the main means of communication in the region in favour of a equalization of the parts of the region;
c) an increase of the importance and development of peripheral areas of the region;
d) a higher specialization of the production due to higher technology, a higher culture and the integration in the European and global economic spaces (Bernardi and Orienti, 1987, p.61).

Industrialization in sectors like food processing, mechanics, chemicals, and textiles flourished in areas near Via Emilia, mostly Reggio, Modena and Bologna, as an alternative to traditional agriculture and commerce (Bernardi and Orienti, 1987, p.62).

4.2.The Culture

Located in the north-central part of Italy, Emilia-Romagna has some particular features in comparison to other regions in Italy when taking into account the fact that Italy is a relatively new country. Italian regions have each experienced different historical backgrounds prior to the unification of the country in 1861.

Emilia-Romagna has a cultural model that encourages workers to be confident using new technologies and to not fear scientific progress or social growth. This effective model has been autonomously built since before the Italian unification (Varni, 1990, p.19). Some figures about entrepreneurial activity in Emilia-Romagna are surprising. Italy has the world's highest number of workers' co-operatives, what they call "co-operatives di produzione e lavoro" (production and labour co-operatives); within the country, Emilia-Romagna is the region with the highest rate of such co-operatives. Workers' co-operatives are not common throughout the world, and the high number of them in this region is especially remarkable.

The first co-operative that was started in Italy was a consumer co-operative in Torino in 1854. Two years later in 1856 some glass artisans in Altare, Piemonte, set up the first production co-operative. However, the first co-operative practices are believed to have originated in the Kingdom of Sardegna in the early 1850s, but there is a lack of consistent historic evidence; therefore, Torino is generally regarded as the birthplace of modern co-

operatives. It is believed that the establishment and first expansion of the artisan co-operative in Piemonte was possible due to the more supportive law in the Kingdom of Piemonte that promoted the existence of "societa operaie di mutuo soccorso," which were groups of craftsmen who were able to sustain themselves economically in the decade prior to Italy's confederation. Those organizations had certain similarities with the old art crafts "mestiere" with a strong sense of social and professional identity, but worked in a different organizational structure (Fornasari and Zamagni, 1997, pp. 21-22). This can be considered to be the origin of workers' co-operatives in Italy.

4.2.1.ASSOCIATIONS

Emilia-Romagna has a very high rate of collaboration due to the prominence of manufacturing and craft labour, of polycentrism, and of all the socio-economic relations determined by the region's proximity to water and its rich soil (Degl'Innocenti, M., Le Origini della Cooperazione in Emilia-Romagna, in Varni, 1990, p. 21) (See also Degl'Innocenti, M., Cittadini e rurali nell'Emilia Romagna rossa tra'800 ed'900, Milano 1990). Historically the relations between urban and rural areas were strained, but this mistrust was mended by the building of the railway, which connected men, their products, and their ideas from one region to another. The railway was the symbol of the new reality of machines, technology and money in modern Europe. This was the "Emilian feature," which supported the strong and general emotional involvement and interests within the movement to identify with the Risorgimento and moreover its "cavourian" version (Varni, 1990, p.9).

4.2.2.IDEOLOGICAL INFLUENCES

Co-operative movements in Italy started alongside the attempts to unify the country. In the 1850s, Italy was a country with many different ideologies. Many of them influenced the co-operative development due to their effects on members as citizens.

As Zan (1982, p. 249) states, co-operatives in Italy are the fruit of several ideas and ideologies, and consequently he recognizes four main traditional influences: a social-liberal one, a catholic one, a Mazzinian one and a socialist one (see also Degl'Innocenti, 1977, pp. 37-72). We can say that the Mazzinian model is the only one that is particularly Italian, and in this sense Zan remarks that in comparison to catholics and social-liberals, co-operatives for Mazzinians had more than a conservative function but were the basis to build a fair and united society (see S. Gnani, Il contributo del pensiero mazziniano alle origini del movimento cooperativo, in Fabri, op. cit., pp. 585-595; O. Spinelli, Mazzini e la cooperazione, Pisa, 1956) (in Zan, 1982, p. 250).

Giuseppe Mazzini, who knew Marx, was adamantly opposed to the class war, so he proposed the alternative of merging capital and labour in the same hands. He called this model "association," which is a concept similar to what we know today as co-operative, and he explains this idea in his 1858 book *The Duties of Man* (Giuseppe Mazzini, *Selected Writings*, edited by N. Gangulee, Lindsay Drummond, London, 1945, pp. 184, 185). Fornasari and Zamagni (1997, p. 25) see Mazzini's philosophy as central to spreading co-operative ideas and values in Emilia-Romagna. Mazzini proposed the open organization of producers by linking capital and labour under the principle that the result of work belonged to the workers; therefore, profit was to be divided according to the work accomplished and was distributed evenly to each member. This was precisely the

essence of the letter that Mazzini sent to George Holyoake, one of the fathers of English co-operativism, in 1862 (cited in Briganti, W. 1982, Il Movimento Cooperativo in Italia 1854-1962, 3 voll., Roma-Bologna).

4.2.3.INDUSTRIALIZATION

Industrialization has been a relatively late phenomenon in Emilia-Romagna. In 1870 rates of industrialization in Emilia-Romagna were very low in comparison to other places in Italy. Only 5.41 people out of every thousand were employed in industry in Emilia-Romagna, while Piemonte had 24.60, Liguria had 14.80, Lombardia had 41.53, Veneto had 13.14, Marche had 10.34, Toscana had 10.74 and Campania had 10.12 (Varni, 1990, p.11). At that time this difference was even bigger in cotton looms. Emilia had 170 power looms and 635 handlooms, while Lombardia had 4,125 and 4,096 respectively; Piemonte had 616 power looms, Toscana 460 and Veneto 978. This difference was also remarkable regarding the employees working to process raw silk. Emilia had 3,384 formal enterprises, while Piemonte had 33,730 and Lombardia had 126,756. However, work was mostly decentralized in Emilia, which had 33,541 informal workplaces with working looms while Lombardia had 19,690 (Varni, 1990, p.11-12). This example gives a fundamental notion to understanding the particular nature of economic development in Emilia-Romagna, where self-employment and the Small and Medium Enterprises (SME) have played a major role and the big firms have less importance than in other regions of Italy.

The first years of industrialisation were focused on looms, but the food processing industry soon took its place as the main economic activity due to the region's connection to agriculture. Historically agriculture has been the main activity in the region and it has low capital needs; little capital, unstable labour conditions and dependence on seasonal

work were common challenges in Emilia-Romagna (Varni, 1990, p.12). But the food processing industry was not the only spin-off activity of agriculture. Metalworking and mechanics experienced strong development at those times as an effort to improve crops by using machines. Created in the years right before the unification of Italy, largely in cities and especially in Bologna, industrial work strengthened the figure of the "mezzadria" (métayage or sharecropping) as long as it eliminated hiring seasonal workers in cities and enabled steady employment with the development of industrialisation. Also industrialization produced a small core of specialisation in producing many goods such as agricultural machines and threshing machines, but also machines for other markets such as the wine industry, oil industry, motors, boilers, pumps, portable steam engines, gas motors and some house appliances in cast iron (Varni, 1990, p. 12).

The harmonious existence of the artisans is a core point in the later socio-economic development of the region. A unique feature of Emilia-Romagna is its balanced development among its provinces and cities, unlike other regions where the capital cities are much bigger and more important than smaller towns. This balance between the rural and urban areas is the basis where all the economic activity in the last few decades has developed, including the well-known concept of the Italian industrial districts. Development in Emilia-Romagna has taken place in a very different way than the traditional model of industrialisation of Lombardia and Piemonte, where large amounts of capital were invested in big companies.

With the exception of the public works, all other industrial activities were developed under low capital structures. Railway construction required a great amount of capital and hiring huge manpower. Public money from the Italian state that could be considered as an exogenous source of development helped some firms in the region to prosper (for in-

stance CCPL, being a famous case later in 1904) as long as they took the contracts to finish the construction of the railway. Contracting the majority of public works jobs to co-operatives helped to expand urbanization within the region, which also elevated some co-operatives to dominant positions in some markets. For instance, in public works between 1910 and 1912, 89% of works were developed by co-operatives in the province of Ferrara, 76% in the province of Bologna and 50% in the province of Reggio Emilia (M. Ruini, Il fatto cooperativo in Italia, Bologna, 1922, cit., pp.84-85); the rate in the whole region of Emilio-Romagna was over 58% (Degl'Innocenti, M., Le Origini della Cooperazione in Emilia-Romagna, in Varni, 1990, p.27).

The co-operatives' dominant position was unquestionably favoured by the state, but it became a controversial topic related to the free concurrence during Giolitti's presidency and even more so after the First World War. As Riguzzi has found, workers' co-operatives were caught in the political struggle to conquer the public administration upon which they depended to a great extent (B. Riguzzi- R. Porcari, La cooperazione operaia, Torino 1925, p. 330) (Degl'Innocenti, M., Le Origini della Cooperazione in Emilia-Romagna, in Varni, 1990, pp. 27-28).

It is interesting to remark that Piemonte, Lombardia and Emilia were the regions where industrial co-operatives had a higher presence. Fornasari and Zamagni (1997, p. 50) are correct when they say that while this fact in the first two regions was a by-product of a cautious industrialization process, in Emilia it may relate to the survival of traditional craft talent in sectors such as textile production, ceramics, typography, carpentry, tailoring (dress-making), and shoe making that demand a high professional specialization. In this sense it is helpful to remember Bagnasco's concept of the Third Italy, when he said that besides the northern industrial Italy and the backward south or Mezzogiorno, there

was another Italy, "based on a 'diffuse economy' – small-scale, but technologically advanced, and highly productive" *(*Arnaldo Bagnasco, *Tre Italie: La problematica territoriale dello sviluppo italiano* (Bologna: II Mulino, 1977) and Bagnasco, *La costruzione sociale del mercato: Studi sullo sviluppo di piccola impresa in Italia* (Bologna: II Mulino, 1988*)*(in Putnam, 1993, pp. 159-160).

4.2.4.INDUSTRIAL DISTRICT

At this point it is worthwhile to explain the connections between the worker co-operatives and the industrial districts, two major phenomena in Emilia-Romagna. Originally a concept created by the famous economist Alfred Marshall, industrial districts are the source of a vast bibliography. The aim of this work is not to go in depth into this subject, but rather to link the relationship between industrial districts with the co-operative phenomena in Emilia-Romagna, as both models determine to a great extent the nature of the economy of the region (see Piore and Sabel, 1984. Pyke, Becattini, and Segenberger, 1990, especially Sebastiano Brusco, "The Idea of the Industrial District: Its Genesis," pp. 10-19, and Giacomo Becattini, "The Marshallian Industrial District as a Socioeconomic Notion," pp. 37-51. Brusco, 1982, pp. 167-184. Bianchi and Gualteri, in Leonardi and Nanetti, 1990, pp. 83-108) (all in Putnam, 1993, p. 160).

Regarding industrial districts, Piore and Sabel emphasize the importance of community and history in economic growth:

> The cohesion of the industry rests on a more fundamental sense of community, of which the various institutional forms of cooperation are more the result than the cause… Among the ironies of the resurgence of craft production is that its deployment of modern technology depends on its reinvigoration of affiliations that are as-

> sociated with the pre-industrial past (Piore and Sabel, 1984, p. 265, p. 275) (in Putnam, 1993, p. 161).

Putnam agrees with this assessment of stimulating a community's economy, stating "what is crucial about these small-firm industrial districts …is mutual trust, social cooperation, and a well-developed sense of civic duty – in short, the hallmarks of the civic community" (see Brusco, pp. 15-16; Becattini, p. 33, p. 39; Piore, p. 55, pp. 58-59, and Trigilia, pp. 179-182, all Pyke, Becattini, and Sengenberger,1990, Feltrin, 1988, pp. 51-81, Saxenian,1990, pp. 89-112) (all in Putnam, 1993, p.161) (see also Vera Zamagni, 1978, p. 216) (in Putnam, 1993, p.185).

Industrial districts and the co-operative movement in Emilia-Romagna are two different trends. The contribution of the workers' co-operatives to industrial districts has been insignificant; they are not part of the classic industrial districts as enterprises. In hard or tangible terms the relationship between both systems is nonexistent; the goal of workers' co-operatives is to gain more and more size, to grow and become a large firm, sometimes to gain power in both economic and political terms, whereas firms in the industrial districts are based on small size and flexibility. However, in soft or intangible terms there is no questioning the fact that the industrial districts are based on a co-operative production system caused by the co-operative culture that existed in Emilia-Romagna for centuries. The production system in industrial districts is based on flexible manufacturing networks among small firms working together in a co-operative way. The physical closeness of those firms, sometimes working one next to the other, enables coordination in dividing production into different steps to simplify sharing a certain order among different local firms in the network, in most cases related by links among families

owning these firms, in order to gain flexibility and provide high quality to the customer that placed the order.

Another thing that links the co-operative culture and industrial districts is that both are linked to the region in a very strong way that enables the flexibility in both operational and management terms, a sharp contrast with the operation of big firms. Small firms in the districts and co-operatives are both creations of a certain territory and this is precisely what makes them survive (Censcoop and Smaer, 1995, p. 62).

As an example of this system of SMEs working together, it is important to show the co-operative nature of these networks, even though the firms are not co-operatives. After studying the system of SMEs within the Carpi district, Cooke and Morgan (2000) have determined that Carpi "was *co-operative* in the manner in which chains of hundreds of sub-contractors, each tending to focus on a particular position in the division of labour, functioned effectively to sell internationally and provide work for 18,000 people" (p.124). They conclude by saying that "successful industrial districts share a common 'productive culture' involving high levels of trust and loyalty and low levels of opportunism owing to the existence of social integration or a 'community market'" (p. 131). The literature on industrial districts assumes the existence of an intrinsic co-operative atmosphere strongly rooted in the local context. The result is a strong correlation between an industrial district and a co-operative district, what is called 'bacini cooperativi' (Censcoop and Union Camere, 1998, p.76).

4.3. Political Structure: After the Second World War

Following the Second World War, Italy wrote its Constitution as a Republic. The 45th article of the Italian Constitution is dedicated to co-operatives (Lega, 1983, pp. 14-15). In the second half of the twentieth century, politics in Italy were made in a very particular way as a result of the Christian Democrats forming the government and the PCI remaining out of power (Lega, 1983, p.17). This situation influenced the way in which co-operatives have developed legally.

The 1950s and 1960s were years of settlement. The Fifties lead co-operatives to a strong development because of the economic miracle of the Marshall Plan. Even more interesting is the expansion of the sixties, due largely to the effects of the crisis of the Italian economy: young people rejected by the private sector got involved with co-operatives, the troubled government saw co-operatives as a means to sustain employment, banks gave more credits to the co-operatives, and private firms in crisis saw reforming as co-operatives as a way to survive. In the sixties co-operatives grew even in the south of Italy and produced a certain balance in the regional distribution of the co-operative movement (Fornasari and Zamagni, 1997, pp. 161-162).

The four national co-operative organizations, Lega, Confcooperative, Associazione generale, and Unione generale, established their sectoral structures after the Second World War. However, this structure has not been attractive to other co-operatives because they are not a part of the four main co-operatives (Fornasari and Zamagni, 1997, pp.162-163).

4.3.1. PUBLIC ADMINISTRATION

Municipalities, especially those governed by leftist parties, have always supported co-operatives. However, this support is limited to their start-up and assisting develop-

ment, not in benefiting them by giving tenders because contracts have to fulfill legal requirements of impartiality.

Earle (1986, p. 209) makes note of Confindustria, the national enterprise association in Italy, and their continuous claims against what they call "a grave distortion, a serious impairment of the prospects for the country's progress, that is, the distortion of the market…" because "cooperatives enjoy a system of exemptions and privileges that has no equal …in any other section of the productive life of the country, but also meets no match in any other industrial country." Earle defends the co-operatives' support by arguing that "the movement certainty receives public support and facilities; but so does the rest of the economy. Italy has a labyrinth of incentives, concessions and controls that, within the general framework of a capitalist system, distort and sometimes nullify the natural play of a free market. The argument that cooperatives are privileged over everyone else does not hold water." He also states that "some further considerations are relevant. A shareholder in a private company invests capital on which he expects to receive a dividend. If things go badly, he will lose his capital; but if things go well, it will increase, and may multiply many times. A member in a cooperative also invests capital. If things go badly, he too will lose it. But if things go well, his capital share remains at the same value, and he may withdraw that and no more when he leaves. He thus does not have the same opportunity of making a capital gain; such indeed was not the intention."

4.3.2. LAW

Before anything else it is essential to call attention to the Berlusconi government's new law designed to regulate co-operatives. The new law written in 2003 divides organizations into two groups: mutual organizations if more than 50% of the activity is devel-

oped for members, and non-mutual organizations. Mutual organizations have indivisible reserves, but non-mutual organizations have reserves that can be divisible.

The Italian law allows external investors in co-operatives. In this point it is interesting to remember that an external investor cannot control the productivity in a firm controlled by workers. Dow (2003, p.71) describes this arrangement in clear terms: "Outside equity shares (voting or non-voting) were authorized, as long as the votes on these shares did not exceed 30 percent of the voting rights in the general assembly. Non-voting shares were offered a return that was 2 percent higher than on members' shares. This was accompanied by a requirement that medium-to-large co-ops provide certified annual reports."

Support from government existed through concessions of public works in the early days of the twentieth century. As a result, workers' co-operatives heavily depended upon the public administration because without their assistance the public works would have been given to private firms (see Riguzzi and Porcari, 1925, p. 330). The workers' co-operatives claim the decision to change the law to help them with public works was proposed by socialist MPs.

As Lega (1969) claims, in Italy "the Republic recognizes the social function of co-operatives in a mutual character and without ends of private speculation. The law promotes and favours the growth of the fittest means and guarantees, with the proper control, their character and ends." The law also recognizes the monitoring and development of the artisans (in Earle, 1986, introduction). The oldest constitution in Italy contained an article supporting co-operatives and the constitution of the Zurich Canton in 1869 in its 33 article said: "The state encourages and makes easier the development of co-operatives based on mutuality." Also in the nineteenth century the famous Report of 1872 *(Relazione* del

1872) recognized the need for a special co-operative law. After a long process, the new commerce code of 1882 contained the VII section of the XI title of book I to the co-operative enterprise (Fornasari and Zamagni, 1997, pp. 38-39).

The new co-operative law developed quickly. In 1946 the Ministry of Labour created a General Direction of co-operatives, which was responsible for the training and supervision of co-operatives, and dissolved the Fascist Ente. In 1947 the Constituent Assembly approved an important article of the new constitution that later became article 45 that explicitly stated the following regarding co-operatives:

> In 1947 the first organic law about co-operatives was approved, widely known as the "Basevi law" in the name of his inspirer. Such law fixed both the solidarity and democratic principles that should inspire the co-operatives and the clauses to certify the respect of the requirements of mutuality stated by the constitution. A different law that was enriched by the Basevi law established beside the National Labour Bank (Banca Nazionale del Lavoro, BNL) (the former Banca della cooperazione) a special section of credit for co-operatives called Coopercredito. For many years Coopercredito was the only credit structure to financially sustain the development of co-operatives, providing loans in lower interest rates than the conventional bank system. However, the amount of credit available from BNL, whose credit line was raised more times, was totally insufficient. Besides the Basevi law stated strong limitations to the capacity of co-operatives to get enough capital-risk. Therefore co-operatives have historically suffered from a chronic lack of capital (Fornasari and Zamagni, 1997, pp. 151-153).

The famous "Marcora law", number 49 in 1985 contained measures to promote credit to co-operatives and urgent measures to protect the levels of employment (Fornasari and Zamagni, 1997, p.157).

There was another law in 1992, number 59, titled "New norms in co-operatives" (*Nuove norme in materia di societa cooperative)*. The most remarkable progression was the new method of financing for co-operatives, designed with the objective of solving the old problem of under capitalization. The lawmaker realized that co-operatives cannot develop as small and weak enterprises and that society can take advantage of strong and modern co-operative enterprises. To this end, the law established a new kind of member, the financer member (that already existed in the insurance mutuals), whose financial resources could be used as funds for technological development and for restructuring and strengthening the enterprise (housing co-operatives were excluded). Alongside the figure of the financer member, the new law approved the issue of shares of the co-operative: they are holder shares without voting rights but with the right of profit sharing and of refunding capital (Fornasari and Zamagni, 1997, pp. 158-159).

Another important regulation was the Marcora law in 1987 that made possible the transformation of capitalistic firms in crisis into co-operatives and created a fund to finance such process. Dow (2003, pp. 71-72) describes an example of this law's effectiveness: "In 1986, the three major Italian cooperative federations and the three national trade union federations created CFI (Campagnia Finanziara Industriale), a risk-capital company that aimed to save the jobs of laid-off workers by converting bankrupt small and medium-sized industrial enterprises into workers' cooperatives. From 1986 to 1994, CFI converted 115 such enterprises into cooperatives, a process that involved 4,000 workers" (Roelants, 2000, pp. 67-83).

Massari, the former president of the Industry Federation in Emilia-Romagna, claimed that the advantages that co-operatives enjoyed were also available to enterprises (in Confcooperative Emilia-Romagna, p.43). In this sense it is interesting to recognize that in Emilia-Romagna both the SMEs and co-operatives have taken advantage of the regional industrial policy specifically oriented to promote artisans and small industry, support the building of industrial plants in 1970s, and create centres to provide real services to those firms in 1980s (Censcoop and Smaer, 1995, pp. 62-63).

Finally it is necessary to acknowledge the regional decentralisation in Italy in 1970s, and the power to co-operative law making is also a regional matter. Nineteen seventy-five's law number 387 contains legislation for such transmission of power. In as early as 1970 Emilia-Romagna recognized co-operatives as a relevant sector to promote (Censcoop and Smaer, 1995, p. 74). As Zan points out (1982, pp. 300-301) some regions have established funds to promote co-operatives, especially in depleted areas (see G. Minervini, Lo Stato e il fenomeno cooperativo, pp. 65-82, in V. Buonocore (a cura di), Cooperazione e cooperative, Liguori, Napoli, 1977). He concludes saying that support for new co-operatives depends more on specificity, groups that are focused on certain market sectors or regions, rather than general entities.

4.3.3. TAX POLICY

On tax policies the recent law passed by the Berlusconi government and called "legge sull drito societario" is considered to be revolutionary in the Italian co-operative movement. Until now co-operatives have enjoyed a benefit, and the reinvested profit was not taxed. Now with the law designed by Minister Tremonti, only prevalent co-operatives will hold the benefit. According to the new law prevalent co-operatives are those that at

least sell 51% of the turnover to members, and in the case of workers' co-operatives those where at least 51% of labour costs are from worker members. The law considers non-prevalent co-operatives close to limited companies, and give them the chance to share profit in dividends to their members.

Tab. 6.2. – Distribuzione regionale delle imprese cooperative 1992. Fonte: "La Rivista della cooperazione", gennaio-aprile 1993.

Regione Consorzi Impresa	Imprese e	Occupati occupati per	N. Medio e totale	% sull' occupazion
Piemonte	2.980	28.141	9,4	1,56
Lombardia	7.254	44.325	6,1	1,15
Trentino	1.249	10.914	8,7	2,80
Veneto	3.979	40.120	10,1	2,17
Fruili V.G.	1.549	13.787	8,9	2,90
Liguria	1.409	14.516	10,3	2,30
Emilia-Romagna	**5.190**	**91.711**	**15,5**	**5,26**
Toscana	3.653	40.183	11,0	2,81
Lazio	3.513	25.451	7,2	1,29
Campania	8.458	28.610	3,4	1,62
Sicilia	6.681	22.783	3,4	1,54
ITALIA	61.046	448.668	7,3	2,08

(Fornasari and Zamagni, 1997, p. 164).

4.4. The Co-operative Movement

The "Emilian model" refers to all the co-operative movement that has developed in the Italian region of Emilia-Romagna over the last one hundred fifty years. This model is based on different organisations that work together to make the model work. The Emilian model is an organic model that evolves according to the general circumstances of society.

The societa di braccianti and later co-operation were at the core of the collaborative movement of resistance and independence that developed in places of high capitalist development. The workers' mentality of self-sufficiency, the diffusion of individual technical professional capacity, and monitoring the traditional "mestiere" were the defining characteristics of the Emilian model. Collaboration was first mutual and later co-operative (Degl'Innocenti, 1977, pp. 38-39).

4.4.1. ORGANIZATIONS OF THE EMILIAN MODEL

The four co-operative organizations that exist in Italy can all be found in Emilia-Romagna. However, their individual contributions are very different in Emilia-Romagna when compared to other regions.

Even though there are four main co-operatives in Italy, two are more important: Lega and Confcooperative. The other two are Associazione and Unione. Earle (1986, p. 203) describes the differences between Lega and Confcooperative in the following way: "although they collaborate on national issues, their ideological inspiration is too different to envisage them uniting. (…) The Confederation, although large in numbers, believes in keeping cooperatives fairly small and in emphasizing the value of human solidarity; it

has, moreover, been devoting its energies to recovery from a financial crisis. It is the League that is making the running in thinking how the movement should prepare to enter the next century."

In the first years of the twentieth century, the Italian co-operative movement was influenced by political ideologies. Many co-operatives joined Filippo Turati's Italian Socialist Party and many others joined the social catholic movement that was consolidating at that time. Ideological profiling was very important to the Italian co-operative movement because many co-operatives were linked to political parties (basically liberals, catholics and socialists). The authority companies had held when working together was fractured because of opposing political ideologies; this dissemination of power is now considered to be one of the Italian co-operative movement's biggest mistakes (Fornasari and Zamagni, 1997, p.80). Due to the increasing social tension within the society, these political distinctions weakened the consistency of the co-operative movement (Fornasari and Zamagni, 1997, p. 96).

After the Fascist period, both organizations were transformed by the regime into a tool to control social conflicts under its closed structure. There were some attempts to unite both the Lega and Confcooperative into one organization after the Second World War (Conti, 1979, in Fabbri, 1979); however, it was not possible and the Fascist ENFC was dissolved without establishing the organization that was supposed to consolidate Lega and Confcooperative. In a separate way in 1945 a group of catholic co-operators reorganized Confederazione Cooperativa Italiana (CCI) under the pattern the organization created in 1919. Also in 1945 the Lega Nazionale delle Cooperative e Mutue was reorganized comprising the left with a reformist head. After a couple of years Lega turned towards social communism, which enabled Lega to build a close relationship with the

Italian Communist Party (PCI). In 1952, the republican side and a part of the social democracy left Lega to organize a third national organization, Associazione Generale delle Cooperative Italiane (AGCI) (Fornasari and Zamagni, 1997, p.147).

Those three national organizations are third degree co-operatives. First degree co-operatives are the enterprises, the key element, that in many cases are joined in consortiums (consorzi), the second degree organizations are the provincial or regional groups or consortiums, and the third degree organizations are the national organizations recognized by the ICA. The 1947 law controls those third degree organizations. In 1975 a fourth national organization, Unione Nazionale Cooperative Italiane (UNCI), was created as a division of the Confcooperative, to whom it is still linked due to the pressure of the existing three organizations that questioned this split before the Ministry of Labour (Canosa, F., 1978 Bianca, rossa e verde. La cooperazione in Italia, Bologna) (in Fornasari and Zamagni, 1997, p.147).

These four organizations have built vertical organizations (sectoral) and horizontal (regional) divisions alongside specialized national organizations. These organizations and their everyday activities have led them to decrease their initial emphasis on ideological and political principles:

- representing and monitoring associated co-operatives in the relations with external agents;
- technical support of associated co-operatives, basically administrative, financial and training;
- controlling associated co-operatives to avoid false co-operatives that do not work according to co-operative principles;

- promoting the image of co-operatives and new co-operative experiences;
- coordinating and directing associated co-operatives in regional and sectoral ways, through actions of mediation and settlement of conflicts, and identifying projects for their development.

The co-operative movement has become a group of several systems of enterprises with diversified institutional and functional figures in each system (Zan, 1982) (in Fornasari and Zamagni, 1997, pp.149-150). Earle explains that the four main centrals "are responsible for inspecting their own co-ops. An inspection, according to the ministry officials, looks into three areas: a co-op's operations; its observance of cooperative, non-profit-making principles; and its accounts. Inspections are of two kinds: ordinary (every two years) and extraordinary" (Earle, 1986, p. 66).

4.4.2. WORKERS' CO-OPERATIVES (PRODUZIONE E LAVORO)

The workers' co-operatives in Italy, including those in Emilia-Romagna, have different characteristics varying from company to company. The size of manufacturing co-operatives in Italy is not always small or medium. As Holmstrom (1989, p. 29) explains, "in 1980 the Lega's construction cooperatives averaged 269 employees and engineering and metalworking cooperatives averaged 135, with most other manufacturing activities in the 40-75 range" (in Dow, 2003, p.68). This makes an interesting point to differentiate the profile of the manufacturing co-operative from the typical SMEs participating in the industrial districts. For example, in the case of Lega there is a preference for big co-operatives because they are perceived to be more proficient and therefore able to finish greater tasks.

Workers' co-operatives in Italy have developed according to the economy of each region. The establishment and expansion of Emilia-Romagna's co-operative movement followed the example set by the earliest workers' co-operative in Italy; instead of blowing glass, the earliest co-operative in Emilia-Romagna performed public works such as constructing roads and erecting buildings (Earle, 1986, chapters 1-2)(in Dow, 2003, p.68). Within the worker's co-operatives (cooperative di produzione e lavoro) there are manufacturing co-operatives, building co-operatives, and service co-operatives (transportation, tourism, cultural). Emilia-Romagna's is the most widely diversified system of co-operatives in Italy; it is this successful working example that has distinguished Italy's co-operatives as a leader in Europe and has garnered recognition at the international level.

Dow (2003, p. 72) says that all the workers' co-operatives in Italy "account for 8 percent of national sales in construction, and a share of about 10 percent for pottery, woodworking, glass-making, and certain fields of mechanical engineering" (Jones and Svejnar, 1985, pp. 449-465). He complements this view, saying that "in 1991, worker-controlled firms accounted for 28 percent of employment in cleaning services, 16 percent in road transport of goods, 15 percent in vigilance services, and 13 percent in welfare services" (Pittatore and Turati, 2000, pp. 23-48). Pittatore and Turati also observe that these service industries have the following characteristics in common: tasks are standardized and homogeneous, firms need little capital, and investments are not highly specialized.

4.4.3. TRADE UNIONS

There are historical and cultural reasons to support members of a workers' co-operative forming a trade union. Some people in Emilia-Romagna understood that trade unions and co-operatives were different parts of the same thing. There was an ideological

link between the two; both were perceived as a means to improve working-class people's lives.

Emilia-Romagna is one of the most unionized places in the world. Trade unions are powerful and they deal with internal issues of the co-operatives. Some workers believe their opinions matter, but they do not have real power in decision-making. Unions are considered to be an element of democracy. Even though there are occasional conflicts, the relationships between co-operatives and trade unions are harmonious. Co-operatives in Lega are more unionized than in any other organization.

Regarding the relationship between the workers' co-operatives and trade unions after the Second World War, Zan (1982, pp. 95-96) points out three basic points to consider: the figure of the worker-member, the level and system of remuneration within the co-operative firm, and the roles of the trade union and the co-operative enterprise. He believes (1982, pp. 105-106) that the role of trade unions in co-operatives makes sense with non- members, but not so with members. The regulations of unions may confuse the member, who is a worker and an owner, due to the contradictive nature of co-operatives. In addition, the higher the self-management and involvement of a member in the co-operative, the less ability the member has to claim action by trade unions. Zan says that the intensity of such action may be a direct indicator of true self-management; however, he recognizes the goal of trade unions to keep workers in co-operatives in touch with workers in public or other private firms. On the other hand, Zan speaks generally about the influence of the national socio-political system, and its enduring conflict in the relationship between co-operatives and trade unions. Trade unions are confident of their essential and irreplaceable position, mainly because of their prominence in big companies,

and they do not perceive co-operatives as worthy competition. The start-up of a co-operative is usually the last attempt to save jobs in private companies in failure.

Emilia-Romagna is a region of an intense trade union tradition. However, the apparently logical overlapping of the trade unions' claims to protect jobs and the traditional goal of workers' co-operatives to create and keep jobs was not generally taken into account (Censcoop and Smaer, 1995, p. 61). Earle (1986, pp. 210-211) makes an interesting point in explaining the relationship between co-operatives and trade unions, saying that it has sometimes caused friction and strikes, and also that it is sometimes a number of high wage-earning staff that makes trade unions necessary, because their interests do not always coincide with members'. However, many members in Italy's firms are also unionized. This situation is normally assumed in those co-operatives where some members, not the majority, identify themselves with the trade union rather than with the general board elected by members. In 1985 the three co-operative organizations (Associazione, Confcooperative and Lega) and the three trade unions (CGIL, CISL and UIL) agreed, for the first time since World War II, in working together in the future to address issues such as unemployment, improving industrial relations, the creation of a common finance company to promote new co-operatives from failing non-co-operative firms linked to the public funds made available by the Marcora Law, and to create a common fund by workers' contributions.

