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THIS ISSUE:

THE CO-OPERATIVE DIFFERENCE

MORAL AND ETHICAL PERSPECTIVES ON LEADERSHIP

MANAGING MEMBER HETEROGENEITY IN AGRICULTURAL CO-OPERATIVES

DYNAMICS AND TENSIONS IN CO-OPERATIVE GOVERNANCE

SOCIAL RESPONSIBILITY IN CO-OPERATIVES

CREDIT AND CO-OPERATIVE DEVELOPMENT IN RURAL IRAQ. A HISTORICAL ANALYSIS

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The Co-operative Difference: economic, organizational and policy issues

Andrea Bernardi

Abstract

The paper poses the question what is different about co-operatives and is co-operative action still relevant today? Why should policymakers pursue it in development strategies? In what way are co-operatives different in terms of economic theory and organisation theory? And if there are differences in organisation, human resource management practices, property rights and forms of collective action, what are the governance issues to be addressed so as to allow co-operatives to operate and grow correctly? The article proposes a reflection both on research opportunities and on the management challenges of co-operatives with particular emphasis on co-operative relationships and organizational lifecycle issues.

Key words

Co-operatives, Collective action, Lifecycle

Introduction

This paper was written against the background of animated discussion in Italy on the role of co-operation. A large, traditional insurance company controlled by numerous co-operative firms attempted a stock-market takeover of a major Italian bank with the aim of creating a co-operative banking and insurance corporation. The takeover bid failed because of opposition on the part of Italy's central bank and scandals involving the top management of the insurance company, which is controlled by the co-operative movement connected with the Lega delle Co-operative.

The birth of a co-operative enterprise is characterized by the primacy accorded to collaborative association between people, be they consumers, users or entrepreneurs. The motivation, involvement and participation¹, of workers have become very modern priorities in our post-fordist economy for most leading multinationals as well as smaller enterprises (Noe et al. 2006).

In the present-day West European societies, characterized by mature democracy and the disappearance of ideologies and mass movements, the capacity for association among individuals has become

a precious asset to be protected and cultivated, above all in areas that have not ever known intense and constant social mobilisation and have always suffered from a shortage of social capital (Bourdieu 1980, Coleman 1990, Fukuyama 1995, Putnam 1993).²

Co-operatives in our economies

Flexible specialization is the most successful organisational model in the new "industrial paradigm" (Sabel 1984) characterized by transition from the standardised mass production of similar goods by means of specific and non-flexible machines to non-standardised production where organisation performs the task of adapting flexible plant to uncertain markets. The winning formula in this new paradigm is no longer the large-scale integrated company but the small firm capable of working with its neighbours to develop technical and human organisational capacity enabling it to adapt to market fluctuations and changes in the tastes and needs of consumers. The model that has emerged is based on growing integration, co-operation and competition between enterprises that belong to the same network.

The traditional industrial paradigm prompting the pursuit of concentration and economies of scale is giving way – or at least according equal importance – to the model of networks, flexibility, the "soft" integration of districts, alliances, consortiums, and flexible forms of shareholding. The form of co-ordination developed within the network has no hierarchical rules and is not based solely on price mechanisms. In other words, we are outside Williamson's market/hierarchy dichotomy (Williamson 1981) and inside a flow of vertical (two-way), horizontal (equal) and lateral (decentralized) relations (Ouchi 1980).

The co-operative firm must find, and indeed has found, its own role in this scenario, one that can be brilliant and crucial in the intricately flexible and competitive relations between enterprises. It should, however, be pointed out immediately that the co-operative form of co-ordination of economic activities, occupying an intermediate position in the hierarchy-market continuum, is intrinsically difficult to achieve (Seravalli, Arrighetti and Wolleb 2001). It is the delicate result of balance that supports bottom-up collective

action between people and firms. Such balance is difficult to establish and maintain in a world increasingly dependent and based on information that is witnessing the ever more frequent failure of the other two pure forms of co-ordination, namely hierarchy and the market (consider Stiglitz's works on the consequences of the structural and pervasive lack of information, Stiglitz 1975). Given this awareness, economic theory has moved well beyond the bipolar hierarchy-market model and adopted an intermediate formula of transaction regulation, namely the clan or the collective (Barney and Ouchi 1985, Williamson 1986). This intermediate form, which is actually the oldest (Douglas 1986), remains the most difficult to establish in everyday practice. Thus it is no coincidence that hierarchy and market are the solutions most widely adopted. Though difficult to establish, it is, however, necessary and competitive once put in motion. Some anthropologists who have traced back the ancient roots of co-operation claim that bottom-up collective action is practically bound to disappear in open or large-scale communities (Douglas 1986, Levi-Strauss 1973). Consider the forms of collective or communitarian work that were so widespread not only in all the pre-Columbian communities but also in Asia.

