

Co-operatives: The Italian Experience

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1. Introduction

The Italian cooperative movement has a long history, as it contributed to the growth of the country since the second half of the nineteenth century. In fact, it is not unusual to find Italian co-operatives today that have been in business for over 120 years. Italian co-operatives operate in many sectors, and in some of them (as well as in some regions of the country) they have a very large market share. Moreover, over the last few years they performed better than the economy as a whole and managed to grow their business in new sectors, including for instance health, education and social services.

Since the creation of the first co-operative in 1854, the Italian cooperative movement has experienced long periods of fast growth as well as some phases of stagnation, and is today a major component of the national economy. In order to provide a brief review of this evolution and summarize the current situation, this document is structured as follows: after a brief presentation of the main phases of development of the cooperative movement as a whole, the document will describe its structure and the evolution of the legislation starting from the end of World War II. The document will then analyze the more recent evolution of the cooperative system.

2. Notes on the Historical Evolution of Cooperation in Italy

The founders of the first Italian co-operatives were inspired by the various experiences that were taking hold in Europe in the mid-1800s, ranging from the consumption co-ops of the Rochdale pioneers, to the French worker co-ops, to the Austrian and German experiments with social credit banks (in the two different models proposed by Reiffeisen and Schulze Delizsch). The emergence and diffusion of these models varied significantly across Italian regions, partly due to the different levels of economic organization and development in different parts of the country, and partly as a response to the different needs of local markets.

The first co-operative was founded in 1854 in Turin, where the workers' mutual assistance society gave rise to a consumption co-operative with the purpose of mitigating high living costs. Over the following years, this kind of co-operatives spread both in the cities and in rural areas. Cooperation in financial services began to grow a few decades later, towards the end of the 1870s, in the dual form of the Banca Popolare (a limited liability bank whose members belonged to the small urban bourgeoisie), and the social credit banks (later named Rural Banks and then Cooperative Credit Banks), which were characterized by unlimited liability and a

membership composed mainly of small farmer. Both these forms of credit cooperation were meant to facilitate their members' access to credit in a context where credit markets were not very developed and generally uninterested in serving small entrepreneurs.

During the last two decades of the eighteenth century, other forms of cooperation emerged. First, the farmers' co-operative was born, based on the shared purchase of goods and tools and on the collective sale of produce, aimed at combating monopolistic and monopsonistic situations respectively. Among these, cooperative vineyards and dairies were particularly important. Workers cooperation began to take hold in this period as well, especially among construction workers and farmhands.

In 1882 the cooperative movement, which could now boast a significant presence nationwide, gained the first legislative recognition: the Commerce Code identified co-operatives and recognized their particular forms of governance (especially the "one head one vote" principle). In 1885, 4,896 co-operatives were active in Italy.

The first years of the Twentieth century, and particularly the years between 1903 and 1914, were growth years both for the Italian economy and for the cooperative movement. Thanks to the government and to the social engagement of Catholics, Italian cooperation grew in all of its components, and in 1910 there were 7,400 co-operatives with over one million members. This growth continued in the aftermath of World War I and through the first half of the 1920s, when co-operatives numbered in the 15,000s.

The rapid development of Italian co-operatives was interrupted (starting in 1922) with the rise of fascism. The fascist regime was ideologically opposed to any form of organization that could come between the state and its citizens, and particularly opposed to movements (such as the cooperative one) that had at least in part a socialist inspiration. At first, the regime fought cooperation - even physically, with fascist squads attacking co-operatives and their managers. Then it eliminated all representative bodies and separated cooperative banks from the rest of the movement. Finally, it assigned all assistance, development and coordination functions to one organization under the direct control of the state: the National Fascist Organism of Cooperation. This aversion resulted more in a reduction in the size of cooperation and a change in its sectorial composition (with a significant growth of co-operatives in agriculture and food processing and sales) than in an eradication of the movement (as in the case of the union movement). Indeed, at the end of the regime (which coincided with the end of World War II) the number of co-operatives was higher than it was in the early 1930s.

In the aftermath of World War II, with the constitution of the Italian Republic, the attitude of the government turned once again in favour of cooperation. In fact, the Italian Constitution (approved in 1947) includes a direct reference to cooperation, stressing in particular both the mutual and the social aim of co-operatives and the exclusion of private speculation purposes. Already in 1951 co-operatives reached approximately 25.000 (double what they were in 1930), due primarily to the creation of many construction and housing co-operatives engaged in the reconstruction of buildings destroyed during the war.

The following two decades (1951-1971) witnessed the biggest boom in the Italian economy, largely driven by the development of the manufacturing sector, with the migration of the labour force from agriculture to factories and the related migration of Co-operatives – the Italian experience



the population from the countryside to the cities. Growth was driven at the beginning (until the mid 1960s) by large private firms and large publicly-owned companies, and later by local systems of small enterprises – the so called industrial districts. The contribution of cooperation to this phase of development was very limited, and the economic relevance of cooperation did not change significantly. Nevertheless, co-operatives began to grow in size if not in numbers, as the total number of workers employed by co-operatives increased by 50.5% over this period.

The cooperative movement began to grow again in the following years, which were characterized by oil crises, the first difficulties of the manufacturing sector, lower GDP growth, and high inflation and unemployment rates. This growth increased over the years and manifested itself in an increase both in the number of co-operatives and in their average size, and thus in an increase in the number of people employed in this sector. New co-operatives were also founded to provide social, health and educational services and to create jobs for disadvantaged people. These new co-operatives were spontaneously created by groups of people in the 1980s, mainly on a volunteer basis, and were recognized with a special law in 1991 with the name of “social co-operatives”.