As a conclusion it is interesting to state that even though they were established as a reaction to capitalism, trade unions have never had an openly supportive attitude towards co-operatives, because they are fundamentally different in nature. In Emilia-Romagna both trade unions and co-operatives were established at the end of the nineteenth century as a reaction to capitalism, and people with ideological similarities managed them. The

solidarity of the co-operatives in Emilia-Romagna gave them a better position to deal with trade unions, but conflict was unavoidable due to their different essences (Stefano Zamagni and Vera Zamagni, personal communication).

4.4.4.FACTS

Today [1997] the Italian co-operative movement has 160,000 enterprises with 9-10 million of members and 500,000 jobs (Fornasari and Zamagni, 1997, p.185).

4.5. Reasons for Success

According to Dr. Zamagni (personal communication), a well-known local economist, the reasons to explain the success of the co-operative model in Emilia-Romagna are classified in three levels:

- Economic: Emilia-Romagna is a region where agriculture has played a key role and there were never big factories. Co-operatives fit better into such an economic structure based on an excellent artisan tradition.
- Cultural: Bologna was one of the most important manufacturing centres in Europe in the sixteenth and seventeenth centuries producing silk. It was in Bologna where in the seventeenth century primitive industrialization began, which produced the division of labour presupposing co-operation. This fact implies the idea that co-operation had existed here for a long time. Division of labour draws people to co-operation.
- Political: In Emilia-Romagna there has been a dialogue among people with different ideologies: socialism, communism, Catholicism; it is a relational society with

rich interaction among such currents. As an example of this, in Emilia-Romagna the small communist businessman, owning a SME, was something common, associated not to Confindustria, but to other leftist organizations.

4.5.1. THE KEY LEADER

Andrea Costa was born Nov. 30th 1851 in Imola. His parents pushed him toward catholic studies, but he preferred to study at the Faculty of Literature at the University of Bologna, where he became a follower of Bakunin's anarchist ideas. He was arrested in 1874 for participating in a revolutionary event in Bologna. Soon after he moved to Paris, where he met Anna Kuliscioff, whom he married, and where he was introduced to Marxism. In 1879 he converted from anarchism to socialism, becoming one of the leaders of the democratic socialism party when he was twenty-eight. He believed in creating co-operatives and writing laws as the foundation to building democracy. In 1892 he was the first socialist MP elected in Italy; the following year, he joined the Italian Socialist Party one year following its organization in Genova. In 1909 he became vice-president of the Italian Parliament. He died in Imola June 19th, 1910.

Galassi (1989, p. 7) equates Costa's life, from his time in Paris to the creation of the Italian Socialist Party in 1892, to the autobiography of Italian socialism, embodying the ideas of freedom and social justice of the Risorgimento. Andrea Costa was not a theorist of co-operatives, as other leaders such as Galli or Verganini were (Galassi, 1986, p. XXIV). Instead, he was a man of praxis; he perceived co-operatives as a way to improve the lives of working class people (see Manacorda, 1974, pp. 387-388). In order to realize

that goal he persuaded municipalities to give public works jobs primarily to co-operatives (Degl'Innocenti, 1977, p. 82) (in Galassi, 1986, p.xxix).

Costa worked hard to sustain co-operatives, and tried to give them a political and ideological identity in 1880s (see Galassi, A. Berselli, 1982, pp. 133-204, and, F. Della Peruta, pp. 89-108; in Id.,, 1977, pp. 285-338). He thought that, "[co-operatives were] a good means to organize the working class and to contribute to their independence, but it is possible just in some industries because it is difficult for workers due to their humble savings to get out from the big firms, so [co-operatives were] not a general remedy" (Citato in R. Zangheri, Andrea Costa e le lotte contadine del suo tempo cit., p. 264) (Zangheri, Galasso and Castronovo, 1986, pp. 149-150).

Inspired by Costa, the Socialist Revolutionary Party of Romagna stated in 1886 that co-operatives offered advantages to the working class in attempting to defend it from the owners' power and protect the consumers from the abuses of the merchants ("Rivista italiana del socialismo", 1886, pp. 23-24). In the last years of the XIX century Costa was the most active figure of the Italian socialist co-operative movement (in Zangheri, Galasso and Castronovo, 1986, pp. 150-151).

However, the creation of braccianti co-operatives was not Costa's idea, but rather a result of the great agricultural crisis (1881-94), that especially punished the drained lands of the lower Po River and caused many braccianti to lose their jobs. The creation of braccianti co-operatives was due to the solidarity and organizational spirit spread by Costa before such a social crisis. It was in this atmosphere when the first model of braccianti co-operative was created in Italy, in Ravenna in 1883 (Galassi, 1986, p. XXIII).

Costa worked in between the hopeful possibility of co-operators and the extremism of the dogmatics waiting for the revolution, trying to overcome the political synthesis

of the traditional working class organizations through the creation of the Socialist Party, to which he dedicated his life's work (Galassi, 1986, p. XXV). Indeed Costa's efforts encouraged the growth of many co-operatives in Emilia and Romagna, among them Associazione dei braccianti di Ravenna and the Ceramica di Imola (Galassi, 1986, p. XXVIII). Andrea Costa was considered to be the most influential man for the inspiration of new organizations, because he directed socialism towards the regeneration of society and promoted dignity to workers (S. Nardi, in Baldini, p. 398) (in Zangheri, Galasso and Castronovo, 1986, p. 118).

Costa's thoughts on co-operatives were very complex: to him, co-operatives were the means to even the effects of capitalist expansion and an expression of solidarity. But co-operatives were not able to replace capitalism, nor were they a direct way towards socialism, even though they were an important means for latter conquests. However, Costa dedicated himself to develop and spread braccianti co-operatives, which started to rise all over Emilia-Romagna after 1883 (Berselli, 1982, p. 9).

The reasons for Costa's success in promoting the association of workers in co-operatives were not ideological but concrete; high unemployment and extortion were two major inequalities that Costa and other socialist co-operators were fighting to abolish (Galassi, in Berselli, 1982, p. 146).

4.5.2. COSTA'S CONTRIBUTION TO IMOLA

Located just 30 kilometres east of Bologna, Imola is the most western town in Romagna. Even though it belongs to the Bologna province, it is not in Emilia as all the other parts of its province. Having a population of around 60,000 Imola is located on the Via Emilia, the main road in the region built by the Romans. Economically it has been an ag-

ricultural centre, but it has experienced a strong industrialization process since the late 1960s.

Imola is widely known as the most co-operative of all the Italian towns. About 60% of the income in the area is produced by co-operatives. Those co-operatives are in all sectors, but the most important ones in income are in the manufacturing industry. In Imola, cooperation is taken for granted, almost as a way of life, and local people says that Andrea Costa was the main influence behind this belief. Earle accredits Imola's successful co-operatives to the fact that Imola never had the classical presence of a "faceless" proletariat, as in the industrial regions of the north. Imola's artisans, craftsmen and labourers supported Costa, and they were used to supporting themselves financially. These workers had a self-sufficient agenda, which was different to the factory workers who had to contend with capitalistic owners. Earle says that this fact "helps to explain the cooperative mentality in Emilia-Romagna; and nowhere more so than in Imola" (Earle, 1986, pp. 79-80).

Socialism in Imola was introduced with the participation of craftsmen, who felt themselves closer to workers than big capitalist owners. Because in Imola, as in Bologna and other cities in Lombardia, Toscana and Veneto, the birth of co-operatives in 1885 was not a product of the working class people's independence, but a product of the initiatives of the small and medium bourgeoisie in cities who were willing to guard against economic crises and exploitation from intermediaries and usuries. Therefore, Imola was far from experiencing the problems of the great industrial cities in 1880 (Galassi, 1986, pp. 45-47).

There is enough evidence in Imola to say that it is the nearest to a co-operative community in Italy. As Earle (1986, pp. 90-92) observes, "besides industrial firms, there are

co-ops in farming, housing, retailing, transport, restoration of works of art, etc., which have exhibited a strong feeling of solidarity and mutual aid in the last hundred years." He surmises that, "Imola is the only community that at a first glance might suggest comparison with Mondragon in Spain, although the comparison would not go far, because it is altogether less closely knit and less mutually dependent, and it lacks a kernel such as the Spaniards have in a savings bank that provides support and supervision for the whole community. At the same time, Imola's industrial co-ops owe relatively little to the rest of the movement. If the League did not exist, it is difficult to escape the impression that the industrial co-ops of Imola would be little different to what they are today." Today the co-operative movement in Imola is a complex and articulated system of enterprises, working in every sector, from the traditional to the most modern ones (Pelliconi, in Varni, 1990, p.132).

Part Two: The Cases

4.6. Case One: CEFLA SCRL

CEFLA SCRL
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Cefla group consolidated 2002 Figures (in millions Euro):

Equity: 142

Assets: 249
Sales: 250
Exports: 80 %
Profit: Confidential
Workers: 1300 (870 in Italy)
Members: 290 (all in Imola, Italy)
Created in: 1932

4.6.1 AN OVERVIEW: CEFLA

The nine founders of the Cooperativa Elettricisti, Fontanieri, Lattonieri e Affini (CEFLA), in English the co-operative of electricians, plumbers, zinc workers and similar professionals, had a long craft experience in Italy and abroad especially in France (Galassi, 1986, p. CV-CVI). The lack of job for those professions in the local small firms joined those nine founders to start their co-operative in 1932, to produce electrical instruments, water, irrigation and heating components (Galassi, 1986, p. 193).

During the first years the main activities were irrigation, heating and water-supply and electrical household systems. Later as the firm was getting bigger the production of electrical, public lighting and energetic distribution systems were developed.

In 1950s Cefla started producing shelving and shopfitting systems for stores and supermarkets, becoming the leader supplier in Italy. In 1960's two new activity were created; on the one hand the design, manufacture and maintainance services of civil works and industrial plants, and on the other the design and supply of reliable finishing systems for wood based, plastic and non-ferrous material products (Varni, 1990, p. 331). In 1980s Cefla group consolidates its position on an international scale through mergers, taking over existing firms and new investments in other companies achieving global recognition and market leader position in some of its activities. The medical division, is the

product of taking over in 1998 a local co-operative in crisis that produced dental instruments, today this division works in designing and producing dental units, dental cameras, intra-oral X-ray units, digital X-ray systems and software for dental surgery equipment, with the aim of developing and improving the quality of work in the dental surgery (from **www.cefla.it**).

Growth, development and diversification into several areas of activity have been the strategy of Cefla since the beginning that has made possible its current size. Today the Cefla Group is an international entity organized in four divisions with a remarkable presence on different markets. The four divisions work independently according to specific sales and production strategies although sharing a common approach and guidelines.

The Cefla Group has production plants in Italy and Brazil, and trading subsidiaries in Holland, Belgium, Luxemburg, France, Germany, Poland, Russia, Singapore, Spain and USA (from **www.cefla.it**).

Cefla Group has 1300 workers in Italy and Brazil. 870 workers in Imola, and 290 members. There are members only in Imola. In Imola the tradition in metal-mechanical co-operative is members to be 30% of total workers. Tremonti, Berlusconi's minister wanted to increase to 51%. Having 51% or more is called co-operative prevalente and are protected with lower taxation.

4.6.2. ECONOMIC SCORECARD

Table 4.1.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)					**X**
Sales to Net Working Capital				**X**	
Return on Assets (ROA)					**X**
Return on Equity (ROE)					**X**
Current Ratio			**X**		
Total Liabilities to Net Worth				**X**	
Total Assets to Net Sales			**X**		

In the case of Cefla, it scores in the upper quartile in "Customer Profitability", "Return on Assets" and "Return on Equity", in the second upper quartile in "Sales to Net Working Capital" and "Total Liabilities to Net Worth" and in the second lowest quartile in "Current Ratio" and "Total Assets to Net Sales."

Therefore overall the data collected and illustrated in the table show that Cefla gets high marks in profitability, and average marks in solvency and efficiency.

4.6.2.1. First Perspective: Learning and Growth

Table 4.1.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction		[redacted]				
Employee Productivity		[redacted]				
Investment over Sales			→	→	→	[redacted]
Break Even Time		[redacted]				
Employee Turnover			→	→	→	[redacted]

In the case of Cefla, on the one hand "Investment Over Sales" (Cefla reports that they control R&D investments, but not over sales. They are considered as costs, they don't capitalize them) and "Employee Turnover" (Cefla reports that it is controlled and they put decisions in practice to keep employees with them. They have a very low turn-over. They have classified 9 different groups of employees depending on their importance. There is a policy about remuneration according to the individual economic value added) are reported as information that lead decisions in practice, so Cefla places great importance on these two indicators. On the other Cefla places no attention to "Employee Satisfaction" (Cefla reports that they do surveys sometimes, it is not something frequent. They arrange more meetings and other decisions to increase workers' satisfaction), "Employee Productivity" (Cefla reports that they do not pay attention to employee productivity. They do an analysis once in a while, not frequently. They control fixed and variable cost) and "Break-Even Time" (Cefla reports that they do not use this indicator, they measure the viability of investments, machines…), reporting these indicators as not collected information.

Therefore overall the data collected and illustrated in the table show that Cefla gets diverse marks in this perspective. Our findings indicate that Cefla has a moderate level of concern with the learning, research, growth, and development processes.

4.6.2.2. Second Perspective: Internal Business Processes

Table 4.1.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery			→	→	→	
Time Interval from the Customer Call to the Solution of the Customer's Problem			→	→	→	
Manufacturing Cycle Effectiveness						
Yield			→	→	→	
Returns			→	→	→	
Cost of Repairs			→	→	→	
Rates of Cost Reduction			→	→	→	
Defect Rate						

In the case of Cefla, the performance in Internal Business processes is very high. They report all the indicators but two, "On-Time Delivery" (Cefla reports that it is controlled, because it is very important in the finishing division. On-time delivery is perhaps the most important thing. They are improving our punctuality a lot. They have different plants in the world to offer a better service to our customers worldwide), "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Cefla reports that it is controlled, time is essential in the finishing division. Some years ago they produced and stocked, today they produce by order, all the machines are personalized to each customers' needs), "Yield" (Cefla reports that it is controlled. Monthly statistics and decisions are put in practice to improve processes), "Returns" (Cefla reports that it is controlled. In the finishing division they visit the machine and change the wrong pieces, and study the defects and improve the production process), "Cost of Repairs" (Cefla reports that it is controlled and we put decisions in practice) and "Rates of Cost Reduction" (Ce-

fla reports that it is controlled monthly. It is very important for them) as information that leads decisions in practice, so Cefla places great importance on these six indicators. Cefla pays no attention to "Manufacturing Cycle Effectiveness" because reports it as not collected information. Finally Cefla reports "Defect Rate" (Cefla reports that it is not controlled, not critical in the products of finishing division) as an irrelevant indicator due its particular production process.

Therefore the data collected and illustrated in the table show that Cefla gets both high marks in this perspective. Overall our findings indicate that Cefla has a high level of concern with the internal business processes.

4.6.2.3. Third Perspective: Customer

Table 4.1.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention			→	→	→	
New Customer Acquisition						
Sales Growth per Segment			→	→	→	
Market Share in Targeted Segments			→	→	→	
Customer Satisfaction			→	→	→	

In the case of Cefla, all the indicators but one, "Customer Retention" (Cefla reports that it is controlled. They have high loyalty from customers. When they lose an order they call the customer and check why they did not buy from Cefla. Cefla's price is high and also quality is high. Competition is based on technology; competitors are Italian, German and Spanish. Cefla are leaders in the finishing market), "Sales Growth per Segment" (Cefla reports that the market is segmented. Cefla focuses just in some segments, and the market share in those segments is controlled, increasing sales in such segments is

a priority. Cefla are the leaders in the finishing sector), "Market Share in Targeted Segments" and "Customer Satisfaction" (Cefla reports that they do research once in a while, they visit customers, customers report high satisfaction) are reported as information that lead decisions in practice, so Cefla places great importance on these four indicators. Cefla reports "New Customer Acquisition" (Cefla reports that they have around 300 customers, they don't have a program to get new customers) as not collected information, so doest not pay attention to it.

Therefore overall the data collected and illustrated in the table show that Cefla gets very high marks in this perspective.

4.6.3. SOCIAL SCORECARD

4.6.3.1. First Principle: Voluntary and Open Membership

Table 4.1.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort						
Amount of Cooperative Work			→			
Membership Growth			→	→	→	
Ease of Redemption of Share-Capital			→	→		

Regarding "Voluntary and Open Membership" principle, Cefla scores very diverse marks. "Membership Growth" (Cefla reports that every year they make 20 new members, 50-60% of applications are accepted in the "Valutazzione di merito" the process to value merits) is reported as information that lead decisions in practice, so Cefla places great importance on this indicator. Cefla places quite high attention to "Ease of Redemption of Share-Capital" (Cefla reports that it is regulated by the Italian Civil Code. It says it has to be given back in six months after the closure of the last financial year),

reporting such indicator as information that the General Board analyzes and uses to make decisions. Cefla places some attention to "Amount of Co-operative Work" (Cefla reports that all the workers work the same time, they do not have the information in hours but in workers, which is the same. There is a document that regulates how to become a member. After four years working the general board decides according to professionalism, seriousness, effort, collective attitude, dialogue…) because this indicator is reported as information to which the General Board has access. Finally Cefla pays no attention to "Relative Effort" (Cefla reports that all the members have to pay the same amount of money. It is not related to the less salary. The fee is 36,000 euro. They have to pay 25% in cash, the rest every year a little. It is the same for everybody. A member can pay more than 25% if he/she wants. "Tratamento Fine Rapporto" (TFR), it is the profit that Cefla puts in the members' individual accounts (dividends). Cefla uses this money to help members to pay their fees) which is reported as not collected information.

Overall the table shows that Maska gets very diverse marks, which implies that they can be considered as slightly concerned with the openness of their co-operatives.

4.6.3.2. Second Principle: Democratic Member Control

Table 4.1.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM			→	→		
Renewal within the Councils						
Number of Members Attending Voluntary Communication Events			→	→	→	
Total Man Hours Held for Democracy			→			
Blue-Collar Members at the General Board			→			

Regarding "Democratic Member Control" principle, Cefla scores quite high marks. "Number of Members Attending Voluntary Communication Events" (Cefla reports that it is 70%, there are little assemblies in each division) is reported as information that lead decisions in practice, so Cefla places great importance on this indicator. Cefla places quite high attention to "Remarks per Member at the AGM" (Cefla reports that attending the AGM is compulsory for all the members. If they cannot go they can delegate their vote. The General Board improves the means to participate) which is reported as information that the General Board analyzes and uses to make decisions. Cefla pays some attention to "Total Man Hours of Meeting Held for Democracy" (Cefla reports that meetings are out of labour hours. There are 8-10, two hours long in average, meetings a year) and "Blue-Collar Members at the General Board" (Cefla reports that there is no majority of white-collars in the general board. Sometimes there are more blue-collars. They don't control that data, they consider natural. Each of the four divisions are represented), reporting both indicators as information to which the General Board has access. Finally Cefla pays no attention to "Renewal within the Councils" (Cefla reports that the turnover in the general board is frequent, but it is not regulated. Today there is a new law in Cefla that says that a president can only be elected three times in his life), reporting this indicator as not collected information.

Overall the table shows that Cefla gets medium marks, which implies that they can be considered as slightly especially concerned with internal democracy.

4.6.3.3.Third Principle: Member Economic Participation

Table 4.1.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap			→			
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→	→	→	
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Cefla scores very high marks. All the indicators but one, "% of Absenteeism and Overtime" (Cefla reports that it is monthly statistically controlled. They improve absenteeism by medical control and accidents by improvements in the facilities, security… Overtime is controlled and limited. Their policy is to have the minimum overtime. They work in a flexible manner but avoiding overtime. Some of their products are seasonal and those months are busier, trade unions control them and distribute hours by months), "Remuneration Average" (Cefla reports that it is fixed by the labour contract. They try to have lower labour cost than competitors, but they have a trade union agreement and they share profit with all their workers. Cefla members earn more than competitors because of the dividends. Cefla shares 30% of profit in dividends (Italian old law) according to the hours worked, years as a member, and professional qualification) and "Indivisible Common Capital" (Cefla reports that their objective is always increasing the indivisible capital) are reported as information that lead decisions in practice, so Cefla places great importance on these three indicators. Finally Cefla places some attention to "Remunerative Gap" (Cefla reports that their labour contracts are agreed by the trade unions in a national level. Metal-mechanical cooperatives have the same contract all over Italy. Members' income is increased by dividends), reporting such indicator as information to which the General Board has access.

Overall the table shows that Cefla gets very high marks, which implies that Maska can be considered as very concerned with the economic participation of their members.

4.6.3.4.Fourth Principle: Autonomy and Independence

Table 4.1.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Cefla scores the highest marks possible. "Dependence to Three Major Customers" (Cefla reports that their criterion is that a customer can represent a maximum of 20% of the sales of a division) and "Degree of Independence from Institutions" (Cefla reports that each three months the financial director controls the debt with banks. Having debts is not bad, the thing is the price, interests) are reported as information that lead decisions in practice, so Cefla places great importance on these two indicators.

Overall the table shows that Cefla gets diverse marks, which implies that they can be considered as very concerned with the dependency of their co-operative.

4.6.3.5.Fifth Principle: Education, Training and Information

Table 4.1.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→	→	
Investment in Education in Direct Jobs / Investment in Education						

Regarding "Education, Training and Information" principle, Cefla scores diverse marks. On the one hand Cefla places very high attention to "Endowment to Education / Profit" (Cefla reports that according to members, 300,000 euros a year in professional training for everybody and co-operative training for members), reporting such indicator as information that lead to put decisions in practice. On the other hand Cefla reports "Investment in Education in Direct Jobs / Investment in Education" (Cefla reports that it is not controlled. It is according to the needs of each worker. Some training, languages… it is for everybody, always out of labour hours) as not collected information so Cefla does not pay attention to this indicator.

Overall the table shows that Cefla gets diverse marks, which implies that they can be considered as slightly concerned with the education, training and information of their members.

4.6.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 4.1.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit			→			
Interco-operative Funds			→			
Moving persons (unemployed staff)			→			

Regarding "Co-operation Among Co-operatives" principle, Cefla scores medium marks. All the three indicators, "Reconverting Profit" (Cefla reports that they have absorbed two co-operatives in crisis. The dental division was originally a co-operative that we absorbed in agreement with Lega. They have lent money to other co-operatives in favourable conditions, for free too, Lega supports all those things. Solidarity is natural in Emilia-Romagna, members totally agree. This is a Lega policy, it is not compulsory, but

members accept it. Last year they helped with 200,000 euros a co-operative in Ferrara), "Interco-operative Funds" (Cefla reports that there is a law in Italy, 3% of profit is given to Fondo Nazionale Promozione Cooperativa of Lega, a compulsory co-operative inter-fund to start-up new co-operatives. Besides they are part of the Consorzio Cooperativo Construzione Edilizia with other 250 co-operatives to get public works, and two other consortiums in Ravenna and Forli) and "Moving Persons (Unemployed Staff)" (Cefla reports that it is difficult due to the specialization of workers. They do whenever it is possible, and the general board is concerned about this fact) are reported as information to which the General Board has access, which means that Cefla pays moderate attention to them.

Overall the table shows that Cefla gets low marks, which implies that they can be considered as slightly concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in the region of Emilia-Romagna of having informal links related to profit, funds or staff among co-operatives.

4.6.3.7. Seventh Principle: Concern for Community

Table 4.1.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→	→	
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→	→	→	
Investment and Expenses in Environment			→	→	→	
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Cefla scores the highest marks possible. All the five indicators, "Annual Growth of Staff" (Cefla reports that their strategy, mission is investing in creating jobs, the problem is creating sustainable jobs. Their mission is different to capitalistic firms, for them creating jobs is important), "% of Profit to Indivisible Capital" (Cefla reports that the net worth has to increase every year 1% over the inflation. This concern is widely accepted in Imola, where the total co-operative net worth is over 2 billion euro), "% of Profit to Community" (Cefla reports that they have an annual budget of 50,000 euro to community activities, hospitals… They help old people and children, and international projects too, they have a project in Brasil…), "Investment and Expenses in Environment" (Cefla reports that they respect all the Italian law about that. They pay important costs about air emissions, water, packaging, 450,000 euro a year. They invest in technology to produce less waste) and "% of Capital Belonging to Workers" (Cefla reports that it is 100%. In Cefla they only accept worker members, not capitalistic members even if the Italian Law accepts them. When a member retires he/she is not a member anymore) are reported as information that lead decisions in practice, so Cefla places great importance on these five indicators.

Overall the table shows that Cefla gets very high marks, which implies that they can be considered as very concerned with the community.

4.7. Case Two: SACMI Cooperativa Meccanici Imola, SCRL

SACMI COOPERATIVA MECCANICI IMOLA, SCRL
Viale Selice Provinciale, 17
40026 Imola (BO) Italy
Tel: (39 542) 607111
Fax: (39 542) 640354
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www.sacmi.com

SACMI Group consolidated 2002 Figures (in millions Euro):
Equity: 460
Assets: Confidential
Sales: 862
Exports: 80%
Profit: Confidential
Workers: 3,181
Members: 307 (all in Imola, Italy)
Created in: 1919

4.7.1. AN OVERVIEW: SACMI

I have chosen to examine the ceramics division for this research project. Therefore figures below concern just this division.

Società Anonima Cooperativa Meccanici Imola (SACMI) was created in 1919 by nine workers in the difficulties after the First World War. Supported by Romeo Galli, the socialist leader in Imola at that time, and using a loan from a local co-operative bank, started its activity in a gymnasium of a local school offered by the local socialist municipality. The co-operative values of the founders inspired its statutes, they gave 25% of profit to suppport the resistance activities of the working class, 50% was reinvested in reserves, 20% was divided among memberss and 5% was to promote co-operative values.

The nine members agreed to be paid less than the minimum wage scales. They started doing repairs and maintenance work of machines.

Later during the fascism SACMI keep an anti-fascist position. As a result three workers of SACMI were killed fighting against the Nazis, and the machinery was hidden from Germans in the countryside to avoid to be moved to Germany (Earle, 1986, pp. 84-86). Fascists assaulted SACMI in 1920 and destroyed many accounting books and documents (Pelliconi, M., Uomini e Strutture della Cooperazione Imolese, in Varni, 1990, pp.129-130).

During the economic boom of Italy, in early 1960's SACMI had to change its traditional mutuality attitude to become a modern enterprise in expansion. Therefore excellent managers and engineers were hired from other locations, and in late 1970's subsidiaries were started in countries like Spain, West Germany, Portugal, Argentina, Mexico, Brazil and Singapore (Earle, 1986, p. 86).

Even though new managers were hired, SACMI always believed that they had to be members of the co-operative to be committed to the co-operative.

In 1947 Ceramica d'Imola, another local worker c-operative, was seriously damaged after the Second World War and needed machines to start its tile production. SACMI produced several machines for La Ceramica at a lower cost as a solidarity gesture (Pelliconi, M., Uomini e Strutture della Cooperazione Imolese, in Varni, 1990, p.130).

In 1970's the petrol shock strongly hit the Italian economy alongside with high inflation and high labor conflicts, but SACMI and other local co-operaties were able to deal with all those difficulties much better than firms in general (Pelliconi, M., Uomini e

Strutture della Cooperazione Imolese, in Varni, 1990, p.131). SACMI was leader in its sector and exporting 80% of its production to more than one hundred countries.

In 1989 Sacmi decided to set up the "Research and Development Centre" in the complex at the parent company headquarters. The centre, which supports all areas of activity of the Sacmi Group, is divided into different sections: physics and chemistry laboratories, the packaging technology lab, prototype testing departments and an entire ceramics production system created for testing and experimentation purposes. The result of these investments is the Research and Development Centre. This includes chemistry and physics laboratories, technological laboratories and pilot plants which are used to study specific raw materials so that they can be employed in the best possible way in their different applications. Now, as in the past, Sacmi is constantly evolving – industrially, commercially and socially. At present, the parent company is undergoing extensive renewal and extension (from www.sacmi.com).

There are four divisions in the SACMI Group: Ceramics (producing machines to produce tiles, refractories, cookwear, extruded products and third-firing), Beverage and Packaging (producing machines to produce caps and closures, labelling, bottling plants and complete packaging lines for the food industry), Processing (producing ice-cream plants, machines for confectionary, fruit control, machines to produce chocolate, and vision, olfactory and inspection systems for food processing industry) and plastics (injection moulding, compression moulding and form fill and seal).

4.7.2. ECONOMIC SCORECARD

Table 4.2.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)	**X**				
Sales to Net Working Capital	**X**				
Return on Assets (ROA)	**X**				
Return on Equity (ROE)	**X**				
Current Ratio	**X**				
Total Liabilities to Net Worth	**X**				
Total Assets to Net Sales	**X**				

In the case of Sacmi, they reported their performance on the financial indicators as confidential information due to privacy policies. Therefore nothing can be said on the marks that Sacmi gets.

4.7.2.1. First Perspective: Learning and Growth

Table 4.2.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction			→	→	→	
Employee Productivity			→	→		
Investment over Sales			→	→	→	
Break Even Time						
Employee Turnover			→	→	→	

In the case of Sacmi, "Employee Satisfaction" (Sacmi reports that they do surveys by divisions), "Investment over Sales" (Sacmi reports that they measure R&D but not related to sales but to general investments. They put in practice decisions with universi-

ties, government and their research center in ceramics. Sacmi develops their own products) and "Employee Turnover" (Sacmi reports that there is no turnover. There is no a classification by employees. Nobody leaves SACMI) are reported as information that lead decisions in practice, so Maska places great importance on these three indicators. Cefla places high attention to "Employee Productivity" (Sacmi reports that they measure it by sales per worker, the margin that each worker produces. They have a very high rate, 500,000 euro), reporting such indicator as information that the General Board analyzes and uses to make decisions. Finally Sacmi reports "Break Even Time" (Sacmi reports that it is not important in their sector) as irrelevant due to the specificity of its production process.

Therefore overall the data collected and illustrated in the table show that Sacmi gets high marks in this perspective. Our findings indicate that Sacmi has a high level of concern with the learning, research, growth, and development processes.

4.7.2.2. Second Perspective: Internal Business Processes

Table 4.2.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery			→	→	→	
Time Interval from the Customer Call to the Solution of the Customer's Problem			→	→	→	
Manufacturing Cycle Effectiveness						
Yield			→	→	→	
Returns			→	→	→	
Cost of Repairs			→	→	→	
Rates of Cost Reduction			→	→	→	
Defect Rate						

In the case of Sacmi, the performance in Internal Business processes is very high. Sacmi reports all the indicators but two, "On-Time Delivery" (Sacmi reports that there are always changes from the order to the building, but punctuality means to us efficiency), "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Sacmi reports that it is controlled. They have tried to do in 24 hours, they have a worldwide network to offer a punctual and efficient service), "Yield" (Sacmi reports that their product is personalized, sometimes they have had problems with defects, but they have inspection areas), "Returns" (Sacmi reports that this is a critical ratio. Their product cannot be returned, but they have 800 customers that they treat individually, they are leaders with the 55% of the world market share), "Cost of Repairs" (Sacmi reports that it is very important. They study each repair, its cost, the piece that failed and they have an internal process among departments) and "Rates of Cost Reduction" (Sacmi reports that they have a process of continuous improvement based on the Total Quality Management method), as information that lead decisions in practice, so Maska places great importance on these six indicators. Sacmi reports "Manufacturing Cycle Effectiveness" (Sacmi reports that this ratio is important for standard products. Sacmi produces production plants that are all different, they need time to study, adapt, transport and work together with the customer) and "Defect Rate" (Sacmi reports that it is not controlled, makes no sense, because they produce 250 machines a year) as irrelevant indicators due its particular production process.

Therefore the data collected and illustrated in the table show that Sacmi gets very high marks in this perspective. Overall our findings indicate that Sacmi has a very high level of concern with the internal business processes.

4.7.2.3. Third Perspective: Customer

Table 4.2.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention			→	→	→	
New Customer Acquisition			→	→	→	
Sales Growth per Segment						
Market Share in Targeted Segments			→	→	→	
Customer Satisfaction			→	→	→	

In the case of Sacmi, all the indicators but one, "Customer Retention" (Sacmi reports that they control it. They have a program to check customers' satisfaction through the internet. Sacmi's product is for an entire life. They have many subsidiaries to be close to the customer; they check if they do not buy to them, it is because of price. Sacmi is more expensive, but higher quality), "New Customer Acquisition" (Sacmi reports that they control the new customers), "Market Share in Targeted Segments" (Sacmi reports that they control it a lot, they have 80% in those segments, it is critical, they put into practise decisions about development of products and quality of the service provided) and "Customer Satisfaction" (Sacmi reports that they do surveys, if there are complaints they put into practise decisions to improve them) are reported as information that lead decisions in practice, so Sacmi places great importance on these four indicators. Sacmi pays no attention to "Sales Growth per Segment" (Sacmi reports that they focus on not losing the key customers, the leaders in their markets, they control the sales, margins, complaints…) because reports it as not collected information.

Therefore overall the data collected and illustrated in the table show that Sacmi gets very high marks in this perspective.