It is by no means irrelevant in this schematic overview to point out that in Europe the pure protagonists of the other bipolar model, i.e. state and market, are also proving more and more frequently incapable of meeting the demands made on them by the communities. Here too, as we shall see, there is an explosion of the bipartite model to make way for an intermediate figure, namely the third sector. In short, authentic co-operation could suddenly find itself modern, necessary, equipped to tackle the challenges of our day, and in some cases a step ahead of the traditional companies, which have always regarded it with suspicion and attitude of superiority.

If this is true, co-operatives have something to offer workers, markets, and the communities on which they focus. This paper will examine how government and local authorities can help to harness these energies and this ancient modernity.

Between state and market

Nearly all the European countries went through a cycle of massive state intervention in the economy and a phase of privatisation and liberalisation between 1945 and 2005. After the most important experience of state control in West Europe in the post-war years, the Italian economy in particular has been involved in an intense

process of privatisation and liberalisation since the 1990s (with marked deceleration in the early years of this century). Privatisation has been carried out in Italy with determination, even though the ownership structures deriving from the sale of former state-owned concerns have not always guaranteed correct transition to a market culture. Not always courageous and not always accompanied by adequate action on the part of the authorities responsible for control and regulation, liberalisation has produced no results. In other words, many of the markets involved in privatisation and liberalisation have not become competitive, many former state-owned concerns have not become contestable, many of the economic agents that have taken over from the state in the control of utilities, banks and industrial concerns have shown no desire or ability to operate with an adequate entrepreneurial market culture.

Italian citizens have seen a slow but constant decline in the services provided by the welfare state since the 1990s. The retreat of the state with respect to certain demands expressed by citizens, has given rise of a new private-sector entrepreneurial class with much the same oligopolistic tendencies and no greater concern for the customers and users of regulated markets. The internal political instability caused by the crisis of the "First Republic", and demographic changes have unquestionably been additional major factors of stress for Italian society.

A still more important and often crucial role for social stability and economic plurality (Spear 2000) has been assumed in this context by intermediaries between state and market, individual and society, enterprise and citizen. The phenomenon appears to be common to most of the European continent but particularly intense in Italy, which underwent a radical political crisis in the 1990s that has yet to find resolution in a mature bipolar system. The demographic figures (OECD 2004) show marked aging of the population accompanied by the perception of reduced security and stability. In economic and institutional terms, we can see an industrial crisis due primarily to productive specialisation accompanied by historical inefficiency in the public sector.

Let us consider the rapid growth of associative participation and voluntary service, the new leading role of co-operatives, the debate on the civil economy and the social responsibility of firms, and the growing interest in non-profit concerns and the third sector. This world – both associative and entrepreneurial, both for-profit and non-profit – constitutes not only a buffer between the two other major components of the

western societies and economies but also in many cases a necessary contribution to the correct functioning of a plural, efficient, competitive market with respect for the consumer, the user and the citizen. It is, however, no easy matter to explain and defend the importance of these organisational forms in a world that is so uninterested in economic pluralism and practically convinced that we have indeed arrived at the “end of history” (Fukuyama 1992), at least on the economic front. History has not, however, come to an end, at least in the sense that there are different forms of market economy (Albert 1991) and different forms of company and company ownership as well as very different ways of running a firm in a market economy.

Co-operative identity and role

The internal and external debate on co-operative values and identity has in any case regained present-day relevance and intensity. The question arises of whether there are qualitative or quantitative limitations to be placed on the operations of co-operatives to ensure protection of their identity. Co-operatives can hold shares in companies, including those quoted on the stock exchange. Even though there are few who believe that co-operatives should remain small and residual, there is discussion in Italy today about the need for limits to ensure that such shares are held with a view to the best possible pursuit of the co-operative’s mutualist objectives.³ While we believe it important for the plurality (Hansmann 1996) of the Italian economy⁴ that co-operatives should be able to operate in all sectors and all markets, it is equally important that this should take place in accordance with the identity of the co-operative movement and its primary values, such as mutualism and democracy (Olsen 2002). The lack of homogeneity in the characteristics of the firms operating in a market increases the capacity to meet the needs expressed in that market .

“There is a place in a modern mixed market economy for a model of business that is driven by the needs of the people who use its services rather than those who invest their capital in it. Indeed such forms assist the efficient and sustainable functioning of markets.” (Commission of the European Communities, 2001).

Regardless of the economic and social sector of action, we believe on the whole that co-operation of the first, second and third degree can be seen as a tool or logic of corporate integration. There is a need for integration both at the national level (in a country like Italy, suffering from industrial dwarfism and now discovering to its cost that small is beautiful but not

sufficient) and at the European level, where it is becoming essential in an ever-increasing number of industrial sectors to attain the supranational critical mass needed to operate on the global markets.