In the case social co-operatives, the law requires the co-operative to pursue the interests of the community and not just the interests of its members. Moreover, legislators established two types of social co-operatives: social co-operatives that provide social, health and educational services; and social co-operatives that can engage in any kind of activity, but are required to employ at least 30% of workers with low employability.

These new co-operatives were immediately met with a growing demand for their services, due in particular to the outsourcing policies of local governments. As a consequence, they registered a very high growth rate: in 2005 there were 8,000 social co-ops that employed around 250,000 people (including 30,000 disadvantaged workers), serving near 4,000,000 customers with a turnover of 7 billion Euros. These co-operatives are now estimated to account for 60% of the total supply of social services in the country.

The overall evolution of co-operatives from 1951 to 2001 is well summarized by the data derived from the Census of Industry and Commerce, reported in the table below.

TABLE 1: Growth in number and employment size of co-operatives compared to other enterprises, 1951-1971

	1951	1961	1971	1981	1991	2001
Nr. Coops	10,782	12,229	10,744	19,900	35,646	53,393
Employees coops	137,885	192,008	207,477	352,435	584,322	935,239
Total enterprises	1,504,027	1,938,724	2,236,044	2,847,313	3,301,551	4,319,198
Total employees	6,781,092	9,463,457	11,077,533	13,001,187	14,601,812	16,201,431
Coops/enterprises	0.7	0.6	0.5	0.7	1.1	1.2
Employees coop/ent	2.0	2.0	1.9	2.8	4.0	5.8
Average empl.coops	12.8	15.7	19.3	18.2	16.4	17.5
Average empl.other	4.5	4.9	5.0	4.6	4.4	3.8

The data shows how, starting from the 1970s, the number of co-operatives progressively and significantly increased, with a growth rate of about 40% per decade. This trend in the cooperative movement was also accompanied by an increase in its share of total enterprises (from 2% in the 1960s to 5.8% at the end of the century).



The growth of co-operatives was also accompanied by an increase in their average size. The number of co-operatives with more than 50 employees rose from about 790 co-operatives in 1971 to more than 2,300 in 2001. At the same time, the number of co-operatives with less than 5 employees also increased significantly (from 6,000 co-operatives in 1971 to close to 25,000 in 2001).

This blossoming of the cooperative movement over the past thirty years was driven by three factors: (a) the maturation of a modern enterprise culture and the related organizational innovations, both at the individual firm level (including mergers between small co-operatives and significant investments in management) and among firms with the creation of consortia; (b) the formation of cooperative groups, i.e. groups of cooperative and capitalist firms that could operate on a larger scale and have access to the stock and bond markets; (c) the impressive growth of social co-operatives engaged in the production of health, education and social services, which created a whole new sector within the cooperative movement. These strategies were complemented by a set of changes in the legislation that favoured the economic and patrimonial growth of co-operatives, and the creation of workers co-operatives by workers of traditional firms that suffered from inadequacies in their management.

3. The Organization of the Cooperative Movement

One of the factors that accompanied the development of the cooperative movement in every country was its ability to create organizational structures of representation, development support and assistance, often organized in several levels by sector and by geography. The Italian cooperation employed this strategy as well, but with some peculiarities that still characterize it today.

In 1886, the Italian cooperative movement united for the first time giving rise to the National Cooperative Federation, which in 1893 became the National League of Italian Co-operatives. The number of participating co-operatives grew quickly from a few hundreds to 1,508 in 1908. In spite of the fact that the majority of participating co-operatives was of socialist inspiration and that only a small part of catholic co-operatives was included (rural banks in particular), the League remained politically neutral, and for several decades was the only representative body for the Italian cooperative movement. However, starting in 1906, the League took on an increasingly marked socialist identity, in synchrony with the rise of the union movement. This caused first the exit of some co-operatives and their leadership, and later, in 1921, the birth of a second representative organization, of catholic inspiration, called the Italian Co-operatives Confederation, as well as of other organizations with different ideologies but generally weaker power of aggregation.

With the end of fascism, which, as mentioned above, eliminated and replaced the representative bodies of the cooperative movement, Italian co-operatives tried again to give themselves a unified representation, but they were not successful. In fact, the old division resurfaced: in 1945 both the Italian Confederation (of catholic inspiration and close to the Christian Democratic party) and the National League of Co-operatives and Mutual Aid Associations (of socialist inspiration and close to the left wing parties) were recreated. Next to these two major associations, Italian co-operatives gave rise to two other organizations, which were never able to aggregate more than a few thousand members. The two major organizations focused on different sectors (agricultural and credit co-operatives for the Confederation and consumption and workers co-operatives for the League) and different regions (as the League targeted



primarily the regions of central Italy while the Confederation spread mainly in the Northern regions, and particularly in the Northeast.)

Despite this differentiation between associations and cooperative models, the representation provided by these two organizations facilitated the development of Italian cooperation both through the elaboration of common strategies and through the proposal of legislative changes. Over the years, and with the changes in the political landscape (and in particular the disappearance of the two parties of reference), the differences between the two organizations waned, and the collaboration among them increased. Even if a reunification process has not formally started and strategic differences remain, it is possible to say that the representation of the cooperative movement is more unified today than it has been in the past.

