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Cooperative Enterprises in Australia and Italy

Comparative analysis and theoretical insights

edited by
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PART II
Theoretical insights and case studies

TOWARDS A NEW THEORY OF CO-OPERATIVE FIRMS

CASE AND SECTOR STUDIES IN AUSTRALIA AND ITALY

A. Jensen
G. Patmore
E. Tortia

Introduction. Advancing the co-operative movement in Australia and Italy: a three years research program

The book strives to capture the past and current developments, and the future status of the cooperative movements in two different countries: Australia and Italy. It is the result of a three-year research collaborative project titled *Advancing the Co-operative Movement in Australia and Italy: A three years research program*. The comparative character of the book poses some challenges and difficulties since the book compares two countries that show markedly different development patterns and institutional systems both in terms of corporate law and in terms of system of industrial relations. The legal framework, both general and specific to co-operatives, for the two countries is remarkably different. Australia has a common law tradition that makes it similar to other countries such as the UK and the US, which are characterized by notable limitation of specific legislation for co-operative firms. Italy represents instead one of the best civil law examples of development of the cooperative legislation. As Australia and Italy have witnessed different degrees of creation, diffusion and disappearance of co-operative firms, very different dimensions and patterns of development of co-operatives characterize these two countries. Co-operatives represent a more significant part of economic and social life in Italy than Australia and a fundamental issue in the book concerns the enquiry into the reasons for these cultural and social differences, and for the different scale of the phenomenon. The answers given in the different chapters provide general insights for the field of co-operative studies.

One of weaknesses of many comparative publications is their failure to provide clear conclusions linking the contributions and to add explanations grounded in the combination of the individual contributions. We strive to overcome this problem through a conclusion that provides a clear set of outcomes from the book, which will benefit both policymakers and researchers. In addition we note research that points to the posi-

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tive social, economic and political impact of high levels of co-operatives on society.

Part I of the book compares two different co-operative movements in their historical, economic and institutional development. Also the different features of the socio-cultural and political contexts will be considered. Specific focus is devoted to particular types of co-operatives (consumer, worker, financial, and agricultural/producer co-operatives) and an analysis of the reasons for the strengths and weaknesses of these different types. For example, why are consumer co-operatives weaker in Australia than Italy? Is it because of the legal framework, or instead the attitude of significant actors such as the labour movement and farmers? Or instead the differences can be traced back to more general cultural divides, and be substantiated in alternative socio-economic processes (e.g. based on individualism more than on collective and social objectives). Strong and weak elements of both contexts will be highlighted, but special attention will be paid to the weaknesses of the Australian movement. Its smaller dimension relative to Italy is not only to be traced back to general cultural and political differences, but also to the different institutional architecture, which in Italy has favoured accumulation of assets and the creation of a dense network of relations and layered governance structures, while in Australia has resulted mainly in the creation of stand-alone structures that, eventually, have not been able to spread and generate a sufficient number of new initiatives. Furthermore, the Australian co-operative movement has been beset by waves of growth and decline and more recently a push towards demutualization, which have weakened even further its limited growth potential. The analyses of the strengths and weaknesses of the two contexts will be especially important in drawing implications for co-operative theory and practice.

Part II of the book stems out of the issues and problems underlined in Part I on the different typologies of co-operatives in Australia and Italy. It contributes in a more general way to the debate on the socio-economic role and institutional analysis of co-operatives. The book revisits the debates concerning the nature of co-operatives as membership controlled organizations and collective entrepreneurial ventures (Birchall 2010). Compared to the most orthodox treatment of the economics of cooperation in the neoclassical and neo-institutionalist tradition, stronger focus will be put on the collective nature of the venture, and on the role of membership rights in informing the definition of the objectives of the organization and in achieving the fulfilment of members' needs and expectations. The behavioural background of the objectives and action of co-operatives come under closer scrutiny, for example in terms of the motivations of members and of the other groups of stakeholders, and in terms of the surplus of social welfare that the cooperative is able to create for its membership and or the related stakeholders (Borzaga, Depedri, Tortia 2011). This is an initial and quite embryonic attempt to develop a behavioural theory of the cooperative firms. Given the comparative and empirically grounded nature of the book, these initial steps do not lead to a fully blown new theory, but can serve as initial elaboration and input of future research.

Among the more theoretical issues that will be deepened in the book, the collective nature of entrepreneurial action in co-operatives will receive special attention. Some initial reference will be made to the work by Elinor Ostron concerning collective action as governance mechanisms in the management of common pool of resources. This framework gives important insights on how successful horizontal coordination can be achieved among a collection of participating actors in performing complex economic activities. Surely the Ostrom approach needs to be redefined and adapted to the specific case of co-operatives, which include a stronger entrepreneurial component. Given the collective nature of entrepreneurial action in co-operatives, a related theoretical issue deals with the accumulation and use of common resources in co-operatives (financial, social and productive), since this specific aspect separates them clearly from the working of conventional capitalist enterprises. This problem has received relevant scholarly attention in past economic research, but the answer given by economic analysis have generally been negative, as they have evidenced the shortcoming of the accumulation and use of common resource in market-led competition, for example in the literature on underinvestment and undercapitalization of co-operatives, a problem that would beset the dynamic efficiency of investment projects in this form of enterprise. In this context we introduce the concept of cooperative ownership, which is a third typology of ownership rights that has different features relative to the two most traditional and established ones (private and public ownership). The concept of cooperative ownership can be useful in accounting for the existence of non-traditional forms of asset ownership in co-operatives, such as indivisible reserves of capital and the more stringent asset lock. These forms are much more difficult to be meaningfully rationalized within the traditional frameworks of private and public ownership (Ostrom 1990; Navarra 2010; Tortia 2011).

In more general terms, we underline that the contemporary debate on co-operatives requires extensions on topics that have not been sufficiently dealt with to date. Co-operatives have often been considered isomorphic to conventional organizations, and characterized by similar hierarchy and agency structure. Instead we see co-operatives as collective entrepreneurial action of independent producers/workers/consumers, and evidence the absence of conventional hierarchy and agency relations. This interpretation requires new frameworks of conceptual and empirical analysis that go beyond the approaches transmitted by orthodox social and economic theory. This new conception lends itself a whole new range of interpretations, extensions and analyses dealing, for example, with cooperative governance and management. Most academic analysts and policy commentators have seen the institutional structure of co-operatives, as they are often characterized by common ownership of assets and democratic decision-making processes, as inferior solutions to non-co-operative firms in terms of outcomes. The main reasons for inferior performance of co-operatives relative to conventional firms have been found in different but connected structural features. The five most important reasons why co-operatives have been considered inferior solutions to conventional capitalist enterprises are:

- a greater difficulty for co-operatives in accessing financial markets. Since investors do not control co-operatives, a lower compatibility is expected between their financial mechanisms and performance and the working of financial markets. While the stock exchange is in almost all cases barred to co-operatives, they have greater difficulties in accessing bank finance too and offering their bonds to the market. Very often, indeed, they would lack sufficient collateral to receive adequate assistance by financial intermediaries;
- greater difficulties with reinvesting surplus funds efficiently. This is the so-called under-investment or under-capitalization effect (Furubotn, Pejovich 1970; Vanek 1970; Jensen, Meckling 1979), which is connected with the presence of indivisible, non-shareable reserves of capital and with the truncated temporal horizon of most members in co-operatives. Since the permanence of members in the cooperative is temporally limited, when assets are accumulated in indivisible capital reserves, there will be a tendency to choose only those investment projects that deliver high rate of returns in the short run, thus leading to underinvestment and undercapitalization. Not the same is true in the case of investor owned firms, since their capital is divisible and they can be sold at market value;
- inflated decision making and other organizational costs. Democratic governance (the 'one member, one vote rule') in the presence of heterogeneous members' motivations, objectives and preferences increases the costs of decision making, increases the probability of contrasts within the membership, and may undermine the possibility of shared and effective decisions (Hansmann 1996);
- co-operatives may encounter serious difficulties in distributing their value added in a fair way. This is true, for example, when distributive patterns are not clearly defined or definable ex ante, and the dominant and lazier part of the membership (the majority) has an interest to exploit the minority and more productive part. The most notable example is usually found in worker co-operatives, where a majority of unskilled workers can exploit a minority of skilled ones (Kremer 1997);
- democratic governance can be affected by the problem of free riding in delivery appropriate levels of effort or other resources. When production is organized in teams or based on the delivery by members of oth-

er non-measurable, or difficult to measure inputs, the lack of a central monitor supports the possibility that each individual member delivers opportunistically low levels of effort (e.g. in worker co-operatives) or low quality inputs (e.g. in producer and agricultural co-operatives) (Alchian, Demsetz 1972).

There is however an emerging literature which points to the features of co-operatives delivering superior performance through superior participative mechanisms as in the Mondragon Corporation Cooperative namely legitimising employment relations, delivering a wider range of issues over which agreement can be reached and the engagement of peer monitoring resulting in networked governance and organisational learning of the high performance work system. The new framework or frameworks for the study of co-operatives as mutual benefit mechanisms of coordination of collective entrepreneurial action and economic activity are used as tools for addressing these and other criticisms. So does the gathering of data and other studies in the book.

Beyond the study of the internal working of co-operatives these organizations need to be placed into their wider social context, by considering their social and communitarian role, as stated in the seventh ICA principle. These elements will be taken into account and made explicit in more than one chapter. Overall we consider our approach as nearer than the most orthodox ones to a coherent explanation of the social role of co-operatives, since it relies on a collective interpretation of entrepreneurship founded in the centrality of membership rights and members' welfare. Therefore, we evidence the nature of co-operatives as locally embedded enterprises, which first and foremost deliver goods and services to the community, and as contributors to social capital.

The governance of co-operatives is analysed not only in positive terms, but also critically, looking at the potential and actual problems that can affect it. We define this potentially problematic side of cooperative governance as 'the dark side of cooperation' and relate it to well-known instances of distorted social interaction such as free-riding in effort and input delivery, and the tragedy of the commons, whereby individual self-interest dominates the accumulation and utilization of indivisible capital reserves.

Part II consists of two parts. The First Part of the book includes more theoretical contributions, which aim at the development of a new framework for the socio-economic analysis of co-operatives. The topics covered in this part include (i) the definition (and the critical assessment) of co-operatives as instances of collective entrepreneurial action; (ii) co-operatives and industrial relations; (iii) the contribution of co-operatives to the preservation and accumulation of novel social capital. The Second Part includes a series of case or sectorial studies of interest either in the Australian or in Italian context. The topics here include (i) the success of Italian social co-operatives; (ii) the role of social media in delivering new cooperative tools for information transfer, knowledge creation and social interaction on the internet; (iii) the fight of social co-operatives and non-profit organizations with organized crime in Southern Italy.

One of the main aims of the book is to develop a policy-oriented approach to the study of cooperative action. The study is directed not only to academics and social scientists, but also to practitioners, cooperative entrepreneurs, and policy makers. The language and methodology used is purposefully kept accessible to a broad audience rather than specialized academics in order to have as wide impact as possible. On the other hand, we aim to substantiate our claims and support our results with precise theoretical insights and empirical evidence, since these are necessary to carry out informed policy advice. Practitioners and policy makers will find particularly valuable the focus on the problems, and on possible solutions thereof, more than on the positive achievements connected with the operation of co-operatives.

Other topics, which keep on representing lively areas of debate, but are not central to the book's chapters, will be covered as well, though in a more tangential way. The finance of co-operatives is a case in point, since it corresponds to fundamental financial needs that very often strike the balance between viable and non-sustainable cooperative endeavours. We will ask how successful are co-operatives in raising funds for expansion and competitiveness; how they are able to accumulate capital by means of self-finance; and how relevant and effective are instruments of common ownership such as the asset lock and the accumulation of indivisible reserves of capital. It will be also noticed that in numerous countries (including Italy) many co-operatives, and especially the large ones, have reverted to hybrid forms of finance and ownership by creating or acquiring on the market, investor owned, profit seeking entities (Spear 2012). This pattern of development, which in Italy was institutionalized in 1983 by the so called 'Visentini law', is functional to improving the ability of co-operatives to raise finance and to implement large scale and capital intensive production processes in more traditional and standardized ways (Spear 2012). The hybrid solution has often been considered vital in allowing co-operatives to overcome some of their most relevant weaknesses, that is limited access to financial markets and undercapitalization, but also inflated organizational and decision making costs (Hansmann 1996). In the book we will discuss the viability of this developmental pattern, and its compatibility with cooperative values and membership-based ownership. Also cooperative self-finance represents a crucial field of comparative enquiry of the Australian and Italian contexts. This is so because the law in Italy mandates the accumulation of indivisible reserves of capital, which represent the main channel through which self-finance is effected, while these financial instruments are absent in the Australian landscape.

Broader topics related to the finance of co-operatives will be brought into the picture as well. The chapter on banking co-operatives in the Australian and Italian contexts evidence that cooperative finance is prominent in some European countries (mainly France, Germany, Austria and the Netherland), and is in more localized areas, such as the Trentino Province in Italy and the Basque Region in Spain. The understanding of the historical origins, pattern of development, economic and social role, and developmental trends of cooperative banking in Italy and of credit unions in Australia will allow us to connect our arguments with crucial problems stemming out of the recent financial crisis. Connectedly, we evaluate the effectiveness and resilience of the cooperative solution both in growing economic contexts, such as the Australia, and in recessive conditions, such as the Italian ones (Birchall 2013). The study of cooperative finance will also allow us to connect to the way in which the banking system approaches cooperative firms, the preferential role of cooperative banking in supporting co-operatives, and the complementarity of different institutions and forms of co-operatives (typically banking and producer co-operatives, as in Gagliardi 2009).

The whole discussion on the results achieved and on the perspectives of the cooperative movement in Italy and Australia is wrapped up and analysed also from a legal point of view. A whole chapter in the first part of the book is devoted to defining the general legal features of co-operatives in the two countries. Moreover, each chapter in the first part of the book will refer to the existence of distinct legislation regulating the specific typologies of co-operatives. The legal comparative perspective is particularly important in this book, since the Australian and the Italian legal frameworks show sharp differences in the interpretation of the origins and evolution of co-operatives.

There are a limited number of relevant books published on the socio-economic theory and institutional development of cooperative firms over the last 15 to 20 years. The rise of neo-liberal economics has shifted the focus away from co-operatives towards traditional capitalist firms (Kalmi 2007; Borzaga, Tortia 2005). This is however at odds with developments such as the United Nations International Year of Co-operatives in 2012, when the UN for the first time endorsed a specific business model as a democratic approach to economic and social development. Also, the recent economic and financial crisis has created new room for discussion on non-conventional organizational forms. On the other hand, the crisis of sovereign debt in many European and North American countries forced the reopening of the debate on the reform and decentralization of public welfare systems, in which cooperative firms can play a key role (Stiglitz 2009; Borzaga, Depedri 2013). Though they are an established and known solution, the potential of cooperative firms and other associative mechanisms based on self-governance has been overshadowed for decades in mainstreams political debate, as the only viable solutions for sustained and sustainable economic development have been found in private firms, and in state intervention (Ostrom 1990; Borzaga, Depedri, Tortia 2014). The peculiarities of the historical phase in which we find ourselves, the new interest for non-state and non-capitalistic organizational solutions, and the development in cooperative studies can allow to start a new perspective in which co-operatives are not considered any more as marginal and inferior organizational solutions, but are instead fully included among the actors able to reform and improve socio-economic development.

As final remark, we underline that taking further steps in the development of the theory and empirical analysis of cooperative firms is made all the more urgent by at least two recent phenomena. First, economic and social theory has been undergoing radical changes over the last two decades. The emergence and spread of behavioural and experimental economics, together with the development of more traditional heterodox approaches, such as evolutionary and new-institutional economics, has been reshaping economic thinking, providing new ground for a favourable interpretations of the cooperative phenomenon (Borzaga, Depedri, Tortia 2011). Second, the economic and financial crisis that hit the financial markets first, with the explosion of the sub-prime bubble in 2007, then the real economy in 2009, and finally the sovereign debt of some European and North American in 2011, represents an epochal event that may well lead to renewed efforts for implementing non-traditional patterns of socio-economic development (Wolff 2012). In this perspective, there is recognition of an urgent need to restructure both the private and public sector in most advanced countries, as the global economy exists in the shadow of unsustainable growth and escalating environmental damage leading to calls for sustainable governance of firms. However, while the crisis has severely hit both the private for-profit and the public sections of the economy, not the same is true for third sector organizations, which showed a higher degree of stability and resilience to financial bust, economic downturn and crisis of public finance. The traditional dichotomous interpretation of the economy, embracing only the public and the private sectors, needs revision since intermediate domains included in the third sector (non-profit organizations and cooperative enterprises) are being evidenced as a growing and non-marginal phenomenon. This need was already forcefully evidenced in other fields of economics thinking, such as the management of common resources (Ostrom 1990), and is more and more felt also in the study of economic development, economic organization and business enterprises (Stiglitz 2009; Borzaga, Depedri, Tortia 2011). Following several decades of almost complete neglect, the study of non-conventional forms of enterprise has come again to the fore (Stiglitz 2009).

PART I

COMPARATIVE PERSPECTIVES

T. Sarina
A. Fici

A Comparison between Australian and Italian Co-operative Law

The regulatory frameworks governing co-operatives in Australia and Italy continue to evolve in an attempt to ensure that the co-operative organisational form remains an effective vehicle for enhancing productivity as well as meeting the needs of members. This chapter will examine the unique historical origins of co-operatives in both countries as well as assessing the level of similarity in regulatory mechanisms used to coordinate their activities. In doing so, this chapter will conclude by commenting on the challenges that co-operatives face in comparison to traditional investor owned organisational forms in both jurisdictions.

1. Historical highlights

As already explained previously in this book, co-operatives remain a popular organisational form within Italy and Australia. In Italy, there remains a large coordinated national movement of co-operatives resulting in over 71,464 co-operatives comprised of 11,490,000 members who make an economic contribution of 119 billion euros (Fici 2013b). Likewise, in 2011 there were over 13,085,000 co-operative members in Australia resulting in an economic contribution of $14.77 billion (Co-operatives Australia 2011). Co-operatives are also one of the oldest forms of business in Australia (Mazzarol, Limnios 2009). Despite this considerable economic benefit, the co-operative movement in Italy and Australia have taken distinct paths of development.

In Italy, co-operatives have had a long legacy of being characterised as a legitimate alternative form to the corporation. The main source of regulation of co-operatives in Italy are articles 2511-2545*octiesdecies* of the Civil Code of 1942 (CC) as modified by the reform that took place in 2003. Italy recognised the co-operative as an organisational form that could provide

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a social function of redistributing economic productivity away from large corporations. In essence, Italy recognised that organisational forms could be created which did not have to have «private speculation purposes» as their main objective (Fici 2013b). Italian policy makers desired to create a form of organisation where barriers to participation in trading activities were minimal. By embedding co-operatives into Italy's Constitution and legal framework the less wealthy and working class were encouraged to form co-operatives, thereby establishing more equitable social relationships while also democratizing the activities of the Italian economy (Nigro 1980). Ultimately, Italian co-operatives would become an important vehicle for redistributing wealth and economic activity within the Italian economy. This very important and deliberate economic and social was cemented with the incorporation by reference of co-operatives in article 45 of the Italian Constitution in 1948.

The development of co-operatives in Australia tells a very different story. Unlike the deliberate process of democratising the process of work and production reflected in Italy's Constitution, the development of co-operatives in Australia was *constrained* rather than *promoted* by constitutional legacies. Australia is a relatively young nation, which was only formed in 1901. Prior to Federation, Australia was a collection of individual States, which were adamant in their desires to retain control over their own affairs as well crafting laws that facilitated trade and commerce in industries that resided within State borders. However, there was recognition at the time of Federation that there needed to be some level of Federal coordination over various matters including but not limited to taxation, post, telecommunications and the co-ordination of commercial enterprises across the vast land of Australia. As a result, the Australian Constitution included section 51.xx, commonly known as the 'Corporations Power'. In effect, this power allows the Federal government to make laws pertaining to *corporations* that have the primary purpose of engaging in trading and financial activities. The provision of this constitutional head of power meant that the Federal government's focus when it came to economic growth resided promoted traditional investor-based organisations. As a result, regulatory devices were aimed at facilitating the operating of 'for-profit' forms of organisations, rather than ones that attempted to democratise production and enhance participation at the organisational level (Wickremarachchi 2003).

This meant that the trajectory of co-operative growth in Australia has primarily been driven by State based regulation which has attempted to service the needs of specific co-operatives operating in specific industries residing within individual state boundaries. Despite the corporation becoming the preferred economic vehicle for economic growth at the Federal level, the important role of co-operatives was recognised at the State level shortly after the time of Federation. For example, in the state of New South Wales (NSW), parliamentary records indicate that there was vigorous debate amongst politicians regarding the legitimacy of the co-operative movement. Strong arguments were made by members of parliament who were adamant that the «great improvement of our [Australia's] economic conditions lies in the development of the co-operative enterprise» (NSW Gazette 1920). As a result, an uneasy tension remains between the operation of Federal Corporation laws and those laws that promote co-operatives within the various State jurisdictions. However, this tension may be alleviated with the enactment of the *Co-operatives* (*Adoption of National Laws*) Act 2012 (NSW) (*National Laws Act*) and associated regulations which attempt to remove the discrepancies in co-operative regulation that exists amongst the various States in Australia as well as addressing the disadvantages that co-operatives face when compared to the extensive regulatory hurdles that co-operatives encounter when attempting to operate under a Federal corporations framework[1]. Some of these difficulties are discussed in more detail later in this chapter.

This brief overview has highlighted the stark difference in the way in which co-operatives have evolved in both countries. Italy used the Constitution and coordinated legislative frameworks to ensure co-operatives become an important vehicle for promoting economic growth as well as the democratisation of ownership and work. In contrast, Australia's process of Federation meant that the traditional 'for profit corporations' were promoted as the main vehicle for economic prosperity and growth. Consequently the development of State based systems of co-operative law often delivered inconsistent rules and regulations for co-operatives. This only further constrained their growth and ability to be seen as a viable alternative to the corporation at the national level.

2. Legal highlights concerning specific co-operatives

2.1 Operationalising co-operatives in Australia and Italy

At first instance, the objectives of co-operatives in Australia and Italy look remarkably similar. Both Italian and Australian laws differentiate co-operatives from other corporate forms by requiring an organisation wishing to be classified as a co-operative to show that its operations are focused on pursuing a 'mutual purpose', that is, on satisfying the interests of its members (or 'cooperators') as users of the goods and services provided by the co-operative (and not as providers/investors of co-operative capital). Co-operatives are required to display characteristic in accordance with the standards set by the International Co-operative Al-

[1] Since this work has been submitted for publication regulations associated with the *National Laws Act* have commenced operation (3 March 2014). These regulations can be found at: <http://www.legislation.nsw.gov.au/fragview/inforce/act+29+2012+app.2+0+N?tocnav=y>.

liance (ICA) (e.g. Art. 2512, par. 2 CC and section 10 of the *National Laws Act*). The legal framework pertaining to co-operatives in both jurisdictions has been drafted in the pursuit of fostering organisations that are based on principles such as:

- voluntary and open membership;
- democratic and 'active' membership status;
- equitable contributions to the operation of co-operatives;
- enhancing cooperation amongst co-operatives; and
- the economic benefit to society derived from promoting such organisational forms.

The rules relating to the formation and governance of co-operatives in both jurisdictions are also similar. For example, both jurisdictions require a minimum number of members in order to form a co-operative. In Italy, this minimum is nine but in reality this can be as lower as three individuals in certain cases (art. 2522, par 2 CC). In contrast, Australia requires at least five members to form a co-operative (ss. 21-22 of *National Laws Act*). Both jurisdictions require initial meetings of co-operatives to establish the rules which govern operations and these must be agreed upon by a majority of members at the initial meeting. Once these rules have been established, both Australian and Italian co-operatives are required to submit the application for registration to the appropriate administrative body. In Italy, this is the Chamber of Commerce (art. 2522, par 3 CC) and in Australia, this is the National registrar in the relevant State of formation (ss. 25ff. of the *National Laws Act*). In relation to the governance of co-operatives, both jurisdictions also have very similar standards when it comes to issues of voting rights attached to membership of co-operatives. In general, both Australian and Italian co-operatives apply a 'one member-one vote' rule in order to avoid concentration of control (e.g. art. 2538 par. 2 CC and section 228ff. of the *National Laws Act*). There is capacity within both jurisdictions to deviate from these general rules subject to the specific rules of each co-operative. Furthermore, both jurisdictions impose a detailed set of governance standards upon registered co-operatives. Australian laws require co-operatives to be governed by a Board of Directors, which have associated director duties and reporting and auditing obligations that are in accordance with the *Corporations Act* 2001 (Cth). Italian co-operatives are also subject to a raft of reporting and auditing standards. However, one interesting point of difference in these general governance issues is that under Italian law, a majority of Directors of a co-operative are required to be members of the co-operative (art. 2542, par. 2 CC). This is in contrast to Australian co-operative law where no such requirement exists, leading to criticisms of whether allowing for a separation of control between members and directors will ensure directors uphold fiduciary duties associated with their office, particularly in circumstances where an organisation is established with the primary purpose to benefit members rather than pursue profits[2].

2.2 Unravelling the legal framework underpinning co-operatives

A closer comparative examination of the range of laws governing Italy and Australia will help explain that despite the level of *divergence* that historically occurred in the development of co-operatives in these two nations, there seems to be an increasing level of *convergence* in the regulatory mechanisms used to regulate the everyday operations of modern day co-operatives. At the macro level, Italian co-operative law is «rather complete» (Fici 2013b). The CC provides detailed provisions that outline the conditions of formation, membership, purpose, governance, acquisition of capital and taxation treatment (e.g. CC art. 2519 ff.). Again, the 'completeness' of the co-operative legal framework is a direct legacy of the way in which co-operatives were embedded into the social and economic framework of Italy via the Constitution.

In comparison, Australian co-operative law remains much more segmented. As alluded to at the outset of this chapter, up until 2014 and the enactment of the *National Laws Act*, state based Co-operative law applied different criteria and thresholds regarding governance issues concerning the formation and operation of co-operatives. A detailed comparative analysis of these various state provisions is beyond the scope of this chapter, as it requires a comprehensive set of works within itself. Instead, this comparison will focus on the *National Laws Act* recently enacted in 2014 and Italy's CC. Despite the move towards a uniform framework to regulate co-operatives in Australia, this new Act still relies on numerous pieces of legislation to effectively regulate the operation of co-operatives. A brief overview of these additional pieces of legislation follows.

Firstly, the difficulty that co-operatives – particularly financial co-operatives – have had in operating across national boundaries due to the lack of federal co-operative laws has led to other federal laws being applied more broadly to accommodate co-operatives. In particular, Australian Corporation Law has evolved in an attempt to provide a legislative umbrella by which financial co-operatives (building societies, etc.) can trade effectively between states. This is seen in section 30 of The *Corporations Act* (2001) Cth which allows credit unions and building societies to be registered as 'investor owned firms'. This has provided these financial bodies to effectively trade as a 'constitutional corporation' by allowing a co-operative to trade across different state borders and raise capital by issuing shares to inves-

[2] For more detailed discussion on the procedural aspects of establishing co-operatives and governance issues within each specific jurisdiction for Italy see Fici (2013b) and for Australia see Sarina (2013).

tors rather than having to exclusively rely on 'members' of the co-operative (while traditional co-operatives acquire capital from members only). Bekkum and Bijam (2006) suggest that the emergence of these new 'hybrid' co-operative provisions under corporations law reflect an attempt by legislators to accommodate the changing objectives of co-operatives emerging in the services sector. Co-operatives operating in extremely competitive financial markets are now more concerned with pursuing value-adding strategies and maximising profits rather than delivering an equitable benefit to members. Therefore when examining the governance of co-operatives that operate in the financial services sector, relying on co-operative legislation may not suffice.

Taxation laws also need to be referred to when assessing taxation obligations resulting from certain activities and the type of status held by co-operatives. For example, the *Income Tax Assessment* Act (ITA) 1997 (Cth) contains provisions that determine the taxation status of any dividends produced by a co-operative. Section 118 of the ITA allows dividends to be returned to members of a co-operative subject to 90% of the transactions carried out by the co-operative have taken place between its members. The provision of tax-free dividends are in recognition of the fact that traditionally co-operatives were established to benefit members rather than having the primary purpose of pursuing commercial gain like that of the traditional 'for profit' corporation.

As regards Italian law, it must, first of all, be noted that 'tax supportive measures', provided for by special laws, apply only to 'prevalently mutual co-operatives' (PMCs) (art. 223*duodecies*, par. 6, of the Provisions for the implementation of the CC), namely, co-operatives that act prevalently with their members and that remunerate member capital contributions only up to a certain extent. Non-prevalently mutual co-operatives, or other co-operatives (OCs), on the other hand, may only be recipients of supportive measures of another nature (Fici 2013b). The distinction between PMCs and OCS only serves, in effect, to differentiate the tax treatment of co-operatives, as their regulation is identical with regard to all the other aspects (excluding conversion). Therefore, a co-operative not interested in joining this specific tax treatment could well be established as an OC. Among the most significant general tax provisions applicable to co-operatives under Italian law it is worth mentioning art. 12, Law 16 December 1977, n. 904, according to which, profits allocated by the co-operative to indivisible reserves are exempt from the corporate income tax (*Imposta sul reddito delle società*: IRES)[3]. For this provision to apply, reserves must be indivisible to members both during the existence of the co-operative and after its disso-

[3] It is worth pointing out that these reserves may be used to cover financial losses – without this producing the loss of the tax measure – but only as long as the profits are not distributed before the re-establishment of the reserves (art. 3, par. 1, Law 18 February 1999, n. 28).

lution. Indivisible reserves may be compulsory (like the legal reserve of art. 2545*quater*, par. 1, CC) or voluntary. This exemption is subject to restrictions. Indeed, it does not apply to 40 per cent of the total annual profits; 20 per cent in the case of agricultural and small fishery co-operatives and their consortia; 65 per cent in the case of consumer co-operatives and their consortia (art. 1, par. 460, Law 30 December 2004, n. 311)[4].

Another significant tax provision, which is perfectly consistent with the mutual purpose of Italian co-operatives, is that according to which the amount of profits distributed to members as patronage refunds – namely, as restitution of a part of the price of the goods and services acquired by the members, or as additional remuneration for the goods and services provided by them (art. 12, Presidential Decree 29 September 1973, n. 601) – is exempt from taxation, also if these sums are assigned to members as free shares of the co-operative capital[5].

Reviewing fundamental taxation law provisions within both jurisdictions highlights how there tax concessions are realised by certain classifications of co-operatives in both jurisdictions. However, it also shows the regulatory divergence and segmentation that exists in terms of the complexity of laws that govern this issue in both jurisdictions. In Italy, primary regulations pertaining to tax considerations can be found under the CC while in Australia separate pieces of legislation need to be read in conjunction with both co-operative and corporation laws in order for the tax status of each co-operative to be ascertained. Again, the variation between Italian and Australian law lies in the historical fact that the Federal government in Australia was also charged with managing and collecting taxes from trading and other activities (Section 51 (ii) of the Australian Constitution) which resulted in the regulation of co-operative taxation being subject to numerous, distinct sources of legislation rather than being contained in a more consolidated code like that found in Italy.

One final piece of legislation that impacts on the activities of co-operatives in Australia is the *Competition and Consumer Act* 2010 (CCA). This

[4] The threshold of non-exemption has been recently increased (art. 2, par. 36*bis*, Decree-Law 13 August 2011, n. 138): this shows a legislative trend towards the approximation of the tax treatment of co-operatives to that of companies. Along the same lines, art. 2, par. 36*ter*, Decree-Law 13 August 2011, n. 138, by changing art. 1, par. 1, Decree-Law 15 April 2002, n. 63, excludes the exemption of 10 per cent of profits allocated to the compulsory legal reserve (i.e., 3 per cent of total annual profits, as 30 per cent of total annual profits must be allocated to the compulsory legal reserve according to art. 2545*quater*, par. 1, CC). This exemption also applies to OCs, but with limited regard to 30 per cent of the profits allocated to the legal reserve of art. 2545*quater*, par. 1, CC, and on the condition that OC statutes explicitly provide for the indivisibility of said reserve, given that OCs are neither subject to art. 2514 CC nor to the reserve non-distribution constraint provided therein (art. 1, par. 464, Law 30 December 2004, n. 311).

[5] This does not exclude, *per se*, that members are subject to taxation for the sums received as patronage refunds, which would be postponed when patronage refunds are assigned as free shares of capital.

law is aimed at ensuring organisations do not engage in anti-competitive behaviour or attempt to manipulate markets. The CCA is a legislative response from the government designed to keep the conduct of 'for-profit' forms of corporation as well as reducing barriers to increased competition. However, co-operatives are premised on creating favourable terms of trades for their members and consumers and thereby create artificial barriers to the acquisition and exchange of goods and services. This has led some authors such as Edghill (2008) to state that co-operative law and anti-competitive law are «natural enemies». In order to ensure that co-operatives do not breach the CCA, co-operatives are required to make an application to the Australian Competition and Consumer Commission (ACCC) for any specific activity that creates artificial barriers and show how they should receive an exemption from the CCA as the activity can be related back to the specific purpose of the co-operative and is being undertaken for the benefit of members rather than the pursuit of profits. Under the CCA, co-operatives are also subject to the same standards of conduct applied to corporations in relation to deceptive and misleading conduct. Co-operatives are not allowed to deceive or mislead in their dealings with customers. The burden of proving that a co-operative has acted diligently rests with the co-operative. As a result, the making of an 'honest mistake' is no defence under the CCA for misleading or deceiving conduct (CCA, Chapter 3, Part 3-1).

Having undertaken a broad brush overview of the general laws pertaining to co-operatives in Australian and Italy, the next section of this chapter will provide a comparative discussion on some of the more specific aspects of co-operative governance. This will help to draw out the similarities and differences that exist between the regulatory regimes of co-operatives in both jurisdictions.

3. Forms of co-operatives

Co-operatives in Australia are broken down into two categories: *distributive* (DCs) *and non-distributive* co-operatives (NDCs) (see section 18 & 19 of the *National Laws Act*). Distributive co-operatives are essentially organisations that can engage in commercial activities that allow profits to be distributed to members in the forms of dividends and rebates. In contrast, non-distributive forms of co-operatives are able to engage in commercial activities where surpluses are re-invested into the co-operative rather than distributed to members. A similar distinction between co-operatives is also made under Italian Law. As already observed, the CC creates two main categories of co-operatives: 'prevalently mutual co-operative' (PMC) and 'non-prevalently mutual', which is often referred to as 'other co-operatives' (OC) (see arts. 2512-2514 CC). Similar to the distinction under Australian co-operative law, PMCs have the primary focus of servicing the needs of members in the provision of goods or services or by directly employing members. Like NDCs in Australia, there are strict prohibitions in relation to the distribution of profits to members of PMCs under Italian Law (see art. 2514 CC). Similarly, PMCs and DCs are subject to certain legislative thresholds to establish whether co-operatives are engaged in the requisite level of 'mutual transactions'. In Australia, co-operatives must show that at least 90 per cent of transactions are occurring amongst its members to be able to obtain tax-free dividends. In Italy, the level of mutuality required to retain the PMC's status currently sits at 50 per cent of either the provision of services or employment to members. However, OCs can provide members with a dividend on the activities of the co-operative. The amount of dividend returned to members is subject to the limits approved at the time of establishing the co-operative (see art. 2545*quinquies* CC). Furthermore, this dividend fund can only be distributed to members when the ratio of net debts and assets is greater than 25 per cent.

Despite there being a high level of similarity in the broad types of co-operatives found in Italy and Australia, Italy has developed a set of laws to target unique forms of co-operatives. For example, Legislative Decree 1 of September 1993, n. 220 provides special rules in relation to co-operative banks. Law 3, April 2001, n. 142 governs the specific operations of worker co-operatives, while Law 8 November 1991, n. 381 specifically deals with social co-operatives, which are co-operatives performing educational or social-health activities or employing disadvantaged persons in the general interest of the community (and not in the interest of their members as such). These distinctions cannot be found in the Australian co-operative regulations. As explained earlier in this chapter, the governance of Australian co-operatives is not as consolidated as its Italian counterpart. Instead Australian co-operative law often needs to be read in conjunction with multiple, separate and distinct pieces of legislation governing a wide range of matters such as the reporting duties of financial officers, employment, non-for profit operations and taxation.

Examining how worker co-operatives in Italy attempt to balance the pressure to improve working pay and conditions with the need to develop sustainable co-operatives highlights the different regulatory approaches taken in both jurisdictions. With the passing of special Law 142/2001, Italian worker co-operatives are able to return surpluses to workers in the form of additional shares as well as issuing 'capital quotas' (Navarra 2009: 1). In effect, co-operative law can be used to directly determine pay rates and the provision of benefits provided to workers of these co-operatives. The legislative fiat to issue these types of benefits stem from specific co-operative provisions under the CC, reinforcing the important role that co-operatives play within Italian society and the economy more generally. In contrast, Australian matters associated with labour relations remain predominantly governed by legislated statutory standards found under the *Fair Work Act*

2009 (Cth) (FWA) (see for example Part 2-2 of FWA) or contained in specific collective enterprise based collective agreements established under the FWA (see Part 2-4 of FWA)[6]. Section 84 of the *National Laws Act* does provide one provision relating to worker entitlements. This section states that in circumstances where the assets of a co-operative are sold for a profit, a surplus of no more than 20 per cent of the nominal share value of the co-operative can be distributed to members/workers. Although both jurisdictions provide a regulatory mechanism that provide co-operatives with the discretion to provide additional benefits to workers, Italian law is more effective in reinforcing and promoting the type of 'double relationship' that exists in worker co-operatives (Fici 2013b). Instead of segmenting the type of relationships that exist between a worker and organisation (i.e. contractual and member), Italian co-operative law provides a legislative framework that effectively accommodates the 'organisational' and 'exchange' relationships that arises in the case of worker co-operatives.

4. Legal issues surrounding the raising of capital for co-operatives

Another important regulatory issue facing co-operatives in Italy and Australia concerns the raising of additional capital that a co-operative can use to expand. Under Italian law co-operative capital is divided into two forms: stocks (*azioni*) or shares (*quote*). The individual value of these instruments cannot be lower than 25 euros or greater than 500 euros (art. 2525, par. 1, CC). Italian co-operatives may also issue stocks to non-user investor members - that is, members who do not participate in or use the service (s) provided by a co-operative and instead are concerned solely with obtaining a return on their capital investment. The CC generally provides strict limitations on the value of shares that can be held by individual members. Article 2525, par. 2 of the CC states that individual members are unable to hold shares worth more than 100,000 euros. However, these limits do not apply to members that have legal entities other than the natural person.

In contrast, Australian co-operatives now have a legal mechanism that allows them to confer an interest in the capital of distributive co-operatives as opposed to an interest in the share capital of the co-operative itself. Commonly known as Co-operative Capital Units (CCUs), these are a form of personal property, which provides the purchaser with an equitable interest in the co-operative. CCUs can be issued to members and non-members alike (see section 345, *National Laws Act*). Recent research (Limnios et al. 2012) found that CCUs were issued for three primary purposes: to reward patronage of existing members, to raise capital for the primary co-operative or in pursuit of a new financial investment project that would improve

[6] For more detailed information on the provision of share schemes within Australia see Lenne *et al*. (2005).

the position of the co-operative. Similar to their Italian counterparts, the issuing of CCUs is governed by the rules of the co-operative itself subject to certain CCU shareholder voting rights. Section 349 of the *National Laws Act* states that each holder of CCUs is entitled to one vote at CCU holder meetings or the co-operative may include in its rules that each holder of a CCU is entitled to one vote per CCU held. After being established, CCU rules can only be varied by obtaining consent from 75 per cent of the holders of CCUs. CCUs can also be traded on the Australian Stock Exchange (ASX) and thereby allowing investors expose CCUs to market forces with the anticipation of increasing the nominal value of the CCUs themselves regardless of any dividend paid. To date, CCUs have had minimal success in being a legitimate alternative to other capital raising devices that investors are traditionally exposed to like share options. Recent research into the issuing of CCUs found that they might provide a benefit to co-operatives in a number of circumstances. In particular, CCUs may be of particular benefit where co-operatives wish to utilise an equity instrument which 'de-couples' co-operative ownership from control as CCUs do not provide CCU holders with voting rights (Mamouni Limnios *et al.* 2012). Secondly, CCUs may also be an effective vehicle for raising external capital or securing additional member investment while ensuring membership control remains diluted and democratic. Thirdly, CCUs also allow members to retain some form of equity with their co-operative once they retire or cease being an active member as per the requirements in section 145 of the *National Laws Act*.

5. The legalities of conversion

So far, this comparison of co-operatives in Australia and Italy has highlighted some of the key challenges in terms of governance and legal requirements that are evident in both regulatory regimes. One of the significant points emphasised at the beginning of this comparison was the divergent approaches that the two systems of laws have taken in relation to distinguishing co-operatives from other organisational forms such as the corporation. Italian law has developed a legal framework that encourages the formation of co-operatives while Australia's federal legal framework has facilitated the formation of 'for-profit' corporations rather than co-operative forms. Therefore, it should come of no surprise that up until 2006 there remained very divergent approaches under the law in relation to the conversion of co-operatives. Under Section 35 of the *National Laws Act*, a co-operative in Australia is able to change its form in the following ways. It can either convert from a co-operative with share capital to a co-operative without share capital or it may also convert from a distributing co-operative to a non-distributing form. However, amendments to rules facilitating this change cannot be made without a number of procedural requirements being met. These include the publication of the proposed rule change being published in newspapers at least two weeks before the proposed change as well as there being a special resolution passed by a special postal ballot where a majority of members vote in favour of the change (see s.35 3-5 (a-b) of the *National Laws Act*).

In Australia, conversion to a corporation continues to be governed by the *Corporations Act* 2001 (Cth). These have to be read in conjunction with the *National Laws Act* which contains provisions outlining the process of conversion to a corporation in circumstances where there has been a takeover bid made by another corporation (see s. 373 ff. of the *National Laws Act*). In order for a takeover bid to be successful, it has to be subject to a special postal vote (s. 374 [1]), which is only activated once the Board has considered the takeover application and determines it should be put to members. The takeover offer can only be considered by the Board for up to a maximum of 28 days before calling for a special vote. Section 240 of the *National Laws Act* outlines how a majority is ascertained under the prescribed voting system. As long as a 'majority' of those eligible to vote (50 per cent) are in favour of the proposed takeover, the co-operative can be acquired.

The acquisition of a co-operative will trigger the 'winding up' provisions of the *National Laws Act.* In particular, sections 442 ff. indicate that in the case of winding up, the relevant provisions of the *Corporations Act* 2001 (Cth) will apply. These provisions detail the process of appointing liquidators and administrators for the purpose of conversion or dissolution of the co-operative. Section 448 of the *National Laws Act* also regulates the process of distributing the remaining assets of *non-distributive* co-operatives to members. Section 448 states that any surplus property or assets is to be divided up in accordance with the specific rules established by each co-operative at the time of formation. The required application of the *Corporations Act* 2001 helps to highlight some of the main arguments made at the outset of this chapter: namely that Australia's emphasis on corporations as the most legitimate and preferred vehicle for economic growth and activity has led to many actions of a co-operative being subject to multiple laws attempting to govern similar subject matter and issues thereby making the legislative terrain of co-operatives extremely complex. The transplanting of corporation laws on co-operative regulations remains rather clumsy and ill-fitting due to the significantly different agendas that these organisations pursue. Corporation laws were designed to regulate entities that were primarily concerned with enhancing market share and shareholder returns. In contrast, co-operatives have had objectives of democratising ownership as well as pursuing a mutual aim governed by core co-operative principles and objectives outlined in Section 10 of the *National Laws Act*. Devising a single, effective regulatory scheme that accommodates the operational dynamics of both types of organisations remains difficult to construct.

In Italy, conversion laws make the process of dissolving a co-operative much more difficult. The first regulatory hurdle that Italian co-operatives face is that only OCs can be converted into some other type of company (see art. 2545*octies* CC). Therefore for a co-operative to convert they must have clearly relinquished their emphasis on mutuality. Once the co-operative is able to prove it has lost its PMC status, it may convert, and any assets that remain at the time of conversion are placed into a co-operative mutual fund established by art. 11, Law 59/1992. Federations of co-operatives manage mutual funds in the interest of the co-operative movement, ensuring a strategy of cooperation among co-operatives. The only monies that may be deducted from this allocation are monies or dividends that are due to be paid but which have not yet been distributed. A further deduction from the allocation to the mutual fund includes any monies required to meet the requisite levels of capital required to form the proposed corporation (see art. 2545*undecies*, par. 1 CC). These laws could be viewed as a regulatory device to discourage the conversion of co-operatives into 'for profit' forms of enterprise. It is important to note that despite the fact that these conversion provisions may seem quite onerous, they are in fact much more conducive to facilitating the transformation of co-operatives to corporations than what existed under Italian law prior to these provisions coming into effect in 2003. Before these reforms, the conversion of co-operatives to some other organisational form was prohibited. Italian law makers have been quite active in limiting the level of 'demutualization' occurring in Italy as well as ensuring that any financial surplus is used to promote co-operatives in the economy.

6. Regulating for joint-venture success

Usually, Italian co-operatives set up a consortia of co-operatives, which are secondary co-operatives that put in place a form of economic coordination between the member co-operatives (Fici 2015). Another unique form of co-operative integration that can be found under Italian law relates to Art. 2545*septies* of the CC, which allows for the formation of 'joint co-operative groups' (*gruppi cooperativi paritetici*) (Fici 2015). This is an unusual legislative option whereby two of more co-operatives can come together to pursue a mutually defined goal. This in itself may not be unique as the premise of co-operatives is based upon the notion of creating organisations that pursue a common goal with the intention to benefit members. However, this is a different regulatory approach taken to Australia as art. 2545*septies* CC is *an explicit co-operative law* provision that allows for one co-operative in this arrangement to have exclusive authority over how the common goal of the project is achieved. In contrast, section 39 of the *National Laws Act* does allow for the formation of joint ventures between two cooperatives. However, Australian laws remains silent on how these types of commercial operations are managed. Instead of having this co-operative endeavour governed by co-operative law, Australian law leaves the terms of the joint venture to be governed by traditional contractual terms between the two organisations. As a result, co-operatives in Australia are not able to access the legislative rights attached to the operation of joint co-operative groups found under Italian law. For example, under a joint co-operative group arrangement, one party is able to withdraw from any agreement without penalty as long as it can show that its withdrawal is in the interest of its members (art. 2545*septies*, par. 2 CC). Under Australian law, such withdrawals from joint ventures could be subject to breaches of private contractual terms governing the joint venture itself.

Australian laws have also incorporated a legislative provision attempting to overcome the jurisdictional limitations that state based co-operatives have faced since the time of federation which has a similar effect to that of the joint co-operative group provisions under Italian law. It is important to note that though these provisions only operate in circumstances where a co-operative registered in one State is attempting engage in activities within another State. As explained at the outset of this chapter, co-operatives in Australia have been constrained to formation within State geographic boundaries due to constitutional limitations stemming from the Corporations power under section 51 (xx) of the Australian constitution. As a result the *National Laws Act* does provide for the registration of 'participating co-operatives' (see Chapter 5 of the Act). These are defined as a co-operative «that [are] is registered and incorporated under, and is subject to, a corresponding set of co-operatives laws of another jurisdiction» (see Pt. 1.2, Section 4, *National Laws Act*). Chapter 5 of the *National Laws Act* clearly outlines the conditions that a co-operative has to meet in order to trade in a different jurisdiction under the organisational framework of a co-operative registered in an alternative state. These laws are aimed at providing a mutual recognition scheme similar to that of Italy while also ensuring that the membership base and financial security of co-operatives who enter into these arrangements are not threatened by the presence of a similar or new co-operative in the same jurisdiction. For example, Chapter 5 of the Act provides strict limitations on the capacity of foreign co-operatives to approach or entice distributing local co-operatives with offers of share issues *unless* the co-operatives part of this venture have agreed to allow this financial offer to be presented to their members (e.g. section 459, *National Laws Act*).

7. The role of law in underpinning the political activities of co-operatives

Another peculiar form of co-operative integration found in Italy, which is not promoted under Australian co-operative law, relates to political co-operative bodies. In Italy there is the presence of 'federations of co-operatives' (Fici 2015). Co-operatives, though not obligated (as for examples German co-operatives are under German law), are strongly encouraged to belong to a federation in order for these federations to have influence on political and economic reform decisions. If co-operatives fail to align themselves to a federation, the State automatically receives control of the co-operative. This is reinforced by the requirement for all Italian co-operatives to provide 3 per cent of their total annual profits to the co-operative movement via these federations (or to the state where they do not belong to any federation). This funding is used to promote new co-operatives as well as to conduct research into the strategic role that co-operatives can play within the Italian domestic economy. These types of funds are also supplemented by any residual capital that remains after the conversion of co-operatives to other organisational forms as outlined previously in this chapter.

There is no legal obligation in Australia for a co-operative to belong to a federation or state affiliated body. However, most states in Australia do have an active association body that represents co-operatives. These associations remain active in encouraging co-operatives to become members of their association so they can identify and facilitate the type of 'participating co-operatives' arrangements outlined in the preceding paragraphs. More recently there has been the emergence of a national co-operative body, the Business Council of Co-operatives and Mutuals (BCCM). This body currently has membership ranging from peak industry groups as well as some of Australia's largest co-operatives. The BCCM aims to: «promote the role of co-operatives and mutuals in the national economy and to provide leadership in the important areas of research, education and advocacy with the hope of building a strong co-operative sector within Australia» (BCCM 2014). Despite these types of bodies and associations gaining significant traction, they still lack the type of legislated financial backing that Italian co-operatives can rely on in order to promote their interests in both political forums.

8. Conclusions and policy implications

This chapter has provided a comparative overview of the legal machinery that underpins the operation of co-operatives in Italy and Australia. In doing so, this chapter has shown how the legal development of co-operatives in both countries have very distinct paths of development. Italy held a strong belief in the value that co-operatives could play in fostering not only economic growth but also enhancing democratic ownership and providing social as well as economic benefits to society. In contrast, the development of co-operatives in Australia was hindered by geographical constraints and constitutional developments which favoured the 'at-profit' form of enterprise over the co-operative. Yet despite these differences, the remainder of this chapter has highlighted the high level of convergence that continues to occur between the regulatory frameworks underpinning co-operatives in these two countries. Not only are the fundamental rules and procedures regarding the formation and operation of co-operatives similar, but the law is also mandating for the same type of co-operatives to be utilised. This chapter has also shown that the creation of the *National Laws Act* has helped to provide greater consistency and uniformity in the establishment and operation of co-operatives in Australia. In exploring the difficulties surrounding the achievement of this goal, this chapter has also provided detail on how issues relating to conversion, acquisition of capital and governance are regulated under both Italian and Australian law.

Despite the relatively weak legislatively base that co-operatives have had in Australia, there is growing awareness of the increasingly important financial role that co-operatives play within the Australian economy. This chapter has argued that co-operatives in Italy have a regulatory framework that is receptive to co-operatives which allows the interests of their members to be advanced. In particular, the legally recognised right for co-operative federations to have some direct political influence on policy and law making. In contrast, Australia still relies on the activities of newly formed national bodies, such as the BCCM to promote both the financial and social benefits that co-operatives can provide as well as educating the community about the problematic nature of attempting to reconcile cooperative law with other regulatory regimes such as corporations law. The passing of uniform co-operative laws can only help to assist with this process and help reinforce the convergence that is occurring between Italian and Australian co-operative legal frameworks. Whether crafting uniform legislated standards will help resolve the problems that co-operatives currently face in terms of remaining a viable organisational form remain to be seen.

Legislation

Co-operatives (Adoption of *National Laws*) Act 2012 (NSW), ss. 10, 18, 19, 35, 39, 84, 240, 345, 373, 374, 442, 448, 459.
Corporations Act 2001 (Cth), ss. 30.
Fair Work Act 2009 (Cth), Part 2-2.
Income Tax Assessment Act 1997 (Cth), s. 118.
Italian Civil Code of 1942, artt. 2511ff.
Law 3 April 2001, n. 142 (Italy).
Law 8 November 1991, n. 381 (Italy).
Law 16 December 1977, n. 904, art. 12 (Italy).
Legislative Decree 1 September 1993, n. 220 (Italy).
Presidential Decree 29 September 1973, n. 601, art. 12 (Italy).
Competition and Consumer Act (Cth) 2010, Chapter 3, Part 1.

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National Co-operative Organisations in Australia and Italy

Italian and Australian co-operatives, like companies, are independent entities and, like conventional firms have organized themselves into associations representing their particular interests. From this point of view, there are no great differences in what happens in other business associations. However, the efforts of the Italian co-operatives in this area have been far more effective than their Australian counterparts.

Where Australian co-operative organizations have been formed their role remains largely focused on lobbying state governments. While there was one significant example of a co-operative wholesaler, its activities were largely confined to one state and it ceased operations in 1979. By contrast the Italian co-operative organizations, for a number of reasons, including the responsibilities granted to them by the government, have a role that goes well beyond the mere representation and safeguarding of their specific interests.

Presently, the Italian Co-operatives are, for the most part, represented by six cross-sectorial organizations: Legacoop, the National League of Co-operatives and Mutuals, founded in 1886 (Degl'Innocenti 1977; Fabbri 1979), Confcooperative, the Italian Co-operative Confederation set up in 1919 (Caffaro 2008), AGCI, the General Association of Italian Co-operatives, set up in 1952 and officially recognized in 1961 (Forti 2009), UNCI, the Italian National Co-operative Union, founded in 1971 and recognized in 1982, Unicoop, the Italian Co-operative Union set up in 1999 and recognized in 2004, and Ue.Coop set up and recognized in 2013[1]. Each of the six co-operative organizations is divided into regional and sectorial associations. The sectorial associations bring together co-operatives of the same sectors (consumer

[1] Ue.coop, the most recent of the organizations, was promoted by Coldiretti, one of the most important Italian agricultural associations.

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coops, housing coops, agricultural coops, worker coops, retailer coops, social coops, credit coops, etc.). Two years ago the three oldest and largest organizations (Agci, Confcooperative and Legacoop) began coordinating their activities, paving the way towards a possible merger. This initiative has been called the Alliance of Italian Co-operatives (ACI)[2]. All the above organizations are recognized under Italian law and consequently carry out, on behalf of the government, the supervision of their co-operatives[3]. As well as the above mentioned organizations that represent every type of co-operative, there are two associations that represent the credit co-operatives: Assopopolari, the National Association of People's Banks set up in 1876 and Federcasse, the Federation of Co-operative Credit Banks founded in 1909 and which from 1967 has been a member of Confcooperative.

This paper will explore the history of co-operative organization in the two countries and then focus on recent developments. Given the problems that the Australian co-operative movement has faced in establishing co-operative organizations, there is much that can be learnt from the Italian experience.

1. A Historical Overview – Italy

To fully understand the role played by the Australian and Italian co-operative organizations, it is essential to provide a brief overview of their history. Indeed, many of the peculiarities of the Australian and Italian co-operative movement originate from the specific features of their representative organizations.

Firstly, it is useful to recall that in both in Australia and Italy the co-operative phenomenon began to develop in the second half of the 1800s. However, it was in Italy, that co-operatives active in the second part of the 19th century (mainly agricultural, artisan, worker, consumer and credit co-operatives) banded together and set up, in 1886, the first representative organization, which at the time was called the Federation of Italian Co-operatives, and after two years transformed into the National League of Co-operatives. At the same time, the mutual benefit societies began to spread, many of which later merged forming the Mutuals of the National League of Co-operatives. It is important to highlight that, from the very beginning, co-operatives of every type and every cultural inspiration belonged to the above-mentioned national organization (which also preceded the first Italian trade union organizations as well as the foundation of the Socialist Party and the People's Party).

[2] The ACI started up its activities in January 2011. During the first two years, the coordination of the sectoral associations took place and, now, it is the turn of the regional bodies, to be followed by the national offices.

[3] We will look at the features of supervision later on. To gain state recognition, an association must have at least 4,000 member co-operatives and consortiums, present in at least 5 regions, and with co-operatives representing at least 3 typologies forecasted by the National Register of Co-operatives.

The above is particularly important as in other European countries the formation of the co-operative representative organizations occurred quite differently. In fact, almost everywhere, only representative associations were formed for the single co-operative typologies – associations for agricultural co-operatives, consumer co-operatives, worker co-operatives and so on. Only later, and often much later, did links and/or coordinated activities among the different associations develop. The creation of sectorial representation resulted in the associations being much more homogeneous (compared to the Italian ones), also from a cultural point of view. If we consider the German credit and agricultural co-operatives, for example, we see that they were strongly influenced by Christian thinking, while socialist thinking often inspired the consumer co-operatives in most European countries (Botteri 1979; Fornasari, Zamagni 1997).

The most important consequence of this difference in development can be found in the fact that, in Italy, from the very beginning, relations among different types of co-operatives were always present and it was only at a later stage that these cross-sectorial organizations created representative associations for the different co-operative types. This occurred, however, without losing the central role of representation of the original organization.

As mentioned above, at that time, the National League of Co-operatives and Mutuals represented all the then existing cultural orientations to be found in Italian society (socialist, liberal, Catholic). It was only at a later date that other organizations began to emerge – Confcooperative was set up in 1919, influenced by the Catholic church's social doctrines, with some co-operatives already being members of the League; Agci in 1952, with co-operatives already belonging to the League, but of a social democratic and secular-liberal leaning. Instead, the co-operatives remaining in the League were mainly those (at the time) adhering to the socialist thinking (both socialist and communist elements) and a component originating from the republican and liberal factions.

What is interesting to note is that the plurality of organizations formed, if, on the one hand, signalled the existence of significant political and cultural differences, on the other, gave rise to representative organizations that have continued over time, with each of them, encompassing all the different types of co-operative forms. In finding themselves with co-operative members of different typologies, in the same organization, the latter were forced not only to meet the needs and interests of only one type of co-operative but also those of the co-operatives as a whole[4]. At the same time, this model of organization allowed the co-operatives to increase their recipro-

[4] An example of an initiative aimed at responding to the common needs of all co-operatives could be considered the setting up in 1909, at the urging of the National League of Co-operatives, of the *Banca di Credito per la Cooperazione* which had among its objectives the financing of co-operatives of all types.

cal relations not only regarding their single sector interests but also in looking for new possible synergies[5].

Furthermore, it should be taken into account that, even though the co-operative phenomenon has been supported in one way or another, at least up to World War I, by a wide range of political parties, it has also been the target of strong opposition. In particular, both immediately after the war and during the years of Fascism, co-operatives were strongly attacked and hindered, climaxing in the 1920s with the dissolving of the representative organizations. The closing of the organizations obviously had its consequences, but, paradoxically, it also had the effect of highlighting their usefulness. This was to such an extent that, with the advent of democracy in 1945, the newly reconstructed co-operative organizations were considered by the co-operatives as crucial and invaluable bodies through which they could be represented and safeguarded. This last fact also found significant support in the Italian Republic Constitution, which, maybe unique in the European democracies, calls for a clear recognition of the co-operative form[6].

This has been further strengthened by the fact that since the introduction of the base law for Italian co-operatives (the 1947 Basevi Law), the task of monitoring the co-operatives by the government was delegated to the recognized national representative organizations[7]. A successive provision of 1992 further increased their tasks by assigning these organizations the obligation to set up specific companies with the competence to collect per cent of the annual surplus of the member co-operatives to be used for co-operative development.

2. A Historical Overview – Australia

By contrast Australian co-operatives did not enjoy the special status of Italian co-operatives in the Australian constitution that accompanied federation in 1901. State law rather than federal law governed Australian co-operatives. Where co-operative associations were formed, they tended to be organised a state level. There was also a distinction between financial co-operatives and the remainder of the Australian co-operative movement.

In Australia earliest attempt to form a broad organisation for co-operatives was among the emerging Rochdale consumer co-operative move-

[5] The presence in the same organization of both the agricultural and consumer co-operatives, for example, allowed for 'managing', with more awareness, the typical conflicts of interest that arise between suppliers and customers.

[6] Article 45 of the Italian Constitution states that «the Republic shall recognize the social role of co-operatives, characterized by their mutuality and absence of private lucrative gain. The law shall promote and foster their development through the most appropriate means and guarantee, through the correct controls, their specificity and objectives».

[7] The 1947 Law, also called the Basevi Law, is the legal tool, which up to today has supported, although with many important successive amendments, co-operative activity in Italy.

ment. Four Hunter Valley consumer co-operatives (Newcastle & Suburban, West Wallsend, Wallsend & Plattsburg, and Cessnock & Aberdare) founded the New South Wales Co-operative Wholesale Society (NSWCWS) in 1912. As in the UK, local Rochdale consumer co-operatives faced serious challenges including price-cutting by competitors, and the refusal of supply by some wholesalers concerned with maintaining relationships with existing businesses (Purvis 1998). The NSWCWS was established to avoid such issues but was faced with boycotts by flour millers and oil companies in the years prior to World War I. Manufacturers, importers and the agents of overseas companies refused to include the NSWCWS on their wholesale list. Nevertheless, over the following years, the NSWCWS attracted an increasing number of societies as affiliates and launched the *Co-operative News*, the main journal for the co-operative movement, in 1923. A slump in membership occurred in the decade 1924-1934, but from 1935, the number of affiliates noticeably increased. In 1934, 15 societies were affiliated to the NSWCWS, growing to 37 by 1945 (Balnave, Patmore 2012: 989).

The Rochdale movement in Australia was, however, never able to form a strong wholesale side of operations. While it became clear to the NSWCWS directors that for the organisation to grow they had to gain the support of all the retail consumer co-operatives. The vision, however, was not realised, as many Rochdale consumer co-operatives, particularly in rural areas, remained independent of the wider movement. There were criticisms by co-operatives of the price and quality of the NSWCWS goods and delays in providing those goods to the retail co-operatives. The NSWCWS clashed with agricultural co-operatives on several occasions on issues such as national organisation and co-operative legislation. The uncomfortable relationship between the agricultural producer co-operatives and the Rochdale consumer co-operatives continued into the post-war period (Balnave, Patmore 2012: 993).

Divisions and its inability to unite around common goals weakened the Rochdale movement in Australia. There were divisions between those who believed in the need for a central organisation such as the CWS (federalists) and those who preferred autonomous local consumer co-operatives with far looser links with other consumer co-operatives (individualists). In Adelaide by World War II, for example, Gary Lewis (1992: 178-179) categorises the Adelaide Co-operative as individualist and the other major Rochdale metropolitan co-operative in South Australia, the Port Adelaide Industrial Co-operative, as federalist. As noted above, rural consumer co-operatives, whether by design or location, preferred to remain autonomous from the NSWCWS and similar organisations. There were also tensions within the Rochdale co-operative movement along gender lines. In NSW, the Women's Co-operative Guilds went beyond the supportive role expected by the NSWCWS with some guilds frequently challenging the male-dominated CWS by criticising their leadership and organising conferences to promote alternative paths for the Rochdale movement. The NSWCWS went into permanent decline after 1957, and the *Co-operative News* ended publication in 1959. The NSWCWS ceased operations in 1979 (Lewis 1992: 108-109, 135-137, 170-171). There was also a Co-operative Wholesale Society of Queensland (CWSQ) formed in 1945, but it went into decline after the mid-1960s. The CWSQ was also caught up in divisions between Rochdale consumer co-operatives and farmer co-operatives (Kidston 1971: 58; Lewis 2006: 88-92). Surviving Rochdale consumer co-operatives have overcome the lack of a co-operative wholesaler in Australia by linking up the Rochdale model with franchising. Junee and Denmark co-operatives are both franchisees for supermarket chain IGA. As of 31 January 2009, the Community Co-operative Store in Nuriootpa was a franchisee for 10 different business entities including Foodland IGA supermarkets, Mitre 10 hardware and Betta Electrical (Balnave, Patmore 2012: 994).

At a state level there was interest in forming co-operative peak organisations, but this was generally short-lived. There was a Co-operative Union in South Australia in 1924 that held its Annual General Meeting at the Eudunda Farmers Co-operative offices in Adelaide. Guided by Rochdale principles, its objectives included education, advisory services and the defence of co-operative interests. Its members included Rochdale consumer co-operatives, a co-operative bakery and the South Australian Fruit Growers' Co-operative Society. The most successful example of a state peak body was the Co-operative Federation of Western Australia (CFWA), which was formed in October 1919 at the instigation of the Westralian Farmers' Co-operative Limited to trade with the English CWS. It was dominated by farmers' co-operatives, but did include Rochdale consumer co-operatives. The annual conference of the CFWA in February 1932 at the Westralian Farmers building in Perth attracted 100 delegates from 42 co-operative societies. The Westralian Farmers, through the influence on the CFWA, created a climate in that state that was hostile to attempts to democratise co-operatives or introduce legislation that defined co-operatives along Rochdale lines. This further exacerbated divisions within the broader Australian co-operative movement (Balnave, Patmore 2012: 1992).