Co-operatives must make integration at group and sector level their watchword. They must experiment with processes of internationalisation and strengthen their international partnerships: not only a presence on foreign markets but also integration with other co-operative concerns. Interest attaches in this connection to a number of developments in Europe, e.g. the integration achieved between Danish and Swedish co-operatives. There are, however, also more streamlined forms of collaboration. For example, co-operatives from different countries can set up joint enterprises to market their products. Given the territorial nature of the co-operatives participating and the international dimension of the strategy adopted, cases of this type have been described as instances of authentic “glocalism”.

We are convinced that co-operatives can demonstrate that it is possible to “square the circle” (Dahrendorf 1996), combining competitiveness and innovation, territorial roots and social and environmental sustainability. Co-operatives should accept this challenge and blaze an exemplary trail for other economic concerns. While co-operatives can certainly make a contribution, the regulating authorities must be fully convinced and aware that co-operation is a delicate plant that grows spontaneously but is not an aggressive weed. The spontaneity of co-operatives stems from the innate human tendency to work together. In the works produced immediately after his famous treatise on competition in the animal world, Darwin himself took pains to point out (not least in order to counter the apocryphal readings that have continued up to our day) that human evolution, unlike its animal counterpart, is based on co-operation, altruism and love rather than competition, selection and struggle (Pievani 2006). Moreover, this collaboration is not only typical of poor or struggling economies and communities. The co-operative lends itself to human collaboration in the satisfaction of both basic and higher needs. The co-operative serves to set up a store in poor, isolated village, to organise free and secure work, and to fight unemployment or exploitation but also to offer work with greater fulfilment and autonomy, to foster the spread of socially and environmentally sustainable foodstuffs, or indeed to buy and run an otherwise inaccessible sailing boat. In short, co-operation is a tool serving to overcome difficulties and the state of necessity or simply to meet higher demands in the pursuit of

goods or values that society is not otherwise in a position to supply.

Co-operative action and process

Though spontaneous and innate in human beings, as pointed out above, this form of organisation is also rare, not least because the co-operative formula requires specific ingredients that are not always readily available everywhere. Co-operatives are organised in a different way, for example, given that participation and democracy have organisational consequences (Davis 2004). The participation of co-operative members and workers rests on different motivations from those operating in traditional firms. Some have spoken of “ideological workers” (Ackerman 1986) and some of “ideological organisations” (Mintzberg 1996). The role of the trade union and the functioning of industrial relations are also different. With respect to the tripolar model of market, hierarchy and clan (Barney and Ouchi 1986), it seems possible to suggest that the transactions of co-operatives and their members are potentially subject in some cases to considerations not only of price but also of hierarchy and trust. With reference to Hirschman (1970), it seems possible to state that the weapons of exit, voice and loyalty are sometimes simultaneously available to co-operatives and their members. While having three weapons in one’s hand may prove very useful in some cases, however, it can also prevent reaction in others. In any case, co-operative behaviours are the result of equilibrium in situations of heterogeneity as regards aims, conduct, and the agents themselves (Spear 2004).

As shown by Axelrod (1984, 1981), co-operative interaction is rare but possible and potentially stable, above all in a medium-term evolutionary and iterative perspective. The actors can learn to co-operate from the experience of previous interaction, they can be induced to do so through sunk investment, or they can be institutionally directed toward co-operation. In short, bottom-up collective co-operative action is more complex. This complexity must be handled and supported to ensure that it takes shape from strength rather than weakness. Co-operative firms are non-capitalist enterprises in that the ownership rights are not transferable.⁵ A co-operative is created in order to provide a service for its members and to do so with a democratic and transparent form of management based on participation. It is created in order to foster entrepreneurship in accordance with the territorial nature of the enterprise and the freedom of entry and exit for members. Co-operatives are enterprises controlled by members (workers, consumers,

producers or associated entrepreneurs).

As Zamagni (2001) points out, the primary objective of the co-operative is “not the maximization of profit, as it is for the capitalist enterprise, but maximization of the social dividend defined as the difference between revenues and costs (but not including labour costs) divided by the number of members. This means that while in the capital-based enterprise profit is a residue that ends up in the hands of the owners and wages are a constraint, the exact opposite is true in the co-operative firm, where the remuneration of the holders of the capital is a constraint and the social dividend a residue.” Actually every economic explanation of the co-operative difference is not valid for every type of co-operative. This last one, as an example, is valid only for worker co-operative.

Co-operatives and the policy maker

Co-operative firms are, however, enterprises integrated perfectly into the mechanisms and culture of the market economy, and it is precisely in the world’s most advanced market economies that they now account for a larger (and often growing) proportion of national income. It is precisely in these economic contexts that co-operatives often help to counter the effects of market failures. Company control is based on individuals and not on capital (per capita voting). These individuals, i.e. the members, forgo the use of their property rights because it is impossible for those leaving the co-operative to obtain the increase in value of economic capital incorporated in their share of the firm. In return for this sacrifice, legislation in many countries offers the benefit of tax exemption on a proportion of the profits; to the extent that members (owners) and customers (users) are the same persons, no profits can be derived in order to be taxed. The tax exemption of profits channelled into an indivisible reserve (as in the fiscal policy of Italy and other countries) can, however, also be seen in actual fact as no more than an incentive to company capitalization (Similar laws encouraging co-operative capitalization also exist in certain countries for non-co-operative firms).