4. The Legal Framework and its Evolution

Even though in most countries co-operatives are held to the cooperative principles sanctioned by ICA, and in particular to the "one head one vote" principle and the obligation of operating exclusively or primarily with their members, national legislations often differ based on whether or not they assign to cooperation a social purpose. The Italian legislation is the one that stresses the social functions of cooperation the most. This social function is explicitly recognized by the Article 45 of the Italian Constitution, which states: "The Republic recognises the social function of cooperation with mutual character and without private speculation purposes," and promotes and favours its growth. This general indication later resulted in much stricter impositions on profit distribution for co-operatives that sought public subsidies than in most other countries. Indeed, in 1946, Italian law established that co-operatives that wanted to be recognized as having a social purpose had to be subject to a double restriction:

- a) They could not distribute more than 80% of their overall profit (since 2003 this limit changed to 70%, and to 30% for cooperative banks)
- b) They should reward each share at a rate that could not exceed the rate of return of postal bonds (which are similar to treasury bonds) by more than two percentage points.

Given the low capitalization of most co-operatives, these limits imply that the profits that can actually be distributed are extremely low, making cooperative enterprises in effect not-for-profit organizations.

The same law also prescribes that any remaining profits should flow into a reserve that cannot be divided among the members ("asset lock") either during the life of the company or in case of its dissolution. In practice, this means that even if the co-operative is sold or transformed into a different type of company, the members cannot reap the profits. Until 1993 these profits were donated to charity, and since 1993 they flow into dedicated funds aimed at the development of cooperation and managed by its representative bodies. This created a strong disincentive to sell and transform co-operatives, and thus hampered the demutualization processes that have affected the cooperative systems in many countries over the past two decades.

Despite the fact that this law applied only to co-operatives that wanted to benefit from public subsidies, almost all Italian co-operatives, including the large ones, abide by it.



In 2003, the law was changed in two respects:

- a) The legislators added a new criterion (in addition to the profit distribution restriction) identifying the social function of a co-operative: the obligation of conducting at least half of its business with members.
- b) The law now explicitly states that co-operatives can choose between two regimens: a regimen with the limitation to distribute their profits and mutual obligation (so called "predominant mutuality") or a regimen characterized by the same obligations, but in a lighter form (or "non-predominant mutuality").

To date, very few co-operatives have taken advantage of the possibility of changing or taking the non-predominant mutuality form. On the contrary, they preferred to continue the consolidation policies with respect both to their assets and to their trading and production activities, and to maintain the profit distribution restriction.

5. Recent Evolution and Current State of the Italian Cooperative Movement

The evolution of Italian co-operatives after 2001 can be tracked using the data provided by the Registers of Enterprises (*Anagrafe camerale*), collected by the Chamber of Commerce for all private Italian enterprises which are obliged to have a public balance sheet.

In 2007, the national registers of the Chamber of Commerce listed 148,916 Italian co-operatives. Only half of these organizations presented a balance sheet and were definitely active in that year,¹ while more than 36,000 were not identifiable in a specific sector. As a consequence, these are not included in the following tables.

A general analysis of co-operatives by sector of activity shows that most of these organizations concentrated in four main sectors: construction, agriculture, business services, and transportation. However, the number of co-operatives active in other sectors was also quite significant.

The distribution of co-operatives by macro-regions illustrates that almost half of co-operatives was located in the South of Italy, less than 20% in the Centre and the rest in the North (21.9% in North West and 19.1% in the North East). The average age of co-operatives was of 17 years, which is higher than the average of other organizational types (13.5).

The data shows a significantly higher presence of agricultural and construction co-operatives in the South, while in the North services and transportation co-operatives were more developed. In the Centre the distribution of co-operatives across sectors was close to the national average.

Compared to other private, for-profit (or capitalistic) enterprises, the distribution of co-operatives by sector of activity diverged from the national average mainly for the higher presence of co-operatives in construction, transportation, business services, and especially in the social and healthcare sectors.

¹ The data of active co-operatives is derived from the number of cooperative enterprises officially registered in the National bulletin-board at the Office of the Productive Activities, which amounted in 2007 at 85,472 units.



TABLE 2: Number of Italian co-operatives by sector of activity (absolute values), 2007

Sector	North-West	North-east	Centre	South	Italy
Agriculture	1.463	1.842	2.109	9.203	14.617
Food processing	359	703	381	1.686	3.129
Other manufacturing	1.428	1.078	1.517	3.255	7.278
Construction	4.678	1.470	4.255	15.081	25.484
Retail	1.652	1.117	1.295	3.092	7.156
Catering and canteen	696	332	565	1.370	2.963
Transportation	2.951	1.675	2.200	3.496	10.322
Computer	1.744	1.198	1.661	3.178	7.781
Financial services	226	340	316	677	1.559
Business services	4.702	1.961	3.228	4.493	14.384
Education	374	329	338	857	1.898
Social services	1.862	1.131	1.211	3.475	7.679
Other services	1.375	1.105	1.803	3.267	7.550
Total	23.510	14.281	20.879	53.130	111.800

TABLE 3: Distribution of co-operatives by sector compared to average for all enterprises (%), 2007

Sector	Co-operatives	All enterprises
Agriculture	13.1	16.4
Food processing	2.8	2.0
Other manufacturing	6.5	11.1
Construction	22.8	15.0
Retail	6.4	27.9
Catering and canteen	2.7	5.6
Transportation	9.2	3.3
Computer	7.0	4.4
Financial services	1.4	2.0
Business services	12.9	7.2
Education	1.7	0.4
Social services	6.9	0.4
Other services	6.8	4.3
Total	100.0	100.0

Based on the incidence of co-operatives on the total number of private enterprises in the same sector of activity, it emerges that the percentage of economic activity generated by co-operatives relative to private firms was low (2%), but nonetheless quite significant. Furthermore, in 2007 co-operatives represented more than one third of the private enterprises providing social and healthcare services, and their incidence in education and transportation also was above average (9.1% and 5.6% respectively), without significant differences among macro-regions.