Towards the end of World War II there was some interest in forming a peak Australian organisation of co-operatives. While there had been at least three previous Australian Co-operative Congresses organised they had not led to any permanent outcome. In December 1943 a Commonwealth Consumers Co-operative Conference, with representatives of producer and consumer co-operatives from six states, met at the Albert Hall in Canberra. The CFWA organised the conference and Senator Joseph Collings, the federal Labor Minister for the Interior opened the proceedings. Those present saw the Australian co-operative movement as having a vital role in post-war reconstruction, even suggesting that co-operative principles should form the basis of that reconstruction (Balnave, Patmore 2012:

992). George Booth, a NSW Labor parliamentarian and President of the NSW CWS, reminded delegates that it was not good enough to see the co-operative movement in terms of dividends, but that the movement was «a religion; it is a brotherhood of man» (Commonwealth Consumers' Co-operative Conference 1943: 21). The conference passed a number of resolutions including a call for the representation of consumer co-operatives on all Commonwealth Government boards dealing with the retail and wholesale trade, the establishment of permanent secretariat in Canberra known as the Co-operative Federation of Australia (CFA) and state co-operative federations. The conference also called upon all Australian co-operatives to use the celebration of the forthcoming Centenary of the Rochdale Pioneers in 1944 to inspire their own members and educate the general public (Commonwealth Consumers' Co-operative Conference 1943: 24-26). While as Lewis argues, many of the hopes emerging from this conference were not fulfilled following the end of the War, the conference represents a high point for the Rochdale consumer co-operative movement in Australia (Lewis 1992: 181-185).

Despite the hopes of forming a strong national co-operative organisation, state and local concerns dominated the Australian co-operative movement. The CFA remained weak and fluctuated in its level of activity, becoming moribund in 1986, with the Co-operative Federation of NSW (NSWCF) forming its own Australian Association of Co-operatives (AAC). Following the closure of the NSWCWS in 1979, the AAC did make an attempt to float the idea of reforming a co-operative grocery-buying group in the early 1980s, but without success. The AAC itself finally collapsed in 1993 due to financial problems associated with its internal banking services to members, with a number of co-operatives losing funds. The AAC had made some bad loans to the struggling NSW Rochdale consumer co-operative at Singleton, which also went into liquidation. The CFNSW was reformed in the wake of the collapse of the AAC, but it now restricts its activities to lobbying governmental agencies and providing advice on legal and financial matters. It joined with other state co-operative associations in 1993 to form a national body of co-operatives, becoming known as Co-operatives Australia, which performs a similar role at a national level. These peak bodies represent a broader range of co-operatives than just consumer co-operatives (Balnave, Patmore 2006: 64-65).

There is one major exception to these problems with forming strong national associations of co-operatives – the credit unions. While Lewis (1996: 8-12), argues that the impetus for credit unions in Australia dates back to the passage of the NSW Small Loans Facilities Act in 1941, the first registered credit union – the Homeowner's Co-operative Credit Society Limited – was established in May 1945. Some purists dismiss these credit unions as extensions of building societies and friendly societies, and see the first 'true' credit union to be the Universal Credit Union established in October 1946. Early credit unions formed in Australia in 1946 were based on Anglican and Roman Catholic Church Parish Groups. By 1956 there were approximately 80 credit unions in New South Wales. The largest state and peak body called the NSW Credit League was formed in 1958. However, the credit union movement was weakened by disunity, with four peak organisations emerging during the 1960s. These divisions were complicated by the problem that credit unions like co-operative societies were regulated on a state rather than national basis. National organisation reached its peak with the formation of the Credit Union Services Corporation (Australia) Limited (CUSCAL) in January 1992. The credit unions remain perhaps the most vigorous form of co-operatives in both countries and have been through a process of amalgamation in recent years to take advantage of new technologies and to remain competitive with the non-co-operative banking sector (Cutcher 2006; Lewis 1996).

3. The Current Situation – Italy

It is not compulsory for an Italian co-operative to belong to a representative organization. In fact, independent Italian co-operatives make up about 40 per cent of the total number of co-operatives. These co-operatives are presently under the direct control of the Ministry of Economic Development.

The national organizations all have as their main objective the representation and safeguarding of their members' interests and promoting the spread of the co-operative model. As well, they also have the task, delegated to them by the state, to supervise their member co-operatives. Moreover, since 1992, they have had the responsibility of collecting the 3 per cent of company surplus of their member co-operatives, through the setting up of ad hoc companies called Mutualistic Funds for the promotion and development of co-operatives[8]. These funds must be used to support and develop existing co-operatives and promote new ones.

According to a recent report in 2012, Italian co-operatives numbered approximately 80,000, with a production volume of more than 150 billion euros (excluding the people's banks), and directly employed more than 1,300,000 workers and numbered almost 13 million members[9]. Table 1 be-

[8] Presently, there are 4 national funds: Generalfond (AGCI), Fondosviluppo (Confcooperative), Coopfond (Legacoop) and Promosviluppo (UNCI). The law providing for the setting up of the Funds also forecasts their establishment by the recognized organizations based on laws issued by the Italian regional governments (specific statute). Presently, the most important of these is promoted by the *Federazione della Cooperazione Trentina* (Promocoop Trentina).

[9] For data relevant to the Italian co-operatives see Euricse (2011) and Censis (2012). A little more than half belong to the ACI (Agci, Confcooperative, Legacoop), about 12,000 belong to other organizations and slightly less than 30,000 belong to no organization. However, approximately 90 per cent of production and employment can be attributed to the ACI member

low shows some figures for 2011 concerning the co-operatives belonging to the largest recognized organizations.

Table 1 – Co-operatives affiliated to Three Main National Co-operative Associations (economic data).

	Legacoop	Conf-Co-operative	Agci
N° member coops (1)	13,505	20,358	7,832
Members	8,823,774	3,166,150	442,358
Turnover/ prod.vol. (2)	75,409	61,280	8,084
Employees	480,435	544,400	92,045

Notes:
(1) Some co-operatives belong to more than one organisation.
(2) The figures regarding the turnover or production volume are in million € and include, as well as the co-operatives and their consortiums, the investor-owned firms controlled by co-operatives.

Hereon, reference will be made only to those co-operatives belonging to the ACI organizations (Legacoop, Confcooperative, Agci). Even if different types of co-operatives are members of each of the organizations concerned, a more specific study of their membership composition regarding different typologies (see Table 2 below) reveals that there are marked differences between the three organizations. In analysing the number of co-operatives belonging to the different organizations it can be noted that those belonging to Legacoop are on average larger firms. Instead, looking at the type of co-operatives and the sectors in which they operate, it appears that the co-operatives belonging to Confcooperative are mainly present in the agro-food industry, credit and social sectors. Legacoop members, in terms of turnover and employment, are more prevalent in the retailing sector (consumer and retailer coops), while the worker co-operatives prevail only in terms of only turnover. However, in terms of turnover, there is also a high presence of social co-operatives and an important number coming from the insurance sector. Whereas Agci, which is a considerably smaller organization, has, except for retailing, members present in all the traditional co-operative sectors. Apart from the numbers, it is also useful to highlight that the member co-operatives of the organizations that make up the ACI are leaders in the agricultural sector and agro-food industry, in some areas of the non-food manufacturing industry, construction, retailing, services (catering, goods transportation, global services), social assistance and insurance. They also make up a significant percentage in the credit sector.

co-operatives. It should also be highlighted that as well as the employees in the co-operatives, we must consider those in non-co-operative firms owned by co-operatives (more than 75,000) which are almost all co-operatives of the ACI.

Table 2 – Disaggregation by Co-operative typology. Main National Co-operative Associations.

2011	Legacoop					Confcooperative					Agci			
Z	n° coops	turnover (million €) (1)	employees	Members		n° coops	turnover (million €) (1)	employees	members		n° coops	turnover (million €) (1)	employees	members
Agricultural	1,655	8,778	25,647	204,075		3,544	25,700	63,000	452,368		1,790	2,945	16,070	177,451
Fishing	392	875	4,700	18,300		447	400	7,100	10,981		(2)			
Worker (3)	4,681	19,665	210,181	136,600		5,242	8,800	183,000	241,320		2,788	3,584	52,674	87,476
Consumer	1,108	13,197	56,774	7,715,429		714	4,600	8,800	312,815		–	–	–	-
Retailer	79	10,160	38,000	3,300		(4)					–	–	–	-
Housing	2,005	931	1,475	398,000		2,382	3,000	900	150,542		1,921	804	536	55,293
Credit	–	–	–			421	8,000	36,500	1,156,711		77	531	1,246	78,279
Social	2,394	3,600	110,120	120,000		5,791	5,700	220,900	218,121		864	360	19,241	31,280
Other (5)	1,191	18,199	33,538	228,070		1,817	5,080	24,200	623,292		392	40	2,278	12,579
Total	13505	75405	480435	8823774	0	20358	61280	544400	3166150	0	7832	8264	92045	442358
Grand total	41695	144949	1116880	12432282										

Notes:
(1) For Legacoop is Production Volume.
(2) Fishing co-operatives are included in Agricultural co-operatives.
(3) Worker co-operatives include cooperatives active in manufacturing, construction and services. In the last sector are included cooperatives in which worker-members are entrepreneurs.
(4) Retailer co-operatives are included in Consumer co-operatives.
(5) For Legacoop are included companies operating in the insurance field, credit and financing, mutuality, culture, tourism and publishing. For Confcooperatives are included cooperatives active in the health field, culture, financing, mutuality, culture, and tourism. For Agci are included cultural, tourism and sport co-operatives.

Both the sectorial associations and regional bodies refer to each of their national organizations. Legacoop's sectorial associations are the following: National Association of Agricultural Co-operatives (Legacoop Agroalimentare), National Association of Fishing Co-operatives (Legapesca), National Association of Housing Co-operatives (ANCAB), National Association of Worker and Production Co-operatives (ANCPL), National Association of Services Co-operatives (Legacoopservizi), National Association of Consumer Co-operatives (ANCC), National Association of Retailer Co-operatives (ANCD), National Association of Social Co-operatives (Legacoopsociali), Association of Journalists, Publishers and Communications Co-operatives (Mediacoop), Legacoopturismo, Federation of Mutual Societies (FIMIV) and the Federation of Doctors and Healthcare Worker Co-operatives (Sanicoop). As well, there are offices in Legacoop responsible for supporting and promoting co-operatives in new areas. Among these, the most recent include the Community Co-operatives and the Professional Co-operatives.

Under the Legacoop umbrella, we can also find other firms (co-operatives and non-co-operatives), which are owned by groups of co-operatives and carry out activities in the interests of all. Among those worth mentioning are: CCFS (a financial firm), Cooperfidi Italia and CFI (with Agci and Confcooperative participation), Unipol Assicurazioni, Unipol Banca, Coopfond (mutualistic fund for co-operative development), Cooptecnical (innovation), Inforcoop (training), Obiettivo Lavoro (temporary employment agency), Foncoop (professional training with Agci and Confcooperative participation). Legacoop is also divided up into regional bodies and is present in all Italian regions and some provinces.

Confcooperative's member federations include: Federagri (agricultural co-operatives), Federcoopesca (fishing co-operatives), FederCultura Turismo e Sport, Federabitazione (housing co-operatives), Federcasse (credit co-operatives), Federlavoro e Servizi, Federsolidarietà (social co-operatives), and Federazione Sanità. Other different firms are also under the Confcooperative umbrella, the most important being: Elabora (studies, training and communications), Fondosviluppo (mutualistic fund for co-operative development), and Unicaf. Confcooperative is also present in all Italian regions and provinces.

Finally, as far as Agci is concerned, the sectorial associations include: Agci Abitazione (housing), Agci Agrital (agriculture and fishing), Agci Credito e Finanza, Agci Culturali, Agci Editoria, Agci Produzione e Lavoro, Agci Servizi, Agci Solidarietà (social). The following bodies also refer to AGCI: Banca Agci, Consef, Consorzio Meuccio Ruini, Isicoop and Generalfond (mutualistic fund for co-operative development). Agci also has offices in all Italian regions.

Moreover, the three main organizations have jointly promoted firms in the area of pension funds (Filcoop, Previcooper, Cooperlavoro), on-going professional training (Fon.coop), credit (Cooperfidi Italia) and a financing company (Cooperazione Finanza Impresa – CFI), the later in co-operation with the Italian state. As well as the above-mentioned entities, each organization has set up and promoted diverse support structures, also at the level of individual sectors and at the local level.

4. The Role of Representative Organisations – Italy

As far as the enforcement of the law is concerned, the recognized representative organizations have two specific tasks: supervision of their member co-operatives and also (from 1992) collecting the 3 per cent annual surplus of the member co-operatives and consortiums to be utilized in the promotion and development of member co-operatives and new co-operatives.

In Italy, the role of supervising the co-operative firms and their consortiums has been allocated to the Ministry of Economic Development. The degree to which this role is exercised can be found under art. 45 of the Italian Constitution which states that, concerning the co-operatives «[…] the law shall promote and foster their development through the most appropriate means and guarantee through the correct controls, their specificity and objectives». On the basis of this constitutional article, the Italian law states that co-operative firms «are subject to the authorizations, surveillance and any other controls forecasted by the specific legislation». This involves a supervision, which not only deals with the respecting of mutualistic aims but also the laws and the necessary requirements for any possible fiscal advantages. This supervision is not a specific feature of the Italian legislation. In fact, the most important European legislation also forecasts different forms of external controls.

This supervision was introduced (in addition to what was already forecasted for other firms) mainly due to the need, because of the fiscal advantages, to check that all possible aid would meet the conditions of the law[10]. The specific features of the legislation lie in the fact that, as well as the government supervision, there is also that of the representative organizations, which also have the task of co-operative assistance and protection. After the approval of article 45 of the Constitution, this supervision has been

[10] A co-operative supervision, different to the one forecasted for other firms, had already been included in some important provisions approved at the beginning of the 1900s. These, aimed at benefitting co-operatives, forecasted the setting up of specific commissions chaired by prefects (and also with the participation of members elected by the co-operatives) which would have had to check the balance between the jobs of the co-operative members and the «activity carried out by the co-operative and the fair distribution of the net company surplus». The confirmation of co-operative surveillance became more clearly expressed in the royal decree of 1911 which, in regulating the activity of the worker co-operatives and their consortiums admitted to public calls, affirmed the surveillance carried out by the prefecture.

aimed at safeguarding the mutualistic features and non-lucrative aims of the co-operatives.

Currently, the supervision is regulated by Legislative Decree n. 220 of 2002 and is aimed at verifying that the mutualistic requisites are met. The checks are carried out through ordinary and extraordinary revisions. The ordinary revisions are carried out (every year or every two years) by the recognized representative organizations for their member co-operatives or by the Ministry for Economic Development for non-members[11]. The extraordinary revisions are only conducted by the Ministry and occur only where deemed necessary[12]. The objective of the ordinary revisions is to provide the managerial and administrative bodies of the co-operatives and their consortiums with suggestions and advice to improve the management and level of internal democracy, in order to promote a true member participation in the firm's life. Moreover, they are aimed at verifying, also through a check on the administrative management, the mutualistic nature of the firm, verifying the effectiveness of the member base, member participation in the firm's life and the mutualistic exchange, the quality of this participation, the absence of lucrative aims and its legitimacy in benefitting from fiscal, social benefits and other possible advantages. Some co-operatives are exempt from these controls. The most important example is the case of the people's banks. This type of co-operative is subject to a direct control by the Bank of Italy.

It is obvious that the co-operative supervision attributed to the co-operative organizations has played a particularly important role. It has, above all, guaranteed the maintaining of the mutualistic feature of the co-operatives avoiding the spread of any possible tendencies towards 'demutualization', a not infrequent phenomenon in other countries. However, it should be pointed out that the supervision has allowed the organizations to support, with their accumulated experience, the co-operative activities, especially concerning assistance and training. This has also resulted in the transfer of knowledge among co-operatives and significantly facilitated co-operative networking and the possibility to set up joint bodies.

Recently, another rather important role has been added to the traditional one of the representative organizations, in terms of the 1992 provision

[11] The co-operatives subject to an annual revision include the social co-operatives, co-operatives with a turnover of more than 22.5 million euros, co-operatives with controlling shares in a limited liability company, housing co-operatives and their consortiums enrolled on the register of building co-operatives and, finally, co-operatives subject to an annual balance certification. The latter are co-operatives that register a production volume of over 60 million euros, or indivisible reserves of more than 4 million euros or member loans of more than 2 million euros.

[12] The Ministry of Economic Development organises the extraordinary revisions. They are based on planned sample checks and the need for a more thorough investigation arising from ordinary co-operative revisions.

for providing funds for co-operative development, which was strongly supported by the co-operative organizations. The Law no. 59 states that the representative organizations must set up specific companies to collect the 3 per cent yearly surplus of their member co-operatives and they must utilize these resources for co-operative development[13]. The same provision also introduced some important innovations regarding the possibility for co-operatives to attract risk capital. In fact, this law forecasted the possibility for co-operatives to open up their membership to external investors and as well, to issue security notes such as co-operative participatory shares[14]. In particular, besides the granting of loans, the establishment of the new figure of the investor member and the possibility to issue co-operative shares resulted in the Funds participating in co-operatives which were looking for a means to raise more capital. The raising of this new capital was also aimed at encouraging the co-operative members to increase their investment in the co-operative equity.

The marked increase in the capital of co-operatives seen from the beginning of the 1990s can be partly attributed to the activities carried out by the Funds for co-operative development. The choices made have had a significant impact in strengthening the member co-operatives' equity and, thus, facilitate their relations with credit institutions. These were relations that, traditionally for the co-operatives, had always been rather difficult. More recently, the Funds have sought to provide support for the co-operatives looking to form groups or networks with other co-operatives. Each organization has, based on their priorities, autonomously established the activities individuated by the Funds they manage.

In general, it can be noted that most of the resources gathered have been used in financial support for organizational tools, for development projects for existing co-operatives, for promoting new co-operatives and in training and spreading the co-operative culture. It's obvious that, thanks to this measure the member co-operatives of each of the national organizations while, on the one hand, contribute to creating a common fund, on the other, enjoy important advantages thanks to their contribution to the activity of the Funds.

[13] The provision forecasts that also the co-operatives not belonging to the recognized representative organizations must deposit 3 per cent of their annual surplus, however, in this case, directly with the Ministry of Economic Development. The latter, in turn, should use these resources to foster the co-operative development of those non-members or promote new co-operatives.

[14] Investor members are non-mutualistic members who are entitled to some economic rights but have limited administrative rights. The co-operative shares are securities issuable by single co-operatives. The figure of the investor member was later replaced by a wider category of financing members. A first experience of third party participation in co-operative capital occurred at the moment of the approval of the Law 49 in 1985. This law forecasted that a firm managed by the co-operative organizations could participate in the capital of new worker co-operatives proportional to the amount undersigned and deposited by the member workers.

The three most important Funds (those under the organizations belonging to the ACI), thanks to the resources accumulated over the years and their careful use, today record a total net equity of more than 605 million euros (2012), mainly utilized in acquiring participation or financing co-operatives or tools deemed useful for their development[15]. Examples include, promoting firms that provide services to member co-operatives, joint projects to set up co-operatives capable of guaranteeing loans from external investors, projects financing research and innovation promoted by co-operatives, and support for many activities involving training, especially in universities.

The Funds also benefit from the residual assets of co-operatives that have wound up their activities. Italian co-operatives are not permitted to distribute to the members the reserves accumulated during the life of the co-operative upon the co-operatives liquidation. Prior to the 1992 Law 57, the residual assets had been set aside for public use. Instead, the 1992 provision established that these resources had to be allocated to the Funds, which had to use them for co-operative development and setting up new co-operatives. As far as the amounts of similar residual assets are concerned, they have never been very high. Thanks, however, to this provision the Funds have been able to increase their service supply and the wealth generated by the co-operators has been used to spread the co-operative model[16].

Naturally, after the approval of the law that established the Funds, the role of the representative organizations grew markedly in importance. However, we should not pass over the fact that, even prior to the provision, the organizations had already been playing an important role for their member co-operatives. In particular, this can be witnessed in the creation of conditions leading to developing co-operative networking. This was due to the conviction that building networks is an important factor in increasing the effectiveness and efficiency of co-operatives.

The representative organizations have played an important role in the Italian co-operative movement by constantly promoting and facilitating the setting up of consortiums and co-operative support firms (either a co-operative or a conventional company), capable of meeting the needs iden-

[15] From the total figures indicated, 404.5 million euros fall under Coopfond, 182.7 million euros under Fondosviluppo and 18.2 million euros under Generalfond. Promocoop Trentina, promoted by the Trentina Cooperazione (also a part of the ACI) recorded a net worth of 26.7 million euros in 2011.

[16] A 2004 provision forecasted, for the first time, the possibility for some types of co-operatives to convert to conventional companies. However, in this case, the co-operatives involved had to devolve, to the mutualistic Funds, the effective value of the co-operative net worth less the capital deposited and the still undistributed dividends. Therefore, the Funds also benefit from income from co-operatives converted to conventional companies. However, so far, we have no knowledge of this occurring.

tified by the co-operatives themselves. In the Italian co-operative world, cases of groups of co-operatives are common, resulting in mergers. Also in these cases, even if the initiatives have been autonomously adopted by the individual co-operatives, the representative organizations play a significant role in encouraging possible groupings and, once the required consensus is reached, in supporting the subsequent procedures.

From the very beginning of the 20th century, co-operative consortiums have developed in Italy. They involve actual 2nd and 3rd level co-operatives whose members are 1st and 2nd level co-operatives. Even though these initiatives are autonomous and independent, and involve co-operatives as the main players, they have become widespread and strengthened thanks to the efforts of the representative organizations. The first consortiums were those promoted by the worker co-operatives and were set up so they would be able to compete in public calls[17]. Later they spread among the agricultural and consumer co-operatives. Today, all types of co-operatives make use of the consortium form in order to organize their activities effectively.

The consortiums have mainly developed in the same sector (among agricultural coops of a specific production – wine, milk, meat, different services, among consumer coops, retailer coops, social coops, etc.). However, there are also consortiums of a horizontal type. The most frequent cases are those linked to the financial needs of co-operatives. Nowadays, the most important include (for Legacoop) CCFS (which has raised liquidity for more than a thousand co-operatives and uses what has been collected in different types of loans for other co-operatives) and, at a joint level (Agni, Confcooperative, Legacoop), the *Consorzio Cooperfiditalia* (with its thousands of member co-operatives) which guarantees (partially) the loans granted to co-operatives by banking and non-banking financial intermediaries[18].

The consortiums are autonomous entities set up by the co-operatives involved. However, often, they have received assistance from the representative organizations. In fact, in many cases, they have been the ones to establish the contact among the interested co-operatives and highlight the advantages for each of them in setting up a consortium. To provide an idea of the importance of consortiums we need only see that 15 per cent of total co-operative production is produced by consortium activity and- of the approximately 80,000 co-operatives active in Italy, about 25 per cent of them have set up consortiums. This means that a large part of active co-operatives belong to at least one consortium.

[17] Under the law issued on 25 July 1909, the worker co-operatives were permitted to form consortiums so as to be able to compete in public calls. A later regulation extended this possibility to agricultural and mixed co-operatives.
[18] Besides Cooperfiditalia that operates at a national level, there are some joint loan consortiums in some individual regions.

Also in this case, thanks to the important support of the representative organizations, firms (conventional firms) have been set up responding to the common needs of different types of co-operatives. The most important examples are in the insurance area (Unipol, Assimoco), however, they are also examples to be found in the credit area (Unipol Banca, Agci Banca). There are also experiences in training (Inforcoop, Elabora), or in labour market management (Obiettivo Lavoro).

Today, many of the active co-operatives, a good part being the larger ones, are the result of co-operative groupings or mergers. Generally, the reasoning behind such a move arises from the fact that the objectives of single co-operatives (in the interest of their members) can be achieved more effectively by joining up with other co-operatives. The decision to merge is naturally an autonomous decision taken by the co-operatives concerned. However, experience has shown that, on many occasions, if there had not been situations set up to create the contacts and consolidate the mergers many experiences of this type would not have occurred. It should be noted that on many occasions the representative organizations themselves have been responsible for the linkups among co-operatives that have led to the groupings or mergers.

5. Australian Prospects. Towards National Organisations

Two major developments have occurred that may help push Australian co-operatives towards a stronger set of national organizations. One of these is the movement towards a Co-operatives National Law (New South Wales Fair Trading 2012), which will weaken the traditional focus on state politics and legislation. The second is the celebration of the United Nations Year of Co-operatives in 2012, which has highlighted the significance of co-operatives in Australia.

At one level we have seen a resurgence of interest in the idea of a co-operative wholesaler. The new wholesale co-operative is called ‘The Co-operative Food Group’ and has a current membership of 25, both independent retail supermarkets and co-operatives. The major difference in the structure of this co-operative to other failed attempts for co-operative wholesaling is that this model uses existing independent business supermarket food operators. They are already supplied by a major wholesaler and add value to the mix, through stocking more local farm produce and a strong emphases on ‘co-op to co-op’ business, emphasising co-operative brands such as Devondale Milk and Cheeses, Dairy Farmers Milk, Batlow Apples, Sunrise Rice, Clarence River Prawns, and Norco agricultural products.

At the national level a new council, called the Business Council of Co-operatives and Mutuals, was launched in July 2013. It draws its membership from individual co-operatives or mutual as well as their peak organisations. Its mission is to represent the co-operatives and mutual at the highest levels of government nationally and internationally (Business Council of Co-operatives and Mutuals 2013).

6. Conclusions

The Italian experience with national associations is quite different to that the Australian experience. While there are a variety of national organizations in Italy, Australia has had great difficulties in forming national organizations. Also Italian co-operative representative organizations have played a significant role in the development of the co-operative movement in Italy.

In contrast to the Mondragon Group experience, where the relations among the group's co-operatives have been somewhat contractualised (Altuna 2008; Flecha, Santa Cruz 2011), the efforts of the Italian representative organizations supporting the collaboration among their co-operatives has always been carried out more or less informally. The Italian co-operative national organizations, while they supervise their member co-operatives to ensure that they respect mutualistic principles, have never imposed any type of behaviour that was felt to be unwanted or not useful for their members. In fact, neither the checks forecasted under the surveillance of co-operatives nor the other rules laid down in member agreements have foreseen the assigning of powers to the organizations that would substitute the autonomy of the individual co-operatives.

Over the last almost 70 years, since the end of World War II, many co-operatives, in both Australia and Italy, for many different reasons, have wound up their activities. In some cases, major market crises have hit a large percentage of the co-operatives operating in specific sectors. While the Rochdale movement virtually collapsed in Australia, these crises have not have not resulted in co-operatives disappearing from a specific sector in Italy. The national organizations played a crucial role in this survival by co-ordinating the various sectors and providing support for the sector facing difficulties. It is only recently, through the setting up of the Development Funds, have the representative organizations been able to increase their capabilities in guiding and sustaining co-operative growth through projects aimed at improving the links among Co-operatives by creating networks[19].

[19] For example, it is a common conviction of most of the organizations that the co-operatives must increase the financial participation of the members in their firm's capital. As well, there is the widespread belief that, to be able to face an ever-increasing competitive market, it is necessary to set up larger co-operatives, able to invest more resources in innovation and to reach the more distant and sophisticated markets. This, thus, explains the projects set up by the Funds for developing co-operatives, increasing their capital or supporting those wishing to enter international markets, also in partnership with others.

The inability of the Australian co-operatives, with the exception of the credit unions, to sustain national organisations such as those in Italy maybe a contributing factor to the failure of the movement to withstand many of the post-war challenges such as retail competition and demutualisation. The movement towards national legislation and the events in Australia associated with the International Year of Co-operatives may push Australian co-operatives in the direction of Italy.

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Consumer Co-operatives in Australia and Italy

The origins of consumer co-operatives in Italy and Australia date back to the second half of the nineteenth century. While Australia largely followed the British Rochdale model, Italy fostered many co-operative typologies, from the farmers' undertakings to workers co-operatives, and paid greater attention to the experience of France, Germany and many other European countries. The early consumer co-operatives in Italy also developed from the previous self-help societies and therefore diverged in many aspects from the Rochdale model. Despite these differences, the consumer co-operative movements evolved quite similarly in Italy and Australia until the end of World War I.

The historical pattern began to diverge after World War I as a consequence of the European political turmoil. While Australia's economy and political institutions remained relatively stable, the weak Italian democracy wasn't able to survive post-war social and economic disruption, such as that in 1922 when a dictatorial government was established. The history of the Italian co-operatives diverted radically three years later when they were included in the fascist corporative state. They survived but the innovative attitude and the attention to members' needs evident in the early days were lost. At the same time, the Australian consumer co-operative movement was starting what can be called its golden age. This picture changed completely after World War II. The Italian movement went through a new deep transformation, which saw thousands of small co-operative shops merge into the leading Italian group of mass retailing, while in Australia the movement went into stagnation and decline.

This paper offers a comparative analysis of the consumer co-operative movements in Italy and Australia. It firstly provides an historical overview of consumer co-operatives in Italy and Australia since the late 1800s. Pos-

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sible explanations for the growth of the movement in Italy and its demise in Australia are then explored with a focus on three key factors: the legislative framework, the relationship between co-operatives (networking) and consumer politics.

1. Historical highlights

1.1 From the origin to 1922

1.1.1 Italy

In Italy, consumers' co-operatives appeared for the first time in 1854 from the transformation of pre-existing self-help societies, and of mutual aid societies in particular. The very first was the Magazzino di Previdenza, in Turin (in Piedmont). The first co-operative stores differed from the Rochdale Pioneers' model in that they only sold goods to co-operative members, and at cost price, and were thus not in a position to accumulate wealth or pay out refunds. During the last fifteen years of the nineteenth century, the closed associations were joined by white-collar consumers' co-operatives, particularly in the Lombardy region; their members were bank, railway and State employees. Usually situated in the nation's major cities, some of these co-operatives proved capable of creating large and innovative outlets, as the Unione cooperativa di Milano (with 400 employees in 1892) and the Unione Militare in Rome (with ten branches all over Italy in 1890s) (Battilani 1999).

From the 1880s onwards, consumer co-operatives also began to expand into Italy's smaller towns partly as a consequence of the growing commitment and involvement of the Catholic world (including parochial church councils) and socialist associations (ranging from the Resistance Leagues to the Trades Councils). The result was a further diffusion of these undertakings: 1013 consumer co-operatives were registered in 1893.

At the beginning of the twentieth century, the socialist-oriented co-operatives could count some large-scale co-operative groups, such as the Alleanza cooperativa di Torino (Turin's Co-operative Alliance) and the Cooperative Operaie di Trieste (Trieste Workers' Co-operatives). This growth continued right up to the first two decades of the twentieth century (Battilani *et al.* 2004). In 1910 there were 1652 consumer co-operatives. However, their spread throughout Italy did not follow any particular homogeneous pattern, and as a rule they were concentrated in six specific northern and central Italian regions, namely Piedmont, Liguria, Lombardy, Emilia-Romagna, Tuscany and the Veneto. It proved much more difficult to get any kind of foothold in the South of Italy.

The outbreak of World War I as well as the disruption of the post-war years did not interrupt the expansive wave in Italy, as witnessed by the official figures of 2200 co-operatives in 1915 and 6481 in 1921. This boom can easily be explained. During the war the Italian government began to ration foods and consumer co-operatives turned into distribution centres. Therefore the 1914-1921 growth was a consequence of the pivotal role co-operatives played in rationing policy.

1.1.2 Australia

As in Italy, the origins of consumer co-operatives in Australia date back to the 1850s. The earliest known Australian Rochdale consumer co-operative was formed in Brisbane barely 15 years after the establishment of the Rochdale movement in England. It was registered in Brisbane in August 1859 under the NSW Friendly Societies Act, before the separation of Queensland from NSW (Balnave, Patmore 2012: 987-988).

Despite the economic long boom that followed the Australian gold rushes, Rochdale consumer co-operatives peaked in the 1860s against the background of concerns over unemployment and urban poverty. Concerns about living standards and disillusionment with the existing political system led to a second wave of interest in the late 1880s and early 1890s. Over 50 societies were registered in NSW between 1886 and 1900. Many of these co-operatives could be found in mining districts such as the Hunter Valley and Lithgow and reflect the impact of immigration of English miners who came from areas that had a strong tradition of Rochdale co-operatives. Many were short-lived, and when the first official statistics were collected in 1895, only 19 societies out of 62 still existed. While there was a lull in NSW registrations until 1905 as the economy faced depression and drought, in the following ten years, against a background of economic prosperity and rising prices, 55 new societies were registered in NSW. However, by the end of 1914 only 45 remained, four of which were in liquidation (Balnave, Patmore 2012: 988; Eklund 2007: 129; O'Sullivan 1892: 7-8). By 1913 there were a total of 51 consumer co-operatives in Australia, with 25 of them being located in NSW, eight in Victoria and eight in Western Australia (Pulsford 1913: 44-50).

The coalmining co-operatives played a crucial role in formation of the NSW Co-operative Wholesale Society (NSWCWS). Four Hunter Valley consumer co-operatives (Newcastle & Suburban, West Wallsend, Wallsend & Plattsburg and Cessnock & Aberdare) founded the Society in 1912. The local Rochdale consumer co-operatives faced serious challenges including price-cutting by competitors, and the refusal of supply by some wholesalers concerned with maintaining relationships with existing businesses. The NSWCWS was established to avoid such issues but was faced with boycotts by flour millers and oil companies in the years prior to World War I (Balnave, Patmore 2012: 988).

1.2 The interwar years and World War II

1.2.1 Italy

Since 1922 the history of Italian and Australian consumer co-operatives took completely different paths. In the 1920s there was a turnaround in the history of Italian consumer co-operatives. For the first time a negative view emerged in the public discourse, partly as a consequence of the state incentives so far provided. In addition the deterioration of the Italian political situation and the emergence of a violent and anti-democratic movement – fascism – fostered a wave of vandalism against co-operative shops. Last but not least the growth of previous years had occurred without a real improvement in the organisational capabilities and technical skills. For these reasons the 1914-1921 expansive wave was quickly followed by the bankruptcy of many co-operatives.

In 1922, the young and incomplete Italian democracy was taken over by a fascist dictatorship. In the beginning the new government pursued a strategy aimed at the elimination of established co-operatives. This attitude changed radically after 1925, when the so-called stabilization period began and the fascist government started to reform the National economy on the basis of the 'corporatist' ideology. Class conflicts were denied in favour of a collaborative attitude among industrialists, workers and the state. During the corporative phase o-operatives too were shaped on the basis of the new ideology. The pre-existing co-operative apex organizations were closed down, as well as the democratic trade unions, and new 'corporative' bodies were set up.

In 1925 the *Ente nazionale fascista per la cooperazione* (the Co-operative National Fascist Organization) was set up, strictly tied to the Ministry of the Economy. The construction of a fascist co-operative movement began with the purging of senior management and members from the previous liberal period and the takeover by new managers of proven fascist faith (Menzani 2009; Casali 2009). As a consequence, during the Fascist period the co-operative movement didn't lose its role in the economy but changed radically its features. The autonomous associations of men of the previous decades were taken over by a regimented form of co-operation intrinsically woven into the fabric of the corporate state, and as such incapable of producing any form of institutional innovation (Battilani *et al.* 2004).

1.2.2 Australia

While there was little activity during World War I, the post-war boom and its aftermath in Australia provided the conditions for a renewed interest in consumer co-operatives, particularly given people's concerns over rising prices and declining living standards. There were 31 registrations in

NSW alone in the three years following the war's end, and during the next three years, the registrations totalled 22 in that state. In 1923 there were 152 consumers' societies in Australia with a membership of 110,000 and a capital of 1,800,000 pounds (Balnave, Patmore 2012: 988, 991).

Rochdale co-operatives also became a feature of rural areas of Australia, particularly in fruit-growing or poultry breeding districts or in towns at important railway junctions such as Junee in the Riverina region of NSW. Early activists in the Junee Co-operative, which was founded in 1923, consisted primarily of railway employees. Other co-operatives in the Riverina region of NSW included Griffith (established 1919) and Coolamon (1921). The Denmark Co-operative in South West Western Australia commenced operations in 1920. Like many Western Australian rural Rochdales, the Denmark Co-operative remained small, with only 110 members in 1935. The Co-operative at Nuriootpa in the Barossa Valley of South Australia was established in 1944 when the owner of the main store in the town decided to sell his store to the community following the death of his son in World War II. While most rural consumer co-operatives tended to be based in one locality, the Eudunda Farmers' Co-operative, which was formed in South Australia in 1896, operated 44 stores by 1943 with 38 104 members in multiple locations throughout the state. The Eudunda Co-operative even had a floating store ship in 1924, the *Pyap*. The Eudunda was conservative compared to other Rochdale consumer co-operatives and criticised the east coast Australian Rochdales for being too political and 'class conscious' (Balnave, Patmore 2012: 988-989).

With respect to a wholesale society, manufacturers, importers and the agents of overseas companies refused to include the NSWCWS on their wholesale list. Nevertheless, the NSWCWS attracted an increasing number of societies as affiliates and launched the *Co-operative News*, the main journal for the co-operative movement, in 1923. A slump in membership occurred in the decade 1924-1934, but from 1935, the number of affiliates noticeably increased. In 1934, 15 societies were affiliated to the NSWCWS, growing to 37 by 1945. However, the NSWCWS operations remained largely confined to NSW – efforts to form a national organisation for co-operatives were ineffective (Balnave, Patmore 2012: 989).

While the Depression of the 1930s weakened the Rochdale co-operatives in Australia, they grew in the recovery that followed. The Balmain Co-operative was hit by closures of the local industries during the 1930s Depression. Membership declined and it fell into debt. The Co-operative went into voluntary liquidation in 1936. The NSWCWS took over its profitable bakery and renamed it the Sydney Co-operative Society. There were disputes with unions over the payment of under award wages and the NSWCWS sold it to a private sector, despite protests (Balnave, Patmore, 2012: 988-989). Lewis (1992: 133, 146) has calculated that while the membership of Rochdale co-operatives in NSW fell by more than half from

60,000 in 1929 to 24,000 in 1933, their numbers grew in NSW from 1935 and increasing to approximately 72 in 1939.

In Australia World War II created the same challenges and opportunities for consumer co-operatives as other businesses. They experienced labour shortages and difficulties obtaining goods such as petrol. Communities were concerned with price increases, shortages of goods and the fairness of rationing. There was some interest in forming a peak Australian organisation of co-operatives. While there had been at least three previous Australian Co-operative Congresses organised they had not led to any permanent outcome. In December 1943 a Commonwealth Consumers Co-operative Conference, with representatives of producer and consumer co-operatives from six states, met in Canberra. Those present saw the Australian co-operative movement as having a vital role in post-war reconstruction, even suggesting that co-operative principles should form the basis of that reconstruction. The conference passed a number of resolutions including a call for the representation of consumer co-operatives on all Commonwealth Government boards dealing with the retail and wholesale trade, the establishment of a permanent secretariat in Canberra known as the Co-operative Federation of Australia (CFA) and state co-operative federations (Balnave, Patmore 2012: 989, 992-993). While as Lewis (1992: 181-185) argues, many of the hopes emerging from this conference were not fulfilled following the end of the War, the conference represents a high point for the Rochdale consumer co-operative movement in Australia.

1.3. Post – World War II

1.3.1 Italy

The end of World War II marked a watershed in the history of the Italian co-operative movement, which thereafter tried to return to its nineteenth century roots and to forget the trials and tribulations of the Fascist period. The immediate post-war years were characterized by a general 'co-operative reawakening', with the creation of thousands of new undertakings, most of which were small and with limited capital. Only some of these hundreds of shops proved to be viable and survived during the following decade. The Italian economy was devastated at the end of the War with high levels of unemployment and inflation, which helped to sustain consumer co-operatives in their struggle to maintain the purchasing power of Italian consumers. Then towards the end of the 1950s a new strategy was developed, which made the renewal and modernisation of retail outlets the main goal of the Italian consumer co-operatives. The latter was dictated by the fear that the entry of large size Italian industrial companies and foreign firms into the retail sector would have rendered traditional retail shops marginal within a few years and endangered the presence of the consumer co-operatives. The organisation models by which consumer cooperation was inspired were from private western European firms, where the renewal process was at a much more advanced stage (Battilani 2005).

The result was the entrance into the mass distribution sector, by the opening of self-service supermarkets in the 1960s and hypermarkets in the 1980s. Between 1963 and 1965, the first supermarkets opened in central Italy by the Sassuolo Co-operative although without much success, by Castelfranco Emilia Co-op whose executives were revealed to have surprising management capabilities in the sector of mass distribution, by a consortium from Reggio Emilia including both consumers and medium-sized agricultural co-operatives, and finally by the Empoli Co-operative. All the investment was flanked by a wave of mergers. In fact, the construction of new supermarkets needed large size enterprises while the great majority of Italian co-operatives were small. Therefore mergers were a fundamental strategic element for the modernisation. The transformation of thousands of small co-operatives into a network of big undertakings took about twenty years, from the beginning of the 1950s to the end of the 1960s. In addition the results could only be seen in the 1970s, when consumer co-operation took the lead in the Italian mass distribution sector. Since then it has always kept the top position (Battilani 1999).

At the present the consumer co-operatives group include 10 big co-operatives and almost 100 small and middle-sized undertakings, one wholesaling society organized as a consortium (Coop Italia), one National association, and many small companies providing specific services to all co-operatives. More than this the group shares the same brand, the same marketing and advertising strategy, the same private label, even if single co-operatives maintain a significant independence with regards their members' policy.

1.3.2 Australia

From the high point of the 1940s, consumer co-operatives in Australia generally went into decline. Unlike Italy, Australia was not invaded and industry expanded to meet war-time demand. The post-war prosperity with its relatively low levels of unemployment and inflation removed the main economic factor that had driven individuals to form and maintain co-operatives. There was also increased competition from capitalist chain stores, such as Coles and Woolworths in Australia, which offered consumers a wider range of goods at competitive prices without the need to wait for a dividend. Some Australian consumer co-operatives were innovative in their attempts to broaden their appeal and keep pace with changes in the broader world of retailing. In rural areas, co-operatives such as those in Griffith and Nuriootpa led local retailers in the establishment of self-serve supermarkets in the 1950s. In 1958, the Newcastle and Suburban Co-operative purchased a large van as a travelling 'self-service shop' to serve shareholders who could not readily buy their goods at its outlets. It also established a credit union for members and employees in 1962, as well as opening a large car park in 1967 to accommodate the post-war growth in car ownership. Against the background of post-war immigration, the Adelaide Co-operative targeted traditional UK migrants by establishing two branches in local migrant hostels. Stores also opened delicatessens to provide a greater range of 'continental' small goods (Balnave, Patmore 2008: 103; Balnave, Patmore 2012: 994).

However, not all Australian consumer co-operatives were quick to adopt self-service practices, and others such as the Coolamon Co-operative only did so half-heartedly. When this co-operative decided to shift to self-service, only half the store was modernised in this way. Residents found that nearby Wagga Wagga provided them with the range and choice of service and products to which they were accustomed. The failure to modernise was a key factor in the demise of co-operatives such as Coolamon during this period. For others, it was the inability to expand due to lack of capital and land led to their demise. Indeed, for most Australian co-operatives, share capital was simply insufficient to finance new buildings and services such as parking (Balnave, Patmore 2012: 994-996).

As a result, co-operatives in smaller rural communities lost business to larger regional or urban centres, where there was the volume of business to justify large supermarkets. Residents, attracted by the spread of urban advertising, had greater mobility to shop elsewhere due to the car and better roads. The populations of smaller rural communities grew only marginally and even declined. In the coal mining communities in Australia where the co-operatives had been sustained, mines closed and the working class aspect of these towns evaporated. There were also problems with high levels of credit, particularly in rural areas, and cases of mismanagement (Balnave, Patmore 2012: 994-996).

There were spectacular collapses of co-operatives in Australia. A notable early failure was the Adelaide Co-operative, which went into liquidation in February 1962 after 94 years of trading. In the previous six years, membership fell from 26,000 to 9,000 with resigning members taking large amounts of capital with them. Poor property investment decisions and competition from private retailers assisted the rapid decline. The Newcastle and Suburban Co-operative, which became the largest Rochdale co-operative in Australia, achieved a peak membership of 95,000 in 1978 but closed in 1981. Like Adelaide, there were plenty of alternatives in metropolitan areas such as Woolworths and Coles supermarkets. The NSWCWS ceased trading in 1979 (Balnave, Patmore 2008: 18-19).

There are a small number of Rochdale consumer co-operatives that have managed to survive in Australia in rural areas such as Denmark in Western Australia, Junee in NSW and Nuriootpa in South Australia, which have also become franchisees for the Independent Grocers of Australia (IGA) network to ensure a wholesale supplier. They have been joined by at least two dairying co-operatives on the mid-Northern coast of NSW that have transformed themselves into retail co-operatives. The survival and prosperity of these Rochdale co-operatives need to be placed in the context of 'localism', which is a sense of place. For example, the Junee Co-operative and its leadership have played an active role in the community, and formed networks with local businesses and the Chamber of Commerce. Over the years the co-operative has encouraged residents to 'shop local' rather than at other regional centres. The Junee Co-operative's strategy for maintaining local shopping in recent years has involved either the stocking of additional lines if other businesses closed and or taking over other failing businesses. This has contributed to the survival of the Junee Co-operative, but also to the preservation of local job opportunities and to the sustainability of Junee as a viable rural community (Balnave, Patmore 2008: 18-19).

There have also been a very small number of local food co-operatives that have emerged in recent years. Some of these co-operatives have been able to prosper by specifically focusing on organic foods and locally produced goods. A notable example is the Alfalfa House, which was formed following a rent strike by a single household in the Sydney suburb of Erskineville in 1981 and has approximately 3,200 members. With a store at Enmore, it is a member-based co-operative, with a one-off joining fee, that provides discounts for members who volunteer their labour in the store[1].

2. What factors can explain the divergence?

2.1 The Legal framework

After World War II the Italian co-operative movement developed in a context of general recognition for the role it could play in the economic and social development of the country. The article 45 of 1946 Italian Constitution claims the social role of co-operatives as based on mutuality and non-profit goals, and involves the government in promoting its development. In addition the two main ideologies supporting the co-operatives' development were well represented in both the two major Italian parties of the time.

With regard to specific legislation effecting consumer co-operatives, three aspects among the others deserve attention. The first one is the legal framework for the members' loans, the second is the legislation regulating the retailing sector and the last is the impact on consumer coops of a set of laws stimulating capitalization.

[1] Interview by Greg Patmore with Sam Byrne, a former Alfalfa councillor, 6 May 2013.

When the investment in large outlets started, members' loans increased significantly. They had always played a role as witnessed by the business history of many small and large undertakings. Take for instance the Casa del Popolo lavoratore in Galliate (Piedmont), which had already counted on loans from its members during the interwar years. Then in 1945, the co-operative's bylaw regulated this issue by introducing an upper limit to the loans granting by each member. The Cooperativa comunale di consumo di Castelfranco Emilia and the Cooperativa popolare di consumo di Carpi did the same in 1952 and 1953 (Battilani *et al.* 2004).

Even if the more pro-active co-operatives had always stimulated members' loans, the co-operative movement as a whole did not adopt this approach until 1971. In this year the Legacoop, one of the apex co-operative movement organizations, together with the consumer co-operatives launched a campaign to raise 50 million euro of member's loans. Three years after the consumer co-operative leaders admitted that member's loans accounted for a major share of the total liabilities and were «the pillar without which the system would collapse» (Mazzoli 1974). To stimulate members' loans, the co-operative movement tried also to obtain adequate legislation. In 1971 the so-called 'small reform' (law 127 17/2/1971) recognized members loans as a crucial element to increase capital available to co-operatives and granted incentives, such as tax exemption for loans of less than 1500 euro and with a rate of return less than 5 per cent. These incentives lasted for two years. However in 1974 a different kind of tax exemption was introduced for members' loans that met all the constraints established in 1971 (Battilani, Zamagni 2010). As a result, in the 1980s and the 1990s the share of member's loans on the consumer co-operatives' total liabilities was always above 50 per cent (Battilani *et al.* 2004). To sum up we can say that consumer co-operatives financed the entering in mass retailing by merging small co-operatives and collecting members' loans.

Concerning the legislation on retailing activities, the transformation of hundreds of small co-operative shops in a network of supermarkets and hypermarkets took more or less twenty years. During this period, private entrepreneurs did not move into a more dominant position and force consumer co-operatives into a marginal position. The reason must be sought in the Italian retailing sector, where regulation tried to slow down the diffusion of supermarkets and hypermarkets to help small shops. This sector had always been deeply regulated in Italy and usually the opening of new outlets required a licence. Each town provided a limited number of retailing licences that can vary on the basis of population and consumption levels. As a consequence supermarkets and hypermarket could be opened only after collecting a sufficient number of licences coming from the closure of traditional shops. From this point of view consumer co-operatives enjoyed an advantage over other retailers because they could close their small shops and use these licences to open supermarkets and hypermarket. However conventional enterprises could overcome this disadvantage by buying licences from small shops. In conclusion even if the legislation didn't prevent the entrance of new competitors into the market, it certainly caused a slow down in the diffusion of large outlets; that gave co-operatives all the time they need to create consensus among members about mergers and investment in supermarkets and hypermarkets.

The third set of laws relates to the co-operatives' capitalization. The severe worsening of the financial situation of co-operatives during the 1970s, partly due to the oil crisis, was the basis of the strategies that the umbrella organizations of the co-operative movement put in place to increase capitalization. To achieve this aim, the co-operative movement asked for legislation stimulating capitalization. The most important result was the bill approved in 1977, which allowed co-operatives to avoid corporate tax by retaining their earnings and locking them in indivisible reserves, a measure that increased self-finance considerably. In March 1983 a new bill was passed (law no. 72, labelled Visentini from the name of the minister who produced it), granting to co-operatives the permission to fully own or have a majority stake in conventional companies. This allowed the largest co-operatives to collect capital in the market in a variety of ways, including quotation in the stock exchange. Law 59, approved in 1992, was another step in the direction of multiplying financial resources for co-operatives as it allowed co-operatives to have members who only supplied capital (*socio sovventore*) and to issue special privileged shares (*azioni di partecipazione cooperativa*). The use of these instruments was crucial in the creation of large co-operative groups and modified the typical co-operative networks. Consumer co-operatives used all the means made available by the legislation to keep growing. They increased indivisible reserves, created separate companies and so on. At the end, they took the shape of a big co-operative group including many undertakings.

Compared to Italy, the Australian legal framework has not been as proactive in supporting consumer co-operatives. It was the Country Party (now the National Party) that historically offered the greatest support. This party represented farmers and in its early years was influenced by agrarian socialism, but generally aligned itself with the Liberal Party and its predecessors rather than the Labor Party. The NSW Co-operation Act of 1924, which is viewed as landmark in the history of Australian cooperation and covered a range of co-operatives including Rochdale consumer co-operatives, was an outcome of the Country Party's role in the non-Labor coalition government of the time. The legislation created a Registrar of Co-operative Societies and detailed model rules to assist in their formation. Support for co-operatives by the Country Party, however, did not always translate to support for Rochdale consumer co-operatives; in Western Australia the Country Party was particularly sympathetic towards farmer's co-operatives and supported those forces in the local co-operative movement that objected to the adoption of Rochdale principles as supported by the consumer societies (Lewis 1992: 93-98; Lewis 2006: 98-108).

As co-operatives in Australia have been governed by state rather than national law there have been limitations upon what governments can do beyond the limit of one state. The NSW Government for example in 1996 legislated for a new financial instrument called the Co-operative Capital Unit (CCU) to help co-operatives overcome the long-term problem of access to capital markets. They could be issued to non-members and quoted on the stock exchange. The popularity of the CCUs was limited because co-operatives in other jurisdictions were not able to issue them and there was limited capital market knowledge of the CCUs. There have been efforts to establish a uniform National Co-operatives Law to overcome these obstacles arising from jurisdictional boundaries and allow the recognition of CCUs for example throughout Australia (New South Wales Fair Trading, 2012).

2.2 Networking

The second factor contributing to the modernisation of the Italian co-operatives is networking. The conviction that the co-operative movement must be organized as a network of enterprises instead of a multitude of isolated undertakings gradually emerged during the 1950s.

As widely acknowledged in a series of other essays (Battilani 1999; Battilani *et al.* 2004), the co-operative network is headed by apex organizations, (the Legacoop and Confcooperative being the most important of them), together with their entire provincial branches representing them at local level. Legacoop and Confcooperative not only safeguard the interests of the associated co-operatives, but also provide technical, legal and accounting assistance to them, as well as supervising their accounts[2]. The second key element is the presence of the sectorial Associations, which dates back to the 1950s and the 1960s when both Legacoop and Confcooperative set up distinct National Associations of consumer, agricultural, worker co-operatives and their provincial branches. As a consequence between 1952 and 1955 Legacoop established the National Associations for consumer co-operatives and some years later Confcooperative set up Federconsumo. These Associations provide an independent direction and try to design general strategies for all the co-operatives operating in the sector. The third key element in the network is represented by the provincial and national consortia entrusted with financial powers: in general, they were given duties which for reasons of efficiency, or due to the need for a broader coordinating structure, could not be performed by individual co-operatives. For

[2] The archives of the Coop Estense contain the reports drawn up by the said inspectors for the purposes of the accounting checks conducted at Modena's CCCM.

example, in the case of the consumer co-operatives, both the National consortium (called Aicc and since 1967 Coop Italia) and the provincial ones furnished group-buying and wholesale warehouse management services.

Consumer co-operatives, therefore, became a system organised on three levels: a first level based on strategic management and some nation-wide service centres (Legcoop, Confcooperative, National Consortia and National Sector Association), a second level composed of provincial structures (Provincial Consortiums and Provincial Associations), and lastly the single co-operatives as a whole (that in 1957 totalled 3,235, with 1,500,000 members). This network of enterprises began to bear fruit in terms of the modernisation and growth of co-operative undertakings during the second half of the 1960s: none of the large co-operatives would have been able to initiate a change of such proportion. In addition, many big co-operatives faced important crises during the 1950s and 1960s: some went bankrupt and others survived only because of the help they received from the co-operative movement as a whole. For instance the Alleanza Cooperativa Modenese (ACM) was saved at the beginning of the 1950s by the Modena provincial branch of Legacoop, which organised a merger with some other small co-operatives with the aim of providing the ACM with the necessary capital to overcome the crisis. Analogously, the Bolognese Co-operative was able to overcome a grave crisis in the mid-1960s only due to the radical restructuring that was financed by cooperation from the Bologna area. It is important to emphasize that a change in top management and in the organisation of the enterprises always followed the rescue operations.

In the retailing sector the network built around Legacoop was particularly successful. The central bodies – Lega, National Association of Consumer cooperative (ANCC) and the National consortium (AICC, then Coop Italia) – brought attention to the need for renewal of the sales network, logistics and commercial strategies. In particular, the National Consortium (AICC) went beyond wholesaling and became a sales and marketing strategies decision centre, as well as a reference point for managers involved in commercial operations in single co-operatives. The provincial branches managed the transformation process on the basis of organisational capabilities and of locally acquired know-how. For this reason, the modernisation of the consumer co-operatives progressed at different speeds in different areas of the country. While Provincial Associations of consumer co-operatives tried to standardise the different management aspects of the co-operatives and stimulate the process of company mergers, the Provincial Consortia created all the competence and tools for managing the unified firms. These played an important role in at least three directions: rationalization of the warehouse structures and logistics, unification of warehouse accounting and the control of stock turnover, and the introduction of a network approach to the management problems of stores and co-operatives. It was the consortia that started the first provincial sales campaign, which began to propose the first unified advertising campaigns and that began to relate the supplies strategies to the sales policies. In other words, they accompanied the modernisation process of consumer cooperation by supplying the necessary structures to govern large size co-operatives and supermarkets.

The laws introduced between 1983 and 1992 created the premises for the transformation of the architecture of the co-operative systems, which had emerged in previous years, thus creating the preconditions for the construction of groups of co-operative undertakings. Also the consumer co-operatives architecture changed because they were allowed to create and keep the ownership of conventional companies. To sum up then, this 'co-operation among co-operatives' has become more complex than it was at the time of the first consortia, even though the latter continue to constitute a fundamental pillar thereof.

By contrast, Australian co-operatives were unable to sustain networks and the consumer co-operative movement was weakened by its failure to form alliances with the farmer producer co-operatives. Farmer co-operatives formed the Australian Producers' Wholesale Co-operative Federation (APWCF) in 1919 to trade with the English CWS. The NSWCWS, which focussed on consumption rather than agricultural production, was excluded from this relationship with the English CWS and clashed with the APWCF on several occasions on issues such as national organisation and co-operative legislation. The uncomfortable relationship between the agricultural producer co-operatives and the Rochdale consumer co-operatives continued into the post-war period (Balnave, Patmore 2012: 990-991).

The NSWCWS hoped to become a large scale wholesaler by winning the support of the retail co-operatives. This vision, however, was not realised, as many retail co-operatives, particularly in rural areas, remained independent of the wider movement. There were criticisms by co-operatives of the price and quality of the NSWCWS goods and delays in providing those goods to the retail co-operatives. There were divisions between those who believed in the need for a central organisation such as the CWS (federalists) and those who preferred autonomous local consumer co-operatives with far looser links with other consumer co-operatives (individualists). There were also tensions within the Rochdale co-operative movement along gender lines. In NSW, the Women's Co-operative Guilds went beyond the supportive role expected by the NSWCWS with some guilds frequently challenging the male-dominated CWS by criticising their leadership and organising conferences to promote alternative paths for the Rochdale movement (Lewis 1992: 108-109, 135-137, 170-171). There was also a Co-operative Wholesale Society of Queensland (CWSQ) formed in 1945, but it went into decline after the mid-1960s. The CWSQ was also caught up in divisions between Rochdale consumer co-operatives and farmer co-operatives (Kidston 1971: 58; Lewis 2006: 88-92). Surviving Rochdale consumer co-operatives have overcome the lack of a co-operative wholesaler in Australia by becoming franchisees for other companies, in particular the Independent Grocers of Australia (IGA) (Balnave, Patmore 2012: 994).

2.3. Consumer politics

Compared to Australia the Italian consumer co-operatives have been able to market themselves as a distinct brand. Traditionally the Italian consumer cooperation had organized its activities around two purposes: first of all to safeguard the purchasing power of workers and the middle class, and secondly to protect consumers from grocery fraud. To achieve these objectives the largest and most important consumer co-operatives had begun to introduce private labels for the commercialisation of some products since the last decade of the nineteenth century. These were in general applied to primary products whose sales were consolidated over a long period. Usually they were concerned with the desire to guarantee the quality of their products rather than low prices. In the 1899 the *bulletin* of the main consumer co-operative from Turin (the Alleanza cooperativa torinese, ACT), which periodically was sent to all the members, claimed that the purity of private label products (bread, tomato preserves and chocolate) was guaranteed through testing and that soaps were free of colourings and harmful substances.

After World War II, in a context of high unemployment, the purchasing power safeguard became a priority for Italian co-operatives. However during the 1970s and 1980s the role of consumer cooperation was redefined, putting its commitment to consumer health and subsequently environmental protection at the forefront. The 'social and civil responsibilities' towards both members and consumers have characterised the strategies of the consumer co-operatives during the last twenty years of the twentieth century. As it has happened in the past, the private label became the main vehicle of the new philosophy. New Coop products were selected and had two fundamental distinguishing characteristics: nutritional value and the safeguarding of consumers' health (through the controlled use of additives, elimination of colorants: canned meat without nitrites, margarine without colorants etc. and the exclusion of selected items not compatible with the label image). In the 1980s environmental protection also became a definitive ingredient of the Coop label, for example by the reduction of phosphorous in powdered detergents (between 1986 and 1988 it decreased from 4.5 per to 0), and by the launch of liquid household cleaning products in light plastic bottles made of at least 35 per cent recycled plastic. In addition, the marketing of refills was introduced to encourage the reuse of plastic bottles. To crown it all, was the creation of an analytical and research laboratory in 1982, whose task was to control, to bring up to date and to determine the standard of quality of Coop products. Furthermore, the commitment to consumer health led to the elimination of harmful substances, such as sodium glutamate in lyophilised foods, and to the launching of lines of organic products. The most important novelty from the last years of the 1990s was the inclusion of a code of ethics. In 1997, Coop Italia asked its approximately 260 suppliers producing the items with the Coop private label to respect a code of ethics that was drawn up in legal form by the certification SA 8000.

In Australia the NSWCWS did develop its own brands for goods such as flour and jam. In the early 1950s the CWS emphasised «Honest value for Money Policy», but also that it offered «Good wholesome food products of the Highest Possible Standard under Hygienic Conditions» (Entwhisle 1952: 21). The co-operative brand was also reinforced by the English CWS, which exported its brands for distribution by NSWCWS and other co-operative organisations. With decline and demise of the NSWCWS and Queensland CWS, the co-operative brand ceased in Australia. Since then small local food co-operatives such as Alfalfa House have differentiated themselves from the dominant supermarket chains by emphasising organic and sustainable foods.

3. Conclusion

While in both Australian and Italy consumer co-operatives appear from the 1850s, the Australian consumer co-operatives were never able to match the Italian co-operatives in terms of growth and influence. Deep divisions with the Australian movement over the structure of the movement weakened efforts to establish a strong national association. Despite the challenges of Fascism and the devastation of World War II, the Italian movement survived as a symbol of the new Italian Republic and protector of living standards in the unemployment and inflation that immediately followed the War. By contrast World War II was the high point of Australian consumer co-operatives, with sustained levels of low unemployment and inflation reducing the economic incentives that had driven Australians to form consumer co-operatives before the War. By the mid-1980s the major Rochdale consumer co-operatives had collapsed and fledgling co-operative wholesale network with a 'co-operative' brand had disappeared. A few Rochdale consumer co-operatives survived in rural areas.

What emerges from the comparison is that first of all the consumer co-operatives in Italy benefited from a legislation that recognized their economic and social role and contributed to their institutional viability, while the Australian counterparts were never governed by such supportive legislation. Secondly, a significant difference between the two countries was networking. The Italian co-operative movement and the consumer co-operative particularly have always been conceived as networks of co-operatives. Only the existence of these networks made possible the adoption of unified strategies for thousands of small co-operatives and the creation of a group of not more of 100 coops with the same brand. While there was a push among Australian co-operatives to establish networks through co-operative wholesaling, it did not become an established feature of the Australian consumer co-operative movement.

Finally during the so called 'economic miracles' when the Italian economy was rapidly expanding, the Italian consumer co-operatives started to recognise the emerging of consumer society and decided to transform a variety of small shops in a networks of a few modern supermarkets. During the 1980s the Italian consumer co-operatives completed this transformation with the adoption of a new set of values and objectives. While in the past decades the main aim of consumer co-operatives could be identified in the protection of worker purchasing power since the 1980s it has become the promotion of a responsible consumption and the protection of consumer health. At the end they became an interesting mix of business attitude and ethic commitments. While there were a small number of new wave local food co-operatives that showed an interest in these issues, the Australian Rochdale consumer co-operatives generally never attempted this kind of strategy.

I. Catturani
L. Cutcher

Financial Co-operatives in Australia and Italy

Financial credit co-operatives are institutions whose members combine their deposits to create a local loan pool. This model of savings and loans is underpinned by the notion of mutuality wherein members benefit from shared norms of reciprocity. Financial co-operatives based on the nineteenth century Raiffeisen principles of limitless liability and bonds of association can be found in over 100 countries across the globe. Financial co-operatives all share a belief that people have the right to affordable, reliable and accessible financial services. They operate under a guiding set of principles that include: open and voluntary membership, democratic control, non-discrimination, service to members, equitable distribution of surpluses, financial stability, on-going education to promote thrift and wise use of credit, co-operation among co-operatives, and social responsibility. These principles align very closely to the seven co-operative principles outlined by the International Co-operative Alliance; voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, co-operation among co-operatives and concern for community.

Financial credit co-operatives are member-owned and member-controlled organisations. In some cases, the membership is based on a common bond, a linkage shared by savers and borrowers who work for the same employer, are involved in a social group, or reside in a particular geographical area (Jones 2001). In other cases, the membership is only based on the willingness to join a 'different' type of financial institution. Financial credit co-operatives pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital. Members benefit from the fact that any surpluses are returned to the members in the form of higher returns on savings, lower rates on loans, member education and improved services. This aligns with the co-operative prin-

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ciple of 'member economic participation' where surpluses are used for the development of the co-operative and benefit of the members.

Central to financial co-operatives operation is the concept of mutuality. Mutualism has been described as a sort of communitarianism or collectivism, in which individuals are tied to others through a variety of economic and social links (Parker *et al.* 2007). The people who own a mutual organisation do business with it (Parker *et al.* 2007). This means that in financial co-operatives members are both customers and owners of the organisation. On joining the co-operative, each member is asked to purchase a share for a nominal amount and this entitles them to an equal say in the running of the co-operative. The member has the right to vote at Annual General Meetings and when electing the Board of Directors. Members can also stand for positions on the Board. Each member has one vote, regardless of the volume of business they have with the financial co-operative.