For this reason, there is nothing extraordinary about the present system capable of damaging the functioning of the market. On the one hand, entrepreneurs taking a critical view of the advantages enjoyed by co-operatives can convert their firms into co-operatives whenever they choose. On the other, tax schemes to encourage capitalization have always existed and will continue to do so also for traditional firms. Moreover, all economists, politicians and leaders

of entrepreneurial organisations with a knowledge of the demographic statistics for Italian firms⁶ should take great interest in the ability of co-operatives to be inter-generational and, in exemplary cases, oriented toward capitalization. The figures for the last 15 years clearly indicate a strong tendency toward growth on the part of Italian co-operatives, unlike the average Italian firm.

Moreover, current Italian legislation requires co-operatives to allocate 3% of their profits for social purposes, which is usually done through the national mutualist funds for training and promotion in the co-operative sphere. This legislative provision constitutes one of the stimuli behind the efforts of co-operatives in the sector of social solidarity and mutual aid (also at the external level), together with their traditional values and ideology. Those who have questioned in recent months the legitimacy of a joint-stock corporation being controlled through the stock market by a company that is a co-operative and hence not contestable cannot ignore the fact that none of Italy's major quoted companies are actually contestable on the market because they are controlled by intricate interlocking systems of shareholders' agreements permitting the iron-clad protection of ownership rights with minimal amounts of capital. The ownership of unquoted firms is also extremely concentrated and almost equally as non-transferable in practise as the co-operative.

Criteria for the evaluation of co-operative authenticity

Non-profit?

The recent demands for co-operatives to remain in the "non-profit" area of the Italian economy make no sense. All in all, it must be stated again that co-operatives are non-capitalistic but oriented toward the market and the pursuit of results ensuring their stability and growth in terms of finances and assets. We can say Co-operatives are "not for profit" in the sense their aim is not to achieve profits for distribution to the owners of capital. Notwithstanding most co-operatives still have to make a return on capital employed sufficient to grow at a competitive rate in their particular market context. Not all co-operatives operate in the third sector. Actually neither "in profits" nor in "not for profits" is where the co-operative difference lies. Co-operatives are bodies resulting from a unique system of ownership and governance endowed with a particular social responsibility to meet the developmental needs of their members, other stakeholders and the wider community.

Size?

A certain nominal institutional form does not mean we will always have a good corporate behaviour. For these reasons it does not make sense, in the light of the above considerations, to call for limits to be somehow imposed on the size of co-operative firms or to restrict the sectors in which they or their subsidiaries can operate. In any case, large and successful co-operatives do not necessarily stop being "good" co-operatives. Growth in terms of scale (social base, balance sheets, organisational complexity, etc.) and age is not always accompanied by a loss of cultural and democratic values. There are no industrial sectors where co-operatives maintain or lose their identity by definition. Functional and organisational development is not incompatible with preservation of the co-operative identity. It should be borne in mind that the same phenomena of false co-operation are already present all over the world from Colombia to Chile, from Finland to Spain, which proves that is not even the degree of social development and prosperity that fosters or deters them (Bernardi 2005).

The growth of co-operatives is necessary in many industrial sectors and the tool of the co-operative group is useful as well. It is also a good idea to experiment with processes of internationalisation and to concentrate the attention of the co-operative movement on the need for organisational development and on the question of generational turnover, which is currently assuming ever-greater importance.

Participation?

The problem of false co-operatives unquestionably exists in Italy, and it is in this area that the problem of unfair competition comes into play. There are co-operatives in name only, where the members have no real right to participate in the decision-making process. Current Italian legislation grants tax benefits only to "predominantly mutualist" co-operatives, where relations with members account for at least 51% of the business (work or sales, depending on the type of co-operative). This indicator is not, however, sufficient. Apart from the quantitative yardstick, it is necessary to identify a new system of parameters in order to attribute mutualist merit. Not all the "predominantly mutualist" co-operatives, in the sense indicated by current legislation, are good co-operatives and mutualistically meritorious, and vice versa. The quantitative provision is certainly insufficient to assess mutualist merit. Why not propose legislation or a system of voluntary certification designed to limit the phenomenon? One possibility

would be a national co-operative logo with certification of managerial qualities and democratic governance (based on an ISO or TQM model accompanied by a social report). The local authorities must become more perspicacious in the formulation of calls for tenders to select co-operative firms that are meritorious from all points of view.