4.7.3. SOCIAL SCORECARD

4.7.3.1. First Principle: Voluntary and Open Membership

Table 4.2.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort						
Amount of Co-operative Work			→			
Membership Growth			→	→		
Ease of Redemption of Share-Capital			→	→		

Regarding "Voluntary and Open Membership" principle, Sacmi scores diverse marks. "Membership Growth" (Sacmi reports that making new members is up to the General Board; there is 15 or 20 new members every year. Each application is analyzed) and "Ease of Redemption of Share-Capital" (Sacmi reports that the maximum is four month after the closure of the financial year. "Tratamento Fine Rapporto", the fee is given back once the financial year has been approved by the AGM) are reported as information that the General Board analyzes and uses to make decisions, so Sacmi places quite high importance on these two indicators. Sacmi places some attention to "Amount of Co-operative Work" (Sacmi reports that members are 30% of total workers. Every worker works according to the national agreement of trade unions. There is no any distinction between members and non-members, all of them work the same time) reporting such indicator as information to which the General Board has access. Finally Sacmi reports "Relative Effort" (Sacmi reports that there is no any relationship between both. The fee in Sacmi is 70,000 euro; the law says maximum is 100,000. Sacmi thinks in having the same fee for everybody. They think members are workers, and they earn depending

on their performance, for everything else they are all members to the same extent) as not collected information so Sacmi does not pay attention to this indicator.

Overall the table shows that Sacmi gets medium marks, which implies that Sacmi can be considered as slightly concerned with the openness of their co-operatives.

4.7.3.2.Second Principle: Democratic Member Control

Table 4.2.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM			→	→	→	
Renewal within the Councils			→			
Number of Members Attending Voluntary Communication Events						
Total Man Hours Held for Democracy			→	→	→	
Blue-Collar Members at the General Board						

Regarding "Democratic Member Control" principle, Sacmi scores very diverse marks. "Remarks per Member at AGM" (Sacmi reports that the 307 members have 10-14 ordinary assemblies every year, they are 4-5 hours long, they are all out of the working hours, and have a 80-85% of attendance rate. Delegating vote is accepted in special cases. Attending the assembly is not compulsory, but they think is part of their tradition. All the suggestions made are written. They have high participation rates and many suggestions. The length means that they are intense. Promoting participation is not necessary, because it is high. The general board is always available even for people working away, because it sends them copies. Sacmi is an exception in participation and interest in democracy) and "Total Man Hours Held for Democracy" (Sacmi reports that time is controlled. The gen-

eral board is available anytime; it is flexible to answer to members. There are also informal meetings to complement the information from assemblies) are reported as information that lead decisions in practice, so Sacmi places great importance on these two indicators. Sacmi places moderate attention to "Renewal within the Councils" (Sacmi reports that the general board cannot control so. It is elected every three years; a member can be elected three times continuously, which make nine years. They test the people in the general board through the elections), reporting such indicator as information to which the General Board has access. Finally Sacmi reports "Number of Members Attending Voluntary Communication Events" (Sacmi reports that in the general assembly they invited trade unions and Lega. There are no other events of communication. The general board also meets other stakeholders) and "Blue-Collar Members at the General Board" (Sacmi reports that the five members of the general board do not have to belong to the blue-collar or the white-collar collectives. However, they had always avoided having managers in the general board. There is a trend of having more blue-collar members than white-collar members in the general board. Up until 1992, white-collar members in co-operatives were limited by law. Today in Sacmi blue-collars are 50% of total members, and white-collars 50% too. There is no any control of who is elected) as not collected information, so does not pay them any attention.

Overall the table shows that Sacmi gets medium marks, which implies that they can be considered as slightly concerned with internal democracy.

4.7.3.3.Third Principle: Member Economic Participation

Table 4.2.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap			→	→	→	
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→	→	→	
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Sacmi scores the highest marks possible. All the four indicators, "Remunerative Gap" (Sacmi reports that there is a national trade unions contract to regulate this point; it is the national contract of metal-mechanic co-operatives. They increase the remuneration in this contract; they pay more. Salaries of members in the general board are established every three years in the AGM), "% of Absenteeism and % of Extra Hours (Overtime)" (Sacmi reports that they are very low. There is no any problem in this sense. They control both rates but so far there has not been any problem), "Remuneration Average" (Sacmi reports that they pay well. Regarding competitors Sacmi knows Sacmi pays higher) and "Indivisible Common Capital" (Sacmi reports that it is established by law 904/1977, the new law changes this point. Their culture is reinvesting over the law, first the enterprise then individuals) are reported as information that lead decisions in practice, so Sacmi places great importance on all these indicators.

Overall the table shows that Sacmi gets very high marks, which implies that Sacmi can be considered as very concerned with the economic participation of their members.

4.7.3.4.Fourth Principle: Autonomy and Independence

Table 4.2.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Sacmi scores the highest marks possible. "Dependence to Three Major Customers" (Sacmi reports that there is a huge amount of customers and markets. There is no any concentration) and "Degree of Independence from Institutions" (Sacmi reports that Sacmi works with its own financial means. Their own funds are enough for their needs) are reported as information that lead decisions in practice, so Sacmi places great importance on these two indicators.

Overall the table shows that Sacmi gets very high marks, which implies that Sacmi can be considered as very concerned with the dependency of their co-operative.

4.7.3.5.Fifth Principle: Education, Training and Information

Table 4.2.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→	→	
Investment in Education in Direct Jobs / Investment in Education						

Regarding "Education, Training and Information" principle, Sacmi scores diverse marks. On the one hand Sacmi places very high attention to "Endowment to Education / Profit" (Sacmi reports that they directed around 300,000 euro last year in education. They put decisions in practice to promote education, it is up to the HRM department), reporting such indicator as information that lead to put decisions in practice. On the other hand

Sacmi reports "Investment in Education in Direct Jobs / Investment in Education" (Sacmi reports that it is for everybody, a part for blue-collar members and another for white-collar members) as not collected information so Sacmi does not pay attention to this indicator.

Overall the table shows that Sacmi gets diverse marks, which implies that they can be considered as slightly concerned with the education, training and information of their members.

4.7.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 4.2.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit			■			
Interco-operative Funds			→	■		
Moving persons (unemployed staff)		■				

Regarding "Co-operation Among Co-operatives" principle, Sacmi scores low marks. "Interco-operative Funds" (Sacmi reports that the three percent is directed by law to help co-operatives in crisis through Lega) is reported as information to which the General Board has access, so Sacmi pays moderate attention on this indicator. Sacmi pays little attention to "Reconverting Profit" (Sacmi reports that Lega asks for help to co-operatives in crisis, it is something voluntary and informal) and reports it as collected information and finally Sacmi pays no attention to "Moving Persons (Unemployed Staff)" (Sacmi reports that there is no transfer of jobs from other co-operatives) and reports it as not collected information.

Overall the table shows that Sacmi gets low marks, which implies that they can be considered as not concerned with co-operating with other co-operatives. This fact may be

strongly influenced by the tradition in the region of Emilia-Romagna of not having formal links related to profit, funds or staff among co-operatives.

4.7.3.7. Seventh Principle: Concern for Community

Table 4.2.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→	→	
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→	→	→	
Investment and Expenses in Environment			→	→	→	
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Sacmi scores the highest marks possible. All the five indicators, "Annual Growth of Staff" (Sacmi reports that it is a strategic point in our mission. 1000 in Imola and 3200 jobs worldwide), "% of Profit to Indivisible Capital" (Sacmi reports that it is established by law, so far maximum 30% of the salary), "% of Profit to Community" (Sacmi reports that it is around 5%. Members decide it, because it is a priority), "Investment and Expenses in Environment" (Sacmi reports that they have an award in environment and labour atmosphere: one of the three most concerned firms in Italy about labour atmosphere and health. They also have all the ISO certifications) and "% of Capital Belonging to Workers" (Sacmi reports that the only owners are workers. It is a strategic decision to avoid capitalistic members) are reported as information that lead decisions in practice, so Sacmi places great importance on these five indicators.

Overall the table shows that Sacmi gets very high marks, which implies that they can be considered as very concerned with the community.

4.8.Case Three: Cooperativa Ceramica d'Imola SCRL

COOPERATIVA CERAMICA D'IMOLA SCRL
Via Vittorio Veneto, 13
40026 Imola (BO) - Italy
Tel: +39 0542 601601
Fax: +39 0542 31749
E-mail: imola@imolaceramica.it
www.imolagroup.com

Ceramica d'Imola consolidated 2002 Figures (in millions Euro):
Equity: 204
Assets: 361
Sales: 208
Exports: 70 %
Profit: 3.14
Workers: 1,350
Members: 180 (all in Imola, Italy)
Created in: 1874

4.8.1. AN OVERVIEW: COOPERATIVA CERAMICA D'IMOLA

Cooperativa Ceramica d'Imola, La Ceramica as it is popularly known in Imola, is the oldest worker's co-operative in Imola, and according to some others the oldest one still working in Italy. Ceramics in Imola are a very old art, even if they have a better but lesser known tradition than in Faenza, a small town close to Imola.

It is a special case of entrepreneurship because it was originally a capitalistic firm. Family Bucci was the owner of a factory of ceramics. In 1860 one of the sons Giuseppe, follower of Mazzini's ideas, proposed due to health reasons the establishment of a co-operative to sell the management of the enterprise. At the beginning this was an experiment and because it was successful it became a co-operative in 1874. Bucci himself wrote

the statute and the normative (Pelliconi, M., Uomini e Strutture della Cooperazione Imolese, in Varni, 1990, pp.119-120).

Ceramica is particular also because it is one of the few co-operatives in Italy associated to both Lega and Confcooperative (Earle, 1986, p. 80). Another particularity is that managers are salaried executives and not members of the co-operative as a way to maintain their independence and improve their perfomance according to Ceramica.

A remarkable initiative of Ceramica has been the creation of an international center of ceramic studies. This is a signal of the strength that has enabled Ceramica to survive the crisis that collapsed some other capitalistic tile producers around Imola and become the biggest tile producer there and an important firm abroad (Galassi, 1986, p. CI-CII).

Ceramica produces two different types of products: tiles that represent more than 99% of its sales, and pots and craft decoration articles in ceramics. The tile industry has enormously developed from the traditional elemental forms to modern techniques in different sophisticated materials for several sectors like building, and home, urban and industrial furnishing.

Ceramica sells its products in 130 countries through a network of agents linked to the co-operative. Tile production is sold in two different brands; Imola Ceramica, Arkim, and its craft production in the Imola Arte brand, and shows it products in many main places all over the world.

Cooperativa Ceramica d'Imola with other three non co-operative ceramics producers in Emilia-Romagna; ICF SpA, Leonardo 1502 SpA and Omega SpA, has recently created the Imola Ceramic Tiles Group, owning eight different brands in the market, as a way to get more consistent industrial and financial means and better capabilities in inno-

vation, research, quality and design to successfully compete in the global markets (from www.imolagroup.com).

4.8.2. ECONOMIC SCORECARD

Table 4.3.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)			**X**		
Sales to Net Working Capital				**X**	
Return on Assets (ROA)			**X**		
Return on Equity (ROE)		**X**			
Current Ratio		**X**			
Total Liabilities to Net Worth				**X**	
Total Assets to Net Sales		**X**			

In the case of Maska, it in the second upper quartile in "Sales to Net Working Capital" and "Total Liabilities to Net Worth", in the second lowest quartile in "Customer Profitability" and "Return on Assets" and finally in the lowest quartile in "Return on Equity", "Current Ratio" and "Total Assets to Net Sales."

Therefore overall the data collected and illustrated in the table show that Ceramica d'Imola gets slightly under average marks in this perspective. Ceramica d'Imola gets slightly under average marks in profitability, solvency and efficiency.

4.8.2.1. First Perspective: Learning and Growth

Table 4.3.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction			→	→	→	
Employee Productivity			→			
Investment over Sales			→	→	→	
Break Even Time			→	→	→	
Employee Turnover			→	→	→	

In the case of Ceramica d'Imola, all the indicators but one, "Employee Satisfaction" (Ceramica d'Imola reports that there are surveys by external organizations. It is high in both members and non-members), "Investment over Sales" (Ceramica d'Imola reports that they create 750 new products every year), "Break Even Time" (Ceramica d'Imola reports that is an important indicator. They need 5 years to get the investment back, all the directors together make decisions and put them in practice to cut the period of time) and "Employee Turnover" (Ceramica d'Imola reports that employee turnover is very low) are reported as information that led decisions in practice, so Ceramica d'Imola places great importance on these four indicators. Ceramica d'Imola places moderate attention to "Employee Productivity" (Ceramica d'Imola reports that they control it, but they do not benchmark and they do not make decisions either), reporting such indicator as information to which the General Board has access.

Therefore overall the data collected and illustrated in the table show that Ceramica d'Imola gets very high marks in this perspective. Our findings indicate that Ceramica d'Imola has a very high level of concern with the learning, research, growth, and development processes.

4.8.2.2. Second Perspective: Internal Business Processes

Table 4.3.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery			→	→	→	
Time Interval from the Customer Call to the Solution of the Customer's Problem			→	→	→	
Manufacturing Cycle Effectiveness			→			
Yield			→			
Returns			→	→	→	
Cost of Repairs			→	→	→	
Rates of Cost Reduction			→	→	→	
Defect Rate			→	→		

In the case of Ceramica d'Imola, the performance in Internal Business processes is very high. Five indicators, "On-Time Delivery" (Ceramica d'Imola reports that it is an important indicator and that they invested in automatic stores), "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Ceramica d'Imola reports that they control the time, they have a process to visit each customer and report from them about the problem, if the problem is big they send technicians and they report feedback of the problem), "Returns" (Ceramica d'Imola reports that they control it and differentiate among big and small customers), "Cost of Repairs" (Ceramica d'Imola reports that they control all this, it is documented, in terms of money, quantity…) and "Rates of Cost Reduction" (Ceramica d'Imola reports that each project has a report, each process is divided, all this is controlled and technical improvement decisions are made by technicians and reported to the general board) are reported as information that lead decisions in practice, so Ceramica d'Imola places great importance on these five indicators. Ceramica d'Imola pays high attention to "Yield" (Ceramica d'Imola reports that it is 3.5%. They think is a good rate. They compare to competitors through their producers' national asso-

ciation and their individual rate is good) and "Defect Rate" (Ceramica d'Imola reports that it is 9% of defective products, they consider it is a good rate, decreasing it is difficult and expensive) which are reported as information that the General Board analyzes and uses to make decisions. Finally Ceramica d'Imola pays moderate attention to "Manufacturing Cycle Effectiveness" (Ceramica d'Imola reports that 75% of time is value-added activities. They put in practice decisions to change obsolete machines, product diversity requires many employees) which is reported as information to which the General Board has access.

Therefore the data collected and illustrated in the table show that Ceramica d'Imola gets very high marks in this perspective. Overall our findings indicate that Ceramica d'Imola has a very high level of concern with the internal business processes.

4.8.2.3. Third Perspective: Customer

Table 4.3.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention			→	→	→	
New Customer Acquisition			→	→	→	
Sales Growth per Segment			→	→	→	
Market Share in Targeted Segments			→	→	→	
Customer Satisfaction			→	→	→	

In the case of Ceramica d'Imola, all the five indicators in this perspective "Customer Retention" (Ceramica d'Imola reports that they control it. They have loyal customers. They have loyalty programs in Italy and abroad. They put decisions in practice in technical and commercial issues), "New Customer Acquisition" (Ceramica d'Imola reports that they control it. They invite new customers to visit their facilities and show new

products), "Sales Growth per Segment" (Ceramica d'Imola reports that this is a very interesting indicator and that they control it. They have 150 important customers that buy 30% of their sales, out of 4000 customers. They control the margins and focus sales on the most profitable customers, by both product and customer), Market Share in Targeted Segments" (Ceramica d'Imola reports that they don't control it, this data is controlled by the national producers association. Ceramica d'Imola has the 3.5% in Italy, because there are many producers. They export 73% of the production and control it by countries) and "Customer Satisfaction" (Ceramica d'Imola reports that they meet customers by sector and by country, and customers visit Ceramica d'Imola here too. When customers report serious complaints, 90% of the times they come to Imola. A technician and other 4 people answer their complaints. Ceramica d'Imola also does systematic surveys, later they analyze the data and correct things. Their customer satisfaction rates are good) are reported as information that lead decisions in practice, so Ceramica d'Imola places great importance on these five indicators.

Therefore overall the data collected and illustrated in the table show that Ceramica d'Imola gets very high marks in this perspective.

4.8.3.SOCIAL SCORECARD

4.8.3.1. First Principle: Voluntary and Open Membership

Table 4.3.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort						
Amount of Cooperative Work						
Membership Growth						
Ease of Redemption of Share-Capital			→	→		

Regarding "Voluntary and Open Membership" principle, Ceramica d'Imola scores mostly low marks. Ceramica d'Imola places quite high attention to "Speed in Giving the Membership Back" (Ceramica d'Imola reports that it is more than 3 months from the end of the year when the member quitted. It is a formula inspired by the law and the fiscal principles), reporting such indicator as information that the General Board analyzes and uses to make decisions. However, Ceramica d'Imola places little attention to "Membership Growth" (Ceramica d'Imola reports that out of 1350 workers, 180 are members. Their tradition is having few members. They acquire approximately as many new members each year as retired members. They do not want to have more than 180 members) which is reported as collected information and places no attention to "Relative Effort" (Ceramica d'Imola reports that the fee is 94,400 euros for every member. A member can pay the fee in 15 years, and 80% of the fee will be got from dividends. The higher the fee each member invests, the higher the dividend) and "Amount of Co-operative Work" (Ceramica d'Imola reports that they do not have statistical data about that, members work overtime, more than non-members, it is common here) which are reported as not collected information.

Overall the table shows that Ceramica d'Imola gets mostly low marks, which implies that they can be considered as not especially concerned with the openness of their co-operatives.

4.8.3.2.Second Principle: Democratic Member Control

Table 4.3.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM			→	→	→	
Renewal within the Councils			→	→		
Number of Members Attending Voluntary Communication Events						
Total Man Hours Held for Democracy			→	→	→	
Blue-Collar Members at the General Board						

Regarding "Democratic Member Control" principle, Ceramica d'Imola scores very diverse marks. "Remarks per Member at AGM" (Ceramica d'Imola reports that 95% of members attended the AGM, they accept delegating votes) and "Total Man Hours Held for Democracy" (Ceramica d'Imola reports that there is 20 meetings a year, some are by law and some others informal, and they last three hours in average) are reported as information that lead decisions in practice, so Ceramica d'Imola places great importance on this indicator. Ceramica d'Imola places high attention to "Renewal within the Councils" (Ceramica d'Imola reports that in the last 35 years there have been 35 different members at the general board, which is composed of 7 members. It is a matter of equilibrium, turnover and stability of proper people. The co-operative is interested in promoting turnover), reporting such indicator as information that the General Board analyzes and uses to make decisions. Ceramica d'Imola pays little attention to "Number of Members Attending Voluntary Communication Events" (Ceramica d'Imola reports that it is around 95%. The high membership fee increases this active attitude) because reports this indicator as collected information. Finally Ceramica d'Imola pays no attention to "Blue-Collar

Members at the General Board" (Ceramica d'Imola reports that there is no a proportional representation. They don't believe in this criterion. The general board has to defend the co-operative as a whole, an enterprise, not specific interests) because reports it as not collected information.

Overall the table shows that Ceramica d'Imola gets medium marks, which implies that they can be considered as slightly concerned with internal democracy.

4.8.3.3.Third Principle: Member Economic Participation

Table 4.3.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap						
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→	→	→	
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Ceramica d'Imola scores high marks. All the indicators but one, "% of Absenteeism and % Extra Hours (Overtime)" (Ceramica d'Imola reports that their absenteeism is statistically controlled and decisions are put in practise to avoid excess. Overtime too), "Remuneration Average" (Ceramica d'Imola reports that they control it, comparing to firms in Sassuolo (a nearby ceramic district), they pay less but they hire more workforce. Their HRM approach is less aggressive) and "Indivisible Common Capital" (Ceramica d'Imola reports that everything besides the dividend is indivisible reserves, they don't have divisible reserves. Profit is just 1% over sales and dividends are 4% over profit, and the interest paid to capital is included there) are reported as information that lead decisions in practice, so Ceramica d'Imola places great importance on these three indicators. Ceramica d'Imola does not pay

attention to "Remunerative Gap" (Ceramica d'Imola reports that there is no any relationship, there is a national contract for everybody, and there are differences in each province) because it is reported as not collected information.

Overall the table shows that Ceramica d'Imola gets high marks, which implies that Ceramica d'Imola can be considered as concerned with the economic participation of their members.

4.8.3.4. Fourth Principle: Autonomy and Independence

Table 4.3.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Ceramica d'Imola scores highest marks possible. "Dependence to Three Major Customers" (Ceramica d'Imola reports that there is no concentration, because 7 million euro out of 220 million is sales is not risky at all) and "Degree of Independence from Institutions" (Ceramica d'Imola reports that banks consider them as non risky. They have debts; depending on their price they might be good. Their financial cost is lower than the cost of money, that means debt in the proper amount is good, cheap finance) are reported as information that lead decisions in practice, so Ceramica d'Imola places great importance on these indicators.

Overall the table shows that Ceramica d'Imola gets very high marks, which implies that Ceramica d'Imola can be considered as very concerned with the dependency of their co-operative.

4.8.3.5.Fifth Principle: Education, Training and Information

Table 4.3.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→	→	
Investment in Education in Direct Jobs / Investment in Education						

Regarding "Education, Training and Information" principle, Ceramica d'Imola scores diverse marks. On the one hand Ceramica d'Imola places great importance to "Endowment to Education / Profit" (Ceramica d'Imola reports that they do not control every year. They have spent 2 million euro in the last four years. It is up to each member to request education and the co-operative will support him/her.), reporting such indicator as information that lead decisions in practice. On the other Ceramica d'Imola pays no attention to "Investment in Education in Direct Jobs / Investment in Education" (Ceramica d'Imola reports that education is for everyone, depending on the need of each job and not focused on one group), because reports it as not collected information.

Overall the table shows that Ceramica d'Imola gets diverse marks, which implies that they can be considered as slightly concerned with the education, training and information of their members.

4.8.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 4.3.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit			→			
Interco-operative Funds						
Moving persons (unemployed staff)						

Regarding "Co-operation Among Co-operatives" principle, Ceramica d'Imola scores low marks. Ceramica d'Imola pays moderate attention to "Reconverting Profit" (Ceramica d'Imola reports that they direct just the 3% established by law to the co-operative fund) because reports it as information to which the General Board has access. However, Ceramica d'Imola pays no attention to "Interco-operative Funds" (Ceramica d'Imola reports that there are no inter-co-operative funds, they collaborate with co-operatives but without sharing funds) and "Moving Persons (Unemployed Staff)" (Ceramica d'Imola reports that in a non-institutionalized way, when a firm collapses trade unions and local municipalities try to locate those workers in other firms. Ceramica d'Imola tries to adopt some workers if they have enough work to do so. They have relationships with the community), because both indicators are reported as not collected information.

Overall the table shows that Ceramica d'Imola gets low marks, which implies that they can be considered as not concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in the region of Emilia-Romagna of not having formal links related to profit, funds or staff among co-operatives.

4.8.3.7. Seventh Principle: Concern for Community

Table 4.3.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→	→	
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→			
Investment and Expenses in Environment			→	→	→	
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Ceramica d'Imola scores very high marks. All the indicators but one are, "Annual Growth of Staff" (Ceramica d'Imola reports that it is in their statutes and mission. Their aim is creating and maintaining jobs. Today the place is the world, internationalization is unavoidable, and creating jobs in Europe is tough), "% of Profit to Indivisible Capital" (Ceramica d'Imola reports that profit shared among members was 4%. It is a low percentage, but it is good money because they make good profit), "Investment and Expenses in Environment" (Ceramica d'Imola reports that they work respecting local and European norms. They have all the certifications in environmental issues) and "% of Capital Belonging to Workers" (Ceramica d'Imola reports that 100% belongs to members) reported as information that lead decisions in practice, so Ceramica d'Imola places great importance on these four indicators. Ceramica d'Imola pays moderate attention to "% of Profit to Community" (Ceramica d'Imola reports that it is not a priority, it is very weak, 100,000 euro, they promote culture, sports, school, ambulances…) because reports it as information to which the General Board has access.

Overall the table shows that Ceramica d'Imola gets very marks, which implies that Ceramica d'Imola can be considered as very concerned with the community.

4.9 General Findings from Cefla, Sacmi and Ceramica d'Imola

To conclude, this chapter shows enough empirical evidence to state that both firms show, given their particular circumstances, that a remarkable social concern and a successful economic performance; being profitable and competitive, is possible in global

markets. Actually the three firms are ranked among the most efficient firms in their sectors. Besides the fact that these three firms have gone beyond the critical age of ten years old and have got different awards as said above are strong reasons to state that the three firms are successful in economic terms.

I have chosen three examples from Emilia-Romagna to illustrate my basic hypothesis. Also, I have explained the context and history out of which these three cases arose. Then I used the Balanced Score Card to show that these three cases are successful from both a business point of view and from a social point of view. These three cases from an Italian context are part of my argument to show that, contrary to the position of writers such as Milton Friedman; social orientation does not always interfere with business efficiency.

CHAPTER FIVE

MONDRAGON

"La alternativa comunitaria que se impone no es la de que todos tengamos que ser Quijotes o Sanchos para poder convivir. Todos los cooperativistas estamos obligados a ser un poco de lo uno y de lo otro ya que nuestras cooperativas necesitan ganar y no sólo especular"

"The emergent community alternative to cohabiting is not that of everybody being either Quijote or Sancho. All the co-operators are forced to be a bit of each one because our co-operatives need to win and not just to especulate"
(Arizmendiarrieta, 1984b, p.179).

As cases to illustrate my hypothesis, I have chosen three socially oriented companies from Mondragón, Spain. Since these businesses grew out of a particular context in Mondragón, I will first explain some of that context, and the history of the co-operative movement in Mondragón.

Part One: History and Context

5.1. Geography

Mondragón is a town of 25,000 inhabitants located in the southeastern corner of the Basque Province of Guipuzcoa in northern Spain, one hour from the border with France. The Basque Country is one of the seventeen autonomous regions in Spain, composed of the provinces of Alava, Vizcaya and Guipuzcoa. Located forty kilometres from the Atlantic Ocean, Mondragón is an industrial town surrounded by middle-size mountains and located about 200 metres above sea level. It is situated in the center of the three Basque

Provinces, with a distance of about 20 kilometres to Vitoria, 50 kilometres to Bilbao, and 80 kilometres to San Sebastian.

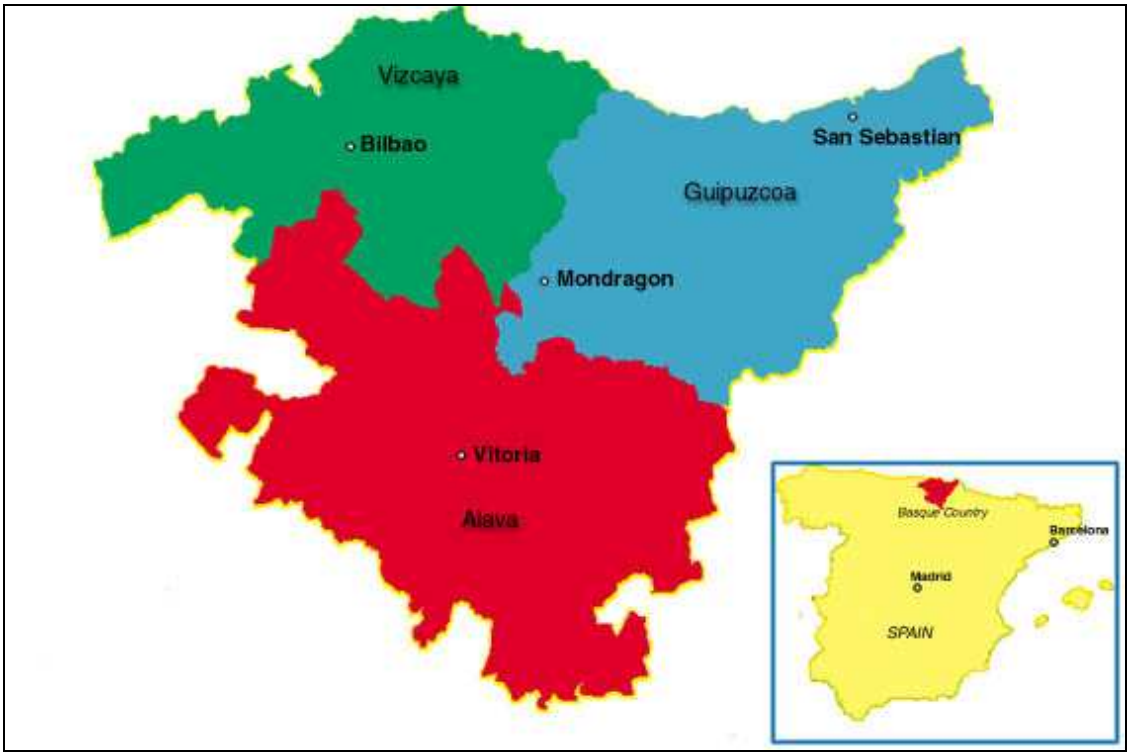

Figure 5.1 – Mondragon region of Spain

The Cantabric Mountain Range makes a physical division between Guipuzcoa and Vizcaya, the two coast provinces, and Alava, the inland province. The former provinces have a very uneven geography with an Atlantic climate, milder temperatures, and frequent rains that tint the mountains an intense green colour. The mountains divide those provinces into small valleys filled with lively and small rivers. The lack of flat surfaces gives the roads that pass alongside the rivers many curves. Communication and transportation have historically been difficult and this has ingrained in local citizens a very particular sense to belonging to each town or village.

Economic activity historically based on industry has given the valleys in Guizpucoa and Vizcaya a distinct countryside, combining traditional agricultural labour with industrial factories along the border of the rivers. The combination of rural and urban economic activity has brought out a remarkable economic prosperity that has also changed the infrastructure in the last fifteen years. The development of modern airports, seaports and highways connect all the main cities and make distances much shorter than in the past (see Bradley and Gelb, 1983, p. 38).

Mondragón and its surrounding area have been well-known all over Spain as an industrial centre with frequent commercial relations with other places. However, in 1955 Mondragón was not one of the most obvious places in Spain or the Basque Country to develop a strong industrial group. This is thus the place where one of the most successful industrial co-operative systems in the world started in 1956.

5.2. The Culture

Located in the heart of the Basque Country, Mondragón is part of the Basque culture. Local people have been exposed for centuries to the Basque tradition. An economic effect of that tradition is the ancient communal labour practice based on neighbourhood solidarity towards the individual or family having trouble due to fire, flood, drought or any other adversity.

The link between those ancestral practices, which still survive in the very few families working in agriculture at present day, and modern co-operatives remain largely unknown. Some authors have stated that the existence of this link is definitively a key factor for the current development of the co-operatives. However, others who recognise

its importance consider them to be secondary. There is not enough empirical evidence to state that those ancient practices are essential to explain why Mondragón hosts such a unique reality in the world; the fact that industrial co-operatives represent perhaps the most uncommon and sophisticated activity within the modern co-operative movement increases that interest.

Modern co-operatives are a relatively late phenomenon in the Basque Country. The first co-operative was set up in 1884, almost forty years after the first one in Spain. However, the Basque co-operative movement succeeded in becoming alongside with the Catalonian one, the most dynamic and versatile in Spain, according to the number of co-operatives started, the number of members, and the diversified activities accomplished by them. Membership rate in the Basque Country was 3.6 out of every hundred people, 2.5 times the average in Spain. Arrieta et al. say that one out of every six Basques had contact with a co-operative organization (1998, pp. 105-106), which implies that co-operatives had a remarkable presence, even though this movement was largely composed of consumer and credit co-operatives. Less than a dozen industrial co-operatives were started-up until the boom in the 1960s around the Mondragón Co-operative Experience (MCE). Those few industrial co-operatives that were started in the 1930s were essentially located in Eibar, a big industrial town located twenty kilometres north of Mondragón, and mostly dedicated to producing firearms (Id., p. 254).

5.2.1.IDEOLOGICAL INFLUENCES

Co-operatives are essentially associations of people that are a means to sustain their members' needs and their direction is greatly influenced by the motivation of their members. The strong ideologies of the late nineteenth century influenced members' motiva-

tion. Co-operatives in the Basque Country were no exception. Consequently, the Basque co-operative movement can be divided into three different groups, each influenced by a particular idea of co-operation: the catholic movement, nationalism, and socialism (Zelaia, 1997, p. 50).

The earliest of these, the catholic co-operative movement, was rooted in rural areas and it was mostly made up of agricultural co-operatives and some credit co-operatives for financial support (Id., p.71). Catholic co-operatives used to be directed by religious staff and for some years one of those worked in Mondragón (Id., p. 142). In 1928, in an unprecedented action, those co-operatives set up an Agro-Catholic Federation to join agricultural trade unions with credit co-operatives (Id. p. 230).

Socialism was pragmatic in Spain in comparison to other places at that time. Being far from the pure Marxist dogma, socialists considered co-operatives to be a proper way towards social transformation, the defeat of bourgeoisie domination, and the arrival of the real socialism (Id., p.96).