In this chapter we highlight the ongoing commitment to the ideals of co-operation and mutuality that has underpinned the development of financial co-operatives since the late nineteenth century in Italy and the mid-twentieth century in Australia. Given their shared commitment to co-operative ideals it is not surprising that there are a number of similarities between what are called Credit Unions in Australia and Credit Co-operative Banks (CCBs) in Italy. There are also key areas of difference and these relate to the very different financial service context of the two countries: with Australia having the most consolidated banking system in the world while Italy's banking system is large, diverse and complex. The structure and activities of financial co-operatives in both countries are shaped to a large extent by the regulatory framework in which they sit and the impact of de-regulation of the sector in Australia and liberalization of the sector in Italy. In both countries this regulatory change has led to amalgamation of financial co-operatives and the biggest challenge facing these organisations is how to remain true to the principles of co-operation and mutuality as membership bases grow and become increasingly diverse. In order to explore the issue of managing an ongoing commitment to mutuality the chapter explores how this has reshaped practice in many financial cooperatives and as a counterpoint provides examples of Credit Unions and CCBs that have managed to maintain a commitment to mutuality in the face of deregulation, liberalisation and the credit crisis. The chapter concludes by arguing that financial co-operatives are a long-standing form of alternative financial services provision that continues to attest to the benefits of co-operation over competition.

1. History

The concept of financial co-operatives originated in 1850 in Delitzsch, Germany. A liberal Prussian parliamentarian, Hermann Schulze-Delitzsch, responded to the hardship experienced by urban labourers and trades-people during a severe winter of 1846 by establishing a number of co-operatives, including a credit co-operative society (Crapp, Skully 1985: 11). Founded on notions of self-help and open membership, Schulze-Delitzch's co-operatives were the precursor to the European people's banks (Lewis 1996: XXI). Friedrick Raiffeisen, a German burgomaster, adapted Schulze-Delitzch's ideas to the needs of his rural constituents and in 1854 established an independent farmer-based credit association, called the Heddesdorf Society (Lewis 1996: XX). Raiffeisen developed the notion of «limitless liability, achievable through a bond of association, whereby a person's trusted standing in the community and the knowledge co-operators had of each other acted as security in seeking loans from a community pool of funds» (Lewis 1996: XXI). By the end of the 1880s societies founded on Schulze-Delitzsch and Raiffeisen principles had spread throughout Europe. Across the seas, in Canada, Alphonse Desjardins, a parliamentary reporter, inspired by the Papal Encyclical *Rerum Novarum (1891)*, developed his own philosophy for financial co-operatives (Lewis 1996: XXI). The first Canadian financial co-operative was opened in 1901 at Levis, near Quebec, and by 1914 there were 150 co-operative banks (Caisses) in Canada. Financial co-operatives developed on Desjardins' model were founded in Massachusetts in the United States around the same time and by 1921 there were 1,999 in various parts of the United States (Lewis 1996: XXII).

Crapp and Skully (1985: 13) assert that the legacy of this rich history of development is «an emphasis on co-operation around a set of unifying principles and common identity». Today these are reflected in the principles set down by the International Co-operative Associations (ICA) under which all financial co-operatives operate. These principles include: open and voluntary membership to all, democratic control, non-discrimination, service to members, equitable distribution of surpluses, financial stability, on-going education to promote thrift and wise use of credit, co-operation among co-operatives and social responsibility (ICA 2015).

1.1 History of Australian Credit Unions

Perhaps in keeping with a particular pragmatic Australian identity, the motivation of the early credit union pioneers in Australia is re-told by business historians (see Lewis 1996; Crapp, Skully 1985) as simply a way to make personal credit available to ordinary working people. During World War II the personal credit market was dominated by loan sharks and hire-purchase finance companies, which often charged interest rates in excess of 80 per cent. In a bid to regulate this burgeoning market the NSW Government enacted the 1941 *NSW Small Loans Facilities Act.* Lewis (1996) argues that this legislation provided the impetus for development of credit unions in Australia. In line with credit unions in Britain, Ireland and Eastern

Europe (Jones 2001), Australian credit unions were developed out of the North American model. Kevin Yates, who some consider to be the founder of Australian credit union movement, had been stationed in Canada during World War II and he transplanted ideas from the Canadian movement back to Australia (Lewis 1996).

The first registered credit union in Australia, the Home Owner's Co-operative Credit Society Ltd, was established in May 1945 and was sponsored by an existing building society to provide personal loans to its members (Crapp, Skully 1985: 20). In 1946, Yates formed the Catholic Thrift and Loan Co-operative Limited (Universal Credit Union) in the Sydney Archdiocese and, as Lewis (1996: 15) explains, «many commentators consider this to be the first "true" credit union (because) it drew funds wholly from members, functioned autonomously, and was launched specifically to develop credit unions as part of the broader co-operative movement». By 1975 there were 748 credit unions in Australia, with 910,000 members; two-thirds of these were in New South Wales (Lewis 1996: XXIII). The development of the Australian credit union movement relied on the zeal of the pioneers, the work of thousands of volunteers, and the co-operation and donations of employers and church groups in order to stimulate the formation of new credit unions (Cutcher 2008).

In Australia, up until the 1980s, credit unions were subject to their own legislative requirements and were afforded tax incentives. Not being subject to the same strict reporting requirements as the large mainstream banks and benefiting from reduced taxes helped sustain a wide range of credit unions that serviced discrete memberships. However, a range of structural changes, most notably; demutualisation of consumer and producer co-operatives, privatization of the public sector, and deregulation of the financial services sector made it increasing difficult for smaller credit unions to survive. The result was a raft of amalgamations, which saw credit union numbers fall from 549 in 1983 (Lewis 2001: 4) to 88 in 2013 (APRA 2013).

1.2 History of Italian Credit Cooperative Banks

The first co-operative banks in Italy were launched in the second half of the nineteenth century and were mainly inspired by the model introduced by Friedrich W. Raiffeisen in Rheinland and were called rural banks (RBs). By the end of the nineteenth century there were almost 900 RBs, of which 775 were of Catholic inspiration. Italian RBs were actually first established thanks to the efforts of catholic priests. For instance, Don Luigi Cerutti, a young priest, founded the first Catholic RB in Gambarare (Venice), and Don Luigi Sturzo mainly worked for the promotion of RBs in Sicily. With his Encyclical *Rerum Novarum* (1892), Pope Leo XIII underlined the need to fight against what he called the *usura vorax* (the 'devourer wear') through social action and solidarity. After the encyclical, the involvement of the clergy in the process of development of RBs resulted in the spread of RBs all over Italy (Zamagni 2006). Most of them were established in the North-east of Italy and in Rome, while in the South only Sicily had any significant number of RBs. The Catholic RBs organised themselves in a second level network called the National Federation of Rural Banks.

After World War 1, RBs were challenged by the liquidity shortage. The structural limits of the co-operative financial industry surfaced when Italy had to face both economic and social problems such as high inflation, unemployment, weakening of the liberal government, and internal divisions (Zamagni 2006). In this context, two contrasting views emerged in the co-operative movement as an outcome of a clash at the political level; from the one hand, the Christian-social vision supporting the establishment of a Christian-social order and, on the other, the socialist view that considered co-operation as a tool for the collectivization of the means of production and of the consequent wealth. The co-operatives linked with the Catholic movement decided to exit from the League of Cooperative and Mutual Companies that was largely socialist-inspired and created the Confederation of Italian Cooperatives (the 'big split'). The Confederation, as a parallel body to the League, aimed to include all types of co-operatives linked to the catholic movement. The National Federation of Rural Banks also joined the new Confederation exiting the League (Federcasse 2012).

During the fascist period, the violent actions of the militias against both the banks' offices and the members prompted depositors to withdraw money from RBs. Moreover, from 1936 RBs started competing on the banking market with larger banking groups which resulted in drastic decline in their number. RBs maintained a second level network developed parallel to the growth of their numbers.

After World War II, RBs faced a period of re-organization. In 1946, the Catholic movement re-established the Confederation of Italian Co-operatives and by 1950 the National Federation of Rural Banks were rebuilt. Between the 1960s and the 1980s, the RBs garnered a growing role in the Italian credit market due to an effort to reaffirm the inspiring principles of co-operation and to strengthen internal linkages. The local Federations, a second level network that played a fundamental role in the development of rural banks, were also re-founded and empowered with the role of representation, protection and technical assistance of RBs, both at regional and interregional level. With the 1993 Banking Law the old form of rural bank disappears to give room to the modern form of Credit Co-operative Bank (CCB).

2. Current State of Play

Having provided a brief overview of the history of credit unions and co-operative banks in Australia and Italy, we now turn to exploring the nature of and challenges faced by these organisations today. Credit unions and co-operative banks have faced challenges as the result of deregulation of financial services, not only in their home country but also across the globe, and the changes to regulatory frameworks that have accompanied this deregulation. Beginning with the Australian situation we explore how these organisations have responded to these challenges.

2.1 Australia

In 2015 credit unions are still an important part of the Australian financial landscape, with over 4 million Australians belonging to a credit union (COBA 2014), however, as they have amalgamated they have also struggled to maintain a commitment to the key credit union principles. Large credit unions with diverse membership bases have adopted similar strategies to the large retail banks and are a long way removed from the kind of organisations envisaged by the pioneers of the credit union movement. In the past year some of the largest credit unions have changed their name to Mutual Banks. This is in part a response to the structural shifts that have occurred in the Australian retail banking market as a result of the Global Financial Crisis (GFC). As Johnston (2009) reports the big four banks – Westpac, Australia and New Zealand Bank, National Australia Bank and the Commonwealth Bank of Australia, have used their position to acquire weaker rivals and take over banking business from smaller banks, non-bank lenders and mortgage brokers. Australia, which already had the most consolidated banking market in the world, has become even more consolidated. For example, in 2009 the big four banks were writing more than 90 per cent of the nation's new mortgages, compared with approximately 60 per cent before the GFC (Johnston 2009). The previous Labor federal government sought to increase competition in the sector by promoting the idea of the 'mutual' sector, credit unions and mutual building societies, as a fifth force of banking (Fell 2011). This aligns with reforms in other sectors both in Australia and the UK where not-for-profit, co-operative organisations are seen as key to pluralism of supply and increased competition (Kelly 2007).

The peak body representing credit unions and other financial mutuals in Australia has taken up the challenge to be the fifth force in banking in Australia but assuming this mantle has led to an abandonment of some of the core principles of the credit union movement. A decade ago the peak body was called Credit Union Services Corporation (Australia) Limited (CUSCAL). In 2002 CUSCAL produced a booklet that outlined the six core values of the Credit Union Movement. These were co-operation, moral integrity, trust, financial prudence, caring for members and social responsibility (CUSCAL 2002: 5). The Membership Council of CUSCAL claimed that «it is the practical application of the Core Values, expressed as "the way we do things around here" that makes (credit unions) different from our competitors» (CUSCAL 2002: 8). In 2009 the peak body had changed its name to ABACUS (Association of Building Societies and Credit Unions) to reflect the fact it had brought building societies and other mutual organisations in under its umbrella. At this time it adopted a 'Mutual Banking Code of Practice'. This code of practice represents a significant shift in the discourse and practice of the peak body. In 2002 the focus was on differentiating credit unions from their competitors where the new code seeks to reframe credit unions as another (albeit more equitable) form of banking. While it is a code of practice for Mutuals, there is no discussion of the meaning of mutuality in the document, or mention of the philosophy of co-operation that is said to underpin the work of mutuals. The 10 principles outlined in the code could read as generic statements offered by any financial services institution, with the exception of Principle 7 which states: «We will recognise members' rights as owners». However, this translates into a right to information only. Since the adoption of the code 10 credit unions have changed their status and are now called 'Mutual Banks'. 'Members' are now referred to as 'customers' and the emphasis is on being a 'bank' not a credit union. This change is further reflected in the peak body changing its name in 2013 from ABACUS to Customer Owned Banking Association (COBA). The Association is owned by its 102 member institutions; 72 credit unions, 6 building societies, 11mutual banks and 13 friendly societies. Its stated aim is to «challenge the major dominance of the major banks in Australia». Rather than presenting credit unions, and other mutuals, as a distinct alternative to mainstream for-profit financial services institutions, COBA is taking on the major banks at their own game and has adopted the discourse of the banks.

The professionalization and marketization of credit unions has seen the shift from locally-owned and focussed institutions into corporatized financial institutions that bear little resemblance to their fore-bearers and members relate as customers, not owners, of the credit union. There are, of course, parts of the credit union movement still operating in Australia whose philosophy closely aligns with the principles of credit unions set down by WOCCU. They are able to maintain a strong commitment to the principles of mutuality and co-operation in the main because they service particular communities. The most notable example is Traditional Credit Union (TCU), which is Australia's only indigenous-owned deposit taking institution. An emphasis on financial prudence and literacy underpins the TCU's work in the Northern Territory. With a head office in Darwin, the capital of the Northern Territory of Australia, it provides banking services in local languages delivered by Indigenous staff in 11 remote Aboriginal communities across the top end. They reinvest any surpluses they generate back into the provision of financial literacy training in remote Indigenous communities and into the training and development of their Indigenous staff. Their approach to employing Indigenous people, delivering financial literacy programs and crafting locally responsive banking services has seen them win a number of national awards. TCU, with their hands on approach to financial service delivery, reminds us that ensuring equitable access to finance is more complex than simply boosting financial literacy, «which may be a worthwhile objective but does not in its own right secure positive economic outcomes for individuals and households» (Erturk *et al.* 2007: 555). Investing their surpluses back into staff training and development is important, not only because it means the credit unions are meeting any prudential and compliance requirements, but, also because research shows that financially excluded people want financial products and services to be delivered by professional providers with well-trained staff (Collard *et al.* 2003) and that they are prepared to pay a reasonable upfront monthly fee for a transparent and fair current account (Jones 2008). These communities do not want to be further stigmatised by having their financial services provided by anything less than an efficient and well-run financial services organisation. So the challenge credit unions face is to offer programs that target poorer consumers while at the same time appealing to middle to high-income consumers. This is important because cross-subsidisation of services by more affluent consumers is central to credit unions viability and, because as Jones (2008: 2143) writes, «the poor persons' bank appeals least to the poor themselves».

The core principles of co-operation and mutuality are also evident in Australia in the work of CUFA. CUFA's work involves developing and supporting financial cooperatives in communities across SE Asia and the South Pacific. It does this work in part through support from Australian credit unions and the Australian government through its AUS Aid program. It aims to empower poor communities in the region through the provision of affordable financial services. CUFA works with local communities to establish and support credit unions in Cambodia, Fiji, Timor Le Este, Papua New Guinea and Solomon Islands. In addition to helping provide affordable financial services, CUFA also runs other programs that help to increase levels of financial literacy and provide support for business ventures to build wealth within communities. For example, since 2008, in Cambodia CUFA has run a Children's Literacy Program. In its five years of implementation this program has delivered financial literacy education to 45,000 children aged 7-11 across six rural provinces. The overarching objective of the program is to provide financial literacy lessons to children in order to introduce basic financial concepts and encourage them to develop good savings habits. This goal directly aligns with the credit union principle of «on-going education to promote thrift». CUFA also runs a Village Entrepreneur program, which supports villagers in developing countries to change their life and step out of poverty. Over two to three years individual Village entrepreneurs are given training, start up materials and financial support to start a local micro-business that they are helped to plan, design and be sustainable over the long term (CUFA 2014).

In Australia at the same time that governments have pushed for standard regulation of the financial services sector they continue to look to the credit union sector to meet the needs of low income earners and those living in remote and regional communities who have to a large extent been abandoned by the large retail banks. While research shows that credit unions are best placed to combat financial exclusion, it is disingenuous at best for governments to place this expectation on credit unions while at the same time taxing and regulating them as if they were just another bank and making it very difficult for them to remain viable or to compete with the large for-profit Australian banking industry.

2.2 Italy

According to Bank of Italy's official classification, based on institutional aspects, there are two forms of co-operative banks: *Banche Popolari* and *Banche di Credito Cooperativo* (CCB, credit co-operative banks, also called mutual banks). A second classification of banks based on size is also used and according to current Bank of Italy official classification, small Italian banks are defined as banks whose mean total assets are less than 9 billion euros (Bank of Italy 2007). Both CCBs and Banche Popolari are the most common type of bank in this group.

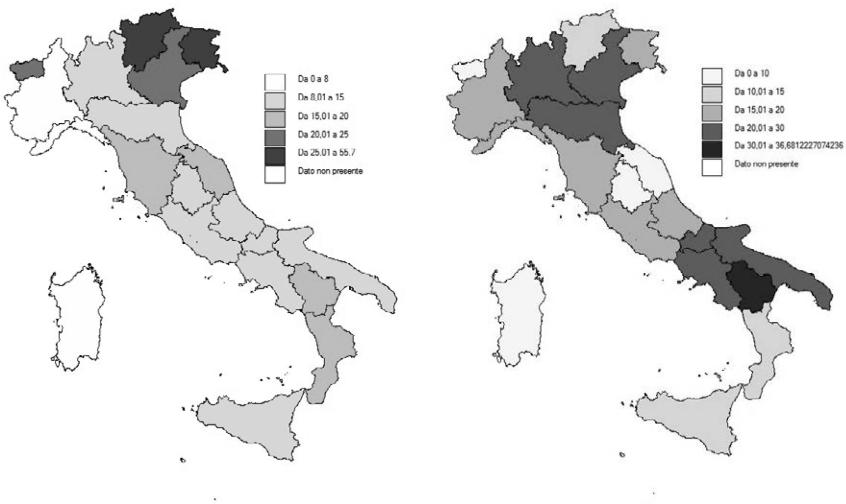
The number of CCBs branches in 2014 was almost 1,800 less than the number of branches held by Banche Popolari (6,278 in December in 2014) (Bank of Italy 2015). From 1995, the number of independent Banche Popolari and groups headed by Banche Popolari has decreased from 95 to 37 (61.1 per cent). A similar trend has been registered for CCBs as well, with the number decreasing by 38.9 per cent from 1995 to 2014, mostly due to mergers. This is a rate of decrease higher than the one registered by the banking industry as a whole (–31.2 per cent). However, in terms of total assets the market share of Banche Populari rose from 16.8 in 2001 to 25.5 per cent in 2014 and their branch share has grown from 21.1 to 29.5 per cent. Moreover, in the same period, these banks were able to increase their lending to residents from 15.9 to 25.5 per cent (Assopopolari 2015).

The process of decreasing the number of banks has been more than counterbalanced by the expansion of the branches network. If we compare the right and left side of Figure 1 below it is clear how Banche Popolari are present in regions where also CCBs are spread – i.e., Lombardia, Veneto and Emilia-Romagna. There are regions, such as Sardinia, Valle d'Aosta and Molise where the co-operative financial institutions are in general not present. Finally, considering the share of CCBs branches over the total amount of banks' branches in the North, CCBs hold a relevant share.

For example, in Trentino Alto Adige the share of CCBs is 69.1 per cent, in Veneto and in Friuli Venezia Giulia is around 47 per cent. On the contrary, in Sardinia and in Liguria the share is just above 1 per cent in 2014. The reason for such distribution is largely historical with co-operative banks being present in some areas for much longer.

Figure 1 – Comparison between the diffusion of CCBs and Banche Popolari branches (percentage values, 2014). [Source: Bank of Italy, online statistics]

Co-operative Credit banks (BCCs) Banche Popolari



While independent Banche Popolari are still close to their traditional cooperative business model, the largest groups headed by Banche Popolari can be considered closer to a stock joint company. The average value of their total assets was in 2011 almost twenty-five times that of the other Banche Popolari. Moreover, two of these groups are among the top five in Italy in terms of total assets and eight of the Banche Popolari groups are listed on the stock exchange or have at least one listed member. The co-operative aim of those large Banche Popolari has been recently questioned by the Banche Popolari act. Given their size, in March 2015 the Italian government has passed a law according to which Banche Popolari with a total amount of assets above 8 mld € will be transformed, de facto, into stock company. In particular, the voting rule will not more be 'one head one vote' but 'one share one vote'. Differently, CCBs are of smaller size and do not join a banking group, even though their second level network allows them to benefit from scale economies.

CCBs and Banche Popolari share some characteristics, including: the ownership by members, the 'one-head one-vote' principle (at least those below the 8 mld € threshold), the constraint on the maximum amount of shares that each member can hold[1], and a difference in the compulsory net profit destination to legal reserves. For example, whereas Banche Popolari 10 per cent of profits has to held as legal reserve, for CCBs 70 per cent of the variable capital has to be held in reserve. There are also a number of differences between CCBs and Banche Popolari. First, unlike members of CCBs, members of Banche Popolari do not need to reside in the same area as bank headquarters. Second, they are not subject to 'mutuality requirements': meaning they do not have to devote a part of their profits to mutual funds. Third, in contrast to CCBs, their assets are not 'locked' and they can be distributed to the members in case of bank's liquidation. Fourth, Banche Popolari are not subject to any restrictions whether they intend to transform into limited companies. Finally, unlike CCBs, Banche Popolari are not geographically limited by the law to their operating area.

From the comparison above it is clear how CCBs and Banche Popolari, even if both are based on a co-operative form, are actually different in the way in which they carry out their business. Considering in particular the banking groups headed by Banche Popolari, it emerges how they have lost some of the main advantages of the local co-operative banks, so that their relationship lending approach and the fact that they purse a path of growth based on transaction lending makes them more similar to commercial banks than to co-operative banks. Given that the CCB model is the most closely aligned to the model of financial co-operatives set down by ICA and envisaged by the earlier pioneers of co-operative banks, the focus in the rest of this section of the chapter relates to CCBs.

A turning point in the history of the Italian financial co-operatives has been the approval of the new Banking Law passed in 1993. This law aimed at liberalizing the banking sector. In particular the law relaxed the previous limits to credit specialization and extension of geographical area of business that characterized rural banks. 'Banche di credito cooperativo' (even the name Credit Cooperative Banks has been established by this law[2]) were basically allowed to offer all type of financial services and products. In 1999, the values of the credit co-operative banks have been collected in the 'Charter of Values of the Cooperative Credit'. Six years later, the move-

[1] In the case of Banche Popolari the limits to the ownership is equal to the 0.5 per cent of the capital (the limit does not apply to undertakings by institutional investors), while for CCBs the limit is 50,000 Euros (nominal value).

[2] By changing the name, the legislators wanted to put the accent on the 'cooperative' character of this type of banks, instead of stressing the sectors with which they were allowed to work, as it was with the previous name ('Casse rurali and artigiane' – Rural and Handcrafts Banks). Among other things, the 1937 Law on Rural and Handcrafts Banks in fact constrained the rural banks to operate only with farmers, handcrafts and households. Moreover, body corporates could not become members.

ment approved the 'network system' project for CCBs, together with the 'Charter of cohesion', which involved creating a form of cross-safeguard to protect the customers of CCBs.

One of the main consequences of the liberalization process has been a profound restructuring process, whereby some CCBs were liquidated, others were converted into either Banche Popolari or commercial banks, and others being merged or acquired. However, contrary to what some authors forecasted, CCBs improved their general performance and they have not been squeezed out by commercial banks. At the end of 2014, the Italian banking industry counted 664 banks (171 limited liability banks; 37 Banche Popolari, 376 CCBs and 80 branches of foreign banks) (Bank of Italy 2015). CCBs count for the 56.6 per cent of the Italian banking industry in term of number of banks, while their market share relative on loans is around 7.3 per cent. In 2014, the number of members has increased of 2.3 per cent compared to the previous year, reaching the value of 1,200,485 (Federcasse 2015).

The resilience of CCBs after the liberalization is at least partially explained by the strategic role played by their second level structure that was enforced after the New Banking Law. CCBs join one of the 15 local federations that in turn are collected into a national body named Federcasse. The main object of the Federations is to supply CCBs with non-financial services, which include internal audit, compliance and anti-money laundering services. Moreover they provide CCBs with information technology systems. Three Central cooperative banks[3] also support CCBs by providing and distributing through the network of CCBs a range of financial services. Such services include payment system services, financial and insurance products provision, portfolio management, securitization, in-pool operations, leasing, and factoring. CCBs adhere on a compulsory basis to the *Fondo di garanzia dei depositanti del credito cooperativo* (Deposit Guarantee for Cooperative Banks) to ensure the clients deposits. Moreover the CCBs system has set its own *Fondo di garanzia degli obbligazionisti* (Bondholder Guarantee Fund for the Credit Cooperative Banks) that intervenes in case of default by an issuer of bonds.

Even though connected through a second level network, CCBs are fully independent banks[4], subjected to the same banking legislation and supervisory regulation as the other banks. However, given their co-operative nature, some additional restrictions apply to these banks. In par-

[3] The three Central Cooperative Banks are ICCREA (whose headquarters is in Rome), Cassa Centrale Banca – Credito Cooperativo del Nord Est (whose headquarters is in Trento) and Cassa centrale Raiffeisen dell'Alto Adige (established in Bolzano). All three are limited companies, which offer financial services to CCBs, directly or, in the case of ICCREA and Cassa Centrale Banca, through companies of their groups. The Central Banks of Trento and of Bolzano participate in ICCREA.

[4] A minimum capital of 2 million euros is required to establish a new independent CCB.

ticular, the Civil Code provisions on co-operatives apply to CCBs only when they complement the banking legislation or when not in conflict with it. In other words, at least from a legislative point of view, CCBs are firstly banks, and secondly co-operatives. Moreover, their legislation plays a crucial role, since it translates into internal rules the supervisory regulation of the Bank of Italy.

Even though the Banking law transformed the rural banks into a form of co-operative bank much closer to the commercial banks, the preeminent features of these banks have been preserved. Thanks to these distinguished characteristics, Italian CCBs can benefit from a privileged tax treatment. Localism is guaranteed by the fact that they can operate only in municipalities where they have branches and in the neighbouring ones only on a guarantee of geographical continuity (the so called 'reference area')[5]. As a consequence of the product de-specialization introduced by the Banking law, all residents in the reference area are eligible to become CCBs' member, regardless their economic activities.

According to the law, the definition of mutualism requires the CCBs to confine their risk-taking activities mainly to members. The statute fixes the exact percentage even though the legal requirement is fulfilled if at least 50 per cent of total risky assets are devoted to members or invested in government bonds (or in other assets with a zero-weighting coefficient according to the Basel rules). The social basis must be widespread, with a minimum of 200 members. The only requirement for member is to be resident in the CCB's reference area. Regardless the number of shares owned, 'one-head one-vote' principle applies, with each member having only one vote in meetings. CCBs can be considered *democratic*. The assets locked principle assures the *non-for-profit* aim of CCBs. In case of withdrawal, exclusion of members, or bank's liquidation, members cannot be reimbursed more than the share price. In case of liquidation of a CCB, its capital must be devoted to the Fondo Sviluppo Spa (FSS, Mutual Funds for the Promotion and Development of Cooperation set up by Federcasse and the Confederation of Cooperatives, art. 37 BL). The assets locked constraint, peculiar of the Italian system, is the crucial difference between CCBs and other categories of banks including Banche Popolari. Moreover, art. 35 obliges CCBs to devolve the 70 per cent of the annual net profit to a legal reserve, a total 3 per cent to the FSS and to use a residual part for charitable projects.

[5] The reference area of a credit cooperative bank is composed by the municipalities in which it has branches and the neighbouring ones, as defined by the Italian Banking Law of 1993 and by the Bank of Italy regulation. At least 95 per cent of the bank's risky assets must refer to this area, while the residual 5 per cent might be invested outside this area. The name of the bank must explicitly mention the geographical reference area.

3. Conclusion

At this point in history, when many financial institutions are failing, it would seem time to give greater consideration to Kroptokin's notion that «co-operation is a more basic principle than competition» (cited in Parker *et al.* 2007: 187). Following the GFC, governments in developed economies have looked to financial co-operatives and mutuals to provide a range of essential services. For example, in the UK the Prime Minister, David Cameron, has promoted mutuals as part of his 'Big Society' agenda (Fell 2011), whereas in Australia, the previous Gillard federal Labor government championed smaller, not-for-profit financial mutuals, including credit unions, as a fifth competitive force in retail banking. The Italian government goes even further and offers CCBs tax breaks and incentives to ensure their viability.

There is no doubt, that the philosophy of co-operation which underpins financial co-operatives' operating model has meant that they are, in many cases, best placed to meet the needs of consumers who might otherwise find themselves excluded from accessing financial products and services from the market in developed economies. However, there is a risk that promoting financial co-operatives through a discourse of competition puts the mutual philosophy of co-operation under threat (Jones 2008). Primarily, it rests on the way in which mutuality and co-operation at the local level encourages savings. If the aim of governments in developed economies is to ensure the ready availability of fair and reasonably priced financial services then it may do better to look to the forms and norms of 'co-operation' rather than competition.

M. Albanese
A. Jensen

Worker Co-operatives in Australia and Italy

In worker co-operatives workers perform the entrepreneurial function. The workers employ and may invest capital, remunerating it in fixed measure, and organize and manage production – keeping the residual as their own reward. This chapter explores a theoretical model that explains the formation and behaviour of the worker co-operatives in Australia and Italy and why worker co-operatives took root and flourished in one country but not the other. In doing so it rejects the neoliberal understanding of the firm and goes beyond the explanations of classical economists.

1. Economic literature on worker co-operatives

Economists originally were the pioneers in developing a theory of the labour managed firm (LMF), which can be traced back to economic thinkers of nineteenth and early twentieth centuries such as Mill, Marshall, Walras and Wicksell. Nevertheless, a complete economic theory of labour management is a recent achievement and was developed mainly by Ward[1] (1958), Vanek (1970) and Meade (1972). Yet neo-classical economics was found to be inadequate to explain the emergence, behaviour and exit of the labour managed firms as it predicted that worker co-operatives must fail.

[1] One of the stronger hypotheses of Ward's model is the possibility of firing workers, without cost, on the basis of pure economic rationality. In particular, the model predicts the reduction of the partners in the case of an increase of the price of the product or a decrease in the price of capital as firing one group of workers leads to an increase in the income of the remaining workers. A substantial part of the literature that followed Ward's article has made the effort to show that such an outcome derives from the particular simplicity of the hypothesis according to which the sole objective of the firm is the maximization of the individual incomes of the partners.

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However this sceptical view is contrary to the evidence of success that has accumulated since the 1970s by the revisionists in Spain (Oakeshott 1978), the UK (Jones 1978) and Italy (Oakeshott 1978; Zevi 1982). New concepts, framed as Contextualists and Evolutionists, from other disciplines such as sociology, history and industrial relations have now contributed to a more complete understanding and development of an explanatory theory.

Classical economists, as Marshall and Mill, affirmed the importance of job conditions in the processes of determination of personality of individuals and new theories and empirical evidence support the idea that the co-operative form of organization can favour the collaboration and the diffusion of the information and the development of competences among the workers. It would contribute to explain their ability to create an appropriate working environment for the accumulation of social capital in firms and also in the areas in which they have diffusion[2].

The neo-classical economic theory of the self-managed firm was formulated for the first time by Ward (1958) and the literature that followed his article has delineated different ideal types of self-managed firms:

- the firm where the social (state) ownership of capital is exclusively internally financed (Vanek 1977; Furubotn, Pejovich 1970), the *Worker managed firm* (WMF)[3];
- the firm in which capital is exclusively financed by borrowing (Vanek, 1977) or is taken entirely on lease (Jensen, Meckling 1976), the *Labour managed firm* (LMF);
- the firm in Western countries where the ownership of capital belongs to partners and there is a possibility of both internal and external financing (Aslildsen 1988; Sertel 1982).

However it was in 1986 that Mygind (1992) brought clarity to the discussion on the design of the LMF in arguing that the LMF should be conceived as having both collective and individual capital to reflect individual and collective interests of the members. Importantly we shall see this is reflected in the design of the Italian worker co-operative. Therefore, before analysing Italian and Australian worker co-operatives we wish to report on the principal critical aspects pointed out by traditional economic literature, which are argued lead to failure of the LMF. These are: underinvestment, monitoring, efficiency and governance. These traditional economists represent what are called the Sceptics. We follow that with a brief review of the Revisionists who produced positive empirical evidence of LMF success, the Contextual-

[2] Svendsen and Svendsen (2004) show the positive relationship between co-operative firms and social capital in Denmark.
[3] This category is inspired by the type of firm that was developed in Yugoslavia till the end of the 1980s.

ists who argue the importance of national culture and the Evolutionists who argue the importance of the LMF lifecycle in firm survival. These theorists show in practise how the problems addressed by the Sceptics have been solved and on the other hand, what compromises are involved.

1. Underinvestment

Underinvestment is seen as a key reason why LMF's fail. There are essentially three causes of underinvestment suggested in the literature and they are closely interconnected.

The first is linked to the question of property rights and the limited time horizon of partners, and it has been analysed initially by Furubotn and Pejovich (1973, 1976). This is based on the fact that the partner of the self managed firm, not having the right of refund of his/her capital share at the time of his/her withdrawal from the firm in certain circumstances will be opposed to investing in the firm. In this type of firm every investment must be preceded by a choice of self-financing, which in turns means a reduction in the dividends paid to partners. The latter or at least some of them will always vote against any proposal of self-financed investment if they are to gain only a part the income flow generated by it, due to their time horizon being limited to the date of which, for whatever reason, they leave the firm. This reason for underinvestment is called the 'Furubotn-Pejovich effect' and concerns the impossibility for the partner, in certain cases, to be able to recoup the self-financed capital invested in the firm. This effect is very strong in WMF.

The second reason for which the self-managed firm may have difficulty in investing is related to the exigencies of capital protection, which are felt particularly strong in the LMF because of the peculiarity of property rights. According to Furubotn and Pejovich (1970), the self managed firm should have a particular obligation to maintain the accountable value of the investment or to prohibit disinvestment or even to have particularly burdensome forms of capital goods depreciation.

The last reason for underinvestment is related to the problem of guarantees for third parties financing investments. Schlicht and von Weizsacker (1977), with regard to the commitment problem of partners, show that if firm is financed wholly from outside (LMF), nothing obliges the partners to be interested in the fate of their firms unless there are norms imposed from outside. It will be difficult, therefore, for the firm to find the necessary financing.

2. Monitoring

According to a widely held opinion, the theory of the firm of Alchian and Demsetz (1972) provides the most profound explanation of why, in free-market economics, capitalistic firms tend to prevail, at least in numbers, over co-operative or self-managed firms. The theory postulates that the firm comes into being primarily because team production is more efficient than the production of single individuals, that is, because the joint product of a team is greater than the sum of what would be produced by the individuals in the team, if each worked for him/herself.

Team production is efficient if the rewards to the members of the team are proportional to each member's productivity. However, a fundamental characteristic of the productive activity of a firm is that a worker may reduce his/her effort without his/her payment being affected, because it is difficult to measure the productive contribution of each single member of the team. The central idea of Alchian and Demsetz (1972) is that it is the entrepreneur who assumes the task of monitoring the activities of the members of a team and that for this the entrepreneur must be rewarded with an income which is related to the functioning of the team. This theory, in the opinion of its authors, provides an explanation of why, in the world which we inhabit, firms tend more often to organize in a capitalistic than in a co-operative manner. According to Alchian and Demsetz, in fact, if profit is not assigned to the one who has the job to control the work of others, but is divided in given measure among all the workers, the latter will have more interest in his/her own work, and it is probable that the reduction in productivity due to the weakening of control will be greater than the increase in productivity due to the smaller incentives that individual workers have to work with reduced effort. All the more reason to believe, therefore, that if all the profit is distributed among the workers as occurs in co-operatives, bringing an end to the specific function of controlling gives rise to a reduction in productivity, despite the greater interest the workers have in efficiency of the firm.

The basic idea underlying the analysis of Alchian and Demsetz (1972) would be true if there were no transaction costs, but in that case there would be no firms (McCain 1977); but this amounts to saying that, if there were no transaction costs, any enterprise will operate efficiently regardless of how rights to participate in its management decision may be assigned. This implies that the reason for which capitalistic firms tend to prevail over self-managed firms is not that identified by Alchian and Demsetz (1972), but rather lies in the existence of transaction costs especially in the area of governance.

In relation to the problem of monitoring, authors affirm that the employer does not exercise power over workers. Many studies have shown that forms of monitoring, as with the division of labour and other forms of organizational structure, are not chosen for reasons of efficiency, but mainly to maintain and reinforce the authority of the employer (Marglin 1974; Braverman 1974). Another objection to the analysis of Alchian and Demsetz is that where the function of control is left with the partners, no one has a particular interest to perform the function of control well, but, at the same time, has some interest in controlling others (Miller 1993).

3. Efficiency and governance

Hansmann (1996) affirms that the main explanation of the low occurrence of the democratic enterprise is linked to the costs of democracy. Hansmann's theory is that the costs of collective decisions have critical implications on the structure of the property rights that we observe and the ways in which companies are organized internally (Hansmann 1996: 2). In the capitalist firm the workers have no decision-making power and haven't the right to express their 'voice'. They have to accept the role assigned to them and they're 'resigned' as defined in the employment contract. In co-operative firms workers have 'voice' and, if placed in the minority, they suffer because their voice is not heard and can be brought to contest or rebel against the decisions of the majority. This leads, according to Hansmann, the main difficulty of governance in democratic firms. Hansmann's theories are widely shared by economists who, therefore, believe that co-operatives should delegate the management of the business to professional managers (Jossa 2008). This is what has happened in the successful worker co-operatives of Spain and Italy.

4. Towards a new Understanding of the LMF

The Revisionists provided empirical evidence of LMF success as well as an alternative understanding of the economics of the LMF based on a new conception of the individual from a developmental pedagogical perception rather than the possessive individual of classical economists. In relation to the efficiency of worker co-operatives, Docuouliagos (1995) in the quantitative analysis of large data sets shows that in the LMF worker participation in decision-making is positively associated with productivity greater than among participatory capitalistic firms. His analysis is based on eleven statistically independent studies on LMFs and he finds in seven of these case studies (64%), democratic worker participation in decision making (one vote one person) is positively correlated with productivity. Doucouliagos (1995) affirms that worker entrepreneurs are likely to be more interested in profit and firms' survival than ordinary employees would be.

The fact that the LMF has accumulated empirical evidence of the success and the longevity of these firms across different national jurisdictions raises the issue of a cultural determinant behind LMF formation (Poole 1986). This requires further explanation exposing the limitations of the neo-classical economic analysis. Ben Ner (1988) states that the conventional firm is more efficient in the start up period and is chosen by entrepreneurs as workers are risk averse, lack access to capital, have to deal with asset specificity and the entrepreneurial function is a singular not a group activity. However following start up Ben Ner (1988) argues that the LMF has a competitive advantage over the traditional firm, being able to achieve agreement over a wider range of issues, the removal of a layer of supervision and better information flows up and down the organisation due to the double feedback loop of democratic governance. Westenholtz (1986) elaborated on this further in arguing that democratic governance and economic efficiency can be linked in a dialectical relationship pushing the boundaries of firm performance as workers redesign the organisation to overcome the ambiguities of economic democracy – namely democracy is time consuming, workers lack the skills to self manage and that democracy dissipates and negates responsibility for implementation.

Importantly it was Evolutionists lead by Litchenstein (1986) who proposed that the LMF relationships must be seen as the key variable as these are linked directly to performance through an understanding of the evolutionary nature of the firm in its transition through start up, maturity and decline. In resisting degeneration, the so-called individualist maximising 'grab strategy', argued as inevitable by the economists such as Ward (1958), is replaced by the 'cooperative maximising strategy' where norms and sanctions work against individual *homo economicus* behaviour and firm degeneration. Litchenstein (1986) argues that it is the transition through the life cycle stages that are a characteristic of success.

Paradoxically the LMF now finds itself in a position to inform the mainstream debate and academic research over the pursuit of the High Performance Work System (HPWS), the 'holy grail' of strategic human relations management. The delivery of the HPWS is a hotly debated and divisive subject with researchers unable to agree on exactly what the factors are which contribute to the success of the system. Here the key issue for human relations is the indeterminacy of labour and the incompleteness of the employment contract whereby management's role centres on extracting maximum discretionary effort from the worker through a range of management strategies. In the context of Boxall and Purcell (2003) stating that the legitimacy of the contemporary firm rests on employees participating in decisions, the LMF therefore embodies the aspirations and factors defining the HPWS where worker owners are legitimate partners and willingly engage in added discretionary effort. The concerns of the human relations school relating to the incompleteness and asymmetrical nature of the employment contract reinforces arguments that the 'contract of service' is itself illegitimate, objectionable and invalid in that self renting is a form of slavery and of subjugation, thereby deeply challenging to the concept of the firm as a contracting mechanism (Erdal 2012).

5. Historical highlights

The worker co-operative or LMF has emerged successfully in some countries but not in others. It can be argued that there are three key macro variables that explain LMF entry: the state, the labour movement and the market (Jensen 2013). These will be used to describe the difference between Italy and Australia in worker co-operative formation. Importantly the linkage between the two countries is the Papal Encyclical by Leo XIII in 1891, which had a major effect on industrial relations.

5.1 Italy

The key to understanding the rich tradition, size and dynamism of the Italian worker co-operative movement is the nature of the state, the market and the labour movement in the nineteenth century. Firstly, in regard to the state, the nineteenth century Republican forces lead by Garibaldi progressively unified the Italian State – but this occurred later than other European countries and resulted in a weak central state which was subject to liberal market intrusion. This resulted in protest lead by conservative critics who «held up the misery and despair which stalked the cities and countryside of the new state as evidence of the egotistical political and economic theories on which it was premised» (Davis 1989: 220). This resulted in strong co-operative associations being formed in the 1880s such as the Federazione delle Cooperative Italiane in 1893. Municipal governments also gave worker co-operatives contracts as an insurance against strikes. Legislative recognition was given in 1882.The Catholic Church, as a cultural elite, took a leading role with the Pope urging the Catholic laity to join worker co-operatives:

> The1891 Papal Encyclical Rerum Novarum attacked socialism and enjoined Catholic activists to provide organisational alternatives – cross class bodies seeking social justice through social harmony and state intervention. In the north and northeast, activists established local and producer co-operatives on a vast scale (Bamber *et al*. 2004: 150).

Secondly, in regard to the labour movement, there was in Italy the long history of collective action, solidarity and fraternity: «throughout much of rural Italy the vestiges of older communal ways of life had by no means disappeared and collective forms of ownership and agriculture survived to the end of the century» (Davis 1989: 220), whereby «self consciously independent and secularist traditions of many of the old craft and skilled trades were also an influential source of collectivist and separatist values» (Davis 1989: 220). Italy was typical of continental Europe in suppressing trade unions leading the labour movement to turn to revolutionary syndicalism. Only one form of labor organization was permitted until the turn of the century: the mutual aid or friendly societies. These were often the precursor to producer co-operatives acting as a conduit for the transfer of values of equality and solidarity from the guilds and the latent power of workers found expression there. They also found radical expression in the Lavoro co-operatives of builders' labourers, which became involved in public works.

Thirdly, the impact of the free market ideology there was the development of a political consciousness and expression amongst the labour movement (Davis 1989) as a result of what free market ideologies were doing. Unlike the UK, unionism was revolutionary from the start in seeking to overthrow capitalism not to bargain with it. A language of class had emerged long before the Socialists in the «denunciation of the materialist values on which political Liberalism was based» (Davis 1989: 220).

The co-operative movement survived the fascist period and after World War II took a key role in reconstruction of the Italian economy. In the economic crisis of the 1970s and 1980s the trade union movement played an active role in the rescue of failing companies by forming worker co-operatives – some 1500 buyouts were conducted with hundreds of thousands of jobs saved. Italy entered the twenty-first century with the largest worker co-operative sector in the world – having some 800,000 workers.

5.2 Australia

The key to understanding the dearth of worker co-operatives in Australia is the emergence of a strong centralised liberal state, which incorporated the trade union movement, and a protected mediated labour market emasculating the nascent co-operative movement and delivering the Australian welfare state classed as a 'fair go' for all.

Firstly the Australian state had its genesis in the establishment of a colony in 1788 with a labour supply of convicts engaged in the building of infrastructure and later providing free labour for commerce before evolving to a majority of free settlers by the 1850s and leading to the emergence of a fragile labour market by 1890s. Co-operative development in this period reflected the different traditions of British and European cooperation as well as the clear phases of co-operative establishment reflecting the British experience of voluntarism.

The Great Shearers Strike in 1891 in which the trade unions were defeated after an acrimonious conflict that threatened to spill over into armed rebellion was seminal to the fate of co-operatives. It resulted in the NSW Government establishing the Royal Commission on Strikes in 1891, which heard evidence from employers that they believed co-operatives helped workers understand business. While Sydney Trades and Labour Council, the peak union organisation in the colony of NSW, saw co-operatives as a means to eliminate exploitation by employers, while radical unionists saw them as superficial solution where «workmen became little masters and oppressed labour as much as capitalists» (Trades and Labor Council of Queensland, 1988, Proceedings of the Fifth Intercolonial Trades union Congress, Brisbane 1888: 90). Unfortunately they were seen as an ambiguous experiment and the preparedness of the working man to take on self management at the co-operative ideal was questioned: «Beneath the egalitarian comradely proletarian lay hidden the possessive individualist» (Walker 1970: 52). These events helped propel Australia to adopt compulsory arbitration as a means to settle strikes and subsequently incorporate trade unions into the state.

Secondly, in regard to the labour movement, following the Great Shearers Strike, the Australian Socialist League that decided to form a co-operative but not in Australia but offshore in Paraguay. It decided to migrate workers out of Australia, a country they considered not fit for the labour movement. They bought a sailing ship and land in Paraguay and started shipping workers to start the New Australia Co-operative Commonwealth there in 1893. It was only the miners who continued to form co-operative mines in Australia in this period up to 1923.

After 1897 the labour movement moved towards achieving representation in parliament to achieve their aims and the trade unions were seen to lean upon the state rather than take direct action. They turned away from the true spirit of the labour movement and support for co-operative formation and embraced arbitration and political reform to achieve more substantial and long tem gains.

Thirdly, in regard to the nature of the mediated market, the collapse of the fragile labour market in the 1890s resulted in establishment of compulsory arbitration to mediate strikes and the 1907 Harvester Judgement by the Commonwealth Arbitration Court to protect the workingman. It had an ethos of social justice based on the Catholic Encyclical *Rerum Novarum*, which introduced the concept of the 'Male Breadwinner' and his family having the right to live in 'frugal comfort'. Importantly it took the determination of wages out of the market place – labour was no longer a commodity in Australia. A tripartite agreement then was negotiated between the state, trade unions and business to ensure the basic wage was kept in return for the tariff protection of manufacturing.

However in the ensuing century Australia had a rich and varied experience with a small number of worker co-operatives with enough interesting ventures and experiments to give credence to its advocates but without providing the necessary success to overcome the obstacles to formation – namely appropriate market conditions and gaining state and labour movement support (Jensen 2013).

6. Legal highlights in Italy

In Italy, the importance of the co-operative society at constitutional level was defined on 1 January 1948. In 1947, the new parliament, however, had already approved the Decree. 1577/47 (Law Basevi) that defines the mutual requirements in order to enjoy the tax benefits in three clauses that must be included in the co-operative norms:

1. The prohibition of distributing dividends higher that the legally set level of interest rate in relation to the capital that has actually been paid; Return rights in the form of dividends are limited by statute, capped at not greater than 6.55 per cent of an individual member's capital.
2. The prohibition of distributing the reserves amongst the members during the lifetime of the company. A requirement states that 30 per cent of the profits, tax free, must go to indivisible locked assets, discouraging demutualization, while 70 per cent can be divided among the workers as dividends, individual capital or cash. Only 20 per cent of the residual or the surplus can be used to supplement salaries and cannot be more than 30 per cent of the wages.
3. The transfer, in the case of the dissolution of the society, of all of the company assets – after deduction of the capital paid in and any dividends that may have accrued – to a public utility purpose in keeping with the spirit of mutuality.

The Law 59/1992 also allowed external funders to become members of co-operatives. Many other laws on cooperation have occurred over the years and these laws have often been the result of the action exerted by the central co-operative associations.

With particular reference to workers co-operatives, the reform of the Civil Code (Legislative Decree 6/2003) sets out criteria for the definition of prevalently mutual co-operatives. The definition of the prevalence for worker co-operatives is: «the cost of labor of members is greater than fifty per cent of the total labor costs». This distinction between mutual co-operatives 'prevailing' and 'not prevailing' has been strongly opposed by the co-operative movement because it introduces a separation within the co-operative enterprises without reason, but it was important for tax purposes.

7. The Performance of the Worker Co-operative in Italy and Australia

The last thirty years have been a defining period for worker co-operatives in Italy and Australia. Italy consolidated and grew its very substantial worker co-operative sector over this period reflecting the view of Ben Ner (1988) that the LMF can demonstrate superior efficiency once established. Australia made a concerted effort to establish a worker co-operative sector through encouraging employee buyouts through state government intervention in the 1980s and federal intervention during the Global Financial Crisis of 2008. This strategy showed promise with early success in employee buyout turnarounds and performance increases and then collapsed due to lack of ongoing support. The different trajectory in the two countries reflected the presence or absence of Paton's (1989: 125) criteria for success: leadership, cohesion and ongoing support.

In order to understand the worker co-operative phenomenon in these two countries large data sets of worker co-operatives formation and performance in Italy will be examined. This will be complimented by in depth case study analysis of co-operatives formed through the rescue of failed companies in both countries to gain an understanding of the micro factors affecting success. In Australia small numbers of worker owned companies were formed in the 1980s and 1990s and an in depth analysis will be presented on three firms from a case study analysis. The micro factors affecting success were defined by Jensen (2013) in a new theoretical model: legal design, governance and people policies.

7.1 General data on Italian co-operatives

Over the period from 1951 to 2001 the number of co-operatives as a percentage of the total number of companies in Italy increased from 0.7 per cent in 1951 to 1.2 per cent in 2001 The number of workers in co-operative companies as a percentage of the total number of workers in all companies rose from 2 per cent in 1951 to 5.8 per cent in 2001 (Zanotti 2011).

This period, demonstrated the ability of the Italian co-operative sector to generate new jobs faster than the economy in general. The growth in the number of co-operatives has taken place in fits and starts, with two periods of significant growth in the 1970s and the 1990s, which were driven by two substantial structural changes that characterised the Italian economy. In the 1970s, the Italian economy experienced strong growth in the services sector, to the extent that it accounted for more than 50 per cent of the GDP and employment, in keeping with what was happening in the other European countries. The oil crisis of the 1970s lead to the failure of a large number of manufacturing firms, many of which, approximately 1500, were restructured as worker co-operatives. In the 1990s, the state's fiscal crisis led to the creation of mechanisms designed to outsource services, particularly in the welfare sector and the rise of the social co-operative phenomenon.

In recent years post 2001 we see that by 2011 the total of co-operatives employ more than 1,200,000 workers, with an increase of 22.7% over the period, as shown in table 1 below.

Social co-operatives in the non-profit sphere have demonstrated the greatest growth.

Co-operatives in this period outgrew the traditional sector. In table 2 above the figures compare the total of co-operative employees with the total of employees in Italian companies in general. The latter includes the social co-operative employees. The marked increase in employment in the co-operatives is indicative of the overall increase in co-operatives in general, increasing from 5.6 per cent of total firms to 6.6 per cent.

Table 1 – Number of coops and employees in 2001 and 2011 in Italy.

	No. Active Coops			No. EmployeesTable		
	2001	2011	Var.%	2001	2011	Var.%
Coops (excluding social)						
employees	-	-		786,092	803,294	2.2
co.co.pro. (external)	-	-		30,318	26,477	-12.7
temporary-employees	-	-		2,664	5,808	118.0
Total Coops (excluding social)	47,719	50,134	5.1	819,074	835,579	2.0
Social Coops						
employees	-	-		149,147	320,513	114.9
co.co.pro. (external)	-	-		9,861	43,082	336.9
temporary-employees	-	-		136	1,411	937.5
Total Social Coops	5,674	11,264	98.5	159,144	365,006	129.4
Coops (including social)						
employees	-	-		935,239	1,123,807	20.2
co.co.pro. (external)	-	-		40,179	69,559	73.1
temporary-employees	-	-		2,800	7,219	157.8
Total Coops (including social)	53,393	61,398	15.0	978,218	1,200,585	22.7

Source: Legacoop Brief Notes (11/2013)

Table 2 – Number of coops and employees in 2001 and 2011 in Italy.

	No. Active Coops			No. Employees			Var. Employment
	2001	**2011**	**V.%**	**2001**	**2011**	**V.%**	**2011-2001**
Cooperatives **(including Social coops)**	53,395	61,398	15.0	978,218	1,200,585	22.7	222,367
Firms **(including Social coops)**	4,089,640	4,437,214	8.5	17,418,988	18,169,837	4.3	750,849
Non-profit **(including Social coops)**	240,906	312,455	29.7	592,791	957,124	61.5	364,333
Total **(including Public and non-profit bodies)**	4,147,625	4,488,267	8.2	20,355,894	20,895,156	2.6	539,262
Coops/Firms %	1.3	1.4		5.6	6.6		
Coops/Total %	1.3	1.4		4.8	5.7		
Social Coops/Non-profit %	66.1	50.9		26.8	38.1		

Source: Legacoop Brief Notes (11/2013)

7.1.1 Italian worker co-operatives[4]

We now look at how Italian worker co-operatives performed during and after the GFC and reflect on the argument of Ben-Ner (1988) that after start up the LMF in their mature phase would outperform the investor managed firm. The Istat data of Censuses are based on sectors of activity rather than upon the nature of the mutualistic exchange and we can therefore only indirectly estimate the incidence of worker co-operatives. We have considered the following sectors of activity as sectors in which worker co-operatives are present: Industry and manufacturing activities[5]; Social; and Services, not including financial and property activities. We look now at the economic trends for the period 2007- 2011 in the different sectors where Italian co-operatives and consortiums operate[6].

In the case of small co-operatives, as shown in table 3 below, the two sectors of services and social co-operatives make 60 per cent of production volume (and more than 83 per cent of the total employment). For the consortiums, the Services sector leads with 36 per cent of 2011 aggregate production volume, followed by the Social (26 per cent).

Table 3 – Production volume by sector from 2007 to 2011 in Italy.

	Worker cooperatives			
Sector	Large	Medium	Small	Consortiums
Industry	25%	12%	8%	5%
Social	0%	12%	24%	26%
Services	9%	20%	36%	36%
Total	34%	44%	68%	67%

Source: our elaboration on Legacoop Brief Notes

[4] We thank Antonio Zanotti for his suggestions and for the data and the contribution on worker co-operatives.

[5] Unfortunately, the Istat data also include housing co-operatives in this sector, which, although being substantial in number, have very little incidence in terms of the number of workers involved.

[6] Data is provided for 60 per cent of the small Italian co-operatives and consortiums. It involves 41,713 co-operatives and 1,277 consortiums. Medium co-operatives in 2010 or 2011 registered a production volume (single or consolidated balance) of 10-100 million euros inclusive. 816 co-operative companies were studied, referring to all the co-operatives found in the Legacoop Centro Studi and AIDA (Bureau Van Dijk) data banks. Excluded are those co-operatives, which were set up after 2007 (42 companies with 914 million euros in turnover in 2011) and those, which had still not presented a 2011 balance. The 120 large co-operatives studied make up 88.9 per cent of the 135 companies individuated, and, for the 2010 data, approx. 90 per cent of total production volume. In 2010, nine new co-operatives are added to those already considered, and in 2011, these new companies had a PV of more than 100 million euros.

The small co-operatives, if considered by sector, show very different trends in production volume for the period 2007-2011. Production volume increases significantly in the Social sector (+24 per cent), and Services (+36 per cent). These trends are counterbalanced by the overall clear reduction in the profitability of the small co-operatives, in all sectors but to varying degrees.

In the case of medium sized co-operatives, the sector with the highest production volume is the services sector. In the period 2007-2011, the medium-sized co-operatives showed a positive trend as far as production volume and employment. However, overall profitability sharply declined in the period 2007-2011, both in terms of operating income and net profit[7].

From the sector trends, there emerge important differences in the growth rates among the different sectors studied. In terms of production volume for the period under study, the social co-operatives realised sounder growth compared to the average, followed by the services sector. On the other hand, the industrial sector registered a decline in production volume for the five-year period. The industrial sector appears to be in a particularly difficult situation, as, even if, in the period under study, its production volume and employment remained relatively stable, it registered a decline in its profitability, especially in the last two years. Importantly this demonstrated that co-operatives retained their staff in difficult times.

In the case of large co-operatives we find 20 companies in the manufacturing sector, including construction, services for companies and individuals (including social co-operatives). Concerning the distribution by sector of the production volume for 2011, the industry sector is the largest with 25 per cent of the aggregate total, followed by services with nine per cent. The co-operatives show an increase in production volume and employment in the period 2007-2011. This increase, even though different among the various sectors, reveals, for all, an increase in 2011 over 2010. However, corresponding to this increase there is a decline in their overall earnings. The net profits decrease compared to the values registered in the previous years, both in absolute values and in production volume percentages. Here we demonstrate that co-operatives continue to grow volume and employment due to their inherent efficiencies despite very tight trading conditions and reduced margins reflecting the primacy of labour over capital.

7.1.2 Italian Medium and Large Co-operatives during the crisis

Italian medium and large co-operatives reveal a better resilience to the crisis than other firms. In the period 2007-10 the large Italian co-operatives have continued to develop. Compared to the large companies reported in the Mediobancadata we can see that the large co-operatives have increased

[7] We take the data reported from Legacoop Brief Notes. 2012 and 2013.

in their production volume and employment, while the Mediobanca companies, as a whole, have shown a decrease.

Table 4 – Cooperatives and Mediobanca Companies (2007-2010) in Italy.

		Cooperatives (131)	Mediobanca (2.030)	Mediobanca (private)
Retailing	Prod. Value variation (%)	15.2	8.4	..
	Employment variation (%)	4.9	1.4	..
Construction	Prod. Value variation (%)	5.3	9.2	..
	Employment variation (%)	34.5	-17.4	..
Total	Prod. Value variation (%)	17.1	-3.8	-6.7
	Employment variation (%)	5.9	-5.1	-4.7

Source: Legacoop Brief Notes (2/2012)

From table 4 above we can deduce that, while the co-operatives increased in both production and employment (17.1 per cent and 5.9 per cent respectively) during the period under study, the Mediobanca companies (2,030) registered a downturn, –3.8 per cent in production and –5.1 per cent in employment respectively, and those considered in the Mediobanca study as private, –6.7 per cent in production and –4.7 per cent in employment.

Table 5 – Large coops by sector Production and employment – Industry (2007-2010) in Italy.

Macro-sector	2007	2008	2009	2010	incr% 07/10
Non-food manufacturing industry (6)					
Production volume					
single balances	1,634	1,676	1,302	1,477	-9.6
single and group balances	3,112	3,088	2,400	2,822	-9.3
Employment					
single balances	3,870	4,359	4,199	4,271	**10.4**
single and group balances	9,016	9,211	8,920	9,008	-0.1
Construction industry (12)					
Production volume					
single balances	3,387	3,787	3,345	3,377	-0.3
single and group balancesi	4,078	4,567	4,273	4,294	**5.3**
Employment					
single balances	6,434	6,588	6,665	6,694	**4.0**
single and group balances	12,853	13,323	15,913	17,286	**34.5**
Total (18)					
Production volume					
single balances	5,021	5,463	4,647	4,854	-3.3
single and group balances	7,190	7,655	6,673	7,116	-1.0
Employment					
single balances	10,304	10,947	10,864	10,965	**6.4**
single and group balances	21,869	22,534	24,833	26,294	**20.2**

Source: Legacoop Brief Notes (2/2012)

In large co-operatives, during the crisis, we observe the same differences in the sectors analysed, as shown in table 5 above. In the manufacturing industry, even with fluctuating trends, employment appears stable while in the building industry, employment steadily increased at a quite significant rate (34.5 per cent)[8].

Table 6 – Medium coops by sector: production volume and employment (2007-2010) in Italy.

Sector	N.	Production 2007	Production 2008	Production 2009	Production 2010	% 07-10	Employment 2007	Employment 2008	Employment 2009	Employment 2010	% 07-10
Agro-food	342	7,551,442,330	8,561,306,638	8,060,358,362	8,480,664,812	12.3	19,304	20,348	21,026	21,293	10,3
Fishing	6	97,179,721	95,360,562	85,946,199	88,811,311	-8.6	171	165	176	174	1.8
Manufact./Constr.	86	2,595,459,516	2,713,567,887	2,583,010,043	2,612,062,717	0.6	9,715	9,979	9,824	9,817	1.0
Retail	65	1,717,186,947	1,813,274,208	1,737,315,819	1,780,793,531	3.7	4,805	4,893	5,029	5,030	4.7
Pharmacies	9	664,056,379	650,275,419	695,243,886	519,898,896	-21.7	443	420	403	350	-21.0
Social	104	1,886,788,836	2,164,874,605	2,378,180,531	2,524,337,393	33.8	67,297	71,310	76,407	79,806	18.6
Services	182	3,649,641,227	4,012,053,838	3,937,625,766	4,167,564,307	14.2	77,278	81,825	87,015	88,209	14.1
Real estate (housing)	31	394,870,602	401,565,123	428,660,875	510,627,303	29.3	200	215	208	206	3.2
Other activities	2	29,779,769	33,999,441	31,539,814	32,010,974	7.5	211	210	218	225	6.6
Total	**827**	**18,586,405,327**	**20,446,277,721**	**19,937,881,295**	**20,716,771,244**	**11.5**	**179,424**	**189,365**	**200,306**	**205,110**	**14.3**

Source: Legacoop Brief Notes (7/2012)

In the years of the crisis, the medium co-operatives registered overall increases in production and employment, but they decrease in operating income and net profits again demonstrating the different behaviour of co-operatives compared to the investor firm. From the data showed in table 6 above, we can see that the medium co-operatives have experienced a growth, in the period 2007-2010, both in production (+11.5 per cent) and employment (+14.3 per cent). The production volume increased at different rates with a decline in 2009 (–2.5 per cent), while employment showed a steady increase, even though the rate was higher in 2008 and 2009.

Concerning the sectors, quite significant differences emerge in growth rates. The social co-operatives increased the most in terms of production (+33.8 per cent) and employment (+18.6 per cent). However, for the industrial co-operatives (manufacturing and construction) the increase in both production and employment is very limited indicating a very tight market and external competition.

7.2 Worker Co-operatives: Saving Companies Worth Saving in Italy and Australia

The 1980s was a period of international dislocation in the manufacturing sector due to oil price adjustments and as a result Western industri-

[8] The marked increase in employment seen in the construction co-operatives can be mainly attributed to the growth in building work abroad.

alised economies saw the mass failure of thousands of companies. The labour movement in response to this dislocation developed, in a number of countries, a new strategy of industrial relations, which involved the worker buyout of distressed companies to save jobs that were disappearing. In this context some governments established worker buyout initiatives: the 1985 Marcora Law in Italy and the Common Ownership Development Agency (CODA) in New South Wales, Australia. The result was remarkably similar institutions, namely a buyout fund and an advisory service. The difference was that the Italian initiative was enshrined in law while the Australian initiative was a branch of a department set up by the NSW Labor Government and subject to internecine struggles between political factions of the Labor Party and the whim of a change in governments. The left of the Labor Party changed the name of CODA to the political inflammatory Worker Enterprise Corporation and the newly elected Liberal and National Party Government Party closed it in 1988.

In Italy the Marcora Law established a pilot programme in 1985 setting up FONCOOPER a fund to promote co-operatives and CFI, Compagnia Finanziaria Industriale, a special fund to provide share capital. In addition workers could capitalise three years unemployment benefits as a 'lump sum' and receive a loan from CFI. Around 150 companies have been transformed to worker co-operatives to date using this Law. In Australia the pilot programme CODA, was accompanied by Common Ownership Finance, which provided soft loans or patient capital as well as advice and training. We now shall examine case studies from both these initiatives to explore the outcomes in terms of economic and social success.

The CODA buyout programme resulted in around 30 buyouts. The highpoint was the attempt to engineer an employee buyout at the Phillips washing machine factory in Western Sydney. The table 7 below records the financial data from three to four years trading in the 1980s.The buyouts were based on the workers investing around $5,000 and the companies were entirely employee owned using bank finance. The legal structure was a limited company with a co-operative constitution. In general terms it demonstrates the dramatic turnaround of these manufacturing companies that were financially struggling. Three companies were studied from 1984 to 1988 (Jensen 1988): Planned Commercial Refrigeration increased sales by 150 per cent over three years; David Power by 130 per cent; and All Graphics by 186 per cent. These became instrumentally focussed in their mature phase as demonstrated by the revaluing of the share price. Without on-going support in two of the companies the workers eventually chose to sell and realise their capital gain. The other failed and became a management buyout and the other 27 companies slowly returned to conventional companies. They did demonstrate how following assistance to start up the LMF was able to leverage their social capital to achieve high productivity levels.