Co-operative firms seem to be intrinsically organisations oriented toward a lower degree of consumption of social capital (Spear 2000). This is not because they are “better” more socially responsible by definition – we are indeed well aware that this is not so – but simply because the functioning of co-operatives requires the production and use of social capital (Fukuyama 1999, Hollis 1998) rather than consumption. Suffice it to consider the way they are run through democratic assemblies, their links of mutual aid with other co-operatives, and the extent to which they are rooted in local communities. Suffice it note that the regions with the greatest co-operative tradition and vocation in Italy are those to which Putnam (1993) attributes a higher level of public spirit.

It must be said, however, that with the authoritative exceptions of Walras and Alfred Marshall (1890), who noted the superiority of the work of the co-operative movement, the classical and neoclassical economists have always viewed the co-operative enterprise with suspicion and denied the existence of any specific economic behaviour on the part of co-operatives in terms of economic theory. Some have indeed endeavoured to demonstrate the economic inefficiency and limitations of self-managed enterprises (e.g. Einaudi, Pantaleoni and Ward). The opposite approach is instead taken in both the strictly economic and the philosophical works of Jaroslav Vanek (1970, 1985, 2000), the illustrious economist of Cornell University, who went so far during the last years of his intellectual career as to trace the origins of co-operation in the history of Christianity.

Keynes and Robertson conversed on the macroeconomic effects of the presence of co-operatives, as an example, in terms of stability of the economic cycle. Another theoretical explanation of the economic significance of co-operative firms suggests that their competitive advantage is based on the efforts of consumers to overcome the uncertainties associated with the presence of informational asymmetries in the purchasing of goods and services.

With reference to the question of differentiation and identity, it could be argued that for some years now various Italian co-operatives have stopped insisting on their differentiation or made an effort to become more

similar to other firms because of their inability to communicate the positive nature of their difference. They have at least stopped proclaiming their differentiation in terms of an alternative to capitalistic company control (which remains the only true difference for economists). It has for some time now been another difference that is insisted on in image campaigns, in the co-operative corporate identity, and in the conferences of the co-operative organisations. This is based on a democratic approach, social solidarity and responsibility, the ability to foster local development, and attention to the rights of members and consumers. It can also be added that it is intrinsically visible in the tradition of self-managed and co-operative work that development is freedom (Sen 2001), that the well-being and autonomy of workers and entrepreneurial success are not only compatible but also interconnected.

The problem of poor image of the co-operative sector

The co-operative image is in need of improvement. The co-operative enterprise must be conceived and communicated externally as the form ensuring the greatest degree of well-being for workers as well as the most economically advantageous conditions for users and consumers.

A report of the European Commission uses this definition:

“A co-operative is an enterprise like any other, but it is also an enterprise that exists to serve the needs of the members who own and control it, rather than solely to provide a return on investment. All enterprises exist to serve the interests of their cardinal stakeholder groups. For traditional companies that means investors, however in a co-operative returns on capital (which are in some cases permitted) must always be subordinated to other interests. In fact a non-co-operative enterprise might be called an association of capital (or investor-driven business) whereas a co-operative is an association of people (or people-driven business).” (Commission of the European Communities, 2001).

Paradoxically enough, it is precisely this very important public report that offers the most striking example of the identity problems discussed here. It is very strange that the European co-operative movement, which certainly had contributed to the drafting of that report, allowed it to be written that the

co-operative is an enterprise like any other. Co-operatives are very particular enterprises indeed and very different from other forms of economic organisation.

The impact of life cycle and change on co-operatives

This change in attitude with respect to the system is a characteristic that Meister (1969) and Zan (1982) noted through an empirical study of the organizational lifecycles⁷ of co-operatives and that it appears possible to use metaphorically today in discussing the state of the co-operative movement as a whole. The authors have two different visions of the evolution toward the market, professionalism and efficiency of co-operatives. On the one hand, there is optimism that co-operative values and features can stand up to competition from capitalist firms; on the other, pessimism that growth, reorganisation, and time will irreparably transform the co-operative spirit of the movement.

According to Meister there are generally four lifecycle phases among co-operatives.

In phase I, denominated by the author as the *phase of conquest*, there is hope and enthusiasm of members, low degree of differentiation in the social system, direct democracy and emphasis on assemblies. There is low differentiation of organs and positions and responsibilities are assumed on a voluntary basis. There is an imprecise economic management with low levels of efficiency and results falling far short of expectations.

In phase II, called *phase of consolidation*, we usually find idealism giving way to indifference and greater differentiation of roles. The power of management groups is reinforced with differentiation of organs, delegation, attention to economic questions.

In phase III, named *phase of coexistence*, we usually find subordination to the external environment also in terms of values. There is always greater expansion of delegation and adoption en bloc of methods previously described as capitalist.

In phase IV, called *phase of management power*, the economic, organizational and managerial complexity necessitate the maximum degree of specialisation. Managers and directors (not always coming from an internal career path) hold the real power and no real control is exercised by members or their delegated representatives. The concentration of information in the hands of experts is high.