The number of co-operatives and their incidence in the retail sector is not very high. However, it is important to consider that the sector includes a variety of activities. If one were to focus only on firms providing first-necessity goods, and specifically groceries and household goods, the percentage of businesses and activity controlled by co-operatives increases to a 30% share of the market.

TABLE 4: Incidence of co-operatives in each sector of activity (%), 2007

Sector	North-West	North-east	Centre	South	Italy
Agriculture	1,0	0,9	1,4	2,2	1,6
Food processing	1,5	3,3	1,9	3,4	2,7
Other manufacturing	0,7	0,7	1,1	2,1	1,2
Construction	1,9	0,8	2,4	6,2	3,0
Retail	0,4	0,4	0,4	0,5	0,5
Catering and canteen	0,8	0,4	0,8	1,5	0,9
Transportation	5,6	4,0	5,8	6,6	5,6
Computer	1,9	2,3	3,3	5,3	3,1
Financial services	0,6	1,6	1,2	2,3	1,4
Business services	2,8	2,0	4,1	7,5	3,5



Education	7,5	9,2	8,5	10,4	9,1
Social services	38,3	38,4	31,0	38,8	37,2
Other services	2,0	2,3	3,3	4,3	3,1
Total	1,6	1,2	1,9	2,8	2,0

Financial data on Italian co-operatives, unlike data on their number, is only available through 2006. The analysis of this data shows that, as of 2006, the total turnover of the cooperative sector was very high (112,691 million Euros), and especially high for co-operatives in the North-East (close to 48,5 million Euros for the entire sector). The highest turnover levels were in the sectors of retail, construction and agriculture.

Co-operatives account for about 62,4% of the total turnover in the agricultural sector, and their share of the total value production is particularly high in the education and business services sectors as well.

TABLE 5: Average turnover of co-operatives by sector of activity, 2006

	Registered budgets			Value of productions		
	Val.	% distribution	Incidence %	Val.	% distribution	Incidence %
Agriculture	6.556	11,7	52,3	13.060.406	11,6	62,4
Food processing	1.808	3,2	16,3	8.155.228	7,2	9,6
Other manufacturing	3.318	5,9	2,8	5.927.654	5,3	0,6
Construction	8.201	14,6	9,2	13.964.889	12,4	8,8
Retail	3.915	7,0	2,8	34.723.802	30,8	5,6
Catering and canteen	1.575	2,8	4,7	1.420.519	1,3	3,9
Transportation	5.111	9,1	23,3	10.501.298	9,3	8,7
Computer	8.393	15,0	9,5	7.609.941	6,8	3,5
Financial services	5.225	9,3	4,9	8.469.876	7,5	8,0
Business services	1.555	2,8	32,6	721.681	0,6	26,2
Education	4.634	8,3	84,9	4.601.464	4,1	81,9
Social services	4.741	8,5	20,5	3.176.281	2,8	7,2
Other services	1.036	1,8	8,6	358.504	0,3	6,7
North-West	12.313	22,0	5,9	24.385.211	21,6	2,4
North-East	10.607	18,9	7,2	48.469.578	43,0	9,2
Centre	12.388	22,1	7,4	24.266.544	21,5	3,9
South	20.760	37,0	14,2	15.570.211	13,8	6,0
Total	56.068	100	8,4	112.691.544	100	4,7

By classifying co-operatives based on their turnover, it emerges that, as of 2006, the great majority of co-operatives had a turnover lower than 2 million Euros. However, the percentage of co-operatives in this class was a little lower in 2006 than it was in 2003.