Table 7 – Worker Buyouts in Australia in 1980's

	1983/84	1985/86	1986/87	1987/88
All Graphics				
Sales	0.7m	1.1m	1.8m	2.4m
Profit	-	66,000	52,000	120,000
Share Values		1.0	3.0	4.20
			2 for 1 issue	
David Power				
Sales	1.8m	2.7m	2.75	4.1m
Profit (Loss)	(30,000)	0	(300,000)	150,000
Share Values		1.0	1.0	1.0
P.C.R				
Sales Turnover	2.8m	4.0m	6.2m	
Profit/(Loss)	(60,000)	170,000	350,000	
Share Values		(0.50)	1.60	

Source: Jensen (1988)

Despite the two Australian firms demutualizing by being sold by their worker owners to realize their capital gain an enormous amount was learnt and much was achieved. Jobs were preserved and created and industrial capacity was preserved. These were significant social experiments in industrial democracy in Australia and provide the basis for further policy considerations. Despite the tensions described 84 per cent of original members agreed that their commitment had increased; managers agreed that absenteeism had decreased; 73 per cent of workers saw that job satisfaction had increased; management stated that productivity in PCR went up by 100 per cent in the first year and All Graphics reported an immediate 25 per cent increase due to working longer hours for the same wages. The companies were more innovative with All Graphics winning client acclaim for producing printing of outstanding quality.

The Italian Marcora Law presented a different story. Suspended by the European Union in 1992 for prioritising one form of corporate model the loan to investment ratio was reduced and CIF re-emerged to continue the worker buyout programme and build a portfolio of 150 worker owned companies suffering only a five per cent failure rate. Two of the successful firms were studied in 2007 (Jensen 2013) to assess their cultural dimensions especially regarding job satisfaction and participation arising out of the micro variables of legal design, governance and people practices. The two co-operatives had been successful over a period of twenty-five years. Jobs had been preserved, major investments made in machinery and democracy sustained. The worker co-operative was favourably perceived by the Italian worker as evidenced by one Italian worker who stated: «I believe in co-operatives instead of the capitalist firm. I used to believe in co-operatives and I still believe in co-operatives, and I believe in the job and the work and the effort we put in the co-operative».

Another worker described how important the worker-co-operative buyout programme was and added support to the Marcora Law initiative:

> By forming a co-operative we managed to overcome the bankruptcy of the enterprise that existed before and the positive thing was that by forming this co-operative we managed to overcome not just an enterprise crisis but also a personal crisis. We found that from being 60 or more employees on the dole that by forming a co-operative we were able to create a place of work so as not to create a trauma for our families to move to another place to find a job and it was in that way to sustain our families and give a future to our sons and daughters and wives.

In a cross cultural comparison comparing worker buyouts in the USA, Italy and Spain the Italian worker co-operative demonstrated higher job satisfaction and rated higher on intrinsic and extrinsic satisfaction than worker owned firms in other countries (Jensen 2013). One worker described how job satisfaction was perceived:

> Personally I love this job as I have always done this job and so we care for the product we are going to make. From the raw material to the final product. It's like a fluid stream. It's just like one big department that works in a cohesive way joined up – joined up with love and passion. We look at the materials, we are working with care and passion for it.

The study also found a positive and significant correlation between satisfaction and participation, highlighting the effectiveness of the Italian worker co-operative in its mature phase. The study supported the contention of Lichtenstein (1986: 66) that the worker co-operative is effective both economically and socially: «The lifecycle model presented here represents a significant methodological advance over the traditional neo-classical model. It focuses our attention on the social relations of alternative organisations and connects these relations directly to economic performance».

The small number of case studies can only allow limited conclusions to be drawn. However the triangulation of the data provides encouragement for these positive outcomes and suggests the need for further research.

8. Trends

8.1 Italian trends

In the period 2007-2011, 39,375 co-operative enterprises were set up, a number which in itself is quite important, but becomes even more significant if it is weighed against the number of already existing co-operatives in Italy. However, it should be taken into account that the company enrolment numbers also include co-operatives, which even though legally new, could actually result from extraordinary operations, for example, mergers between already existing co-operatives. From the data of a Legacoop study 23,591 new co-operative entities set up in the five-year period 2007-2011. Of these 23,146 (98 per cent) are co-operatives and 445 (2 per cent) are consortiums, a co-operative company composed of co-operatives.

Table 8 – New coops (2007-2011) by sector and legal status (01/09/2012) in Italy.

Sector	Total	Active		In liquidation		Non-operative		Unclassified	
		N.	%	N.	%	N.	%	N.	%
Agriculture & Fisheries	1,571	1,449	92.2	58	3.7	64	4.1	0	-
Manufacturing	1,166	985	84.5	121	10.4	59	5.1	1	0.1
Construction	2,123	1,866	87.9	151	7.1	105	4.9	1	0.0
Retailing	782	692	88.5	51	6.5	39	5.0	0	-
Social	4,901	4,438	90.6	215	4.4	246	5.0	2	0.0
Transportation & Storage	2,855	2,235	78.3	389	13.6	229	8.0	2	0.1
Other services	6,205	5,314	85.6	491	7.9	392	6.3	8	0.1
Housing	1,709	1,504	88.0	109	6.4	95	5.6	1	0.1
Unclassified	1,834	1,407	76.7	185	10.1	242	13.2	0	-
Total	**23,146**	**19,890**	**85.9**	**1,770**	**7.6**	**1,471**	**6.4**	**15**	**0.1**

Source: Legacoop notes (9/2012)

In table 8 below the figure for the new structures by sector are analysed. About 60 per cent of the new co-operatives are active in the services sector (9,060 co-operatives, also including those in the transportation and storage/warehousing areas) and in the social sector (4,901). The information regarding co-operatives registered in the construction sector regards both the presence of building co-operatives (due to the incorrect attribution of the activity codification code) and the presence among them of an important number of companies working in plant engineering.

In the new co-operatives, members, either directly underwrote company capital or indirectly through the allocation of profits to the indivisible reserves (net worth). They contributed 148 million euros and 239 million euros respectively directly contradicting the thesis of the Sceptics that workers will refrain from investing.

As Zanotti (2011: 34), affirms:

> The collected data would appear to confirm the hypothesis that co-operative companies are better able to withstand the crisis than limited companies. There are certain elements in the conduct of co-operatives that would suggest that they are more resilient than other types of company in general: there is no doubt that co-operative companies have not been so adversely affected by the crisis, first of all because their main field of activity is in the services sector, particularly care services and some types of company services, for which the demand is more stable and less likely to be influenced by the international economic situation. However, other factors probably also contribute to this lesser impact, notably the fact that these companies have their roots at the local level, which means that they are better placed than other forms of company to respond to the needs and requirements that are expressed at this level and are therefore able to implement specific intervention strategies. In this sense, it could even be said that the co-operative world carries out an anti-cyclical function.

There is also another aspect. The main form of entity used by Italian co-operatives in order to favour processes of growth is the consortium. The Italian legislature introduced law 127/1971 in order to regulate co-operative consortia by placing two other forms of consortia alongside the co-operative consortia that are eligible to take part in a call for tender: Consortia of co-operative companies and Consortia of co-operative companies for the coordination of production and trade. The data concerning new consortiums (445) is quite important. In fact, the setting up of new consortiums is testimony to the strong tendency of co-operatives (new and already existing) to create networks with the aim to improve their performance. This provision has led to the explosion of co-operatives at the upper level and has given a substantial boost to the re-launching of the entire co-operative movement by helping to save many co-operatives from disappearing altogether which up until that point, had found themselves isolated in the market. Table 9 below highlights the growth of new consortium during the recent financial crisis. The Italian worker co-operative sector is well placed to continue to build on its success.

Table 9 – New consortiums (2007-2011) by sector and legal status (01/09/2012) in Italy.

Sector	Total	Active		In liquidation		Non-operative	
		N.	%	N.	%	N.	%
Agriculture & Fisheries	37	35	94.6	0	-	2	5.4
Manufacturing	9	9	100.0	0	-	0	0
Construction	22	20	90.9	1	4.5	1	4.5
Retailing	12	10	83.3	1	8.3	1	8.3
Social	143	129	90.2	4	2.8	10	7.0
Transportation & Storage	29	28	96.6	0	-	1	3.4
Other services	112	99	88.4	6	5.4	7	6.3
Housing	47	42	89.4	3	6.4	2	4.3
Unclassified	34	31	91.2	1	2.9	2	5.9
Total	**445**	**403**	**90.6**	**16**	**3.6**	**26**	**5.8**

Source: Legacoop Brief Notes (9/2012)

8.2 Australian trends

In Australia market fluctuations have been the catalyst for worker buyouts since the 1980s as well as supply side labour market activities to assist unemployed youth, the handicapped and women. However the initial top down initiated success in the 1980s was not built on and did not take root for a number of reasons. Firstly, the State was inconsistent in its support. Fluctuations in the political persuasion of successive NSW governments in meant that support was withdrawn in the late 1980s when the supportive Labor Government was replaced with the conservative Liberal National Party Coalition Government. Worker co-operatives had been politicised and seen as vehicles of socialism. Subsequently the worker owned firms degenerated and returned to the private sector when workers decided to demutualise and realise their capital gain, which had been highlighted in the increased share price of their firms. Secondly the labour movement was ambivalent or opposed. Steeped in the ethos of collective bargaining and opposition to capitalism the movement believed that a worker co-operative blurred the lines between capital and labour and saw no reason for a worker to 'buy their job'. When the trade unions did come in with support the instrumental nature of the worker became a stumbling block. Thirdly, the consciousness of the Australian worker, which was moulded by a culture of dependency on the State proved a barrier. Workers were not radicalised by a progressive labour movement and the concept of worker self-management had long been dismissed from labour movement aspirations. In these circumstances the theoretical model predicts that worker co-operative formation in Australia will continue to remain small unless they again find a champion within the parliamentary process and a supporting structure is put in place, which includes finance, advice and training similar to the successful Marcora Law and the successful New South Wales Co-operative Programme.

9. Conclusions and policy implications

Our analysis shows that the principal critical aspects of the Sceptics pointed out by traditional economic literature on worker co-operatives were confirmed in Australia but not in Italy. Firstly the underinvestment, monitoring and efficiency difficulties analysed in the economic literature seem not to be so important for co-operatives in Italy. Secondly, the importance of financing the co-operative growth and start up is confirmed by empirical analysis in both countries. In Italy, for example, the difficulties experienced in accessing venture capital are easy to understand and are related to an ownership system that accords limited rights to its members regarding the availability of the value of the company; and the profit distribution system, which gives priority to the granting of rebates and the allocation of the profits to the indivisible funds, rather than to the payment of dividends. However this was overcome. In Australia the provision of a source of patient capital also acted as a catalyst for the worker buyout to emerge in the 1980s NSW Worker Co-operative Programme.

Therefore subordination of the capital to the rights of the co-operative members has not appeared to represent an insurmountable obstacle for co-operatives that wish to directly access venture capital markets. Given the members' limited capacity to directly finance their own co-operatives with the share capital, then the possibility of a co-operative achieving growth through its own internal resources is dependent, first of all, on the possibility of accumulating profits that are not distributed to the members. For a long time, Italian co-operatives have used their indivisible reserves as the main instrument to finance their own growth. In this case, the role of the members has been very important regarding the increases in company capital and net equity. During the crisis the company capital of the medium Italian co-operatives increased over the four-year period by almost 23 per cent, with members participation capitalizing the co-operatives. This figure is important given that, for the medium sized Italian companies, the increase in company capital from 2007-2010 was only 9.2 per cent. In Italy the members may also participate in the financing of their own co-operative through the provision of voluntary loans (social lending) that are regulated by specific legislation. There is however another alternative and that is the establishment of a joint stock company owned by the co-operative, which becomes a vehicle for raising capital in the conventional manner.

In conclusion this study firstly shows the resilience of the Italian worker co-operative sector and that the contribution of the new co-operatives to the Italian economy during the crisis period has played an anti-cyclical role and has showed they create new job opportunities contrary to the investor firm.[9] Secondly it demonstrates that in Australia the nature of the state, the market and the labour movement can act together to facilitate worker co-operative formation of a dynamic character that can deliver superior growth. However when the State support was removed it proved too difficult a barrier to overcome for workers to form and sustain worker co-operatives and it will remain so without a catalyst to encourage the formation of worker co-operatives. Therefore the Australian legislation needs to encourage the entry of worker co-operatives into the economy through the provision of funding and collective entrepreneurship by regulating the distribution of profit and discourage exit by preventing demutualisation with an asset lock mechanism.

[9] Albanese *et al.* (2014) demonstrate that in co-operatives workers prefer flexible wages and can provide themselves with an insurance against employment fluctuation. This helps explain why co-operatives show anti-cyclical behavior (hire less in periods of economic growth and shed less jobs during economic crisis) and appear more resilient to economic crisis than capitalistic firms.

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Agricultural Co-operatives in Australia and Italy

In the course of the twentieth century and across the globe, co-operatives have grown in numbers, their market share has increased and their overall impact on members' and communities' well-being is now being properly acknowledged. This is particularly true for agricultural co-operatives and it is immensely important in the move towards a more solidarity-oriented economy and beyond market fundamentalism (Stiglitz 2009). In the European Union (EU) alone, where the agricultural sector accounts for about 14.7 per cent of the total manufacturing output, co-operatives are responsible for 38.5 per cent of it. Around 40.000 EU's co-operative enterprises along with their 600,000 employees and around 9 million members manage to collect, add value to and place on the market around 60 per cent of the total agricultural produce in the EU (Tortia *et al.* 2013). Added to this, co-operative resilience to various types of crises owing to their tendency to avoid risky and speculative ventures and investments is now well researched and documented (Birchall, Katilson 2009; Birchall 2013).

While the reality documents the growing importance of agricultural co-operatives in more and less developed countries alike, theoretical debates regarding efficiency and viability of co-operative enterprises are still present in the literature and continue to stir controversy over the role of co-operative enterprises in development. Stefano Zamagni (2005, 2008) succinctly outlines the basic ideas of confronting approaches to studying co-operative enterprises. On the one hand, there are authors who suggest that co-operatives emerge as a response to market failures but their effect on market dynamics remains marginal owing to their inherent limitations of non-hierarchical structure and non-profit nature (Alchian, Demsetz 1972; Williamson 1973, 1985). In other words, co-operatives are market occurrences that require the dominant and efficient for-profit enterprise to fail in providing a good or service in order for them to take root. Regardless of criticism advo-

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cates of this view advance at the co-operative model, they do acknowledge the ability of co-operatives to offer something that for-profit firms cannot or do not wish to offer. Still, in their view, co-operatives are exceptions rather than rules. In a complete contrast to this view is a line of thinking that positions the co-operative model far ahead of the conventional firm, characterizing co-operative enterprise as a model all conventional firms should strive to reach conditioned on their ability to perceive «labour as the opportunity for self-fulfilment and not just as a productive factor» (Zamagni 2008: 2). This view presumes that there is more to human motivation and satisfaction than simply seeking to fulfil pecuniary desires in the working environment and that co-operatives are the precise tool that can aid in generating self-fulfilment through work while at the same time creating both economic and social spill over effects in the community. Alchian and Demsetz (1972) build their theory of the firm starting from the analysis of efficiency in teamwork. They question the ability of a team of workers, and in more general terms of producer's co-operatives to perform with levels of economic efficiency comparable to those of profit-oriented firms. In their view, a lack of strong incentives vested in the controller of economic activities in a co-operative resulting directly from its non-hierarchical structure, leads to situations in which all patrons/controllers tend to underperform driving down overall co-operative efficiency levels. Indeed, co-operative governance structure is a complex nexus of relations (Sacchetti, Tortia, in this volume). However, if members' interests are sufficiently homogeneous the complexity of governance in case of an agricultural co-operative brings many independent farmers together, which not only serves to compel mutual monitoring for mutual interest but also provides a powerful risk-sharing and bargaining mechanism. In fact, agricultural co-operatives in particular help individual farmers resist market pressures from their up- and downstream partners giving them an opportunity to cut on transaction costs by jointly performing activities related to processing and/or marketing of their produce (Valentinov 2005, 2007; Tortia *et al.* 2013).

Among the most common market failures that justify the choice of the co-operative business model is oligopsony. Where there are more sellers than buyers. Often associated with agricultural sector, farmers may be at a disadvantage in terms of the price they receive for their product. Organizing a co-operative so that the market power of certain agents is circumvented is a legitimate and justifiable action on the part of farmers. After all, as pointed out by Sexton and Iskow (1988: 6), «cooperatives do not replace market exchange. Rather, they harmonize exchange». Furthermore, co-operatives are important where the knowledge of and trust among business partners features significantly into the business processes (Centner 1988). Studying both general and co-operative-specific social capital, Hong and Sporleder (2013) show that the presence of social capital in co-operatives is not only essential for their basic functioning, but can facilitate and enhance their productivity. For the individual farmers a co-operative itself is a source of social capital. Similarly, in an empirical study Sabatini, Modena and Tortia (2014) show that co-operatives have even stronger tendency to foster ties of social capital than other organizational forms present in the market and this in itself testifies to their ability to enhance market exchanges through better contract enforcement and lowering of transaction costs.

Additionally, horizontal and vertical integration through co-operatives is a means for small farmers to overcome the constraints of limited resources. Though this kind of economic power augmentation is viewed with caution due to its potential monopolistic ambitions in the case of agricultural co-operatives these fears are rarely, if ever, legitimate. To be successful in meeting their members' specific social, economic and advocacy needs, co-operatives usually remain rather localized and rarely attain the level of economic power that would constitute a genuine threat to the competitive nature of the market (Hirsch *et al.* 1950). Agriculture is a sector where integration, both forward towards consumers and backward towards suppliers of production inputs, is essential for long term development (Koller 1947). Providing a succinct definition of cooperative nature is made even more difficult due to their horizontal and vertical permeability and a unique blend of benefits that are both economic and social in character. While profit as a motive drives both the setting up and functioning of corporate business enterprises, the same can only partially be said to be true for co-operatives. Cooperatives are enterprises that do not see profit as an end in itself but rather as serving the function of their further development. To this end they follow the principle «to each in accordance with the usage of the cooperative structure».

In attempting to define co-operatives authors inevitably see them through both economic and social benefits they provide for their members and communities. However, their economic potential is usually underestimated, and their social role is often not properly validated. For example, the tendency to stress the 'collectivist' side of co-operative enterprises at the expense of their economic viability should be changed by co-operative scholars. In this regard, Chaianov's recollection of Tugan-Baranowsky's view of co-operatives is rather useful (in Cahiavon's recollection, 1991: 14):

> A co-operative is an economic enterprise made up of several voluntarily associated individuals whose aim is not to obtain the maximum profit from the capital outlay, but to increase the income derived from the work of its members, or to reduce the latter's expenditure, by means of common economic management.

Important insights can be derived from this definition. For example, co-operatives can be considered successful inasmuch as they simultaneously try to increase their members' income while reducing their expenditures. Having in mind the non-profit orientation of co-operative enterprises, this means that the «cooperative has no income or gain on its own account» (Koller 1947: 1136).

On the other hand, the role of the social dimension in co-operatives cannot be overlooked as well, since the relational dimension based on reciprocating behaviours and social capital understood as both input and output in the working of co-operatives, and in some cases also fully blown social and public benefit preferences and objectives need to be correctly considered.

Both economic and social elements are present and tightly intermingled in the working of co-operatives. This mixture can cause, and has caused in the past severe interpretive difficulties. However, for cooperatives to be able to generate well-being for their members it is crucial that they strike the right balance between these two essential aspects of cooperative identity.

Among the existing economic theories, new institutionalism represents the one that has progressed the most in understanding the functioning of co-operatives. Hansmann (1980) highlights the economic role of co-operatives in their ability to fulfil clearly articulated social needs that arise under conditions of market failure and serve as a motivation for choice of non-profit organization over a traditional corporate form. He also stresses the capacity of co-operatives to economize on transaction costs for their members while maintaining low ownership costs. To Hansmann, co-operatives should not be seen as a side issue in economics. In his view, farmer co-operatives in particular are an interesting organizational form that can primarily benefit farmers through minimizing or entirely displacing the middleman in handling their products while allowing the farmers to reach economies of scale by joining their productive resources (Hansmann 1999). Among the benefits that Hansmann sees as particularly important for strengthening the market position of individual farmers through co-operatives is their ability to help economize on market information as well as provide a risk-sharing mechanism.

Apart from criticisms related to undercapitalization and underinvestment tendencies, those who criticize the efficiency of co-operative enterprises tend to highlight their internal decision-making processes as limitations to their more efficient functioning (Illiopoulos, Hendrikse 2009). To ameliorate these inefficiencies, Chaddad and Cook (2004) suggest variations to the core co-operative model that range from allowing a non-member investor into the co-operative structure to a complete transformation to a conventional firm. Indeed, it is possible in reality to find evidence of co-operatives transforming into an investor-owned firm at some point during their life cycle. The problems that most often lead to this movement away from the traditional co-operative form towards more investor oriented firms range from the free rider problem, to horizon and portfolio problems, to control and influence cost problem (Tortia *et al.* 2013).

However, many of the problems cited are not entirely co-operative-specific and often stem not from the specificities of the co-operative form, but rather from incomplete contracts that underpin almost every market transaction. Although contracts are one of the most important institutions of market economies they are unavoidably incomplete and can only predict limited number of events and situations. In essence, contracts are a simplification of reality and because of that «the choice of governance structure that can adequately complement contracts and contribute to their implementation becomes crucial» (Ménard 2004: 352). Adopting a governance structure that fits best the circumstances and nature of transactions is in fact an important guarantee that the innate incompleteness of the contract will not translate into an additional cost. Because of their ownership and governance structure that requires members' close involvement with co-operative affairs, co-operatives tend to be better aligned with the nature of transaction they set out to organize (Ménard 2004). This makes them better suited than other organizational forms to complement the contracts that regulate their specific transactions and consequently reduce or at least prevent the increase of transaction costs. In his assessment of the performance of a co-operative model in comparison with a standard, corporate business model, Centner maintains that although the «concern about the performance of co-operatives raises the issue of the role of these organizations in agriculture» (Centner 1988: 94) they have advantages over a corporate model under certain conditions such as in the case of market failures. They also have other advantages as well (Christy, in Centner 1988).

Co-operatives are an important part of the capitalist economy and are neither isolated from it nor antagonistic to it. On the contrary, they appreciate a number of clearly capitalistic concepts such as the right of property and the importance of the institution of contract, while at the same time placing the individual and not the profit at the centre of their activities (Koller 1947). Indeed, their ability to perform some of their economic functions depends on healthy competition from other market actors and in that sense, good co-operative management occupying a strategic market place coupled with sound market stimulation can only be an advantage in terms of organizational diversity and economic dynamics (Koller 1947: 1136-1143). In this respect, Koller argues that «cooperatives provide a means of complementing and strengthening the capitalistic economy at its weakest points. While co-operation is clearly not a panacea for all the ills of capitalism, it does perform a positive role in the free enterprise economy by aiding it to achieve a better allocation of resources, higher total production, and a wide distribution of income» (1947: 1444).

1. Producer and agricultural co-operatives in Italy and Australia

The contexts of producer and agricultural co-operatives in Italy and Australia represent vantage points from which to analyse and better understand the emergence and spread of this organizational form in contemporary agriculture and the agri-food industry. In both countries co-operatives represent an important social actor that has been present and active in the social evolution of the country over the last century. However, the dimension of the co-operative phenomenon became much wider in Italy than in Australia over the last decades. While the specific focus of this chapter is not to compare the overall dimension of the co-operation in the two countries, the different patterns of development are clearly visible in the agricultural sector, which is prominent within the total co-operative phenomenon in both countries. In Italy, agricultural and producer co-operatives represent an established developmental pattern, which took root in the most advanced areas of the country, in a way similar to other countries. In some areas of Italy, such as the Trentino Alto-Adige region, the weight of agricultural co-operation reached the strongest concentration, quite similar to some Northern European countries such as Finland and the Netherlands, where agricultural co-operatives represent the dominant actor in their sectors of activity. On the contrary, Australia is characterized by interesting cases of co-operatives becoming efficient and competitive, in some cases dominant in transforming or marketing agricultural products, but also by notable number of co-operative closures and conversion into investor owned companies. The appearance and spread of producer and agricultural co-operatives in Australia, while vibrant in many cases, is still nowadays sporadic and subject to retrenchment and demutualisation. We now turn to a more in depth description and analysis of the two national cases.

1.1 Agricultural co-operation in Italy

The figures on employment and economic relevance of Italian co-operation as a whole show that there are over 81 thousand co-operatives (just over 1 per cent of the total number of Italian companies), generating between 120 and 140 billion euro turnover (including consortia) and about 3.5 per cent of GDP. These data, although significant, do not exhaust the contribution of co-operation to the Italian economy. In fact, like all businesses, co-operatives not only directly produce value but also affect the activity of other businesses, increasing production in two ways:

a. through the purchase of intermediate goods used in the production process;
b. through the demand for goods and services by those (producers or workers) who derive their income from co-operatives directly or indirectly.

In terms of their indirect effects, for year 2009 the following results are obtained (Fontanari, Borzaga 2013a): compared to a direct contribution to the formation of the gross domestic product of 3.5 per cent, the overall contribution when considering employment calculated in FTWU (units of full-time work) the contribution of co-operatives grows from 4.6 to 11.4 per cent. The sector of activity in which co-operatives are most important is the agricultural one, where the total contribution equals 41.7 per cent. More specifically, referring to direct contribution, in 2009 the growers (farmer members) and co-operative processing of raw agricultural materials generated, respectively, 7.2 and 4.5 billion Euros of value added, for a total of 11.7 billion Euros. This approximately equals a quarter of the value added produced by the Italian co-operative system, even if co-operatives operating in the agri-food sector represent just over 10 per cent (10,239 units) of total Italian co-operatives (see table 1 below).

Table 1 – Register of Companies of Chambers of Commerce.Active co-operatives (2011), Italy.

	No. of companies	Percent
Agriculture	7,521	73.5
Food Industry	1,516	14.8
Wholesale	1,202	11.7
Total Agribusiness	10,239	12.6
Total Co-operation	81,275	100.0

Source: Report of the Observatory Italian Agricultural Co-operation (2013)

When the analysis is limited to companies with the obligation to file their financial statements with the Registrar of Companies of Chambers of Commerce (co-operatives, and large and small investor owned companies, which are named, respectively, *Società per Azioni* – SPA – and – *Società a Responsabilità Limitata* – SRL – in the Italian legislation) (Fontanari, Borzaga 2013b), co-operatives represent more than 60 per cent of the value produced by the primary sector (69 per cent for large firms only) and 10.5 per cent in the food and beverage industry (12.3 per cent for large firms). In large companies active in the processing of agricultural products, the average value of co-operative production was markedly superior even to that of large capitalist companies: 247.2 million euro compared to 185.3 million euro (144.2 million euro in the case of 'limited companies' – SRLs), which can be seen in table 2 below.

The relevance of agricultural co-operatives can also be seen with reference to the entire set of companies. In particular, after having observed that the SPAs, the largest companies, appear dominant in the industrial transformation of agricultural product (Agri-Food industry), it is important to stress that co-operatives show a dominant market share as producers of raw materials[1], and larger average turnover than the SRLs both in agriculture (2.9 million euros *vis à vis* 0.8 million euros) and in the agri-food industry (7.8 million euros *vis à vis* 3.8 million euros). This result is still more striking when compared with the average value of production in the entire food industry, which amounts to about 2 million euros.

Table 2 – Market share and value of production by dimension and typology of enterprise (2009), Italy.

	Market share, Agriculture (per cent)				
Classes of turnover (€M)	0I2	2I10	10I50	>50	**Total**
Co-operatives	45.8	60.5	60.6	68.8	**60.6**
SPAs	2.1	6.0	13.7	19.5	**11.6**
Limited companies	52.1	33.5	25.7	11.7	**27.9**
	Market share, Agri-Food industry (per cent)				
Classes of turnover (€M)	0I2	2I10	10I50	>50	**Total**
Co-operatives	12.8	11.3	5.1	12.3	**10.5**
SPAs	2.5	18.0	52.9	72.8	**58.6**
Limited companies	84.6	70.7	42.0	14.9	**31.0**
	Average production, Agriculture (thousands of euro)				
Classes of turnover (€M)	0I2	2I10	10I50	>50	**Total**
Co-operatives	311	4,300	19,254	111,209	**2,092**
SPAs	-	-	19,309	166,426	**9,435**
Limited companies	255	3,878	21,877	87,699	**770**
	Average production, Agri-Food industry (thousands of euro)				
Classes of turnover (€M)	0I2	2I10	10I50	>50	**Total**
Co-operatives	521	4,172	19,080	247,166	**7,796**
SPAs	-	5,986	23,347	185,290	**45,070**
Limited companies	564	4,499	18,590	144,177	**3,824**

Source: Borzaga, Fontanari 2014

The importance of Italian agricultural co-operation can be appreciated further by reading employment data. In 2009 the estimated FTWU

[1] The figures regarding the agricultural sector represent a proxy for the real economic weight, because the classification carried out by the Chambers of Commerce doesn't fit perfectly the real activity of the firms. In particular, the productive activity and so the figures may take into account also the economic value generated by the non farming activity. Consequently, there is not a precise delimitation (definition) of the agriculture sector. However, these data allow plausible estimation of the economic weight of cooperatives compared to investor-owned firms also in the agricultural sector.

employed in Italy in farms associated in co-operatives (we consider both dependent and independent farmers) in harvesting correspond to 362,00 people, to which 40,000 in the food and beverage industry are to be added.

The total employment generated by agricultural co-operatives is therefore close to 400,000 AWU, representing more than 35 per cent of the workers in the whole co-operative sector.

The importance of the agri-food co-operation emerges also from the analysis of invested capital. In 2011 financial resources recorded in the balance sheets (total amount of assets) equal 23.3 billion euros in co-operatives and 85.2 billion euros in corporations (considering both the SPAs and the SRLs). That is, co-operatives invest 21.5 per cent of the capital invested by all companies. For each euro invested by limited companies, large co-operatives have invested about 1.5 euros both in the agricultural and in the food sector, while they invest 1.15 euros and 0.91 euros when compared with the larger size SPAs in the two sectors respectively, as in table 3 below.

Table 3 – Capital invested, ratio of co-operative to other forms of enterprise, year 2009, Italy.

Sector	Dimension (classes of turnover; €M)	0|2	2|10	10|50	>50
Agriculture	Enterprises of Capital (SPAs)	-	-	0.56	1.15
	Limited companies (SRLs)	0.25	0.55	0.63	1.44
Food processing	Enterprises of Capital (SPAs)	-	0.55	0.69	0.91
	Limited companies (SRLs)	0.75	1.21	1.17	1.50

Source: Borzaga, Fontanari 2014

There is data that evidence a lower level of capitalization in co-operatives, especially for the smaller cooperatives. The average coefficient of patrimonialization (the ratio of own resources to the total of financial resources available to the organization) is 0.27 in co-operatives as compared to 0.48 in SPAs and 0.40 in limited companies in the agricultural sector, while the same figures are, respectively, 0.22, 0.36 and 0.31 in the sector of food processing (see table 4 below). This evidence would confirm the well-known theories of under-capitalization and under-investment in co-operatives (Furubotn, Pejovich 1970; Vanek 1970). However, it appears that the lower degree of utilization of own financial resources relative to investor owned companies does not hinder the growth and development of co-operatives. A way to see this evidence is to observe that co-operatives invest mainly in downstream activities, which require a lower level of investment, while upstream investments are carried out within the economic activity of individual member farms. Furthermore, the same evidence suggests that there may not be a tendency towards dynamic inefficiency in the accumulation of capital, but instead a different behavioural propensity is evidenced whereby co-operatives are characterized by better ability to gather financial resources on the market in the form of loans and through the sale of bonds thanks to their better financial trustworthiness and lower propensity to perform risky investment projects (Albanese 2001).

Table 4 – Coefficient of patrimonialization, year 2009, Italy.

Sector	Dimension (Classes of turnover; €M)	0|2	2|10	10|50	>50	Total
Agriculture	Co-operatives	0.23	0.24	0.28	0.31	0.27
	SPAs	–	–	0.44	0.20	0.48
	SRLs	0.41	0.37	0.36	0.46	0.40
Food processing	Co-operatives	0.17	0.18	0.21	0.24	0.22
	SPAs	–	0.40	0.33	0.36	0.36
	SRLs	0.28	0.27	0.27	0.45	0.31

Source: Borzaga, Fontanari 2014

This argument is confirmed by the analysis of the financial soundness indicator, i.e. the ratio of the coverage of investment costs through owned financial means and long-term loans. This is similar to SPAs enterprises in both sectors (see table 5 below). Similar results are found in the case of the liquidity indicator, that is the ability of the organization to provide for short-term expenses. In this case, co-operatives appear weaker than the other enterprise forms in the food processing industry, but not in the agricultural sector (see table 5 below). As for the current ratio, i.e. the ratio of the current activities to current liabilities, which measures the availability of financial resources in the short term (one year), co-operatives again appear slightly weaker than other enterprise forms only in the food processing industry (see table 5 below).

Contrary to what is often claimed, we show that profitability levels for co-operatives operating in the agri-food sectors are not necessarily lower than in other enterprise forms. This result depends on the coherence of the indicators that are used with the ownership structure and objectives of co-operatives. Coherence is not achieved by the utilization of traditional financial performance indicators such as ROI and ROE, but it is instead necessary to deconstruct and reconstruct in a different way the value added of the co-operative (Borzaga, Fontanari 2014). In the process of value added creation producer co-operatives behave differently from investor owned companies because they buy the products to be transformed from their own members. Any surplus deriving from the activity of the co-operative is usually given back to members in the form of patronage refunds. On the contrary, investor owned companies buy the products to be industrially transformed from the market, that is to say, they tend to minimize the cost of acquired products in order to maximize profits, while co-operatives instead tend to maximize this cost, as it represents the remuneration of the controlling group of patrons. When the net residual is calculated in the traditional way, without differencing the features of co-operatives and investor owned companies, the former appear at a clear disadvantage because the cost of the purchased products are subtracted from the end result (see table 6 below).

Table 5 – Coefficients of soundness, liquidity, and availability of financial resources, year 2009, Italy.

Sector	Dimension (classes of turnover; €M)	0|2	2|10	10|50	>50	Total
Soundness Agriculture	Co-operatives	0.94	1.07	1.09	1.11	1.06
	SPAs	–	–	1.10	0.95	1.06
	SRLs	0.93	1.03	1.10	2.16	0.97
Soundness Food sector	Co-operatives	1.00	1.17	1.10	1.02	1.05
	SPAs	–	1.19	1.07	1.13	1.11
	SRLs	0.94	1.10	1.13	1.49	1.15
Liquidity Agriculture	Co-operatives	0.67	0.66	0.72	0.77	0.71
	SPAs	–	–	0.77	0.47	0.71
	SRLs	0.45	0.61	0.59	1.27	0.54
Liquidity Food sector	Co-operatives	0.51	0.47	0.60	0.68	0.61
	SPAs	–	0.80	0.78	0.95	0.89
	SRLs	0.65	0.79	0.84	1.25	0.86
Current index Agriculture	Co-operatives	0.91	1.05	1.07	1.11	1.04
	SPAs	–	–	1.22	1.00	1.18
	SRLs	0.77	1.03	1.13	1.67	0.91
Current index Food sector	Co-operatives	0.96	1.07	1.05	1.02	1.03
	SPAs	–	1.21	1.13	1.26	1.21
	SRLs	0.91	1.10	1.12	1.45	1.13

Source: Borzaga, Fontanari 2014

Table 6 – Net residual and value added in different enterprise forms, year 2009, Italy.

	Agriculture		Food processing	
	Net residual	Value added	Net residual	Value added
Co-operatives	0.146	0.717	0.125	0.725
SPAs	0.160	0.672	0.184	0.555
SRLs	0.211	0.542	0.172	0.625

Source: Borzaga, Fontanari 2014

The second and fourth columns of table 6 above calculate the value added in the correct way, which in the case of co-operatives is the cost of products purchased from farmer-members added together with the cost of labour and the cost of capital. This operation leads to evidence of a higher value added (as a ratio of total revenue) in the case of co-operatives. Limited companies (SRLs) in the agricultural sector show instead the lowest level of produced value added because they focus mainly on the production phase, not on the gathering and industrial transformation phases, like co-operatives and SPAs. The result is explained by the fact that co-operatives conjugate the production of the input in the production process with its industrial transformation and sale on the market, while investor owned companies only perform transformation to the benefit of shareholders. The value added in co-operatives, this way, benefits non-investor patrons, that is farmer-members, not shareholders.

1.1.1 The performance of Italian co-operatives

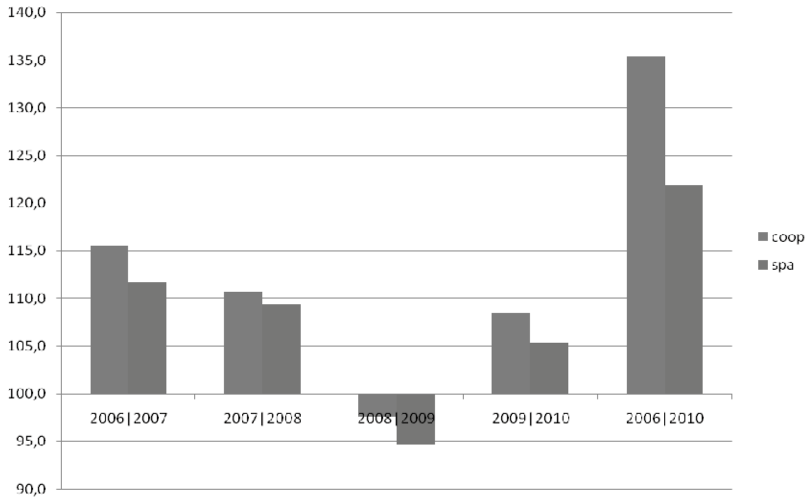
The analysis of economic performance of cooperatives shows that co-operatives have performed better than investor owned firms over the five years spell 2006 to 2010 in terms of growth rate of the value of production. During the most acute phase of the financial crisis (2008 to 2009) co-operatives underwent a lower decrease in production (see figure 1 below)[2]. Over five years time the better performance of industrial co-operatives in the agri-food sector resulted in an overall turnover growth of 35 per cent, *vis à vis* 21.9 per cent in the case of investor owned firms. As we saw, more than 70 per cent of the produced value was distributed as remuneration of products delivered by farmer-members.

Most agricultural co-operatives are members of five National Associations (AGCI-Agrital, Fedagri-Confcooperative, Legacoop-Agribusiness, Unci and Unicoop), which represent 5,900 agribusinesses and contribute more than 80 per cent to the total revenue generated by Italian agricultural co-operatives (Observatory 2013). In 2011 federated agricultural co-operatives counted nearly one million accessions (members, which can be present in more than one organization) and more than 35 billion euros of revenue (see table 7 below). With the exception of service co-operatives and co-operatives producing olive oil specialized in support activities (pressing of the olives without the collective marketing of the oil), wine co-operatives show the largest number of members (almost 186 thousand) and represent 18.7 per cent of total accessions. This figure is substantially higher than the number of firms (10 per cent) and the contribution to the generation of

[2] We use non consolidated balance sheet data from the Aida (Bureau Van Dijk) dataset of all the active companies (companies that filed their balance sheets at the Chamber of Commerce) over the spell 2006 to 2010 with at least 500 thousand euros of turnover.

revenues (11 per cent), implying a smaller dimension of individual wine producers. In this sector, therefore, co-operatives are clearly identified as the most strategic coordination mechanism for small independent producers (see table 7 below).

Figure 1 – Increase in the value of production of co-operatives and SPAs in food industry. Years 2006 to 2010, current prices.



Source: Borzaga, Fontanari 2014

Table 7 – Enterprises, accessions, and turnover of agri-food co-operatives, year 2011, Italy.

Sectors	Enterprises	%	Accessions	%	Turnover (ml Euro)	%
Olive oil	398	*6.7*	370,098	*37.3*	285	*0.8*
Service	1,827	*31.0*	246,497	*24.8*	5.982	*17.1*
Wine	589	*10.0*	185,669	*18.7*	3.861	*11.0*
Ortho-Flower-Fruit	1,273	*21.6*	97,510	*9.8*	7.757	*22.1*
Diary	912	*15.5*	32,968	*3.3*	6.903	*19.7*
Livestock	489	*8.3*	22,820	*2.3*	9.345	*26.7*
Other	412	*7.0*	37,832	*3.8*	919	*2.6*
Federated Co-operation	5,900	100.0	993,394	100.0	35.052	100.0

Source: Report of the Italian Observatory on agricultural Co-operation (2013)

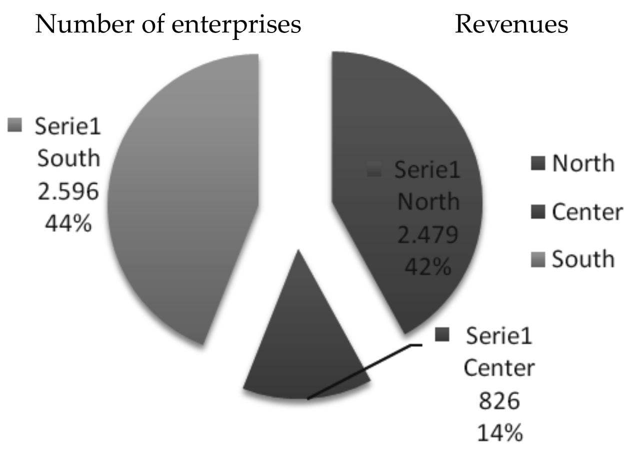
On the contrary, co-operatives in the ortho-fruit and vegetable sector are characterised by larger dimension of individual members (the number of firms and sales are, respectively, 21.6 and 22.1 per cent, while they collect only 9.8 per cent of accessions). Co-operatives growing livestock show the largest dimension of both enterprises and individual members, and the largest contribution in terms of sales.

The activity of federated agri-food co-operatives delivers 36 per cent of the gross saleable production of Italian agriculture (Observatory 2011). This share drops to 30.9 per cent if we consider only the goods delivered by members (around 86 per cent of the total product purchased by co-operatives), which means that members represent the 'hard core' of agri-food co-operation.

1.1.2 Geographical differentiation and exports of Italian cooperatives

The available data indicates that there are strong territorial differences among agricultural co-operatives in Italy (Observatory 2011). Co-operatives retain 13.9 per cent and 15.2 per cent of gross saleable production in the Central and Southern Italy respectively (10.1 per cent and 13.2 per cent when referring only to the product delivered by members), while this share grows to 57.3 per cent in Northern Italy (49.6 per cent in the case of members). It should be emphasized that this discrepancy is not due to the different diffusion of the co-operative business model between areas of the country, but rather due to a lack of downstream integration in the food processing industry in Central and Southern Italy. This becomes clear when the macro-area distribution of the number of co-operatives is compared with that of revenues (see figure 2 below).

Figure 2 – Geographical distribution of Italian co-operatives by number and revenue (ml Euro), year 2011.



Source: Report of the Italian Observatory on agricultural Co-operation (2013)

The sectors that rely more heavily on integrated downstream activities are wine and ortho-fruit and vegetable production. These activities weight, respectively, 52 per cent (44 per cent members only) and 39 per cent (34 per cent members only) of the national gross saleable production. Analysis of the destination of sales signals orientation towards domestic consumption since the share of product marketed within national boundaries is around 92 per cent in 2009 (Observatory 2011). The sectors that are characterized by increasing presence of exporting firms are the wine and ortho-fruit and vegetables. In this sector respectively 58 per cent and 39 per cent of companies are also exporters, a figure much higher than the total average for co-operatives (26 per cent).

The examination of the 48 largest agri-food co-operatives confirms their stronger propensity to export since, in their case, the average value of exports over total turnover is 23 per cent[3]. This percentage grows to 43 and 31 per cent respectively for the largest co-operatives in the wine and agri-food sectors in 2011. These largest co-operatives also show a marked supervisory and valorisation function in their local territories since 79 per cent of their productive input comes from the region in which they are located[4], with peaks of 92, 89 and 85 per cent respectively in dairy, wine, and fruit and vegetables (2011 data). In the wine, fruit and vegetable sectors the percentage of input in products delivered by members is 88 per cent, higher than the total average of 82 per cent.

2. Producer and agri-cultural cooperatives in Australia

Australian producer co-operatives, which were founded from the 1880's in industries such as dairying and wheat production, were created for the benefit of their members and the consumer public. That trend has continued with producer co-operatives reinventing themselves and making themselves more relevant in today's economy. Back in the early 1880's to the early 1900's, when most of the surviving co-operatives were established, particularly in agriculture, they helped small farmers to negotiate better prices for their inputs and their outputs. They also saw an opportunity to deal directly with the market and drive out the 'middleman' (Lewis 2006: XVII).

Producer co-operatives give farmer members a basic democratic right to organize their produce to market and to some extent develop a fair rate of return pricing mechanism based on season and supply fluctuations. Under this model the producer co-operatives flourished. Dairying industry developments included processing, manufacture, distribution and rural retail. Financial incentives such as the 'voluntary equalization scheme' ad-

[3] From the 2013 Report of the Italian Observatory for Agri-Food Co-operation.
[4] There are twenty regions in Italy.

justed inequities rising out of low prices received for the export surpluses. This had far reaching effects by providing stability of income for members, the storage of produced products for later sale and distribution into more favourable higher priced markets. This stopped the effects of dumping as was the case in the early butter and cheese sales to England, with other benefits including better quality products for sale and greater market knowledge (Sheldon 1952: 31-40).

Dairy Farmers Co-operative Milk Co Ltd noted in 1952 that

> Fifty two years ago the Dairy Farmers supplying milk to Sydney formed their own organisation and called it the Dairy Farmers' Co-operative Milk Co Ltd. Today several thousand dairy farmers own and control Sydney's largest milk distribution organisation. They distribute annually forty five million gallons of milk. Particular attention is given to the hygiene of all plant equipment and transport associated with its treatment and distribution (Sheldon 1952: 30).

The Dairy Farmers slogan was «Producer-to-Consumer Sale of milk ensures an efficient and reliable service» (Sheldon 1952: 30).

Other industries such as fruit and vegetables developed their own areas of relevance for members, such as packing, grading, cool storage, bulk handling, canning. One notable example was the Batlow Packing House Co-operative Limited. The Co-operative was established in 1923 with the brand 'Mountain Maid' and its slogan was 'famous for flavour'. The meat industry, in particular, the pig and bacon curing industry, was largely in co-operative hands (Sheldon 1952: 35).

All states in Australia have strong producer co-operatives, while some regional locations have more than other. Within the top ten producer co-operatives in Australia, Western Australia has four, New South Wales has four and Victoria has two. The largest are Co-operative Bulk Handling in WA, a grain producer/handler with 4700 members and revenue of $2,87 billion and Murray Goulburn in Victoria, a dairy processor that has 2580 members and revenue of $2,287 billion The next largest is Dairy Farmers in NSW which has 1820 members and revenue of $503 million.

These big co-operatives have a major influence within their industries. In April 2013 the CBH Group was working with other major industry participants, such as Plum Grove, Gavilon and Cargill in developing a set of standards for grain pool operations to be included in an industry Code of Conduct. Jason Craig, CBH Group General Manager Marketing and Trading said the Code of Conduct «is about the industry taking proactive steps to put in place an expected level of conduct so that we don't see growers end up in similar situations to what some are currently facing or with pools being heavily regulated product adding significant costs to the management fees?». He went onto to say that «we firmly believe providers must be held accountable for the management of any product they offer to growers and growers should be able to trust that their grain marketer will effectively be able to manage their pool investment».

CBH Group, like most other co-operatives, has developed a community fund. It has three application periods a year and funds are directed to rural wheat belt communities in WA. The first round in January 2013 had 40 applicants, 20 of these were successful and shared $28,000. Gavin Bignell, General Manager Grower Service, has said there was a wide range of need within the applications, including sporting activities, childcare upgrades, agricultural shows and displays, health awareness initiatives and mental health support. He said (Craig 2013: 1):

> it was pleasing to see the diverse range of applicants for sponsorship we received in our first round of the new Community Fund. The high calibre of applications that presented value and relevance of our growers and community presented a challenging task for the Community Fund committee allocating funds. Those selected for sponsorship aligned strongly with the CBH Group's purpose and value as well as holding the common focus of contributing towards rural community development, sustainability, wellbeing, safety, vitality and diversity. The Co-operative is proud to support Western Australian grain growing communities and looks forward to hearing about the successes from all our sponsored events and programs.

The success of this Co-operative can be attributed to its close relationship with members and their communities.

The Murray Goulburn Co-operative Co Limited, with its slogan «Healthy Co-operation, it's good for everyone» has substantial influence at all levels, be it industry, community or government. The Co-operative remains wholly owned by a group of Victorian farmers since its formation in 1950. It remains strong and its importance to the Australian dairy industry is as critical as it was when its farmer members established the Co-operative. The Murray Goulburn Co-operative is recognized as a world-class supplier of dairy ingredients and retail products. Its reputations for quality and food safety make it a preferred supplier of dairy products to many world markets. It also supplies about one third of the Australian domestic drinking milk market. The Co-operative has a vast range of products including dairy ingredients, skim milk powder, full cream milk powder, cheese varieties, milk fat products, whey powders and milk proteins sold under an associated brand. The Co-operative's main brand is Devondale and its other brand is Natra.

The Murray Goulburn Co-operative has very strong links with consumers but also protects farmers' returns. It has concluded a 10 year private label daily milk partnership with major supermarket retailer Coles, which started in Victoria and NSW on 14 July 2013, with a built in premium for the supply of milk over the full term of the contract as 100 per cent of the profits of the agreement are returned to members. Gary Helou (2013), the Devondale Managing Director, in announcing the agreement commented:

> the daily pasteurized milk segment is currently mainly supplied by foreign owned companies that repatriate their profits to overseas shareholders. The entry of Australian farmer owned Co-operative into this market segment cuts out the middle man and delivers profits directly to farmers. This is a logical growth opportunity that extends Devondale's domestic presence in consumer markets and is expected to lock in returns that will be paid to farmers through higher farm-gate prices. These higher prices will benefit all farmers.

Integrated into the agreement between Murray Goulburn and Coles is a $120 million investment into the construction of two state-of-the-art milk processing plants in Melbourne and Sydney. The plants are to have the latest technology, a significant investment in dairy processing, quality standards to make Devondale the most efficient processor of daily pasteurised milk; they plan to be an industry leader in quality, operating excellence and innovation in pursuit of higher returns to dairy farmers. This agreement will increase the daily milk needed by Devondale and new farmer suppliers will be needed to increase the milk volumes.

Like CBH, Murray Goulburn has a social program, where many community groups benefit from donations and sponsorship provided by the Co-op. The most important community engagement is their 'Fairley Leadership' support program started in 1997 with over 400 graduates from the Murray Goulburn region. The program is about developing a strong leadership and exploring the major issues that will assist positive change. This challenge is contained within its vision, which is achieved by some well-defined objectives that include the encouragement of the development of a network of community leaders. This program is well supported and shows that this Co-operative has engaged in its community and takes a strong leadership role in regional community development programs.

There are examples of producer co-operatives that have transformed themselves over time. Three strong co-operatives on the Mid North Coast of NSW have built a new life after being producers. The Nambucca River Co-operative (founded in 1903), the Macleay Regional Co-operative (1905) and Hastings Co-operative (1916) have built their new business around food retail. They successfully compete with the big chain retailers, giving value to members and the community. They also have retail commercial property and other business units such as fitness centres, fuel, hardware and farm supplies. In the case of Macleay Regional, it has been involved with the Co-operative Federation of NSW since the formation of the Federation. This Co-operative is founding member of the new wholesale Co-operative, the Co-operative Food Group, which has a current membership of 25, all retailers and representing supermarkets in NSW.

Table 8 – Agricultural Sector 2009-2010, Australia.

	Co-operatives Agriculture	Co-operatives Overall	Co-ops Agriculture / Co-ops Overall	Agricultural Industry Total	Co-op's total / Industry total (Percentage of total)
Turnover	$6,929billion	$14,771 billion	46.91%	$39,645 billion	17.478%
Employees	6,269	26,038	24.08 %	306,700	2.044 %
Members	34,592	13,085,216	0.264%		

Source: Australian Bureau of Statistics 2012: 525, 531, 542

Table 8 above shows that agricultural co-operatives in Australia produce more than 17 per cent of the total turnover of the sector. Their weight in terms of employed workers is much lower (about two per cent). This is so because most people working in agricultural co-operatives are members, hence considered self-employed by law, not employees. Indeed, the number of members that is of farmers and smallholders is much higher of the number of employees, and this is testimony to the self-employed character of sector. Agricultural co-operatives represent a large share of the total economic weight of co-operatives in Australia. They make up almost 47 per cent of total co-operative turnover, and more than 24 per cent of total co/operative employment. This count excludes members. If members where included the weight of co-operatives in terms of employment would grow to 67.4 per cent. The weight of co-operatives in terms of members is tiny (only 0.2 per cent), but this is clearly due to the much larger number of members in consumer co-operatives and credit unions.

One of the major issues that agricultural co-operatives have faced in Australia is demutualization. While producers Co-operatives have become very large in Australia, there is strong pressure to unlock member values by way of demutualization. Dairy Farmers in NSW went part of the way and was split, while others have been weakened by demutualization or closures. From first available records [1961] to 2005, 25 Producer Co-operatives had been demutualised. A notable example is the sugar industry, where Tully Co-operative Sugar, Proserpine Sugar and CSR, the biggest sugar producer, all now owned by foreign companies (Cronan 2005).

3. Conclusion

In agriculture, co-operatives have been expanding in Italy and agricultural co-operatives are among the largest enterprises in Australia. Agricultural co-operatives represent one of the main actors in the Italian industry, delivering more than one third of total production in the Italian agricultural sector. They reach about half of total agricultural production in Northern Italy, and represent the dominant actor in some specific areas, such as the Trentino-Alto Adige Region. The important results where reached thanks to strong presence of smallholders in Italian agriculture. Co-operative represented the best way to eschew the risk of concentration in land ownership and to support the possibility of retaining independence and family led production for smallholders.

These results, however, have been also supported by a favourable cultural and ideological context, above all by the strong Christian characterization of the social cohesion in the areas where agricultural co-operatives are strongest. The institutional context, which conjugates private ownership of land with common ownership of assets directed to industrial transformation and marketing of co-operative production, has demonstrated to be particularly suitable to support this kind of economic, social and cultural dynamics. Future development of agricultural co-operation in Italy faces important and difficult challenges, but the positive results (both economic and social) reached during the recent economic and financial crisis of the Italian economy sustain moderate optimism in the dynamic ability of this kind of organization to suitably adapt to a fast changing context.

Australian agricultural co-operatives have also led the way in transforming and marketing agriculture. In Australia too, agricultural co-operatives have throughout the twentieth century been agents of economic and social development and innovation. Still nowadays, some of the largest actors in the agricultural sector (in production, industrial transformation, and marketing) are represented by co-operative enterprises led by farmer members. Compared to Italy, however, recent developments in Australia have weakened the sector including business failures and demutualization.

PART II

THEORETICAL INSIGHTS AND CASE STUDIES

TOWARDS A NEW THEORY OF CO-OPERATIVE FIRMS

E. Tortia
M. Knox Haly
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From the Neoliberal to the Participatory Firm: employee participation through industrial relations and governance in Australia and Italy

Hall and Soskice's (2001) work on varieties of capitalism offers insights into the competitive advantage of organisational structures being aligned with an institutional context. It grows out of the organisation's ability to manage relationships as a means of accessing resources and market share for the firm. The last decade has produced a renewed interest in institutional frameworks. Hall and Soskice (2001) maintain that different economic configurations, (these can be either market lead or coordinated economic configurations), can confer a competitive advantage to organisations operating with congruent governance systems. Liberal Market Economies (LMEs) are characterised by well-capitalised share markets, promotion of common law, deregulation of industrial relations and finance, and a marketization of employee education, industrial relations and employment opportunities (Hall, Soskice 2001). Market led economic structures favour discontinuous leaps in product improvement. Extreme responsiveness to volatile markets results in the externalisation of an organisation's internal labour market and employment security. Firm-based career paths are possible, but increasingly rare. Because of the pronounced liberalization of the labour market and the necessity to relocate employment towards more dynamic and growing firms, the burden of accumulation of human capital and of the costs of lay-offs and relocation are placed on workers.

In contrast, Coordinated Market Economies (CMEs), such as Germany and the Scandinavian countries, are said to promote tight knit structures and demonstrate a high degree of integration between vocationally oriented education, job/career opportunities, industrial and labour protection, banking and industry policy. Coordinated economies are said to reward cooperative rather than competitive mechanisms. In this kind of system it is often stated that labour is not any more a simple factor of production, but instead it becomes an active stakeholder through mechanisms of participa-

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tion, such as the formation of unions and the related industrial action, of workers' councils in systems of codetermination, and of worker co-operatives.[1] Coordinated systems tend to better internalize the processes of human capital accumulation and to favour of workers' interests in terms of lay-offs and relocation. It is our contention that there is a cascading effect from these national cultures, down to legal frameworks, and to the working mechanisms defining the firm itself. This has implications for the context of employee participation, and it is our view that a hybrid Mediterranean economy such as Italy will offer greater opportunities for employee participation in organisational governance than Australia's LME.

The cultural contexts of Australia and Italy show markedly different relationships in terms of the role of labour within the economic context. In Italy labour has a significant degree of involvement in organisational strategy through the two main channels of unionization and worker representation at the plant level. The Italian labour market is also more regulated than the Australian one, and entry and exit of workers in and off enterprises is not unrestrained. Finally, contrary to Australia, Italy records a significant number of worker co-operatives.[2] In Australia, on the other hand, there is a trend for a clear distinction between managerial decision makers and labour in the organisation's strategic process. This is influenced again by the form of governance, which can be a proxy for organisational structure and the dominant property rights.

We take the organizational governance perspective with the aim of exploring the role of labour in the strategic organisational process (Hansmann 1996; Williamson 2000). To this end, we consider the two extremes of the organizational spectrum, with corporations in neo liberal economies at one extreme, and worker owned enterprises or worker co-operatives at the other extreme. Studying these two extremes allows to better evidence the different features of different ownership and organizational models. We then treat Italy and Australia as intermediate cases in the spectrum, since the reality of economic systems shows hybrid more than pure forms, and advices a more nuanced approach in which intermediated cases need careful consideration. We consider the macro-economic context and the institutional and legal systems in terms of the main arrangements that allow labour to be active participant in the development of the economy. The general expression of the ownership of enterprise, and of other institutions regulating industrial relations determines the degree of strategic involve-

[1] Worker co-operatives are here defined as mutual benefit entrepreneurial organization owned or otherwise run by the workers categorized as members on the basis of the 'one member, one vote' rule.

[2] The Italian National Association for Worker and Producer Co-operatives – Ancpl-Legacoop – recorded, in 2010, 893 co-operatives and 5 consortia, reporting a consolidated turnover of 12,87 billions euros, employing more than 36,000, of which about 24,400 are worker-members (ANCPL LegaCoop, 2012).

ment by labour. This is true both in Australia and in European countries, even if the two areas differ widely in the degree of the involvement of labour. In Australia this is restricted to limited forms of unionization and industrial action, while exclusionary governance and ownership arrangements corresponding to exclusionary relationship between labour and capital are dominant. The involvement of labour is wider in European CMEs, where it is often accompanied by the presence of work councils.

1. Critique of the mainstream Theory of the Firm

Neoliberal thought became dominant over the last decades of twentieth century and beginning of the twenty-first in LMEs. This protracted dominance led to institutional reconfiguration, which in its current form is explained as a power shift in favour of market lead economic policies, at the cost of policies of democratic or social inclusion. Under this system, labour, along with other collective organisations is generally absent from the strategic decision making processes, which are subordinate to economic growth. The ability of organisations with exclusionary governance to lead economic growth in LMEs relies on the wide availability of a qualified labour force, which is often recruited from other companies and other countries. Such a labour force does not need the lengthy and uncertain processes of intra-organizational training and human capital accumulation via internal labour markets. Under these stringent conditions, the intensive use of high powered monetary incentives can sharply boost productivity also in limited duration employment, for example by resorting to piece rates contractual structures (Lazear 2000; Lazear, Shaw 2007). Recourse to high-powered monetary incentives on spot labour markets is, by its very nature, a short-term solution that does not support the long-term growth needs of workers in terms knowledge, competencies and personal growth. Obsolescence of labour skills can be especially dangerous in presence of volatile demand and significant discrete technological shifts. Relocation processes lead to premature skills obsolescence and socio-economic vulnerability, the more so amongst unskilled and semi-skilled workers. Heightened uncertainty can be partially compensated by increased monetary remuneration, as demonstrated by recent experimental results (Bartling *et al.* 2012; Dohmen, Falk 2011). However, key findings from the different fields of economics, management, and psychology lead to the conclusion that reductionist framing of labour as a generic production factor on spot markets engenders long term loss of competence and ability (Zamagni 2012). This short-term focus does not account for longer term and intrinsic worker expectations, which refer to employment stability, professional and personal growth, and happiness (Depedri *et. al.* 2012; Guest 2002; Olssen, Peters 2005; Schellenberg Silver 2004). Furthermore, in these circumstances the linkages between labour and the internal workings of the organization are substantially weakened, and the employee becomes literally ‘a human resource’, or an interchangeable component with no conceivable role in governance.

This critique calls for a broader perspective around the role of the organisation and of organisational governance, the objective being reconciliation of economic sustainability and productivity growth, on the one hand, and of worker welfare and the involvement, on the other hand.

We are aware of the difficulties in assuming that inclusive worker oriented organisational models can provide the solution to exclusionary governance and socioeconomic inequity. Among the many critiques addressed to the possibility of developing organizational forms in which workers are active stakeholders, we will here focus on three. First, new institutionalism highlighted the risk of inflated organizational costs in terms of inflated decision making costs when a hierarchical governance structure based on concentrated ownership is substituted by an horizontal one, in which workers become active actors, and interact with managers also in the formation of strategic decisions. This risk can be especially serious when workers are heterogeneous in terms of motivations, preferences and objectives (Hansmann 1996). Second, the mainstream institutional literature has evidenced the risk of bilateral or multilateral opportunism, such as ‘lock-in’, when pure market transactions are overcome in hierarchical or coordinated organizational relations (Williamson 1973, 1975; Hansmann 1996). ‘Lock-in’ occurs when contractual parties make transaction-specific investments allowing the opportunistic exploitation of information or positional advantages (Hayek 1944; Friedman 1962). The risk of ex-post opportunism (workers’ exploitation of capital) is presented as one of the most powerful justifications around investor ownership in most corporations, since strategic investments made by investors are most vulnerable to exploitative behaviours by the other constituencies, mainly workers and customers, but also by managers in the literature on the separation between ownership and control (Berle, Means 1967; Jensen, Meckling 1976). Third, free-riding, shirking on effort and exploitation of the most productive workers by the least productive ones is depicted as insurmountable in organizations in which workers are left free to organize their work (Alchian, Demsetz 1972; Kremer 1997).

Our answer to these serious challenges is based on the idea of institutional evolution and on the possibility to set up and modify governance and its working mechanisms (Ostrom, Basurto 2011). In very simple terms, inflated organizational costs can be faced by re-designing adequate mechanisms of representation and delegation, and by defining the scope and limits of decision-making power held by workers as stakeholders and by managers. The opportunism of workers against capital can be addressed by developing various forms of financial participation, up to the fully-blown case of worker owned enterprises and worker co-operatives. Finally, free riding and other forms of peer-to-peer opportunism can be halted by peer monitoring, and by forms of graduated punishment of defectors (Ostrom 1990; Ostrom, Basurto 2011).

2. Towards a new conception of the firm

A new conception of the firm is beginning to emerge whereby it is seen that the corporation should have some social purpose beyond maximising returns to shareholders (Blair 1995). The modern corporation has been aptly described as «a constellation of interests rather than the instrument of the acquisitive individual» (Votaw 1965: 28) where the purpose of the corporation is seen as social, more than individual (Blair 1995). This approach brings into question the theoretical foundation of the distribution of ownership rights and decision-making power within market lead economies. Investor owned firms represent the dominant form of enterprise, but other forms are present as well and can be developed, since at times they have shown to be economically and financially sustainable (Borzaga *et. al*. 2011).