5.2.2.HISTORY

The reasons to explain the birth of what today is MCE are deeply rooted in the hard times of 1930s. Spain was experiencing a very unstable situation with dramatic changes of government and the constant confrontation of radically adverse ideologies all over the country. This confrontation was full of violent episodes that made civil coexistence difficult.

Even though the most critical moment was the Spanish Civil War between 1936 and 1939, there was an earlier military event staged as a reaction to the Revolution of the

miners in Asturias in 1934, another industrial region in north-western Spain. This revolt, promoted by the PSOE and carried out by unorganized workers, cannot be called national because its effects were localized in Asturias, Hernani (another industrial town 80 km from Mondragón), Eibar and Mondragón (Larrañaga, 1981, p. 52). The army dominated this rebellion in a few days, but in Mondragón politicians and owners of firms were arrested and the revolutionary group even executed three people.

As illustrated above, the socialist party was the main actor in accomplishing this revolution and Mondragón had historically been a place where socialist tradition was rooted (Id., p. 50). This fact explains why Mondragón was one of the very few places where the revolt had certain magnitude.

However, this event was not an isolated occurrence; it was the consequence of some disagreements due to the existing huge social inequity (Ormaetxea, 2003, p. 27). Local society was deeply divided into two classes: owners of the production means, and working class people. Labour conditions were difficult and salaries were low, which made living conditions for the working class desperate. Two years later, in July 1936 this entire agitated situation exploded in the dramatic Spanish Civil War that lasted until 1939. Throughout those years, the front of war remained in Mondragón for almost one year. Socialists and nationalists fought against General Franco's troops who eventually defeated the Spanish Republican Government.

As a meaningful example of the civil nature of that war when combat was over, communication between soldiers on both sides was common (Larrañaga, 1981, pp. 59-61). Because everybody had relatives and friends fighting for the other side (Ormaetxea, 2003, p.30), this war was a real civil war (Unanue and Intxausti, 2002, pp. 21-22). This war divided families and towns, Mondragón as well as any other town in Spain, so many

people had to leave their hometown towards exile. Such a tragedy led the country to misery. In the aftermath of the war many people suffered due to a lack of essentials such as food, clothes and medicine. Some food was provided through rations cards controlled by the government; tuberculosis and other illnesses were infecting the poor citizens who were almost everybody in Mondragón. Hate and fresh memories of the war made things even worse. This was the Mondragón that Don José María Arizmendiarrieta (DJA) found at his arrival to town in 1941.

The Spanish economy was seriously damaged and it did not get the per capita income rate it had before the war until fifteen years later (Tamames, cited in Ormaetxea, 2003, pp. 45-46). It was in the 1960s when new economic policies carried out by some technocrats in Franco's government revitalized the economy and enabled the Gross Domestic Product (GDP) to grow to 7.4% per annum. New development increased salaries 12.4% annually, unemployment was eliminated, and consequently the demand of products dramatically increased (Id., p. 108).

In Mondragón in 1939 most of the economy was based in Union Cerrajera (UC). By far the biggest firm in town, UC produced keys and locks and had more than 2,000 workers. Products such as keys were the traditional products made in the Mondragón valley, which is why Mondragón is known as Villa Cerrajera. UC was a family-owned firm where social fracture and inequity were blatant. Workers' labour conditions were hard and salaries were very low. However, UC was also one of the most socially concerned firms in Spain as a result of the religious tradition of the owners and the paternalistic practices that the State spread throughout the society before such widespread misery and lack of equity (Ormaetxea, 1991, pp.24-25). UC provided services to its employees such

as groceries, the apprentice school, housing, lunch provided at the factory, the minimum salary guaranteed. This was the scenario of 1930s and 1940s in Mondragón.

It was precisely the workers' dependency on the UC's services that caused problems between its workers and other workers in neighbouring smaller and weaker firms that was the starting point for Don Jose Maria Arizmendiarrieta's (DJA) action. It did not take him long to recognize the disparity between two factions in the community split by the UC's policy to provide certain services to its workers but not to non-workers in the community. The HETRUC eventually became the pioneer for a private social welfare in Spain (Ormaetxea, 1997, p.36).

Out of these services it was the limitation of the education at the apprentice school of UC to sons of the workers of UC that led Don Jose Maria to react. He was the sociology teacher at that school and worked to change this unjust restriction. Despite his greatest efforts, he could not achieve his goal (Ormaetxea, 2003, p. 130).

Ultimately Don Jose Maria wanted to change this whole paternalistic attitude by changing the internal structure of UC towards a new organizational model based on workers' participation and solidarity. He was in close contact with whatever was going on in the headquarters of the UC because five of his students in the sociology classes at the apprentice school had supervisor jobs at the production process of the firm. This connection between Don Jose Maria and those five students will be essential to understand the following decades in the economic life of Mondragón.

Don Jose Maria and his collaborators asked the owners to increase the equity by 20% to later share this percentage among the workers (Ormaetxea, in Irizar, 2003, p.32). In 1950 the general manager refused that proposal and told the group that there was no room for that "apostolic" attitude in UC and that they should forget the idea. Finally, they were

convinced that their idea of changing the structures of the UC was possible by leaving the company and creating their own firm (Ormaetxea, 1997, p. 42), and actually they quit the UC (Ormaetxea, 1991, p. 19).

Meanwhile such a radical and new idea caused scepticism among the local firms, but eventually some owners became afraid of losing their best workers who were fascinated by this new business model. When Don Jose Maria and the five collaborators founded their first firm in 1955, they implemented an open admission policy. Nonetheless, in order to keep the harmony among the local firms they decided according to their ethics not to produce any product that was already being produced in the valley (Ormaetxea, 2003, p. 62, p. 72).

5.3.Political Support: Relations with Public Institutions

As said before the Basque Autonomous Government has total independence to make the co-operative law. The legal scenario for co-operatives located in the Basque Country is as follows:

- The 129-2 article of the Spanish Constitution says that the Spanish State is committed to promote co-operatives as a way of developing economic activity, although it depends on certain conditions.
- In 1985 the Spanish Government delegates this law making process in each of the 17 Autonomous Regions of Spain.
- By means of the Basque Law of Autonomy in its 23 article, the Basque Government has exclusive power to making law regarding co-operatives. The Basque Law of Co-operatives is a result.

- In 1986 the Basque Government started its own Direction of Social Economy.

5.3.1.LAW

The Basque Law of Co-operatives has a double function for the Basque co-operatives:

- *Control*. There is a Public Register that depends on the Basque Government and also there is a normative that contains faults and sanctions.
- *Promotion*. The law itself promotes co-operatives, makes establishment easier, and registration is free. In some cases they pay a lower percentage of income tax than other firms.
    - It also financially supports some activities related to co-operatives in magazines, training and consulting.
    - Promotes integration of unemployed workers to membership partly financing his / her membership fee and also especially helps women and handicapped.
    - Promotes co-operation among co-operatives and several complementary activities.
    - Supports co-operative entrepreneurship, providing information to young entrepreneurs in order to choose the co-operative legal form, with special concern for new market segments like elderly, disabled, or otherwise marginal workers
    - Fosters participation of workers in the ownership and management of their firms, even though they are not priorities at all for owners and trade unions.

- Finances research projects to show the benefits of the participation of the workers in ownership and management of firms.

As a result of this positive attitude from the Basque Government, the MCC accepts that they have support from government in the law making process. The MCC also has a word in writing new laws and the Basque law is based to some extent on the MCE (Ormaetxea, in Irizar, 2003, p 55).

5.3.2. DIRECTION OF SOCIAL ECONOMY

Created in 1986, the Direction of Social Economy within the Department of Labour of the Basque Government has agreements with the three universities of the Basque Country and with several schools and research centres. Linking Social Economy and co-operatives with the Public Administration is the main function of this entity. It hosts the Co-operative Register of the Basque Country.

5.3.3.HIGH COUNCIL OF BASQUE CO-OPERATIVES (CSCE)

The High Council of Basque Co-operatives is an entity made by the Basque co-operative movement, functionally placed in between the Public Administration and the Private Sector (the Basque Federation of Co-operatives). Supported by public funding, it has to respond clearly to information requirements of the Basque Government.

This council is composed of thirteen people: six members of the Basque Federation of Co-operatives plus one member of the Basque Federation of Workers' Co-operatives, three members of the Public Administration and three members of the universities (each one from each of the three universities in the Basque Country).

Three people comprise its staff and it has three main functions:

- Transmission and promotion of co-operative theory through studies and research.
- Guarantee the use of the co-operative law and norms.
- The CSCE is the owner of all the indivisible reserves, more or less 30 % of the equity, of a co-operative if the co-operative collapses. Those deposits would be used in activities to promote new and existing co-operatives.

5.3.4. TAX POLICY

As related above the co-operative law is a matter of each region in Spain, therefore the Basque Country has its own law. It makes a difference in the tax policy for co-operatives in comparison to other firms. Income tax is 32.5% over profit for the latter and only 10% for the former (Ormaetxea, 2003, pp. 51-55). However, it is the different nature of co-operatives and the use of their profits: 10% to the community, 20%-50% to the reserves and the remaining profits to long-term individual capital. Eventually members of co-operatives get less profit than shareholders in non-co-operative firms. After taking this entire differential into account members of the MCE pay an amount equal to 38% of income tax (Ormaetxea, in Irizar, 2003, p. 55).

Cancelo concludes this point saying that tax policy is not advantageous for co-operatives, because there are very few firm owners that transform their firms in co-operatives to take advantage of this fact (Cancelo, in Irizar, 2003, p. 138). There are no other advantages in other taxes.

5.3.5. TRADE UNIONS

The attitude of trade unions towards co-operatives in the Basque Country has changed before and after General Franco´s regime. The supportive attitude of the 1920s and 1930s (Arrieta et al., 1998, p.81, p. 86, p. 264) has radically shifted to the unaccommodating and sometimes damaging attitude of the 1980s and 1990s.

Zelaia (1997, p.42) makes a very interesting point about such an important change, mentioning De Larrañaga (1977, p.224) when he says that the links between co-operatives and trade unions before the Civil War were based on the supportive attitude of the latter towards the former, not on expanding practices of the trade unions to co-operatives, as the trade unions are seeking today.

Larrañaga implies that this change in their attitude may be logical because co-operatives detract the essence of trade unions, which is the conflict between capital and labour by proposing new economic relations based on the responsibility of members. Therefore nobody promotes an alternative that eliminates his raison d'etre (1998, p.144). Ormaetxea simply concludes that co-operatives and trade unions are completely different in their way of working (in Irizar, 2003, p.56).

At this point it is interesting to remember that Mondragón has had just one strike due to internal conflict. It was in 1974 and the production at Fagor Domestic Appliances, the largest co-operative in Mondragón, stopped for a few hours (Whyte and Whyte, 1991, p.97). Immediately the general board expelled 14 of the strike leaders from the co-operative because they did not use the social council, generally accepted as the proper internal channel to express their claims. Most of these workers were readmitted in 1978, but the conflict really created tension within the co-operatives and the community (see Whyte and Whyte, 1991, pp. 96-102). Morrison (1997, p. 150) says "there is general

agreement that the strike represented the most traumatic event in the co-ops' history [that] led to substantial changes." The following years saw changes such as increasing participation, limiting size of co-operatives to 500 members, reducing bureaucracy, redesigning the compensation system, and developing new norms. Morrison concludes saying that "unfortunately, the role and importance of women on a policy level in these matters remains minor. It is clear, however, that their participation in Fagor increased substantially after 1974" (Id., pp. 148-151).

Finally Thomas and Logan (1982, p. 194) point out that "the political oppression which the people then had to endure [and] the lack of freely-elected trade unions leadership… [were] factors which have formed the backgrounds to the Mondragón experience." They assume the fact that trade unions were banned under Franco's regime as another factor that enabled Mondragón to develop in such way. Later they (1982, p. 183) conclude "…in Mondragón no 'degeneration' has occurred with the passing of time. Control is vested exclusively in those who work; and all who work – with the exception of a few highly specialized people on short-term contract – obtain their rights, irrespective of age, experience, sex, or place of origin."

This "constitutional" arrangement may involve a minimum of participation, or it may imply genuine self-management with a high degree of personal involvement in the organisation of work. Bradley and Gelb (1981a, 1981b) have found in Mondragón an unusual degree of coherence and trust between all co-operators, from shop floor to management.

5.4.The Co-operative Movement: Organizations of the Mondragón Co-operative Council (MCC)

It is now more than sixty years since Don Jose Maria first arrived in Mondragón. Historically, according to Ormaetxea (in Irizar, 2003, p. 38, p. 52), the MCE is divided into three different stages, 1955 – 1971, 1972 – 1990 and 1991 – 2003. Ormaetxea (in Unanue and Intxausti, 2002, p. 140) finds that these different stages are identified according to the ends. During the first stage the main motivation was based on ethics and Christianity; within the second stage motivation was based on contributing to the development of the Basque country following Franco's death in 1975; and the third one was especially pragmatic facing global markets. The three stages have been one right after the other but features of each of them have existed in each stage too.

It is interesting to remark that the transition between stages has been motivated by market requirements, but the change goes further than a simple internal reorganization and has a substantial social content too. This fact gives evidence of the socio-economic duality that exists in the core of the MCE. Even though motivation may come from the social mission to accomplish, the means towards it have to be economic and properly adapted to fulfil the economic requirements of the market. Fulfilling those requirements demanded some structural changes to better serve the social mission.

Motivation always went parallel with the general will of the society, and those three stages were not something particular in the MCE but a general phenomenon in the Basque Country. The MCC is a group of co-operatives. Each co-operative was started with a particular objective in a project of having an integral structure for development. The key organisations that basically make up the MCC today were initially created in the

1960s: Caja Laboral, Lagun-Aro, Fagor Group, the new Polytechnic School and Eroski, and they are today the roots of the MCC. It was when Don Jose Maria completed such an integral structure that he started to get the first harvest of the work he sowed during twenty years (Ormaetxea, 1997, p. 262).

Ormaetxea says that out of the various organisations that comprise the MCE, there are four organisations that perceive labour as a membership issue: Caja Laboral, Lagun-Aro, Mondragón University and Ikerlan (2003, pp. 69-70). These four institutions have been key organisations to the development of the MCE as an industrial reality.

5.4.1 FAGOR AND THE FIRST INDUSTRIAL CO-OPERATIVES

Fagor Domestic Appliances was the first industrial co-operative of the MCE. This name was chosen by joining the first letter of each of the five founders' last names (Ulgor was the original name of the firm) and it was established in 1955. At the beginning it produced stoves and later they started producing refrigerators and washing machines. This firm played a critical role in sustaining Caja Laboral, the co-operative bank, in the first years (Ormaetxea, 2003, pp. 88-91). It was the core where the Fagor Group, the first geographical co-operative group in the Mondragón valley, was created.

The Fagor Group composed of the three first workers co-operative in the Mondragón valley was started in the early sixties. Its main objective was to be an umbrella organisation to unite the co-operatives started under the influence of DJA and the five founders. The Fagor Group was the seed, the first experience for the future co-operative group. Its internal norms, approved in 1964, were the basis for the MCC that we know today (Ormaetxea, 1997, p. 544). The solidarity agreements linked all the co-operatives under that umbrella. Finally, it is interesting to remark that the close timing of the union of co-

operatives and approval of the norms was an absolute success, because co-operatives generally have a tendency towards individualism and isolation.

5.4.2. CAJA LABORAL

As one of DJA's original ideas, Caja Laboral was established in 1959 (MCC, 2001). It is probably the best example of that spontaneous growth as long as the founding group rejected DJA's proposal due to the lack of a proper banking background. The needs of capital convinced them and finally their industrial background was not an impediment to successfully manage the co-operative bank. DJA convinced one of the five founders of Fagor to leave his industrial job to start up the co-operative bank.

However, it is interesting to mention (Hoover, 1992) that, "the initial success of the bank (Caja Laboral) had to do with a law that permitted cooperative banks to pay ½% higher interest than regular banks, an advantage that contributed to a dramatic rise in deposits." Again we see that the market, and having a competitive advantage in the market is what really makes further social ends possible.

Besides this market strength industrial co-operatives also played an active role in the development of Caja Laboral. Because even though the Caja Laboral has been a supportive element of the industrial co-operatives in times of crisis, especially 1970s, at the beginning the Caja Laboral survived by the support of the first industrial co-operatives, mainly Fagor.

Sometimes the support provided by the Caja Laboral was even dangerous to itself due to the risk adopted by having most of its financial resources in co-operatives of the MCE. This was a by-product of the ad-hoc situation where Caja Laboral grew (Or-

maetxea, in Irizar, 2003, p. 45), in between the regulations of the Bank of Spain and the managers' deep social commitment in management.

The participation of the Caja Laboral in the equity of the industrial co-operatives decreased from being 70% of its resources in 1962 to 25% in 1983 (Ormaetxea, 1991, p. 194). Eventually the trend became to do business more and more with non-members in order to diversify the risk.

Alongside the financial support (Mongelos, in Irizar, 2003, p.80) given to industrial co-operatives in crisis, another particularity of Caja Laboral was his entrepreneurship division. The mission of this section was promoting job creation and maintaining existing jobs by financial support and technical consulting. As a result, although the Basque Country lost 200,000 of its 400,000 industrial jobs from 1970 to 1990, the MCE was able to increase its jobs from 8,700 to 18,600 (Ormaetxea, 1997, pp. 506-507). During many years the local branches of Caja Laboral were places where people launched their worries about local economy (Ormaetxea, 1997, p. 476). Therefore, this entrepreneurial division within the Caja Laboral was a very active agent in regional economic development that even wrote a report about the possible solutions for the economic crisis in the Basque Country (Id., 1997, p. 493).

The retirement of the founders of the MCE (Id., p. 499) and the increasing market requirements in conventional banking sectors caused that Caja Laboral to focus on classical banking activities, and the Entrepreneurial section changed his name to LKS and became an autonomous co-operative dedicated to consultation.

However, Ellerman concludes that "the Empresarial Division makes the Caja Laboral unique in the world of development banking" (Ellerman, 1984a) (see also Ellerman, 1982, 1984b), and demonstrates its value as a job creation and economic development.

5.4.3. LAGUN-ARO

In 1959 an order from the Labour Ministry excluded members of co-operatives from the general public welfare system, reasoning that they were the owners of their companies and not just employees. As many other times in the co-operative history, if not always, the birth of Lagun-Aro, the welfare co-operative, was a reaction to difficulty. Such a drastic decision left members of the MCE without any social security and Lagun-Aro became the provider of three services to its members: medical care, guarantee salaries for members who are unable to work, and unemployment subsidies (Ormaetxea, 2003, p. 159).

5.4.4. MONDRAGÓN UNIVERSITY - MU

It was the first project accomplished by Don Jose Maria following his arrival to Mondragón in 1941. The lack of a universal education right for young people in Mondragón pushed him to establish the first Apprentice School in 1943. This school was financed by some donations from firms in Mondragón and parental money contribution. This humble project has grown to become the Mondragón University since 1997, the only co-operative university in the world.

It is interesting to remark that Don Jose Maria already thought on starting a university in the Mondragón valley in 1963; nonetheless, his dream could not be realized at that time due to the lack of support from public institutions due to the already mentioned General Franco's prohibition. Catania (in T.U. Lankide, 2004, p.17) said that MCC has strengthened its commitment with MU and co-operative values and training are to be taught in the university soon. The lack of a consistent co-operative education to complement the conventional programs has been a weakness of the MU.

5.4.5. IKERLAN – RESEARCH CENTRES – GARAIA INNOVATION POLE

In 1974 Ikerlan, Mondragón's first research centre, was built as another of Don Jose Maria's personal ideas. Specialized in mechanical projects it has been tightly linked to the High Polytechnic School of MU since the very beginning, sharing teachers as part-time researchers. Its evolution in the last few years has been very meaningful too, because at the beginning it was strongly supported by the industrial co-operatives of the MCC. Today Ikerlan is a totally self-financing centre. It has 250 employees and has signed contracts with 29 firms, 25 of which are co-operatives (Ormaetxea, 2003, pp. 174-175).

It is interesting to mention the weight that traditionally technological advances has had in the whole MCE. Today, together with each of the Research and Development (R&D) departments of each co-operative, the nine Research Centres and Mondragón University are the main actors in Innovation within the MCE. It is a particular interpretation of technology influenced by the concern on guaranteeing jobs.

Historically Mondragón has never seen technology as a threat to labour, as a way of cutting jobs, but as a way of being able to create new jobs. As Hoover explains, "rather than avoiding automation, the Mondragón cooperatives have defined the 'problem' of automation as a matter of obtaining control over the benefits of technology on behalf of members" (Hoover, 1992).

Mondragón has perfectly known that ignoring technological changes is one of the most dangerous mistakes an enterprise can do. They avoid the idea of maintaining every job as sacred and not to be concerned about the new technological advancements, be-

cause doing that is putting the rest of jobs in high possibility of danger. They prefer cutting a few jobs but being sure that they have the appropriate technology in the production process than maintaining all the jobs and not ensuring that they have the appropriate technology. In spite of the fact that in the short term the technology changes can be seen as threats for maintaining jobs, in the long run they are completely the opposite, adopting them is the best way of doing jobs safer.

This idea of attachment to technology is complementary with the job distribution in the Mondragón Co-operative Corporation. When a co-op has an excess of jobs, these workers are relocated in other firms with a lack of workers. This system has been the solution to the different recession times in Mondragón's history. Each worker has had the option to work in another co-op or going to school to learn new techniques, and earn the same salary they were earning in their job. As seen, the main conclusion of this interpretation of technology in the MCE is that technology serves employment and not the other way around.

The Garaia Innovation Pole is an ambitious project striving to join the University, the Research Centres, and the co-operatives to get a proper and efficient transference of knowledge among them. Innovation and technological change will influence the future performance of the MCE, and this project is designed to address this fact without losing the traditional interpretation described above.

5.4.6. SOCIAL CONTRIBUTION

The social contribution of the MCE has been described in 2003 as the following (absolute figures and also relative figures to 2002):

- The entire corporation has 68,263 jobs.

- Job creation in 2003 has been 7,004 jobs.
- Member job creation was 3,482 and membership net growth was 1,002, making a total of 28,204 more than ever before. Non-members percentage decreased from 23% to 20%.
- Lagun-Aro grew 3.68% in members and got a return on investment of 6.7%.
- Inter-co-operative funds financed new activities, training and R&D with 41.3 million euros, 10% profit (36 million euros) was spent in community, and 210 million euros were spent in taxes to public administration.
- Profit divided to each member was an average of 4,250 euros for each member, being the percentage of profit liquidity always less than 30% of total. Being 13 % of the total profit made. Interest paid to capital was 7.5%.
- In job satisfaction, an index around 3 out of a total of 6; most valued issues are in this order: labour atmosphere, environmental concern, job security (ownership), and a prosperous future. The less valued issues in this order are: retribution, recognition and training.
- Mondragón University had 3,995 students, growing 2.6%, implementing two new PhD. Programs and maintaining the existing four.
- 3.7% of the GDP, 3.7% of the jobs and 8.2% of the industrial jobs in the Basque Country belonged to the MCC. 14,000 jobs were also induced.
- In environmental issues, a sustainability report was written by the MCC according to the Global Reporting Initiative (GRI). Six co-operatives earned ISO 14001 certification; there are forty co-operatives that have already received it. Four co-operatives got the EMAS II, which is the next step to the ISO 14001. It is important to underline that

25 co-operatives were recognized for excellency in environmental issues, but others have had difficulty fulfilling the basic legal requirements in this issue.

- 4,500 people from 30 different countries, mostly from Brazil, Colombia, USA and France, visited the MCC in 2003 to understand the key factors of the MCE (T.U. Lankide, 2004, pp.24-39).
- Unanue and Intxausti (2002, pp. 139-140) say that the MCE has always been committed to the Basque Language, being leaders within the Basque firms in this topic (Id., p. 150), but that it has not been the main commitment of the MCE at all.

Social contribution is evidently more focused on the Mondragón valley, the place where this particular approach causes bigger effects. This phenomenon has multiple implications. From a socio-economic point of view, one result is that Mondragón is the area with the lowest economic difference in Europe, between the ones that have the most and the ones that have the less (Larrañaga, in T.U. Lankide, 2001, p.31).

5.5. Reasons for Success

Connecting the success of the MCE to what the community meant in its origins is essential before any interpretation. Alongside the particular facts of the MCE explained in section 1.3 of this chapter, the following points are reasons to success in reasons controlled by the MCE. Other factors such as the industrial tradition in the area, the local culture, and Franco's closed economy (the weak competition in the overprotected and rapidly expanding Spanish economy in 1950s, 1960s and early 1970s, see Whyte and Whyte,

1991, p. 131), are not included in this list as long as its existence did not depend on deliberately made decisions, as explained before. Here are those controlled factors:

- Don Jose Maria, through his leadership and entrepreneurial ideas. This is unable to be repeated in the future in any other place in the world, since he died in 1976.
- Austerity. The austerity and the lack of any lucrative attitude strengthened the sense of community as the main actor and the main element to serve, rather than the individuals. During the first years of the experience and still now, even the 90% of the profits are reinvested, in reserves and individual accounts. This fact is something uncommon in other co-operatives in the world. As MacLeod (1997, p. 31) states the profit distribution is "10% to the Social-Cultural Fund, 20% to the company reserve fund and 70% to the worker-members." He concludes "the use of Social-Cultural Fund is flexible and ranges from support of community schools to staff development. The company reserve-fund becomes a permanent part of the company equity and can never be withdrawn by the employees. The other 70 per cent of the profits go to the personal capital account of each member-worker. During years of loss it is possible that the worker's capital account will be reduced. The individual worker only receives this money upon retirement or when leaving the company."
- Solidarity. This fact was originally complemented with a very severe ratio of 1: 3 in the salaries, that today is around 1:12, the share of the profits and transferring unemployed members (see Whyte and Whyte, 1991, pp. 151-152).
- Different groups of people working in harmony influenced by the previous three factors. Transmission of ethics and moral values among the first generation.

- Business pragmatism, efficiency, competitiveness and diversity of businesses. Not losing the sense of depending on the market.
- Education in both community values and technical training of the first generation.
- Superstructure institutions as materializing solidarity links and the sense of group. Writing the norms in an early stage to have a uniform group of co-operatives.
- Caja Laboral, as financing the co-operatives and supporting them in times of crisis. Transferring savings from the community to invest in the community.
- Concern for technological change, research, and training.

5.5.1. THE KEY LEADER

Don José María Arizmendiarrieta (DJA) embodied the role of the Catholic evangelic doctrine as the seed that made the whole experience flourish. Mondragón as any other community in those times, was very catholic and besides the fact that Don Jose Maria, as he used to say, was a priest more than anything else, made this fact even more evident.

Don Jose Maria Arizmendiarrieta was born in Markina (Bizkaia), April 22nd 1915. He was the eldest of three brothers and a sister. He studied Philosophy and Theology in the Seminary in Vitoria, and during the Civil War he was arrested for his writings in the only Basque journal. After being very close to execution in one of General Franco's concentration camps, he was forced to do mandatory military service with the dictator's troops. Once the war was over, he was ordained a priest and in 1941 he arrived in Mondragón. He wanted to study Sociology in Leuven (Belgium) but he respected the Bishop´s decision and accepted the first and only job he had, being a priest in Mondragón (Ormaetxea, 2003, p. 36).

From a leadership point of view, Don Jose Maria was a transformational leader with a spiritual mission due to his profession as a priest (Ormaetxea, 2004). He practiced exemplar behaviour according to the general conditions of a religious person. This was precisely his main advantage. In comparison to other leaders in other fields he was unique. He was not a brilliant orator; his speeches were full of mistakes and some of his words were out of order but perhaps it was this direct way of saying things that made the transmission of his ideas easier (Ormaetxea, 1991, p. 18). The transmission of his ideas was the engine of all his projects. All his social transformation ideas easily circulated from himself to everybody around him.

Azurmendi considers Don Jose Maria as one of the main social theorists in Europe, and says that the value of DJA's action is global, going much further than his local achievements in the Mondragón area (Azurmendi, in T.U. Lankide, 2001, p. 39).

DJA had a particular position of autonomy from different dominant spheres around him at those times. Unanue and Intxausti (2002, p. 22) say that Don Jose Maria did not have a clear opinion about politics and this fact made Don Jose Maria criticised by both Franco's Regime and some leftists and some radical nationalists.

Even though he had a Basque speaking background in 1941 he did not continue his initial inclination to the Basque language. Due to the political situation of General Franco's dictatorship, he preferred to be pragmatic creating co-operatives and focusing on the misery and ignorance that Mondragón was living in (Id., p. 26). During his last years, he returned to his origins, translating all his writings in the Basque language.

5.5.2. THOUGHTS

Before analysing Don Jose Maria's thoughts it is interesting to remark that as Sarasua says they are multidimensional and therefore different interpretations, from the purest pragmatism to the most ambitious utopia, are possible (Sarasua, in T.U. Lankide, 2001, p. 20).

MacLeod (1997, pp. 79-80), probably in the best analysis of Don Jose Maria's thoughts made by an English-speaking author, says "what he proposes is a reform of the traditional corporation as the first step in the reform of the total society… Don Jose Maria considers a cooperative business, like any concrete structure, only as a means or instrument on the road to this longer-term and more general goal of total reform, a goal which thus constitutes a criterion for day-to-day practical decision." MacLeod credits Don Jose Maria's attitude with his success: "he was optimistic that people would realize the need for a new form of business corporation that would be his idea for a new model, much more in keeping with a post-industrial society and adapted to human development. Thus his idea for a new model, what he calls co-operativism, is not a particular structure; it is rather a spirit which is permanent although the concrete structures are variable" (80). And he (1997, pp. 89-90) concludes that according to DJA "as a microcosm of the general society, the enterprise must practice all the virtues demanded of the total society such as respect for the members, personal development and educational programs, social security and distributive justice… what is wrong with capitalism is not capital, but rather the egoistical motives of the owners of capital." Finally MacLeod (1997, p. 91) mentions Azurmendi (1984, p. 508) when says that as Don Jose Maria thought "cooperatives, in so far as they are business enterprises assume the responsibility of creating jobs and promoting

development" and that Don Jose Maria's overall objective "is the economic, political, social and cultural improvement of the workers and the society in general" (Azurmendi, 1984, p. 475).

Arizmendiarrieta wanted a society with no class distinctions and with the same degree of welfare for everyone, without any social difference and open to those who lack an opportunity to be useful within their society (Ormaetxea, J.M.: Una solución a tiempo para cada problema, TU, Nr. 190. nov-dic. 1976, pp. 36-37) (in Id., p. 328).

To Don Jose Maria capitalism was not the enemy to defeat; he wanted co-operatives to be cohabitants within it. He thought it was a very rational and efficient system that had provided wealth to humanity (Arizmendiarrieta, 1984b, p. 139). However, he wanted to defeat the egoism that was positioned within it (Id., p. 289).

The MCE was always an unfinished experience to him, because as he said the goal of the MCE is very far: establishing a global co-operative solidarity system (Arizmendiarrieta, in T.U. Lankide, 2001, p.27).

His point was creating a new social order (in Azurmendi, 1992, p. 247), based on his motto "socialising knowledge to democratise power." He conceived the co-operatives as a step towards that social order, where the proletarians overcame the bourgeoisie by their great working spirit and a great cultural and technical development with no violent revolts. He hoped to defeat bourgeois structures by the same means that the bourgeoisie defeated aristocracy, but also creating a human, social, dynamic world (Id., pp. 248-249).

Part Two: The Cases

5.6. Case One: Orkli S. Coop

ORKLI S. COOP
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www.orkli.es

Orkli consolidated 2002 Figures (in millions Euro):

Equity: 63
Assets: 100
Sales: 100
Exports: 80 %
Profit: 8.1
Workers: 550 (in Ordizia, Spain)
Members: 440 (all in Ordizia, Spain)
Created in: 1982 as a spin-off from another co-operative where this division was working since 1974

5.6.1. AN OVERVIEW: ORKLI S. COOP

Orkli S. Coop. is a worker's co-operative that is associated to Mondragon Co-operative Corporation (MCC) in Spain. It produces components for heating and domestic appliances.

It was created as a spin-off from another co-operative in 1974, and in 1982 Orkli got its own independent status. This process was promoted by a group of parents concerned about the lack of jobs for women in their community. Through a process of reinvesting part of their salaries during four years and to the generosity of another co-

operative from where the activity was spun off, the new firm became a reality. Thirty years later that concern for the community has became a European leader in several of its products that sells his products to prestigious firms all over the world.

Born as an idea of a catholic father, a group of entrepreneurs with the support of another co-operative, built the production process within the existing facilities of that existing co-operative. Finally in 1974 Orkli moved the production to its own community, and payed its debts in the next four years by part of the salaries of the members. Once Orkli started working independently in 1982 until 1986 were very hard times due to a lack of growth in sales and a lack of work. The support from the co-operative firms in the co-operative group in the valley Goilan was essential at those times.

Today one of the particularities of Orkli is its organization in teams of workers, where workers provide all their creativity and knowledge; those teams are the key point for the total quality. Workers in a certain team assume all the responsibility within towards to aim of getting a continuous improvement and changing the classical hierarchy by the disappearance of the control from middle-directors. Each team has a worker that is the coordinator that changes from a worker to another every week increasing workers' involvement and learning. The performance of each team is analyzed according to indicators of productivity, quality, accomplishment of program objectives and improvement actions proposed and implemented.