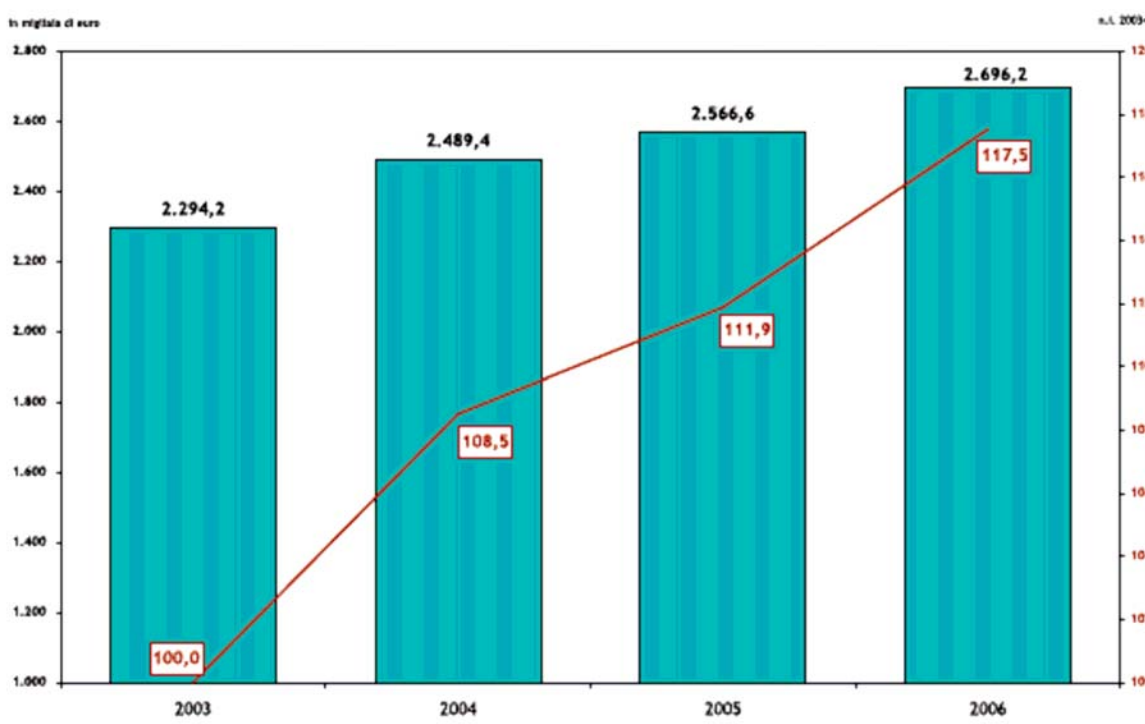
TABLE 6: Classes of co-operatives by economic size, 2003 and 2006

	Year 2003		Year 2006		Change 2003-2006	
	Number	%	Number	%	Absolute	%
<2mil.	48.408	90,6%	49.104	87,6%	696	1,4%
2-10mil	4.077	7,6%	5.852	10,4%	1.775	43,5%
10-50mil	730	1,4%	878	1,6%	148	20,3%
>50mil	192	0,4%	234	0,4%	42	21,9%
Total	53.407	100,0%	56.068	100,0%	2.661	5,0

As illustrated in the graph below, it follows that the average turnover of co-operatives increased between 2003 and 2006.



GRAPH 1: Trend in the turnover of co-operatives (in thousands Euros), 2003-2006



Note: The bars in the chart indicate average turnover; the trend line is an index (base value = 100) measuring percentage change from 2003.

Finally, the increase in revenues was particularly high for social co-operatives (producing health and educational services), for co-operatives engaged in the production of business services, as well as for co-operatives in the transportation and computer sectors.

TABLE 7: Trend in turnover of co-operatives by sector of activity, 2003-2006

Sectors	Average revenues of co-operatives in 2006	Variation 2003/06	Average revenues of for-profit firms in 2006	Variation 2003-06
Food processing	2.504.359	7,9%	1.466.904	16,2%
Other manufacturing	5.254.550	0,4%	10.810.933	11,2%
Construction	1.824.257	17,2%	10.273.222	28,8%
Retail	2.552.847	23,5%	2.285.460	27,2%
Catering and canteen	11.810.623	15,9%	5.254.022	25,7%
Transportation	1.113.454	25,9%	1.491.541	19,7%
Computer	2.253.487	22,5%	8.178.418	27,6%
Financial services	992.531	10,7%	3.322.650	47,2%
Business services	2.161.667	38,8%	1.074.272	38,2%
Education	405.700	6,8%	732.800	9,7%
Social services	1.283.963	37,9%	1.494.313	45,1%
Other services	769.789	58,5%	2.604.192	44,9%
Total	2.696.195	17,5%	4.962.062	28,9%

The significant impact of co-operatives on the national economy was also attested by the high number of people they employed, which in 2006² was over 1 million. Considering that co-operatives in 2006 were only 55thousands, it is possible to conclude that in the last years the increase in the number of co-operatives has been accompanied by a growth in their size (as measured in terms of average number of employees). The majority of employees were employed in the social and health services, in business services, and in the transportation sector.

² Data on employees and on the financial situation of cooperatives were available only for 2006.



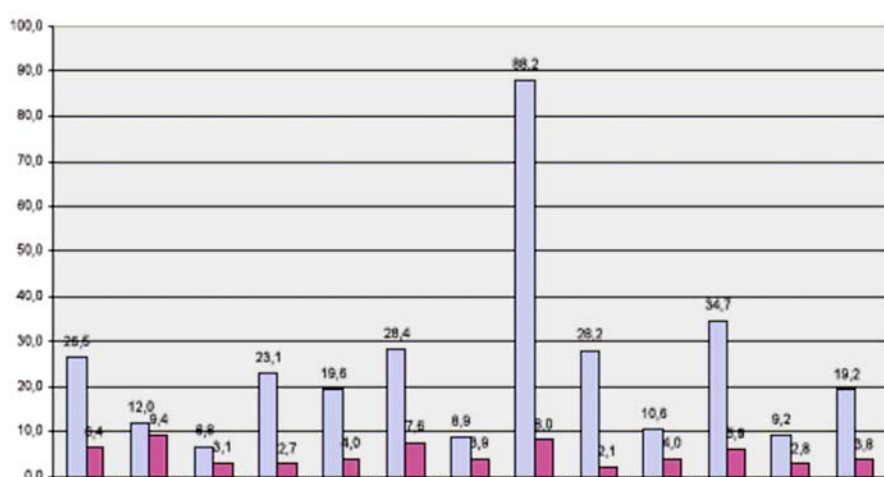
Furthermore, in these same sectors co-operative employees represented a high percentage of all private sector employees. Surprisingly, 51.3% of employees in the private health services sector and 22.7% of employees in the educational services sector were employed in co-operatives, reaffirming the increasing role played by co-operatives in the social services sector.