Still, it is important to rebut the argument that worker run enterprises are inferior solutions because their number is much lower than investor owned firms. Lower numbers are not due to a higher mortality rate, which instead is lower in the case of worker co-operatives than in the case of investor owned firms, but to a lower number of entries (Burdín 2013). In his life cycle model Ben Ner (1988) argues that the investor-managed firm is chosen because it has certain advantages over the labour managed firm (LMF) in the start-up period but after this, in the early mature phase, the LMF demonstrates its superior performance due to allocative and distributional efficiencies. In other words, the entry of for profit companies is favoured by and more expedite in the existing institutional and cultural contexts, while entry by co-operatives needs new institutional solutions, which are not established yet or need in depth refinement. More specifically, to exemplify, financial instruments and labour contracts cannot be isomorphic when investor owned companies and worker co-operatives are considered, while instead the tendency in most countries has just been to apply the same institutional solutions to both forms of enterprise.

To regenerate the theory and practice of the firm from a worker perspective it is necessary to refer to labour as a specific and strategic asset of the organization. Workers make firm specific investments in terms of human capital and specialized skills. This implies that not only investors can undergo ex-post contractual opportunism from workers, but also workers can undergo forms of opportunism from the employer, for example in terms of exploitation, or in terms of lack of professional growth and optimal accumulation of human capital (Navarra, Tortia 2014). Yet, the analysis of the risk of lock-in and ex-post opportunism is usually not extended to these transaction-specific investments of workers. When workers carry out specific and non-contractible investments their entitlements require governance consideration, and an organisational framework that bestows substantial shares of ownership and control rights upon these patrons (Borzaga, Tortia 2010).

Among established economic theories, new institutionalist writers have taken important steps towards an analysis of the firm that explicitly considers the role of labour as strategic and potentially controlling stakeholder (Hansmann 1996), though this analysis needs to be developed further in the direction of workable institutional solutions that favour the viability and sustainability of worker run enterprises. On the other hand, new institutionalism and new liberal thought often fail to acknowledge the context specific nature of investments conducted by different constituencies, as ownership and governance define the field of permissible transactions. Groups of controlling patrons are in a better position to derive higher expected benefits from specific investments. Further, the governance rules set by controlling patrons, may preclude non controlling stakeholders and minority shareholders from pursuing investment opportunities aligned with their own objectives (Marglin 1974; Pagano 1989; Borgaza, Tortia 2010; Jensen 2012). We reinterpret the economic nature of organizations based on the involvement of non-investor stakeholders, more specifically of workers, in connection with the dichotomy between market and organization[3]. We then proceed to deepen the understanding of how governance features are adapted to worker involvement and control, and how the tensions involved in this dichotomy are managed and resolved (Jensen 2012).

We will take the neoliberal interpretation of the firm as benchmark and bottom line organizational process in which the maximization of shareholder value tends to dominate. The potential of inclusive governance in terms of creation of both monetary and non-monetary welfare will be evaluated against this benchmark. We argue that inclusive governance in labour relations is characterised by employment stability, long-term relations and worker involvement in decision-making, in excess of what happens in deregulated labour markets and in the neo-liberal firm (Navarra 2010; Navarra, Tortia 2014; Albanese *et al.* 2013). We take worker co-operatives and employee owned companies as main examples of the implementation of inclusive governance relations, which show a pronounced tendency to resort to intrinsic worker motivation, more than to monetary incentives, to guarantee high productivity and achievement of economic targets (Ben-Ner, Ellman 2013). Efficiency is achieved through meeting the intrinsic needs, through participation in operational and strategic decision making, procedural and distributive justice, and labour relations based on transparent information flows

[3] We purposefully overcome the well-known Williamson's dichotomy between market and hierarchy (Williamson 1973, 1975) since we do not consider hierarchy as being a necessary feature of organizations. Instead, we treat organizations as coordination mechanisms of the economic activity (Borzaga, Tortia 2010). In this perspective organizations can be and, within the third sector, often are characterized by democratic and non-hierarchical governance.

and relations between managers and the workforce (Borzaga *et al.* 2011). Opportunism, typically in the form of shirking, is primarily controlled by horizontal mechanisms such as peer pressure and counteracted by procedural fairness, rather than hierarchy, where the status of employees as partners brings about greater commitment (Jensen 2012). Workers do have substantial opportunity for interaction with managers and even some degree of control over managerial decisions and holding management to account. In the extreme case, in worker owned enterprises, workers as members of the organizations are in charge of appointing and terminating managers directly or indirectly through elected boards of directors. This governance model exhibits both constraining and empowering features (Commons 1931). Here we mean, for example, that while membership rights and the accumulation of common resources may be understood as the main avenues leading to worker empowerment, control over managerial decision may limit to some degree managerial discretion and freedom of operation, but is itself functional to the achievement of worker empowerment.

Within this continuum of the neoliberal and worker controlled firms we finally interpret the prevailing systems of industrial relations as hybrids that are positioned between the two extremes. They represent compromises between competing ends, and are intermingled with the political influence of different social constituencies. In this sense they can be interpreted as emerging, but partial and evolving institutional equilibria, which are clearly influenced also by historical accident and path dependence. Moving from the neoliberal extreme towards worker control and empowerment we expect to observe a process of internalization of workers motivations and objectives into the objectives of the organization itself.

3. Corporate governance and labour relations in Australia and Italy

The twentieth century saw the polarisation of the corporate structure between two rival systems: the European social model and the Anglo-Saxon liberal market model. Based on the economic success of the USA in the last decades of the twentieth century, the question was raised as to whether there would be convergence around the liberal market model. However, from a critical perspective, this is seen as a struggle between a narrowly focussed outsider model of the firm, which can well be represented following the tenets of the principal agent model (Jensen, Meckling 1976), and the European insider model, which is best represented by inclusive stakeholder model of governance[4]. In this latter model «[…] all interested stakeholders – managers, employees, creditors, suppliers and customers – are able to monitor corporate performance» (Clarke 2004: 181). They are dif-

[4] Outsider model refers to governance forms based on Boards of 'independent Directors' who are neither employees nor agents of the firm.

ferent because «The Anglo Saxon model places importance on competition and market processes and perceives the main corporate objective as the delivery of shareholder value (often in the short term)» while the European model emphasises cooperation and consensus and «[…] conceives the corporate mission as the creation of values for all stakeholders in perpetuity» (Clarke 2004: 9). Here it is interesting to draw on the views of Handy (1997: 27) who describes the repositioning of labour in the contemporary context:

> The old language of property and ownership no longer serves us in the modern world because it no longer describes what a company really is. The old language suggests the wrong policies and screens out new possibilities. The idea that a corporation is the property of the current holders of shares is confusing because it does not make clear where power lies. As such the notion is an affront to natural justice because it gives inadequate recognition to the people who work in the corporation and who are, increasingly, its principal assets.

Corporate governance is both a system by which power is exercised in organisations as well as a system by which business corporations are monitored, directed and controlled. It is crucial to economic and social wellbeing, in providing incentives and performance measures as well as «[…] providing the accountability and transparency to ensure the equitable distribution of the resulting wealth» (Clarke 2004: 1-2). Labour and its representatives have taken a number of routes to intervene the governance of organisations from the election of labour representatives to the company board, two tier boards as in German co-determination as well as advocating the takeover and transformation of firms into fully democratic worker co-operatives. The objective being to alter the nature of power associated with the employment relationship and how work is planned, carried out and managed. These have been the main aims of the Marcora law (no. 49/1985) in Italy, which regulates the conversion of bankrupt investor owned enterprises into worker co-operatives[5].

We now turn to our task of comparative examination of Italy and Australia along the dimensions of the system of industrial relations (IRS) and coverage of workforces, the role corporate law and organisational governance forms. Both countries share cultural roots and institutional manifestation in solidarity and justice for working people[6]. In both contexts of

[5] CICOPA (2011), the Sectoral Organization of the International Co-operative Alliance for Industry, Services, and Crafts, reports 28 worker buyouts and transformation in worker cooperative in Italy since 2008. By 16 November 2013 36 buyouts were reported in the crisis period (Ilbureau 2013).

[6] The Papal Encyclical Rerum Novarum became a rallying point for the co-operative movement in Italy and its philosophy underpinned the Harvester Judgement in Australia institutionalizing the basic wage and a tripartite compact between the state, the labour movement and business.

industrial relations we observe specific institutional equilibria and, in this sense, a case study focus represents the soundest path of enquiry. Both countries have well-established national traditions of industrial relations whose origin dates back to the end of the nineteenth century. They are different in the legal tradition, which refers to common law in Australia and to civil law in Italy, and in the different roles played by the crucial macro and meso-institutions: government agencies, unions and employer associations. In Australia, the common law emphasis has led to the development of a contractual focus in legislation, as it pertains to corporate law, and specialist industrial relations tribunals. The common law emphasis does not facilitate collectively owned organisations such as co-operatives. As shall be seen, it is only recently that there have been legislative developments that actually facilitate co-operative development. We shall now analyse the Australian and Italian systems of industrial relations in order to correctly locate them within the continuum going from the neoliberal firm to inclusive governance based on worker ownership and control.

3.1 The role of labour in organisational governance in Australia

In Australia three avenues for employee participation in organisational governance must be considered. The first is participation through an industrial relations system of courts and an organised union movement. The second avenue refers to participation in organisational governance through the corporate legal framework (either as employee directors or as employee shareholders). The third assesses the prevalence of employee owned firms and worker co-operatives.

The Australian industrial relations system regulates employment conditions. In essence – the following sections illustrate that institutional configuration around the treatment of labour in organisational governance has generally existed as an uneasy co-existence of two forms of law: (i) corporate law, which represents the firm as just a set of contracts and market exchanges; (ii) industrial law, which implicitly challenges the neoliberal reductionist perspective of labour as merely being a human resource with no rights of participation in organisational governance. This tension is resolved by the exertion of power by the parties involved.

Rawling (2006) notes that Australia enjoyed relatively balanced union-employer representation, where unions held the exclusive right to represent employee interests at the industrial tribunals. Collective bargaining was historically protected through conciliation and arbitration, with the unions being allocated an exclusive right of representation at these tribunals (Kramar *et al*. 2013). The genius of this model was that wages and employment conditions were uniquely regulated outside of the market, since exclusive reliance on deregulated labour markets would have impoverished the role of labour and lead to a situation in which workers absorb most of the negative external effects of contractual imperfections (e.g. unemployment and relocation). The downside of this unique system was the reduction of opportunities for employee participation, since the opportunity for industrial arbitration through these industrial tribunals made direct employee engagement in governance (worker councils or employee directors) unnecessary. This undermined serious attempts to introduce democratic reforms to corporations and meant weakening of the industrial relations jurisdictions, increased employees' vulnerability, and exacerbation of exclusionary perspectives in corporate law.

The deregulation of the Australian industrial relations system began with the Hawke-Keating Labour Governments from 1983 to 1996. This Government was a proponent of economic rationalism, monetarism and softer neoliberalism (Knox-Haly 2011, 2012). It was this reformist Government that instigated the decentralisation of industrial systems through enterprise bargaining and award simplification (or award restructuring), which reduced the number of protected matters, covered in industrial agreements (Rawling 2006). These reforms increased the opportunity for the growth of casualized and part-time employment (Senate Committee 2004). The process of erosion continued when the Howard Government introduced the *Workplace Relations Amendment (Work Choices) Act* in 2005. This included disincentives for industrial action, and the option of non-union agreements. Taking a historical perspective it can be argued that, prior to 1983, Australian industrial relations were more aligned with a CME model, but more recent legislative acts suggest a transition to a LME model. During this transition the level of union coverage of Australian workers dropped from 51% in 1976 to 26% in 1999, to 20% in 2009 (ABS 2010). Given the dramatic weakening of industrial relations as channel for employee participation, we now address the corporate legal framework.

The Australian corporate model has some distinctive features in its development of an outsider model of corporate governance that distinguishes it from the US and UK (Clarke 2007). Only a minority of Australian companies are quoted on the stock exchange and ownership is more concentrated in Australia than in the US and UK. On the other hand, the separation of ownership and control (Berle, Means 1967) has taken hold to only a limited degree in Australia (Clarke 2004). The percentage concentration of block shareholders (as opposed to institutional shareholders) is much higher in Australia, than it is in the US or the UK. However the last fifteen years has seen a large growth of institutional shareholders. Again this supports the idea of transition to an LME model. The share market is the eighth largest in the world in terms of trading volumes and capitalisation, despite the smallness of its population (Nottage 2007). This share-market creates a flourishing environment for corporations as the dominant organisational form.

In principle, in Australia there are several opportunities for employee participation in organisational governance under this corporate framework, as specified by the Australian Corporations Act 2001. Employees can be instituted as: (i) corporate director; (ii) shareholder. However, exclusivist and hierarchical ownership of organisational capital is favoured, since the 2001 act does not refer to employee or community representation at board level. Consequently, labour participation is not generally at a strategic level, occurring instead through enterprise bargaining, and is constrained to influencing decisions which directly impact on the performance of one's job. Such solutions are argued by most new-institutionalist writers to be the most cost efficient means of managing an organisation, reducing organizational costs and achieving market exchange objectives, since it is based on the involvement of a few and allows for the straightforward pursuit of profit maximization and shareholder value (Hansmann 1996). The main purported limitation of this model is usually found, as in the basic version of the principal-agent model, in the divergence between managerial and ownership objectives. To this end, when direct control of managers becomes too difficult or impossible, powerful monetary incentive are devised which align managers' and owner/shareholders' objectives (Jensen, Mackling 1976). Coherently with these premises, industrial relations in Australia are typically characterised by the absence of worker representation at a board level. Under the Australian Corporations Act 2001, company directors are typically appointed by other board members. Directors are not elected by shareholders or nominated by employees. Nottage (2007) has also observed that in recent decades there has been an increase in 'arms-length' governance or independent directorship in Australian organisations governed by corporate law. Thirty-eight percent of Australia's top 250 companies have a majority of independent (non-employee) directors. Whilst there is no Australian law mandating independent directorships, ASX listing guidelines promote the use of independent directorships (Zandstra 2007). The promotion of outsiders rather than insiders being responsible for organisational governance militates against the construct of employee directors, or direct employee representation at board level.

The second possibility for participation through the corporate legal framework refers to workers' role as shareholders either through their superannuation trusts or through union shareholder activism. Redesigning of labour as a shareholder grew out of the Hawke-Keating Labor government reforms around economic codetermination. Under these reforms it became compulsory for employers to contribute to employee superannuation funds, which have come to represent the largest single source of capital funding in the Australian share market[7]. This gave labour a stake in funds governance, but not an operationally controlling role in corporate governance.

[7] The superannuation funds hold $1.34 trillion worth of assets, and they are amongst the largest institutional investors on the ASX (CPA Australia 2011).

Superannuation funds are one institutional structure effecting the Australian corporate sector, which until recently did have specific requirements for employee involvement in organisational governance. These funds are required to have equal representation of employers and employees at board level. The development of employee controlled superannuation funds contributed to the concept of employee shareholder activism, since the erosion of centralization in the industrial relations system forced unions to recur to this kind of activism (Rawling 2006). Whilst there is nothing specifically pertaining to employee directors in the 2001 Corporations Act, sections 249D (1) declares the right for 100 or more shareholders to request a company meeting. This works in conjunction with 249N (1), or the right of 100 or more shareholders to vote for resolution proposal at company meetings. Workers' shareholder activism, however, has hardly ever been successful in electing worker representatives in the board of directors. In some cases, however, such as in the Rio Tinto Mining dispute, shareholder activism resulted in the possibility for unions to reach new collective agreements (Anderson, Rawson 2005; Rawling 2006; Anderson *et al*. 2007: 45-53; Sjöström 2008). These actions removed psychological and ideological barriers to institutional shareholders being able to acknowledge industrial relations matters as a legitimate part of corporate governance. The weakening of the role of labour is evident in the Cooper Review's (Cooper *et al.* 2010) recommendation that mandatory equal representation of employer and employee representatives on superannuation trust fund boards be abolished[8]. The review suggests that superannuation funds adopt a greater proportion of independent directors for trust boards, even though «the core elements of the superannuation system were strong and well regulated» (Cooper *et al*. 2010: 4). This recommendation is presented in the context of requirements for greater transparency, efficiency and governance, even if there was no history of collapses amongst Australian industry superannuation funds.

Some authors argue that Australian union shareholder activism can be dismissed as being ineffective. They also notice that this strategy is only accessible to the largest and best-resourced Australian unions (Ramsey, Anderson 2005: 6). On the other hand, this process of activism between boards and unions has the effect of brining broader public scrutiny to strategic matters such as lay-offs, retrenchments, terminations, labour rights and traditional governance matters. Indeed, shareholder activist campaigners support this involvement channel as being the most effective when combined with a variety of traditional and non-traditional industrial relations strategies.

The third dimension of our comparative undertaking between the industrial relations and the corporate legal framework is represented by the

[8] The Cooper Review was chaired by Jeremy Cooper (now Chair of Retirement Income at Challenger Limited). The review was established by the then Federal Labor Government in 2009.

presence of organisations with collective organisational governance frameworks as the ultimate form of employee participation. This solution may be at odds with the Australian cultural and institutional context. As already illustrated, the presence of a highly capitalised share market confers an advantage to Australian corporations since, as argued by Hall and Soskice (2001), the alignment between organisational governance and institutional configuration confers a competitive advantage. The Australian third sector, which includes the co-operative sector, is small and under-developed compared to its Italian counterpart as it largely consists of not-for-profit organisations. It is estimated that there are around a total number of 1700 registered Australian co-operatives, against more than 61,400 active co-operatives registered in Italy (Euricse 2015). Co-operatives are governed by boards, whose directors are co-operative members. Employees can be board directors through virtue of their membership. Three quarters of co-operatives have rules preventing them from distributing surplus profits to members. In 2013 non-financial co-operatives have an estimated turnover of 136,5 billion Euro, which corresponds to 8.75 per cent of total Italian GDP, employ more than 1,7 million, corresponding to about 11 per cent of the total Italian non-agricultural workforse (Euricse 2015: 62).

Until the enactment of the National Co-operatives Law in May 2012, there were inconsistencies across states and territories. This represented a significant area of incongruity and competitive disadvantage for co-operatives, relative to corporations. Under previous regulations co-operatives had to make separate applications and pay separate fees if they wished to trade across different states and territories. The new National Co-operatives Law is designed to reduce inconsistencies by applying a national template, promote automatic mutual recognition, bring registration fees in line with those for corporations (this represents a 75% reduction in application fees), simplify auditing and reporting requirements. The new National Co-operatives template has modelled the responsibilities, duties and accountabilities for co-operative directors on that of Corporate Law and opened the possibility for co-operatives to raise funding from members and public sources. This implies that for legal purposes co-operatives are treated as 'individuals'. Five active members are required to establish a co-operative and members appoint the co-operative managers and also elect the Board of Directors.

3.2 The role of labour in organisational governance in Italy

As with the Australian context, our analysis of the Italian institutional framework is informed by consideration of the Industrial relations system, the corporate legal framework and the creation of a favourable context for co-operatives. Contemporary Italian industrial relations rest on three main pillars: the regulation of the labour market; the role of unions and of employers' associations; and the regulation of representative bodies at the firm level.

The Italian labour market was deeply reformed in a corporatist direction in 1970 by Law no. 300, which is still known as the 'Workers' Statute'. This law made it significantly more difficult than in the past to lay-off workers. Since 1970 Italian firms with more than 15 employees were only permitted to terminate employment because of three reasons: *disciplinary*, when the employees misbehave; in connection with objective *economic* difficulties of the firm; while *discriminatory*, based on personal physical, religious, cultural or psychological features of the worker, are always forbidden. In cases where economic difficulties were ascertained, the firm started a process of consultation with unions and, in some cases, of arbitration with the intervention of judges. This process was intended to determine the precise nature of economic and financial difficulties and employee numbers for termination in order to prevent opportunistic behaviours by the firm, to single out who was to be laid off and identify transition strategies for retrenched employees, based on the employee's personal and professional circumstances. The transition plan was supported by public subsidies for a duration of one year to 18 months. Retrenchments could be halted if the employer failed to establish a sufficient evidence base. A judge can also order the reinstatement of a worker when there is insufficient evidence of misconduct or low productivity. Discriminatory lay-offs, due for example to ethnic and religious background, or to union membership, imply the immediate reinstatement.

Law 300/1970 has been considered the highest achievement of workers' movement in Italy, and has been defended as such by both unions and leftist parties. Article 18 of the law 300, which regulates lay-offs procedures has represented the main legal benchmark of industrial relations over the last decades[9]. By contrast, employer associations and conservative parties have repeatedly pressed for substantive reforms. Employers' concerns have focused on the involvement of external parties, such as judges and unions, with commercially sensitive information about the organisation's market position, and the determination of misconduct or low productivity. The latter problem mainly arises from the difficulty of using external benchmarks of productivity. As the Italian economy has generally demonstrated slow growth in productivity over the last 20 years, Law 300 has been identified by many commentators among the main causes of slow economic growth.

In March 2012, under the pressure of the economic crisis, high unemployment, and repeated requests by the European Union for labour market liberalization, the Italian government reformed around labour contracts and employment terminations (law 92/2012)[10]. The discipline of

[9] In 2002 a national referendum did not succeed in extending the protection granted by Article 18 to employers with less than 15 employees.

[10] The process of reform and liberalization of the Italian labour market started in 1998, when unemployment reached 11 per cent. Economic recovery allowed an improvement in labour market conditions between 1998 and 2001. Also, in the same period, some initial measures of flexibility of labour contracts were introduced by the so-called 'Treu law' (law no. 196/1997,

unfair dismissal in article 18 of the Workers' Statute underwent profound transformation, in the instances of disciplinary and economic dismissal. *Automatic restoration* or reinstatement of the employees in his/her job position, prescribed by law 300/1970, was abolished even when the premises of the dismissal prove wrong. As a matter of course, restoration is replaced with a simple financial compensation, which can be decided by the judge at his/her own discretion, based on substantive evidence. If the judge determines that the reported difficulties were missing, the employer is obliged to compensation from 15 to 24 months. If it is determined that the employee did not commit the act giving rise to dismissal, the court may order reinstatement[11].

By the end of 2014 a new reform of the Italian labour market was carried out by the new government run by the Democratic Party in a centre-left coalition. The new law (no. 34/2014), better known as the 'Jobs Act', almost eliminates any possibility for reinstatement of workers, except in very stringent cases of discriminatory dismissal and unlawful dismissal for disciplinary reasons. In all other cases (dismissal because of both disciplinary and economic reasons) reinstatement is substituted by financial compensation increasing with seniority. The stated and official objective of the law is to reduce unemployment, which by the end of 2014 sky rocketed to 12.9% of the total work force (corresponding to almost 3.3 million unemployed)[12]. For the young aged 15 to 24 unemployment reached 42.4% in the same period, while the NEET (the young aged 15 and 24 Not in Education, Employment or Training, it averaged close to 22% between 2013 and 2014. The 2014 reform amounts, for all practical purposes, to the abolition of article 18 of the 1970 Statute.

The old 'Statute of the Workers' granted unions and worker representatives important margins of manoeuvre in steering and adjusting (though not halting) lay-offs. The two reforms carried out in 2012 and 2014, instead, increased in a substantial way employers' discretion in employment termination and reduced workers' guarantees at the disciplinary level. The

'Norme in materia di promozione dell'occupazione'). For the first time after the Statute of the Workers Italian enterprises were allowed to hire workers on the so-called atypical and short term contracts, i.e. contracts different from the open-ended one, which is most protected by the provision of Law 300. This took the unemployment rate down to 9.1 per cent in 2001. The economic difficulties that followed the explosion of the net economy financial bubble in 2001 were contrasted by a new liberal reform in 2003 (the so called 'Biagi' law, no. 30/2003), which increased labour market flexibility by introducing new typologies of atypical contracts. Workers on atypical contracts were considered by Italian legislation as 'independent', as they lie in between the category of the employee and of the independent producer. Because of this, they are granted limited protection by legislation. Starting from 2007 the economic crisis hit the whole Italian economy and its GDP shrank by 5 per cent in 2009, by 2.1 per cent in 2012, and by 1.9 per cent in 2013. The unemployment rate increased accordingly.

[11] Discriminatory lay-offs keep on being outlawed and always lead to reinstatement.

[12] Italian unemployment reached its lowest level (about 6%) since the 1970s in 2007, just before the outbreak of the global financial crisis.

objective is to increase productivity at the plant level and respond more quickly to macroeconomic shocks. However, critical commentators argue that heightened discretion on the employer side will lead to reduced transparency and accountability to external parties, and will reduce contestability by employee representatives. Indeed, the degree of litigation is reported to have substantially increased after the 2012 reform. In passing, we notice that these two recent Italian reforms are well aligned with our theoretical framework, since their accomplishment is coherent with the inherent tendency of investor-owned, profit maximizing firms, to reduce job protection in order to increase employability and productivity of workers (Navarra, Tortia 2014; Albanese, Navarra, Tortia 2015).

Italian unions represent the second pillar in the industrial relations system and remain powerful beyond their level of density. As with Australia, the union movement is structured on the basis of political affiliations. The socialist CIGL is the largest union in Italy, the social democratic union (UIL), Christian democratic union (CISL) are moderate constituencies, while the conservative union (UGL) has become influential in recent years. Although it has being experiencing some decline over the last decades the Italian rate of unionization is high and approximately 34 per cent, which is about half of the Swedish one, but substantially higher than the UK (28 per cent), the German (20 per cent), and the French (8 per cent) ones. The role of unions in Italian industrial relations can be considered, generally, as consultative. Union representatives interact closely with employer associations, whilst retaining a high degree of autonomy. Where positions cannot be reconciled, confrontation leads to industrial action, which is carefully regulated by the Italian legislation, and to the mediation of public authorities.

The third pillar in Italian Labour relations is represented by the existence of worker representatives at the firm level. Worker committees had been already regulated by law 300/1970. Following bipartisan reforms agreed to by the main unions and the Italian Government in 1993, election on workers' committees became more closely regulated by law, starting from 1997, with the introduction of the RSU (Unitary Union Representation), whose members are elected by workers in two thirds of cases, while one third is appointed directly by the national, regional, or sectorial unions. More specifically, one third of the RSU is elected by the unions that have also signed the relevant sectoral or collective contractual labour agreement. The consultative role of the RSU represents a legally binding constraint for the firm concerning a limited number of labour issues. RSU action, starting from 1993, has been widely complemented, and on many labour issues substituted, by collective bargaining between the relevant unions and employer associations. This is particularly the case with the so called system of 'concertative' labour relations which, starting from 1993, has regulated union and employer bargaining on all key aspects of wage and employment levels, adapting wages to predicted and programmed inflation[13].

Let us now consider the role of Italian corporate law in facilitating employee participation at a strategic level. As is the case in Australia, corporations are the dominant organisational structures. Corporations can take the form of Companies Limited by Shares (*Società per Azioni*, *SPA*), which have medium to large dimension, and Limited Responsibility Companies (*Società a Responsibilità Limitata*, *SRL*), which have small to medium dimension. There is a minimum requirement for one director, but no statutory maximum number of directors. Unlike the Australian system, directors are appointed by shareholders who also vote on the executive remuneration and salary. There is no requirement for directors to be independent. There is a broad requirement in SPAs around avoiding conflicts of interest (i.e. directors of competing companies cannot assume a directorship on their competitors board). However, this restriction can be overruled by shareholder approval at a general meeting. In an SRL, there is no requirement for a director to advise the company of conflicts of interest. In terms of organisational governance, with shareholder approval, an SPA can appoint either a Management Board and a Supervisory Board, with all the powers of management over a company, or a Board of executive directors (executive employees) with an internal committee of non-executives who supervise the full board and company (The Association of Chartered Certified Accountants – *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*, 2009). Again in contrast to common law countries, there is no clear boundary between executive employees and directors, and by their very nature these board structures incorporate employee directors through the executive director function. In an SRL, the directors may carry out all the company's business and again there is no required separation between directors and employees. They can be one and the same. However in 2010, the corporate governance committee of the Borsa Italiana adopted a new article, requiring Italian SPAs to implement European Union recommendations around communicating with markets about board evaluations on the independence of directors (Borsa Italia 2010). As with the recent industrial reforms, this push for a more exclusionary model of organisational governance is coming from the European Union, rather than from Italy itself. Whilst historically, there has been an option for employee participation at board level, Italian union shareholder activism is virtually non-existent, and indeed the largest Italian union, CIGL, has been fighting against legislative reforms introducing worker share ownership by arguing, in very simple terms, that entrepreneurial risk is the sole responsibility of employers.

[13] Prior to the 1993 'concertative' system, wages were automatically adapted to the actual rate of inflation. The so-called 'mobile ladder' system was abolished as it was recognised as the main cause of high inflation during the late 1970ies and the 1980ies.

As for the presence of co-operatives structures, in contrast to Australia, Italy represents a case of civil law country in which dedicated legislative acts exist in both the contexts of industrial relations and third sector organizations. The existence of dedicated legislation has important ramifications for corporate law, the flourishing of co-operatives and other third sector organizations, and as avenue of influence for Italian labour. The fundamental law of Italian co-operative legislation, the so-called 'Basevi' law (legislative decree no. 1577/1947), represents still nowadays the backbone of all co-operative legislation. In 1985 the Italian government brought in the Marcora Law (no. 49), which set up the CFI, a financial institution, to facilitate and provide finance for the transformation of failed businesses to democratically controlled worker co-operatives. This was subsequently suspended by the European Union for contravening European Competition Law. The Marcora Law re-emerged post 2000 with less generous financial ability. Among other crucial legislation, the law 142/2001 reformed the regulation of worker membership in worker co-operatives. The law 381/1991 instituted the social co-operative, which added public benefit objectives to the mutual benefit governance of co-operatives. Most social co-operatives are interpretable as worker co-operatives as their membership is mainly made of worker-members. In 2011 about 14,500 social co-operatives employing 310 thousand workers were recorded.

An overall evaluation of the Italian labour market regulation and industrial relations system would lead one to define it as a hybrid that is highly interconnected and multi-layered. The main social actors (unions, employer associations, and the government) closely interact to reach agreements, while legislation is taken as the benchmark against which all agreements are laid down. Worker representation at the firm and plant level has a consultative role, which is mainly restricted to labour issues, while no direct representation in governing and strategic bodies has ever been implemented despite the promulgation of the European Company statute by the European union defining a template for a corporation with a two tier board, one of which (the Supervisory Board) could in principle be elected by the workers. None the less the corporate governance structure under traditional Italian corporate law cannot be defined as exclusionary. Through the process of executive directorships, there is an option for board members to be both employees and directors.

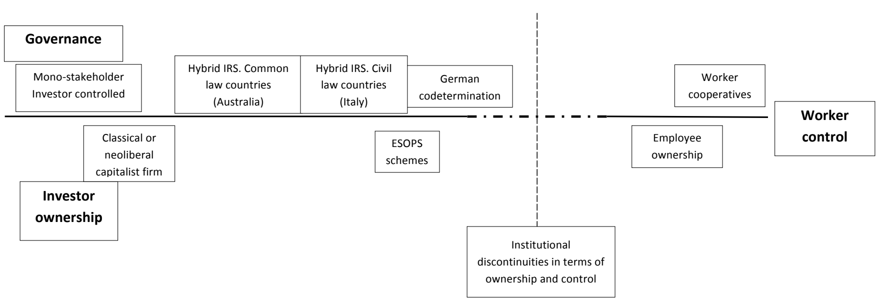
Italian industrial relations depict a pattern of partial and evolving institutional equilibria, whose path dependence is all the more relevant. The recent reforms of the labour market and corporate governance have been implemented under the strong pressure of the economic crisis and of the European Union institutions, even if no clear-cut agreement was reached by the main social constituencies. While the hope is expressed for improved performance, higher productivity and lower unemployment, the strengthened discretionary power of employers causes fears of a more impoverished and subjected role of labour. At the firm level, worker representation has been implemented in very partial ways, as all reforms in that direction have been fiercely opposed by employers' associations. The weakened representation of employees as executive directors is also evident in the recent push for Italian corporations to make disclosures around the independence of their Boards.

4. Discussion and conclusion

The objectives of this paper were to offer a critique and present an alternative to the neoliberal conceptualisation of the firm as a nexus of contracts and market exchanges. The process that leads from the neo-liberal model to enterprises genuinely based on worker involvement and control, as today embodied in the sporadic cases of employee owned companies and worker co-operatives, evidences the presence of important institutional leaps (Erdall 2012), which mainly concern property rights, the control of the organization, and the distribution of decision making power inside it.

As figure 1 below indicates the different forms of enterprises and systems of industrial relations can be represented on a continuum in which at the one extreme we find the corporatist model, which prioritises independent investor control and highly deregulated labour markets, on which labour contracts can be easily started and terminated. In this case, workers do not influence the objectives of the organization, which are given by profit and share-value maximization. At the other extreme we find fully blown mutualistic models of worker ownership and control, in which workers' objectives become co-substantial with the objectives of the organization. However, the governance of worker-controlled organizations can be difficult to implement, and limited access to financial markets and resources substantively restrict the creation and development of such organizations. The difficulty to gather financial resources on the market forces worker controlled organisations to consider different channels for the accumulation of capital, for example reinvestment of net residuals in common capital reserves.

Figure 1 – Different systems of industrial relations and different ownership forms.



The dominant systems of industrial relations both in Europe and in Anglo-Saxon countries are close to the left extreme (investor control). At the present stage of development, hybrid systems of industrial relations can be interpreted as modifications of the fully blown neoliberal benchmark. In both Italy and Australia, however, the role of unions and government intervention is still crucial to balance power concentration in the system of industrial relations. This role cannot be substituted by arm-length contractual exchanges. This shows, indirectly, that the neo liberal extreme of the spectrum is almost as a counterfactual benchmark as fully blown worker control.

Partial equilibria on the process leading from the neoliberal to the participatory models of the firm are graphically represented in figure 1 as specific points within an identifiable pattern of social evolution. Intermediate forms lying between the two extremes of worker control and investor owned firms are widespread, both in terms of governance and of financial set up, Australia and Italy IRSs being no exception. German co-determination system, and the ESOP (Employee Stock Ownership Plans) in the US represent well-known examples in which workers' aims can be partially internalized into the objectives of the organization itself. These forms modify basic tenets of the liberal-capitalist system, but appear as exceptions within a general trend that is not favourable to worker involvement and control.

C. Navarra

Worker Co-operatives as Collective Entrepreneurial Action: review of the economic literature and new theoretical insights

The starting point of this work is the distinction between two different existing definitions of co-operative. First, what Jossa (2005) defines the 'economists' cooperative', that is a firm where ownership and entrepreneurial role are undertaken by stakeholders that are not (or not mainly) capital suppliers. The second is found in the principles of the International Cooperative Alliance (ICA) that define the co-operative as «autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise».

As main clue to this review, I claim that the first interpretation has led to a wide literature, while the second still needs much exploration. There have been attempts to put together the microeconomic analysis of the co-operative (how does a firm with a different ownership structure to the capitalistic one behave?), and the view of a co-operative as a tool for a group of people to reach some common objectives. A seminal work in this direction is the one by Vanek (1970), where he claims that economic analysis focuses on a 'dehumanised' version of the co-operative firm, and it has to be integrated by an approach that takes into account the co-operative's potential of re-humanisation of work.

The first approach has mainly focused on worker co-operatives, which are firms where the owning stakeholders are the labour suppliers. I will stick to this restriction and consider firms where ownership rights on assets belong to worker members, who are endowed with shares, but who take decisions on a one-member-one-vote basis, and where both internal and external financing is possible.

As suggested by Kalmi (2003), we can identify two broad approaches that constitute the core of the literature on co-operatives in modern economies: the neoclassical one, that focuses on the definition of the objective

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function of the worker co-operative, and the neo-institutional one, that assumes individual heterogeneity among self-interested agents, and looks at the firm as an institution that arises in order to minimize transaction or agency costs. This distinction into two categories leaves aside a third option that has been mainly developed by Dow (2003) and whose main idea is to explain differences between worker ownership and capitalist ownership on the basis of constitutive differences between labour and capital.

I divide my review as follows: in Section 1 I take a functionalist perspective (the attempt to explain the existence of a phenomenon by its efficiency), and I go through the arguments that have been given in the literature in order to explain the rarity of worker co-operatives by their inefficiency. In Section 2 I review (more briefly than required by the width of the topic) the attempts to formulate a comprehensive theory of the ownership structure of the firm. In Section 3, I raise an issue that, in my opinion, is missing in existing approaches, that is the co-operative conceived as 'purposeful' production of public goods. Relatedly, I introduce the literature on collective action.

1. Why (usually) capital hires labour? The reasons of the inefficiency of labour management

Many writers explain the prevalence of capitalist enterprises in terms of the inefficiencies of worker co-operatives. In this contribution I interpret worker co-operatives as *labour-managed firm* (LMF) as opposed to the *capital-managed firm* (KMF), as in Bonin and Putterman (1987). The LMF is characterized by workers' control, which is the allocation of decision-making rights to workers[1] and imply profit sharing and workers having a financial stake in the firm (Bonin, Jones, Putterman 1993). Participation in the financing and in the result of the firm is considered to be a necessary condition required by the decision making power. Workers, in fact, would behave in a morally hazardous way if they took decisions without bearing the consequences of these decisions. I will review four topics that have been considered factors of inefficiency in LMFs: the objective function of the labour managed firm, the undercapitalization problem, collective decision making, and agency theory with the related incentive problem.

1.1 The objective function of the labour managed firm

While the classic economics literature did not ignore the possibility of workers' control over the firm, the first attempt to formalize the behaviour

[1] Firms which have Employee Stock Ownership Plans (ESOP) plans are not considered to be worker co-operatives because they imply residual claimancy, but not control rights; on the contrary Italian co-operatives are to be considered fully part of the category because control rights are effective, even if there is no full residual claimancy, as we will discuss later on.

of a labour-managed firm is due to Ward (1958). He identifies, as maximand of the LMF, the value added (net of capital costs) per worker that corresponds to the market wage plus a share of profits:

$$y = w + \pi/L = (pQ - rK) / L$$

y is called «dividend». The Ward's model defines a dividend-maximising firm in order to distinguish it from the profit-maximising KMF.

Ward builds up a short run model, where labour is the only variable input and the LMF competes on the market as the capitalistic counterpart does, hiring and firing worker-members on the basis of the comparison between marginal productivity of labour and labour remuneration (that here is y instead of the market wage). The results of the model, which neglects any institutional aspect of the firm, are the following:

- where a corresponding KMF makes positive profits, the LMF's equilibrium displays lower employment than the KMF;
- the LMF exhibits a backward-bending supply curve: the intuition behind this result is that members, if the product price increases, are willing to share the increased revenue within a smaller group of people[2]; the opposite happens if fixed costs increase.
- in a labour managed economy, labour allocation is inefficient: given that the dividend is higher than the market wage and is endogenous, there will be short run rents different in each firm (these can be brought back to zero only through the implementation of a market for membership positions, as underlined by Vanek in 1970).

These are results that hold only in the short run because, in conditions of perfect competition, in the long run profits are zero, and the dividend goes back to the market wage.

The model has been discussed, criticized and enriched by several contributions: I recall first of all the work by Domar (1966), who introduces the possibility to hire at the market wage the exceeding labour force, thus making possible for the LMF too to reach full employment. Vanek (1970) argues for the identification of two distinct effects on the LMF's supply curve: the willingness to share the debt burden among a greater number of members has an employment-increasing effect, while the decreasing marginal productivity of labour has the opposite effect. The changes in product price and in fixed costs make the former or the latter prevail.

Still, the 'perverse' supply curve is kept as a fundamental result of the model. This has been criticized both from the theoretical (Robinson 1967;

[2] More formally, when an increase in price occurs, the dividend increases more than marginal productivity of labour, inducing the LMF to reduce its labour force and therefore its output.

Meade 1972) and the empirical point of view. Robinson (1967) and Meade (1972) introduce the (very reasonable) assumption that hiring and firing of worker members cannot occur freely: in their framework, by considering the group of members as the governing body, the backward bending supply curve disappears. Another alternative model, where a well-behaved maximand arises, is the model proposed by Horvat (1986), where he considers again a short run model, but with fixed labour input, on the basis of a reversal of the KMF model, where capital is considered as fixed in the short run. A more recent contribution, that highlights a point already observed by Vanek (1970), is the one by Dow (2003), who criticizes the assumption of a specific maximand for the LMF: if the existence of a membership market is allowed the firm turns out to behave as a profit-maximising one.

Moreover, empirical evidence does not support the perverse response to changes in the output price. Craig and Pencavel (1992) study the US plywood co-operatives does not even confirm the dividend-maximisation as objective function of the LMF. Instead, employment stabilization[3] is found to be a crucial factor in worker co-operatives.

Also the assumption that LMFs pay higher wages than the market rate is put into question by some empirical evidence: two works on the Italian case (Estrin 1991; Bartlett *et al.* 1992) show that co-operatives in the construction and manufacturing sectors pay wages rates similar to corresponding KMF at the blue collar level and significantly lower wages to the managers[4].

1.2. The undercapitalization and underinvestment problem

One of the main arguments backing the idea of the inefficiency of worker co-operatives is the problem of financing and the tendency to invest less than it would be optimal.

The first set of problems is raised against the 'pure rental' model of LMF, that is the one proposed by Vanek (1970) who claims that, if the LMF uses only rented capital, it will behave in the same way as the KMF in terms of factor usage. The criticisms to this model are the following:

- the «agency costs of debt» (Jensen, Meckling 1976), that is the monitoring problem faced by the lender, given that he has no control rights on the financed project, because of informational asymmetries (also Williamson 1985, Putterman 1993);

[3] Cfr. the model built by Miyazaki (1984) with a firm that maximises an income-cum-employment function.
[4] In the Italian case, the distribution of profits to members is also limited by the institutional and legal setting, which can induce an effect opposite to the Ward model (Cuomo 2003).

- what Jensen and Meckling define the as «impossibility of pure rental» (1979): capital includes also intangible assets that cannot be rented, like training and organizational assets;
- specific investments in physical capital.

As a consequence of these criticisms, a model of worker co-operative characterized by internal financing has been considered. In this perspective, some initial problems arise in terms of liquidity and wealth constraint of workers (Bardhan 2005). Eswaran and Kotwal (1989) reach the conclusion that the initial wealth is determinant in order to decide who will be the entrepreneur, because capital owners will prefer to directly undertake a productive activity rather than lending their money because of the risk of moral hazard by the potential borrower. On the other hand, it may be difficult for workers to engage on the credit market on more than one period using their labour income as collateral.

A second problem connected with the investment of workers' own funds is related to risk-aversion, since they cannot spread risk by differentiating the use of their only asset, that is labour (Meade 1972). The main argument supporting the idea that worker co-operatives was risk averse was put forward by Furubotn and Pejovich (1970), who developed the so-called 'horizon problem': when the time horizon of the median worker member[5] is lower than the time horizon of the investment project, he cannot appropriate its entire returns and he will not undertake it. Given that the right to appropriate the firm's surplus is granted by membership rights, which are necessarily limited by retirement, the investment-planning horizon is limited by the expected work-life. Because of this reason, the number of investment projects undertaken by worker co-operatives is, at least in some cases, suboptimal (Jensen, Meckling 1979).

To rebut this claim, Jossa (2007) states that if worker members are remunerated only by labour incomes (not by financial stakes), there is no reason to think that the former will have disadvantages in finding credit capital with respect to joint stock companies. However this argument corresponds to the case of the externally financed co-operative, which makes problems of possible moral hazard arise. The horizon problem is overcome if a market for membership positions is established, as in the case of the US plywood co-operatives (Craig, Pencavel 1992), that allows the worker member to internalize the stream of benefits of today's investment irrespectively to the time horizon as member of the co-operative[6]. Howev-

[5] The median member defines the investment decision of the co-operative, given the democratic 'One member, one vote' decision rule.

[6] One of the reasons for the limited application of this solution is the important imperfections of this market, because the relevant private information of insiders led to a systematic under-evaluation of the share price.

er, this kind of market is likely to be characterized by strong imperfections connected with the formation of the price of the membership position leading to serious difficulties in its implementation (Tortia 2007). Conte and Ye (1995) formulate an overlapping generations model, which leads to a Pareto efficient steady state accumulation by the LMF. To enhance the possibilities of the co-operatives to reach this efficient equilibrium, the authors indicate as key factors the decreasing of asset pooling risk and the promoting of lifetime employment. This is indeed is what is at work in the case of the Mondragon co-operatives[7], where members tend to stay in the firm for the whole work life, and they are entitled with individual capital accounts, with limited possibility to have access to them before retirement. Finally, Tortia (2000) underlines that the horizon problem may be limited if the investment in the firm is decided by the management and not by each member.

Empirical analysis, despite the measurement problems, seems to evidence a lower capital to labour ratio in LMFs (Bonin *et al.* 1993), but, interestingly, the work by Bartlett et al. (1992) in Italy finds out that the time horizon over which investments are evaluated in LMFs is similar to their KMFs counterparts

1.3. The collective decision making problem

As stressed by and Putterman and Dow (2000) the higher degree of heterogeneity of the governing body in LMFs, which depends on the democratic principle of 'one member one vote', results in lower preference homogeneity than capital owners (each worker has, as a norm, different qualification and different remuneration) and transaction costs in terms of higher ownership costs (Hansmann 1996). Skillman and Dow (2000) underline that, since the capital market is more competitive than the labour market, capitalists are more likely than workers to agree on profit maximisation. Members' homogeneity plays an important role in reducing collective decision making costs: Benham and Keefer (1991), by illustrating some empirical cases, suggest that groups should select *ex ante* their members, reduce their size and reduce the possible sources of heterogeneity (e.g. in remuneration), in order to increase the efficiency of the decision making process. Hart and Moore (1996) show that, when members have common ranking of preferences, a 'non profit cooperative' (a co-operative firm that doesn't distribute dividends) reaches a first best equilibrium.

On the contrary the decision making process in the capitalistic firm is considered to be more efficient because, while in the KMF workers 'vote with their feet', that is can choose the 'exit' option (as in Hirschman, 1970),

[7] The famous and outstanding co-operative group in the Basque country.

in co-operative enterprises worker members practice the 'voice' option, this way increasing the degree of fragmentation and heterogeneity within the governance structure.

Kremer (1997) study the weakness of worker co-operatives as related to distributive processes and labour remuneration. Majority voting in LMFs can produce distorted incentives: if the median voter has a below-average ability, the 'one member, one vote' rule will produce a redistributive effect that favours the low skilled and less productive members. It has been argued, moreover, that democratic voting discourages members to invest in the firm (Bacchiega, De Fraja 1999): in the KMF, on the contrary, the possibility of increasing one's decision making power by bringing more resources into the firm provides incentives to members to invest.

Various authors have strived to rebut the criticisms of the LMF model. In regard to concerns relating to the costs caused by the heterogeneity of the governing body, Jossa (2005, 2007) evidences that, in real-world co-operatives, representatives of the workers' assembly take the decisions. Moreover, there is no reason to think that managers that act on behalf of capitalists are more efficient than managers that act on behalf of workers. Jossa (2005), on the other hand, recognises that the Hansmann's argument on the costs of the 'voice' option, is useful to explain why it is difficult for co-operatives to form, since co-operatives are formed by a multilateral contract that has to be unanimously stated, while the capitalist firm is formed by a series of bilateral contracts where one of the parts is always the same. Finally, some authors stress the importance of the 'associative' component of LMFs. The existence of a selection effect *ex ante* makes the co-operative members have a different motivational structure than the one of an analogous group of workers of a capitalistic firm. This may produce a comparative advantage in taking collective decisions in the co-operative (Bruni, Zamagni 2004: Zamagni 2005).

1.4. Agency theory and the incentive problem

Agency theory (see *inter alia* Jensen, Meckling 1976; Holmström, Milgrom 1994) belongs to the New Institutional approach to production theory and proposes a perspective on the firm as a *nexus* of contracts, whose aim is to make divergent interests compatible, through the introduction of an adequate incentive scheme. Namely, the question this approach wants to answer is how to align the interests of the principal (the employer) and the agent (the employee), who undertakes an action on behalf of the principal.

An efficient incentive scheme emerges when the agent's remuneration is directly linked to his-her own effort, but this is usually difficult to measure. The consequence is that a few activities can be rewarded in this way (Holmström, Milgrom 1994). When this is possible, indeed, real-world firms apply a set of pay-per-performance measures, notwithstanding the limitations of these measures (Prendergast 1999). The main limitation is worker's risk aversion: these measures make the worker bear a part of the production risk and this goes against the theory that sees the firm as an agreement between a risk neutral entrepreneur and risk averse workers, who hand over control on the activity in exchange with a fixed remuneration (Knight 1921). A second criticism concerns the impact on workers' behaviour, which will be exclusively directed to maximize results on the incentivized elements of the contract, not his-her labour service as a whole. In this regard, Holmström and Milgrom (1994) develop a model to compare the employment relationship with the independent contractor relationship: their result is that the first provides better incentives when the cost of monitoring is high, while the second is a better incentive scheme when performance is easy to measure.

The firm's output can be seen as the result of a process of team production. If these individuals are remunerated on the basis of their joint product, but the effort of each of them is not observable, a problem of free riding arises. Holmström (1982) proposes, as incentive device, a solution similar to a 'collective fine', whereby every fall in production implies a decrease in team members' remuneration, both of those who shirked and those who didn't. For this to be possible, it is necessary that the group agree with a credible third party (the 'budget-breaker'), so that this keeps a part of the product when it's below a certain level. Taking the perspective of principal-agent model, Alchian and Demsetz (1972) propose that an individual, the investor, should be entitled with the monitoring role, and at the same time with residual rights on the product of the team in order to have the right incentives to efficiently monitor the workers in the team.

Both these perspectives argue that the monitor needs to be external to the team and that he/she needs to be allowed to appropriate part or the whole residual product. These approaches have been widely criticized: first of all it has been argued that they provide good reasons for the monitor to be the residual claimant, but they don't imply that the capitalist should be the sole monitor and residual claimant (Eswaran, Kotwal 1989). A second pitfall of the Alchian and Demsetz's claim is that, in modern business corporations, monitoring is generally entrusted to managers as different from owners, who are not remunerated in a residual way: given the problem of monitoring the monitors, workers may even be better than investors in solving this problem Third, the monitor may not necessarily be external to the group. By devising suitable governing rules it can become possible for members to be monitors, as evidenced in the literature on the management of common pools of natural resources (Ostrom 1990). Fourth, forms of 'spread' or horizontal monitoring can substitute control exerted by a hierarchically superior individual or group. Peer pressure can be effective in halting the problem of free-riding in teams. Kruse (1992), on the other hand, highlights that forms of worker participation to the firm's profits, by reducing workers' turnover and making investments in human capital more profitable, strengthen 'horizontal monitoring' and improve the flow of information inside the firm. This is because individual income is linked to the overall performance of the firm. Fitzroy and Kraft (1986) obtained the same result when they detected a positive relation between productivity and profit sharing. This effect, which contrasts the '1/N', incentive dilution principle (Prendergast 1999), is confirmed by organization theorists, who argue in favour of the advantage given by team members' interaction in mutual monitoring, co-operative problem solving, and social incentives (such as peer pressure).

Empirical studies in worker co-operatives estimated production functions with a set of variables that capture workers' participation in the firm's governance and profit sharing. They, usually evidence a positive effect of participation on productivity mainly in terms of participation in profits, member's capital shares, and the members to workers ratio (Bonin *et al.* 1993, for a general review; Jones, Svejnar 1985, for an analysis on a sample of Italian co-operatives). Studies that use mixed samples of co-operatives and capitalistic firms are more rare and difficult to carry out, but usually there is no evidence of a greater productivity in KMFs (Bartlett *et al.* 1992).

Fifth, and finally, the monotonic relationship between pay and effort that underpins agency theory has been criticized by introducing intrinsically motivated agents. Akerlof and Kranton (2005) introduce identity derived by belonging to an organization as intrinsic motivator to work. This component implies that small changes in wages can produce more than proportionate increases in effort due to the utility-enhancing nature of effort for insiders who identify with the organization they work in. Outsiders, as in traditional economics models, instead perceive effort as disutility. Motivation crowding by material remuneration has been evidenced as well (Frey, Oberholzer-Gee 1997; Frey, Jegen 2001). In this approach rational choice theory needs to be modified by considering extrinsic and intrinsic motivations in human behaviour, as stated by social psychology. Extrinsic motivations respond to material incentives, while intrinsic motivations come from an interest in the action to be undertaken itself and can be defined as moral or civic duty. The best-known example of the relevant of intrinsic motivations was put forward by Titmuss (1971), who claimed that monetary compensation for blood donation undermined the individual's sense of duty, negatively affecting his/her willingness to donate. This result has been confirmed also by social psychology: external control put on an action that has to be performed reduces the intrinsic motivation to perform it and its efficacy thereof. Frey and Oberholzer-Gee (1997) argue that this crowding out effect is not coherent with standard rational choice perspective because «if a person derives intrinsic benefits simply by behaving in an altruistic manner or by living up to her civic duty, paying her for this service reduces her option of indulging in altruistic feelings» (746-747).

The same approach is followed by Pelligra (2006), who claims that agency theory, by assuming the monotonicity of the pay-effort relationship, provides an incomplete incentive scheme and is subjected to the risk of adverse selection, due to material incentives.

2. Who hires whom? Elements from the New Institutional theory of the firm

The New Institutional approach to the study of the firm originated in Coase's well-known article on *The Nature of the Firm* (1937). The basic idea is that while, on the market, resources are directed by the price mechanism, in the firm they are directed by the decisions of an entrepreneur (they are 'islands of conscious power'). When the costs of using the price mechanism increase, coordination within the firm's boundaries becomes the most efficient coordination mechanism. The firm is seen as the *locus* of authority, as opposed to the decentralized bargaining of the market mechanism, where 'authority' is defined as the control over other's behaviour in absence of continual repricing (Dow 2003). This approach-originated transaction cost theory and, in the study of co-operative firms is at the basis of the works by Henry Hansmann. Still, its main underlying ideas, are shared with the agency theory, especially as it concerns asset specificity, whose core unifying assumption is that the characteristics of the resources that are input of the production process determine the efficient allocation of property rights (Pagano 1993).

2.1 Transaction costs and the Hansmann's model

As stated in Williamson (1985), Transaction Cost Economics (TCE) originated in Coase's (1937) works and looks at the costs involved in using the market as a transaction device, and therefore in using the price mechanism to allocate and organize resources. It's the amount of these costs that determines whether a transaction is to be carried out within the firm boundaries or on the market. The firm is therefore a governance structure that can minimize the transaction costs when market contracting entails too high costs derived from contractual imperfection due, for example, to information asymmetries, risk of moral hazard and incentive problems.

Hansmann (1996) applies this approach to the ownership of the enterprise by formulating a general model of transaction cost minimization in order to explain under which conditions different property rights emerge. He defines the firm as a system of idiosyncratic relations between groups of stakeholders (that he calls 'patrons'), which these can enter in relation with the firm through direct control (ownership) or through market contracting. Both involve transaction costs, but of different kinds: the first typology of costs, contracting costs, may be linked to market power problems (e.g. monopolistic positions), to information asymmetries and to 'ex post' market power, that is the 'lock in' of an agent who has to incur high costs in order to give up the transaction. The second typology of costs, ownership costs, is mainly related to decision-making, monitoring and risk bearing. The central proposition of the model is that the efficient ownership structure will be the one that minimizes the sum total of market contracting (CC) and ownership costs (CO), where the costs of market contracting is the sum of the costs incurred by the firm when writing contracts with different classes of patrons (consumers, service users, producers, etc):

$$\text{Min } CO_i + \sum_{j=1}^{N-1} CC_j$$

where i is the class of patrons who has the ownership right and j ≠ i are the other classes of patrons. . In principle, there is no *a priori* disadvantage of worker co-operatives since they can minimize transaction costs arising from some kind of market failures, e.g. when workers have to make very specific human capital investments, or when there is strong risk of investors' opportunistic behaviour.

According to Hansmann, the main limitation of co-operative enterprises is that they will be inevitably characterized by high costs of collective decision making because of democratic voting. On the contrary, in capitalist firms decisions are taken on the basis of owned shares of capital and profit maximisation makes the preferences of the governing body more homogeneous. The pitfalls of this approach lie, first of all, in some fundamental limitation of the transaction cost approach and of its assumptions: the existence and the uniqueness of the solution to the cost-minimization problem is subjected to a number of constraints (Milgrom, Roberts 1992)[8]; namely, in our case it may be puzzling the situation where the cost of ownership for class i and the costs of contracting for class j aren't independent. Moreover, it may happen that the equilibrium solution is not easy to reach, even if efficient, e.g. if the required compensatory transfer payments (to be done to those who would loose in moving to that equilibrium) are not possible (Dow 2003).

As reminded by Borzaga and Tortia (2005), firms can in general build up institutional arrangements in order to minimize the costs produced by their property setting. An interesting contribution in this direction is the one proposed by Sacconi and Seppi (2006), who interpret some organiza-

[8] In general, TCE claims –following the Coase Theorem- that a well-defined institutional outcome will emerge if there is the possibility of transfer payments to occur, there are no negotiating costs, parties are able to enforce bargaining outcomes, and there are no wealth effects (Milgrom, Roberts 1992).

tional features of Italian co-operatives as devices to reduce ownership costs that aren't minimized in the Hansmann's framework. Indeed, in the co-operative, some costs arise because of the possibility of opportunistic behaviour towards future members. The answer to the risk of opportunism is the indivisibility of the co-operative's estate, that could play the role of the 'budget breaker' *à la* Holmström, or – in a multi-period framework – it can be the device that creates the structure of an indefinitely repeated game, which supports the achievement of the co-operative outcome also between different generations. That is, the indivisibility and non-saleability of the capital of the co-operatives strongly reduces the risk of opportunistic behaviours damaging future generations of members.

Another limitation of this approach is to identify transaction costs as uniquely arising from market failures: as Borzaga and Tortia (2005) point out, there may be comparative advantage of the co-operative firm irrespectively of the existence of market failures, for instance when labour is a highly strategic input, as it is in the co-operative professional partnerships, that are widely diffused in UK and US. That transaction costs may arise from instances that are different from market failures is also the point made by Giovannetti (2002): the firm is a governance structure that minimizes TC, but these – instead of being generated by failures of the market – are the consequences of the structural indivisibility that is inherent to the production process. This generates a factor of production that can be considered as a common, the so-called 'process fund' (cfr. Georgescu-Roegen 1971): co-operatives can be the efficient institution to manage it given that they have the possibility to define *ex ante* shared means and purposes.

2.2 Specific investments and the incomplete contract approach

The incomplete contract approach presents an analytical framework that is similar to the previous one. The two approaches mainly distinguish themselves on the basis of the language they use (Grossman, Hart 1986; Hart, Moore 1998). In the incomplete contract framework, the firm is a set of incomplete contracts among input suppliers. Contracts are defined as 'incomplete' because the parties cannot specify every possible state of nature and therefore every possible clause of their agreement. The owner has the authority to decide on all situations that are not specifically included *ex ante* into contracts (in other words, ha has the ultimate control right, that cannot be revoked by anyone, as in Hart and Moore, 1990). For this reason, he is also the residual claimant appropriating the stream of benefits deriving from the firm's activity, even these benefits have not been specified *ex ante*.

The efficient property rights structure is determined by the characteristics of the resources, the technology, and the organization of production, which imply different degrees of asset specificity and monitoring costs. While the monitoring problem is at the basis of agency theory, asset specificity is the central concept in the incomplete contracts theory. An asset or investment is considered to be 'specific' to an activity if its value is high inside it, but it may be much lower outside, that is the loss of value in transferring it to another use is very high. This implies a weak bargaining position for the agent that makes this investment if he has no residual right of control over the activity, because of the risk of being locked in and subject to the other parties' opportunism would be very high. In such cases, market competition is not able to avoid opportunism and the investment may not be done. On the other hand, the owners of the specific asset or making specific investments will receive the positive returns in case of good performance of the firm. Therefore, they are the 'efficient' owners of the firm.

In this framework, asset specificity determines the efficient property right structure, but we can conceive the opposite direction of causality too: an established pattern of property rights makes some factors of production more specific than others (Pagano 1989, 1993; Pagano, Rawthorn 1996). In this perspective capitalism makes capital more specific, while deskilling labour (cfr also the classical work by Marglin 1974). More broadly, Pagano (1989) underlines that the new institutional point of view is reversed by the Labour Process literature, in which property rights shape organization and technology. This pattern implies that the efficient solution is that capital hires labour, not vice versa, thus preventing the formation of worker co-operatives. The property structure itself shapes technology and the organization of production making the whole process self-sustaining in reinforcing the capitalist mode of production. In other words, quoting Lindblom (1977), «not by logic but by history the owners of capital have become the owners of the enterprise».

The path-dependent nature of the dominance of KMF over worker co-operatives is also argued by Bowles and Gintis (1996): if it is true that labour management is limited by workers' wealth and the resulting small risk bearing capacity, this is perpetuated by the inequality in wealth distribution produced by the capitalist property structure. In their model, it's the credit constraint that makes the capitalist firm dominate.

3. Worker co-operatives as collective entrepreneurial action

3.1 The co-operative as a producer of public goods

Many important authors (e.g. Sen 1994) point out that every production process has a public good component. The co-operative is characterized as an organization in which this collective component of its objective function is a 'contractual common' created by the agents who benefit of it (Giovannetti 2002). This definition is coherent with a stream of thought that is different from, but developing in parallel to the approaches just introduced (transaction cost and incomplete contract theory). This stream sees the co-operative as an organization of members, who promote common purposes on the basis of equality of governing and distributive rights (Zevi 2003). Differently from the employment relation in the capitalist enterprise, members in a co-operative join *because of* the production of the public good, which is not a sheer by-product of productive project, but it's its intended outcome.

Bonin, Jones and Putterman (1993) suggest that worker co-operatives include in their objective function a good that has the features of a public good from the point of view of workers that is the quality of working conditions. In the words of Gui (1996), while in capitalist firms «the satisfaction of workers' objectives is an indirect and unintended result, mediated by an imperfect labour market, worker managed firms adopt workers' objectives as their own objectives» (176).

Gui (1996) underlines that the workers' managed firm can have an advantage relative to the capitalist firm on what concerns the satisfaction of workers' objectives: the latter tends to satisfy the objectives of the marginal worker, while the former satisfies the objectives of the median member, that is likely to better approximate the preferences of the average member, that is the socially efficient benchmark. Worker members choose, together with their monetary wage, a part of remuneration to be consumed on the work (Jossa 2005): this can be the quality of work life, the reduction of the excesses of specialization, a soft monitoring mechanism, better working hours, etc. An important contribution in this direction comes from Borzaga and Depedri (2005), where the authors conduct and empirical investigation in the Italian social care services, in enterprises with different organizational forms (co-operative, private and non-profit): they look at relational goods as a kind consumption on-the-job that is interpreted as a public good, because it *needs* to be produced and consumed together with others. They highlight a substitution effect between non-monetary relational goods and the wage, which enters the utility function as a threshold, above which relational goods become more important. The opportunity to consume relational goods on the job is, in their study, a form of remuneration that attracts workers and may also secure their loyalty to the firm. This has been shown to be more important in worker co-operatives than in capitalist companies (Zevi 2005; Navarra, Tortia 2014). Also, internal distributive equity appear to be further public good produced by worker co-operative since there is evidence that in worker co-operatives there is a reduced wage gap with respect to capitalistic firms (on the Italian case, see Estrin 1991; Bartlett *et al.* 1992). Matched samples show that the blue collar worker receives a similar wage in co-operatives and in KMFs, while co-operatives provide lower remunerations to managers. Moreover, co-operatives employ a lower number of white collar and supervisory workers than capitalist companies. This findings match experimental evidence showing that equality is positively valued in groups, since within-group inequality has a utility-decreasing effect (Fehr, Schmidt 1999; Bardsley 2005). Furthermore, the co-operative can be seen as producer of merit goods, such as economic democracy (since the classical works of John Stuart Mill, 1848; the same concern has been raised by other authors, such as Jossa 2005), solidarity and democratic sociability (Borzaga, Tortia 2005).

Finally, there is an important literature that stresses the role of public good provision in co-operatives and their positive effect on their performance. In the Japanese co-operative fisheries, studied by Platteau and Seki (2001), the more performing organizations are those who apply a stronger form of income pooling, that can itself be interpreted as a voluntary contribution to a public good. Where the income and cost pooling is associated with a good information flow and a system of mutual insurance, it allows to increase risk-taking, better allocation of work on the fishing sites and higher scale economies[9]. Similar examples can be taken from the literature on Developing Countries. One of the major studies in this field is the one by Putterman (1986) on Tanzania: the author stresses the redistributive role of co-operatives (defined as 'egalitarian transfer of public goods') as a clue factor to enhance participation, contrarily to what would be expected on the basis of arguments informed by the spread of opportunistic behaviours. Similarly, De Janvry and Sadoulet (2004) analyse a sample of peasants' co-operative organizations in the Senegalese rural context, and identify a number of them as 'community-oriented' organizations, characterized by the prevalence of public good provision for the community of reference.