They say that the co-operative essence that since the beginning has existed in Orkli has helped in all this process of evolution, since those citizens tried to provide jobs to their local community. Orkli implemented ISO 9001 in 1987-1994, had two EFQM evaluations finished in 1994 and 2001 and implemented ISO 14001 in 2001-2004.

5.6.2. ECONOMIC SCORECARD

Table 5.1.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)					**X**
Sales to Net Working Capital			**X**		
Return on Assets (ROA)				**X**	
Return on Equity (ROE)				**X**	
Current Ratio			**X**		
Total Liabilities to Net Worth			**X**		
Total Assets to Net Sales		**X**			

In the case of Orkli, it scores in the upper quartile in "Customer Profitability", in the second upper quartile in "Return on Assets" and "Return on Equity", in the second lowest quartile in "Sales to Net Working Capital", "Current Ratio", and "Total Liabilities to Net Worth" and finally in the lowest quartile in "Total Assets to Net Sales."

Therefore overall the data collected and illustrated in the table show that Orkli gets over average marks in this perspective. Orkli gets high marks in profitability, medium marks in solvency and low marks in efficiency.

5.6.2.1. First Perspective: Learning and Growth

Table 5.1.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction			→	→		
Employee Productivity			→			
Investment over Sales			→			
Break Even Time						
Employee Turnover			→	→	→	

Orkli gets very diverse marks in the Learning and Growth perspective. "Employee Turnover" (Orkli reports that the turnover is zero, last year a manager left but it was for personal reasons) is reported as information that lead decisions in practice, so Orkli places great importance on this indicator. Orkli places high attention to "Employee Satisfaction" (Orkli reports that each two years there is a survey on the satisfaction of employees, done by Otalora (MCC), where all the employees participate. The outcome is a report, classified by global outcome, by production areas, by age, and other factors, all this is analyzed by the general board. Some objectives are outlined. But not any action has been put in practise so far), reporting such indicator as information that the General Board analyzes and uses to make decisions. Orkli places moderate attention to "Employee Productivity" (Orkli reports that they measure the value added per job and the labour cost per person) and "Investment over Sales" (Orkli reports that they measure R&D, and sales but they do not relate them) which are reported as information to which the General Board has access. Finally "Break Even Time" is not very important as far as Orkli is concerned because it is reported as not collected information.

Therefore overall the data collected and illustrated in the table show that Orkli gets medium marks in this perspective. Our findings indicate that Orkli has a moderate level of concern with the learning, research, growth, and development processes.

5.6.2.2. Second Perspective: Internal Business Processes

Table 5.1.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery			→	→	→	
Time Interval from the Customer Call to the Solution of the Customer's Problem			→	→		
Manufacturing Cycle Effectiveness			→	→		
Yield						
Returns			→	→	→	
Cost of Repairs			→	→	→	
Rates of Cost Reduction			→	→	→	
Defect Rate			→	→	→	

In the case of Orkli, the performance in Internal Business processes is very high. Five out of the eight indicators in this perspective, "On-Time Delivery" (Orkli reports that it is a key factor of competitiveness; it is measured monthly by business units, and in some processes even daily), "Returns" (Orkli reports that it is a key indicator. Returns are measured in units, but moreover in money. It is a monthly indicator, as a percentage over sales), "Cost of Repairs" (Orkli reports that it is a key indicator: Technical deviation on manpower. The deviation is measured in time (labor cost) and in scrap (material cost)), "Rates of Cost Reduction" (Orkli reports that every year they define the standards for the next year, needs of material, of manpower… all this requires improvement plans) and

"Defect Rate" (Orkli reports that it is a key indicator for them: Parts Per Million (PPM). At the final control all the orders are controlled, and of course how many items have had defects. The control is monthly and by production lines) are reported as information that lead decisions in practice, so Orkli places great importance on these five indicators. Orkli pays high attention "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Orkli reports that they measure the average time in answering the customers' claims. In their Customer Relationship Management (CRM) system there is a tool to manage claims) and "Manufacturing Cycle Effectiveness" (Orkli reports that as a reference in their production process the value added time is just five minutes, and the total time is one day and a half, since the order to start the production is sent until the product is sent to the customer) because reports them as information that the General Board analyzes and uses to make decisions. Finally Orkli places no attention to "Yield" (Orkli reports that they don't measure it related to input. They measure it indirectly by scrap, which they put into practise this documents. They measure in money not in material terms, because to them it makes no sense) and reports this indicator as irrelevant information.

Therefore the data collected and illustrated in the table show that Orkli gets very high marks in this perspective. Overall our findings indicate that Orkli has a very high level of concern with the internal business processes.

5.6.2.3. Third Perspective: Customer

Table 5.1.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention						
New Customer Acquisition			→	→		
Sales Growth per Segment			→	→	→	
Market Share in Targeted Segments			→	→	→	
Customer Satisfaction			→	→	→	

In the Customer perspective Orkli reports "Sales Growth per Segment", "Market Share in Targeted Segments" (Orkli reports that it is a key indicator. They talk about sales objectives by markets. Sometimes is increasing sales, others is market share) and "Customer Satisfaction" (Orkli reports that there are surveys to know customers' satisfaction. They do not manage claims in our CRM system. The indicator is in there, but they do not use it) as information that led decisions in practice, so Orkli places great importance on these three indicators. Orkli places high attention to "New Customer Acquisition" (Orkli reports that sometimes increasing sales means selling more to the same customers), reporting such indicator as information that the General Board analyzes and uses to make decisions. Finally Orkli reports "Customer Retention" (Orkli reports that in the EFQM report they did wrote that, but they do not measure it for themselves. There is segmentation by customers, the general board has access to this documents) as not collected information, so doest not pay attention to it.

Therefore overall the data collected and illustrated in the chart/table show that Orkli gets high marks in this perspective.

5.6.3. SOCIAL SCORECARD

5.6.3.1. First Principle: Voluntary and Open Membership

Table 5.1.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort			→	→		
Amount of Co-operative Work			→	→		
Membership Growth			→	→	→	
Ease of Redemption of Share-Capital			→	→	→	

Regarding "Voluntary and Open Membership" principle, Orkli scores high marks. "Membership Growth" and "Ease of Redemption of Share-Capital" (Orkli reports that it is immediately) are reported as information that led decisions in practice, so Orkli places great importance on these two indicators. Orkli places quite high attention to "Relative Effort" (Orkli reports that normally they update it according to the Euribor) and "Amount of Co-operative Work" (Orkli reports that in MCC, this percentage is fixed by law), reporting these indicators as information that the General Board analyzes and uses to make decisions.

Overall the table shows that Orkli gets the two highest marks, which implies that they can be considered as very concerned with the openness of their co-operatives.

5.6.3.2.Second Principle: Democratic Member Control

Table 5.1.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM			→	→		
Renewal within the Councils						
Number of Members Attending Voluntary Communication Events						
Total Man Hours Held for Democracy						
Blue-Collar Members at the General Board						

Regarding "Democratic Member Control" principle, Maska scores low marks. Orkli places quite high attention to "Remarks per Member at AGM", reporting such indicator as collected information. However, Orkli reports all the other four indicators, "Renewal within the Councils", "Number of Members Attending Voluntary Communication Events" (Orkli reports that there are writings (acts) of the people participating in meetings), "Total Man Hours Held for Democracy" and "Blue-Collar Members at the General Board" as not collected information, so does not pay them any attention.

Overall the table shows that Orkli gets very low marks, which implies that they can be considered as not especially concerned with internal democracy.

5.6.3.3. Third Principle: Member Economic Participation

Table 5.1.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap			→	→	→	
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→	→	→	
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Orkli scores the highest marks possible. All the four indicators, "Remunerative Gap" (Orkli reports that the social council controls that, in coordination with other firms in MCC, like Copreci, Fagor Electronica and of course Lagun-Aro), "% of Absenteeism and % Extra Hours (Overtime)" (Orkli reports that the medical service gets it. Ergonomics… also extra work hours are controlled, they are paid and they are to be reduced), "Remuneration Average" and "Indivisible Common Capital" are reported as information that lead decisions in practice, so Orkli places great importance on these four indicators.

Overall the table shows that Orkli gets very high marks, which implies that Orkli can be considered as very concerned with the economic participation of their members.

5.6.3.4.Fourth Principle: Autonomy and Independence

Table 5.1.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Orkli scores the highest marks possible. "Dependence to Three Major Customers" (Orkli reports that there is no dependence) and "Degree of Independence from Institutions" (Orkli reports that there is

no dependence) are reported as information that lead decisions in practice, so Orkli places great importance on these indicators.

Overall the table shows that Orkli gets very high marks, which implies that they can be considered as very concerned with the dependency of their co-operative.

5.6.3.5. Fifth Principle: Education, Training and Information

Table 5.1.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→		
Investment in Education in Direct Jobs / Investment in Education			→	→	→	

Regarding "Education, Training and Information" principle, Orkli scores very high marks. Orkli places great attention to "Investment in Education in Direct Jobs / Investment in Education" which is reported as information that lead decisions in practice, so Orkli places great importance on this indicator.

Orkli places quite high attention to "Endowment to Education / Profit" (Orkli reports that it is the 10% by law in MCC by the Basque Law (FEPC)), reporting such indicator as information that the General Board analyzes and uses to make decisions.

Overall the table shows that Orkli gets very high marks, which implies that Orkli can be considered as very concerned with the education, training and information of their members.

5.6.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 5.1.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit			→	→	→	
Interco-operative Funds			→	→	→	
Moving persons (unemployed staff)			→	→	→	

Regarding "Co-operation Among Co-operatives" principle, Orkli scores very high marks. Orkli places great attention on all the three indicators; "Reconverting Profit" (Orkli reports that it is a MCC law, the group in MCC where Orkli is located (group of components) shares 25% of profit), "Interco-operative Funds" and "Moving Persons (Unemployed Staff)" (Orkli reports that they received 9 workers full-time and 1 part-time from other co-operatives last year. Unemployed member of MCC have preference, as classified by Lagun-Aro), which are reported as information that lead decisions in practice.

Overall the table shows that Orkli gets the highest marks possible, which implies that Orkli can be considered as very concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in Mondragon of having formal and institutional links related to profit, funds or staff among co-operatives.

5.6.3.7. Seventh Principle: Concern for Community

Table 5.1.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→	→	
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→	→		
Investment and Expenses in Environment						
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Orkli scores quite high marks. "Annual Growth of Staff", "% of Profit to Indivisible Capital" and "% of Capital Belonging to Workers" are reported as information that lead decisions in practice, so Orkli places great importance on these three indicators. "% of Profit to Community" (Orkli reports that 10% is compulsory by the Basque Law. How to distribute it is up to Orkli) is reported as information that the General Board analyzes and uses to make decisions, so Orkli places high importance on this indicator. Finally Orkli pays no attention to "Investment and Expenses in Environment" because reports it as not collected information.

Overall the table shows that Orkli gets high marks, which implies that Orkli can be considered as very concerned with the community.

5.7 Case Two: Irizar S. Coop.

IRIZAR S. COOP.
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Irizar Group consolidated 2002 Figures (in millions Euro):

Equity: 225
Assets: 375
Sales: 305
Exports: 84 %
Profit: 35
Workers: 2800 (654 in Ormaiztegi, Spain)
Members: 589 (all in Ormaiztegi, Spain)
Created in: 1889 as a family-firm, transformed into a co-operative in 1963.

5.7.1. AN OVERVIEW: IRIZAR S. COOP.

Originally founded as a family owned firm in 1889 producing carriages, it became a co-operative in 1963 inspired by the co-operative experience of Mondragon. Irizar had a deep economic crisis in 1991 that almost collapsed the firm. A radical shift in managerial style and a new strategic orientation that implied starting an internationalization process in 1993 made the firm to improve its performance. The Irizar Group that is composed by subsidiaries in Spain, Mexico and Brasil and joint ventures in Marocco, India and China, is today a strong luxury coach builder, and has been described as "the most efficient coachbuilder in the world" (Economist Intelligence Unit, May 2000, mentioned in personal communication).

A revolutionary management model based on people was implemented in 1994 right after the new managers succeed in getting out of the crisis and make profit in 1992. Irizar was the first company in the coach builder sector in getting the ISO 9001 (in 1994) and the ISO 14001 (in 1998). The EFQM model was implemented in 1995 as in 1999 Irizar was a finalist of the EFQM Award. Today Irizar has 634 employees in his plant in Ormaiztegi, sells luxury coaches in 45 countries and is the market leader in Spain and the second largest in Europe. Irizar produces six coaches a day, which makes a total production of 1400 a year.

Irizar works in coordination with chassis builders like DAF, Man, Mercedes, Renault, Scania and Volvo, where the customers of Irizar buy the chasis they want, to be later completed by Irizar.

Irizar's evolution has been impressive and they have continuously compared their performance with leading international firms, known as best in class, and their best competitors in both the USA and Europe. The management model based on team working and eliminating hierarchies. Irizar states that the objective of its mission is job creation, and it is also recognized as the main contribution to the community.

Irizar is said to be the most profitable firm in its sector in Europe and probably the most efficient in the world (Economist Intelligence Unit, May 2000). In a sector where the market leader by volume is Mercedes, Irizar’s profits exceed other profit-seeking companies.

During the Football World Cup in France in 1998 Irizar coaches were chosen to transport national teams. Today sport teams, celebrities, and presidents of several countries all over the world use Irizar coaches too.

5.7.2. ECONOMIC SCORECARD

Table 5.2.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)					**X**
Sales to Net Working Capital		**X**			
Return on Assets (ROA)					**X**
Return on Equity (ROE)					**X**
Current Ratio	**X**				
Total Liabilities to Net Worth		**X**			
Total Assets to Net Sales		**X**			

In the case of Irizar, it scores in the upper quartile in "Customer Profitability", "Return on Assets" and "Return on Equity" and in the lowest quartile in "Sales to Net Working Capital", "Total Liabilities to Net Worth" and "Total Assets to Net Sales". "Current Ratio" was reported as confidential information due to privacy policies.

Therefore overall the data collected and illustrated in the table show a clear split in scorings between the lower and upper quartile, and as a consequence that Irizar gets average marks in this perspective. Irizar gets very high marks in profitability, but low marks in solvency and efficiency.

5.7.2.1. First Perspective: Learning and Growth

Table 5.2.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction			→	→	→	
Employee Productivity			→	→		
Investment over Sales			→	→	→	
Break Even Time						
Employee Turnover			→	→	→	

In the case of Irizar, "Employee Satisfaction" (Irizar reports that there are surveys on the satisfaction of customers. They get high satisfaction in comparison to average), "Investment over Sales" (Irizar reports that all depends on the needs of the market, according to the market, for instance the investment in 2001 was very high. Besides the Basque Law says investment in education-FEPC is 10%) and "Employee Turnover" (Irizar reports that it is 0 %, because everybody continues here, nobody leaves) are reported as information that lead decisions in practice, so Irizar places great importance on these three indicators. Irizar pays high attention to "Employee Productivity" (Irizar reports the existence of productivity indexes), which reports as information that the General Board analyzes and uses to make decisions. Finally Irizar pays no attention to "Break Even Time" (Irizar reports that it depends on the production line, they know the margin and the fixed costs, they need to sell 65% of their production to reach the breakeven point), because reports it as not collected information.

Therefore overall the data collected and illustrated in the table show that Irizar gets high marks in this perspective. Our findings indicate that Irizar has a high level of concern with the learning, research, growth, and development processes.

5.7.2.2. Second Perspective: Internal Business Processes

Table 5.2.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery			→	→	→	
Time Interval from the Customer Call to the Solution of the Customer's Problem			→	→	→	
Manufacturing Cycle Effectiveness						
Yield			→	→	→	
Returns						
Cost of Repairs						
Rates of Cost Reduction						
Defect Rate						

In the case of Irizar, the performance in Internal Business processes gets diverse marks. "On-Time Delivery" (Irizar reports that it is a key indicator. In supplies they have a 95% and in the technical assistance too. In coaches it is not so essential, but they assume that by ourselves, they have a rate over 90%), "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Irizar reports that deals with this indicator in the same way than with the previous one) and "Yield" are reported as information that lead decisions in practice, so Irizar places great importance on these three indicators. Irizar pays no attention to "Manufacturing Cycle Effectiveness" (Irizar reports that the value added is in all the activities, in the entire process) because reports it as not collected information. Finally Irizar places no attention to the other four indicators, "Returns" (Irizar reports that it is 0, because theirs is a special product), "Cost of Repairs" (Irizar reports that it is 0, because theirs is a special product), and "Rates of Cost Reduction" (Irizar reports that generally they don't check them. They work in teams, each coach requires

a different approach. There are no standard processes) and "Defect Rate" (Irizar reports that it is 0, because theirs is a special product) because they are reported as irrelevant indicators due to its particular production process.

Therefore the data collected and illustrated in the table show that Irizar gets mostly high marks out of the indicators reported as relevant in this perspective. Overall our findings indicate that Irizar has a high level of concern with the internal business processes.

5.7.2.3. Third Perspective: Customer

Table 5.2.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention			→	→	→	
New Customer Acquisition			→	→	→	
Sales Growth per Segment			→	→	→	
Market Share in Targeted Segments			→	→	→	
Customer Satisfaction			→	→	→	

In the case of Irizar, all the indicators in the Customer perspective, "Customer Retention" (Irizar reports that it is 75-80%, they analyze the customers that have bought to Irizar in the last two years), "New Customer Acquisition" (Irizar reports that they control the last five years. Same control than the previous indicator), "Sales Growth per Segment" (Irizar reports that they control their two products; luxury coaches and city coaches), "Market Share in Targeted Segments" (Irizar reports that they deal with this indicator in the same way than with the previous one, every month, they try to increase it)

and "Customer Satisfaction" (Irizar reports that they do surveys on customers' satisfaction. They conduct two surveys per customer, one in the delivery and the other some months later. Satisfaction is over 80% in both customers and delivery teams (distributors)) are reported as information that lead decisions in practice, so Irizar places great importance on these five indicators and gets the highest marks possible.

Therefore overall the data collected and illustrated in the table show that Irizar gets very high marks in this perspective.

5.7.3. SOCIAL SCORECARD

5.7.3.1. First Principle: Voluntary and Open Membership

Table 5.2.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort			→	→		
Amount of Co-operative Work			→	→		
Membership Growth			→	→	→	
Ease of Redemption of Share-Capital			→	→	→	

Regarding "Voluntary and Open Membership" principle, Irizar scores high marks. "Membership Growth" (Irizar reports that after three years 88% of the non-members become members) and "Ease of Redemption of Share-Capital" (Irizar reports that it is one third in three months and in one year they give all the fee back) are reported as information that lead decisions in practice, so Irizar places great importance on these two indicators. Irizar places quite high attention to "Relative Effort" (Irizar reports that Caja Laboral (MCC) establishes the level, same amount for everybody. The general assembly approves it) and "Amount of Co-operative Work" (Irizar reports that the Basque law estab-

lishes this minimum. The information is not gathered, but all the non-members have the chance to become members eventually in three years), reporting these indicators as information that the General Board analyzes and uses to make decisions.

Overall the table shows that Irizar gets the two highest marks, which implies that they can be considered as very concerned with the openness of their co-operatives.

5.7.3.2. Second Principle: Democratic Member Control

Table 5.2.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM						
Renewal within the Councils			→	→	→	
Number of Members Attending Voluntary Communication Events			→	→	→	
Total Man Hours Held for Democracy			→	→	→	
Blue-Collar Members at the General Board						

Regarding "Democratic Member Control" principle, Irizar scores mostly high marks. "Renewal Within the Councils" (Irizar reports that there is a high turnover in boards. The participation of young members is fostered), "Number of Members Attending Voluntary Communication Events" (Irizar reports that it is 100%. There are no individual offices, there are only meeting rooms. There is total availability to listen to workers. In order to foster participation blue-collar and white-collar share the same floor. Participation is fostered a lot) and "Total Man Hours Held for Democracy" (Irizar reports that it is a shared experience. 28,900 hours last year) are reported as information that lead

decisions in practice, so Maska places great importance on these three indicators. Irizar places little attention to "Blue-Collar Members at the General Board" (Irizar reports that it is 4-5 members), reporting such indicator as collected information. Finally Irizar reports "Remarks per Member at AGM" (Irizar reports that out of 583,500 attended the AGM. There are many suggestions everyday, more than in the AGM. They have a daily participation rate much higher than others. The information about the daily participation of each member is collected. Decisions put into practice, in documents. There is a culture of participation here, due to the permanent change.) are not collected information, so Irizar does not pay it any attention.

Overall the table shows that Irizar gets slightly high marks, which implies that they can be considered as concerned with internal democracy.

5.7.3.3. Third Principle: Member Economic Participation

Table 5.2.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap						
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→	→	→	
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Irizar scores quite high marks. All the indicators but one, "% of Absenteeism and % Extra Hours (Overtime)" (Irizar reports that absenteeism is 5.8%, they have two physiotherapists in their staff, and overtime is 0%, it is approved by the AGM), "Remuneration Average" (Irizar reports that everywhere they establish they compare themselves with the firms around and they always pay something more. The difference is exaggerated, also in comparison to the sec-

tor. Irizar shares surplus in all their plants. In their plants abroad they share in a lineal way) and "Indivisible Common Capital" (Irizar reports that it is over the compulsory reserves) are reported as information that lead decisions in practice, so Irizar places great importance on these three indicators. Irizar places little attention to "Remunerative Gap" (Irizar reports that the relation is 1 to 3. But neither 1 nor 3 exist. There are neither problems nor claims, there is much equity), reporting such indicator as collected information.

Overall the table shows that Irizar gets quite high diverse marks, which implies that Irizar can be considered as very concerned with the economic participation of their members.

5.7.3.4. Fourth Principle: Autonomy and Independence

Table 5.2.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Irizar scores the highest marks possible. "Dependence to Three Major Customers" (Irizar reports that it is inexistent, around 1%. They have both distributors and final customers. It is a fragmented market) and "Degree of Independence from Institutions" (Irizar reports that they have huge surplus, there is no any dependency. They have more own resources than liabilities from banks) are reported as information that lead decisions in practice, so Irizar places great importance on these two indicators.

Overall the table shows that Irizar gets very high marks, which implies that Irizar can be considered as very concerned with the dependency of the co-operative.

5.7.3.5. Fifth Principle: Education, Training and Information

Table 5.2.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→	→	
Investment in Education in Direct Jobs / Investment in Education						

Regarding "Education, Training and Information" principle, Irizar scores diverse marks. On the one hand "Endowment to Education / Profit" (Irizar reports that it is 8%. It is not calculated over surplus but over labor cost. Irizar is over the average around. They foster participation, getting the maximum professional competence. The blue-collar and white-collar concept is diffused, because we are generalists, we are proactive, we are creative) is reported as information that lead decisions in practice, so Irizar places great importance on this indicator. On the other Irizar reports "Investment in Education in Direct Jobs / Investment in Education" (Irizar reports that in Irizar blue-collar and white-collar concept is diffused) as not collected information, which means that Irizar does not pay any attention to this indicator.

Overall the table shows that Irizar gets diverse marks, which implies that they can be considered as slightly concerned with the education, training and information of their members.

5.7.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 5.2.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit			→	→	→	
Interco-operative Funds			→	→	→	
Moving persons (unemployed staff)			→	→	→	

Regarding "Co-operation Among Co-operatives" principle, Irizar scores the highest marks possible. Irizar places great attention on all the three indicators; "Reconverting Profit" (Irizar reports that it is 10% with co-operatives in the same sectoral group and 5% with the entire division. Irizar represents 80% of the sales in our sectoral group. Irizar is critic, Irizar prefers showing the know-how, the management model in Irizar, to co-operatives or other firms. The Irizar model works with any product, the product doesn't guarantee the success), "Interco-operative Funds" (Irizar reports that the law in MCC determines this) and "Moving Persons (Unemployed Staff)" (Irizar reports that the law in MCC determines it, it is up to each moment), which are reported as information that lead decisions in practice.

Overall the table shows that Irizar gets very high marks, which implies that Irizar can be considered as very concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in Mondragon of having formal and institutional links related to profit, funds or staff among co-operatives.

5.7.3.7. Seventh Principle: Concern for Community

Table 5.2.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→	→	
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→	→		
Investment and Expenses in Environment			→			
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Irizar scores very high marks. "Annual Growth of Staff" (Irizar reports that their mission has as the ultimate objective creating jobs. It is essential for Irizar, the objective of the mission), "% of Profit to Indivisible Capital" (Irizar reports that in Irizar there are no cashed profits) and "% of Capital Belonging to Workers" (Irizar reports that it is 100%, it is a law in MCC) are reported as information that lead decisions in practice, so Irizar places great importance on these three indicators. Irizar pays quite high attention to "% of Profit to Community" (Irizar reports that it is 10%, due to the FEPC-Basque Law and the MCC law), because reports it as information that the General Board analyzes and uses to make decisions. Finally Irizar pays moderate attention to "Investment and Expenses in Environment" (Irizar reports that it is a very little investment, they fulfil ISO 14001 requirements), because reports it as information to which the General Board has access.

Overall the table shows that Irizar gets very high marks, which implies that they can be considered as very concerned with the community.

5.8. Case Three: Ulma Construccion Y Embalaje, S. Coop

ULMA CONSTRUCCION Y EMBALAJE, S. COOP
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Ulma Construccion consolidated 2002 Figures (in millions Euro):
Equity: Confidential
Assets: 310
Sales: 206
Exports: 60 %
Profit: Confidential
Workers: 1572 (880 in Onati, Spain)
Members: 702 (all in Onati, Spain)
Created in: 1961

5.8.1. AN OVERVIEW: ULMA CONSTRUCCION

It was in 1956, when six young workers in Onati, Gipuzkoa, Spain started a small business renting an old and small existing workshop. The main activity was repairing and maintaining machines of the at that time strong chocolate industry in Onati.

This first activity grew rapidly and developed into producing machines to packaging originally chocolate and later other products. In 1961, 15 workers started the ULMA worker's co-operative "Cooperativa Industrial Talleres ULMA", moving to a new industrial building and dedicated to two activities, producing packaging machines, what today is Ulma Packaging y metalic structures what today is Ulma Construcción.

In 1983, influenced by the organizational structure of the Mondragon Co-operative Group two local co-operatives joined to create the Onati Co-operative Group, firstly called OINALAN and later ULMA GROUP.

Ulma Construcción, as one of the two origin activities, produces and sells industrial systems in the building sector, like scaffolds and proping-up components in areas like housing, civil contruction and rehabilitation, and also in areas like industrial and navy maintenance. It manufactures and markets industrialised systems for construction, offering its customer technical designing services, the hiring of materials and assembly service. ULMA has one of the largest production plants in Europe with totally automatic processes. It got the ISO 9001 certification in 1994 (from www.ulmaconstruccion.com).

Ulma Construcción is part of the Ulma Group located also in Onati (Spain), that besides the construction co-operative, it is composed by other six co-operatives, in sectors like agricultural facilities, electric wheelbarrows, forging, handling systems, especial concrete for building finishing and the original activity, packaging. Ulma Construcción is the biggest firm in the group and represents most of the sales and workers.

Ulma Construccion has twenty branches all over Spain and has subsidiaries in Portugal, Brazil, Mexico, France, Italy, Great Britain, Peru, Venezuela, Argentina, South Africa, Holland, Chile, United States and Germany.

5.8.2. ECONOMIC SCORECARD

Table 5.3.1.1.	Irrelevant / Confidential	1 – Lowest quartile. Among the 25 % lowest performances	2 – Second lowest quartile. Among the 25 and 50 % lowest performances.	3 – Second upper quartile. Among the 50 and 75 % upper performances.	4 – Upper quartile. Among the 25 % best performances.
Customer Profitability (ROS)	**X**				
Sales to Net Working Capital					**X**
Return on Assets (ROA)	**X**				
Return on Equity (ROE)				**X**	
Current Ratio		**X**			
Total Liabilities to Net Worth		**X**			
Total Assets to Net Sales		**X**			

In the case of Ulma Construccion, it scores in the upper quartile in "Sales to Net Working Capital", in the second upper quartile in "Return on Equity" and finally in the lowest quartile in "Current Ratio", "Total Liabilities to Net Worth" and "Total Assets to Net Sales". Ulma Construccion reports "Customer Profitability" and "Return on Assets" as confidential information due to privacy policies.

Therefore overall the data collected and illustrated in the table show that Ulma Construccion gets average marks in the indicators reported as non-confidential in this perspective. Ulma gets high marks in profitability and efficiency and low marks in solvency.

5.8.2.1. First Perspective: Learning and Growth

Table 5.3.1.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Employee Satisfaction			→	→	→	
Employee Productivity			→	→	→	
Investment over Sales						
Break Even Time			→	→	→	
Employee Turnover			→	→	→	

In the case of Ulma Construccion, all the indicators but one, "Employee Satisfaction" (Ulma Construccion reports that each two years they do a survey by departments and they put decisions in practice to improve weaknesses), "Employee Productivity", "Break-Even Time" (Ulma Construccion reports that they do not measure in time, but in sales, there is a monthly control) and "Employee Turnover" (Ulma Construccion reports that there are no key employees, it is very low, so they do not care) are reported as information that lead decisions in practice, so Ulma Construccion places great importance on these four indicators. Ulma Construccion places no attention to "Investment over Sales", reporting such indicator as not collected information.

Therefore overall the data collected and illustrated in the table show that Ulma Construccion gets very high marks in this perspective. Our findings indicate that Ulma Construccion has a very high level of concern with the learning, research, growth, and development processes.

5.8.2.2. Second Perspective: Internal Business Processes

Table 5.3.1.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
On-Time Delivery						
Time Interval from the Customer Call to the Solution of the Customer's Problem						
Manufacturing Cycle Effectiveness						
Yield			→	→	→	
Returns						
Cost of Repairs			→	→	→	
Rates of Cost Reduction			→	→	→	
Defect Rate						

In the case of Ulma Construccion, the marks in Internal Business processes are very diverse. "Yield" (Ulma Construccion reports that the percentage is very low, so it is not taken into account. Security is more important), "Cost of Repairs" (Ulma Construccion reports that it is a key point. Cost is controlled by group of products) and "Rates of Cost Reduction" (Ulma Construccion reports that there is a control of defective products and they improve specific processes that look wrong) are reported as information that lead decisions in practice, so Ulma Construccion places great importance on these three indicators. Ulma Construccion reports "Time Interval from the Customer Call to the Solution of the Customer's Problem" (Ulma Construccion reports that it depends, because on each case is different) as not collected information, so Ulma Construccion pays no attention to this indicator. Finally Ulma Construccion reports the other four indicators, "On-Time Delivery" (Ulma Construccion reports that it is not a key point in this sector. It is important only if it is too late), "Manufacturing Cycle Effectiveness" (Ulma Construccion reports that it is not something critical in their product, they produce and stock, they

sell and rent), "Returns" (Ulma Construccion reports that it is very low, because returning an order is not normal at all) and "Defect Rate" (Ulma Construccion reports that it is not controlled, it is not important. They control outsourced activities in external firms) are irrelevant due to its particular production process.

Therefore the data collected and illustrated in the table show that Ulma Construccion gets high marks in the indicators reported as relevant in this perspective. Overall our findings indicate that Ulma Construccion has a high level of concern with the internal business processes.

5.8.2.3. Third Perspective: Customer

Table 5.3.1.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Customer Retention						
New Customer Acquisition						
Sales Growth per Segment						
Market Share in Targeted Segments			→	→	→	
Customer Satisfaction			→	→	→	

In the case of Ulma Construccion, "Market Share in Targeted Segments" (Ulma Construccion reports that they control it) and "Customer Satisfaction" (Ulma Construccion reports that they have a process to manage complaints) are reported as information that lead decisions in practice, so Ulma Construccion places great importance on these two indicators. Ulma Construccion reports the other three indicators, "Customer Retention" (Ulma Construccion reports that they don't control, but that it is around 100%. In their sector it is difficult to lose a customer; there is high loyalty. Difference is in service, because the product is the same. Their power is in closeness and stock. They control each

customers orders, but customers sometimes work in consortiums, with different names), "New Customer Acquisition" (Ulma Construccion reports that they don't control, because it is not useful. Many firms exist for a building and then they disappear. They control public administration, city councils) and "Sales Growth per Segment" (Ulma Construccion reports that they don't classify by segments, they measure return by each product, not by customers, it is not important here. Their aim is more getting all the orders in a unique building than from the same customer) as irrelevant information due to its production process and product.

Therefore overall the data collected and illustrated in the table show that Ulma Construccion gets high marks in the indicators reported as relevant in this perspective. Overall our findings indicate that Ulma Construccion has a high level of concern with the customer perspective.