According to Zan there are generally three phases in the co-operative organization lifecycle.

In phase I, named, *phase of defence* we usually find collective enthusiasm and direct democracy. There is organisational simplicity and mechanical solidarity. The members share an internal closure, the union of weaknesses, the rejection of the market and the culture of struggle. In phase II, *denominated phase of consolidation*, there is an initial political and economic success that brings an increase in size and complexity. This, in turn, brings delegated democracy, crisis of solidarity, opening of social base and acceptance of market although pointing out its contradictions. In phase III, named *Industrial phase*, the economic consolidation suggests an organisational rationalisation with greater formalisation and organic solidarity. At the end the culture of the market facilitated with the arrival of new members and managers coming from the outside will prevail.

The partially diverging theses of Zan and Meister are broadly discussed and analysed in a recent work on the organisation of co-operatives (Battaglia 2005), which compares Italian, European and Latin American case studies in an effort to take stock of the relationship between growth, the continued existence of ideological, cultural and participatory characteristics, and the external influence of what is known as the co-operative organisational field (DiMaggio, Powell 1991, Battaglia 2005). One of the identity problems facing co-operative firms today seems to be the search for a way to preserve their differentiation while complying with most of the rules of the system. It is necessary first to consider the cornerstones of this differentiation and bring them into line with the new requirements of society and the economic system, and second to pursue and defend this differentiation – or new differentiation – through coherent and transparent interaction with the other forms of business and all their stakeholders.

Only when both the national co-operative organisations and the individual firms have thoroughly considered the questions of identity and differentiation will it be possible to address the problem of the growth strategy of the co-operative movement. Only then will it be possible to discuss, for example, the advisability of certain financial or industrial operations, mergers and alliances, or the instrumental use of capitalistic firms. In any case, it already appears obvious that the decision to do without modern entrepreneurial tools serving to compete on an equal footing with capitalist (or traditional) firms would involve too great a risk. While it would be a mistake, in our view, to impose legislative

limits on the sectors in which co-operatives can operate, it is undeniably true that the co-operative formula proves particularly competitive in some industrial sectors and not in others. It can be suggested initially that this derives from differences in the combination of the productive factors of capital and labour in the different industries.

It then appears equally obvious that the traditional links between Italian co-operative organisations and political parties (especially the old Communist and Christian Democrat parties) must be reinterpreted in order to meet the new requirements not only of co-operation but also of the political sphere and the national economic system. While the existence of a cultural matrix is a strength and a source of riches, co-operatives and the organisations representing them must maintain their independence with respect to national and local politics (and vice versa). Dialogue with all the social and economic actors, including the political, is instead indispensable and advisable.

The consideration of co-operative identity certainly cannot overlook the importance of the real degree of democracy and participation in the decision-making processes. There can be no co-operation if member participation is not practised, cultivated and fostered by management. Members must be qualitatively and quantitatively involved more frequently in the decision-making processes and in the renewal of managerial structures. It is necessary to strengthen the mechanisms of democratic participation (e.g. by examining the issue of delegation and voting at a distance) so as to avoid any undue increase in the powers of managers (sometimes professionals hired from outside) at the expense of the membership.

This is a currently relevant problem in Italy but also in the rest of the world. And the role of human resources in company competitiveness is far more critical today than in the past all over the world. Motivation, empowerment, delegation and participation are becoming extremely powerful and indispensable tools above all – but not exclusively – in knowledge-intensive firms and services. Co-operatives can derive an advantage from this because they have been accustomed to worker centrality and involvement from the very outset. And then, how can the co-operative tradition not be regarded as modern at a time when so many are calling for greater industrial democracy? Borzaga (2002) points out that social co-operatives,

“.....seem to have succeeded in finding ways to govern their strategic factor of production, i.e. labour; that are more efficient than those

adopted by the public sector, capitalist firms and most of the other non-profit organisations. While paying their workers less on average than the other organisations operating in the sector of social services, they adopt salary structures that reward seniority and loyalty, and appear capable of attracting young educated and motivated workers through incentives other than salary.

It also appears that the social co-operatives have succeeded so far in attracting a well-trained and motivated workforce and adopting wage and organisational strategies perceived as fair by their workers despite the limited scale of their resources.”

There are nevertheless also different economic explanations of the successful presence of co-operatives in our markets outside of the social co-operative area (Ackerman 1986, Hansmann 1996).

The importance of control and governance

We consider it important to return to the question of control over the firm. As Hansmann (1996) points out, there are efficiency-related grounds to establish when it is preferable that the owner of an enterprise should be one of the possible parties operating in our market economies: the entrepreneur, the investor, the state, management, the users, the workers, etc. It is context alone that determines the conditions enabling one of these to perform the function more efficiently. There should be no prejudices with respect to one or more of the potential owners (Olsen 2002).