3.2. The collective action problem: how to get out from the 'impasse'?

The development of the literature on collective action is related to the identification of the problem of free rider, its consequences, and the possible solutions. The 'collective action failure' has been introduced by Mancur Olson, in his 1965 seminal work, where he criticizes the 'optimistic' approach proposed by traditional group theory, which claims that individuals share a common purpose, and act according to the its pursuit. In Olason's view group's members share the interest to obtain the collective good, but none of them has the individual interest to bear the cost of its provision. Given that it's a public good, nobody who is part of the group can be excluded from its benefits, thus each individual agent has no incentive to participate in its production. This social dilemma applies in cases in which individual effort is not measurable, while everyone is able to enjoy the benefits produced. Similar to this is Hardin's (1968) argument concerning the 'tragedy of the commons'. Following Elinor Ostrom (1990), this model underpins the claim that common-pool resources cannot be managed by independ-

[9] The authors compare different groups with different performances and identify the causes of these differences in the degree of peer pressure on reputation and social esteem effects within the group.

ent producers or appropriators, but instead only through public or private ownership. In the former case the State can guarantee the enforcement of agreements among users, while in the latter, the owner of the privatized common resource has optimal incentives to efficiently exploit it and to prevent its depletion, since he internalizes the future flow of benefits.

Ostrom (1990) states that the tragedy of the commons can be avoided by producing community institutions that guarantee the respect by all members of a co-operative strategy, a sort of a unanimously binding agreement that modifies the members' payoffs. This can be done by increasing the cost of defection through punishment, or by increasing the reward to co-operative behaviours, that is through sort of 'social remuneration'. An example of such institutional arrangements that prevent 'defection' is represented by the rules requiring Italian co-operatives to reinvest profits into common and indivisible reserves of capital (Sacconi, Seppi 2006).

In Ostrom's studies, the more successful organizations in common resource management are those marked by the stability of the population of reference due to the reputation effect among members who behave honestly, given the high value of future benefits derived from belonging to the community and from the common use of the resource across time. Belonging and reputation have the effect of lowering the discount rate of the flow of future benefits derived from the resource.

A crucial factor that shapes the risk of opportunistic behaviour in the production of public goods is group composition, specifically its degree of internal heterogeneity. The traditional argument by Olson is that the maximum provision of public good by a group will be attained in the presence of maximum inequality: in the extreme case, one single individual collects all the 'shares' of participation to the public good, thus internalizing the whole benefit. More generally, if an individual benefits sharply more than the others, he/she will be eager to produce it also if he is the only one to contribute.

More recent contributions (La Ferrara 2004, for a review of the literature), on the other hand, show a more complex relationship between inequality and the provision of collective goods[10]. Dayton-Johnson and Bardhan (2002) build up a model that displays a U-shaped relationship between public good production and inequality in terms of members' wealth. Empirical evidence supports this view and gives more emphasis to the downward side of the relationship (e.g. Bardhan 2000) that is to the negative association between wealth or income inequality and the positive outcome of collective action. The work of Banerjee and co-authors (2001) on Maharashtra (India) sugar co-operatives[11] shows that the existence of two

[10] Following Belsey and Ghatak (2004) I include merit goods in collective goods.

[11] Members are producers who sell their raw product to the co-operative that transform and commercialize it.

highly differentiated subgroups within the population of producer-members of the co-operatives leads to inefficient resource allocation: the 'big guys' are able to appropriate rents from the co-operative's savings, and therefore have the interest to lower the price paid to members themselves for the raw sugar they sell to the co-operative, thus setting a suboptimal price. Another work that goes in the same direction is the one by La Ferrara (2002) on co-operative self-help groups in the slums of Nairobi (Kenya), that provides evidence for a negative effect of internal inequality on the effectiveness of collective action, and shows that this effect is stronger where the outside employment options are scarce.

A last point to be made is the following: if we look at co-operatives as groups of people who joined on voluntary basis to pursue common interests by establishing a common set of norms, we cannot simply look at it as a set of atomistic and decentralized relations among self-interested agents, that is the common benchmark of economic theory. This is all the more true if we assume that within the 'basket' of public goods that the co-operative aims to produce are included social objectives, such as the promotion of solidarity and of horizontal' sociability (Borzaga, Tortia 2005). As I have developed in another work (Navarra 2011), we need a richer theory of rationality that can account for all those behaviours that aren't explained by instrumental rationality alone (Hollis, Sugden 1993).

4. Concluding remarks

In this paper, I tried to sketch a brief literature review on worker co-operatives, first of all through a survey of the neoclassical functionalist perspective on the firm. In this perspective, the research question is 'why are worker co-operatives so rare?' and the answer lies on their supposed inefficiencies. A review of these possible inefficiencies is provided together with some critical remarks. A second perspective is the Neo-Institutionalist approach to property and governance of the firm: in this context I go through the key concepts of transaction costs, asset specificity and incomplete contracts as determinants of the efficient allocation of property rights.

Then I introduce a different perspective, which conceives co-operatives as collective entrepreneurial action and producers of public goods. In this perspective, the problem to be overcome is free riding problem arising in voluntary contributions to public goods. I provide a small survey of some of the elements that may counterbalance the 'collective action failure', helping co-operatives to overcome social dilemmas in collective action. Some the possible ways out the 'free riding impasse' were also tested in a former study of mine (Navarra 2011). These initial results provide evidence that more research is needed on intra-firm cohesion and its consequences in terms of performance and fulfilment of workers' needs.

S. Sacchetti
E. Tortia

The Silver Lining of Co-operation: self-defined rules, common resources, motivations, and incentives in co-operative firms

> Dilemmas nested inside dilemmas appear to be able to defeat a set of principals attempting to solve collective-action problems through the design of new institutions to alter the structure of the incentives they face. […] But some individuals and/or communities have created institutions, committed themselves to follow rules, and monitor their own conformance […] to the rules in common pool of resources situations.
> [Ostrom 1990]

> […] the principal question regarding enterprise ownership is which class(es) of patrons will be made the owners. The answer depends heavily on the governance structures that firms can and do adopt, which in turn depends on the legal and institutional environment. […] The full potential of cooperatives should become much clearer when scholarship regarding their governance becomes both broader and deeper.
> [Hansmann 2013]

Co-operative firms are understood, in this paper, as mutual benefit organisations created by self-organised principals to protect the participation rights of their membership with the aim of satisfying its needs. These are directly invested of the responsibility to define and pursue the objectives of their organisation[1]. Co-operatives do not, as a norm, maximise private returns accruing to the investment of financial capital. They are usually controlled on an equal voting-right basis by different typologies of patrons (e.g. producers, workers, consumers) or by a mix of them (multi-stakeholder co-operatives).

Since the organisation is created to pursue objectives other than the ones of investors, private objectives vested in external owners are substi-

[1] Mutuality is considered by various authors to be directly linked to the reciprocating behaviour of the involved actors (Bruni, Zamagni 2007) and to inclusive versus exclusive preferences (Sacchetti 2015).

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tuted with mutual-benefit aims. This puts the burden of the fulfilment of economic, financial, and organisational requirements directly on the self-organised principals[2]. However, the co-operative duty to act in the best interest of its members is put under strain when there is no alignment between the aims of co-operation and individual behaviours. To address this issue, this paper explores the institutional elements of co-operatives, focusing on those that regulate individual behaviour and outcomes. Specifically, we relate outcomes with the interplay between specific individual values and motivations on the one hand, and firm governance and objectives on the other, through the mediating role of the incentive structure. We also suggest that effectiveness responds to the ability of self-defined rules to foreclose the risk of opportunism and, in so doing, allow the achievement of the desired outcomes.

Among the different literatures, new institutional, behavioural[3] and evolutionary[4] economics have provided insights on specific aspects of economic choice in mutual benefit organizations, each of these in its own merit but without providing a comprehensive framework.

New-institutionalism represents one of the most influential schools in the understanding opportunistic behaviours facing asset specificity, contrasting interests and asymmetric information (Williamson 1973; Jensen, Meckling 1976). This approach is also crucial in the study of the manage-

[2] External financiers have, as a norm, limited incentive to invest in co-operatives, both because private returns to financial assets are much reduced with respect to for-profit firms, and because the lack of control rights increases the risk of losses and of morally hazardous behaviours by the self-organised members.

[3] Analyses of individual behaviour carried out by the behavioural school question the hypothesis that every human action, and especially every economic action, is governed exclusively by self-interest. Behavioural economics maintains instead that human actions spring from a mix of motivations and preferences. The approach of behavioural economics was firstly inspired by developments in social psychology (e.g. DeCharms 1968; Deci 1975), which took into consideration the relevance of intrinsic and non-monetary motivations. Then it sprang into economics in connection with the doctrine of limited rationality (Simon 1979) and decision-making under risk (Khaneman, Tversky 1979). Frey (1997) evidenced the interplay between intrinsic motivations and extrinsic incentives. Behavioural economics introduces social preferences as crucial drives of behaviour. Social preferences include behaviours that are not-self-interested since people can decide driven by the interest for the wellbeing of others (altruism), by a general inclination to reciprocity (Fehr, Gächter 2000), which is as a norm intermingled with a quest for justice and equity (Fehr, Schmidt 1999; Tyler, Blader 2000).

[4] Contemporary evolutionism in the study of the economy was initiated by Penrose (1959) and is based upon the idea that organizational routines in the social world serve a function similar to genetic codes in the biotic world (Nelson, Winter 1982). Organizational routines serve as replicator codes transmitting instructions that support the behavioural propensities of the organization. Organizational routines are interpreted as interlocking equilibria of individual propensities and can be equated to habits in individual behaviour (Hodgson 1993, 2006). Routines can be renewed by organizational innovation and transmitted through imitation, and they define the potential for adaptation (survival and spread) in the socio-economic environment. According to evolutionary theory, organizational routines take the form of institutions, which can be more or less formalized, in terms of property rights, governance structures, and organizational models.

ment of common pool resources (Ostrom 1990). The assumption is that individuals are self-seekers utility maximisers. Consistently, motivations are mostly taken as exogenous to the explanatory framework. The development of a comprehensive approach to co-operation, nonetheless, requires greater emphasis on members' motivation and wellbeing. Specifically, the nature and persistence of motivations is crucial in supporting the capacity of the organization to fulfil its duty towards the members. In non-traditional forms of enterprise motivations are not exclusively related to the monetary element. Albeit this is an important driver too, since at the outset principals attach value also to behavioural aspects, such as reciprocating behaviours, inclusion in strategic choice, fair procedures, and socially oriented goals (Rose-Ackerman 1996; Ben-Ner, Putterman 1998; Leete 2000; Ben-Ner, Gui 2003; Valentinov 2007b, 2008).

If one the one hand new-institutionalism explains the 'dark side', motivational theory provides the insights to understand the 'silver lining' of co-operation. Both realities coexist and influence one another. Thus, over time, repeated opportunistic behaviours can discourage co-operators. Their trust in fellow members and inclusive attitudes would thin, negatively impacting on their motivations. By contrast, what is required is the formal elaboration of effective governance mechanisms that reinforce fundamental values and individual experience in a relational context. Seeing the 'silver lining' requires, besides democratic participation, relations based on trust and reciprocating behaviours. In this context, we suggest that the creation of an inclusive and fair environment is the precondition for alimenting the intrinsic motivation of individuals.

Building on evolutionary theory, we take rules and practices as the co-ordinators of the activities undertaken by self-organised principals. Rules and practices represent shared and established ways of dealing with specific operational issues that help the alignment of individual and organisational objectives (Hodgson 1993, 2006). In our case, rules and practices can be considered as evolving technologies designed to harmonise what organisations and individuals value and strategically pursue. Rules and practices can either discourage unwanted behaviours or reinforce desired ones, such as inclusive attitudes, reciprocity, respect and fairness, learning and autonomy, thus reinforcing members intrinsic motivations. (Tyler, Blader 2000, 2003; Tortia 2008).

The strategy of the paper is as it follows: in Section 1 we consider the economic nature of co-operative firms, in terms of entrepreneurial activity self-organised by non-investor principals. Section 1 introduces an example of co-operative misbehaviour in order to illustrate some of the main dangers connected with the process of appropriation and distribution of resources in inclusive governance forms. The organisational dilemmas introduced in Section 1 are taken up in Section 2, where we introduce a new framework that accounts for the monetary and non-monetary qualities of co-operatives. In particular, we argue that pluralism of values, represented also by multiple motivations, should be reflected by formal institutions, but also by self-defined rules, routines, and mix of incentives. Performance would be then assessed on the basis of such values, including monetary, and non-monetary incentives and outcomes. Section 3 concludes the chapter.

1. The socio-economic nature of co-operative firms

Co-operative firms are regarded in this paper as non-profit oriented firms. This interpretation marks their fundamental institutional and behavioural characteristics as against profit maximising firms. Profit maximisation typically depends on the economic nature and institutional features of investor-owned business firms. The latter have been conceptualised as saleable objects (Putterman 1988), which implies that owners aim at maximising market value and are in a position to sell the firm or its shares at the highest possible price. The maximisation of market value requires that expected profits are, in turn, maximised.

In the case of co-operatives firms a different process is usually observed, albeit not necessarily, depending on the institutional and legal context[5]. To illustrate, let us consider the Italian and the Spanish legislations as two specific cases in which explicit emphasis is placed on the non-profit orientation of co-operatives. In particular: (1) in these countries co-operatives are required to reinvest at least part of the net surpluses in asset-locked reserves that are exclusively owned by the organisation and cannot be appropriated by members, also in the case of de-mutualisation and/or sale of the firm; (2) members rights are personal rights and cannot be sold as such on the market. In other words, the market for membership rights is excluded or severely restricted by law. Both categories of institutional constraints make the sale of the firm more difficult and less convenient, dampening the tendency to consider the organisation as a saleable object[6].

[5] When law does not impose the non-profit orientation, as it happens in most Anglo-Saxon countries, diverse outcomes and behaviours can be observed, including profit maximising ones. These are usually linked to income maximising choices, like in the well-known Ward (1958) model of the worker co-operative, by members and to the possibility offered by law to de-mutualise and sell the organisation at its highest possible price. However, the empirical evidence shows that many co-operatives in these national contexts still behave as non-profit-maximising and/or community oriented firms, at times introducing voluntarily the asset lock and trust-held accumulated capital in order to eschew the sale of the firm at its market price (Erdal 2012).

[6] Starting from the seminal contributions by Furubortn and Pejovich (1970), and by Vanek (1970), these institutional features have attracted serious criticisms against co-operative firms, since they have been considered the source of dynamic inefficiencies in the allocation and accumulation of self-financed capital funds (Bonin *et al*. 1993). These considerations were initially referred to the former Yugoslav economic system, and then extended to all the forms of co-operative firms characterised by the accumulation of assets in locked reserves. However, while the ensuing phenomenon of under-investment and under-capitalisation has found

As mentioned, the nature of co-operative firms is given by the need to devise mutual-benefit coordination mechanisms for the fulfilment of the social rights and needs of non-investor stakeholders. Such needs would include, for example, the stability of employment and a fair wage for worker-members in worker co-operatives, access to financial support for small producers in credit co-operatives, adequate quality and product prices for customers in consumer co-operatives.

More even distribution with respect to for-profit firms, however, does not have to happen at the expenses of efficiency. Evidence suggests that co-operatives can reach high degrees of production efficiency, at times higher than profit maximising firms (Bartlett *et al*. 1992). These counterintuitive results can be explained by the ability of co-operatives to implement effective coordination mechanisms that favour the mutual alignment of members' motivations and objectives on the one hand, and organisational objectives on the other.

In this perspective, a more in depth review of the economic role of co-operatives would underline that contractual structures are able to align individual and organisational objectives only in a partial way. When all the relevant welfare effects are not internalized by contracts because of coordination problems (for example due to asymmetric information, diverging interests and external effects) co-operative governance can step in as better solution. Examples are found in all typologies of co-operatives. Just to cite one, the long-term nature of work relations in worker co-operatives can be explained by the value attached to democratic participation, employment stability, and harmonization of diverging interests within the organization boundaries (cf. Depedri *et a*l. 2012 for evidence). The same harmonization is not possible in profit maximizing firm since workers cannot properly factor their objectives in its governance. Relatedly, profit maximization is furthered in many cases by lay-offs more than by employment stability (Navarra, Tortia 2014).

In the praxis of decision-making, consistency between individual and collective objectives can be developed by means of democratic participation and deliberation as a method for discussion (Sacchetti, Sugden 2009). Deci and Ryan (2000) supports this view by suggesting that when extrinsic goals differ from intrinsically determined needs, the wellbeing of the individual is diminished. Participative praxis in strategic decision-making (e.g. in the formation of organisational objectives) can align these goals with individual internal values and needs, improving satisfaction and wellbeing.

weak empirical support (Bartlett *et al*. 1992), these contributions have failed to recognise the positive functions of the asset lock, for example its ability to make the patrimony of the organization more stable in the long term, and to represent a guarantee-fund shielding members against negative economic conditions. That is, they failed to recognize its coherence with the non-profit nature of co-operatives.

Consistently, low use of monetary incentives and reliance on intrinsic motivations and involvement improve organisational and production efficiency, as well as individual and social wellbeing (Borzaga, Tortia 2010; Stiglitz 2009). Furthermore, both efficiency and wellbeing can be significantly enhanced when trust and reciprocating behaviours are built in organisational routines and allow the accumulation of new social capital within and outside the organization (Albanese, Villani, in this volume; Becchetti 2010; Sabatini *et al*. 2014). These remarks defy the idea that only hierarchical control is conducive to production efficiency.

This approach to co-operative governance recognises the role of motivational complexity in shaping the interplay between exclusive and co-operative behaviours and highlights the behavioural underpinnings of co-operation. To this objective, incentive mixes represent an emergent property of complex organisations whose function is to improve coherence of objectives whilst leaving their interaction open ended. While traditional economic approaches have mostly focused on monetary incentives, here monetary outcomes represent only part of the desired end results (Bacchiega, Borzaga 2001). We regard non-pecuniary aspects related to inclusive decision-making (such as learning, recognition, fairness) as the integrative foundational qualities of co-operative membership.

2. The 'dark side' and the 'silver lining': rules as constraining and enabling

The reality of co-operative experiences is varied and shows that, in practice, a number of issues still call for critical enquiry. For example, failures to reach mutualistic objectives; instances of misalignment between individual and organisational objectives; the spread of opportunism and breakdowns in coordination engendered by contrasts between different members or between members and managers have been evidenced several times.

Besides efficiency considerations, other approaches acknowledge the paradoxes of formal democratic governance, as for example in Cornforth (2004) and Hernandez (2006). These perspectives recognise the incommensurable tensions that typify internal relationships between groups with different roles, such as between the board and the membership, which the board should represent; or between the board and the management, where the board's role is to assess managerial choices against the best interests of the membership. As noticed in Cornforth (2004), the relationship between the membership, the board and the management contains inherent tensions as it involves democratic participation, reciprocal support, monitoring and concentration of control power within restricted groups (Cornforth 2004; Hernandez 2006). In these contexts, the adaptability of democratic governance to emerging tensions provides dynamic strength. On the other hand, participation is also intrinsically dialectic, carrying with it the constant risk of generation of excessive governance costs.

Threats to democratically managed firms may come also from managerial slack in providing or renewing appropriate platforms for participation and engagement (Spear 2004), but also from the opportunism of the membership, rather than from managerial bias. Managerial slack and members' disengagement, however, are likely to be related. An illustration of misalignment between members' and co-operative aims comes from the United Nations Food and Agriculture Organisation (FAO), which has long aimed at increasing the welfare of farmers and communities by promoting rural co-operatives. In this context, the dangers are associated with members' short-termism, for example when users put pressures on the co-operative to distribute patronage refunds rather than re-investing them in the patrimony of the organization (Pischke, Rouse 2004).

An understanding of the reasons of membership disengagement from co-operative values, however, requires greater attention to the conditions and history of the organisation. Individualistic attitudes may be related not only to the close horizon of members but rather to frustration, lack of confidence or trust in the co-operative, following experiences of exclusion (when for example members' opinion is not valued) mismanagement, or fraud. Other studies on agricultural co-operatives in developing and transitional countries have emphasised cases of abuses by managers and misalignment leading to the dissipation of members' confidence and trust in the organization. Jamsen and colleagues' study on Kenyan farmer-owned co-operatives highlighted agency problems of this sort, which have been argued to be possibly mitigated by improved transparency and financial reporting, paired by the commitment of public authorities to enforce anti-fraud legislation (Jamsen *et al.* 1999; see also Kandathil, Varman 2007 on the substantive role of information sharing and trust in reinforcing formal ownership).

Another illustration is in Castle (2009), who describes the fraudulent conduct of some European agricultural co-operatives in the adjudication of European subsidies:

> Because the cooperatives provide agricultural equipment, farmers sometimes sign forms giving co-ops the right to withdraw money from their individual accounts, in the way that many people pay household bills. But fraud investigators found this to be happening even to farmers who had not agreed to the withdrawal of funds. At his home in the village of D., A. L. held up his statement from the Agricultural Bank of Greece for December 2005. On Dec. 28, he received a payment of €3,012 in subsidies for olive oil, even though he farms only 150 trees and would normally claim several hundred Euros. That same day, an unexplained debit removed €2,397. «No one can explain the debit,» he said, «not the bank, nor the cooperative. No one can explain *how the money came into my account or who has taken it*.» (emphasis added).

In this example the fiduciary duty between farmers (olive growers) and their co-operative has been exploited to carry out unlawful transfers of money coming from EU policies and directed to support agricultural co-operatives. In other words, a positive feature of co-operation, that is horizontal relations based on trust between members and the organization, which in positive conditions can substantially reduce transaction and governance costs, has been used to hijack European subsidies. These cases exemplify situations in which the inability of working rules and of public control to deliver effective solutions to governance dilemmas can engender vicious spirals that eventually endanger the viability of the co-operative venture as a whole.

Management, in particular, enjoys a degree of discretionality in the choice of organisational conduct, given the basic normative framework. Contributions have highlighted critical elements in the emulation of the practices and strategies adopted in conventional businesses inducing membership apathy and mining the sustainability of the co-operative organization (Spear 2004). Also, In light of this observations, inclusive governance requires an understanding of the conditions under which individuals accept to behave co-operatively, as against free riding and opportunism, which are recurring in co-operatives and cast doubts on whether co-operatives represent a relevant alternative to dominant organizational forms and welfare-increasing governance solutions (Lichtenstein 1986).

Few studies, however, have addressed what enables mutual benefit entrepreneurial ventures to be both efficient and effective. Our suggestion, in line with the institutionalist tradition led by John Commons (1931), is to focus on the interplay between values, rules, behaviours and outcomes. Specifically, institutions empower individuals, being «collective action controlling, liberating and expanding individual action» (quoted in Mirowski 1987: 1020). In this respect, organizational routines and working rules manifest their dual role of limiting deviant behaviours on the one hand, and promoting individual wellbeing on the other. The implementation of constraining rules serves as a precondition for controlling opportunistic behaviours, while inclusion in the definition of organisational objectives enables representation of the members' interests. Inclusion, moreover, sustains resilience to a changing environment by supporting the regeneration of intrinsic motivations (Borzaga, Tortia 2006; Sacchetti 2015).

3. The definition of a comprehensive framework of analysis

The basic institutional structure of the organisation is typically defined by law and requires compliance by the members of co-operatives. The legal framework reflects a number of consolidated values to which the principals choose to adhere in the first place. Variation, however, occurs. Governance and working rules specific to each single organisation are usually inscribed in specific organisational practices as well as in other forms of self-regulation, depending on members' discretionary decisions (Ostrom 1990). Changes in practices and internal rules occur thanks to the tensions that inevitably originate from experience. Such tensions can exist, to different extents, despite the level of specification of the legal framework or of internal rules. Both in fact can be progressively refined to acknowledge their interaction with the practical conditions and outcomes of self-managed activities. Within the organisation, in particular, formal rules but also routines and shared practices are subject to change. The open-ended nature of institutional evolution has to do, in this case, with the ever-changing features of rules inside each single organisation and relates to the firm's survival and expansion potentials. We refer here to the concept of ontogenetic evolution, more than to the concept of phylogenetic evolution of the institutional set-up of the organisation (see Hodgson 2006).

Legal and self-defined rules together identify criteria for managing co-operative assets and for distributing returns. The multiplicity of perspectives on how to achieve members' welfare through resource allocation can generate, as pointed out, several tensions among groups at different governance levels, the reason being that the utilisation and distribution of surplus is 'subtractive' (Poteete *et al.* 2010).

Over time, whilst using in-built rules as empowering features for members, co-operatives need to monitor, identify and foreclose inconsistent behaviours that would hamper the survival of the organisation as much as the trust and motivation of other members. Ideally, when reflecting the needs, values and objectives of members, regulation enables common activities to develop consistently with individual fulfilment. We regard therefore internal governance as a set of rules, derived from the law as well as from the shared understanding of co-operative values inside the organisation, that are functional to the expression and accomplishment of individual values and to increased members' well-being. Their role is to provide a space where individual values and interests on the one hand, and the organisation's basic aim and principles are harmonised.

3.1 The design and diffusion of self-defined rules

Members in self-organised enterprises define and implement the working rules governing the organization without resorting, at least as a matter of course, to external enforcement. In many instances, detailed knowledge of the production process and of the socioeconomic context allows members to design rules which are more effective in terms of their ability to lead to desired results (forestalling negative behaviours and empowering positive ones) than what external regulators would be able to achieve. We see this as a sheer possibility, whose actual realisation is not guaranteed and requires specific conditions, especially in terms of the consistency of rules, practices and behaviours with both individual drivers and collective objectives. In particular, low social capital and trust amongst members could exacerbate control pressure, hamper communication, constrain knowledge and ideas, impact negatively on deliberative processes and, ultimately, erode members' motivation (cf. Poteete *et al*. 2010; Nahapiet, Goshal 1998; Grant 1996; Kogut, Zander 1992).

Because values evolve over time, subject to experience, similarly rules are understood as evolutionary entities that need to be historically contextualised and tested (Dewey 1977b; cf. Sacchetti 2015, for an analysis of Dewey's perspective on values and preference formation). The initial need to which a self-organised membership attaches value is reflected in their activities and in elected common rules of behaviour. Rules and practices (whether they enable action or define boundaries to it) are directed to this primary aim. As an illustration, consider sanctions. The definition of sanctions is not the main aim of self-defined rules in co-operatives, but their role is crucial, at least as 'potential threat' against opportunism and malfeasance, to allow the proper deployment of the activity.

Incompatible behaviours are not likely to be frequent when individual values, motivations, organisational objectives, and the incentive structure are consistently aligned and re-aligned over time. Complementary, the ongoing self-selection of members on the basis of shared values, and the establishment of organisational procedures coherent with those values allow co-operatives to benefit also from a reduction of transaction costs engendered by short-term individual interests, opportunism and dishonesty. Indeed, control costs have been shown to be lower in co-operatives than in conventional corporations (Bartlett *et al*. 1982; Hansmann 1996)[7].

3.2 The governance of common pool resources

Democratic participation implies that the outcomes and the procedures concerning each individual member depend also on the preferences expressed by other members (Stikkers 2011). For this reason and because of the nature of their assets, co-operatives portray some of the features of common pool resources: the value added produced and resources more generally are rivalrous, but at least partly non-excludable. Rivalry in the destination of resources is related to their scarcity and exhaustibility. In parallel, non-excludability is one of the most characterising features of co-operative firms, and derives from the inclusive nature of ownership rights and governance in democratic organisational settings. Decision-making and ownership rights guarantee members to have equal access to

[7] Still, respect of reciprocity and conditional co-operation represents necessary conditions for achieving organisational efficiency and individual wellbeing, while punishment of defectors tends to emerge endogenously to limit deviant behaviours (Fehr, Gächter 2000; Fehr, Fischbacher 2002).

the management of common resources and to the distribution of the value added produced. Given non-excludability, behaviours such as managerial slack, free riding and opportunism will have the effect of eroding co-operative resources, ultimately impacting on members' will to endure in the organisation.

The role of rules is to govern access to decision-making and resources in the long-term interest of the membership. The solutions to the appropriation of resources under non-excludability present similarities with those envisaged for common pool resources. Ostrom (1990) demonstrated that self-organised principals can govern common pool resources in an effective way, in many cases more effectively than in the presence of outside control under private or public property. This is possible through the evolution of *ad hoc* rules reflecting context specificity. Defined in this way, rules recognise the interaction between the organisation and its environment, which involves, for example, recognition of specific socioeconomic needs, the type of resources available, the characteristics of activities and production organisation, as well as cultural elements, such as the relational qualities and values background of the self-organised principals. It follows that rules change as needs and objectives evolve, as the organisation and each individual within it interacts with a mutating environment. Given the existence of interconnectedness, co-operatives evolve jointly with the evolution of the principals' values, as well as by suggesting novel solutions to old problems[8].

In this spirit, appropriation procedures are created, approved and implemented by the same members of the organisation in order to ensure the economic sustainability of activities over time. Because of their nature, a long time horizon is crucial for co-operatives. A short-term perspective would, by contrast, reduce or slow down future appropriation by the same patrons or by new members.

Because of rivalry and non-excludability, conflict is however always a looming risk in entrepreneurial forms run by self-organised principals. For example, the socialisation of new members in the co-operative can jeopardise consolidated practices and generate conflict even in the presence of established rules and routines. This would occur, for instance, when new members join without having ever experienced co-operative praxis and behave as if bonds of reciprocity, inclusion and long-term relationships were

[8] Interconnectedness between individuals, the organisation, and other environing conditions can be analysed by introducing, although not in this paper, a dynamic analysis of the continuous adjustment of individual needs and preferences on the one hand, and of organisational change on the other. In this perspective, change in organisations must reflect change in individuals' desires and objectives. The rules underlying the governance of organisations are considered, therefore, as dynamic and plural. We suggest that, to reflect evolutionary dynamics, organisations need to attach value to those processes that keep up the interaction between rules and individuals' historical evolution of values (Sacchetti 2015).

not relevant in collective decision-making dynamics. Vice versa, old members may lose perspective over the evolving socioeconomic context, failing to acknowledge new needs, preventing access to emerging stakeholders and therefore allocating co-operative resources ineffectively and selfishly.

3.3 Incentive mixes as a reply to specific values and individual motivations

When we argue for the need to match individual and organisational objectives, we inevitably acknowledge an evolving equilibrium between what the individuals assess as valuable and what is recognised as such by institutions at different levels. The continuous scrutiny of rules is crucial, as mismatching would lower the individual feeling of fulfilment and, therefore, wellbeing.

A non-secondary consequence of the mismatch between individual values and organisational rules would be the emergence of X-inefficiency (Leibenstein 1966), for example in terms of members' reduced involvement and commitment, or the rise of behaviours that resist organisational strategies. Because of these reasons, control and other organizational costs would rise. Orthodox approaches have prescribed a number of remedies, ranging from increasing hierarchy to tightening control and pay for performance (Lazear, Shaw 2007). All these cures are liable of increasing costs without guaranteeing expected efficiency (Frey, Osterloh 1999; Akerlof, Kranton 2000).

One of the consequences of command-and-control relations has been argued to be the generation of strong biases on individual willingness and capability to use their voice and creativity, thus further reducing self-determination and, therefore, overall satisfaction. The negative impact on the desire to participate would then reinforce controlling practices and engender a vicious cycle of dissatisfaction and feeling of «not counting» (Deci, Ryan 2000; Sacchetti *et al*. 2009).

In self-governed organisations, the imposition of hierarchical and exclusive rules implies further difficulties and more likely to be ineffective, since members with equal rights will tend to reject decisions that do not respect inclusion, equality and mutuality. It follows that the rules and practices of co-operatives need to be shaped on the specific values of inclusion and democratic participation. The desire to reach consensus through deliberation needs to replace authority and exclusive transacting as a decision-making praxis (Sacchetti, Sugden 2009).

Self-organised principals will choose a mix of incentives, which apprises co-operative motivational drivers consistently (Bacchiega, Borzaga 2001). Whilst traditional microeconomic textbooks argue that monetary incentives are the main drivers of efficiency, evidence suggests that rules limiting negative outcomes and reflecting participants' shared values can be crucial for performance. Production efficiency, thus, comes to depend on values beyond monetary incentives at more fundamental levels. In particular it has been argued that monetary incentives should be adequately balanced with non-monetary ones, and match individual motivations that do not have a specific monetary equivalent. Intrinsic motivations often drive individuals because they feel a deep interest in the activity carried out. This is true whether this interest entails increased monetary remuneration or not.

Cultivating intrinsic motivation benefits members and the quality of activities. Recent results coming from the analysis of workers' motivations in social co-operatives demonstrate that stronger intrinsic motivations are also linked to better worker performance in terms of effort and productivity. In turn, they are also likely to positively impact on monetary remuneration (wages) (Becchetti *et al*. 2013). This does not imply higher costs in co-operatives with respect to conventional firms because the average level of wages is usually lower in the former (Bartlett *et al*. 1992; Pencavel *et al*. 2006).

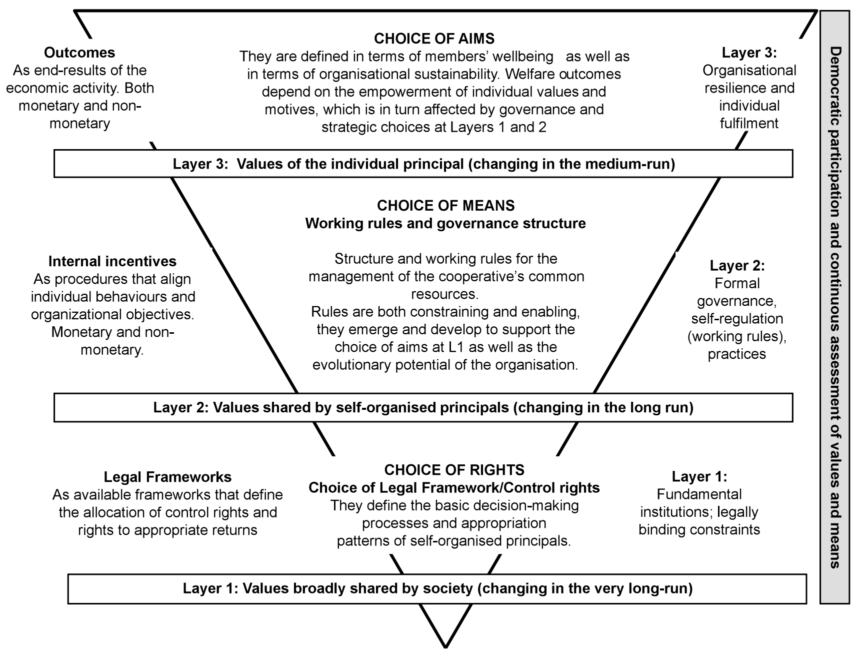
3.4 Interaction between layers of governance

The overarching message coming out of our discussion of production governance and its impact on membership has placed emphasis on the idea that linkages exist not only conceptually but also empirically between individual members' values and normative principles, formal and substantive aspects of internal governance, and the welfare of membership. The reversed pyramid in figure 1 below exemplifies the interplay between the different elements in the framework. It accounts, in particular, for the interaction between the individual and the institutional structure (Hodgson 2007). The organisation is represented as a stratified entity where the different layers interact through specific connectors: rules, individual norms of behaviour, and strategies. At the first layer of the pyramid are the basic institutions, such as control and appropriation rights, which usually undergo a high degree of legal formalisation. Control rights are binding in defining who has access to decision-making; however they do not univocally define how resources are managed (Layer 1).

This pertains to the internal governance of strategic choice making, which is crucially influenced by the organisation's structure and working rules (Layer 2). The process of evolution of control rights is likely to take place in the long run (Williamson 2000). It follows that control rights can be considered as given and their change framed in terms of ontogenetic, more than phylogenetic evolution (Hodgson 2006).

The second layer reflects the means through which the aim is pursued. In this case formal governance connects control rights with the working and final aims of the organization. Working rules, which implement formal governance, can be thought as at least partially defined by the self-organized principals, which exploit their knowledge of organizational aims and production processes. The nature of governance, at this level, is chosen by the self-organised principals, reflecting their values and related objectives. By framing values and objectives, self-regulation determines also the criteria for assessing, internally, individual behaviour.

Figure 1 – Institutional and governance level, values and motivations.



The achievement of a fair environment is crucial in enabling participation, as the latter would work only when relations inside the firm are based on trust and reciprocating behaviours, since with participation each individual position is not independent from the positions and behaviours of the other members.

While in new institutionalism opportunism has a substantive role in individual behaviour (opportunism as self-interest seeking behaviour with guile in Williamson's words), in our framework opportunism represents just one possible (and deviant) behavioural pattern. The overcoming of opportunism is never excluded when proper controls and involvement procedures are designed. Hence opportunism is conceived as a potential obstacle to the accomplishment of co-operative behaviours, and to the flourishing of individual motivations, rather than as an ontological feature of human beings (Ben-Ner, Jones 1995).

The constraining feature of rules is not meant to impair individual potential, but to ensure that an individual's right to participate and share results is respected. Rules that inhibit inclusion, from this perspective, would be perceived as unfair and have the undesirable effect of undermining motives directly related to intrinsic values. Such motivation is impaired also when rules and incentives are perceived as external to the individual (Frey 1997). One way to align individual needs and organisational rules is to put in place processes of adjustment which can modify rules to reflect the evolving, shared needs of members.

The third layer represents the expression of actual outcomes, in terms of members' wellbeing and organisational survival. Members' welfare represents the highest attainment of the organisational structure insofar as it increases individual wellbeing, and accomplishes the actualization and the regeneration of intrinsic motivations (Layer 3). Our scheme, therefore, identifies the benchmark for assessing the combined action of control rights, governance, working rules and inter-firm linkages in enabling the full expression of individuals' inner values, which in turn require requires adequate institutional preconditions in the organisational realm. Under appropriate governance rules, that is the mutual adjustment over time between individual values and the aims and principles institutionally recognised, these conditions appear particularly favourable in self-organised, mutual-benefit entrepreneurial ventures, given their inclusive, non-profit oriented and democratic orientation.

4. Concluding remarks

In developing our three-layered framework for explaining the links between the choice of aims and principles (through governance), the choice of means (through incentives), and outcomes (in terms of members' welfare and economic sustainability), we have placed the individual dimension of motivations and needs at the top of our pyramid. By reversing the pyramid up-side-down we have, at the same time, overturned the order through which we look at the elements underpinning economic decisions, to emphasise that the fulfilment of individual needs and the full expression of individual values is also a result of the interaction with the institutional and organisational spheres. In fact, if on the one hand, we have suggested that what is ultimately distinctive in explaining the choice of rules by the same principals who create and run the organisation is the principals' set of shared values and objectives, on the other hand we have also emphasised that, once defined, rules can reinforce or discourage particular forms of behaviour, thus impacting on individual motivations and organisational performance.

Overall, the reciprocal influences between individual motivations, organisational objectives, and the institutional framework have been given special focus because of their role in promoting consistency between the individual and the contextual level, working toward the improvement of individual satisfaction and wellbeing (Dewey 1977a; Deci, Ryan 2000). We have argued that the incentive mix offered by non-profit oriented firms places great emphasis to the appraisal of non-material returns, without ruling out the need to satisfy individuals on both pecuniary and non-pecuniary grounds. In considering co-operative firms as entrepreneurial associations driven by self-organised collective action in which members are granted democratic and non-saleable control rights, we have also set organisational resilience and members' welfare as the benchmark for assessing appropriation and distributional rules.

Our conclusions reinforce that attained outcomes can be explained only by considering the interconnections between diverse institutional levels and by using a comprehensive approach to the evolution of governing rules and practices within co-operatives. Specifically, we have identified long-term performance in terms of organisational and motivational resilience, since both elements contribute to the material and immaterial prosperity of the members. The governing rules that contribute to such outcomes must balance two features: the creative and the binding (Commons 1931). If, on the one hand, the definition of rules leaves space for the expression of specific values and enables principals to creatively shape the organisation's governance, on the other hand rules are also directed to foreclose opportunistic behaviour and guarantee a high degree of compliance with collectively defined objectives.

M. Albanese
S. Villani

Organizational Models of Firms and Social Capital: the different aptitude of capitalistic and co-operative firm in accumulating social capital

In recent years, numerous concepts of capital have been introduced in the social science literature. This can be documented by a data search of articles published over the last few years. In our analysis, we shall focus on one of the latest addition to the family, namely social capital. What is social capital? Does it contribute to a firm performance and how? We will try answer these questions by starting from the economic literature on social capital within firms, which shows that the structure of productive organization and compensation schemes, improving people's ability to work together in groups and organizations, can favour the accumulation of social capital. Social capital is a feature of human relationships. In fact, Coleman affirms: «social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure» (Coleman 1990: 302). Social capital increases the single or general agent's capacity for action and, consequently, the social system's capacity for action. From Coleman's point of view, social capital can assume a triple form (Harper 2001): obligations and expectations which are linked to the level of trust in the social environment; the capacity of information to flow freely throughout social structures in order to provide a rational basis for action; the presence of norms with effective sanctions in case of shirking.

In this paper, we present a model where the choice of workers to exert co-operative effort is the key variable, which allows the accumulation of social capital in firms. We assume that the structure of team incentives in the firm and the presence of social norms determine the workers' collabo-

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rative attitude and we compare the capitalistic and co-operative firms in the social capital accumulation process[1].

Our contribution differs from the current literature on social capital because of two reasons: our analysis also takes into account the most recent finding of the literature on the formation and evolution of social norms within firms (fundamental for social capital) and studies the aptitude of co-operative firms in accumulating social capital, which has not been done before.

Our paper is divided in four Sections. In the first, we present a brief survey of the economic literature on social capital and social norms within firms. In the second, we present an explanatory model of workers' choices between individual or collaborative efforts and how they are linked to the levels of social capital in firms. In the third, we compare capitalistic and democratic firms. Finally, in the last part, we draw our conclusions.

1. The role of intangible resources in firms

Recent economic literature has focused on the nature of good working climate, the mutual support of workers and production levels (FitzRoy, Kraft 1986; Drago, Turnbull 1988; Itoh 1991; Rob, Zemsky 2002; Corneo, Rob 2003). Schiff (1992) defines social capital as «the set of elements of the social structure that affects relations among people and are inputs or arguments of the production and/or utility function» (Schiff 1992: 160). Starting from his point of view and referring to the topic of our survey, the latest literature contributions concerning the study of the processes of social capital accumulation in productive organizations have gradually pointed out that the informal interactions developing among workers within firms, through the spreading of information and the favouring of the creation of a common knowledge asset, are activities which can be utilized in the production processes (Ahuja 2000; Powell 1998). The literature further states that the accumulation of social capital in firms allows for the creation of a common language among workers, creates an enabling environment for information transfer, generates trust and favours technical skill acquisition and exchange through the creation of 'networks' inside and outside the firm (Boxall, Purcell 2003; Campbell *et al.* 1993). Greve, Benassi and Sti (2006)

[1] Among the models of democratic firm proposed in literature (Vanek 1977), the one employed for our analysis is the *Labour managed firm* (LMF) model, a firm where a clear separation between labour income and capital income takes place, since workers entirely borrow the funds used for financing the productive process and only assign credit rights and pre-established interest collecting rights to financers. Pre-established interest collecting rights are paid before workers can appropriate of the 'residual'. This choice is related to the consideration that the alternative democratic firm model analysed in literature, the 'Worker managed firm' (WMF), where there is no separation between labour income and capital income, is marked by underinvestment due to conflicts of interest linked to the mingling of labour income and capital income. Therefore, *a fortiori* for the subject of our analysis, it is inadequate to play a role in social capital accumulation.

show that social capital can increase human capital and workers' productivity, especially when it is necessary to solve complex problems.

The actual structure of markets and the diffusion of technology have gradually increased the role of human and intangible resources in productive organizations. In this way, the mechanisms for spreading information – that is passing more and more through the processes of capital accumulation, which reduce transaction costs (Healy 2001) and transfer 'tacit knowledge' (Westlund 2006)[2] – point out the growing importance of this resource in productive organizations. Specifically, social capital can increase firm's total output if workers, who jointly contribute to realize the output, can benefit from the advice, the suggestions, and the cooperation of other workers. Thus, a widely recognized advantage of organizing production in firms is that workers could cooperate and benefit from the fact that their talents are complementary (Rob, Zemsky 2002). However, such cooperation is problematic if the co-operative effort is not as easy to observe as individual effort, and if firms select a compensation system based on what they are able to observe[3]. In this case, workers face a prisoner's dilemma in that they would be better if they all cooperated, but each worker finds in it his own personal self-interest to stay focused on his assigned tasks. A natural solution to this problem is to assume workers' preference for cooperating in that they receive direct utility from cooperation, in observation of social norms, which are not formally enforced.

There are several papers in the economics literature which social norms have been included in microeconomic analyses[4]. However, not many attempts have been made to study how social norms affect the incentive structure within firms. The most prominent paper in this literature is perhaps that of Kandel and Lazear (1992) who develop a model of norms in teams in which cooperation among workers doesn't emerge easily. Their results have been partially confuted by some empirical analysis (Knez, Simester 2001; Garicano, Palacios Huerta 2005) and there is actually a

[2] The explicit distinction between tacit knowledge and codified knowledge was made by Polanyi (1958) and had a large following in the 1990s. Tacit knowledge means the knowledge that cannot be achieved through a sum of codified information and that can be generated through particular experiences and/or due to inherently personal quality and competence (Aoki 2001). Codified knowledge means formalised information that can be used by an agent other than the one who formalized them.

[3] The literature on 'organizational behaviour' addresses the importance of hard to measure co-operative effort: «every factory, office, or bureau depends daily on a myriad of acts of co-operation, helpfulness, suggestions, gestures of goodwill, altruism, and other instances of what we might call citizenship behaviour. […] Furthermore, much of what we call citizenship behaviour is not easily governed by individual incentive schemes, because such behaviour is often subtle, difficult to measure, [and] may contribute more to others' performance than one's own» (quoted from Smith *et al.* [1983]: 653-654, but see also Organ [1988] and Deckop *et al.* [1999]).

[4] See Akerlof (1980), Moffitt (1983), Besley, Coate (1992), Bernheim (1994), Lindbeck *et al.* (1999), Hart (2001), Vendrick (2003) and the literature cited in these studies.

growing empirical literature that suggests that group norms in firms may have important effects on worker's behaviour[5]. In a laboratory study, Fischbacher, Gachter and Fehr (2002) find that the same individual contributes more to a public good in a group with high average contributions than in a group with low contribution levels. Falk and Ichino (2006) report similar evidence on the effects of peer pressure in a non-laboratory experiment. Recently, Huck, Kubler and Weibull (2010) focus on social norms and they define these norms as resulting from players having social preferences that discourage actions causing negative outcomes and encourage actions causing positive externalities. The presence of such externalities triggers the social norm, which by definition encourages actions that induce positive externalities. As a consequence, social norms will (weakly) enhance a firm's productivity under team incentives.

Starting from this theoretical point of view, we believe that social norms can allow the accumulation of social capital in firms. From our point of view, social capital relates to good corporate culture deriving from good working climate resulting from non-formalized relationships among workers who, in wishing to observe social norms that are marked by cooperation in the working place, favour the spreading of information. Therefore, social capital is also an input contained in the production function which allows the increase of the total product levels through the higher productivity of the worker's team and the output of a series of co-operative acts not codified within firms, but carried out following social norms marked by co-operation and spread by reciprocity[6].

2. The accumulation of Social Capital in firms

Rob and Zemsky (2002) have shown the functional relationship among the structure of incentives within firms, the consequent decisions of workers regarding individual or co-operative effort and the mechanisms of social capital accumulation within firms. In their contribution, social capital relates to good corporate culture resulting from a good working climate. We accept their social capital concept and we compare co-operative and capitalistic firms with the aim of investigating which kind of productive organization mostly favours the accumulation of such a resource.

In order to analyse the incentives in the accumulation of social capital in firms, we develop a principal multi-agent model where the principal aims at maximizing the profit and employs homogeneous agents in pro-

[5] Bandiera *et al.* (2005) study a very intriguing field experiment. Knez, Simester (2001) provide evidence for the airline industry and Ichino, Maggi (2000) for the banking industry.
[6] There is wide empiric evidence (Fehr, Gachter 2000; Fischbacher *et al*. 2000) testifying the strong pervasiveness of behaviours due to reciprocity in different contexts (social dilemmas, situations of negotiation, etc.) and that shows that the co-operation levels of individuals are strictly connected to the co-operation levels within a reference group.

duction[7]. We shall use Rob and Zemsky's notation and we consider two firms, a capitalistic and a co-operative one, with a profit-maximizing owner (the principal) as residual claimant. There are n > 1 identical workers (the agents) working in the firm. Each worker *i* exerts some effort. We shall introduce social norms into this setting by assuming that workers care only about each other (about their peers) and not about the firm owner who is the residual claimant. We also assume that the presence of team incentives increases the quality of the relationship among workers[8].

We assume that in each period each worker decides on the total effort to apply to his working performance and how to allocate this effort between two different typologies: individual effort and co-operative effort. Moreover, we assume that the output of every worker's co-operative effort, unlike that resulting from the individual effort, cannot be completely observed by the firm. If firms pay workers based on what they are able to observe, the workers have to solve the problem of the prisoner's dilemma: everyone would be better off if they cooperated, but each worker finds it more convenient not to make a co-operative effort of any kind, unless an assumption is formulated (also used in this model) of co-operative preferences resulting from 'corporate culture'[9]. In particular, workers receive utility from helping other workers even if it implies a cost. The utility from helping is driven by reciprocity: if one is helped by others, he tends to be willing to help others. The benefit resulting from giving help to other workers increases as the average cooperation levels within the firm increase and the working climate improves; that is to say, it depends on the levels of social capital within the firm[10]. We also make the following additional assumptions: 1) the worker's wage is made up of a base component and a variable element proportionate to the effort resulting from sum of the (observable) individual effort and the (not completely observable) co-operative effort; 2) the firm is unable to give workers full credit for the co-operative effort.

The firms employ a continuum of risk-neutral workers for whom each worker's behaviour doesn't affect the behaviour of the other workers. This allows us to make the assumption that each individual chooses to distribute his own effort between individual and collective effort myopically. In each period each worker decides on, maximizing his utility, the quality of

[7] The principal in a co-operative firm are the partners or the *managers* they have delegated.

[8] This assumption differentiates this paper from those based on the assumption of workers' aversion for non-equity (Bartling 2007; Itoh 2004), where the presence of group incentives can generate small inequalities that are unpleasant to workers.

[9] This assumption is supported by empiric confirmation: Ledyard (1995) and Keser (2000) have demonstrated, in fact, that when the dominating strategy is 'not to cooperate', workers show good co-operation percentages and this is explained as correlated to non-egoistic preferences.

[10] We accept the idea of the model of Rob and Zemsky (2002) to study the mechanics of social capital, i.e. how the stock of social capital grows and declines over time. We study firms where the social capital is accumulated in this way.

his effort (e_1 or e_2), facing a specific trade-off: devoting more effort to the co-operative task delivers more intrinsic utility, but less compensation. We consider endogenous preferences, which are shaped (partly) by the firm's incentive intensity.

2.1. The production function

The output actually carried out by the *i*-th worker in a capitalistic or co-operative firm is as follows:

$$q_i = ae_{1_i} + e_{2_i} \tag{1}$$

where ae_1 indicates the *output* resulting from the individual effort, e_{2i} the one resulting from the co-operative effort and e_{2i} can vary between a zero value and a maximum value defined z (the point at which the marginal productivity of co-operative effort falls to zero).

Although q_i is total output, the firm is unable to observe it. Instead the firm observes a proxy it, call it $q_i^{'}$, which is:

$$q_i^{'} = ae_{1i} + \frac{\left[e_{2i} + \int_0^1 e_{2i}(i)di \right]}{2} \tag{2}$$

The difference between q_i and $q_i^{'}$ – the real and the measured output-comes out because the worker's co-operative effort helps his co-workers, and the firm is unable to give him full credit for this help[11]. We assume that for every hour the worker helps his co-workers he gets only one-half hour of credit and we assume 1/2 < a < 1. This implies that co-operative effort is more productive than individual effort for $0 < e_{2_i} < z$. The higher are the non-remunerated levels of co-operative *effort*, the bigger is the difference between performed output and estimated output. Thus, the allocation of effort in this model is equated to the prisoners' dilemma.

2.2 Workers' preferences

The utility function, U_i, for a general worker is as follows:

$$U_i\left(w_i, C_i,\right) = w_i - C_i(e_i) + g_i \tag{3}$$

where: w_i is the worker's wage, the term $C_i(e_i)$ is the disutility of total effort and g_i is the utility related to cooperation due to the observation of a social norm.

[11] The workers gets undue credit $\frac{1}{2}\int_0^1 e_{2i}(i)$ due to the help of others.

The normalized average cooperation level existing in the firm at time t, in a sense that it is expressed in the average as we take the average across workers and is normalized as it is divided by z (the co-operative effort level in correspondence of which its marginal productivity is cancelled) is h:

$$h = \frac{\int_0^1 e_{2i}(i)di}{z} \tag{4}$$

The value of h, in that it is normalized, has a value between zero and one. The choice to devote time to co-operative effort depends on the last period's level of cooperation within the firm (that the worker considers as a given variable) and on the worker's predisposition to cooperate with the other workers. A worker's marginal utility from co-operating ($\frac{dU}{de_{2i}}$) is g_i, which depends on the last period's value of h and on the worker's predisposition to co-operate. The functional relationship between g and h is as follows:

$$g_i = \gamma_i + r_i h \tag{5}$$

where γ_i[12] is a parameter that measures the worker's predisposition to co-operate with the other workers (γ_i is a number between 0 and 1), r_i is the parameter that measures reciprocity[13] and h is defined by (4). The more cooperative the other workers are (an element captured by variable h), the more g_i increases. In all cases of $g_i > 0$, the worker is encouraged to cooperate and can choose any level of e_2 associated with a level of e_1. Higher values of the reciprocity parameter (r), existing cooperation (h) and predisposition to cooperation by the worker (γ) determine a higher incentive to co-operative effort and the value of e_{2i} tends to the maximum value of co-operative effort z[14]. Based on the assumption $r > 0$ and given the value of h, we have that g is uniformly distributed over the interval $[rh, rh + 1]$.

2.3 The profit function

The firm seeks to maximize the discounted sum of profits given its discount factor δ. The profit in one period is:

[12] γ_i is a random draw from a distribution on [0, 1] which is i.i.d. across workers.

[13] Parameter r_i captures the preferences for co-operation induced by the working environment and can change capturing the extent to which last period's co-operation raises the worker's taste for co-operation.

[14] The worker has no interest to exert a co-operative effort higher than z, because we assume that the values e_{2i} higher than z implies that marginal productivity of co-operative effort falls to zero.

$$\pi = pE(Q) - E(W) \tag{6}$$

where p is the price of output and E is expectation as we go across workers. We assume that $p > (1 + r)/(\alpha - 1/2)$, so that the price is high relative to the willingness to cooperate[15].

The firm maximizes profits by selecting a compensation system in each period. Specifically, we assume that wages are a linear function of a worker's measured output[16]:

$$W_i = b + wq_i \tag{7}$$

We refer to b as the base wage and to w as the incentive intensity. The compensation system satisfies an individual-rationality constraint: in each period, each worker must be given a level of utility of at least u, which we normalize to be zero.

2.4 The choice of the workers

A representative worker chooses his own level of optimal effort (e) and decides how much effort to exert in performing his duties, and whether it is worth to co-operate with the other individuals with whom he interacts within the working environment. So, in each given period the worker decides how much total effort to exert and how to allocate it between individual effort (e_1) and co-operative effort (e_2).

We assume a quadratic cost function of effort[17]:

$$C(e) = \begin{cases} 0 & \text{if } e \leq \bar{e} \\ \dfrac{c\,(e - \bar{e})^2}{2} & \text{otherwise,} \end{cases} \tag{8}$$

Where $\bar{e}$ is a threshold beyond which workers start to experience disutility of effort. To simplify the analysis, we assume $\bar{e} \geq z$, i.e., workers can

[15] This simplifies the analysis by assuring that with the first best incentive intensity $w = p$, there is no co-operation.

[16] We make the hypothesis that the firm is restricted to use a single, linear compensation system for the whole workforce. The firm could do better by forcing contracts. The obvious reason for using linear incentives is tractability and commonality of use in real life. Based on these principles, linear incentives might be the result of a more complex environment, including noise and dynamic production, as is shown in Holmstrom and Milgrom (1987). For simplicity, we take linear incentives for granted here, as in Holmstrom and Milgrom (1991), and do not model how they come about.

[17] We assume that the cost of individual effort is equal to co-operative effort for each worker.

choose the maximum level of co-operative effort without feeling any direct disutility[18].

The objective of each worker is to replace the value of w_i into (3) and, then, to choose $e_{1i} = e_i - e_{2i}$, in his utility function. Each worker's decision satisfy $e_i = e_{1i} + e_{2i}$ and $e_{1i} + e_{2i} \geq 0$, as in Rob and Zemsky (2002)'s model. Formally:

$$q_1^{'} = ae_{1i} + \frac{[e_{2i} + zh']}{2} \tag{9}$$

After we eliminate constants, we get the following maximization problem:

$$\max_{e,e_2} [wae_i - C(e_i) + g_i - w_i d] \tag{10}$$

where $d = a - 1/2$ the reduction in a worker's measured output that results from shifting effort from individual to co-operative production, whereas wd is the associated monetary cost.

The optimal total effort of a worker satisfies the first-order condition:

$$C'(e^*) = aw \tag{11}$$

which gives:

$$e^*(w) = \frac{aw}{c} + \bar{e}^{\,19} \tag{12}$$

The objective of (10) is linear in e_{2i}, so the optimal e_{2i} is at a corner with $e_{2i} = 0$ or $e_{2i} = z$, depending on whether the value of g-wd is negative or positive.

In particular, in the worker's maximization problem we must remember that the worker must face a prisoner's dilemma because his remuneration is only calculated on the basis of his estimated productivity. So, if the worker exerts co-operative effort at the maximum level (z) he suffers a maximum loss of utility resulting from a non-realised wage, but gains a maximum level of utility g. In any case, if $g_i > w_i d$, the worker decides to exert co-operative effort ($e_{2i} \leq z$); if $g_i < w_i d$, the benefit of co-operative effort is lower than the loss of utility resulting from a non-realised wage and the worker chooses not to cooperate ($e_{2i} = 0$). At any rate, the total effort increases as the intensity of the monetary incentives measured by w increases, but the co-operative effort value could be reduced, because the worker could

[18] This assumption allows us to separate an employee's decisions: first he chooses total effort, e, and then he decides how to allocate it between e_1 and e_2.
[19] This expression is obtained by substituting the (8) into the first order condition.

decide to make a substitution between the two types of effort[20]. However, the decision to cooperate with other workers also depends on g_i that increases as *h* increases. The value of *h* specified in (4) is measurable and persistent in time: it can be defined, drawing on the Rob and Zemsky model (2002), as a proxy of the social capital within the firm, which is accumulated through a run-to-run dynamic process. In particular, higher levels of average co-operative effort imply higher level of social capital, the co-operation among the workers in the firm improves the working climate, increases the levels of trust and lays down the basis to build a corporate culture based on cooperation among workers. Consequently, *h* at time *t* is given, but it is determined in time by the worker's co-operative choices. The higher the co-operative effort levels will be exerted by each worker and the higher the value of variable *h* will be, the higher the production level will be, mainly in those firms where the spread of technical information among workers is a key variable.

2.5 The incentive intensity

Recall that the one period profit is $\pi = pE(Q) - E(W)$. The expected output of an employee is: $E(Q) = ae^* + (1-a)zh'$ where the first term is the output if all effort is put into individual production and the second term is the increase in output from the zh' units of effort that are put into co-operative production.

The expected wage is:

$$E(W) = b + w(ae^* + zh'/2 - d) - C(e^*) \tag{13}$$

The utility for an employee who cooperates is:

$$U_c = b + w(ae^* + zh'/2 - d + g_i) - C(e^*) \tag{14}$$

[20] Several papers in incentive theory have explicitly recognized that agents can allocate their time and attention in many different directions. Drago, Turnbull (1988), Lazear (1989), Itoh (1991) and Ramakrishnan, Thakor (1991) allow each member of a productive team to devote costly effort to their own task and to helping their fellows workers with their tasks. Holmstrom, Milgrom (1991) and Baker (1992) extend this approach to the case where each agent performs an arbitrary number of tasks. These models help rationalise the observation that many workers receive compensation packages that are less sensitive to their performance than what is predicted by standard principal-agent models (Baker *et al*. 1994). The basic idea is that linking an agent's pay to imperfect measures of his/her output will undercut his/her incentive to take more subtle productive actions. Lazear (1989) predicts that promotional incentives tend to reduce helping efforts and Drago and Garvey (1998) find that at least one dimension of *individual* effort, namely reduced absenteeism, increases when promotional incentives are stronger. This finding provides additional support to the model in Lazear (1989), which predicts that a large gap between 'winners' and 'losers' induces a substitution between helping and individual effort.

whereas the utility for one who defects is:

$$U_d = b + w(ae^* + zh'/2) - C(e^*) \tag{15}$$

An employee decides to defect whenever $U_c > U_d$, i.e. whenever $g < wd$. Thus, the firm tries to maximize profits and if h'>0, the individual rationality constraint on co-operators is binding, while the individual rationality constraint on defectors is not, i.e. $U_c = 0$. This yields $b = C(e^*) - w(ae^* + zh'/2 - d)$. The expected wage is then:

$$E(W) = b + w\left[h' q'_{iC} + (1-h') q'_{iD}\right] = C(e^*) + wd(1-h') \tag{16}$$

where q'_{iC} is the performance measure of co-operators and q'_{iD} is the performance measure of defectors. Combining the expressions for $E(Q)$ and $E(W)$ and substituting the expression for e^* from (11) and (12) gives the result.

If all workers choose not to cooperate with each other and, then, choose levels of $e_{2i} = 0$, each worker in the firm receives a compensation on his realised individual output and the value of h is zero. However, the lack of co-operation among workers, besides making the working climate worse and, consequently, destroying social capital, would not allow those production increases that can be only realised, as indicated in the previously quoted literature, in the presence of synergies among workers.

To characterize the optimal incentive intensity, we need the firm's objective function. Substituting the expressions related to the worker maximization problem into the firm's one-period profit function (6) gives us, as in the Rob-Zemsky (2002) model, the following result:

$$\pi(w,h) = a\bar{e}p + \frac{a^2}{c} w\left(p - \frac{w}{2}\right) + p(1-a)zh' - R(w,h) \tag{17}$$

where $R(w,h) \equiv wd(1-h')$ if $h' > 0$ and is zero if $h' = 0$.

The value of h' is function of w and h. The value of $\pi(w,h))$ is discontinuous at any (w,h) for which $w = (rh + 1)/d$. Fixing h, π is single-peaked both to the right and to the left of the discontinuity with one local maximum at $w = p > (rh + 1)/d$. Fixing w, the profit is non-decreasing in h, except where it is discontinuous[21].

The first two terms of (17) are the profit if effort is entirely dedicated to the individual task. The third term is the increase in profit that comes from

[21] The optimal incentive intensity should take into account the dynamic effects as w not only determines the one-period payoff, but it also affects the evolution of the firm's stock of social capital. Formally, the firm solves a dynamic program, which Rob and Zemsky (2002) formulate.

the workers that cooperate. The final term R reflects the rents that go to defectors.

The profit of the firm, in absence of any level of co-operative effort, will be:

$$\pi_{NC} = a\bar{e}p + \frac{a^2}{c} w\left(p - \frac{w}{2}\right) \tag{18}$$

In the case of workers who exert co-operative effort, the profit is:

$$\pi_C = \pi(w,h) = a\bar{e}p + \frac{a^2}{c} w\left(p - \frac{w}{2}\right) + p(1-a)zh' - R(w,h) \tag{19}$$

As we have assumed that co-operative effort is more productive than individual effort, for every $e_{2i} > 0$ and for every $p(1-a)rh' > wd(1-h')$, $\pi_c > \pi_{NC}$. We call this difference:

$$S_C = \pi_C - \pi_{NC} \tag{20}$$

The value of S_C is also determined by the value of the product of co-operative effort not attributed to the workers, i.e. the value of the difference between the revenues obtained from the sale of the output actually realized and the cost of labour calculated on the estimated output. The values of S_C is completely appropriated by the *residual claimant.*

3. The surplus distribution criteria in capitalistic and cooperative firms

We have shown that workers can only appropriate part of the higher revenues realised by the firm in presence of social capital. Actually, under the assumptions being made, if workers chose to exert co-operative *effort*, they would bear a cost equal to the co-operative effort that is not recognized to the worker by the firm in terms of higher wage.

In this section we compare capitalistic and co-operative firms in terms of distribution of surplus in case of positive co-operative effort (S_C). We assume, in order to make the comparison, that the two kinds of firm use the same incentive structure: the problem of measuring the worker's co-operative *effort* and the related problem of the prisoner's dilemma is the same.