TABLE 8: Cooperative enterprises and their employees, 2006

Sectors	Co-operatives			Employees		
	Number	% distribution	Incidence on economy (%)	Number	% distribution	Incidence on economy (%)
Food processing	1.471	2,7	2,0	39.022	3,7	8,4
Other manufacturing	3.591	6,5	0,8	42.457	4,0	1,0
Construction	9.650	17,6	1,6	65.213	6,2	3,5
Retail	3.816	6,9	0,3	88.115	8,3	2,6
Catering and canteen	2.066	3,8	0,7	40.576	3,8	3,5
Transportation	6.470	11,8	4,5	184.037	17,4	16,9
Computer	7.614	13,9	2,3	67.634	6,4	5,2
Financial services	930	1,7	1,3	82.005	7,8	14,2
Business services	6.607	12,0	0,7	186.480	17,7	9,9
Education	1.585	2,9	8,5	16.753	1,6	22,7
Social services	5.540	10,1	8,8	192.049	18,2	51,3
Other services	5.618	10,2	2,3	51.767	4,9	7,5
North-West	12.731	23,2	1,0	300.060	28,4	5,1
North-East	9.604	17,5	1,0	329.032	31,2	8,2
Centre	11.963	21,8	1,3	217.139	20,6	5,8
South	20.660	37,6	1,6	209.876	19,9	5,9
Total	54.958	100,0	1,2	1.056.108	100,0	6,2

With respect to the size of co-operative enterprises, it is worth noting that they are much larger than other Italian enterprises: as of 2006, the average number of employees per co-operative was 19.2, compared to just 3.8 in other enterprises. As shown in the graph below, which displays the average number of employees in co-operatives compared to other private enterprises for each sector of activity, this was true in every industry. The difference was extraordinarily high in the financial services sector, where financial co-operatives employed on average 88.2 people per organization, compared to just 8 for traditional firms.

GRAPH 2: Average number of employees in co-operatives and other enterprises, 2006



Note: Bars in violet represent co-operatives; bars in purple other private enterprises. The sectors of activity are reported in the same order as in the previous Table. The last bars on the right indicate the national average across all sectors.

Interesting observations also emerge when comparing the data over time. Between 2003 and 2006, the number of co-operatives increased by 1.7%. Looking to most recent data, the number of registered co-operatives further increased in the last year. This trend was accompanied by an even more significant increase in the number of employees: from less than 950,000 in 2003 to more than one million in 2006 – an increase of 11.7%. The increase in the number of co-operatives was higher in the Centre of Italy (3.5%) than in the North, but the increase in people employed by co-operatives was quite similar across the two regions.

TABLE 9: Variation in the number of co-operatives and their employees between 2003 and 2006

	Co-operatives			Employees		
	2003	2006	Δ %	2003	2006	Δ %
North-West	12.691	12.731	0,3	264.957	300.060	13,2
North-East	9.477	9.604	1,3	292.309	329.032	12,6
Centre	11.556	11.966	3,5	192.856	217.152	12,6
South	20.327	20.662	1,6	196.190	210.459	7,3
Italy	54.051	54.963	1,7	946.313	1.056.713	11,7

The sector of activity that registered the most significant positive trend was the social services sector (especially co-operatives supplying social, education and health services). Consumer co-operatives and retail co-operatives in general decreased in number, maybe due to the competition of other organizational types, but the evolution was less negative than the average of other enterprises. The situation in the food processing industry is similar, while the opposite was true for co-operatives providing business services. Other sectors revealed high increases in the number of for-profit enterprises, but a lower increase in co-operatives.

TABLE 10: Difference in the distribution of number and employment size of co-operatives by sector, 2003-2006

Sector	Co-operatives	All enterprises
Food processing	-0.5	1.5
Other manufacturing	-6.4	-7.4
Construction	4.5	-0.7
Retail	-3.2	9.7
Catering and canteen	3.6	10.1
Transportation	3.7	16.4
Computer	2.4	26.0
Financial services	2.8	22.9
Business services	4.6	-1.7
Education	8.3	19.5
Social services	27.6	35.8
Other services	-18.0	-5.6
Total	1.7	11.7

6. Conclusion

The analysis of the Italian co-operative movement yields useful insights. First and foremost, the Italian case shows that co-operatives are not destined to be marginalized as a country develops. Rather, the Italian co-operative movement grew stronger with economic development, reaching its highest level yet in recent years. Italian co-operatives went through their most difficult phase during the years in which economic growth was driven primarily by the expansion of manufacturing (during the



1950s and 1960s). With the rise of the service sector, though, co-operatives started to grow again.

Second, the cooperative form is particularly well suited to the production of services that have a public interest component, as evidenced by the success of social co-operatives starting in the 1980s. Today, social co-operatives are one of the most active sectors of the entire cooperative movement.

Finally, legislation regulating the characteristics of the cooperative enterprise form has a very strong influence over the development and resilience of the cooperative system. In Italy, for example, the profit distribution restriction effectively made cooperative enterprises impossible to sell, thus hindering the demutualization process. At the same time, this restriction enabled the accumulation of capital, which strengthened the cooperative movement in the long run.