5.8.3.SOCIAL SCORECARD

5.8.3.1. First Principle: Voluntary and Open Membership

Table 5.3.2.1.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Relative Effort			→	→		
Amount of Cooperative Work			→	→		
Membership Growth			→			
Ease of Redemption of Share-Capital			→	→	→	

Regarding "Voluntary and Open Membership" principle, Ulma Construccion scores high marks. "Ease of Redemption of Share-Capital" (Ulma Construccion reports that the maximum is five years) is reported as information that led decisions in practice, so Ulma Construccion places great importance on this indicator. Ulma Construccion places quite high attention to "Relative Effort" (Ulma Construccion reports that it is an

amount that increases with the dividends, it is something fixed by the law in MCC. The minimum is the index 1, that really is 1.35) and "Amount of Co-operative Work" (Ulma Construccion reports that in the Ulma Group it is 80%, and the also the Basque Law says 80%), because reports these indicators as information that the General Board analyzes and uses to make decisions. Finally Ulma Construccion places moderate attention to "Membership Growth" (Ulma Construccion reports that the Basque Law recognizes a new figure, "co-operative collaborator member." Through this figure they want to make members abroad), because reports it as information to which the General Board has access.

Overall the table shows that Ulma Construccion gets high marks, which implies that they can be considered as concerned with the openness of their co-operatives.

5.8.3.2. Second Principle: Democratic Member Control

Table 5.3.2.2.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remarks per Member at AGM			→	→	→	
Renewal within the Councils			→	→		
Number of Members Attending Voluntary Communication Events						
Total Man Hours Held for Democracy						
Blue-Collar Members at the General Board						

Regarding "Democratic Member Control" principle, Ulma Construccion scores medium marks. "Remarks per Member at AGM" (Ulma Construccion reports that there are several meetings before the AGM, where everything is known, and has been discussed before. They put decisions in practice to increase participation) is reported as in-

formation that lead decisions in practice, so Ulma Construccion places great importance on this indicator. Ulma Construccion places high attention to "Renewal Within the Councils" (Ulma Construccion reports that staying more than eight years is not possible, due to the norms of the Ulma Group), because reports such indicator as information that the General Board analyzes and uses to make decisions. Ulma Construccion pays little attention to "Total Man Hours of Meetings Held for Democracy" (Ulma Construccion reports that it is 13,024 a year) and "Blue-Collar Members at the General Board" (Ulma Construccion reports that there are 3 blue-collars out of 10), because reports both indicators as collected information. Finally Ulma Construccion reports "Number of Members Attending Voluntary Communication Events" (Ulma Construccion reports that the social council and the general board meet once a month, and that informal meetings are widely accepted. The EFQM encourages to improve them) as not collected information, so Ulma Construccion does not pay them any attention.

Overall the table shows that Ulma Construccion gets medium marks, which implies that they can be considered as slightly concerned with internal democracy.

5.8.3.3. Third Principle: Member Economic Participation

Table 5.3.2.3.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Remunerative Gap			→	→		
% of absenteeism and % extra hours (overtime)			→	→	→	
Remuneration Average			→	→	→	
Indivisible Common Capital			→	→	→	

Regarding "Member Economic Participation" principle, Ulma Construccion scores very high marks. All the indicators but one, "% of Absenteeism and % Extra

Hours (Overtime)" (Ulma Construccion reports that it is 2.8 % of absenteeism, which is 50% of the average in MCC, and that there is no overtime at all, so there are no decisions made because it is low), "Remuneration Average" (Ulma Construccion reports that it is 8 % over around. They do according to the suggestions from MCC (Euribor), it is a norm of the Ulma Group) and "Indivisible Common Capital" (Ulma Construccion reports that the Basque Law says, 10% has to be directed to community and 20% to reserves. Ulma Construccion gives as dividends 15%, and the other 55% goes to individual accounts) are reported as information that lead decisions in practice, so Ulma Construccion places great importance on this indicator. Ulma Construccion places quite high attention to "Remunerative Gap" (Ulma Construccion reports that it goes from 1.35 to 6.90, they compare themselves with other co-operatives in MCC to maintain the level, all the decisions are approved by the general board. We compare with around too and we are over the average. There is a special treatment to managers and sales, higher salaries to keep them in), reporting this indicator as information that the General Board analyzes and uses to make decisions.

Overall the table shows that Ulma Construccion gets very high marks, which implies that Ulma Construccion can be considered as very concerned with the economic participation of their members.

5.8.3.4. Fourth Principle: Autonomy and Independence

Table 5.3.2.4.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Dependence to three major customers			→	→	→	
Degree of independence from institutions			→	→	→	

Regarding "Autonomy and Independence" principle, Ulma Construccion scores the highest marks possible. "Dependence to Three Major Customers" (Ulma Construccion reports that there is no risk at all, because it is under 6%. As it is so low, we don't analyze it) and "Degree of Independence from Institutions" (Ulma Construccion reports that it is low and that they control it) are reported as information that lead decisions in practice, so Ulma Construccion places great importance on this indicator.

Overall the table shows that Ulma Construccion gets very high marks, which implies that Ulma Construccion can be considered concerned with dependency of the cooperative.

5.8.3.5. Fifth Principle: Education, Training and Information

Table 5.3.2.5.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Endowment to Education / Profit			→	→	→	
Investment in Education in Direct Jobs / Investment in Education						

Regarding the "Education, Training and Information" principle, Ulma Construccion scores diverse marks. On the one hand "Endowment to Education / Profit" (Ulma Construccion reports that they measure hours, not cost over profit) is reported as information that lead decisions in practice, so Ulma Construccion places great importance on this indicator. On the other "Investment in Education in Direct Jobs / Investment in Education" is reported as not collected information, so Ulma Construccion pays no attention to this indicator.

Overall the table shows that Ulma Construccion gets medium marks, which implies that they can be considered as slightly concerned with the education, training and information of their members.

5.8.3.6. Sixth Principle: Co-operation Among Co-operatives

Table 5.3.2.6.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Reconverting Profit			→	→	→	
Interco-operative Funds			→	→	→	
Moving persons (unemployed staff)			→	→	→	

Regarding "Co-operation Among Co-operatives" principle, Ulma Construccion scores the highest marks possible. Ulma Construccion places great attention on all the three indicators; "Reconverting Profit" (Ulma Construccion reports that the norms of Ulma Group says 50%, so it is over the MCC standard), "Interco-operative Funds" (Ulma Construccion reports that they are basically the MCC funds, and the norms of the Ulma Group also promote funds, for training, co-operative promotion…) and "Moving Persons (Unemployed Staff)" (Ulma Construccion reports that they received 23 people last year), which are reported as information that lead decisions in practice.

Overall the table shows that Ulma Construccion gets very high marks, which implies that Ulma Construccion can be considered as very concerned with co-operating with other co-operatives. This fact may be strongly influenced by the tradition in Mondragon of having formal and institutional links related to profit, funds or staff among co-operatives.

5.8.3.7. Seventh Principle: Concern for Community

Table 5.3.2.7.	Irrelevant / Confidential	Not Collected Info	Collected Info	General Board Has Access	General Board Analyzes Info / Decides	Decisions Put in Practice
Annual Growth of Staff			→	→		
% of Profit to Indivisible Capital			→	→	→	
% of Profit to Community			→	→		
Investment and Expenses in Environment						
% of Capital Belonging to Workers			→	→	→	

Regarding "Concern for Community" principle, Ulma Construccion scores high marks. "% of Profit to Indivisible Capital" (Ulma Construccion reports that it is always between 34% and 48%. It is a signal of the long run commitment of the Ulma Group) and "% of Capital Belonging to Workers" (Ulma Construccion reports that it is a MCC law, 100%. MCC Investments SA is a capitalistic firm, that belongs to MCC, that helps co-operatives in investments and puts capital with not voting right, but with an interest) are reported as information that lead decisions in practice, so Ulma Construccion places great importance on these two indicators. "Annual Growth of Staff" (Ulma Construccion reports that they created 94 jobs last year) and "% of Profit to Community" (Ulma Construccion reports that it is established by the Basque law in 10%) are reported as information that the General Board analyzes and uses to makes decisions, so Ulma Construccion places quite high importance on these two indicators. Finally "Investment and Expenses in Environment" is reported as not collected information, so Ulma Construccion pays no attention to this indicator.

Overall the table shows that Ulma Construccion gets high marks, which implies that Ulma Construccion can be considered as concerned with the community.

5.9 General Findings from Orkli, Irizar and Ulma Construccion

To conclude, this chapter shows enough empirical evidence to state that these three firms show, given their particular circumstances, that a remarkable social concern and a successful economic performance; being profitable and competitive, is possible in global markets. Actually the three firms are ranked among the most efficient firms in their sectors. Besides the fact that the three firms have gone beyond the critical age of ten years old and have got different awards as said above are strong reasons to state that the three firms are successful in economic terms.

I have chosen three examples from Mondragon to illustrate my basic hypothesis. Also, I have explained the context and history out of which these three cases arose. Then I used the Balanced Score Card to show that these three cases are successful from both a business point of view and from a social point of view. These three cases from a Spanish context are part of my argument to show that, contrary to the position of writers such as Milton Friedman; social orientation does not always interfere with business efficiency.

CHAPTER SIX

REVIEW OF HIGHLIGHTS

"We do not aspire economic development as an end, but as a means" (Don José María Arizmendiarrieta, T.U. Lankide, 2001, frontpage).

6.1. What We Have Learned - Highlights

6.1.1. CHAPTER ONE: OVERVIEW

The first chapter deals with different positions towards capitalism and the free market system. Uneven development is considered an inherent feature of capitalism and therefore assumed to create problems that it cannot solve, basically exclusion and inequality for both people and regions.

Different opinions can be divided in two groups. On the one hand are those who have Milton Friedman as the main leader, think that capitalism is the most efficient way to achieve well-being, due to the freedom of citizens to choose and to the equality of opportunity to develop economic activity based on personal self-interest that will lead societies to prosperity through Adam Smith's "invisible hand." They underline the efficiency of the capitalist way of production and state that the free market system is the best economic system possible, even recognizing that it creates inequality and problems.

On the other hand are those that constrain in different degrees such clear statements saying basically that capitalism is based on unbalanced principles of self-interest,

and it produces inequality and tension even when it works properly due to its nature. Poverty and unemployment are a restriction of such concept of personal freedom because, according to them, it is inequality that motivates individuals to develop economic activity in such system. Many of these claims are focused on the difference between the original liberalism, concerned about the individual and the society, and the current neo-liberals such as Friedman, concerned exclusively with the individual, free of any other responsibility towards its community.

The solutions to such generally accepted inequalities are presented in two dimensions: in the macro level the public intervention from government policy makers, and in the micro level an alternative approach to economic activity derived from a different model of the firm, capable of surviving in the global market economies while having deep social concern.

Friedman and the Chicago School represent the most radical position against on the first solution of presenting public intervention as a way to regulate the unevenness of the market economy. As they state the less government intervention in economic matters the better because it limits individual freedom and the market will, through Adam Smith's "invisible hand," develop the society in a more efficient way than public intervention does. Authors who disagree with such a position argue that democratic governments provide well-being through interventions because capitalism produces inequality by nature, so it has to be fixed through public policies.

On the second solution of presenting a new approach to conducting business with a deep social concern, the existing business rationale imposes the need to be profitable in order to survive. In the increasingly global economic spaces, losses lead firms to closure, so surviving in competition environments is the dominating law for every firm. Therefore

profit-seeking is the conventional way of doing business. Profit-seeking is completed with the concept of individual self-interest as the main motive to drive the economic activity. Although Friedman is a strong supporter of the self-interest as the main driving force to provide prosperity for a country, many authors disagree with his approach saying that individual self-interest is a narrow and vague concept. They argue that self-interest is not something independent since the individual is part of the society.

Therefore some authors and groups, such as Abt (1977, pp. 155-160), Vanek (1971, p. 14), Sen (1992), and Davis and Donaldson (1998, p. 111), disagree with the idea of increasing shareholders' value as the only purpose of economic activity. They claim that businesses should be concerned about more than just economic issues, while others insist that business has only to do with making profit. Among the latter Milton Friedman and the Chicago School represent the strongest position against a firm meeting any other needs not exclusively related to profit seeking because accepting a social responsibility by corporate officials could damage our free society. Economic systems according to them are not ethical or moral. Several authors (Henderson, 2001a, p. 42) mention Corporate Social Responsibility (CSR) as the strongest and most extended expression of this wish for a social concern from firms beyond the economic results.

Consequently, depending on the motivation that drives any economic activity, there may be different ways of doing business. Within the actual dominant free market system, there is a sole dominant way of doing business that is doing business with the main concern of profit through the increase of shareholders' value. These firms act in a different way from firms whose main concern is social improvement of the worker and/or community. It is interesting to notice the difference between making profit as the main purpose of the firm from making profit as a means to pursue broader ends. As previously

noted, since capitalism creates problems that it cannot solve, some would argue that a solution to these problems might come from socially concerned firms, more concretely, from firms within what is called Social Economy, defined as all the economic agents for which the social improvement of members and society is a key factor in decision making as distinct from agents that make profit the key factor in decision making. Concretely co-operatives as the commonest kind of organization within the Social Economy are proposed to be the focus of the hypothesis.

There is a growing literature that argues for the possibility of a Social Economy. Against this, Friedman is probably one of the strongest opponents. He emphatically says "no" to it, because a change in orientation can change the capitalist rationality. Therefore socially-oriented firms will be inefficient and they will also be ineffective (Friedman, 1962, p.109-110).

This is precisely the aim of this project, to investigate that attention to social concerns is not necessarily an impediment to business efficiency. The hypothesis may be formed more precisely as: **"For worker's co-operatives dealing in global markets, social concern as demonstrated by a real attachment to the seven co-operative principles of the International Co-operative Alliance, is not an impediment to high economic performance, as measured by Kaplan and Norton's Balanced Scorecard concept."**

6.1.1.1. Theory

Milton Friedman's argument is that the only rational motivation for wealth creation is private profit accumulation and therefore economic activity is not a matter of val-

ues but just facts. Values are therefore an impediment to economic efficiency; Friedman's view is a product of reductionism.

Economic activity is always a matter of human beings rather than everything else. Human beings are citizens with values that undoubtedly influence their actions. Human motivation goes far beyond simple material remuneration; each human being acts differently and even though remuneration is a key concept in our societies is not the only one. People have many other motives that drive their actions. Work as a central element in anybody's life is much more than just an economically valuable resource for production; it is also a main factor contributing to our development as human beings.

Some economists have argued that economics is just a matter of facts; they state that values and social commitment impede efficient economic activity, this thesis shows empirical evidence that this is not always true.

6.1.1.2. The Concept of Place

A key concept in showing disagreement with the belief that economy is based purely on facts comes up from the concept of place that inspired the three experiences studied in this thesis.

Friedman and others' mechanical rationality assumes the easy mobility of workers to meet the needs of the changing production systems. There are many examples of places deleted by the market economy due to the fact that production and efficiency is paramount not place. However, this thesis shows that personal and social motivations are important motivations for wealth and job creation. Besides, the thesis shows the value of the paradigm of the firm attached to its place over the mechanical interpretation of economics. The examples shown in this thesis demonstrate the importance of the place, the

location, as a counter balance to market conditions. However, this statement does not mean independence from market conditions, no firm in the three places described is independent from market conditions which strongly influence their daily activity. The thing is that these places and these firms have been able to use the instruments from the market to serve the needs of their members instead of the other way around, which is the dominant position in mechanical economics.

It is worth noting that the examples described do not depend on capital from financial stock markets because they are fully locally financed. Being independent from stock markets has produced that the value of the shares is not as important as in conventional firms and wealth and job creation have been the key driving forces.

6.1.1.3. Possibility of Reform

In these experiments the reform of the capitalistic system is accomplished far from the Marxist determinism of causing the collapse of the entire system before accomplishing any action. Breaking such traditional strategy of continuous conflict between capital and labour, these three regions show a possibilist approach.

Marx argued that the union of workers would collapse the capitalist system in the long run; Keynes some decades later, claimed that "in such long run we are all dead" (Keynes, 1923). The three experiences are ad-hoc attempts, under the co-operative way of economic activity, to provide better life conditions to workers and communities.

These firms believe that communities can accomplish people centred economic activity regardless of market determinism. Even though the macroeconomic influences microeconomics, there is a scope for such experiences linked to the freedom of human beings to choose and act in the short run to change things.

6.1.1.4. Findings

- As the final conclusion of this introduction chapter a dualism is presented. On the one hand the question of what kind of business structure do we want and on the other what kind of business is possible? Many people all over the world want a business structure that enables them to live and stay in their community, a place that has features that they value. However, many times the pressure of the global system does not allow this. It forces people to adapt to global necessities. Free market rationality imposes the belief that communities have no choice, that people must adapt to the needs of such rationality because businesses move around the world according to costs of production and market demand. However, it could be that in each of the three situations examined in this thesis, leaders chose to live and work in a certain place for non-market reasons. Their reasons were attachment to their places, communities, quality of life, family and friendship relationships. Therefore, the leaders in our case were acting in a manner contradictory to supposed wisdom. This idea leads us to state as a final conclusion that nowadays communities have more choice than is supposed in the dominant business context. We can choose our community based on personal, social reasons, and we can also create successful business that are globally competitive. The examples of the three communities related in the chapters three, four and five are explained through pointing out some common and different characteristics.
- Regarding the statements made on the convenience of public intervention, it is interesting to distinguish between the market economy and capitalism. I believe that the former was created before the latter, which is just a point in the market econ-

omy. Market economy is defined by the existence of free enterprise, private property and free competition. For instance co-operatives are not capitalistic but they work in the market economy. Exploitation and inequality were the result of the capitalism using market economy in an unethical way, but this was not its natural use.

- As a result, I believe that the market economy may be beneficial to manage health and educational systems after the forecasted collapse of the classical welfare state due to its high cost for Western countries, avoiding paternalistic and bureaucratic practices and increasing relational quality. On the current welfare state model, based on financing directly the supply, much money from taxes is spent in simple bureaucracy, only in coordinating action, not in producing. Emancipation of citizens may come up from financing the demand instead, eliminating bureaucracy, so economizing taxes, because competition is fundamental, monopoly leads to less relational quality, serving customers in a wrong way. In the proposed new system other firms will replace the monopolistic firm. Monopoly is always negative, also the public monopoly as in the Soviet Union. A problem of such change may be the differences among communities in a same country due to different entrepreneurial attitude and skills. All along this is evolutionary process the State must always guarantee the universal system for everybody. To unemployed people, the existing obstacle to develop by themselves in a human level is more important than money from subsidies itself. The new system would make a difference in this sense, giving them the way to choose.

6.1.2. CHAPTER TWO: METHODOLOGY

My research uses a Case Study methodology. A firm is basically an organization of persons that develops a business activity, so that it is a discipline that belongs to the social sciences. The case study methodology employed in this thesis is based on Robert K. Yin's work (Yin, 1994), as he and his methodology are widely recognized within the case study research academics (Gillham, 2000, p.103).

This research has to do with both social and economic features. Those features are intrinsically located within the firms and the communities surrounding them, studying them in a natural way, without any artificiality that might misrepresent reality becomes essential in accomplishing the research project.

The main goal of this project is to test the statement that says "any firm that directs resources toward social concerns will necessarily impede its economic efficiency."

This thesis tries to determine how social and competitive a certain firm can be. So that measuring how social and how economic it is, is the real question to be answered. Therefore, this is with no doubt a descriptive case study.

This is a multiple case study that focuses on firms based in three different locations in the world. The firms are inevitably influenced by the territory where they operate, so describing each context is important.

Co-operative firms to be tested in the empirical study have been chosen according to seven criteria about operating in competitive markets and getting economic success. The seven criteria are: (1) appear to adhere to ICA co-operative principles, (2) be manufacturing firms, (3) working within global markets, (4) have at least one significant competitor that is not a co-operative, (5) being economically successful, (6) being a formal

co-operative, (7) being located in Quebec, Mondragon and Emilia-Romagna, environments where co-operativism is "embraced."

The methodology is basically composed of two different scorecards containing 25 indicators each. The social scorecard is constructed from the seven principles of the International Co-operative Alliance. The economic scorecard is Kaplan and Norton's Balanced Scorecard (Kaplan and Norton, 1992, 1996, 2001, 2002). The scale for non-financial indicators is the ISO approach (Perron, 2003), based on the importance of each indicator in the decision-making process of the firm, in four different levels:

- Irrelevant / Confidential: When a firm indicated that this indicator is not used because either it has little significance for them or has been reported as secret due to privacy policies.
0. Not Collected Information: A firm received this score if they indicated that the information had relevance but was nonetheless not collected.
1. Collected Information: A firm received this score if they regarded the information as relevant and invested effort to collect and store the information but rarely used the information.
2. General Board Has Access: A firm received this score if collected and stored information is disseminated to the board for disclosure purposes.
3. General Board Analyzes Information: A firm received this score if disseminated information is considered and analyzed by the board to assist them in decision making.
4. Decisions Put in Practice: A firm received this score if the board used its analysis of information to take action and also monitor the results of their actions.

The method for the seven financial indicators is to directly compare each financial ratio against the statistics of Dun & Bradstreet that contain these ratios for firms in the appropriate sectors divided to determine each firm's quarterly ranking on each measure.

This research project used the case study method proposed by Robert K. Yin. The method permits us to study events and actions of human beings within their natural con-

text, using cases drawn from naturally occurring social situations in contrast to experiments where researchers create the cases artificially.

One of the main features of this research project is its deductive-inductive nature. Since the process starts from existing general theories to individual cases it is deductive in origin. However, testing the cases with the aim of challenging an existing theory becomes eventually inductive because after the empirical case study the researcher is to build some theoretical statements.

As it is widely agreed in the theory of case studies it is the question asked what determined the nature of a case study. Asking "what" requires an exploratory case study, asking "how" requires a descriptive case study and asking "why" requires an explanatory case study. Therefore, this case study is descriptive; it describes how social and how economic the firms to be measured really are, according to the methodology used.

In order to answer such questions multiple sources of evidence have been used; record analysis, interviews and observations. Triangulation has been the technique to combine the three sources. The main source has been record analysis from the decision-making practises in each firm. Interviews have been important to explore the context, not to get a representative idea because they haven't been a sample at all, and finally personal observation has been also explorative of presenting some general ideas. Same approach has been followed to analyze the three regions studied.

Combination of quantitative and qualitative information has been the base of the entire study. Analyzing the firms' financial information (quantitative) has been added to the qualitative information gathered through the scorecards. Other qualitative information from interviews to managers and presidents has been taken into account, and information from interviews with members has been so but in a limited way due to its lack of repre-

sentation of the entire collective. Interviews have been an important resource in describing the regional context where such firms are located.

All the information regarding the firms has been primary except the financial indicators for each industry. However, describing the regional context has been mostly secondary information from literature review and some primary from interviews.

The logic of the eight case studies is replication logic, as long it is based in replicating cases and not building a sample that might represent an entire collective of worker co-operatives. This logic is equivalent to that used in multiple experiments in other research fields. Consequently each of the multiple case studies in this research project has been carefully selected according to some specific pre-established criteria so that it produces similar results (literal replication), or contrasting results but for predictable reasons (theoretical replication) (Yin, 1994, p.46).

Finally from such multiple case studies some conditions under which a firm with a high social concern and high economic performance are likely to be found (a literal replication) may be pointed out, and also the conditions when it is not likely to be found (a theoretical replication) may be noted. Thus such theoretical framework is to become the model to generalize to new cases, being something very close to the idea of cross-experiment designs.

Pattern-matching is a strategy of analysis used for financial indicators. Dun & Bradstreet is a widely accepted database that is employed in this process. However, non-financial indicators, which are more than 80% of the indicators, cannot be analyzed by pattern-matching since there are no sources similar to the Dun & Bradstreet database. Therefore the ISO approach, or Perron's approach, has been used analyzing the importance of each indicator within the decision-making processes of each firm.

6.1.2.1. The Balanced Scorecard

The Balanced Scorecard is a well-known and widely adopted management tool in the firms studied (Kaplan and Norton, 1992, 1996, 2001, 2002).

All the firms in the study reported the Balanced Scorecard as a known tool, and besides some of them reported it as used within their organization.

The Balanced Scorecard is a complete tool that refers to all the processes of the firm. Its main virtuosity is the establishment of cause and effect relations amongst the different processes across the four perspectives. This is the point that makes the difference between the Balanced Scorecard and any other management tool. The cause and effect relations go beyond the classical statement forecasted goals of any strategy and target and relate all the single processes considered as relevant. Therefore the Balanced Scorecard is much more than a measurement tool, because becomes a tool to implement any given strategy.

Finally the fact that the Balanced Scorecard stresses the need to limit the amount of indicators to around 25 makes it much more functional. Information is concentrated in those key indicators and the information processing time is much shorter. The classical problem of excess of information and dispersion of attention is overcome and the decision-making process is faster, which is an essential factor in today's changing markets and economic contexts.

6.1.2.2. ICA Principles

ICA Principles are widely known by the presidents of the co-operatives and widely adopted as the framework to approach to social concern.

The meaning of each of the seven co-operative principles is integrated within the members of the co-operatives. Concepts such as democracy, education, autonomy and concern for community are assumed by co-operatives everywhere.

However, in many cases they are perceived as broad guidelines rather than precise declarations with specific implications in processes. The practical implementation of the co-operative principles is quite different among the co-operatives studied.

At this point it is important to underline that it is the region where each co-operative is located the factor that determines the implementation of each principle. Each place interprets such guidelines in a particular way. This fact implies that the social issues are manifested in a local way and that a co-operative organization is always an organic experience attached to the idiosyncrasy of the people and society around.

6.1.2.3. Strengths of the Study

The study makes a considerable contribution describing three co-operative movements and eight worker co-operatives within them. Such empirical evidence of those firms getting high marks in both social concern and economic performance in global markets opens a door to a new conception over the neo-liberal theory presented in the first chapter.

Besides the methodology, created especially for this research project, has shown to be useful to collect data in a reliable way. Before the difficulty of the lack of any data-base for all the non-financial indicators the ISO approach is a consistent method of comparison.

Finally, the three co-operative experiences show different proceedings and organizational structures that may lead other regions to adopt or adapt such measures to their

own place. Those models shown may be used as flexible patterns to create new or strengthen existing co-operative or other social economy models.

6.1.2.4. Weaknesses of the Study

The main weakness of the study is the data collection period within the firms. Disposing the time of employees at the firm means money to the firm. Interrupting the everyday activity, of sometimes extremely busy people, implies an evident obstacle to the collaboration between the researcher and the firm.

Since time is a limited resource responses from the interviewed managers or other employees are influenced and depend on the personal attitude of the individual interviewed. Besides the subjectivity of interviewed people plays an important role, influencing their answers.

Finally interviewing members with the qualitative questionnaire implies a bias because they are not a representative sample at all, so their opinions should be interpreted as yardsticks rather than conclusive statements.

6.1.2.5. Recommendations for Future Research Projects

The main recommendation for future research projects, especially case studies, is to the researcher to be, when possible, a participant observer, so that he or she can overcome the constraints of time related above. However, this fact may induce the researcher to certain subjectivity as long as he or she is part of the studied phenomenon.

6.1.2.6. Findings

- Measuring such complex concepts as social concern and non-financial economic performance has led to the need of the existence of global databases on both di-

mensions. This need is tightly linked to the general need, recognized by the United Nations in its project of International Accounting System to measure the Social Value Added.

- Further research is necessary in social measurement, benchmarking seems to be the best way to gather enough data in order to make true comparisons among co-operatives. Co-operation among co-operatives as an ICA principle should be a basis to start a global sectoral co-operative database.

6.1.3. CHAPTER THREE: QUEBEC

The study of the co-operative movement in the province of Quebec in Canada has its origins in the mutual assurance societies of late eighteenth century, the mutual fire insurance societies of nineteenth century and several other kinds of co-operatives of early twentieth century. However, the modern co-operative movement was born in 1930s right after the stock market crash in the United States.

Many co-operatives took advantage of the economic prosperity that war in Europe brought to Canada. Due to its impressive size the Desjardins Movement of credit unions represents a big part of the modern co-operative history in Quebec. Actually it is not possible to talk about a consistent co-operative movement in Quebec before Desjardins. Under the leadership of Alphonse Desjardins, credit unions became the pillar of economic and social reform. They improved the lifestyle of low-income people and developed the economic power of French Canadians.

As stated above, co-operatives in Quebec were born in the second half of the nineteenth century, and precisely "from" and "for" the socio-economic difficulties of those

times. Desjardins is the best example of this. At the beginning of the twentieth century, Quebec was a traditional society with most of its inhabitants living in the countryside. Important immigration towards the USA and the cold winters that made living in the countryside really tough were two of the main problems faced by the citizens of Quebec. Quebec was basically a catholic and traditional society up to the 1960s.

The general transformation that happened in Quebec in 1960s is known as the Quiet Revolution (*La Revolution Tranquille*); this is a modernization process that started in 1960 in Quebec with the goal of changing the economic, social, political and cultural structures of the society. The Quiet Revolution also influenced the co-operative movement creating a second wave of co-operatives with a different driving ideology. Such phenomenon made the co-operative movement's relations with the Provincial Government, trade unions and others stronger.

In 1976 Rene Levesque and his *Parti Quebecois* were elected to lead the province. A new deal between the provincial government and the co-operative movement further promoted cooperative development. Today the Provincial Government in Quebec has several programs that finance co-operatives.

Since the very beginning the co-operative movement, represented mostly by Desjardins credit unions, had meaningful relationships with two other social movements: the Catholic Church and Quebec nationalism. Co-operatives were seen by social leaders of both movements as influencing elements of social reconstruction in a society whose organisation and traditional values were in danger.

The co-operative movement in Quebec is organized in the *Conseil de la Cooperation du Quebec,* whose mission is (1) to participate in the social and economic development of Quebec, (2) to promote the full expansion of the co-operative movement accord-

ing to the principles and values of the International Co-operative Alliance (ICA), (3) to organize the relationships between co-operatives and their partners, (4) to represent and defend the interests of the whole co-operative movement in Quebec, and (5) to favour de co-operative development in order to multiply the beneficial effects of the co-operation in their members and the citizens

The co-operative movement in Quebec has a very different presence in each of the three different sectors of the economy. The financial sector is by far the biggest, the second position is for agricultural co-operatives, and the third is the New Social Economy (NSE). Started in the 1970s, the NSE focuses on different features of life conditions as housing, nursery, social and professional insertion, and leisure activities.

Today there are 3200 cooperatives in Quebec that generate 79,000 direct jobs and include 7.5 million members. Co-operatives in Quebec have largely contributed to build an economy from Quebec for the people in Quebec.

6.1.3.1. Key Points to Success: Economic Poverty

The co-operative movement in Quebec is rooted, as most of the co-operative movements in the world, in the hard times of the nineteenth century. That was basically a rural society and its economy was mostly based on the agriculture. The tough weather, that strongly influenced crops, and the lack of fertile lands for everybody produced an important process of immigration to the USA. The lack of capital was a huge problem. Usury was a common practice in that society, far from being a solution to the lack of capital it frequently led poor people to big debts instead.

6.1.3.2. Credit

Within this hard context some mutual organizations were created to provide insurance services, but credit was the area of main co-operative action. At that time only rich people could have access to credit, so the credit union was a solution for most of the population. Credit was understood as a way to trigger development; through investment in improving the production in the countryside, it had an enormous effect on improving the lives of those on low-income. The Desjardins credit union movement spread all over Quebec and became quickly a familiar issue to most of the people in each parish in the province.

6.1.3.3. Leadership

It was Alphonse Desjardins who promoted all this process of setting up credit union branches in Quebec. His whole project was much more than just a solution to usury, it was the key element for a general reform to address the economic problems but as well social problems caused by capitalism and economic liberalism (Poulin, 1990, pp 67-68).

For him capitalism was not the problem in itself; the problem was the lack of means for economic development in the hands of low-income people within a capitalist system. According to him those people had to solve their own problems by themselves, being responsible and not depending on the state, it is what he called emancipation.

His leadership was undoubtedly influenced by his strong religious faith and altruistic engagements, very rooted values at that time in such a traditional society. The education of saving was a real provider of economic independence, so that of wealth, but he always understood this wealth as something collective.

6.1.3.4. Catholic Social Doctrine

Both Desjardins' project and the general co-operative project have been historically, up to 1960's, strongly influenced by the Catholic Social Doctrine.

Besides Desjardins was an innovator in the sense that his project changed to some extent, the classical rigid attitude of the Catholic hierarchy towards economics, also influenced by the social doctrine of the Catholic Church, professed by the Pope Leo XIII, and expressed in 1891 by his Encyclique *Rerum Novarum*, where the Catholic Church showed a different orientation to solve poor people's economic problems through a more pragmatic approach, accepting private property and promoting co-operatives among other associations.

6.1.3.5. Sense of Community

In a region where the economy was largely controlled by English-speaking Canadians, co-operatives were interpreted as a means to protect French Canadians and to provide them with a means of development. However, co-operatives in Quebec, as global phenomena, were basically created to address the need of poor people, both French and English Canadians.

French Canadian nationalism, as a political doctrine, has supported co-operatives as a way to strengthen the national economy of the French Canadian nation. As a result, today Quebec is the region with the strongest and most dynamic co-operative movement in Canada.

It was providing people with low income in Quebec with a means to overcome the concentration of wealth in a few hands, the economical and political domination of English Canadians mostly concentrated in Montreal.

6.1.3.6. Role of the Provincial Government

The *Revolution Tranquille*, political, cultural, social and economic transformation of the Province of Quebec in 1960's, made the co-operative movement's relations with the Provincial Government, trade unions and others stronger and even gave them a new dimension.