In the capitalistic firm, the capitalist integrally appropriates the S_C value. In the co-operative firm, on the contrary, worker partners are residual claimants and, in this case, each worker receives his wage, measured by (7), together with surplus share, which he appropriates as a component of the residual claimants group. In other words, each worker appropriates of a part of S_C:

$$\pi_{ci} = \frac{S_C}{n} \tag{21}$$

The value of S_C realised in the capitalistic firm is converted into capitalist's profits, while the one realized in the LMF is totally shared among the partner-worker due to their nature of *residual claimants*. This means that the totality of the workers in the LMF integrally appropriates the higher income resulting from the higher output achieved with co-operative effort.

Therefore, the wage of the worker/partner of a co-operative is determined by adding (7) to (20):

$$w_{ci} = w_i + \pi_{ci} \tag{22}$$

while the worker of a capitalist firm (w_{ki}) has a wage defined by (7), as he/she doesn't receive any part of the final surplus S_C:

$$w_{ki} = w_i \tag{23}$$

Finally, if we assume that incentive intensity, the individual effort (e_{1i}), the total cost of effort $C_i(e_i)$, the worker's marginal utility from cooperating (w_i) and the level of co-operative effort (e_{2i}) are at the same level for the two kinds of representative worker. We find that the wage level and the utility level of the LMF's worker, are higher than the ones of the capitalistic firm's worker, but at the same level of incentives, because he/she appropriates a part of S_C equal to π_{ci}.

Furthermore, in the case of workers' maximization problem, the co-operative effort is positive if ($g_i + \pi_{ci}$) exceeds $w_i d$ in co-operative firms, while, in the case of a worker of a capitalistic firm, the co-operative effort is positive if $g_i > w_i d$. Thus, the propensity to co-operative effort is stronger in the case of workers in co-operative firms than in the case of workers in capitalistic firms. This induces workers in co-operatives to exert higher levels of co-operative effort and, in the long run, the firm tends to accumulate higher levels of social capital.

In particular, social capital in the capitalistic firm evolves according to the following[22]:

$$h'_k = f(w,h) = \begin{cases} 0 & wd > rh + 1 \\ 1 + rh - wd & rh < wd < rh + 1 \\ 1 & wd < rh \end{cases} \tag{24}$$

In the co-operative firm social capital evolves according to the following:

$$h'_c = f(w,h) = \begin{cases} 0 & wd > (rh + 1) + \pi_{ci} \\ 1 + rh + \pi_{ci} - wd & rh + \pi_{ci} < wd < (rh + 1) + \pi_{ci} \\ 1 & wd < rh + \pi_{ci} \end{cases} \tag{25}$$

[22] For a complete exposition of the dynamics through which social capital is accumulated in firms consequently to the workers' co-operative choices, refer to Rob and Zemsky (2002).

4. Conclusion

In this paper, we have assumed that social capital within firms, intended as good working climate, results from the co-operation among workers and is strengthened through the observance of social norms in the case of subjects having social preferences. The accumulation of social capital also causes higher production levels and allows the residual claimant to increase his/her profits.

At the beginning of our study, we intended to make a comparison between co-operative and capitalistic firms in terms of the ability to accumulate social capital. We find that the incentives in the observance of the social norm marked by co-operative firms can favour the accumulation of social capital more than in the capitalistic firms. This result is related to the characteristic compensation structure of the co-operative firm, which provides for the surplus realized in the production to be integrally shared among the partners themselves.

In a well-known paper, Alchian and Demsetz (1972) argue that the inefficiency of a partnership will cause key organizational changes. To secure a sufficient supply of effort, firms should hire a principal to monitor the behaviour of agents. The monitor should be given title to the net earnings of the firm so that he/she has the proper incentives to work. Such an arrangement will restore efficiency. At the same time, it will change the partnership into a capitalistic firm with the monitor acting effectively as the owner. Later, Holmstrom (1982) demonstrated that the free-rider problem is not solely the consequence of the unobservability of actions, but equally the consequence of imposing budget-balancing. In his theory, the principal's role is not essentially one of monitoring and only specific group incentives can remove the free-rider problem. These incentives require penalties for those who waste output or bonuses for those who exceed output. In both cases, the principal should either enforce the penalties or finance the bonuses. Thus, in Holmstrom's view, the principal's primary role is to break the budget-balancing constraint. The fact that capitalistic firms feature separation of ownership and labour implies that the free-rider problem is less pronounced in such firms than in closed organizations like partnerships. In our model, the hypothesis of workers' neutrality to risk and the presence of co-operative social norms, which increase the cost of free riding for every worker who defects, determines higher incentives to social capital accumulation in co-operative firms rather than in capitalistic ones[23].

[23] Also empirical investigations demonstrate that co-operatives are the only type of enterprise where the work environment fosters the social trust of workers. In particular, Sabatini *et al.* (2014) present an econometric investigation into the role of co-operative enterprises in the creation of social trust in a comparative perspective. They find that co-operatives, unlike any other type of enterprise, have a particular ability to foster the development of social trust and may play a crucial role in the diffusion of trust and in the accumulation of social capital.

The results of our analysis are stronger if, as often specified in the literature (Bruni, Zamagni 2004), workers in co-operatives have strong social preferences. Obviously, our analysis may be further developed with regard to these aspects: the dynamic analysis of choices of workers in several periods and for different levels of social capital, the effects of social capital on the total production levels, the potential implications in terms of on-the-job training and the increase of the human capital supplies in the different firms analysed and, finally, the possible variety of balances which might be caused if the workers of co-operative firms decided to increase their total effort levels. The development of these topics will be an interesting undertaking in our future research agenda.

CASE AND SECTOR STUDIES IN AUSTRALIA AND ITALY

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Emergence, Evolution, and Institutionalization of Italian Social Co-operatives

In order to explain the emergence and evolution of social co-operatives in Italy[1], it is essential to first analyse the evolution undergone by the Italian welfare system from the 1970s onwards. As different authors have demonstrated, the emergence of social co-operatives was essentially a response to the deficiencies and inefficiencies of both the market and the State in the provision of social services (Borzaga, Ianes 2006; Borzaga, Tortia 2010). Specifically, at the beginning of their development, social co-operatives were set up to address the needs of marginalised groups of people, who demanded the provision of social services that were not sufficiently covered by public institutions; such services were simply ignored by for-profit enterprises because of their low profitability. The reform of the welfare system that took place in the same period exacerbated this critical situation even further.

Starting from the 1970s, several western countries witnessed a more or less severe fiscal crisis, which led to a growing shortage of public resources. The crisis undermined, in some cases, the viability of relevant parts of the welfare state and paved the way for the restructuring of welfare policies. National governments tried to overcome these difficulties through various strategies: they engaged local administrations through the decentralisation of decisions and activities; they tried to limit the opportunistic behaviours of recipients; and they limited government involvement in the provision of welfare services. Governments implemented this last policy measure in dif-

[1] In this chapter we will often use the terms 'social enterprises' and 'social co-operatives' in an interchangeable way, though it is clear that social enterprises represent a wider category than social co-operatives do, the latter being a subset of the former. When dealing with broader issues concerning social enterprises in general, not Italian social co-operatives strictly speaking, we will prefer the use of the former term.

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ferent ways, depending on the previous state of the supply of social services. Two main groups of countries can be identified: countries traditionally distinguished by an extensive public supply of services, and countries with a redistributive welfare system that ensure a limited supply of social services (for example, Italy). While governments of the first group reacted to the crisis by reducing and privatising the supply of services, governments of the second group blocked the development of the supply altogether. These diversified patterns of evolution of the welfare system heavily influenced the development of social enterprises, which either emerged as an outcome of privatization policies or developed as a bottom-up reaction of the community to the severe gaps in public service delivery.

The United Kingdom is a distinctive example of the first group of countries, whereas Italy is a case in point of the spontaneous bottom-up emergence of social enterprises. In the UK, the reform launched by the conservative governments of Margaret Thatcher and John Major to overcome the main defects of public delivery in three areas – efficiency, choice in welfare, and responsiveness – stimulated the top-down creation of quasi-markets. According to this exemplary model of 'public service reform', managed markets were to be created by the purchasers, and bureaucratic systems of service delivery were expected to be replaced with competitive ones (Challis *et al.* 1994; Le Grand 1991). Given the weak organisational and entrepreneurial abilities of charities and voluntary organisations across the country, it became a common practice in the UK to contract our services to for-profit providers (Johnson 1995). However, market solutions in the domain of care proved to be an ineffective and inefficient strategy; they caused an unexpected increase in public expenditure, lowered the quality of services offered, and worsened working conditions. The deficiencies shown by the quasi-market reform paved the way for the search for a 'third way' between the market and the state by the new Labour government elected in 1997. A sudden acceleration of the debate around social enterprise thus took place in 2002, when the Blair government launched the Social Enterprise Coalition and created a Social Enterprise Unit aimed at promoting social enterprises throughout the country. Differently from the previous administration, which regarded the market and the third sector as alternatives to the state, the new government considered partnership and the development of social enterprises as fundamental tools for the development of social services (Taylor 2004; HM Treasury 1999).

Conversely, in Italy, the first social enterprises developed almost two decades before they first appeared in the United Kingdom. They emerged spontaneously, with very little or no support from public authorities. When they first emerged, social enterprises provided social services that were mainly addressed to young people with social problems, the elderly, the disabled, drug addicts and the homeless. Groups of volunteers initially promoted many of these initiatives; however, the use of the co-operative form became rapidly widespread, especially for the management of activities aimed at integrating disadvantaged workers into the labour market. Social enterprise initiatives, mainly in the form of 'social solidarity co-operatives', succeeded in organising tangible responses by instigating entrepreneurial action and by mobilising a mix of resources. They responded to new and unmet needs, often relying mostly on voluntary work, especially in the start-up phase. These initiatives played a role in raising the awareness of public authorities about the importance of specific economic and social issues that had so far been largely ignored or underestimated. As a result, local authorities were stimulated to reconsider their direct involvement and progressively agreed to finance such initiatives to support their expansion. The development of social enterprises thus continued until the outbreak of the financial crisis.

From an international perspective, country variations depend on the business models employed by social enterprises. Depending on the national legal context, social enterprises were set up via different organisational forms. Co-operatives flourished in countries where not-for-profit organisations besides co-operatives (especially associations and foundations) were weak, less developed, either unsuited or not allowed to manage economic activities in a stable and continuous manner, and where the social function of co-operatives was recognised by law. This was precisely the case in Italy, where co-operatives faced the challenge of adjusting their goals, activities and organisational models in order to meet new social needs, thus reorienting entrepreneurial action towards a social enterprise dimension. This evolution was also encouraged by the ICA and, in particular, by Alexander Laidlaw at the ICA Moscow Congress in 1980. On that occasion, Laidlaw underlined the evolving character of the co-operative form and the crisis faced by the co-operative movement around the world as it tried to stay distinct from the private sector and struggled in many countries to escape the dominating influence of the state. Such concerns on the role, identity and potential of co-operatives turned out to be increasingly well grounded as Western welfare systems entered a new reform phase (Galera 2004; Laidlaw 1992). Particularly noteworthy was the co-operatives' new role as welfare providers, especially their ability to both supply general-interest goods and services, and to facilitate the work integration of disadvantaged people who were excluded from the labour market.

In some other countries, like France and Belgium, associations and foundations that were already engaged in the management of economic activities in a stable and continuous way strengthened their entrepreneurial stance, following their stronger engagement in welfare service delivery. Efforts ensued to restructure the welfare state to operate more efficiency, especially in the health care sector. This, along with social changes such as an ageing population or unemployment, opened new areas of intervention for French associations to fill the gap in service provision. The propensity towards entrepreneurship of such organisations played a key role in boosting the development of social enterprises as welfare providers. Conversely, in countries like Germany and Austria, where long-established and traditional non-profit organisations have historically accounted for the lion's share, social enterprises (such as electricity co-operatives) emerged only in recent years, especially in fields other than welfare.

Another factor that caused evolutionary trends of social enterprises to diverge was the differing forms of interaction between social enterprises and public actors. Social enterprise diffusion has been especially dynamic in countries that have implemented decentralisation policies in the delivery of social services in the face of growing pressure on public finances. By responding to fiscal crises and to the declining legitimacy of the welfare systems, social enterprises offered an appealing alternative to public agencies' provision of welfare services. The resulting decentralisation generated new spaces for intervention by, and the channelling of public resources towards, the new entrepreneurial forms, whose consolidation took place in markets for welfare services.

To conclude, the development of social enterprises has occurred in extremely heterogeneous ways, depending on a variety of factors, including the restructuring of the welfare system, the legal context, and the degree of decentralisation achieved. This paper explores the emergence, evolution and institutionalisation of social co-operatives in Italy from their early emergence up to the present. Next, it provides some data illustrating the size of social co-operatives, sheds light on their advantages and disadvantages when compared to other institutional architectures, and explores the impact of this social enterprise model upon local development. Finally, the paper illustrates a number of lessons that can be learned from the Italian experience.

1. Emergence and institutionalisation of social co-operatives in Italy

When the Italian welfare system started to face the first symptoms of financial crisis in the 1970s, the supply of social and personal services was limited; they were mainly public, standardised, and poorly managed. Except for health and education services, most public spending was allocated in the form of cash benefits (mainly pensions). The crisis and the lack of clarity on responsibilities between different governmental levels blocked the needed growth of social services. Remarkable changes also took place in family structures and dynamics, owing to the changing role of women and a shift from large to nuclear families. Thus, from being service providers, families started to progressively generate new intangible needs, mainly connected with the need for care and assistance, which could hardly be addressed by the existing supply of public services. Additional factors that had a role in expanding the demand for social services include demographic changes, social exclusion, and youth unemployment.

Against the inability of the Italian welfare state to face the increasing new needs arising in society, groups of citizens took the initiative to provide the necessary services them-selves. They set up new voluntary organisations and innovative entrepreneurial initiatives aimed at facilitating the work integration of disadvantaged people. Over the years, such initiatives grew dramatically in number, stimulating a collective reflection on the most suitable organisational solution that could best exploit the contributions from civil society.

Since associations and foundations were legally prevented from carrying out economic activities in a stable and continuous manner, when new needs started to arise and grow intensively, several groups of citizens that had voluntarily committed themselves to provide social services chose to institutionalise their activity through the co-operative form. However, since co-operatives were formally considered to be only member-interest-oriented, providing social services to people in need proved to be quite complex. It is noteworthy that the diffusion of a new co-operative model specialised in the provision of social, educational, and work integration services was significantly strengthened by the ability of the co-operatives to develop into a unitary movement. With the support of part of the co-operative movement, these new co-operatives succeeded in establishing a national federation and several local consortia in just a few years. In order to respond to some of their common needs for services, training and representation, social co-operatives organised themselves into second-tier organisations, mostly second-level co-operatives or consortia, developed at both the local and national level and in representative federations. The development of the unitary movement helped justify the need for a tailored legislation. Many practitioners and representatives of the movement were involved in the processes of both identifying the key features of social co-operatives and institutionalising this new type of enterprise. However, they had to overcome several obstacles resulting from the predominant co-operative culture, which was traditionally member-oriented, and the existing legislation.

Law 381/1991 acknowledged the new co-operative form as a 'social co-operative'. At the time, around two thousand such co-operatives were already operating. Law 381/1991 allowed for the creation of social co-operatives by enlarging the aims of co-operative enterprises, and by establishing the prevalence of the general-interest over the mutual aim. Specifically, according to this law, social co-operatives are created to 'pursue the general interest of the community in promoting personal growth, and in integrating people into society by providing social, welfare and educational services and carrying out different activities for the purposes of providing employment for disadvantaged people'. The law distinguishes two types of social co-operatives: social co-operatives supplying social services (A-type social co-operatives), and social co-operatives integrating vulnerable persons into the workforce (B-type social co-operatives). In this latter case, at least 30 percent of their employees must be certified as disadvantaged workers. In this way, the law tells the two types of organisations apart. Interestingly, the law does not allow B-type social co-operatives to produce social services. In some European countries, legislation allows for the contextual supply of social and work integration services, but comparative evidence shows that the pursuit of a plurality of goals (i.e. work integration in conjunction with the supply of social services) has hampered the capacity of social enterprises to integrate disadvantaged workers into the workforce (Galera 2010). In Italy, on the other hand, the clear-cut separation between activities has allowed for the building up of specific expertise in both fields. Moreover, it has prevented disadvantaged and non-socially integrated workers from being placed into sensitive work activities, such as socio-educational and health services. Consequently, A-type social co-operatives (i.e. social service providers) underwent rapid development and hired thousands of highly skilled professionals in the fields of healthcare, psychology, mental health and training. At the same time, B-type co-operatives developed as mechanisms of supported employment for disadvantaged workers (Borzaga 2006). The structure of B-type social co-operatives, where up to 70 percent of workers can be non-disadvantaged persons, clearly separates work integration social co-operatives from sheltered workshops and increases the possibility for disadvantaged workers to acquire new skills.

Next, the law conceives social co-operatives as collective organisations that are encouraged to involve the local community and represent the interests of different classes of stakeholders. The decision-making process of social co-operatives is democratically driven. Furthermore, the law allows for the simultaneous involvement of different categories of members in their ownership structure: from workers to users, voluntary members to financing members, and individuals to legal entities. This helps social co-operatives identify unmet needs arising in local communities and ensures that the general-interest aim will take precedence over the entrepreneurial and commercial dimension.

Finally, social co-operatives must comply with a non-profit distribution constraint. This means that they are allowed to achieve profits, but a consistent part of such profits must be accumulated by law into locked assets. Evidence from most Italian social co-operatives confirms that they tend to spontaneously accumulate all their profits in the asset lock in order to increase economic and financial stability. Moreover, the law foresees the indivisibility of assets, which means that members are not allowed to privately appropriate assets generated by entrepreneurial activity through reinvested net residuals.

According to Law 381/1991, social co-operatives of both A- and B-types can stipulate contracts with public authorities with a view to delivering social services or supporting work integration activities. The law implicitly recognises that public bodies and social co-operatives pursue similar objectives, and it encourages the definition of collaborative relations between them. Two other laws regulating local public bodies – Law 142 and Law 241 of 1990 – played a role in paving the way for the development of collaborative relations between social co-operatives and municipalities. Specifically, by foreseeing the possibility for municipalities to entrust the supply of social services to social co-operatives, Law 142 created the conditions for the definition of contractual relations between public entities and social enterprises (Borzaga, Ianes 2006). However, social co-operatives and municipalities remain distinct entities. Although local governments are explicitly regarded as key partners of social co-operatives, and the process of contracting out the supply of social services to social co-operatives is progressively taking place, public authorities do not normally join social co-operatives' memberships[2]. In essence, social co-operatives continue to be created and developed as bottom-up and autonomous organisations.

The Italian law on social co-operatives provides a clear and comprehensive model of institutionalisation. With Law 381/1991 being regarded as a benchmark by several countries, it is not surprising that Spain, Portugal, France, Poland, and Hungary ultimately decided to follow a similar path of institutionalisation for social enterprises.

2. The evolution of social co-operatives in Italy

The enactment of Law 381/1991 on social co-operatives, which was the first legislation of its kind in the international landscape, paved the way for an exponential growth of social co-operatives. Precise data are available on all sectors of activity of social co-operatives (both for work integration and social services). Data corroborate that Italy is one of the countries in which the development of social enterprises has been constant, both before, but especially after, their institutionalisation. Since 1991, social co-operatives have been registering a 10 to 20 percent average annual growth rate. Indeed, they increased in number from a little over 2,000 before regulation up to nearly double that number (3,900 units) in 1996, reaching the number of 7,363 entities in year 2005 (ISTAT 2005). In 2011, there were 12,264 social co-operatives with a total of 365,006 employees[3], of which 30,534 were disadvantaged workers. Such co-operatives supplied about 50% of the total provision of welfare services. There was an average of 32.41 employees per co-operative, implying that 613 of every 100,000 inhabitants in Italy were employed in social co-operatives. Other than ordinary workers, social co-operatives also employ a large number of volunteers, who amounted to 42,000 in 2011 (ISTAT 2011).

[2] In any event, the law excludes the possibility that social co-operatives are controlled by public bodies.
[3] This figure includes: permanent, external and temporary workers.

ISTAT[4] data show that 3.3 million users had services delivered by social co-operatives in 2005. These included primarily educational services for students, children and the disabled, delivered by 45% of A-type social co-operatives; home-based care and residential services for the elderly, supplied by 37% and 36% of A-type co-operatives, respectively; recreation and entertainment, delivered by 32% of A-type co-operatives; preschool education (22%); and healthcare services (23%) (see table 1). The relatively low incidence of healthcare services is explained by two main reasons: public ownership of most healthcare facilities in Italy, and the relatively high capital intensity of healthcare that is hardly achievable by such organisations. At any rate, the relevance of social co-operatives in healthcare services has been steadily increasing over the years. Some co-operatives are clearly multi-service providers. Recent investigations on a representative sample of Italian social co-operatives (ICSI, Enquire on Social Co-operatives in Italy, 2007) confirm these figures: social co-operatives mainly provide social services (75.2% of the total) and educational services (72.7%), but they also provide recreation (49.3%) and healthcare services (39.7%) (Borzaga, Depedri 2013). According to Euricse estimations, the total number of users of social co-operatives reached 5,000,000 in 2011, of which 2,935,586 were people in need (ISTAT, 2011). These included, among other groups, drug addicts (2.5%), people with disabilities (31%), people affected by severe diseases (20.3%), and poor people (27.3%).

Table 1 – Services provided by A-type social co-operatives.

Services	Percentage of A-type coops
Home-based services for the disabled	37%
Residential services for the disabled	36%
Recreation and entertainment services	32%
Preschool educational services	22%
Healthcare services	23%

Source: ISTAT, 2005

In 2011, social co-operatives had a turnover of 11.2 billion euros (Borzaga 2014) and an invested capital of 8.3 billion euros (Euricse 2013). Available data show that 72.4% of all social co-operatives declared revenues up to 500,000 euros, while the revenues of large co-operatives (16% of the total) were over one million euros (Euricse 2014; table 2 in the text). Most of the revenue came from supplying services to public bodies (74% in A-type social co-operatives, and 53% in B-type). Increasingly, private rev-

[4] No 2011 ISTAT data are so far available for users of social co-operatives.

enues and the supply of goods and services to private firms has especially characterised work integration social co-operatives (43% of their revenue comes from private sources) (Borzaga, Depedri 2013). Social co-operatives maintain strong relationships with public institutions and are substantially financed by public resources. The high percentage of income derived from public funding permitted the acceleration of their expansion and consolidation. Contracting out the production of general-interest services to social enterprises has indeed implied a key shift to a more stable public engagement with social enterprises as social service providers. Social procurement has contributed to greater efficiency and a significant increase in the supply of services. However, by trying to assimilate social enterprise culture and managerial practices into the public one, the stable interaction of social enterprises with public policies has also generated isomorphic pressures, which have sometimes weakened the civic activism that marked the first social enterprise initiatives, and has reduced the propensity to innovate (Borzaga, Galera 2014). At the same time, when looking at the activities carried out, there have been improvements in their ability and propensity to invest in service and process innovation. Today, social co-operatives appear able and eager to identify new services and fields of activity. These new fields go beyond their traditional core activities and include culture, environment, social tourism, and social housing. Process innovation has also occurred, as social co-operatives have made increasing use of networking through company groups and agreements. These include consortia, co-operatives groups, network contracts[5], product societies, project partnerships, and temporary enterprise associations that aim at clarifying and coordinating the roles and interdependencies among the various actors in the production chain. These initiatives also encompass social inclusion activities targeted at disadvantaged groups by means of agreements between social co-operatives and for-profit enterprises.

Table 2 – Main data on social co-operatives.

	2003	2005	2011
Number of social coops	5,515	7,363	11,264
Paid workforce	189,134	244,233	365,006
Disadvantaged workers	23,587	30,141	30,534*
Users	2,403,245	3,302,551	2,935,586**
Total turnover	4,826 million EUR	6,381 million EUR	11,200 million EUR

*Sources: ISTAT, 2003, 2005 and 20011; * Euricse, 2013; ** ISTAT 2011: disadvantaged users of social co-operatives*

[5] A new law (no. 40/2007) on the network contract was passed by the Italian Parliament in 2007.

The recent crisis has had some negative consequences on social co-operatives. Unioncamere highlights that the number of social co-operatives has increased by only 324 units in 2009 and 98 units in 2010, while 2011 witnessed, for the first time ever, a decreased number. By contrast, the number of people employed in social co-operatives increased by 17.8% in the period 2006-2011, while the total employment in Italy declined by 1.2% (Censis 2012). These contrasting trends are explained not only by the international economic crisis, but also by the phenomenon of sovereign debt crisis, which induced severe contraction of usable resources coming from local authorities and directed to externalize social services. The decrease in number of organisations, however, is also the result of changing strategies that have been implemented to counter the crisis, such as merging social co-operatives to differentiate their activities or to achieve scale economies. The crisis has both slowed the growth of social co-operatives and stimulated the search for new and diversified forms of relationships with both public institutions and private enterprises (Borzaga, Fazzi 2011).

Social co-operatives have also managed to innovate the governance models that co-operatives traditionally adopt. The predominant governance model in social co-operatives is the multi-stakeholder one; 69.7% of the social co-operatives included in the ICSI sample have more than one category of patrons in their membership, and one-third includes, at the same time, workers, volunteers, and other classes of stakeholders in the boards of directors. Networking is a diffused practice; other than sharing needs and values, over 70% of social co-operatives collaborate with local institutions, citizens, and representatives of the community in order to coordinate their objectives and activities. Also, in 80% of the cases, they plan activities in partnership with local public service providers.

3. Explaining the evolution: advantages and disadvantages of social co-operatives

Social co-operatives show a number of advantages and disadvantages over for-profit firms, public organisations, and traditional non-profit organisations. While the economic literature has identified the non-profit distribution constraint as the main mechanism for reducing asymmetric information between parties and attracting free resources like donations and voluntary work, the most recent analyses demonstrate that social co-operatives rely on a broad range of advantages other than the non-profit distribution constraint (Depedri 2011).

3.1 Social co-operatives' advantages over for-profit firms

Social co-operatives show some specific advantages over for-profit firms in the production of social and community benefits, which depend on their explicit social aim, their ability to involve the main stakeholders of the organisation, and their embeddedness. These factors allow social co-operatives to pursue aims that are shared by their stakeholders by implementing fair norms, promoting collective action in the pursuit of social goals, and adopting altruistic behaviour. In a way similar to non-profit organisations, social co-operatives can modify the nature of exchanges from purely economic relations to relations based on trust and public benefit objectives (Hansmann 1996; Weisbrod 1977, 1988). Social co-operative founders are usually motivated by social interests, altruism and philanthropy. Work teams as well as groups of decision-makers co-operate and share internal norms. Adherence to community ideals produces an internal network of overlapping social norms that control the behaviour of all parties, in particular, employees who are directly responsible for providing services. These characteristics, and especially the ones connected with the relational character of the services provided, contribute to making social co-operatives more effective than for-profit enterprises in the delivery of social services.

3.2 Social co-operatives' advantages over public organisations

Social co-operatives enjoy also some specific advantages over public agencies, where bureaucratic decision-making and the presence of contrasting or diverging objectives tend to increase agency costs. Public agencies are, as a norm, characterised by rigidity and standardisation in the supply of services. On the contrary, as we have strived to demonstrate, social co-operatives are characterised by a high degree of organisational and managerial flexibility, which contributes to improving their ability to perceive the new and changing social needs expressed by citizens. The high content of intrinsic motivation and social preferences play a role in strengthening and improving fiduciary relationships with other stakeholders. This way, organisational efficiency can be improved relative to public agencies, contributing to creating a stable demand for services, reputation in the market, and ability to innovate and increase the satisfaction of users.

3.3 Social co-operatives' advantages over traditional non-profit organisations

Social co-operatives also show some advantages over traditional non-profit organisations due to their multi-stakeholder governance model. While traditional non-profits are non-proprietary organisations (Hansmann 1996), what characterises social co-operatives is their multi-stakeholder membership and governance, which is primarily directed at safeguarding their interests and to support the pursuit of general and social vis-à-vis private and particular objectives (Ben-Ner, Van Hoomissen 1991).

The abovementioned comparative advantages allow for the achievement of better results. Specifically, social co-operatives succeed in achieving better results in terms of: (i) greater quantity and variety of the services produced; (ii) gathering free-of-charge resources from the local community, including donations, voluntary work and community assets; (iii) managing human resources by providing incentives other than the salary, especially in relation to intrinsic and relational motivations. Against this background, it is possible to claim that social co-operatives are an innovative and competitive form of organisation.

4. Economic and social impact of social co-operatives

Evidence supporting the idea that social co-operatives have a beneficial impact on economic and social development, both in general and at the local level, is growing. Social co-operatives contribute in various forms owing to their distinctive features: their governance structure, their connection with the local community, the enjoyment of trust and reputation among their stakeholders, and their ability to strengthen local social capital (Sabatini, Modena, Tortia 2014). These aspects represent the levers for increasing welfare effects beyond the economic value of production (Tortia 2010; Borzaga, Depedri, Tortia 2010). But what do we mean by welfare effects, and how can we sketch the main benefits produced by social co-operatives?

4.1 Social co-operatives' contribution to filling the gaps in welfare service delivery

First, social co-operatives complement the supply of general-interest services that public agencies and for-profit enterprises fail to deliver for a number of reasons, including budget constraints, their incapacity to identify new needs arising in society, and market failures (for example, those induced by information asymmetries or positive externalities, such as difficulties in internalising the entire value produced). In line with the contribution of Elinor Ostrom, the history of social co-operatives corroborates that these problems can be efficiently faced through the self-organisation and the self-reliance of the citizens concerned. Social co-operatives have been pioneers in developing new services and experimenting with new solutions to meet those needs better. As already highlighted, social co-operatives engage in activities with low profitability and high labour intensity. These activities are often not profitable enough for private firms, and can impose labour cost rigidity and inefficient production on the public sector. Consequently, social co-operatives often emerge in areas in which neither private organisations nor public service providers are present. This means that their users would not be provided with any services in their absence (Tortia 2010). Indeed, in several cases, public support was granted when social co-operatives were already addressing unmet needs.

4.2 Social co-operatives' ability to generate new employment

Social enterprises also play a crucial role in job creation, thanks to their adaptability and flexible labour relations. Social enterprises develop new activities and contribute to generating employment in sectors showing high employment potential, such as social and community-oriented ones. Indeed, the social enterprise model, especially the social co-operative, is engaged in developing new forms of work organisation that enhance workers' participation in the decision-making processes.

Additionally, some social enterprises aim at work integration and training disadvantaged workers with minimal opportunities to find jobs in traditional enterprises (Nyssens 2006). In a number of cases, they allow for the hiring of hard-to-employ workers, such as women with children who seek flexible jobs, and contribute to creating innovative models of industrial relations (Borzaga, Galera 2014; Galera 2010; Borzaga, Tortia 2007; Borzaga, Depedri 2005).

Furthermore, recent data show that at least a third of ordinary workers in work integration social co-operatives are considered to be old and undereducated and have experienced long-term unemployment (Borzaga, Depedri 2013). However, the role of social co-operatives is not limited to providing jobs; instead, they are reported to provide good quality jobs. Most workers are employed on open-ended contracts, and the percentage of occasional or short-term contracts is lower than in for-profit firms. The wages are similar to those found in for-profit firms, but lower than wages of public sector employees in the same sectors. Recent research corroborates that both ordinary and disadvantaged workers are satisfied with their jobs (see table 3), and are especially satisfied with their relationships with colleagues and superiors, with their autonomy in decision-making and in carrying out job tasks, with their professional and personal growth, and with the flexibility of their working hours. Furthermore, they declare that they are guided by high levels of intrinsic motivation and perceive an organisational context characterised by distributive and procedural fairness. These factors can explain the high levels of satisfaction, and why workers employed in social co-operatives want, as a norm, to stay in their organisation as long as possible (Depedri, Tortia, Carpita 2012). The same does not hold true in the public sector, where studies have reported a low level of satisfaction and a perceived lack of fairness, autonomy and participation (Borzaga, Depedri 2005; Borzaga, Tortia 2006).

Table 3 – Satisfaction levels of employees at social co-operatives.

Satisfaction with…	Average values (average scores from 1 to 7)
Extrinsic aspects	
Professional development	4.6
Wage	3.7
Working hours	5.3
Career opportunities	3.8
Job security	5.3
Intrinsic aspects	
Social usefulness of the work	5.9
Autonomy in decision-making	5.1
Social recognition	4.9
Variety and creativity of the job	5.3
Relationships with superiors and colleagues	5.7
The job as a whole	*5.5*

4.3 Social co-operatives' ability to improve efficiency

Social co-operatives producing social services have demonstrated to be more flexible and innovative than public institutions. The engagement of various stakeholders attracts a mix of resources, including unexploited ones that otherwise would not address welfare and development goals. Such resources have a role in supporting stabilisation and in counterweighing social enterprises' low capitalisation and difficulties in accessing the credit sector. The resulting improvements in efficiency translate to increased available resources that can be used to increase the supply of general-interest services.

The low incidence of bureaucracy and the involvement of representatives of the community increase the ability of social co-operatives to produce services that better answer the real needs of the population and to adapt to the emergence of new needs. As regards to work integration, the employment of vulnerable persons increases production and the tax base while reducing social costs. Recent estimates show that the reduction in social costs achieved, thanks to the operation of social co-operatives, is, on average, higher than 5,000 euros per year per person (Borzaga, Depedri 2013). These elements demonstrate the ability of social co-operatives to ameliorate socio-economic relations and to reduce marginalisation.

4.4 Social co-operatives and their allocative mechanism

A fourth beneficial impact of social co-operatives is generated by their allocative and distributive mechanisms, which produce socially beneficial goods and contribute to reducing poverty (Tortia 2010). Social co-operatives perform an important distributive function, that is, they often supply free services to people in need even when they are not delivering services on behalf of the public administration (Borzaga, Depedri, Tortia 2010). Research shows that 40% of social co-operatives allocate part of their services without asking users to pay prices that fully cover the costs; extra services are frequently supplied free of charge to all clients (in 48% of social co-operatives) or to only the poorest classes of clients (36%). The distributive function, therefore, consists in the delivery of goods and services to people unable to pay for them, and it can be exercised through price discrimination (i.e. social co-operatives discriminate prices on the basis of their clients' ability to pay for services), when breaking even is not possible with homogeneous prices. Among social co-operatives performing a distributive function, the estimated monetary value of these distributive effects is high: 58,000 euros on average per enterprise per year (Borzaga *et al.* 2010). In order to cover these costs, social co-operatives collect additional resources from the community: they attract volunteers, donations and intrinsically motivated workers who can exert higher efforts and often donate partly unpaid overtime. Clearly, these resources can be activated only by enhancing trust, reputation and altruism in the community. Furthermore, 34% of social co-operatives assert that they frequently accumulate financial resources in their asset lock in order to support their redistributive function. It is possible, therefore, to claim that social co-operatives do not simply produce social services and answer to social needs; they also perform a distributive role, which was assumed to be performed only by the public sector.

4.5 Social co-operatives and social capital enhancement

The fifth benefit of social co-operatives is the production of several positive externalities. They increase local well-being and enhance the production of social capital (Sabatini *et al.* 2014). They promote inclusive governance models that empower the local community in strategic decision-making, supporting a model of endogenously driven local development (Borzaga, Tortia 2009). Social co-operatives contribute to taking economic activities with a social goal out of the informal economy, and they help to foster social cohesion and to enhance the level of trust within society and the economy (Borzaga, Galera, Nogales 2008). All these aspects confirm the role of social co-operatives as innovative agents of economic development. Social co-operatives also valorise voluntary work, enhance the diffusion of knowledge and social norms within the community, increase trust and co-operative relations (Borzaga *et al.* 2010; Sabatini *et al.* 2014). An additional beneficial byproduct of many social enterprises is that their multi-stakeholder governance helps empower the local community in strategic decision-making, enhances social cohesion, and fosters a more participatory democracy (Pestoff 2008). Community involvement through social mobilisation also contributes to positive changes in attitude, as communities become aware that they can take stock of their own situation and collectively solve their own problems. In other words, the social enterprise model sets the arena for effective solutions that can improve society, while ensuring that the social goals pursued address the general interest of the community rather than particularistic ones. Moreover, thanks to the interactions that they establish with other sectors, including public agencies and for-profit enterprises, social enterprises can help transform the social and economic system in which they operate, to the entire community's advantage (Galera 2010). In this process, the ability to build networks and ties with public authorities, other firms, and civil society organisations represent a necessary condition of their beneficial impact on development (Borzaga, Tortia 2009). Relationships with the local community strengthen fairness norms, collective action, and altruistic behaviour, thanks in part to horizontal mechanisms of control (peer pressure). At the same time, networking relationships and external ties can influence the internal equilibrium of the organisation, because internal norms develop in connection with the social values prevalent in the community of reference. Deviant behaviour can be sanctioned materially and normatively, not only by the organisation but also by other stakeholders; it is also reduced by the networking relationships among constituent firms with external actors. Therefore, adherence to general community ideals influences the social norms within the network and the behaviour of all parties.

5. Social enterprises: a European snapshot

The proliferation of social co-operatives in Italy is not an isolated phenomenon. Rather, by the end of the 1980s, following a long and complex evolution, several other European countries also witnessed the evolution of non-profit organisations towards an entrepreneurial stance. The emergence of new legal forms and organisational types – like social co-operatives in Italy, which were part of the so-called third sector or social economy – contributed towards reinforcing this new process. The term 'social enterprise' came into use to capture this evolution. Clear examples of social enterprises providing social services exist in Sweden, with parent-led childcare organisations; Denmark with social housing; the United Kingdom with home care co-operatives that employ women; and Portugal with organisations for the rehabilitation of disabled persons. Social enterprises have recently also been recognised at a European level, following the launch of the Social Business Initiative, which has proposed a European definition of social enterprise that draws on three dimensions: the entrepreneurial dimension; the social dimension, and the inclusive dimension. This definition is in line with the legal evolution of social enterprise in Europe and is consistent with the concept of social enterprise that is shared by most European researchers.

To sustain their complex economic and socially oriented mission, social enterprises innovated governance models and assumed peculiar characteristics, which enhanced their ability to produce high social surplus and distribute it fairly to the advantage of either the community or its beneficiaries. As in the case of social co-operatives, the specific characteristics of social enterprises emerged at the outset, often in an informal and spontaneous way, when bottom-up initiatives led by social activists first took place. However, as they advanced from the start-up towards the consolidation phase, the need for institutionalising their essential characteristics became increasingly important. Against this background, new laws were enacted supporting their expansion and better contribution to a clearer definition of the organisational model.

In this process, we can distinguish, largely, three groups of countries: (i) countries where social enterprises are still regulated by existing legal forms made available by the national legal system; (ii) countries where social enterprises have been recognised, thanks to an adaptation of existing legal forms; (iii) countries that have introduced a new legal brand for social enterprise.

The first group of countries includes those where social enterprises use the associative or co-operative legal forms to conduct their activities. The associative model is used where associations are allowed to conduct economic entrepreneurial activities with no restriction (for example, France and Belgium). The co-operative model is used in countries where co-operatives are allowed to pursue general-interest goals (for example, parent-led childcare co-operatives in Sweden). Finally, in some countries, the shareholder company is also used to organise social enterprise activities.

In a second group of countries, social enterprises have been recognized thanks to an adaptation of an existing legal form. In the case of co-operatives – oriented, by definition, towards promoting the interests of their members – the adaptation was aimed at enabling them to run general-interest activities to the advantage of specific target groups or of the entire community. This process started in the early 1990s, following the coming in force of Law 381/1991 in Italy. Traditional co-operative forms evolved into *co-operative sociali* in Italy; *cooperativa de iniciativa social* in Spain; *société coopérative d'intérêt collectif* (SCIC) in France; the solidarity co-operative in Portugal; and the social co-operative in Poland, Hungary and Greece.

In a third group of countries, social enterprises have been regulated by new legislation, which has introduced a social enterprise legal brand. This brand can be adopted by several or all legal forms, provided that they comply with key criteria (for example, social enterprise in Italy; community interest company (CIC) in the UK; *société à finalité sociale* in Belgium; and social enterprise in Slovenia and Finland).

All legal systems specifically designed to regulate social enterprises identify their main goal in the pursuit of general interest rather than private gain. Differences concern the fields of activity where such enterprises are entitled to operate and the modality whereby the inclusive dimension of the social enterprise is safeguarded. From a European perspective, the legislation recognises different degrees of freedom in engaging in general-interest activities. Some national legislations recognise only specific fields of activity as being of general interest, and social enterprises are accordingly forced to operate in those fields. Limited fields of activity are enumerated by the Polish and Hungarian laws on social co-operatives, which restrict their operation to work integration only, and much the same happened in Finland, where their activity is similarly restricted to work integration. The Italian law on social co-operatives also envisages a few fields of activity for social co-operatives (social, educational and health service delivery, and work integration). Other legislations have favoured a more open strategy, providing for a more comprehensive list of activities that can be conducted by social enterprises. This open approach is contextual to the expansion of the set of activities carried out by social enterprises, which are increasingly committed to supplying general-interest services other than welfare ones, including cultural and recreational services; activities aimed at protecting and regenerating the environment; social housing; and services aimed at supporting the economic development of specific communities. This is the case with Italy's Law 155 on social enterprise and Slovenian legislation on social entrepreneurship.

Finally, an even more open strategy was followed by Belgium, France and the United Kingdom, which have decided not to specify the fields where social enterprises are allowed to engage, provided that these fields are of general interest. Thus, they have decided to leave it up to the enterprise to choose what type of general-interest activity to pursue. In the UK, for instance, no restrictions are introduced with regards to the field of economic activity, provided that Community Interest Companies (CICs) pass a Community Interest Test, which is a reasonable person test[6], comply with the asset lock, and send in an annual Community Interest Report (Court 2006).

Legislations also differ with respect to the mechanisms that social enterprises are expected to implement to ensure that the inclusive nature and general interests are safeguarded over time. Two key mechanisms are normally foreseen: the adoption of participatory ownership and governance structures, and the compliance with a non-profit distribution constraint. Both mechanisms can be operationalised in different ways through a series of diverse combinations, as highlighted by the following examples.

[6] According to the Annual Report 2006-2007: An organization satisfies the community interest test if a reasonable person might consider that it carries on its activities for the benefit of the community or a section of the community (Regulator of CICs 2007).

According to Italy's Law 381/1991 on social co-operatives, key governance characteristics of this organisational form must include the implementation of both collective ownership and democratic governance, according to the open-door and the one-person, one-vote principles. It also provides for the possibility of engaging a plurality of stakeholders (including remunerated workers, beneficiaries, and also volunteers, allowing for different combinations). Constraints on the distribution of profits imply that a cap on dividends generated and a total asset lock are imposed. Furthermore, limitations are introduced on the remuneration of workers.

As opposed to the above-mentioned Italian law, the French law on the *société coopérative d'intérêt collectif* (SCIC) requires a multi-stakeholder membership, namely the engagement of at least three different member categories, within which workers and users always need to be present. The opening of the membership to different stakeholder categories gives ground to a new partnership logic to be established among users, volunteers, workers and local authorities. Reserves generated through operating surpluses are indivisible. Furthermore, while SCICs are allowed to partially distribute annual dividends, they must comply with a total asset lock.

CICs in the UK are expected to involve their stakeholders in their activities. Nevertheless, stakeholders' involvement is not a bounding requirement, as CICs can, in principle, also be established by an individual entrepreneur. This notwithstanding, what the CIC has done to involve its stakeholders during the year must be clearly described in the community interest report that all CICs must produce annually. CICs are allowed to partially redistribute profits up to a cap and are endowed with the ability to issue shares, which can help both raise finances for community purposes and support local enterprises (Regulator of CICs 2007). CICs must comply with the asset lock, which is a general term used to cover all the provisions designed to ensure that the assets of the CIC, including any profits or other surpluses generated by its activity, are used for the benefit of the community (BIS 2010; Nicolini 2012). Interestingly, the patrimony of CICs is not shared by members, but transferred to similar organisations upon dissolution. Unlike laws in the abovementioned European countries, the Finnish Act on Social Enterprises does not impose the non-profit distribution constraint. Furthermore, it does not prescribe the adoption of participatory decision-making mechanisms designed to ensure the involvement of recipients (Pättiniemi 2006).

Notwithstanding the legal recognition, increasing relevance, and attention devoted to social enterprises by both scientists and regulators, a precise estimation of the numbers and of the characteristics of social enterprises at the international and European levels does not exist. Empirical research has been mainly carried out on individual sectors of activity or on third sector organisations and on the social economy as whole, without distinguishing between social enterprises and other non-profits. Precise data are available only for some countries. These include Italy, as discussed in the previous sections, and the United Kingdom[7].

6. Conclusions: Lessons from the Italian experience

This paper has illustrated the institutionalisation process followed by social co-operatives in Italy, from their early emergence up to present days. It has also provided evidence of the beneficial impact they have generated on socio-economic development, shedding particular light on the key advantages that distinguish social co-operatives when compared to public, for-profit and traditional non-profit organisations. The analysis allows for the identification of a number of lessons that can be learned from the Italian experience, which may contribute to identifying a number of strategies that can help support the development of social enterprises in other countries as well.

The ability of social enterprises to contribute towards improving well-being and supporting local development can be ascribed to a number of crucial factors. These include the existence of a favourable legal environment; the envisagement of a wide set of activities that can be carried out by social enterprises; and the prevalence of co-operative relationships among social co-operatives and between social co-operatives, public authorities and local communities. Particularly important is the definition of partnership policies between public agencies and social enterprises.

As concerns the first issue, the existence of a dedicated legislation is an important but not a sine qua non condition for the development of social enterprises. Nevertheless, the experience of social co-operatives in Italy confirms the key role played by the process of institutionalisation in sustaining their development and proliferation. The legal framework sets the boundaries within which social co-operatives are free to operate by choosing the services to be provided, and their own rules in the definition of the governance structure. The existence of ad hoc laws also supports the start-up of new organisations, improves their reputation, and favours the establishment of relationships with public administrations and other economic actors. Finally, legislation can also provide fiscal advantages, subsidies and other benefits supporting the activity of social enterprises and their development. The envisagement of a wide set of activities that can be carried out by social enterprises is a key precondition; it can allow for the full exploitation of their potential, as they are likely to work in any field of activity that is of interest to the community or to specific, vulnerable groups of the population.

[7] In the UK, since the formal recognition of Community Interest Companies (CICs), such enterprises have multiplied; in 2012, there were 6.391 registered CICs with a total annual turnover of at least £1 billion (Regulator of Community Interest Companies 2012).

Finally, relationships with other similar institutions, with the public sector, and the local community also play a role in strengthening the ability of social enterprises to multiply. Umbrella and second-tier organisations can supply centralised services, establish knowledge-share channels, and operate training activities for managers. Second-tier groups and consortia allow social co-operatives to enjoy a small size and local embeddedness without forfeiting the advantages arising from integration and economies of scale. On the other hand, against the background of promoting co-operative rather than competitive relations between public agencies and social enterprises, clear partnership policies are still needed. The choice most often made by public bodies concerning social co-operatives as best partners for the provision of social services is based on their potential to reduce public expenditure and increase quality production. Relationships with the local community are also important to foster participation in the definition of development programs through collective action and entrepreneurial activity.

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Social Media Use in Australian Co-operatives: current applications and future opportunities

Social media platforms such as Facebook, Twitter and Blogs are changing the way companies interact with customers, design new products/services and co-create knowledge, both internally and externally. However, the level of adoption varies across different sectors and organisational types. While some organisations are only using social media to broadcast information in a way similar to static web pages, others are creating innovative ways to engage customer and employees by making social media an integrative part of their daily business.

The current literature is predominantly focused on social media applications in business and government sectors, and increasingly in the not-for-profit (NFP) sector. However, there is a research gap related to social media use by co-operative organisations. Given the importance of co-operatives for both local and global economy, there is a need to better understand how these organisations can benefit from innovative applications that go beyond simple information broadcasting towards new forms of interaction and engagement.

The overall objective of our research is to learn about social media use in co-operatives in Australia and internationally, and to provide practical strategies to help individual organisations as well as the whole sector to innovate and benefit from best practices in social media use. We are particularly interested in new possibilities of using social media applications to further re-enforce the intrinsic values unique to co-operatives that distinguish them from the corporate/commercial organisations. More precisely, the first value we consider is related to members working together for the benefit of all. As has been noted «Co-operatives are democratic organisations formed by people with mutual needs and aspirations which can be fulfilled by pooling resources and working together» (Cooper *et al*. 2013: 9).

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We argue that social media offer new opportunities for member engagement and collaboration not found in the commercial sector with its focus on customers. The second intrinsic value we consider is cooperation among cooperatives. The «inherit values in the co-operative sector, particularly the value of co-operation amongst co-operatives, means that any co-operative can find support and advice from other co-operatives. By contrast, other corporate entities treat each other merely as competitors seeking profit maximization» (Cooper *et al*. 2013: 9). We envisage new opportunities created by social media for new forms of knowledge-sharing and co-creation across the co-operative sector irrespective of industry, geographical and national boundaries, possibly leading to faster propagation of best practices.

This paper describes a pilot study designed to explore social media practices in a small cross-industry sample of co-operatives. The initial insights presented here, although limited, do illustrate the importance of this research and set the foundations for a more comprehensive research study currently in progress.

The paper is organised as follows. The next section sets up the context for this research by describing the Australian co-operative sector and its current challenges. Section 2 introduces the foundation concepts related to the most popular social media applications, investigated in this project. Section 3 describes the current research landscape of social media applications in the commercial and NFP sectors, confirming the stated research gap on social media use in the co-operative sector. Section 4 introduces the research framework adopted by this project. Section 5 describes the key research questions that our research aims to address and followed by the adopted research method outlined in Section 6. Section 7 confirms the main research findings and highlights the need for further research in this emerging area. Based on our research findings, in Section 8 we identify the new roles for social media in the co-operative sector and describe some important challenges posed by social media in Section 9. This section is followed by the conclusion, which offers some insights into our current and future research in this exciting area.

1. Research context: The Australian co-operative sector

There are 1,600 co-operatives and 103 financial mutuals with $83 Billion in total combined assets in Australia. The top 100 had a turnover of $17 billion in 2011. An estimated 13.5 million members belong to co-operatives, but one has to be cautious with this figure because of overlapping memberships. Significant co-operatives and mutuals include Credit Union Australia ($9 Billion assets), Co-operative Bulk Handling Ltd. ($2.9 Billion revenue), Murray Goulburn Co-operative ($2.3 Billion) and the Capricorn Society Ltd. ($1 Billion revenue), which is a purchasing co-operative (Australia Institute 2012: 5, 18, 29, 32).

The co-operative sector has faced significant challenges in recent years. Consumer co-operatives, once the mainstay of the co-operative sector, had all but collapsed by the 1980s, and since this time there has been a wave of demutualisation of producer co-operatives. There have been problems with creating a national umbrella organisation for co-operatives and mutuals, which have weakened the sector's ability to lobby governments. Overall, aided by the influence of neo-liberalism since the 1980s, we have seen a general shift towards individualism and away from collective solutions to economic and social problems such as co-operatives. Finally, business education has increasingly focused on capitalist firms with little to no attention given to the co-operative sector.

Against the background of these changes, the co-operative sector, despite its continuing presence in the economy, has a low public profile. An Australian Institute (2012) survey indicated that while 79 per cent of Australians were members of co-operatives, only 30 per cent could name co-operative/mutually owned enterprises. Further, only 16 per cent believed that they were members of one. As the Australian Institute (2012: 12) concluded the survey highlighted «an opportunity or need for the sector to build a stronger public awareness of its prominence and importance». Social media has the potential to overcome the problem of social awareness. We also posit that better awareness is a necessary pre-requisite for better member engagement with social media becoming a key enabler of new forms of engagement and collaboration among members not found in the commercial and NFP sectors.

As already pointed out, co-operation rather than competition among co-operatives is one of the key characteristics of the co-operative sector. As Cooper *et al.* (2013: 22) noted «Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national and international structures». However, previous research (Balnave, Patmore 2012) confirms limited cooperation among Australian co-operatives. We envisage that social media applications will create new opportunities for virtual collaborative and knowledge-sharing spaces for the co-operative organisations, including new forms of Communities of Practice (CoPs) quite different from virtual CoPs already in place for the corporate and government sectors.

2. Foundation concepts: From Web 1.0 to Web 2.0

Within the era of Web 1.0 companies used the Internet mainly for disseminating information to their customers. Communication over the Internet was of one-way type and two-way communication was handled by, for example, email or telephone. Web 2.0 offers multiple new and interactive ways to communicate with customers via public social networks or dedicated social networks developed by a certain company. This new environment makes communication very fast, interactive and dynamic. Content is created by anyone of us and shared with everyone. Companies are utilising customer created content, for example, in their advertising campaigns and for getting ideas for product development. This new environment can create huge opportunities for organisations including private businesses, government and NFPs.

Organisations may participate in Web 2.0 in different ways, including the following (based on Turban *et al.* 2011):

- participating in public social networks such as Facebook;
- creating internal social networks for their employees;
- creating organisation specific social networks for customers;
- enhancing the functionality of existing applications with social features, such as discussion forums for customer relationship management;
- developing tools or services for social networking (e.g. Microsoft Sharepoint).

The different categories of social media applications are briefly discussed below (adapted from Turban *et al*. 2011).

- Information Dissemination and Sharing. Social networks may be used to effectively disseminate information to consumers or members of an organisation. Here social networking applications can provide an alternative to the 'traditional' ways, such as email. The different applications include blogs, wikis and Twitter. Moreover, many organisations advertise their products on social media platforms, such as Facebook.
- Communication. Social media platforms allow for two-way communication. This can be extremely valuable for organisations since they can get feedback on their products or services from the customers in an efficient way. These applications also provide the opportunity to respond to the customer feedback immediately and are thus valuable for maintaining customer satisfaction. Some organisations invite their customers to participate in virtual discussion groups related to their product offerings, replacing the 'traditional' focus groups.
- Collaboration and Innovation. Social media applications provide efficient tools for collaboration either within one organisation or across organisational boundaries. For example, wikis provide a platform for basically any kind of collaborative creative work.
- Training and Learning. Virtual worlds such as Second Life provide platforms for virtual learning in the form of simulations on, for example, project management or customer interaction.
- Knowledge Management. Social networks can potentially be very effective for knowledge creation and sharing. Virtual discussion forums can create the opportunity for employees to discuss and share knowledge, and in this way to create communities of expertise. Identifying and utilising these communities may provide great value for organisations.

- Management Activities and Problem Solving. Social networks generate huge amounts of data that can provide insights for managerial decision-making. Applications can be found in areas such as business analytics or utilising one's professional network for problem solving.

Table 1 below offers an overview of different categories of social media applications and the most popular tools used within each category and their level of applicability (H-high; M-medium; L-low).

Table 1 – Social media categories and the associated tools (after Turban *et al.* 2011).

	Twitter	Blogs	Discuss-ion Forums	Social networks (LinkedIn, Facebook)	Wikis	YouTube
Information dissemination and sharing	H	H	M	H	M	H
Communication	H	M	M	H	H	H
Collaboration and Innovation		M	M		H	L
Training and Learning			M	L	H	M
Knowledge management	L	M	M	L	H	
Management activities and problem solving		M	M		H	

3. Related work: Current research landscape

A survey of Fortune 500 companies (Case, King 2011) offers a very interesting insight into the world of social media applications in the corporate world. For example, the corporations are found to use social media in all areas of business, including business, marketing, brand promotion, communication, monitoring user collaboration and knowledge sharing.

The common applications found in the corporate sector include:

- creation of communities (Goodwin-Jones 2003);
- creation of virtual customer environments (Culnan *et al.* 2010);
- spreading customer news, getting customer reviews, monitoring customer opinions (Gallaugher, Ransbotham 2010);
- marketing, brand promotion, HR services (Case, King 2011) and
- Knowledge Management (Grace 2009; Kang *et al.* 2010).

Furthermore, social media tools and platforms are increasingly adopted by the NFPs, as shown below by table 2 below, based on a 2012 analysis of 595 Australian NFPs from a range of industries. While 97 per cent of NFPs have a website presence, which can be regarded as Web 1.0, applications of Web 2.0, such as Linkedin, Facebook and You Tube are less common. Linkedin, Facebook, Twitter and YouTube, however, topped the list of most frequently used social media technology. Fifty per cent of the YouTube and Twitter accounts that belonged to Australian NFPs were customised and/or branded. The figure was marginally lower for Facebook – 32 per cent. On average, NFPs posted 3 times a week on Facebook compared to 8 times a week on Twitter. Facebook NFPs accounts had more fans on average (2,500) compared to Twitter (570 followers). Twitter had the lowest abandonment rate (3 per cent of accounts had no posts in the preceding 90 days) while blogs had the highest (31 per cent). Organisations with more than 1,000 staff were the least likely to use blogs as a means of engaging with customers and the wider public. This indicates that NFPs generally have not taken full advantage of social media.

Table 2 – Social Media Application in the Australian NFPs (Wirth Consulting 2012).

Social Media	% of organisations using
Website Presence	97
Linkedin: Company Profile	32
Facebook	31
You Tube	23
Twitter	22
Blogs	10
Google +	7
Linkedin: Groups	5
Flickr	4
Vimeo	3
MySpace	1
Other Social Media	6

4. Research framework adopted by this project

Previous research by Gallaugher and Ransbotham (2010) offers an insightful framework indicating three different models (stages) of social media adoption in an organisation. They are briefly described as follows.

- The Megaphone model is the first stage of adoption used to broadcast organisational information. It is a firm-initiated Social Media Dialog typically used for promotions, competitions, campaign management, distribution of time-sensitive information, brand positioning, recruitment of new customers & employees. Table 3 below illustrates the organisational adoption of the Megaphone model by Starbucks.
- The Magnet model is Customer-initiated Social Media Dialog that provides two-way communication and simple collaboration with cus-

tomers. It is often used to capture customer feedback, enhance market research, augment customer service and foster innovation, display/share the interaction of a first with other customers. Table 4 below offers an example of the magnet model usage by Starbucks.

- The Monitor model is the most advanced, yet most challenging stage of social media applications found today. It is best described as Customer-to-Customer social media dialog monitored and sometimes even influenced by the monitoring organisation. Table 5 below summarises the examples of the monitor model applications found at Starbucks.

Table 3 – The Megaphone model at Starbucks (Gallaugher, Ransbotham 2010).

Initiative	How Starbucks uses the Megaphone
MyStarbucks Idea	• Uses outbound messages, promoting customer-catalyzed innovation • Shares information on customer-suggested innovations • Builds anticipation regarding pending initiatives • Creates anticipation for forthcoming products • Promotes the firm's commitment to empowering the "customer's voice"
Facebook	• Connects with 15+ million fans making it the largest corporate fan page • Updates fans via a users' news feed, including promotions (e.g., Free Pastry Day), cause marketing (e.g., Love Project, Day of Service), firm-posted videos and images • Offers discussions on topics Starbucks wants to encourage • Allows patrons to load Starbucks payment cards • Provides a platform to share photos, video, and news of upcoming events
Twitter	• Broadcasts in-store (e.g., product sampling) and partner promotions (e.g., VIA instant coffee available in grocery stores, Lilith Faire 2-for-1 ticket specials) • Pushes content through sponsored tweets that reach even those who have not followed the firm; Starbucks was among Twitter's first advertising partners • Attracts 1 million followers to the firm's primary Twitter account, twitter.com/Starbucks. • Offers specialized additional accounts, including twitter.com/StarbucksJobs, twitter.com/MyStarbucksIdea, twitter.com/Jim_Starbucks (Jim Hanna, Director of Environmental Impact), and accounts for the concept locations not branded as Starbucks, twitter.com/RoyStCoffee and twitter.com/15thAveCoffee • Sends commentary from nutrition and corporate social responsibility staff
YouTube	• Maintains its own channel • Publicizes documentaries on the firm's corporate social responsibility • Allows on-demand viewing of commercials and promotional content • Promotes music sold by the firm
Foursquare	• Location-based app highlights nearby stores • Draws store traffic through promotions broadcast as a popup tab whenever someone checks in near a Starbucks

Table 4 – The Magnet model at Starbucks (Gallaugher, Ransbotham 2010).

Initiative	How Starbucks uses as a Magnet
MyStarbucks Idea	• Enables users to share ideas with the firm and vote on ideas offered by others • Yielded over 70,000 ideas during its first year; dozens have been rolled out, including new drinks and flavors, food items, updated loyalty programs, and splash sticks to prevent spills through the opening in coffee cup lids • Attracts 13,000 unique monthly visitors
Facebook	• Draws praise, complaints, support requests, and product suggestions • Focuses attention on the firm's wall, where content can be managed • Attracts over 15 million fans • Lets customers comment on Starbucks messages in user news feeds • Provides an easy way for customers to opt-in to Megaphone messages
Twitter	• Provides an opt-in platform for over 1 million followers • Creates a visible venue to share praise, request support, and send suggestions • Allows venting of complaints in a relatively ephemeral medium
YouTube	• Captures customer-submitted videos • Serves as an outlet for user-submitted video campaigns such as the group sing-along LOVE project fundraiser for AIDS relief • Collects user-submitted suggestions for using VIA Ready Brew instant coffee
Foursquare	• Rewards store visits and product purchases through social gaming • Draws inbound traffic to separate locations by opportunities to earn Barista[25] badge • Encourages users to vie to be named a given location's "mayor" through frequent visits, gaining special discounts and in-app community recognition

Table 5 – The Monitor model at Starbucks (Gallaugher, Ransbotham 2010).

Initiative	How Starbucks uses as a Monitor
MyStarbucks Idea	• Establishes a forum for inter-customer dialog • Promotes inter-customer dialog, both through messages and idea voting (up or down) • Provide metrics on activity, idea popularity, and drill-down for exploring conversation thread detail • Manages dialog (including observing or conversation shaping) with the help of 48 "Idea Partners" (employees in functional areas but trained in social media)
Facebook	• Measures exposure, showing user activity and demographics, and demonstrating campaign-related actions (e.g., click-throughs, page visits or "Likes") • Indicates trends involving users who ignored content or who have chosen to stop following as a fan • Catalyzes consumer-to-consumer conversation, with "Likes" and news feed comments visible in a fan's friend base, generating more conversation • Stimulates discussion among users; everyone can see and comment on the wall posts that are made within the forum
Twitter	• Provides metrics such as keyword mentions and re-tweets as well as inbound activity (e.g., click-throughs) generated from Twitter campaigns • Offers insights on campaign click-throughs and customer sentiment • Suggests hashtags to followers, allowing customers themselves to further monitor customer dialog around specific campaigns and initiatives • Allows staff to react, issuing praise, apology, correction, and offers of help • Provides insight on competitor activities, exposes problems to address or capitalize on, and creates opportunities to learn from others
YouTube	• Gauges the success of offerings through view statistics and comment activity • Allows for consumer-to-consumer dialog in comment areas
Foursquare	• Reveals check-in patterns and demographics, and identifies loyal and lapsed visitors • Ties social networking activity to a specific retail location • Promotes customer-to-customer dialog (in-app "shouts" and "tip" postings) • Propagates check-ins and badge earns to other social media

5. Research aims and objectives

As already stated, this research focuses on social media used by the Australian Co-operative sector. The overall research project aims to address the following research questions.

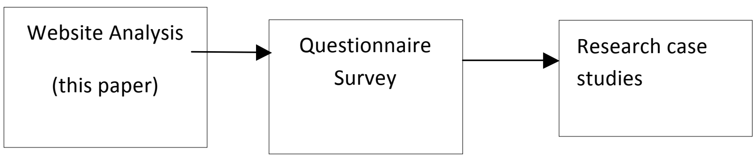
- What is the current level of use of social media in the Australian Co-operative sector?
- What are the factors that impede the uptake of social media within this sector?
- What are the future opportunities for social media adoption?
- What can we, applied researchers, do to enable propagation of good practices across the Australian and international Co-operative sectors, in a systematic, research-informed manner?

This paper describes a pilot study designed to get an initial understanding of the existing social media applications, based on the publicly available information from the selected co-operative web sites, as described later in the paper. The pilot study aims to address the first research question and sets the foundations for the future phases of this project that are out of scope of this paper. The following section describes the adopted research method.

6. Research method

The overall project aims to adopt mixed research methods enabling the researchers to study the organisational adoption of social media, as well as the impact of social media on these organisations. Figure 1 below depicts the chosen research methods suitable for different phases of this project, as well as their sequence:

Figure 1 – Research method adopted by this project.



This paper focuses on the first step, which is a website/social media page analysis of the selected group of 12 co-operative and mutual organisations. This representative group was chosen across different industry sectors and co-operative types, including large as well as small organisations. For each chosen organisation, its website is browsed to identify their public social media presence. The actual analysis was performed within social media application, using the previously described 3-M framework by Gallaugher and Ransbotham (2010). The main objective of this analysis was to develop an initial understanding of the current social media interactions within different categories including: 'Megaphone' (firm to customer), 'Magnet' (customer-to firm) and 'Monitor' (customer-to-customer monitored by firm). The following section describes the main findings.