Overall, the Italian experience casts serious doubts on the predominant theories on co-operative enterprises, which are at odds with the empirical evidence on the evolution of these organizations, and suggests the need for the development of new paradigms that can account for and explain the specificities of co-operatives relative to other forms of enterprise.



The role of cooperative and social enterprises:

A multifaceted approach for an economic pluralism

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1. Introduction

In the last decades, cooperatives and social enterprises received growing interest at national and international level. Cooperative firms and social enterprises can be interpreted in an unitary way as non-profit oriented firms since they represent those entrepreneurial organisations that do not have as their main objective the maximisation of private returns (net surpluses or profits) accruing to the investment of capital. Cooperative firms are mutual-benefit organisation that are usually controlled on an equal voting rights basis by different typologies of patrons (eg. producers, workers, consumers) different from investors or by a mix of them (multi-stakeholder cooperatives). Cooperative firms are mutual benefit entrepreneurial organisations created to protect first of all the participation rights of their members through the satisfaction of their needs, both private and social. Social enterprises, as defined by the UK law on the Community Interest Company in 2005, and by the Italian law on the *Impresa Sociale* in 2006, are public-benefit organisations that pursue the satisfaction of social needs through the imposition of the non-profit constraint and by devoting their positive residuals and patrimony to the development of socially oriented activities. Their governance structure is similar to the one of entrepreneurial non-profit organisations, as analysed by the most specialised literature (Weisbrod, 1977, 1988; Hansmann, 1980, 1996; Borzaga and Defourny, 2001). Cooperative firms are interpreted as mutual-benefit enterprises, while social enterprises explicitly pursue public-benefit aims.

Research concerning non-profit oriented firms is characterised by an increasingly evident contradiction between real phenomena, often confirmed by empirical research, and the contentions put forward, explicitly or otherwise, by the predominant theories. On the one hand, increasing evidence shows that such enterprises perform,



in diverse sectors and in many countries, a significant and sometimes growing economic and social role, with economic and social results often better than those achieved by conventional enterprises and public initiatives. Suffice it to mention, by way of example, the role assumed in the past twenty years by cooperatives and social enterprises in the production of social services of general interest, or the results reached by of credit cooperatives during the past ten years, and particularly during the recent financial crisis. However, on the other hand, the predominant theoretical approaches, and primarily the economic one, tend to under-evaluate these results and consequently the role and potential of this set of organizations (Ward, 1958; Furubotn and Pejovich, 1970; Hansmann, 1996). When the positive role of cooperative and social enterprises is recognised, like in the case of Hansmann's (1996) work, this is done in a limited way, accepting a transitional role for these kinds of organisations in contexts characterised by severe market imperfections, such as lack of proper regulation and sufficient competition, and government failures, such as under-provision of public goods.

Various reasons can explain this contradiction. Firstly, many studies on cooperatives and social enterprises have excessively been based on descriptive and ideological approaches. Supporters of cooperatives and social enterprises have stressed solidarity, altruism, and reciprocity as values informing the working of these organizations. These values result in the force of their democratic principles, and in the socialised nature of the added value generated by transactions with different stakeholders. However, values and ideology alone can not explain the increasing economic and social role of cooperatives and social enterprises and their efficiency and long-term sustainability; they also can not be indistinguishable applied to all forms of cooperative and social enterprises (Borzaga and Tortia, 2010). A suitable interpretive framework is instead needed to properly evaluate their nature and role in modern economic systems.

The insufficient attention paid these topics resulted in fragmented and little convincing research results. The underestimation of the role of cooperative and social enterprises has been therefore increased by the excessive attention to descriptive analyses and by the ideological bias of many studies, but also by the difficulties in drawing general results from investigations and studies that frequently consider only specific sectors or geographical areas. First of all, a lack of objectives shared by researchers and specialised research institutions has halted a coherent development of the doctrine and empirical tests. The predominant tendency has been to consider specific forms of



cooperation, often starting from highly specific research goals, while few attempts have been made to embed analysis within broad and ambitious research designs. This has hampered development of a general theory of these forms of enterprise able to stand comparison with the prevailing economic and social theories. Secondly, for-profit firms, cooperatives and social enterprises are regulated by laws that differ greatly among countries, and this makes any attempt to give them a sufficiently general interpretation independently of national specificities particularly complex. Hence, difficulties have been encountered in generalizing the results of research often restricted to specific sectoral or local contexts.

However, the main reason for this undervaluation seems to be the difficulty of combining the features of these forms of enterprise with the hypotheses, if not the value judgments, underlying the dominant theories. In fact, the theoretical models—above all economic, sociological and legal—developed during the 1900s, and which have contributed to shaping the institutions on which the modern economic and social systems are based, assume hypotheses—such as the prevalence of self-interested behaviour and the self-regulatory capacity of markets—which privilege forms of coordination often incompatible with those proper to cooperatives and social enterprises. Not surprisingly, therefore, the dominant theories are unable to explain the emergence and evolution of these forms of enterprise and interpret their distinctive features. Thus explained are also the low interest paid to cooperative and social enterprises by both politics and science, as well as the widespread underestimation of their potential contribution to human, social and economic development.

Politicians have invested in cooperative and social enterprises only during the crisis of specific sectors and irregularly over time, primarily by regulating an existing organisational form, and not by improving and enforcing their role. Legislators have often regulated cooperative and social enterprises in such a manner that they are forced to operate according to an incoherent logic which impedes their growth and pushes them to the margins of the system. This is demonstrated by the narrow way in which the rules on the distribution of profits and on the recourse to external financial support have been regulated in most countries. As of today, these organizations are considered by most scholars and policy-makers to be old fashioned and ineffective.