The Provincial Government in Quebec has recognized significantly the Desjardins Movement and the co-operative sector as a whole as active and different economic actors in the province. The Provincial Government and the lawmakers have supported the development of both since the Revolution Tranquille. The nationalist movement has considered Desjardins and the co-operative sector as symbols of an autonomous economy.

6.1.3.7. Desjardins Movement

The Desjardins movement is by far the most important co-operative organization in Quebec. Even though the provincial association, Le Conseil de la Cooperation, has a remarkable representative and lobbying role with the public institutions, it does not have any role in organizing businesses and getting synergies. Desjardins is to some extent more than a bank, and supports in a considerable way the development of other co-operatives through especial financial programs. Today Desjardins has 85 000 millions of dollars in assets and it is the only financial institution for more than 400 villages in Quebec (Conseil de la Cooperation du Quebec, 2003b).

6.1.4 CHAPTER FOUR: EMILIA-ROMAGNA

The co-operative movement in this north central Italian region was born as in the other regions of Northern Italy in the years of unification in Italy in 1861.

In that context of agricultural uncertainty there is no doubt about the hard times experienced by most Italian citizens, because in the nineteenth century Italy as any other country in Europe did not have the prosperous quality of life it has today.

Co-operatives in Italy are the fruit of several ideas and ideologies, including: a social-liberal one, a catholic one, a Mazzinian one (derived from the influence of Giuseppe Mazzini, leader of the Italian reunification) and a socialist one. Therefore three of the main co-operative associations, Confederazione delle Cooperative Italiane (CCI) with a catholic inspiration, Lega Nazionale delle Cooperative e Mutue (LEGA) with a social-communist and also republican inspiration and Associazione Generale delle Cooperative Italiane (AGCI) with a social-democratic and republican inspiration, have been strongly influenced in the past by such ideologies.

As a remarkable difference Italy has been throughout the twentieth century one of the very few countries in Europe where the communist party has been stronger than the socialist party. PCI was not a conventional communist party as others in Europe. Its attitude about co-operatives explains this significant difference. We can say it was in some sense closer to Mazzini than to Marx, since it accepted the association of capital and labour. This fact had a strong influence in the co-operative movement.

Emilia-Romagna has always had a very high rate of association and even though it is the place where Lega is strongest, the other co-operative organizations are represented too.

Industrialization has been a very late phenomenon in Emilia-Romagna. First years were focused on looms, but later food processing industry took its place as the main economic activity in the region, due to its connection to agriculture, historically the main activity in the region, and to its low capital needs. Low capitalization was traditional in Emilia-Romagna as well as unstable labour conditions and hiring employees according to seasonality.

The harmonious existence of the artisans whose work is coordinated and organized into craft enterprises is a core point in the later socio-economic development of the region. A particular feature of Emilia-Romagna is its balanced development among different provinces and cities, far from other regions where the capital of the region or the capitals of the provinces are bigger and more important than other towns or cities.

Widely known as the region of the industrial districts in Italy, it is important to understand the influence of the co-operative movement in Emilia-Romagna are two different facts. Even though the contribution of manufacturing co-operatives in production terms to the industrial districts is insignificant, there is no doubt about the fact that industrial districts are a by-product of the culture of co-operation that had existed in the regions for centuries.

The fertile soil that enabled a prosperous agriculture and the flat geography that enabled communication of ideas and influences, an ancient co-operative and vibrant culture represented by the oldest university in Europe, the direct influence of the catholic religion in the Pope's States, effervescence in politics, strong leadership from several influential individuals… are the main reasons to such a strong co-operative movement.

Consequently no other country in the Western world has as many workers' co-operatives as Italy and Italy also has more workers in such co-operatives than any other country. Social co-operatives, an Italian creation, also deserve an especial mention.

Today [1997] the Italian co-operative movement has 160,000 enterprises with 9-10 million of members and 500,000 jobs. Specifically in Emilia-Romagna 45% of the GDP is produced by the 15,000 co-operatives in the region.

The co-operative movement has critically influenced Emilia-Romagna in reaching the top of Italy's regional economic ranking, and in producing the highest GDP per capita in the entire country.

6.1.4.1. Key Points to Success: Economic Poverty - Agriculture

The Emilia-Romagna region was the lowest Italian region in income per capita in the early years of the twentieth century; even Sicily was richer at that time. However, Emilia-Romagna had some of the best and most fertile lands in Italy. The poverty in the countryside led many peasants to struggle against landlords and to strongly embrace socialism as the way to deal with their problems. Socialist leaders found in co-operatives a way to organize such workers and give a chance to improve their life conditions.

6.1.4.2. Association Culture and Craft Tradition

In the Middle-Ages Bologna was one of the most important manufacturing centres. Division of labour, as an innovative production method at that time, is said to have been invented there. Historically cities like Bologna and others have held a strong craft tradition.

Both phenomena are by-products of an outstanding association culture in the region, in all social, political and economical spheres. Being part of a social group is inher-

ent to many of the citizens in the region, this historically produced phenomena has evident implications in the economic model based on SME and radically different to the dominating model in the adjoining regions of northern Italy.

6.1.4.3. Politics - Ideologies

All the political ideologies that have existed in Italy in the last hundred and fifty years have been strongly embraced in Emilia-Romagna. Politics have been historically understood in a vibrant way. All Mazzinian liberalism, socialism, communism, fascism and also demo-christianism have strongly flourished in the region. Such passion for politics in the region has influenced in the past the co-operative movement, providing to an originally apolitical phenomenon all the support but also the constraints of the dominating ideologies. Today all this has changed and co-operatives are far less involved politically.

6.1.4.4. Pragmatism

Entrepreneurial attitude has been a common feature in the co-operatives in Emilia-Romagna, meeting market requirements and having a strategy of constant growth, have been the key points.

At this point it is interesting to remark how such pragmatism strongly influenced the classical rigid position of both the socialist and communist parties, especially in a local level rather than in a national level, in Emilia-Romagna. This unusual position accepting the private property and promoting economic activity through co-operatives really made a difference in supporting co-operatives as no other socialist or communist parties did in Europe (Sacconi, personal communication). Nothing explains this better than Andrea Costas's political transformation (Varni, 1990, p. 123).

6.1.4.5. Industrialization – SME – Worker Co-operatives

Even though industrialization is a late phenomenon in Emilia-Romagna, developed in 1960's, the way it flourished has strongly influenced the large existence of worker co-operatives in the region. Being locally financed and based on local networks has given to the industry in Emilia-Romagna a shape of numerous small and fragmented firms producing many different products. Agro-food industry and metal-mechanics have been the two pillars of an industry, in a region in quick transition from an agricultural to a services economy.

6.1.4.6. Role of the State

The role of the state towards co-operatives has had two stages, divided before and after the Fascism regime. Late years of the nineteenth and early years of the twentieth century, in many cases, co-operative leaders were also political leaders in local municipalities all over Emilia-Romagna. This fact undoubtedly influenced the growth of the co-operative movement, through providing many public work contracts and other advantages, especially during Giolitti's times. However, after the World War II, the attitude from the government changed, the support was never as direct as before and it passed to be indirect through designing several laws to recognize the co-operative difference and providing tax advantages due to such difference. Since the 1970s co-operatives are a regional matter after the decentralization process in Italy.

6.1.4.7. Leaders

There is no a unique major figure in the co-operative history of Emilia-Romagna. The leadership has been shared among many known and anonymous regional and local

leaders. Among them leaders in both the socialist and communist sides have played perhaps one of the most known roles. A common point among all those leaders is their eager in improving the low-income people's life through developing co-operative economic activity.

6.1.5 CHAPTER FIVE: MONDRAGON

The co-operative movement around this town in the Basque Provinces of Spain was started in 1956 by a group of engineers that were educated under the leadership of a catholic priest Don Jose Maria Arizmendiarrieta.

Mondragon and its surrounding area has always been a well-known industrial centre all over Spain with numerous commercial relations with other places. However, it is obvious that in 1955, Mondragon was not one of the most likely places in Spain to develop a strong industrial group. Due to the recent civil war and the lack of infrastructure, the area was underdeveloped.

Modern co-operatives are a relatively late phenomenon in the Basque Country, even though ancestral communal practices were strong in the countryside.

The reasons why the MCE rose are absolutely rooted in the hard times of 1930s and especially in the critical consequences of the civil war.

The war divided families and towns, in Mondragon and in other parts of Spain. Many people had to leave their hometown or suffer the cruel effects of hate and accusations. Such a terrible tragedy led the country to misery. After the war, people suffered from lack of food, clothing, and medicine.

Mondragon, with its small and hilly geography, its local communitarian culture that regulated rural activity for centuries, its strong industrial tradition and its deep catholic faith was receptive to the idea of democratic organizations such as co-operatives.

Don Jose Maria's leadership strongly inspired the co-operative movement up to his death in 1976. The mix of social and economic reform centred on educating people and changing the existing structures of a firm and the strong pragmatic attitude towards the market and technological advances, are the two axes around which his action took place.

Today this co-operative movement is located under Mondragon Co-operative Corporation (MCC). MCC is an association of co-operatives in the same way that a co-operative is an association of persons. Mondragon is basically an industrial complex; most of the co-operatives are manufacturing firms. However, financial and welfare co-operatives, consumer's co-operatives and the university and several research centres now give a remarkable diversity and dimension to this region.

Since the 1980s, co-operatives in the Basque provinces are ruled by a regional Basque Law of co-operatives. MCC is composed of one hundred and forty firms in Spain; most are co-operatives in the Basque Country, a few are firms in other regions, and forty subsidiaries are located abroad. Today the main challenges are maintaining the co-operative essence in the internationalization processes, revitalizing internal democratic boards, and maintaining a high rate of co-operative employment.

Today the entire corporation has 68,263 employees, in 2003 7,004 jobs were created, production accounted for 3.7% of the GDP, 3.7% of the total jobs and 8.2% of the industrial jobs in the Basque Country, and other 14,000 jobs were induced in external firms.

6.1.5.1. Key Points to Success: Economic Poverty and War

The Mondragon co-operatives were born from the hard context of postwar times. The civil war that lasted three years and ended in 1939 produced deep injuries in social terms and great destruction of economic structures of production, and therefore wide-spread misery. Lack of food, clothing and education were common problems all over Spain. This context required a solution to address common needs. This was the starting point for Mondragon. The context influenced the next decades within the co-operatives and their internal norms based on solidarity and equality.

6.1.5.2. Industrial Tradition

Before such a bad situation, any possible economic activity in Mondragon had necessarily to be linked to the remarkable industrial tradition that had dominated the local economy for centuries. Mondragon was able to use such industrial means and eventually enrich them because it was open to influences and new techniques from more modern industries all over Western Europe. Such industrial culture is inherent to the development of the industry in the Basque Country, the place in Spain where the late industrial revolution flourished most vigorously.

6.1.5.3. Leadership: Austerity, Solidarity, Work

Don Jose Maria Arizmendiarrieta was a very particular Catholic Priest. Open to different ideological influences from the catholic social doctrine to the French personalism, from the co-operative thoughts to British laborists and Basque socialism, he grew up in the countryside where the Basque social tradition was very rooted.

Don Jose Maria's thought was basically an economic interpretation of the gospel that necessarily implied a complete transformation of the existing firms, based on a sacred conception of work as the way human beings develop themselves contributing to the society. To him the new paradigm of existing firms was the cell to accomplish an entire social reform. His objective was organizing responsible people working together and managing their own firms in terms of democracy and solidarity as a contribution to the entire community. Doing so under a co-operative organization was circumstantial and secondary. He chose the co-operative enterprise after his own "society" was rejected by the notary because the law could not recognize it.

The way in which Don Jose Maria was able to combine such an ambitious social reform project with a brilliant entrepreneurial vision, linked to pragmatism and continuous technological development, makes him the essential figure to understand the success of the Mondragon co-operatives.

6.1.5.4. Sense of Community, Culture

Mondragon is located at the heart of the Basque Country, and it is located at the geographical centre of its three provinces. It is widely known that the Basque culture has contained communal traditions for centuries. However, linking those practices, some of them are still alive in the countryside, with the success of the Mondragon co-operatives seems to lack of enough evidence.

The strong sense of attachment to the community, which goes further than the nationalism as a political doctrine, contributed to the success of co-operatives. Nationalism did not have political representation under Franco's dictatorship, but once they got the

government they definitively supported the co-operatives, designing one of the most dynamic co-operative laws in Spain.

Finally promoting both internal democracy, one of the pillars of co-operatives, and Basque tradition, one of the social contributions, had a much more meaningful content for people in the community under Franco's dictatorship, since both were banned. Both were very important motives for social cohesion and attachment to the development of co-operatives as a good way to accomplish them (Ormaetxea, in Irizar, 2003, p. 38, p. 52).

6.1.5.5. Economic Context: Autarchy

When co-operatives started in 1950s Spain was an isolated country. Its economy was overprotected through high taxation to imports. This context made with no doubts the birth and development of the co-operatives in 1950's and 1960's easier.

Besides the fact that trade unions were banned, might have made easier the development of industrial co-operatives as associations of workers without the classical interference from trade unions, generally opposed to the autonomy of workers from trade unions.

6.1.5.6. Organizational Structure

One of the key points to understand the success of Mondragon is its ability to reinvent its organizational structure according to the needs of each moment.

Since its creation in 1950s, Mondragon has responded with important organizational changes to the challenges that came up from the market. The main changes happened in 1987, changing the central role of the co-operative bank, as the entry of Spain in the European Union and elimination of tariff protection, and in 1991, creating the MCC

and replacing the geographical organization by the sectoral organization working at present. Another change in the organizational structure is planned for 2006. Improving internal networks to promote technological synergies, economic solidarity among co-operatives and safety of members' jobs is the main goal of the 2006 corporate organization structure.

The main difference and strength of Mondragon is its systemic nature. It is a co-operative system, where all its parts interact and work together. The bank, the welfare, the university, the research centres and the co-operatives interact because are strongly linked to each other. This fact is what makes Mondragon really different to other co-operative movements in the world.

The way Mondragon combines the strength and advantages of a unique corporate governance structure with the total autonomy of each co-operative is a key success factor. Getting the best of the union, basically synergies and common support, without giving up an essential part of any co-operative that is autonomy of members in decision-making is as difficult as important, and Mondragon seems to have been able to get a good balance between both.

6.1.5.7. Pragmatism, Education and Research

One of the main features of Mondragon is its efficient market orientation. Social concern has never been interpreted as if a company could lose any of its efficiency just because human values were considered more important than purely economic or material resources, rather on the contrary such a consideration has been considered as a way that should help increase efficiency and quality, and therefore the capability to accomplish any social mission (Morrison, 1997, p.111).

Meeting market requirements has been considered essential and to bring this about, both education and research have been promoted as the main ways to develop technological advances.

6.2. Influence of Place on Development

6.2.1. PLACE SIMILARITIES

6.2.1.1.Economic Poverty

This is the first and more important coincidence among the three places studied. All the three were in severe economic poverty when the co-operative experience flourished in each place, which were different times along the late nineteenth century and mid twentieth century. Such context where food, clothes and education were in many cases scarce, made people think that co-operatives were the best way possible to develop the community; this fact was encouraged also by the existence of a huge solidarity feeling among citizens.

Looking today at the three places studied seems really tough to imagine that they were really economically depleted places some decades ago, because today they are one of the most prosperous places in Canada, Spain and Italy. Nobody can reject that the co-operative movement in each place has strongly influence such development and prosperity.

6.2.1.2. Leadership

Individual people have leaded the three co-operative experiences to different extents, but have had anyway a critical role in all of them. It seems that there is always need of a person or a group of people who are willing to dedicate his work to accomplish the

creation and development of a co-operative movement. The three places had in specific people the critical element that made the co-operative work to different extents. Leadership of Don Jose Maria in Mondragon is critical, as Alphonse Desjardins' in Quebec. In Emilia-Romagna there are many leaders and Andrea Costa has been chosen in this thesis, because his leadership was critical in Imola, the place where the three Italian co-operatives studied are located.

Those leaders have to have all the skills of conventional entrepreneurs plus a deep social concern for their community. Therefore their leadership is of a special kind, far of the classical examples of successful entrepreneurs we can know on the media.

6.2.1.3. Catholic Social Doctrine

The Catholic Social Doctrine, was to a different extent, an important source of inspiration to the three regions. Especially in Quebec and Mondragon, the co-operative movement was based on the strength of the catholic religion within the society; Emilia-Romagna was also partially influenced by religion.

6.2.1.4. Dynamism: Innovation

The three places have shown an outstanding dynamism and capacity to innovate in creating new co-operative organizations. The regional lawmakers have properly recognized this dynamism and have designed pioneering laws to enable such phenomenon. As a consequence the creation of the "solidarity co-operatives" in Quebec and the "social co-operatives" in Italy are remarkable facts, having in common the union of different stakeholders; workers, customers and even a third kind of member within those worker's co-operatives. Mondragon contributed with the "Social Council", as an innovative idea, this watchdog council, which does not exist in any other place, and the Basque Law adopted

as compulsory for big co-operatives, as a useful way to deal with internal communication issues.

6.2.1.5. Sense of Community, Political Activity

The three places had a very strong sense of community that undoubtedly supported the development of the co-operative movement. This sense of community is also enforced by the existence of a particular cultural idiosyncrasy, different in certain sense to the other cultures around.

Within such context each of the three regions has lived within a different context, Quebec under the economic and political superiority of English Canada over French Canada, Mondragon under General Franco's regime and lack of democracy, and Emilia-Romagna under a very turbulent first half of the twentieth century in a mix of ideologies that were lived with outstanding effervescency by its citizens. Politics in the three places always strengthened the sense of community of such social group around co-operatives. In Quebec main motivation was economic development of poor people, plus an incentive for many people in overcoming the economic domination of English Canada, in Mondragon was also economic development of poor people, plus an incentive for many people of meeting their eagerness for democracy and supporting Basque culture and in Emilia-Romagna was also economic development of poor people, plus an incentive of doing so according to some political and cultural background of equality, emancipation and solidarity.

6.2.2. PLACE DIFFERENCES

6.2.2.1. Different Scope, Private Corporation and Civil Society

The three experiences take place in three certain places; the nature of each experience is different. On the one hand both Quebec and Emilia-Romagna are expressions of the civil society as a whole, on the other Mondragon is a private business corporation, and can be conceived as expression of the civil society in area of Mondragon Valley. Therefore, we are speaking about three areas with a very different size. Quebec is a huge province of 7 million inhabitants, Emilia-Romagna is a middle-size region of 4 million inhabitants and Mondragon is a tiny valley of 70,000 inhabitants where the co-operative influence is significant, even though they are co-operatives belonging to the corporation all over the three provinces of the Basque Country, which is a middle-size region of 3 million inhabitants.

6.2.2.2. Geography: Resources and Infrastructure

The geography of the three places is totally different and therefore the natural resources are too. The three places were basically agricultural economies when the three experiences were started. Emilia-Romagna and southern Quebec had very fertile lands, whereas Mondragon had agriculture of subsistence in very poor and hilly lands.

Geography is also a matter of physical location; the three places have a very different location, and communication infrastructures. Emilia-Romagna as a very flat place made historically very easy transmission of goods and ideas, later in history the same was true for southern Quebec. However, Mondragon is a very uneven place, with many hills that made communication and transports difficult and long tasks, modern infrastructures, as highways or airports, were inexistent at the beginning of the co-operative experience.

6.2.2.3. Trade Unions

The attitude of trade unions towards the three co-operative experiences has been different. It is interesting to remark the relationship that in the last one hundred and fifty years both co-operative and trade unions have maintained. Born both as a reaction to capitalism and industrial revolution they have been in interaction since then. However, depending on the context and the nature of different co-operatives and trade unions all over the world they have had different relationships.

Even though the conflict of interests has been the common feature in the three places, the relations go from apparent normality and several agreements in Emilia-Romagna and also but in a lower degree in Quebec, to the inexistent relation and continuous rejection in Mondragon. Obviously this fact has made that the three co-operative experiences have had a different understanding of how to deal with labor conditions.

6.3. Findings

- In the three experiences the main driving force for wealth creation has been, in most of the cases, looking for what is best for their local communities. Therefore they do not assume Milton Friedman and some others' belief that the only "rational" motivation for wealth creation and business activity is self-interest profit making.
- High amounts of social capital seem to be a critical feature of each of the three places. Co-operatives as firms, are said to be likely to accumulate easier trust, because of its capital structure and democracy. Further research in this issue is necessary.

- These places where co-operatives have been successful can be interpreted as having an incentive to participation, in non capital-intensive activities and composed of non-very big firms. These three features, to a different extent though, are common in the co-operatives in all the co-operative experiences in the world.

CHAPTER SEVEN

GENERAL CONCLUSIONS FROM CASE STUDIES

"Lo que no puedes hacer por mantener a ultranza una situación que tuvo vigencia en una época, es hacer que ahora desaparezca el sistema y que desaparezcan 70.000 empleos… yo he llegado a esa conclusión"

"It makes no sense to desperately maintain a situation that worked in the past but now risks losing the whole system and its 70,000 jobs… I have reached this conclusion."
(Jose Maria Ormaetxea, in Irizar, 2003, p.59).

7.1. Economic Performance

This widely accepted management tool was chosen for measuring the economic performance in the firms studied has been reported as known in all of them and in some cases even adopted by the managers in such firms.

The cause and effect relations have been reported also as the key point in making the difference between the Balanced Scorecard and other existing managing tools.

The Balanced Scorecard includes four perspectives:

1.Learning and Growth: In this perspective most of the co-operatives studied show high concern for employee satisfaction with surveys and control, that leads to high degrees of satisfaction and general control of individual productivity. A remarkable point is the low turnover, which should prompt research about the reasons of why no member leaves those co-operatives.

Research and Development is controlled but not related to sales, it varies significantly from sector to sector, but all the co-operatives pay attention to innovation. It is widely accepted that ignoring such investments is extremely dangerous. Time in recuperating investment in a product, as a significant indicator, varies from sector to sector, because depending on the product produced it may not be relevant.

2. Internal Business Processes: As the eight firms studied operate in very different markets the eight indicators within this perspective have different importance in each case. Therefore some indicators have been rejected since they are totally irrelevant for some firms, such fact implies the specificity of each production process. However, in most of the indicators reported by the co-operatives as relevant they show a remarkable concern for continuous improvement.

Indicators referring to time, yield and costs of defects and repairs are controlled according to the specificity of each production process. Patterns of total quality management are reported as usually followed within the cases studied.

3. Customer: All the co-operatives studied, each one in a particular way though, shows a considerable concern for the customer perspective. Orienting their strategy to customers' satisfaction leads such firms to be, in most of the cases, perceived as high quality expensive producers in their sectors. No co-operative follows a cost strategy; all of them follow a differentiation one instead. This fact is meaningful to face competitors from countries where labor and other resources are much cheaper and are becoming an increasing threat to some manufacturing firms in western countries.

Customers' satisfaction is controlled and segmentation programs to focus on some specific customers are common practices for those eight co-operatives. Finally maintaining loyalty from good customers is generally perceived as more important than getting new customers.

4. Financial: It is evident that out of the four perspectives the financial one has a special meaning from both the nature of the indicator and the different approach in methodology.

These indicators do not drive any activity since they are more properly viewed as consequences but they are outstanding indicators in showing the effects of proper strategies and proper decisions made in the previous three perspectives.

From a methodological point of view, these indicators are the only ones that enable direct comparison to other non-co-operative firms.

Even though sample sizes vary significantly from one sector to another, Dun & Bradstreet is accepted throughout the world as the most reliable database. Under these industrial key ratios the eight co-operatives' financial performance is clearly above average in the seven ratios chosen.

In an overall evaluation seven out of eight co-operatives have a financial performances above average in their sector, the eighth case being just below the average, being indeed such superiority even outstanding in some cases, where such co-operatives enjoy positions of leadership in national or continental markets. This fact is another yardstick that locates these co-operatives' financial performance, in most of the cases, in top positions of their respective markets.

7.1.1. SUMMARY OF FINDINGS FROM ECONOMIC RESEARCH (EIGHT CASES)

- The overall economic performance of these co-operatives is high; that is above average. Both the non-financial and the financial indicators show empirical evidence strong enough to state that these co-operatives are above average in their sectors and in most cases even in top positions (4^{th} quartile).
- Economic performance in co-operatives achieves an additional objective compared to most conventional firms'; an instrumental one rather than a final one. However, this difference that remains in the essence of a firm, which was created in most of the cases as a way to create jobs for the community, does not make any difference in the importance as indicators of efficiency that financial indicators have for every firm, regardless of its mission. Financial indicators are consequences that are meaningful for all.
- Financial success is a means as much as an end, and this fact may definitely influence the perception of financial indicators co-operatives have.

7.2. Social Performance

The seven co-operative principles of the ICA are widely known and accepted in all the firms studied. However, the fact that the seven principles are just guidelines to direct social performance of co-operatives, with no specific detailed practices to be followed, their interpretation and implementation depend pretty much on each co-operative or group of co-operatives. Besides the regional or national laws strongly influence and sometimes determine such performance by establishing minimum or maximum rates to respect in certain indicators.

Belonging to co-operative groups with internal norms also determines social performance to a great extent, depending this fact also in the activeness or cohesion of such groups. The subsystem, the single co-operative, is always influenced by a bigger system, as a group of co-operatives or the place and society where it is located. This influence may have a diverse outcomes depending on the context the co-operative experience was born.

1.Voluntary and Open Membership: This principle is strongly linked to the tradition in each area. In some cases such tradition has even influenced the regional law. Today regional law remains, in these three places, as the main element to determine the policy of membership.

Regardless of each policy the eight co-operatives clearly state that definitely that they originated in order to provide jobs to the community, and that this is something that they must continue to strive for. A sense of pride and satisfaction always comes up when remembering old times.

However, it is very interesting to underline that co-operatives located in different places understand the role of membership in different ways. Focusing especially in Mondragon and in Imola, Emilia-Romagna, the former understands high membership as the best contribution to community but the latter understands high membership as a handicap for management so an impediment for an excellent contribution to community. Those perceptions are inherent to each place.

Therefore membership fee is designed in a different way it is much higher in Imola because it is understood as a essential element for commitment to the firm, in Mondragon membership fees are fixed and approximately eight to ten times lower than in

Imola. In Imola the general idea is that entrepreneurship requires high economic participation and therefore a notable sacrifice to pay the membership fee, nonetheless they do provide financing plans.

The selection process of members is much more restricted in Imola as long as the Italian law does not state a minimum of membership as the Basque law does; 80%. The law in Quebec also regulates membership percentage. In Imola worker co-operatives are much stricter when valuing personal and professional skills of members.

This fact opens an interesting debate about how does a high membership rate influence management in a firm and eventually the contribution of such firm to its community. This issue requires further research.

Besides, as a general feature, family links are reported to be relevant in most of the cases as long as having a family member working as a member in most of those co-operatives is reported to ease the entrance of a new worker, not as a member but as a temporary worker, and always if he or she has exactly the same professional qualification as the other candidates. However, this first entrance may eventually imply becoming a member if the worker fulfills requirements, despite family has nothing to do in most of the cases when becoming a member.

Worker co-operatives are the co-operatives where membership is by far most restricted due to its dependence on labour needs. When analyzing open membership this fact has to be taken into account. The membership process in worker co-operatives is way different to membership in other co-operatives. However, even though they do to different extents, the eight co-operatives studied can be qualified as open to new members. The requirements to become member are different in the three areas, and mostly professional qualification and discipline and laborious attitude are the most important conditions.

2. Democratic Member Control: All the members understand democracy as a core and meaningfully differential principle; however, its reality is a matter of each co-operative rather than each place.

Since the one member one vote principle is widely accepted in each co-operative, nobody can reject they are democratic organizations. However, saying how direct and how representative such democracy is, becomes a critical point. It is something similar in nature to the concept of democracy in countries.

Size always influences democracy, being generally, even though there are exceptions always, the bigger the co-operative the less direct the democracy and the more the representation through delegation.

It is interesting to remark also the role of the Annual General Meeting, as a much less important event than in non-co-operative firms. Perhaps this is because as owners are also workers most of their questions are answered anytime most of the times in an informal way in the workplace rather than in the AGM.

Finally the repetition of same members in the general board is another critical point. Even though some co-operatives try to avoid this phenomenon, it happens almost in all the co-operatives. There are always some members that because of their attitude or experience are chosen as elected members for the general board or any other committee.

This fact may have connections to the particular criteria in voting for councils. As said above volunteering for committees, even though there are exceptions, generally is reduced and therefore very few members perceive participating as elected members as an opportunity for personal development, which is the motive underneath the classical co-operative ideal of education, training and information (Fifth Principle of the ICA, 1995).

As a consequence voting becomes to some members a really meaningless activity, which affects negatively their perception of democracy within their co-operative.

At this point it is essential to argue the difference noticed between blue-collar workers and white-collar workers. Frequently they have different perceptions about democracy and participation within the management. It seems to be that generally blue-collars have a less favourable opinion about democracy in their co-operative than white-collars. The harder and more tedious labour conditions seem to be the main factors to sustain such opinion. This unhappiness leads in many ways those members to state the uselessness of the boards and in some cases to miss the trade unions.

Another consequence to remark is the dualism of interests in some members, what can be called as schizophrenia. It happens when a member's interests conflict due to the contrariness of his or her interests as an owner and as a worker. This tension leads to a lack of trust on the social council in the case of Mondragon or to become unionized to a trade union as it happens in Quebec or in Emilia-Romagna. This phenomenon is not limited to the eight co-operatives studied but extends to all co-operatives in general.

I believe that this dualism is caused basically because sometimes members' individual interests do not match the general interest of the firm. Most of the times many individuals' interests are focused in the short-run due to need of cash or retirement while the interest of the firm is oriented to the long-run.

Participation

After analyzing participation in councils, the conventional participation of workers in the management and everyday processes deserves a special mention. Participation in co-operatives is a point that deserves specific explanation due to its different nature

joining labour and ownership. Participation is something that is closely related in theory to the co-operative democratic nature of the eight firms studied; the firms they show different approaches to the participation of workers in management.

Social Council

The Social Council, as explained in the fourth chapter, is an invention of Mondragon. Its original purpose has not been totally achieved in most of the co-operatives, a malfunction is perceived (Habermas, 1984, 1987). This fact has to do with what Habermas stated about the distinction between 'lifeworld' and 'systemsworld.' Individuals, human beings, carry out production, they belong to the lifeworld but production has a rationality that belongs to the systemsworld. The councils also have rationality and members participating belong to lifeworld. Members' desires and attitude do not always fit in the formal structures of the councils, this is what happens with the social council. This lack of harmonious working leads to a under function of such council.

Constant and consistent dialogue in order to get an equilibrium seems to be the best state to deal with the relation between the ideal, what is wanted, the social necessity, and the facticity, what is possible, the business necessity.

As a consequence of such malfunction or schizophrenia, some members elect really demanding members as members for the social council, sometimes members with a trade unionist mentality, that fight with the managerial team and general board about labor conditions, salary, hours… and believe they are exploited by "those at the top". However, those same members elect white-collar members for the general board, members that look for good management and good economic results. It is kind of a double personality.

Trade Unions

In Emilia-Romagna in many manufacturing co-operatives some members are unionized, and some may feel themselves more represented by the trade unions than by the general board they elected under the one member one vote principle.

Some arguments are shown in favour of the regulatory action of trade unions within manufacturing co-operatives, for instance to get a homogeneous status for workers in a certain area or sector. I believe that in Emilia-Romagna the ideological coincidence of members of the co-operatives and members of the trade unions have led to this functionality rather than any internal reason of co-operatives. The reason is external and political rather than of meeting an internal need.

Created at the same time as a response to the abuses of capitalism in the nineteenth century both trade unions and co-operatives have had a parallel development in some sense. In Quebec and Emilia-Romagna this parallelism has lead both organizations to have some ideological similarities and sympathies. However, both have a different nature and way of working and sometimes trade unions perceive co-operatives as something not to promote.

3. Member Economic Participation: Co-operatives have higher rates of internal solidarity in remuneration and in most of the cases remuneration is over the average in both region and sector. Dividends increase this fact in a significant way, being in most of the cases what really makes total remuneration of worker-members higher than in other firms. Overtime and absenteeism seem to be strictly controlled and avoided in all the eight co-

operatives. This is a point where the workers' ownership makes a significant difference in comparison to shareholders-owned companies.

A remarkable difference between the co-operative movements is the role of the national contracts signed by trade unions as the element to regulate the salaries of co-operatives in Emilia-Romagna, and the internal norms to do so in Mondragon.

Finally the presence of indivisible common capital also makes a difference. This amount of money represents the union of members and their piece of capital contribution to the community. Indivisible capital roots the economic activity and members' lives to the community. This also makes a difference in comparison to other companies that may leave a community if the shares can increase their value somewhere else. This fact gains even more importance in such a dynamic economic context of delocalisation of investments where are living.

4.Autonomy and Independence: All the eight co-operatives studied show total certainness in being autonomous from both customers and financial institutions.

The fact of belonging to superstructures, especially in the case of Mondragon, seems to be in contradiction with autonomy, however, it strongly influences this feeling of independence due to the existing financial and technological support instruments to accomplish new investments. So, we can say that even though it seems paradoxical, autonomy as a reality, because today nobody is independent from the agents around, is higher for firms belonging to superstructure organization.