7. Findings from the Website Analysis

Table 6 below demonstrates that co-operatives and mutuals utilise a range of social networking sites. Facebook and Twitter are the most common social networking sites. However some co-operatives and mutuals make no use of social media.

Our research findings presented in table 7 below indicate that although co-operatives and mutuals do have web 2.0 presence and use social media, they appear to be mostly at the early stage of 'Megaphone'. Some show the basic characteristics of the 'Magnet' stage, while we could not find any evidence of the 'Monitor' stage. Even though we could not determine whether the co-operatives and mutuals use social media for monitoring through the website analysis, given the low level of adoption of the previous stage 'Magnet' it is possible to infer that consequently the 'Monitor' stage is yet to be reached.

Table 6

Co-operative	Facebook	Twitter	YouTube	Linked In	MySpace	Tumblr	Blogger	Pinterest	Google+	Reddit	Co-ops's Blog
Agri-A	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No
Retail-A	Yes	Yes	No	Yes	No	No	No	Yes	Yes	No	Yes
Retail-B	Yes	No	No	No	No	No	No	No	No	No	No
Health Insurance	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Motoring & Insurance	Yes	Yes	No	Yes	No	Yes	No	No	Yes	Yes	Yes
Banking & Insure - A	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Banking & Insure - B	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Agri-B	No Social Media Use										
Retail-C											
Retail-D											
Finance											
Housing											

Table 7 – Adoption of social media models by Co-operatives.

Social Media Use – Modes of Engagement

Co-operative	Megaphone	Magnet	Monitor
Agri-A	Yes	Yes	
Retail-A	Yes	Yes	
Retail-B	Yes	No	
Health Insurance	Yes	Yes	
Motoring & Insurance	Yes	Yes	
Banking & Insure - A	Yes	Yes	
Banking & Insure - B	Yes	Yes	
Agri-B	No	No	
Retail-C	No	No	
Retail-D	No	No	
Finance	No	No	
Housing	No	No	

This pilot study also demonstrates that further research is needed to better understand: i) how co-operatives and mutuals utilise social media, ii) how they may build on their use of social media beyond simple 'megaphone' applications and iii) why some co-operatives and mutuals do not use social media. These important questions could not be answered through the website analysis method and do require in-depth case study research, in particular qualitative interviews and observations that we intend to conduct in the later stages of this research.

We are particularly interested to identify good practices of member engagement and even design possible future applications of 'Monitor' model. We envisage that this particular model offers new opportunities for better engagement with co-operative members that go beyond the existing patterns of customer engagement, found in the corporate sector. The following section offers our collective multi-disciplinary reflection on the future role of social media in the Co-operative sector.

8. Role of Social Media

Previous research (Balnave, Patmore 2012) confirm a number of challenges facing the Australian co-operative sector, as follows:

- communicating the 'Co-op Difference' to members and potential members;
- building and maintaining a regional, state and/or national co-operative network for knowledge sharing and dissemination of good practices;
- enhancing member voice;
- building a sense of community;
- promotion of sales, events etc.

Based on our analysis of social media platforms we argue that, if appropriately used, they create new opportunities to address the above listed problems in the ways never before possible. Table 8 below offers an overview of different types of social media applications and indicates their future potential (H-high, M-medium, L-low) in relation to the co-operative challenges identified above.

Table 8 – Suitability of different social media adoption models to address current challenges of the Australian co-operative sector.

Models	Megaphone	Magnet	Monitor
Co-operative Challenges			
Communicating the 'Co-op' difference	H	H	H
Building and maintaining networks	L	M	H
Building a sense of community	L	M	H
Promotions	H	M	L

As previously stated, our sample of co-operative organisations demonstrates an adoption of the basic 'Megaphone' model. However, the above table 8 indicates that the 'Monitor' model has the highest potential to help co-operatives face their current challenges. Therefore, it is necessary to find or even design new approaches and practices that will enable organisations to improve their social media maturity towards the 'Monitor' model. We also posit that the very nature of co-operative organisations may even create new models of engagement beyond 'Monitor' that was originally developed for the corporate sector with very different value propositions guiding the interactions between customers and companies.

Furthermore, table 9 below indicates how different categories of social media tools and technologies could be used by the co-operative organisations to address the identified problems.

Table 9 – Suitability of different social media categories to address current challenges of the Australian co-operative sector.

Challenges	Communicating the "Co-op" difference	Building and maintaining networks	Building a sense of community	Promotions
Social media Categories				
Information dissemination and sharing	H	M	M	H
Communication	H	L	H	H
Collaboration and Innovation	L	H	H	L
Training and Learning	L	H	H	L
Knowledge management	L	H	H	L
Management activities and problem solving	L	H	H	L

When combined with table 1, the above table 9 offers a good insight into different types of social media tools that are the most suitable tools for a particular purpose. For example, table 9 indicates that 'Knowledge management' tools are highly suitable for addressing a challenge of 'Building and maintaining networks' for the purposes of knowledge sharing and dissemination of best practices. Looking at table 1, it is possible to see that the most suitable social media tools for this purpose are for example, blogs and wikis.

Following the same logic it is possible to find the types of tools and the models of their use in order to make an informed decision about the most suitable social media applications for the particular context. We envisage that this particular outcome of our research will be useful for the co-operative organisations, especially those at lower level of social media maturity, as they are faced with an ever-increasing number of social media tools and applications.

9. New challenges created by Social Media

While social media applications open brand new possibilities for the co-operative sector, it is also necessary to consider some important challenges that need to be managed. For example, public social media platforms such as Facebook and YouTube create very unique privacy and security concerns, as they are hosted and managed by third parties. Furthermore, data posted on these platforms become the property of the hosting organisations. For example, Facebook and not the company using this public platform to engage with their customers owns the data.

Even though social media tools may be free to use, they require organisational resources to manage customer interactions through different channels. For example monitoring of customer feedback on Facebook, LinkedIn and Blogs requires time, effort and often new strategies on how to deal with negative comments and insights regardless of their origin and accuracy. This in turn creates new requirements for improved organisational agility and pro-active rather than reactive management.

The effective adoption of social media also requires a good integration between an organisations's front-end (social media) and back-end (operations). This has been a known challenge for many corporate organisations, even at the higher level of social media maturity, as the existing business processes and value chains need to be redesigned and even new ones created. Additionally, the organisational applications of social media need to be guided by the overall strategy with future needs planned for accordingly. This is very challenging given the highly dynamic and evolving nature of social media tools.

Finally, social media applications require organisations to consider new methods for continuous learning and innovation. We argue that the co-operative organisations are well placed to develop and leverage new models for knowledge sharing and learning across different organisations and industry sectors, not possible in the corporate sector based on the principles of competition. Even though the existing level of social media maturity may appear to be low, new models of learning and knowledge sharing offer new opportunities for the co-operative sector to rapidly advance their practices and create their own unique models of engagement based on the shared values of cooperation, sharing and mutual benefits for all.

10. Conclusion

Co-operatives play significant economic and social roles in the lives of over one billion members and their communities worldwide. In Australia alone, there are 1600 co-operatives with an estimated 13.5 million members, and 108 mutual banking institutions serving over 4.6 million Australians. However, the Australian co-operative sector has faced significant challenges, particularly since the 1980s, including the collapse of consumer co-operatives and the demutualisation of producer co-operatives. The problems involved in creating a national umbrella organisation for co-operatives and mutuals have weakened the sector's ability to lobby governments, and to build its public profile. Indeed, while a significant proportion of Australians are members of co-operatives, very few are aware of this or can even name a co-operative/mutually owned enterprise.

Using the marketing framework developed by Gallaugher and Ransbotham (2010), this chapter has explored the current and potential role of social media in assisting co-operatives to confront these challenges. This framework presents three models, or stages of social media adoption in an organisation: – the 'Megaphone', used to broadcast information such as promotions and sales; the 'Magnet', which provides two-way communication and simple collaboration with customers; and the 'Monitor' which involves customer-to-customer dialogue monitored and at times influenced by the organisation. In the context of the co-operative sector, 'customers' can also be owner/members of the organisation providing a new dimension to the model beyond the existing patterns of customer engagement found in the corporate sector.

A preliminary analysis of the website/social media page of twelve Australian co-operative and mutual organisations indicates that a number of co-operatives have embraced the basic 'Megaphone' model. This can certainly assist the co-operatives in relation to information dissemination and communicating sales and promotions with customers/members. The 'Magnet' model has also been adopted by some co-operatives. However, it is the 'Monitor' model that has the highest potential to help co-operatives face their current challenges. Social media, when used in this way, can promote the co-operative difference and build the public profile of the sector, foster a sense of community, and facilitate networks and co-operation amongst co-operatives.

Further research will be undertaken to explore impediments to the uptake of social media within the co-operative sector, and ways of enabling co-operative and mutual organisations to improve their social media maturity towards the 'Monitor' model. As the framework offered by Gallaugher and Ransbotham (2010) was developed for the corporate sector, we expect that new models of engagement will develop beyond the current 'Monitor' model given the different value propositions and relationships guiding the interactions between co-operative enterprises and customers, many of whom are also member-owners.

M. Mosca
S. Villani

Good and Bad Networks. The role of social enterprises in the fight against organised crime

During the last decade there has been a common agreement among scholars to analyse and promote policies that support criminal prevention starting from economic and social development. These actions and interventions prevent criminal behaviour by building social structures based on values different from criminal ones. In fact, prevention policies can, when properly implemented, reduce the costs of punishment and represent overall cost-benefit improvement in terms of re-education and re-qualification of individuals.

In order to defeat criminal organisation it is necessary to investigate the complexity of criminal behaviour, which depends on the varied socioeconomic factors inducing criminal action. Criminal organisations use social relations and networks that grow out of the same territory among individuals and families, and between these subjects and institutions. These networks rise by displaying strength and power. They flout the myth of invincibility of public authorities and flaunt the ability to produce wealth for their members.

An efficient policy to fight criminal organisations should be focused on weakening the determinants of social consent bestowed upon criminal organisations, breaking the twofold vicious cycle which goes from the social and cultural impoverishment to the rise of social insecurity underpinning the incentives to carry out illegal activities; from the spread of distrust between citizens, or between them and legal institutions to the strengthening of a model of social development that is sustained by crime. The promotion of social activities connected with the development of territories infested by organised crime can favour the accumulation of 'pure' social capital by activating those social patterns that push individuals to prefer legal to illegal activity[1].

[1] These questions received little attention in the established literature, particularly by economists. In the economic literature, Buonanno, Montolio and Vanin P. (2009) pioneered research on this topic.

Anthony Jensen, Greg Patmore, Ermanno Tortia (edited by) *Cooperative Enterprises in Australia and Italy : comparative analysis and theoretical insights* ISBN 978-88-6655-867-5 (print) ISBN 978-88-6655-868-2 (online PDF)

Following this idea the paper aims at analysing the utilization for social purposes of the assets confiscated from criminal organisations, as allowed by the Italian Law No. 109, 7th March 1996 (*Dispositions on the subject of management and destination of seized and confiscated assets*) and underlined also by the Legislative Decree dated 6 September 2011, n.159, the so-called 'New Anti-Mafia Codex', as an effective tool to prevent organised crime.

Using a theoretical model, this paper intends to show, first, that the confiscation of illegal assets can produce a direct impact on the choices of the criminal, reducing the expected utility derived from illegal activities. Secondly, it tries to show how the reuse for social purposes of the confiscated assets can favour the growth of mutual trust among individuals, sustaining an economy alternative to the criminal one. This juridical tools, in fact, if adequately disciplined, can produce a substitution effect which determines a change in the framework of the individual's choices inducing him/her to increase his/her effort in carrying out legal activities.

The paper identifies the economic characteristics of the assets of criminal organisations in Section 2. In Section 3 it illustrates the tools for fighting organised crime, and gives a synthesis of the Italian Anti-mafia Legislation on seizure, confiscation and social reuse of illegal assets. Sections 4 and 5 develop a theoretical model of the relationship between social capital and criminal organisations, proposing a strategy for fighting organised crime; the last Section summarises the main results and concludes.

1. The Double Nature of the Mafias' Assets

The assets accumulated by criminal organisations have a double role: (i) they increase the utility and the economic wealth of the members of criminal organisations; (ii) they represent the symbols through which criminal organisations signal to the community and the territory where they operate their strength and dominance, inducing submission as behavioural response of the poorer[2]. In fact, through the quantity and the quality of their assets criminal organisations publicly demonstrate their power and strength. Therefore, emphasizing this point of view, these goods can be compared to the microeconomic category of positional goods (Hirsch 1976). Positional goods confer utility through the status they create and the relative position in the social ladder through their possession and consumption. In other words, they are those assets which serve to improve the consumers' own wealth and relative status. They, in fact, produce greater utility for the consumers than he/she would receive if these were possessed

[2] In smaller communities it is not even necessary that assets need to be 'visible' and locatable by the members of the community. Information spreads rapidly, without the need of material and tangible proofs of the wealth of criminal organisations.

by other individuals. Moreover, the wealth status of a person generated by the possession of positional goods, would comparatively improve and allow the attainment of higher levels in the social pyramid if the wealth position of other persons decreased.

Acting as a single consumer, the criminal organisation accumulates goods in order to satisfy fundamental needs and to reach a superior status in signalling to the community its strength and its ability to produce wealth for itself and its affiliates. In fact, the more criminal organisations use their strength to proliferate illegal activities, the more they subtract relevant resources from the territory, worsening the wealth position of other individuals.

This interpretation explains why criminal organisations are mostly active in territories with poorer socio-economic conditions. Consequently, there would be a connection between criminal organisations and territorial impoverishment. However, their activity cannot be considered similar to other produced goods and services due to additional reasons too. First, these assets are the products of illegal activities which subtract economic resources from the local territories depriving them of individuals and assets operating within legal boundaries. Second, these assets are obtained by arousing terror, producing crimes and deterioration of social relations. The activities carried out by criminal organisations produce for their members goods and services that are the product of 'asocial' capital. Through illegal activities the Mafia's assets lose their neutral[3] function and their utilization is no longer social, but becomes 'asocial', because they create obstacles between economic development and social growth. These goods and services, in turn, produce additional 'asocial' capital. Subtracting these assets from criminal organisations and reassigning them to the community which has suffered the theft represents a policy tool that is able to restore and re-strengthen trust among individuals and between individuals and the legal institutions.

2. The Italian Anti-Mafia Legislation and the Productive Role of the Social Enterprise

In recent decades the Italian Parliament passed new laws to fight criminal organisations based on the forfeiture and reutilisation for social purpose of the mafias' assets. A number of legislative acts have been approved over the last fifty years. The law No. 1423/1956 represents the first attempt to introduce preventive measures supporting safety and public morality through the imprisonment of dangerous people. The law 575/1965, *Dispositions against Mafia*, introduced the explicit reference to members of as-

[3] Douglas, Isherwood (1979).

sociations based on the mafia structure with the application of preventive measures regarding the individuals, and their properties, suspected of belonging to mafia, camorra organisations, or to other local illegal associations. It also extended to these individuals the application of preventive measures of imprisonment, such as preventive detention and internal exile, with the possibility to investigate his/her standard of living, financial assets and properties suspected to having been acquired through any mafia connection. Moreover, it allowed to investigate also the consort, children and cohabitants of the individual suspected of belonging to the criminal organisation within a five years horizon, as well as corporations of which he/she resulted to be in control. In order to prevent the disappearance of the forfeiture assets, it allowed the seizure of the assets before judicial hearing is set. Art. 22 of the Law 14 May 1975, No. 152 introduced the freezing of personal assets so that they could not be used for illegal activities.

Few years later, the Law of 13 September 1982, No. 646, known as the Rognoni-La Torre Law, gave the legal definition of Criminal Association of Mafia Type, which was introduced in the Italian Criminal Code (See Art. 416-*bis*)[4]. Moreover, the range of the tools enforceable towards individuals suspected of belonging to Criminal Associations of Mafia Type was widened through the introduction of the seizure and confiscation of the assets of suspicious source.

In order to overcome some difficulties tied up with the management of the seized and confiscated goods, Decree No. 230/1989, converted by Law 282/1989, *Urgent dispositions for the administration and the destination of the assets confiscated through Law 575/1965*, changed part of the pre-existent Legislation on the management of confiscated goods. Despite legislation, difficulties connected to the critical aspects of the destination of the criminal assets still persisted.

To overcome these problems, Law 109/1996, *Dispositions on the management and destination of seized and confiscated goods*, envisaged the social and economic value of the reutilisation for social purposes of goods belonging to criminal organisations and combined the expropriation of the assets illegally accumulated with the restitution of the seized or confiscated properties to the community. The law opens up the possibility to overturn the status of the assets illegally accumulated through stealing resources to the community, from positional (subjugation) goods that oppress the wealth and liberty of the community into public goods producing benefits for the same community (Mosca, Villani 2010, 2011).

[4] According to what is foreseen by the Italian Law, a criminal organisation is considered of Mafia Type when members use a threatening strength as a specific characteristic of associative tie and condition of submission and conspiracy of silence that derives from it, to commit crimes and to acquire the management or the control of economic activity or concessions or realisation of profits and unfair advantages.

The social function of confiscated goods is underlined in the new code of preventive measures and anti-Mafia documentation (the above mentioned *New Anti-mafia Code*), issued by Legislative Decree 159/2011. The New Anti-mafia Code places Italy in a prominent position in the international arena in the fight against organised crime since seizure and confiscation are most feared by criminal organisations and represent the most effective measures to fight them[5], because they deprive criminal organisation not only of the economic wealth, but also of the social consent used to spread the sense of invincibility in the territory. These measures represent political tools that allow criminal assets to be deprived of the characteristics which make them status symbols[6]. From status goods, that produce wealth through the exploitation and impoverishment of the economic and civil resources of the territories, they are transformed into opportunity for economic and social development.

Furthermore, the Italian law gives the possibility to assign the confiscated goods to non-profit organisations[7] underlining, in this way, the social role which these organisations have been acquiring in the commutation of illegal goods into social and community activities. The strengthening of the social economy can be seen as cure for criminal economies. In fact, the maximisation of social utility pursued by these organisations facilitates the growth of social capital and social community initiatives.

The development of social entrepreneurship can represent one ideal mechanism able to produce civil, social and economic development in local systems. The increase in the number and typology of activities of social enterprises induces the creation of new employment and wealth outside of the criminal circuit. Several empirical studies confirm that the richest territories in Italy are also characterised by the presence of a greater number of social cooperatives as well as other non-profit organisations, highlighting also their contribution to building social capital (Sabatini, Modena, Tortia 2014). In this perspective, it is no chance if Southern Italy represents the part of the national territory recording the lowest diffusion of social cooperatives and non-profit organisations.

Seizure, confiscation and, above all, reutilisation of illegal assets for social aims can be used as indicator of the loss of power and influence to criminal organisations in their territories. Therefore, the number of reutilised goods for lawful social purposes and activities can be used as proxy

[5] In fact, The European Commission has recognized the strategic priority of confiscation of assets illegally obtained as an effective tool in the fight against criminal organisations. See European Commission 2012.

[6] In particular, they deprive criminal organisations of economic wealth and, therefore, of financial capability to bribe judges, prosecutors, witnesses, politicians, entrepreneurs, professionals and all other subjects with whom Mafia forms its 'shadow alliances'.

[7] Among non-profit organisations, social co-operatives, which represent the fundamental model of the Italian social enterprise sector, have been singled out by law as a typology of productive organisation that is recognised the right to reuse confiscated goods.

for the conversion of 'asocial' (criminal) capital into 'pure' social capital, i.e. as indicator of civil and social development.

3. A Formal Model of the Relation between Social Capital and Criminal Organisations

Social enterprises have been prised for playing a central role in promoting local development and economic growth through the creation of social capital (Borzaga, Fazzi 2011; Provasi 2004; Ecchia, Tortia 2009; Sabatini *et al*. 2014). Based on this idea the model postulates that social enterprises are capable 'of breaking' criminal ties and networks by substituting these ties with new and lawful networks of socially oriented economic activities. The social aim excludes private appropriation of the benefits of the activities, forestalling this way possible criticisms against the private exploitation of confiscated assets. In this process public authorities are considered regulators and watchdogs, but not beneficiaries of the new economic activities. This process also diverts employment from illegal to legal activities.

The model considers the existence of a population of n individuals, ordered in highly connected clusters, or in very narrow groups of individuals connected by strong ties. The structure of this population is similar to a mesh network (see figure 1), where every mesh represents a group of individuals whose relationships are based on common affiliation with affective content and a high degree of stability (strong ties). Social interactions, which are instead established among individuals belonging to different groups, are potentially neutral from the affective point of view, less intense and less stable (weak ties).

The universe of n individuals is composed by the following elements:

- $G = (N, L)$ = pair of sets;
- $N = \{n_1, n_2, \dots, n_g\}$ = set of individuals composing the community (vertices and nodes of the graph);
- $L = \{l_1, l_2, \dots, l_h\}$ = set of relationships that tie individuals belonging to the community (edges that connect pairs of vertices);
- $L_S = \{l_{1s}, l_{2s}, \dots, l_{ns}\}$ = subset of strong relationships;
- $L_W = \{l_{1w}, l_{2w}, \dots, l_{nw}\}$ = subset of weak relationships;
- g = individuals tied to a generic relationship, or rather to a tie of acquaintance;
- f = individuals tied to a strong relationship;
- $d = (g - f)$ = individuals with whom a weak relationship can be established;
- $n_{SSI} = \{n_{1f}, n_{2f}, \dots n_{nf}\}$ = the subset of individuals tied to Strong Social Interactions (SSI);

- $n_{WSI} = \{n_{1d}, n_{2d}, \ldots n_{nd}\}$ = the subset of individuals tied to Weak Social Interactions (*WSI*);

- $\omega_W = \frac{d}{g} =$ the ratio of the existing weak ties ($0 \le \omega_W \le 1$);

- $\omega_S = \frac{f}{g} =$ the ratio of the existing strong ties ($0 \le \omega_S \le 1$);

- $\varphi_W = \frac{L_W}{\frac{d(d-1)}{2}} = \frac{2L_W}{d(d-1)} =$ ratio ($0 \le \varphi_W \le 1$) of existing (real) weak relationships to the total potential number of weak relationships (the total number of weak relationships which can theoretically be established within the community), given the number of individuals with whom a weak relationship can be established; this element represents an indicator of the density of weak networks;

- $\varphi_S = \frac{L_S}{\frac{f(f-1)}{2}} = \frac{2L_S}{f(f-1)} =$ the ratio ($0 \le \varphi_S \le 1$) of the strong effective ties to all the possible ties, given the number of people with whom a strong relationship can be established; this is an indicator of the strong network density;

- j = the size of the network which must be travelled to reach the occupational targets, that is the network which allows people to get useful information on job opportunities;

- $d_{CR} = \{n_1, n_2, \ldots n_c\}$ = number of criminals in community d;

- $d_{NCR} = \{n_1, n_2, \ldots n_o\}$ = number of non-criminals in community d;

- $\rho = \frac{d_{CR}}{d}$ = the ratio of criminals in community d;

- $(1-\rho) = \sigma = \frac{d_{NCR}}{d} =$ the ratio of non-criminals in community d.

It is possible to calculate the average number of contacts of an individual that is given by the sum of the established social interactions between relatives and friends with those tied with the rest of the population:

$$(\omega_F \cdot f) + (\omega_D \cdot d) = (\omega_F \cdot f) + \underbrace{(\omega_D \cdot \rho \cdot d)}_{\text{Criminals}} + \underbrace{[\omega_D \cdot (1-\rho) \cdot d]}_{\text{Non criminals}} \tag{1}$$

Furthermore the model hypothesises that just a share of the individuals belonging to community d was committed to doing social activities and, therefore, this part was more equipped or specialised in furnishing job opportunities, or simply information useful for job search.

The model assumes:

$d_{NCR}^{CSA} = \{n_1, n_2, \ldots n_i\}$ = number of individuals committed to doing social and community activities d_{NCR};

$d_{CNCR}^{USA} = \{n_1, n_2, \ldots n_k\}$ = number of individuals uncommitted to doing social and community activities d_{NCR};

$\sigma_{CSA} = \dfrac{d_{NCR}^{CSA}}{d} =$ ratio of committed individuals d_{NCR};

$\sigma_{USA} = \dfrac{d_{NCR}^{USA}}{d} =$ the ratio of uncommitted individuals d_{NCR};

Combining these assumptions with the result achieved by Formula (1), we obtain:

$$(\omega_S \cdot f) + (\omega_W \cdot d) = (\omega_S \cdot f) + \underbrace{(\omega_W \cdot \rho \cdot d)}_{\text{Criminals}} + \underbrace{(\omega_W \cdot \sigma_{CSA} \cdot d) + (\omega_W \cdot \sigma_{USA} \cdot d)}_{\text{Non criminals}} \tag{2}$$

Thus, the dimension of the social network that must be travelled to reach occupational targets is given by:

$$j = (\omega_W \cdot \rho \cdot d) + (\omega_W \cdot \sigma_{CSA} \cdot d) \tag{3}$$

Differentiating with respect to ω_W (that is with respect to the ratio of weak ties), the model obtains $\dfrac{\partial j}{\partial \omega_W} > 0$, if $\rho \cdot d + \sigma_{CSA} \cdot d >$.

Since $\sigma_{CSA} = \sigma - \sigma_{USA}$, we can rewrite this formula as:

$$\rho \cdot d + (\sigma - \sigma_{CSA})d > 0. \tag{4}$$

Recalling that $(1-\rho) = \sigma$, equation (4) becomes:

$$d - \sigma_{USA} d > 0 \tag{5}$$

Therefore, it is possible to conclude that:

$$\frac{\partial j}{\partial \omega_W} > 0, \text{ if } d > \sigma_{USA} d \tag{6}$$

Equation (6) tells us that the necessary condition to obtain a positive effect on the size of the social network relevant to occupational targets is that the community must not be composed exclusively by ‘uncommitted’ individuals.

The model considers two cases. The first one relates to an universe without individuals committed to doing social activities. In this case, the average number of contacts of an individual is:

$$(\omega_F \cdot f) + (\omega_D \cdot d) = (\omega_F \cdot \rho \cdot f) + \underbrace{(\omega_D \cdot \rho \cdot d)}_{\text{Criminals}} + \underbrace{(\omega_F \cdot \rho \cdot f) + (\omega_D \cdot \sigma_{USA} \cdot d)}_{\text{Non criminals}} \tag{7}$$

Consider now for simplicity the four events $E_{1,}$ $E_{2,}$ $E_{3,}$ $E_{4,}$ representing 'meeting with an individual belonging to subset *A*, *B*, *C*, *D*':

$$A = (\omega_S \cdot \rho \cdot f)\,; B = (\omega_W \cdot \rho \cdot d);\ C = (\omega_S \cdot \sigma_{USA} \cdot f);\ D = (\omega_W \cdot \sigma_{USA} \cdot d)".$$

Then, if each of these subsets is constituted by the same number of individuals, the probability to meet individuals that belong to one of the above mentioned subsets is equal to:

$$p_i(E_i) = \frac{1}{4} \Rightarrow 25\,\%$$

with $i = 1$ to 4,

because $1 = P(S) = \sum_{i=1}^{4} p_i(E_i) = p_1(E_1) + p_2(E_2) + p_3(E_3) + p_4(E_4)$,

considering that we deal with events equally probable but incompatible (they exclude each other, that is, $P(S) = p(E_1 \cup E_2 \cup E_3 \cup E_4)$.

Recalling that only the individuals included in weak ties are able to offer employment information and opportunities, the probability to meet these individuals, and to find a job, is equal to 50 per cent.

If, in fact, the model assumes that:

$$E_j = E_2 + E_4$$

$$E_{NU} = E_1 + E_3$$

implying $P(E_j) = \frac{2}{4} \Rightarrow 50\,\%$

The model shows that introducing in the community *d* a further subset of individuals who are devoted to social activities or to activities of brokerage in the search and matching processes in the job market (directed, for example, to the employment of disadvantaged people), the probability of meeting individuals actively participating in the labour market and who are not involved in criminal activities will increase. In such case, in fact, the range of possible events is:

$$E_j = E_2 + E_4 + E_5$$
$$E_{NU} = E_1 + E_3$$

The last result depends on the introduction of event E_5, that is the event 'meeting with an individual belonging to the subset $E = (\omega_D \cdot \sigma_{IS} \cdot d)'$. Therefore, the probability of meeting individuals able to offer employment information or opportunities will increase to $P(E_j) = \frac{3}{5} \Rightarrow 60\%$.

In territories characterised by high crime rate (both diffused and organised crime), the creation of patterns of job insertion and valorisation of human resources needs suitable conditions favouring the growth of social enterprises and organisations (such as social cooperatives, voluntary associations, foundations and other non-profit organisations) that promote social activities and take up a crucial mediation function in the labour market. Such organisations occupy, in fact, a very remarkable position in the whole system of social relationships. This is the typical position which is defined as 'cutpoint' or 'key player' by scholars in Social Network Analysis, because it assumes the function of linking, or 'bridging' the isolated nets of relationships woven by the individuals that compose the community.

This same role is played in their territory also by criminal organisations, that propose themselves, «according to the circumstances, as brokers, patrons, protectors in relational structures of different nature that are utilised for their criminal aims» (Sciarrone 2009). In fact, it can not be neglected that the strength of Mafia is not only function of its practiced violence, and control and dominance of the territory, but also of its ability 'to make network' (i.e. to establish relationships, to establish trades, to create ties of trust and to stimulate obligations, as well as mutual favours) and to propose itself as 'broker' between different subjects and different nets of relationships[8]. The mafia also pretends to protect the citizens against undue intrusion by public authorities, for example by favouring and protecting tax evasion. It is possible to sustain that this type of organisation grows out of its ability to spin (weak) ties and to activate processes of networking through which it obtains economic and social resources that would otherwise result unattainable or unavailable.

An efficient strategy to fight organised crime should, first of all, be determined in breaking the ties and in discouraging the relationships created within its components. In fact, in recent studies on the structure of criminal

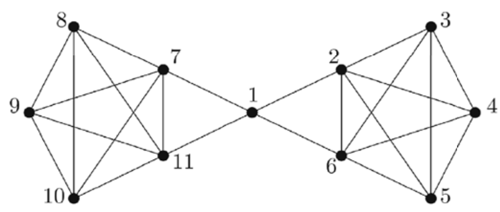
[8] In Southern Italy, «this network of intermediation, often manifests itself in an improper way» (Barucci 2008: 23.). The most normal services are furnished in fact in 'opaque' ways (or at least, they are so perceived by citizens) as they create roles and unusual professions (from the unauthorized parking attendant to the *facilitator* for certain procedures, to those whose job is to make recommendations), which increase the costs of production and strongly slow down economic development. This improper role was recently underlined by the Governor of the Bank of Italy (Draghi 2009: 5: «The weight of organised crime is felt in a great part of Southern Italy. It infiltrates Public Administrations, it pollutes trust among citizens, it hinders the operation of the free competitive market, it increases the costs of the economic and civil life»).

networks[9], it is stressed that the strength of these organisations mainly consists of relational resources, that is in what is commonly called 'social capital', and in their ability to tie themselves – through an informal net – to other individuals and organisations which occupy a key position in the life of the local community. Such individuals and organisations carry out the important function of connecting the isolated social networks among themselves and of controlling precious flows of information, establishing a whole series of alliances and friendship's networks, which at any moment can be used to reach their criminal purposes or, in any case, to gain advantage and utility.

The policies proposed by these studies essentially consists in the removal of such individuals and organisations which can be identified with the aid of the modern techniques of the Social Network Analysis and the Mathematical Theory of the Graphs. In fact, it is in the field of scientific research that the concepts of point of separation and bridge, as well as special statistic indexes directed to single out the relative position of the subjects in the net, have been elaborated.

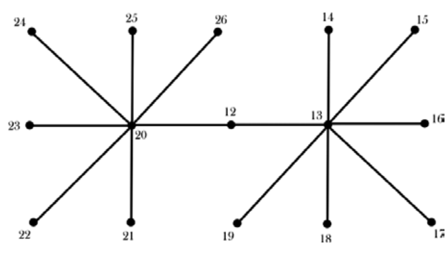
The graphs in figures 1 and 2 allow us to visually grasp the meaning of the aforementioned concepts.

Figure 1– 'Separation point' and 'bridge' in an generic network structure.



Source: our elaboration

Figure 2 – 'Separation point' and 'bridge' in a hierarchical structure of relationships.



Source: our elaboration

[9] These issues are highlighted, in particular, by Gribaudi (2009) and Sciarrone (2009), while an interesting attempt to assess the relational structure of criminal organisations through the use of Social Network Analysis has been carried out by McIllwain (1999), Sarnecki (2001), Matsueda (2006), Cayli (2010) and Scaglione (2011).

The expression 'point of separation' identifies the subjects (the nodes 1 and 12 represented in figures 1 and 2) which belong to a given net of social relationships (a set of nodes). The structural position they occupy implies that their elimination would produce the separation of the original net into at least two components (as illustrated in figures 1 and 2 as two subsets of nodes).

The concept of 'bridge', on the other hand, is usually referred not to individuals, but to the particular types of relationships or interdependences (the lines that connect node 1 to nodes 2, 6, 7 and 11 in figure 1 and node 12 to nodes 13 and 20 in figure 2) that have fundamental importance in a given context, because they allow the integration (or inclusion) of specific individuals in a group or they function as connectors of different groups.

Therefore, a good strategy to fight organised crime would foresee, as maintained by Ballester, Calvó-Armengol and Zenou (2010), the definitive removal of these individuals and organisations (what they define 'key players') from the network and the consequent elimination of their relationships. These relationships, in fact, allow the Mafia to draw its strength and its ability to adapt and to take roots, spreading in the local communities.

Nevertheless, such theory appears too simple and theoretical, because it does not adequately take into account the real nature of the relationships between criminal organisations and the worlds of civil society and politics[10]. It is well-known, indeed, that some areas of promiscuity between civil society and the Mafia's dominating sets exist in Italia and in other countries witnessing similar situations. Therefore, it is unwarranted to think that is possible to eliminate them suddenly, with a stroke of magic wand[11]. On the contrary, it is more realistic to focus on fragmenting the criminal networks by using the same 'weapons' used by the Mafia, that is

[10] We can consider a proper 'transmission belt' that connects politics to criminal organisations. In some of these organisations, for instance, some individuals take the role of 'vote promoters' who have the specific assignment to put in contact and hold the same contact between the Mafia clans and politicians. See Paoli (1997), Galullo (2010a and 2010b), Xenakis (2010), Mancini (2011), Sberna (2011). Nando Dalla Chiesa (famous writer, politician and sociologist, son of General Carlo Alberto Dalla Chiesa, who was killed in a Mafia ambush in 1982), in his latest study on the relationship between Mafia and politicians, argues that the collusion between the Mafia and the State was not the result of specific agreements or deliberate alliances, but of «a broader, more general, more systemic convergence, which may also include unspeakable pacts with the Mafia» and «which can arise from common interests between the Mafia and political parties or political leaders, in order to have a weaker judicial system, less independent judges, more enslaved information, more precarious sense of the State, a value system more functional to the pursuit of illegal activities». See Dalla Chiesa (2010).

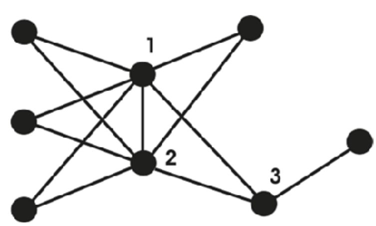
[11] Criminal organisations would not have been able to influence in such a widespread way the economy if they had been able to count only on their strengths, that is, only on individuals 'formally' considered members, through the various forms of affiliation, in their ranks. It was necessary that other individuals and apparatus (the so called 'grey zone' or 'Mafia middle class') integrated, through their action, with the Mafia. We refer, in particular, to professionals, businessmen and politicians, also inside Public Administrations. See Santoro *et al.* (2005), Amadore (2007), Lanza (2009).

the same social capital and the same network of relationships which it uses and which constitute its strength. These latter, in fact, do not exclusively belong to those individuals drawing benefit from them, but also to those who were able to develop their enormous potential and are prepared to invest in their growth.

From our point of view, an effective strategy to fight organised crime should aim at identifying not only individual key players (the individual nodes that represent the hubs of the graphs), but also all the groups and subgroups of individuals who have a dominant position or an important link function within the criminal network, or between the criminal world and business or the political arena (these are the famous *zip-men*, that is the innocent-looking men of criminal organisations). In fact, it has been analytically demonstrated that the removal of a hub may not be fatal for the free-scale networks. In this type of network, when there is an attack or a failure in the system which strikes the most highly connected nodes, the latter can be replaced by others which will equally ensure the network survival and its internal information flow. However, these surrounding nodes make up a set which, if eliminated, can produce greater fragmentation or widen the paths which link each individual node[12] and thus virtually collapse the network.

Consider, for example, figure 3. It shows the kind of situation which this approach could help to solve. Nodes 1 and 2, in fact, play the role of key players, but only by destroying the pair 1 and 2 or 1, 2 and 3 at one and the same time we obtain the best possible fragmentation of the graph.

Figure 3 – Example of a 'separation group'.



Source: our elaboration

In conclusion, in order for this approach to be effective, it requires the concepts of the *dominating set* and *cut-set*, rather than the concepts of the *cut-point* and *bridge*. Consequently, the repressive strategy would be

[12] We must remember that, in graph theory, the notion of path identifies a walk whose nodes and whose lines are to be inserted in sequence once and only once. This notion implies, consequently, the existence of sets of nodes connected to each other, that is connected directly or indirectly by at least one walk.

aimed at searching not for the individual nodes whose removal may lead to an increase in the number of network components, but for the smallest groups of nodes (*minimum cut-set*), or the *minimum weight cut-sets*[13], which would be able to separate the largest number of network nodes[14]. In fact, it is known that, as time passed, a synergy was formed among different resources (political, economic and military) from which arose complex illegal networks, named *criminal systems*. Moreover, it is known that in these networks there are individuals, belonging to different social contexts (politicians, entrepreneurs, white collars, besides real member of the Mafia), which communicate among themselves through the so called *zipmen*. If we consider these minimum cut-sets as teeth of a zipper uniting two worlds, we could say that the best repressive strategy must aim at eliminating or catching them first, to break the linkage, which they embody. This kind of repressive strategy, which we can define *Zipping-Open Strategy*, can lead to weaken and neutralize criminal networks with limited deployment of resources.

Within this approach, it is not difficult to understand the strategic importance of the analysis of the structure and evolution of criminal networks and the adoption of appropriate research methods of the aforesaid *vertex cut-sets*.

4. Proposals for crime prevention policies

The way of reasoning followed by our model suggests that a serious strategy to fight organised crime should begin with prevention[15], accomplished through suitable policies which support and enhance the creation and the accumulation of social capital[16]. Specifically, the State should promote and support the development of those organisations (such as social cooperatives, voluntary associations, etc.[17]) which also assume an important role in the labour market as brokers between different groups of individuals or networks.

[13] The *cut-set minimum* is the one that contains no other *cut-sets*. Many works in Graph Theory have examined the problem of identifying the so called *minimum weight cut-sets*.

[14] This approach comes from the extension of the concept of the *separation point*, an extension that is derived from the need to consider the so-called *ensemble issues*, defined and discussed by Everett and Borgatti (1999) and Borgatti (2006) as the central problem of a group of *k* nodes included in a network.

[15] On the necessity to use effective tools of prevention, over those of repression, see Vigna (2007: 15).

[16] Recent studies illustrate, in fact, that the strong presence of social capital in given territories can produce positive effects on social cohesion and even determine a reduction of crime rate. The reader can refer to Gatti, Schadee, Tremblay (2002), Gatti, Tremblay, Larocque (2003) and Buonanno, Montolio, Vanin (2009).

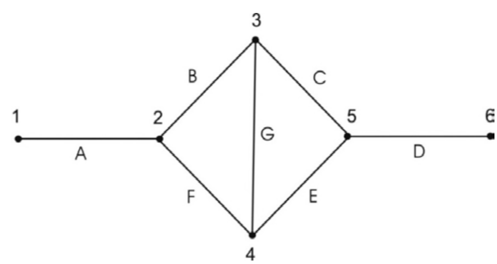
[17] We suggest, for instance, the study of Lasagni (2008), in which it is underlined that an increase in the number of citizens joining voluntary associations can reduce the incidence of crime (thefts of automobiles and robberies) in the territory.

An effective preventive strategy should, therefore, aim at identifying those individuals or groups of individuals engaged in such socially important activities, which control the information flows relevant to socio-economic development, and increase social cohesion within the network.

Let us imagine what could be the possible effect of the aforementioned policy. Figure 4 shows a square formed network which represents a connected social network with two nodes (node 2 and node 5). These nodes identify the so-called 'key players', that is those individuals who take up the important function of connecting different groups, just as criminal organisations and social enterprises do.

Moreover, if we imagine that the aforesaid network becomes carrier of precious information flows (useful for example to get a job) – just as an electric or telephone circuit are carriers of electricity flows – we can suppose that the five ties connecting nodes 2 and 5 are 'open', that is they allow the free flow of information, with probability respectively given by, *A, B, C, D, E*. For example, the tie A between the node 1 and 2 will be *open* with probability *a* and closed with probability *1 – a*, the tie B between the node 2 and 3 will be *open* with probability b and closed with probability *1 – b, etc.*

Figure 4 – Reliability of the key players network.



Source: our elaboration

We extend the model presented in the previous section by considering the concept of 'reliability' of the social networks. The individual's advantage in contacting or in turning to the two types of *key players* depends, first of all, on the 'reliability' of the network, that is on the probability that the above-mentioned information flows freely inside it (that is, there is at least one series of open ties between nodes 2 and 5), matching the demand and the supply of labour.

We deduce that, if Ω represents the 'space sample of the events' defined in the following way:

A_1 = 'the ties *B* and *C* are *open*';

A_2 = 'the ties *B*, *G* and *E* are *open*';

A_3 = 'the ties *F*, *G* and *C* are *open*';

A_4 = 'the ties *F* and *E* are *open*';
then the network reliability is given by $P(A_1 \cup A_2 \cup A_3 \cup A_4)$.

There are five ties *A*, *B*, *C*, *D* and *E*, which may be closed with probability respectively *a*, *b*, *c*, *d*, *e*. For example, the link *A* is closed with probabilities *a* and is open with probability 1 – *a*.

Therefore, based on the formulated hypotheses, it results that:

$$P(A_1) = ad\,,\ P(A_2) = ace\,, P(A_3) = bcd\,, P(A_4) = be\,,$$
$$P(A_1 \cap A_2) = acde\,, P(A_1 \cap A_3) = abcd\,, P(A_1 \cap A_4) = abde\,,$$
$$P(A_2 \cap A_3) = abcde\,, P(A_2 \cap A_4) = abce\,, P(A_3 \cap A_4) = bcde\,,$$
$$P(A_1 \cap A_2 \cap A_3) = P(A_1 \cap A_2 \cap A_4) = P(A_1 \cap A_3 \cap A_4) = P(A_2 \cap A_3 \cap A_4) = P(A_1 \cap A_2 \cap A_3 \cap A_4) = abcde.$$

In this way, the advantage of entertaining relationships with the *key players* of the community *d* depends on the aforementioned *network reliability*, as shown by the following expression:

$$P(A_1 \cup A_2 \cup A_3 \cup A_4) = ad + ace + bcd + be - acde - abcd - abde - abce - bcde + 2abcde \quad (8)$$

which represents also the condition upon which the individual decision of whether or not 'to preserve' these ties or 'eliminate them' depends.

The individual has to understand which agent would be better able to give him/her job information. Then he/she will make a decision keeping in mind, first of all, the probability of receiving useful information with the aim of finding a job [*P*(*A*)]. The agent knows that two results are possible: A_1 = 'I receive useful information to find a job' or A_2 = 'I do not receive useful information to find a job'. These two results are possible and equally probable

$$P(A = A_1) = P(A = A_2)$$

but also *exhaustive* and *exclusive*:

$$P(A = A_1) + P(A = A_2) = 1$$

Furthermore, he/she has additional information concerning the degree of 'reliability' (*E*) of the social network to which his/her interlocutor is connected, that is the individual he/she addresses to obtain useful information. Therefore, the individual will make an appropriate decision calculating the probabilities *P(A)* = the probability to receive useful information to find a satisfactory job and *P(A½E)* = the probability to get the useful information, given the degree of reliability of the social network addressed (conditional probability of *A*, known *E*) – and applying the Bayesian rule:

$$P(A_i|E) = \frac{P(E|A_i)P(A_i)}{P(E)} \tag{9}$$

We deduce that, if Ω represents the 'space sample of the events', as defined in Annex 2, the model implies that the decision of the individual depends on the degree of reliability of the chosen network, which can be expressed in the following way:

$$D = f(E) = \begin{cases} A_1, \text{se } p(A = A_1|E) > p(A = A_2|E) \\ A_2, \text{se } p(A = A_2|E) > p(A = A_1|E) \end{cases} \tag{10}$$

Following the *Theory of Evolving Networks*, it is possible to say that the degree of reliability of the social networks nodes (E) increases their *fitness* (η), that is their ability to compete for links, and in this way produces an increasing probability that new nodes connect that network (Π):

$$\Pi_i = \frac{\eta_i(E_i)k_i}{\sum_j \eta_j(E_j)k_j} \tag{11}$$

where:

η = the *fitness* of individual nodes in the social network considered. This variable, in our model, depends on the reliability of the individual nodes that make up the network [$\eta_i = \eta_i(E_i)$];
k_i = the *connectivity* of the individual nodes of the social network considered;
$i = 1, 2, \ldots, M$ = the individuals who connect to a specific social network in order to obtain the most valued information;
$j = 1, 2, \ldots, N$ = the nodes already existing in the social network considered[18].

According to this perspective, it is not difficult to understand the strategic importance of evaluating the reliability of the network and of the indices, which can provide general, but at the same time synthetic knowledge about the information flow within the network.

The model shows also a problem of asymmetric information that transforms the described situation in a game with imperfect information. From such observation a *second main conclusion* can be drawn: the State should try to reduce the occurrence of the aforementioned phenomena and to in-

[18] For in depth information on the concepts of *fitness* and *connectivity*, see Albert, Barabási (1999); Barabási, Albert, Jeong (1999); Bianconi, Barabási (2001); Ergün, Rodgers (2001); Albert, Barabási (2002).

crease the perception that social enterprises are more capable to match the supply and demand for labour and thus have a greater degree of reliability over other types of intermediaries, such as criminal organisations.

The connectivity k_i of the social enterprises belonging to community d will actually rise at a rate that is proportional to Π_i, which depends in turn on η_i and therefore on E_i:

$$\frac{\partial K_i}{\partial t} = m\Pi_i = m\frac{\eta_i(E_i)k_i}{\sum_j \eta_j(E_j)k_j} \tag{12}$$

where:

t = time;
m = the number of links between the social network considered and the already existing nodes, that is the set of ties (social capital) which is available to the social enterprise.

In this context, it is not difficult to imagine the additional effect that can be obtained by applying restrictive measures to the personal wealth of organised crime through seizure, confiscation and reutilisation of assets for social aims. These measures, if correctly applied and disciplined, can produce a relevant growth of the marginal costs of illegal activities in terms of reduced economic convenience to pursue them, and generate a substitution effect which modifies the set of the individual's advantages and induces an increase of the individual's effort devoted to legal activities.

Indeed, the benefits that can be obtained from a correct application of the reutilisation of confiscated property are still broader and more relevant. Actually, these restrictive measures can increase mutual trust among citizens and between citizens and the lawful institutions, thus favouring the formation of social capital and an alternative economy to the Mafia's. The accomplishment of this suggested strategy requires a strong support by the State and by other Public Institutions, not only in terms of subsidies and other economic advantages, but also in terms of proper regulation, credibility and transparency. As for support to specific organisational forms, State intervention should be directed towards promoting the growth of social enterprises and all those social agents (such as the social cooperatives) which operate and supply their goods and services (that is, above all, information and job opportunities) in the territories infested by the Mafia[19]. Consequently, competition policy would effectively operate as a tool

[19] We cannot forget, in fact, that the Mafia enters into the legal economy, because it is able to offer services (such as the easy and unrestricted financing that 'bypasses' the official system of access to credit, guarantee the timely fulfilment of financial obligations and respect for treaties and promises, services and dispute settlements, the protection of cartel agreements,

to clean up and fight organised crime, while the seizure and confiscation of criminal assets would deprive the Mafia of important economic resources, without which the management and preservation of the available resources would be increasingly difficult (in this case, the famous 'Law of Wildavsky' would go into effect).

5. Conclusions

The paper shows that in order to break the vicious circle between the social and cultural impoverishment and the strengthening of an economy sustained by crime it is necessary to utilise the same determinants of social consent used by criminal organisations. These, in fact, construct social ties and networks supporting a solid social consent which, in turn, allows them to operate, uncontested, in the production of illegal wealth for their associates. The promotion of initiatives able to stimulate social activities and through them the accumulation of 'pure' social capital could represent a complementary policy to fight criminal organisations by limiting the consent they receive from a large part of the population living in the territories in which the Mafia operates[20].

A mixed policy based on the seizure and the confiscation of criminal assets with the possibility of reutilisation of these goods for social and lawful purposes by non-profit organisations, as stated in the Italian Anti-Mafia Legislation, represents an important deterrent to the diffusion of illegal behaviour and organisation. The high symbolic value of the social reuse of the confiscated assets can contribute in a positive and effective way to

the provision of information and, most important, job opportunities) that are at least initially beneficial to agents in the economy. In this respect, the reader can consult the interesting study by Varese on the processes of expansion and transplantation of the Mafia: «The availability of the Mafia's muscles also permits the frightening of suppliers who do not pay on time, monitors the workforce, reduces theft and can be a source of short-term loans. […] They (the Mafias) offer *services* to their customers, such as protection against extortion, theft and abuse by law enforcement and protect the thieves and usurers; eliminate competition; intimidate workers and trade unions in favour of employers and, more generally, threaten and punish legitimate holders of property rights in favour of collusion. For example, in his classic study of Chicago organised crime published in 1929, the American ethnographer John Landeschi shows how the protection of cartel agreements is a crucial service provided by the Mafias» (Varese 2011).

[20] In fact, paradoxical as it may seem, people living in the territories infested by the Mafia often protest against the imprisonment of criminal leaders, because these leaders do indeed provide employment opportunities and bestow benefits. The recipients have a clear interest in the long term nature of these benefits since, being involved with the Mafia and given the very high rate of unemployment in Southern Italy, they often would not be able to find employment in the legal labor market. In this way, criminal organisations are able to buy consensus and accumulate asocial capital, which is then brought to bear in the political arena, since the consensus they are able to guarantee to related politicians can represent an important political weapon. This in turns increases their ability to generate profits through the adjudication of public tenders and procurement to the organisations they directly or indirectly control.

breaking the vicious social circles between poverty and criminality established in territories with strong criminal tradition.

The law explicitly identifies non-profit organisations, and among these social cooperatives that take the form of the social enterprise, as actors able to manage effectively and efficiently such patrimonies, which can produce, if properly valued and "revitalised", huge flows of wealth for the territories abused by criminal organisations. This would contribute to the creation of new and clean jobs and, at the same time, to finding new paths for the growth of social capital and the building of trust towards legal institutions. In fact, the mistrust of the communities in Southern Italy towards the latter is tightly linked to the possibility that, in a direct or indirect way (through, for example, the role of dummy companies or figurehead individuals), criminal organisations continue to practice their activity uncontested. The constraint placed on profit distribution and the governance model based on multi-stakeholder involvement and pursuit of social aims – which allows the possibility of sharing managerial power among different subjects, both public and private – could furnish some suitable mechanisms and guarantees to prevent criminal organisations from re-appropriating the assets after their confiscation and, this way, improve trust towards the State and its institutions. Indeed, the multi-stakeholder nature of social enterprises would be able to successfully impede the possibility of the repurchasing of these activities by the criminal actors, and strongly reduce mistrust favouring the development of crime on the territory. In the territories where criminal organisations are historically embedded and strongest, the promotion of social and employment policies generated by social enterprises can sustain the fight against the Mafia, since in these social contexts jobs are conceded by the Mafia as a favour given to subjugated individuals, when instead they should be considered a right attached to citizenship.

Following the result proposed by our model, incentives aimed at the diffusion of social enterprises can directly produce economic wealth through the production of good and services and job opportunities in addition to those generated by the private for-profit and public sectors. Furthermore, the diffusion of social enterprises can generate indirect effects on the accumulation of wealth through the production, the fuelling and the maintenance of social capital based on trust, respect for the law and incentives to take an active part in the civic activities of the community. These elements can improve the quality of individual life and wellbeing. At the same time, they can contribute to the creation of new roads towards legality and respect for the law. Finally, the acceleration of the administrative procedures which precede, accompany and follow the assignment of the illegally obtained assets can reinforce the effectiveness of this tool and prevent its impoverishment due to the actions of criminal organisations, which can strive to regain control over the assets in lawful and unlawful ways.

A. Jensen
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Conclusion. Co-operatives in Australia and Italy: lessons and prospects

This book has brought together both scholars and participants in the co-operative movements in two countries in a project that held its first meeting at the University of Sydney in February 2010. The project occurred against the background of the planning and activities associated with the UN International Year of Co-operatives in 2012, which was the first time that the UN had explicitly endorsed a business model. This endorsement challenges the neglect of the economics profession of co-operatives in recent years and business school reluctance to include co-operatives in research and teaching programmes. This year was to have particular impact in Australia where it has prompted Australian co-operatives and mutuals to form a business council – the Business Council of Co-operatives and Mutuals (BCCM). The book highlights the three streams that have underlay the project – a comparison between the Australian and Italian co-operative sectors, a further development of co-operative theory and insights that may assist co-operatives expand their effectiveness in managing their organisations and public policy.

Comparing Australia and Italy has highlighted the enormous gap that exists between the two co-operative movements. The legislative framework (see *A Comparison between Australian and Italian Co-operative law*), which is underpinned by social values, is significant in understanding the gap. The recognition of co-operatives in the Italian post-war Constitution and the subsequent Basevi law highlighted not only the importance of co-operatives in social and economic life but also their contribution to reinforcing democratic institutions, addressing wealth inequalities and challenging anti-democratic forces such as Fascism through the participation of members. Subsequent legal developments in Italy have also assisted co-operatives overcome major obstacles such as raising capital. By contrast Australian co-operative law has been fragmented, as it was administered

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by states rather than at a national level, with no Constitutional recognition of the potential importance of co-operatives in social and economic life and no parallels in terms of fund raising.

The Italian movement is far stronger across all areas of co-operative endeavour including the newly developing area of social co-operatives. A particularly difficult situation exists in regard to Australian worker co-operatives, when one compares them to the stronger Italian movement (see *Worker Co-operatives, From the neoliberal to the participatory firm: employee participation through industrial relations and governance in Australia and Italy*). Worker cooperatives in Italy retain a small but significant share in manufacturing production and services. They have been able to reach excellence in specific sectors, such as construction and ceramic tile production (in this last sector they export the largest part of their production), and in some geographical areas, especially central Italy. In Australia, instead, worker cooperatives are restricted to very few and isolated cases, with negligible impact on the national economy suffering this fate due to being estranged from labour struggles to create and preserve jobs and work. Similar problems can be found in regard to consumer co-operatives. Australian food retailing, for example, which is dominated by two large supermarkets, Coles and Woolworths, stands in contrast to the more competitive Italian supermarket retailing sector, which includes a large supermarket co-operative holding the largest share of the market. The spread of consumer cooperatives would increase the degree of competition and lower consumer prices in an oligopolistic context. Nevertheless, the shortcoming of the regulatory system, and the insufficient spread of the culture of cooperation have hampered this development and favoured a sustained process of concentration of market shares in the retail market (see *Consumer Co-operatives*). Again the foray of the trade unions into retailing with the establishment of a petrol distribution chain and the purchase of a department store were short lived and politically motivated to address pricing issues. In agriculture, co-operatives have been expanding in Italy and two agriculture co-operatives are the largest co-operatives in Australia. Australian agricultural co-operatives have also led the way in transforming and marketing agricultural products. Unfortunately, the Australian agricultural co-operative sector has been hit by closures and demutualization. The same did not happen in Italy, where cooperatives enjoyed sustained growth throughout the past decades, and have faced the economic crisis in the last 6 years better than the private sector. Agricultural cooperatives in Italy now count as a competitive actor, of comparable overall size to the private agricultural sector (though much more in Northern Italy than in Southern Italy) (see *Agricultural and Producers Co-operatives*). One area where Australian co-operatives have done well relative to Italy is financial co-operatives or credit unions, which have had to change their approach to be more like conventional banks to obtain legislative support. Italian cooperative banks, named Cooperative Credit Banks after the reform of the banking system in 1993, hold a significant share of the credit market. This share increased to about 10 per cent in correspondence with the recent financial and economic crisis, showing the cooperative form as more resilient to crisis than the commercial one. In some areas of the country, specifically the Trentino – Alto Adige region they represent the dominant form of bank, gathering and employing over 60% of total financial resources (see *Financial Co-operatives*). The Italian movement is also far more developed in terms of national organisations with Australian co-operatives experiencing major difficulties in establishing peak national organizations with authority over their constituents and political impact. Again Italian law has been of assistance to national organisations by encouraging co-operative networking (see *National Co-operative Organisations*).

The book also develops theoretical perspectives on co-operatives (see Part II, *Towards a new theory of co-operative firms*). There has been a long tradition of economic debate in regard to worker co-operatives, which has to some degree been overshadowed by the rise of neo-liberal economics. As the contributions to the book highlight, while current orthodox economics has neglected co-operatives, this does not undermine the theoretical arguments and evidence that co-operatives can function effectively and contribute to economic life and are deeply influenced in terms of start-up and success by exogenous contextual factors and internal structures. The Marcora Law (1985) in Italy is an example of finely crafted legislation providing a legislative solution to a social problem. It established a model to enable workers to form a co-operative to buy-out insolvent companies to save their jobs and thereby providing a strategy for industrial restructuring and the rejuvenation of moribund industries. Supporters argue for its adoption across Europe, Australia and beyond. Co-operatives provide important avenues for employee participation, collective entrepreneurial action and the building of social capital. The chapters also highlight the need to go further and broaden to co-operative debate beyond worker co-operatives to look at other theoretical models of other forms of co-operatives such as producer, retail and housing co-operatives. Many questions that can lead to further theoretical developments pop-up in these contexts. For example, is it possible to develop hybrid models of co-operatives that bring together both consumer and employee interests in retailing or housing occupants and employee interests in housing? Or concerning how best to integrate rural and urban development with participatory forms of housing, delivery of social services, and retailing.

The book highlights how co-operatives can involve themselves in a range of important social issues and improve their profile. Some of the recent debates concerning social business and social enterprise recognize the co-operative model. However, these debates tend to promote businesses focusing on social issues, and to ignore meaningful participation by both employees and clients. In industrialised nations, due to financial constraints, governments are reluctant to continue existing welfare programs without significant funding cuts or to finance new ones. The social co-operative in Italy shows the potential for the co-operative model in filling these gaps and providing clients and employees with meaningful participation in decisions that affect their lives (see *Emergence, evolution, and institutionalization of Italian social co-operatives*). Undoubted potential exists in Australia for co-operatives as a solution to introduce the role of the mutual in the privatisation of government and university services and the outsourcing of disability care services. There is a need for co-operatives to continue to raise their profile in both countries in the face of economic and ideological competition. This is of particular concern for the Australian co-operatives where recent research has revealed that they have a low profile despite widespread and overlapping memberships. One way of addressing this problem in both countries is for co-operatives to make greater use of social media in promoting their message, something Australian co-operatives still have to pursue (see *Social Media Use in Australian Co-operatives: Current applications and future opportunities*). In more general terms, achieving competitiveness and resilience of co-operatives points to the need to develop interconnectedness and networking, within and outside co-operative associations. The exploitation of the potential of networking appears particularly tailored to support the growth of an organizational form that is not prone to increase dimension and is, as a norm, locally embedded (Sacchetti, Tortia 2015). Also, the development of local socio-economic systems appear a natural aim for this kind of organizations, which are often better able than other organizational forms to create local networks of economic and social actors, and to favour the creation of social capital (Borzaga, Tortia 2009; Sabatini, Modena, Tortia 2014).

Social enterprises, including co-operatives, have also played an important role in fighting organized crime, such as the Mafia, in Italy. Italian law allows assets confiscated from criminal organisations to be used for social purposes. This reduces the benefits of criminal activity and favours the growth of mutual trust among individuals, sustaining an economy alternative to the criminal one. Given the extreme difficulty and danger implied by this kind of endeavour, and the many failures that have been recorded in the past, the avenue of the development of the social economy, implemented by means of not-for profit, socially oriented organizations, and through social networking looks especially promising, while seizing property and social space away from criminal organizations, in rising the conscience of people against the mafia (see *Good and bad networks. The role of social enterprises in the fight against organised crime*).

What are the prospects? The Italian co-operative movement continues to grow, despite the recent economic setbacks, and move even further in terms of co-operation at the national level. The Australian co-operative movement has showed some signs of reversing its difficulties. A new national co-operative law challenges the traditional fragmentation of Australian co-operative law, allowing co-operatives to operate across state borders and putting them on a similar legislative level to that enjoyed by corporations under the national corporate law (see Chapter 2). The formation of the BCCM in Australia may finally provide the co-operatives with the national voice they need to influence public policy and legislations (see *A Comparison between Australian and Italian Co-operative law, National Co-operative Organisations*).

The promotion of social co-operatives and other types of co-operatives may help tackle other major social issues. Social cooperatives in Italy, ever since the 1980s, already included among their main aims crucial issues such as the treatment and reintegration in society and in the labour market of the disabled. More recently, the pressing question of climate change has been brought into the statutory aims of many social cooperatives and social enterprises. The issues need to be tackled by not for profit entrepreneurial ventures in Australia too, and the introduction of social cooperatives would be a big step forward in this direction. In Australia, a special and vital national problem is represented by the status of indigenous Australians. From the 1950s to the 1970s the Rev. Alfred Clint, an Anglican priest, led a movement to bring about economic sustainability in aboriginal communities through the establishment of co-ops. Many of the co-ops eventually collapsed, with the Tranby College in Sydney being a significant survivor as a training centre for Aborigines (Balnave, Patmore 2012: 1992). Currently indigenous co-operatives provide a range of services to indigenous communities including medical services in Sydney (Patmore 2012: 10) and the Traditional Credit Union in the Northern Territory. Both the co-operative sector and Australian governments can further develop co-operatives as a way of promoting self-sufficiency in indigenous communities. In regard to climate change there is the example of the community co-operative Hepburn wind in Victoria (IYC 2012 Secretariat: 123).

There is, however, one major problem facing the development of Australian co-operatives compared to Italian co-operatives and that is the issue of funding. While there has been a very limited amount of Australian government funding to support the conversion of existing businesses to worker co-operatives (see *Worker Co-operatives*), there needs to be a broader vision of government funding that incorporates greenfield co-operatives particularly at a community level. Australia could follow Italy and obtain funding from the co-operative sector through a co-operative development fund as part of a program to fund co-ops. A second way in which Australia can follow the Italian policy concerning cooperatives is to agree to concede tax breaks or (partial) corporate tax exemption to this kind of organization, especially when they take up a relevant social role, and when they are self-financed with their own and indivisible (or socialized) funds. These solutions have proven to be valid in Italy, and can prove effective in Australia too, though their adaptation to the Australian context and law will require careful study and implementation.

Within the already existing Australian context there are also approaches such as levy on the sizable superannuation funds to finance community-based projects of social and economic benefit including the formation of co-operatives. This approach could incorporate the setting up of a federal Co-operative Bank, along similar lines to that enacted by US Congress in 1978, to use the money raised by levies to fund start-up of co-operatives through low interest loans. While the US Co-operative Bank was subsequently privatized by the Reagan administration, the co-operative movement purchased the Bank and continues its original mission (Curl 2009: 239-240).

Here it is important to take note of the bigger picture. The International Co-operative Alliance, building on the success of the 2012 International Year of co-operation, announced the 2020 Vision for a Co-operative decade of confident growth. The aim was for the co-operative form of business to become by 2020 the acknowledged leader in economic, social and environmental sustainability; the model preferred by people; and the fastest growing form of enterprise. This was to be achieved by building on the five pillars of participation, sustainability, co-operative identity, development of the legal framework, and capital provision.

These aspirations resonate with the findings of this research project. Namely that given a favourable context, as in Italy, co-operatives can continue to flourish and provide a pathway for others to follow and solve social problems. In unfavourable contexts despite the dismissal of co-operatives by neo-liberal economists and their political allies in Australia, co-operatives are not inefficient or ‘withering away’. As this collection highlights progress continues to be made and will be made as we grasp the learning experience of this Italian Australian comparative research.

For many individuals and communities in both Australia and Italy co-operatives remain an important part of their lives and remind us of the importance of pursuing democracy and participation in economic and social life beyond the confines of representative democracy in both countries.

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