“The freedom of enterprise is a fundamental characteristic of the most advanced modern economies. Capitalism, on the contrary, is contingent; it is simply the particular form of ownership that most often, but certainly not always, proves most efficient with the given technology.”

And it is precisely comparison and competition between different forms of company control that can produce positive effects for the markets. But are the mechanisms through which the members of a co-operative, the owners of this form of enterprise, can supervise and assess its progress adequate today? Since the type of ownership is different, there are also differences in the challenges of co-operative governance (Cornforth 2004). Corporate governance is to be understood as a set of tools (institutions, rules, mechanisms, guarantees) designed to foster a correct

decision-making process within the company in the interests of the various categories of stakeholders (Powell 1987). The problem of governance arises with the separation of ownership and management in large-scale corporations. The alleged scandals and industrial crises of the last few years have made this a currently relevant problem, and not only in Italy. Co-operative business systems with highly fragmented ownership (or rights) require particular attention, and this problem is further complicated by the imperfect transferability of ownership rights and the greater number of types⁸ of stakeholder in the co-operative. The reform of company law has had a partial effect in this sector.⁹

The typical – and opposite – risks are the inability of the member or groups of members to exercise the correct degree of control and guidance over management and the inability of management to implement adequately competitive strategies enabling the firm to operate on the market. It is obviously impossible to address this question without going into the details of each type of co-operative.¹⁰ For example, the control over company internal bodies, with respect to the management of co-operatives making great use of equity stakes in instrumental companies, appears to be a very sensitive and critical issue because it is more difficult to exercise control, because the risk of deviation with respect to the original and statutory objectives is greater, because the divergence of goals between management and members is potentially greater, and because of the potential growth of non-transparent conduct. At the same time, however, there can also be growth in mutualist effectiveness with respect to members or to the competitiveness of the core activities managed directly by the co-operative. It is important to let members select the system of management and to specify the roles of the elected and of the appointed leadership.

There are, however, some possible reforms that appear suitable for practically all of the co-operative world, including the rotation and limitation of appointments, greater use of proxies in general meetings, independence of management, controls over the indirect distribution of ownership shares, adequacy of organisational structure in relation to size and type of co-operative, certainty of mutualist exchange, adequate information and involvement of the grassroots membership, and the co-ordination of control functions. Reflection also appears necessary because there is no lack of different schools of thought even within the Italian co-operative movement.¹¹ As regards proxies, for example, those in favour are opposed by other who think that democratic

participation must be individual rather than delegated and that therefore only the former is to be fostered and promoted, e.g. through the mechanism of separate assemblies. Many react very negatively to talk of limitations on mandates for company appointments, e.g. by pointing out that no such limitations exist in traditional firms.¹²

The squaring of the circle can only come about, however, through an understanding of co-operative differentiation and identity. We are talking about enterprises that differ from others starting from their system of ownership rights, enterprises of an initially democratic nature that see the fragmentation of their members' rights increase together with their growth. Paradoxically enough, in a context of family entrepreneurship such as obtains in Italy, co-operatives are experiencing the centrality of management and the necessary division of ownership and management before traditional firms (as happened previously with the state-owned companies). It is necessary to consider the risk of the major co-operative firms coming to operate like authentic public companies but without some of the safeguards provided for quoted companies, e.g. mechanisms of association and representation for small shareholders, more stringent procedures of auditing and control, a framework to regulate conflicts of interest, etc. It is in any case possible to argue theoretically that the major co-operatives, unlike quoted companies with vast numbers of shareholders, would not encounter the typical risk of management oriented toward predominantly short-term objectives (being motivated, for example, by reward systems linked to share prices). The development of participatory mechanisms with multiple voting involves the risk, however, of producing a hybrid in still greater need of innovative mechanisms of governance (Spear 2004).

Conclusions

The leitmotiv of this discussion appears to be differentiation, something often put aside, forgotten or viewed with suspicion by the co-operative members themselves. In our view, the international co-operative movement should regain its pride in its differentiation and use this as the basis to reconstruct its identity.

It is possible to trace a consensus in the economic and organisational literature on the differentiation rather than the superiority or inferiority of the co-operative entrepreneurial formula. In particular, differentiation combined with the characteristics of markets and technologies becomes a competitive advantage in some industrial sectors and a

disadvantage in others. We believe, however, that it must be the market and not legislation that sets limits on the operations of co-operatives. We believe that the residual tax benefits granted to co-operatives in Italy and many other countries are prompted by their differentiation and in no way prejudicial to the correct functioning of market; to the extent that members and customers are the same persons, no profits can be derived in order to be taxed. These advantages are in any case available to anyone opting for the co-operative form of enterprise. Co-operatives do not ask for privileges. The treatment they receive must remain partially different because they are inherently different.