In this sense the reality of such principle is a matter of each place rather than each firm. Mondragon is formal co-operative structure that works in a systemic way, while co-operatives in Emilia-Romagna work much more in an informal and non-institutionalized

way and finally the two co-operatives in Quebec more even in a more informal and fragmented way.

Making of autonomy a dogmatic principle may lead the co-operative to isolation, which may be very dangerous since it may make the enterprise weaker and weaker.

5. Education, Training and Information: Education, training and information are perceived as important concepts. In some cases a minimum expense in training is determined by law. Professional training seems to be taken into account in all these co-operatives. Education in co-operative values is much more an issue of each member and its attitude, not something institutionalized, and actually such education could in most of the cases studied be much more detailed, it is in certain sense institutionally ignored. Finally general information about the co-operative is a key point, because it is strongly linked to the concept of democracy. Information and its interpretation is a matter of personal attitude rather than anything else, the co-operatives show concern to make information understandable and provide courses to do so, but the results, since they depend on each members' attitude, vary a lot from one member to another. In most of the cases white-collar members much more concern and active in interpreting and providing feedback than blue-collars.

It seems that co-operatives belonging to superstructures are more likely to be concerned about these three concepts. This concept is tightly linked to democracy as long as education and information are essential factors towards a real and vibrant democratic activity within an organization.

6. Co-operation Among Co-operatives: This principle is a matter of each place, of belonging or not to a certain superstructure organization. As a result the eight co-operatives show a very different attitude towards this principle.

From Mondragon where co-operatives share profit, technology, sectoral funds and transfer members, to Emilia-Romagna where co-operatives direct 3 % of profit to national funds and help co-operatives in crisis in a non-institutionalized, leaders' attitude-based and ad-hoc, and to Quebec where there is no any link of those and it is only the provincial co-operative council that determines a modest level of inter-co-operation, this principle is understood in very different ways.

The nature and idiosyncrasy of Mondragon as a private corporation makes a strong difference in this issue. This is why Mondragon is the most developed co-operative system among the three studied. It works as any other system, with all the parts interacting in order to get the mission of the whole. Co-operatives in other places do not have this kind of links and attachment to each other.

7. Concern for Community: This is a key principle for most of the cases. Co-operatives perceive their relation with the community as something special that remains in their essence and really makes them different from other firms. Most of them were born as a way to provide jobs to the community and job creation is always considered a measure of success and as part of their mission.

Reinvestment of profit in reserves is a common practise too. This fact is remarkable in Mondragon, where individual accounts are only available for members when they quit the co-operative, so they can be considered as common capital in the short-run, and

in Emilia-Romagna where reinvestment of profit reaches an outstanding level accompanied by benefits as no taxation.

Community activities are fairly supported by those co-operatives as part of their concern for improving their communities, and sometimes regional laws have even recognized this fact. The environment is not perceived as a crucial contribution to community, co-operatives try to get environmental certifications but their attitude is similar to any other firm in the region.

Finally another remarkable point is that even though in some cases the law accepts sharing ownership with capitalistic partners all the co-operatives prefer maintaining 100% of capital on worker-members' hands.

7.2.1. Summary of Findings from Social Concern Research (Eight Cases)

- The social concern shown by the eight co-operatives studied is evaluated as high. Even though such a broad concept leads each co-operative to a different way of expressing its concern and therefore to an asymmetric performance of each principle, the overall impact on society can be reported as quite remarkable.
- However, it can of course be improved. The weakest points are democracy, co-operative training, information/participation and in some cases co-operation among co-operatives.
- The place and the context where the co-operatives were formed and developed strongly influence their social concern.
- The general view of the eight cases shows a social concern qualitatively different to the general one in conventional firms, influenced by what is known as Corpo-

rate Social Responsibility, with particular concepts inherent to the co-operative nature as democratic membership, co-operation among co-operatives, and common capital or indivisible reserves.

7.3. Hypothesis: Conclusion Based on Findings

7.3.1. HYPOTHESIS ACCEPTED

"Social concern, represented by a real attachment to the seven co-operative principles of the International Co-operative Alliance, is not an impediment to get high economic performance, as measured by Kaplan and Norton's Balanced Scorecard concept, for worker's co-operatives dealing in global markets."

This research project is, based on all the empirical evidence from these eight worker's co-operatives shown in the third, fourth and fifth chapters, able to state that directing resources such as financial resources and human resources toward social objectives is not always an impediment to achieving high economic performance in global markets.

This research project is descriptive, so no causal relations between social concern and economic performance can be stated. An explicative study may in the future accomplish such task. The purpose of this study has been to prove the complementariness of both social and economic dimensions within a firm. This research does not seek to establish whether the relationship is positive, negative or neutral between those dimensions. This issue is developed in the next point.

7.3.2. THEORY BUILDING: EFFICIENCY AND SOCIAL CONCERN

My hypothesis is that we can demonstrate by empirical measures that some firms can be both socially responsible as well as be ranked among the most efficient firms in their sector and superior to most of their competitors with respect to economic efficiency.

Even if such firms have been identified there is still a challenge to address. That challenge is, with respect to such firms, how can we prove that their attention to social responsibility is not an impediment to their efficiency? This question is such a challenge because it reflects the belief that even if a firm is a leader economically, pursuit of social goals will divert resources thereby preventing even higher efficiency.

However, there are assumptions underlying this belief and they must first be articulated and only then can they be questioned. On the one hand there is the assumption of continuous improvement led by the Chicago School: They assume that efficiency is unbounded (that is, there is no upper limit) and that efficiency is continuous. Therefore a given change in resources directed towards efficiency no matter how small will lead to a positive change in efficiency.

However, this assumption can be challenged. This is after all a theory and for it to have full value it must be applied to real situations. When applying these ideas to practice it may be found that the resources directed towards increasing efficiency must be of a certain minimum dimension (say not less than $10,000) before they have any impact on efficiency. In such cases amounts less than $10,000 would have **no** impact on efficiency. In those cases, directing say $8,000 to social goals would **not** reduce potential efficiency of the firm. Here we are saying that in practice the relationship between resources spent and increased efficiency is *not* always continuous.

There are two other accompanying assumptions:

a. A strongly anti-social model, which says that resources directed towards social goals, will of necessity have "no" positive impact on efficiency (Chicago School), (implies resources directed to social goals have negative impact on efficiency because of the "opportunity cost"), Opportunity

cost is 100% of the change in economic efficiency that would have been achieved by directing the resources to efficiency.

b. A more moderate model, which says that resources directed towards social goals, will of necessity have "less" positive impact on efficiency when compared to what would have been achieved through their direct application to gain efficiency.

The real question now becomes, is the difference between these efficiencies significant? Testing the theory down to this level of refinement may be impossible (like the uncertainty principle) or at the very least it may have little or no value. That means that while it may be trivially true, it is not important, not a compelling reason for acting in a certain way.

There is a practical alternative measure. If we locate a firm that currently enjoys a position as a "top" competitor in its sector then its level of efficiency is "sufficient". And clearly, its pursuit of social goals has not *materially impaired*[1] its pursuit of economic efficiency. This is "our" meaning of efficiency, which is related to competitive ranking.

If a socially oriented firm, such as a co-operative, has a top competitive ranking within its sector then its competitors (who are not co-operatives) must be similar to it in efficiency. So we have a socially oriented firm devoting some of its resources towards social goals and it is as efficient as an economically oriented firm which devotes no re-

[1] Materiality (dictionary) = The relative importance, when measured against a standard of comparison, of any item included in or omitted from books of account or financial statements, or of any procedure or change in procedure that conceivably might affect such statements.

sources towards social goals. Then investments in social projects do not of necessity materially impair efficiency.

We could also propose a third possibility that may reflect the cases studied in this research project: Resources spent on social goals have in fact a greater return on efficiency. But the thesis offers no compelling evidence that this situation prevails.

7.3.1. THEORY BUILDING CONCLUSION

Our assumption is that resources spent on social goals *may even* have a higher return on efficiency than resources spent in direct application to gain efficiencies. The eight cases show enough empirical evidence to support such assumption. This assumption is in contradiction with assumptions 1 and 2, because assumptions 1 and 2 imply two statements:

A) Business is not about social motivation. People participating in the business process act regardless of any social motivation and they are not influenced at all by those resources (time and money) spent in such social goals. Therefore business is a lineal and predictable function.

B) Managing a firm is a simple action with low complexity, where labour as an input is conceived as isolated and independent, so it is not influenced by the human context around. Therefore, can be explained as a simple equation, where y = economic performance, can be revealed by certain variables x, where labor works as any other one in an independent way.

The main point is that excellence is not a lineal function. Investment in production factors such as facilities, labor or technology doesn't always imply a mechanical and pre-

dictable higher performance. This is unpredictable because any economic activity is not just about facts, values matter. Economic activity, as said before, is a matter of social interaction. Enterprises are organizations composed of human beings. Each human being is different, with different expectations and motivations. This fact breaks any mechanical function, and makes any economic activity to be link to the uncertainty of each of the individuals.

Another reflection is that in our conception of the firm, as an entity with social goals, such sufficiency exists, because the economic activity is understood as a means towards the social ends. This is an important difference in order to judge the efficiency as a means and not as an end. Co-operatives should never forget the value of efficiency as an indicator of how well the production process, starting from the research and development and going all over up to the customer satisfaction is being brought about and if excellence is being carried out. Financial indicators have a value as signs that nobody should ignore, even though they may not be ends in themselves.

In the base of such disagreement of the statements shown above, it is the certainty that management of businesses, more even in the context of continuous change world-wide economy is living in at present, is a very complex issue that cannot be explained under such simplistic arguments any more.

Complexity is a matter of understanding human beings not as a determined resource in the production process, but the main agent in undertaking such activity. As explained above, as a container of particular feelings, motivations and values each person is unique, unrepeatable and undetermined.

Today's economy of knowledge requires motivated brains rather than anything else. Success is about creativity and contribution of workers, rather than about capital or any

other resources. The co-operative firm offers membership, which implies both being owner and entrepreneur, as a main differential issue in comparison to conventional firms, that continue working under the classical dichotomy of capital and labor. This fact may have some strong importance repercussions in implementing any of the modern management models based on getting the best from the brains of the organization and the freedom of workers to create on their own.

The particular role of shareholders or owners in co-operatives, as they are also employees, changes also the classical orientation to subordinate all the other existing interests within a firm to increase the value of the shares. Being also employees besides owners directs instead the resources to increase the general well being of members, in a double dimension, as both employees and owners. The reason to start a co-operative is always providing jobs to members and to community, so increasing shareholders' value even it is important, cannot be considered as the main concern.

Human beings act according to values, values influence their facts, ethics has to do with how some people act in developing economic activity, because their ethics influence their motivation and behavior, this point is part of the more universal statement that ethics has to do with economics. Individuals have desires and capacities that lead them to make different efforts to develop them. Their values and their facts are interdependent.

7.3.2. CONCLUSIONS

- Analyzing each of the eight firms within this multiple case study through restricted lens, by focusing on a short period of time or a few specific aspects, may lead to think that they look like any other internationally competitive capitalistic

company. However, a complete overview represented by this methodology, and the historical development of each firm make significant differences in both the effect of the co-operative in the life of the worker and of the community around.

- The different nature of the co-operative studied is evident. These co-operatives were born from the need of workers in their regions. As said in the first chapter, co-operatives in their markets face exactly the same difficulties and constraints than any other competitor. This fact implies that co-operatives regardless of their different origin and legal nature have to fulfil exactly the same conditions than others, which means they have to offer high value to customers to a reasonable price. This fact has evident implications in the internal processes and the constraints to approach workers' labour conditions and relations with suppliers. This is why reductionism in looking just to this reality may hide the most important fact. These cooperatives conceive the classical concept of the bottom-line as a means rather than as an end, far from common shareholders-owned firms. This study has collected enough empirical evidence to ensure that these co-operatives are a clear deviation from the classical concept of the firm oriented to make profit, so that shareholders increase their value.
- For these co-operatives there are issues beyond making a profit, in itself is something essential for every economic agent in a free market system. The difference is where to allocate profit; how it is distributed and reinvested. Profit has to be instrumental never the ends in itself. In some sense it can be interpreted as when we do fire to warm us, cook or get light, we always do ash, because there is no fire without us, in the same way there is no business without profit, even though profit is not the ends of the activity. On the other hand financial indicators, are also

meaningful indicators of efficiency, which is a common matter for every firm in the market, saying how excellent the firm is providing value to customers.

- The strongest conclusion you can draw from the eight cases is that firms pursuing cooperative principles can compete effectively in competitive sectors. Therefore any resources directed towards these social ends have not materially impaired their ability to compete effectively. In some cases their competition is from firms that are not pursuing social goals. Again, this underscores the lack of a material difference in competitiveness.

7.4. Further Research

7.4.1. DELETING TRADE-OFF MENTALITY

- Historically co-operatives in general have been strongly influenced by the general idea of assuming a trade-off, negative correlation, between social concern and economic efficiency. This is the source of several degenerations that have lead co-operatives to imitate exactly capitalistic firms' management practises creating in some cases a crisis of identity. However, paradoxically time has shown that capitalistic firms have claimed the value of concepts such as workers' participation in the decision-making process that are inherent to co-operatives by nature.
- The main difference between capitalistic firms and co-operatives is that while the former are regulated by relationship among equals, the basis of the free market, the latter are regulated by mutual relationship. The postindustrial society, differ-

ently to the industrial one, has discovered the need of relational goods and services. This is the point where co-operatives can make a great contribution in building a civil relational economy.

- In relational good and services, personal interaction is a key point in the exchange between the provider and the recipient, and indeed can only be excellent if both work together.
- On the other hand it is essential to remember that not all the economic activities are relational, in several of those where economics of scale and intensive capital investments are key points the relational value of co-operatives means almost nothing, and capitalistic firms will continue having a comparative advantage. But in areas where personal relations are essential it is the opposite, because co-operatives provide in some cases what the post-industrial society requires: the capacity to exist in the markets at high rates of efficiency and be able to generate ethical values without which the market economy cannot exist.
- Both kinds of firms have to exist; it is not a matter of transforming all the firms in co-operatives at all. Diversity is always a source of enrichment, and indeed co-operatives will never be able to develop economic activity in certain restrictive sectors due to the intensive capital requirements. This point leads us to a classical weakness of co-operatives: difficulties in financing investments.
- Even though under investment is actually a great problem for most of the co-operatives in the world several experiences carried out by some of them show that it can be overcome. Different financial instruments, as the ones described in the chapters three, four or five have proved to be useful. Using instruments from what

is known capital markets is always a controversy issue for co-operatives, however, dogmatic points of view should not jeopardize taking advantage of means to improving economic performance through which be able to walk towards social goals.

- At present worldwide economy is global and is defined as knowledge based. The worker of knowledge is the center of the modern management models. As owner of the main asset for any firm today; the brain, his or her creativity and bright ideas, is more likely to flourish from people satisfied in global terms, especially by non-pecuniary elements of reward, which in theory seems to be one of the forces of co-operatives. Such contribution is widely accepted as the key point to get sustainable competitive advantages at current markets; therefore co-operatives should not ignore such strength and work in designing a management model where to reflect all these advantages.
- Today the dominant firm is the capitalistic firm because capital is something that can be shared. If you are risk adverted you can decrease risk by dividing your capital in different firms, not to put all the eggs in the same basket. Capital can be shared, divided, fractioned, but labor cannot. There is a fundamental asymmetry among both. Most of the people are risk adverted, they prefer to fraction their capital in different firms, not being members of a co-op, but they do not care about working all the time for the same firm.

7.4.2. A NEW CO-OPERATIVE PARADIGM

- Today a new co-operative paradigm is necessary to face the complexity times of the twenty-first century. Concepts like democracy have to be much more mean-

ingful than they are today in many co-operatives. The impact of the co-operative in the member and in its community, what makes a co-operative different, has to be bigger. A strong co-operative identity has to necessarily lead to a competitive advantage. Today many co-operatives are within an identity crisis. However, the main advantage will come from within. Historically an external factor, economic need, has lead to the growth of co-operatives, such severe economic need does not exist in many places in western countries anymore, today an internal factor, identity has to do so. A strong identification with the co-operative has to flourish in revitalizing the decision-making process.

- Any competitive advantage in co-operatives (financial, consumers, worker's and so on) has to come up from a process starting from the need that brought the member to chose such service (credit, goods, job, housing, education…) and through different stages link them to needs as a citizen/human being (community needs, democracy, environment…). Nobody becomes a member of a co-operative to meet his or her needs as a citizen, but the late goal of a co-operative has to be evolving through different stages to satisfy citizens' needs.
- To reach this objective the seven principles of the ICA are necessary but not sufficient. Co-operatives have to go beyond that point, principles are guidelines, and the key challenge is to locate practices designed from the seven principles at the core of their management and strategy.
- Co-operatives, as any other firm acting in the free market economy have to be competitive and profitable in order to be able to survive in the long run, so as any other firm working in the free market economy and facing same difficulties,

should pay attention to the new management tools, to achieve business excellence but adapting them to the co-operative essence.

- Finally, the intense socio-economic duality in co-operatives is not an impediment to success in business, and may be a remarkable and useful strength that may lead co-operatives to sustainable competitive advantages. This is the real challenge of the co-operative movement all around the world to be able to successfully face the globalization of the economy we are living in.

7.4.3. BLENDED SCORECARD

- This concept refers to a hypothetical new scorecard created from combining the two standing scorecards at the methodology of this research project. Integrating social indicators related to daily practices, as any other process, within the rationality cause-effect of the Balanced Scorecard is the goal of such tool. Further research is to be done in coordination between researchers and managers in co-operatives. The former will necessarily have to show concern for existing market requirements in order to gain the trust of the latter. Eventually such collaboration may bring evident benefit for the firm since the social indicators from the co-operative principles, due to their uniqueness, may be a remarkable source of competitive advantage for co-operatives.
- We think integrating social indicators in this causality logic is an ambitious challenge. Consequently linking their performance to economic indicators will make to recognise their value in economic terms. This challenge will lead co-operatives to a sustainable competitive advantage inherent to their co-operative nature. Suc-

cess in facing this challenge will strengthen the position of co-operatives in those times of globalization and increasing competition.

7.4.4. REGIONAL DEVELOPMENT

- This thesis shows three co-operative experiences that have caused remarkable local development in their regions. The organizational social-economic technology standing on each of them show ways of how human and economic resources can be structured to serve the local community. Simply duplicating them may bring any other experience to failure, because each region has some inherent particularities that must be taken into account. Therefore it is a matter of adopting and adapting principles, structures and techniques to each region to make local initiatives more efficient.
- These three regions have some common features. One seems to be the high rate of social capital. The evident value of the social capital in the present knowledge economy flourishes the need to do more research on the nature and development of social capital around communities.

APPENDIX

"… instead of attaching to an idealistic vision of the past and of criticizing the abuses of the capitalism from a point of view of values, as priests and nationalists often did, he [Alphonse Desjardins] proposed to use the tools of the adversary: the economic organization" (Poulin, 1990, p. 101).

"Romagnoli [citizens of Romagna] we are pragmatic in facts, and utopic in sayings, but we are more to do than to speak" (Benito Benati, personal communication).

Measurement Methodologies

SOURCES OF INFORMATION:

- 2 Audits:
  - Information on L&G, Internal Business Process, Customer and Financial ⇒ General Manager.
  - Information on the co-operative principles ⇒ President of the General Board.

- 5 Interviews: Information on the co-operative principles ⇒ experienced blue-collar and white-collar members.
- Estimated time: 2 audits x 90 min. = 180 min.; 5 interviews x 10 min. = 50 min.) (Total = 4 hours) (depending on the schedule of the staff of each firm).

A) ISO METHODOLOGY
   - ✓ There are two sources of evidence:
     - o Auditing, check different official documents (the more documents the higher credibility) (more or less 80%)

B) Verbal documents signed by the director of the firm (more or less 10%)

PERRON	CID	EXIGENCE
0	1	***Existence of the information***: Information exists, check official documents (if the firm does not relate the two data that make a ratio, the firm does not get even the first level in this certain ratio).
1	2	***Access to the information***: Check if the general board has access to such information: acta, livre de minute, livre de "process verbaux".
2	3	***Analysis of the information and influence in the decision making***: Check if the information has lead to any discussion.
3	4	***Putting those decisions in practice***: Livre, auditors believe what the director says.

FINANCIAL INDICATORS: Choose the industry code from the SIC categories according to Dun & Bradstreet, compare the chosen financial ratios of the firm (highlighted) to the ones provided by D&B.

C) TIME SERIES

- ✓ Comparison to know the real trend that the firm has had in each of the indicators from 1998 to 2003.
- ✓ A positive trend gets a positive point and a negative one gets a negative point.
- ✓ The balance out of the 25 indicators in each scorecard will make a relation between both social and economic performances.

ECONOMIC SCORECARD

<table>
<tr><td>ALL-ENGLISH
(K & N, 48) STRATEGY</td><td>(K & N, 42,142)
LEARNING AND GROWTH</td><td colspan="2">(K & N, 106)
INTERNAL BUSINESS PROCESSES</td><td colspan="2">(K & N, 80)
CUSTOMER</td><td colspan="3">(K & N, 59)
FINANCIAL</td></tr>
<tr><td rowspan="2">HIGHER
SALES (S)</td><td rowspan="2">Employee Satisfaction (ES)</td><td colspan="2">On-time delivery (T)</td><td rowspan="2">Customer retention (%) (R)</td><td rowspan="2">New customer acquisition (%)(I)</td><td rowspan="3">Sales to Net Working Capital (91-92) (75) (E)</td><td rowspan="4">Current Ratio (91-92) (75) (S)</td><td rowspan="4">EVA (P) Assets to Sales</td></tr>
<tr><td colspan="2">Time from the call to the solution of the problem of the customer (T)</td></tr>
<tr><td rowspan="2">HIGHER TURNOVER OF ASSETS (A)</td><td>Employee Productivity (EP)</td><td colspan="2">Manufacturing Cycle Effectiveness (MCE) (P)</td><td rowspan="2">Sales growth per segment (%) (I)</td><td rowspan="2">Market Share in targeted segments (%) (MS)</td></tr>
<tr><td>Investment over Sales (S)</td><td colspan="2">Yield (P)</td><td>ROA (91-92) (P)

ROE (91-</td></tr>
<tr><td>HIGHER OPERATING MARGINS (M)</td><td>BET (P)</td><td>Returns (Q)</td><td>Cost of repairs (C)</td><td colspan="2">Customer profitability (return on sales) (91-92) (75) (P)</td></tr>
</table>

LOWER OPERATING EXPENSES (E)	Employee Turnover (ER)	Rates of cost reduction (due to improvement in processes) (C)	Defect rate (Q)	Customer Satisfaction (complaints) (S)	**92) (75) (P)**	**Total Liabilities to Net Worth (91-92) (75) (S)**	**(E)**

SOCIAL SCORECARD

	%	IND	A	B	C	D	E
1. VOLUNTARY AND OPEN MEMBERSHIP	15%	4	Relative facility of membership	Percentage of work that is co-operative	Membership growth	Ease of redemption of share-capital	**X**
2. DEMOCRATIC MEMBER CONTROL	20%	5	Member participation in discussion	Turnover of board membership	Percentage of members who volunteer for committees	Percentage of hours for committee work	(206) Percentage of board for blue-collar workers
3. MEMBER ECONOMIC PARTICIPATION	15%	4	Salary ratio highest to lowest	Rate of absenteeism and rate of overtime	Wage parity with other firms (by sector or region)	Percentage of social equity	**X**
4. AUTONOMY AND INDEPENDENCE	10%	2	Percentage of sales to top three customers	Degree of independence from lending institutions, % of borrowings	**X**	**X**	X
5. EDUCATION, TRAINING AND INFORMATION	10%	2	Percentage of profit for education	Ratio, investment in education in blue-collar jobs / investment in education in total jobs	**X**	**X**	**X**
6. CO-OPERATION	10%	3	Profit-sharing be-	Interco-operative	Interco-operative		

AMONG CO-OPERATIVES			tween firms	shared funds	job transfers	**X**	**X**
7. CONCERN FOR COMMUNITY	20%	5	Annual job growth	Profit to company equity (not to shareholders)	Percentage of profit to commu-nity-projects	Investment in en-vironment	Percentage of capital belonging to employees

QUESTIONNAIRE C0-0PERATIVE PRINCIPLES

NAME: JOB:
DAY: PLACE:

INTRODUCTION OF THE PHD. THESIS

1. VOLUNTARY AND OPEN MEMBERSHIP

- Do you think your co-op is opened?

2. DEMOCRATIC MEMBER CONTROL

- Do you think your co-op is democratic?

3. MEMBER ECONOMIC PARTICIPATION

- Do you think your economic participation in your co-op is worthy?

4. AUTONOMY AND INDEPENDENCE

- Do you think your co-op is autonomous?

5. EDUCATION, TRAINING AND INFORMATION

- Do you think your co-op is concerned about this principle?

6. CO-OPERATION AMONG CO-OPERATIVES

- Do you think your co-op is concerned about interco-operation?

7. CONCERN FOR COMMUNITY

- Do you think your co-op is concerned for community?

QUESTIONNAIRE ABOUT THE C0-0PERATIVE MOVEMENT

CONTAINING THE QUESTIONS MADE INDIVIDUALLY TO THE FOLLOWING PEOPLE INDIVIDUALLY DURING 2 HOURS EACH:

1. HISTORICAL - CHRONOLOGICAL OVERVIEW OF THE CO-OPERATIVE MOVEMENT IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

2. MOST IMPORTANT FACTS IN HISTORY; CIRCUMSTANCES, REASONS TO EXPLAIN THE DEVELOPMENT IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

3. MOST IMPORTANT INDIVIDUALS INVOLVED IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

4. MOST IMPORTANT SUPPORT ORGANIZATIONS, NETWORKS IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

5. RELATIONS BETWEEN THE STATE AND CO-OPERATIVES IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

6. NEEDS TO MEET BY CO-OPERATIVES IN SOCIETY IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

7. PRESENT SITUATION OF THE CO-OPERATIVE MOVEMENT IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

8. FUTURE CHALLENGES OF THE CO-OPERATIVE MOVEMENT IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

9. DIFUSION OF THE CO-OPERATIVE CONCEPT, LEGAL STATUS IN QUEBEC/EMILIA-ROMAGNA/MONDRAGON

10. ANY OTHER IDEAS

INTERVIEWS - QUEBEC

#	NAME	FIRM	JOB	PLACE	DATE
1	Laval Doucet	Universite Laval	Professor	Sainte-Foy	February 2nd 2004
2	Michel Clement	Direction des Coopera-tives	Coordonnateur Secteur developpement	Old Quebec	March 2nd 2004
3	Claude Carbonneau	Investissement Quebec	Vice-president Cooperatives et autres entreprises d'economie sociale	Sainte-Foy	March 2nd 2004
4	Alain Bouchard	Federation des coope-ratives d'alimentation du Quebec	Secretaire	Universite Laval	March 3rd 2004
5	Donald Mercier	Promutuel	Vice-President Assurance	Sillery	March 5th 2004
6	Josee Garneau	Promutuel	Conseillere en relations publiques	Sillery	March 5th 2004
7	Andre Mercier	Direction des Coopera-tives	Conseillere en developpement coo-perative	Old Quebec	March 8th 2004
8	Jacqueline Mondy	Desjardins	Presidente Conseil des representants de Chau-diere-Appalaches et Kamouraska	Sillery	March 8th 2004
9	Andre Jalbert	Federation des Coope-ratives Developpement Regional du Quebec	Directeur General	Sainte-Foy	March 11th 2004
10	Alain Bridault	ORION	President	Sillery	March 18th 2004
11	Gervais Nadeau	Conseil de la Coopera-tion du Quebec	Directeur des communications	Levis	March 23rd 2004
12	Paul-Christian Nolin	Chambre de commerce du Quebec	Attache de direction aux communi-cations et au partenariat internatio-nal	Quebec	March 26th 2004
13	Daniel Côté	HEC	Professor Centre d'etudes en gestion des coo-	Montreal	March 30th 2004

			peratives, Ecole des Hautes Etudes Commerciales		
14	Pierre Poulin	Desjardins	Historien Societe historique Alphonse-Desjardins	Levis	March 31st 2004
15	Benoit Caron	CDRQA	Directeur General	Ste-Foy	April 6th 2004
16	Luc Labelle	Independent	Co-operative Consultant	Montreal	April 21st 2004
17	Klaus Fischer	Universite Laval	Professor – Faculty of Business	Ste-Foy	April 22nd 2004
18	Yvan Comeau	Universite Laval	Professor – Faculty of Social Sciences	Ste-Foy	April 22nd 2004
19	Gerard Perron	Independent	Co-operative Consultant	Ste-Foy	April 23rd 2004

INTERVIEWS - EMILIA-ROMAGNA

#	NAME	FIRM	JOB	PLACE	DATE
1	Enrico Pinamonti	Confcooperative Bologna	Legal services	Bologna	04-08-04
2	Ivan Soncini	Consorzio Cooperative di Produzione e Lavoro (CCPL)	General Manager	Reggio Emilia	09-08-04
3	Antonio Finelli	Legacoop Emilia-Romagna	Regional Director Industrial Co-operatives	Bologna	26-08-04
4	Giuseppe Zuffla	Confcooperative Imola	President	Imola	03-09-04
5	Benito Benati	SACMI, Worker Co-operative	Former CEO	Imola	03-09-04
6	Mauro Casadio Farolfi	Duerre Adv	Social Balance Auditor	Imola	03-09-04
7	Stefano Sacconi	Luzzatti Center for Co-operative Studies	Researcher	Rome	06-09-04
8	Gianna Perra	Confcooperative National	International Relations	Rome	10-09-04
9	Tamara De Filipis	Confcooperative National	Legal services	Rome	10-09-04
10	Gilberto Crialesi	Confcooperative National	Financial Director	Rome	10-09-04
11	Fausto Pasqualitti	Confcooperative National	Plannification	Rome	10-09-04
12	Alberto Rinaldi	University of Modena	Professor – Faculty of Economics	Modena	13-09-04
13	Patrizia Battilani	University of Bologna in Rimini	Professor – Faculty of Economics	Bologna	20-09-04
14	Stefano Zamagni	University of Bologna	Professor – Faculty of Economics	Bologna	20-09-04
15	Vera Negri Zamagni	University of Bologna	Professor – Faculty of Economics	Bologna	21-09-04
16	Marcello Comellini	Legacoop Emilia-Romagna	External Relations	Bologna	23-09-04

INTERVIEWS - MONDRAGON

#	NAME	FIRM	JOB	PLACE	DATE
1	José María Ormaetxea	Founder of MCC	Retired	Aretxabaleta	02-10-01
2	Tomás Jauregi	Goizper S. Coop.	President	Antzuola	18-10-01
3	Alfredo Ispizua	Basque Government	Director of Social Economy	Vitoria-Gasteiz	19-10-01
4	Javier Astigarraga	Chocolates Zahor S.A.	Director of Export	Oñati	22-10-01
5	Josu Urkia	Fagor Ederlan S. Coop (MCC)	Member of the General Board	Eskoriatza	25-10-01
6	Santi Lizarraga	Fagor Industrial (MCC)	Blue Collar Member	Oñati	26-10-01
7	María Jesús Zabaleta	Mapsa S. Coop. (MCC)	Financial Director	Orkoien	29-10-01
8	Iñaki Barrena	Mekalki S.Coop.	Blue Collar Member	Oñati	30-10-01
9	José María Aldekoa	MCC	Vice-President of the Automotive Division	Mondragon	12-11-01
10	Rafael Leturia	Lealde S.Coop. (MCC)	General Director	Ispaster	15-11-01
11	Javier Ansoategui	MCC	Strategic Planification	Mondragon	21-11-01
12	Francisco Etxaniz	ULMA S. Coop. Group.	Director of Human Resources	Oñati	22-11-01
13	Iñaki Larrañaga	MCC	Director of Innovation	Mondragon	02-09-03
14	José Luís Lafuente	MCC	Director of the Management Model	Mondragon	02-09-03
15	Mikel Izaguirre	MCC	Director of Social Management	Mondragon	03-09-03
16	Manuel Quevedo	Founder of Ikerlan (MCC)	Retired	Donostia-San Sebastián	15-09-03
17	Marta Areizaga	Eroski S. Coop. Group (MCC)	Director of Social Responsibility	Elorrio	18-09-03
18	Paco Azpiazu	MCC	Director of Managing Common Resources	Mondragon	12-05-04
19	José Luís Lafuente	MCC	Director of the Management Model	Mondragon	21-05-04
20	Miguel Angel Irizar	Orkli S.Coop. (MCC)	Director of Management Systems	Oñati	25-05-04
21	Jesús María Herrasti	MCC Internacional S.A.	President	Mondragón	26-05-04
22	José Luís Madinagoitia	ULMA S. Coop. Group (MCC)	President	Oñati	28-05-04
23	Elena Gabilondo	Mondragon Assembly	Director Strategic Planification	Aretxabaleta	31-05-04

		S.Coop. (MCC)			
24	Juan Jesús Anduaga	Irizar S. Coop. (MCC)	President	Ormaiztegi	02-06-04

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