The strategy for the next one hundred years of co-operation in Italy needs to address the question of co-operative differentiation and identity. In any case, an understanding of present-day differentiation is essential, for example, to the use of forms of training capable of guiding co-operative management toward ethical differentiation and an understanding of the organisational and operational peculiarities of enterprises of the co-operative type. Co-operative management must be able to operate in a different type of firm but must also be equipped with the entrepreneurial tools used by non-co-operative companies. (Davis, 1999)

Co-operative firms are different and must remain so. Their ancient modernity is the strength upon which they can draw in addressing the market for human services. It is certainly not a good idea to conceal the need for entrepreneurial and organisational development. Co-operatives must be capable of coping with generational turnover and handling the degree of organisational development that is indispensable for healthy growth. Growth must be managed but is essential in many industrial sectors for firms wishing to be competitive at the national and international level.

Resumen

¿Las cooperativas y la acción cooperativa son experiencias modernas? Por qué debería llevarla a cabo el actor político en las políticas de desarrollo? Qué diferencia cooperativa hay desde el punto de vista de la teoría económica y de la organización? Y, si existen diferencias en cuanto a la organización, en la práctica de la gestión de los recursos humanos, en los derechos de propiedad y en las actitudes de acción colectiva, ¿cuáles son las cuestiones de gobernabilidad que tienen que controlarse para que la cooperativa pueda operar y crecer adecuadamente?

Riassunto

Le cooperative e l'azione cooperativa sono una esperienza moderna? Perché dovrebbero essere sostenute dal policy maker nelle politiche di sviluppo? Quale è la differenza cooperativa dal punto di vista della teoria economica e dell'organizzazione?

E se ci sono differenze nell'organizzazione, nelle pratiche di gestione delle risorse umane, nei diritti di proprietà e negli atteggiamenti di azione collettiva, quali sono le questioni di governance che devono essere tenute sotto controllo affinché la cooperativa possa operare e crescere adeguatamente?

Notes

1. See in this connection the partial results of the Metatrend 2004 study carried out by the CROA research centre on business organisation of the Bocconi University under the supervision of Anna Grandori, which draws attention to the competitive importance of mechanisms of organisational equity and democracy in firms.
2. Putnam's notion of social capital is linked to the concept of civic tradition and is a collective asset rather than a resource enjoyed by individuals. Bourdieu's is less tied to the tradition of a certain community: "Social capital is the set of actual or potential resources connected with the possession of a lasting network of more or less institutionalised relations of reciprocal knowledge and recognition, i.e. with belonging to a group (...). The volume of social capital possessed by a particular agent therefore depends on the scale of the network of connections that he can effectively mobilise and by the volume of capital (economic, cultural and symbolic) held by each of those with whom he is connected." The view put forward by Fukuyama is oriented toward the idea of trust and the sharing of values. Other views occupy an intermediate position between the ideas of the relational network and a shared tradition of values and trust.
3. Some co-operative managers have, for example, called for legislation taking into account new forms of mutualism, e.g. at the group level.
4. Plurality of forms of enterprise and ownership structure: ownership by shareholders, workers, users, or in some cases (why not?) through public shareholding.
5. The very concept of economic capital loses its meaning because it is impossible to transfer or sell the enterprise.

6. Dwarfism and difficulties in handling family succession are critical issues in the Italian entrepreneurial system.
7. Other studies on organizational life cycle, such as Greiner (1972), Alderfer (1972), Whetten, Kimberly, Cameron (1980), Quinn and Cameron (1983), Baum and Singh (1994), Van de Ven, Poole (1995), Aldrich (1999), were born around capitalist traditional firms and do not always work with the co-operative organizations. For example Greiner cycle from some points of view result inverted in co-operatives.
8. In some cases, for example, there are theoretically clashes between the interests of the member and the worker or the member and the consumer, stakeholders that are often represented, however, by the same individuals. Moreover, the benefits that members wish to derive from their membership of the co-operative are nearly always much more complex than those of the shareholders of public companies, who expect no more than dividends and capital gains. Nor are they always and exclusively of an economic nature.
9. As a result of the reform of company law, the traditional system of a board of directors or single chief executive is now flanked by the "dualistic" and "monistic" systems. Under the dualistic system (of German derivation), responsibility for management and control is assigned to a supervisory board, appointed by the general meeting, and a management board appointed directly by the supervisory board, which also approves the balance sheet. Under the monistic system (of Anglo-Saxon derivation), responsibilities for management and control are instead assigned respectively to the board of directors, appointed by the general meeting, and a committee for management control set up within the same, the members of which must possess particular requisites of independence and professional expertise.
10. Size is also a crucial variable. Structure and mechanisms of control differ greatly from the viewpoint of organisation theory and economic theory depending on whether the co-operative is small, medium or large.
11. There are even differences of opinion as regards the question of increasing the ratio of member workers to non-member workers or the need to accelerate decision-making processes. The debate on governance is also open, however, with respect to non-co-operative firms.
12. The problem of the effective nature of members' rights also exists, however, in associations, trade unions and political parties.

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