Contrary to the understanding of politics and scientific research, the changes of recent years in the socio-economic context, partly induced by policy choices suggested by



the dominant theories, have not fulfilled the hopes for improvement in living standards and for a fair distribution of social welfare. This has led to the questioning of the conventional wisdom and opened the way to new reflection and interpretation, also in regard to cooperatives and social enterprises. This has resulted in the growing evidence that cooperative and social enterprises can cover a specific role in both economic systems and economic theory.

2. Re-thinking the role of cooperatives and social enterprises

The strengthening of the presence and economic weight of cooperative enterprises in some of the sectors in which they have operated for many years, like in agriculture and in credit, the increasing importance of the general interest services sector, and the birth, development, and progressive recognition of different forms of social enterprise, have been widely documented by a growing body of empirical studies conducted by both researchers and international institutions in a now large number of countries. Moreover, cooperative and social enterprises proved better able than traditional public and private forms to coordinate collective action and to govern common pools of resources (Ostrom, 1994). This means that cooperative and social enterprises are able to attract, motivate and govern the interaction of their stakeholders in sharing and pursuing the organizational mission.

Furthermore, the current economic crisis has made even more necessary and urgent a re-thinking of the role of organizations and enterprises which pursue goals other than profit-maximization. Indeed, it has already stimulated a search for organizational and economic models different from those based on market fundamentalism which have predominated in recent decades. For example, financial cooperatives and credit unions have been recently recognised as intermediaries that were not involved or were involved to a significantly lesser extent in the credit crunch that brought financial markets on the brink of bankruptcy. And it has already made possible to identify some of the directions in which such a re-thinking should move. Influential social scientists are arguing that "a massive re-thinking of the role of the government and of the market is necessary not only to propose large-scale public intervention in the economy but also to recast the role to date assigned to for-profit enterprises" Stiglitz (2009). Even more explicitly "it is necessary to find a new balance between markets, governments, and other institutions, including not-for-profits and cooperatives, with the objective of building a plural economic system with several pillars". The same



thesis has been put forward by other scholars, who usually identify cooperative and social enterprises (and in general the diverse types of not-for-profit organizations) as constituting one of the four pillars on which solutions to the crisis should be based, especially thanks to a renewal of the relationship between capital and labour and to the promotion of constructive collaboration and trust behaviours. To these assertions can be added those of the economic policy-makers who insist on the need to build a 'better world' based on 'more ethical private behaviour', or on the 'subordination of interests to values' developed by 'everybody together'.

These observations highlight an increasingly clear connection among the nature of the economic crisis, the need to re-think the workings of the economic and social systems constructed during the modern age, and to recast the role performed by organizations and enterprises pursuing goals other than profit. Even if it is rarely stated explicitly, affirming economic pluralism signifies abandoning the preference for a single type of enterprise – the one driven by profit maximization – and instead asserting the value of differences. The diverse motivations and ideals on which differences among enterprises are based thus not only recall an economic and social importance hitherto little recognized, if not denied, but are also considered resources and conditions for changing institutional and organizational arrangements deemed unsatisfactory.

Of especial importance is today a profound re-thinking of the nature, features, and roles of the different enterprise types which entails thorough revision of conventional interpretations and consolidated legal and institutional systems. **Stiglitz (2009)** states this very clearly in regard to economists when he argues that " We ... have focused too long on one particular model, the Profit maximizing firm, and in particular a variant of that model, the unfettered market. We have seen that that model does not work, and it is clear that we need alternative models. We need also to do more to identify the contribution that these alternative forms of organization are making to our society, and when I say that, the contribution is not just a contribution to GDP, but a contribution to satisfaction". But this invitation applies to all social scientists. It applies, for example, to the sociologists whose research on social capital has failed to consider the role of cooperatives as amongst the main collectors and enforcers of trust relations; or to the political scientists who have generally underestimated the contribution that these organizational and entrepreneurial forms may make to the workings of democracy, in producing social inclusion and a more effective implementation of participatory rights.



These arguments represent by now sheer directions for future economic and social research. If they are to become fully operational, better specification must be made of how they can be put concretely into practice. In particular, specification is required of how cooperative and social enterprises can contribute to the creation of this 'better world'. For example, closer examination is needed of what are the features of governance and control, the working rules and the distributive patterns best suited to their operation. It is therefore necessary to single out the limitations of the standard economic approaches and to define a new approach that can overcome these limits. The general assumption is that efficiency of organizations, similarly to that of countries, must be evaluated today by enlarging the notion from private benefits to mutual-benefit and public benefit objectives.

3. The prevalent economic approaches and their limits

3.1. The orthodox approach

The 1900s have been dominated by the idea that the best way to organize the production of goods and services so that general development and well-being could be obtained in the most efficient way was to allocate this task to two sole actors: the market and the state. The former – understood in highly restrictive terms as the set of competing for-profit firms – was entrusted with the production of the greatest possible quantity of private goods and services. The task of the latter was instead the production of public and collective goods and the promotion of the economic development of all regions and countries, thorough the attainment of minimum income levels for the entire population. To this end, it was argued, markets should be made as competitive as possible, and public intervention should be managed democratically, so that the most important unsatisfied needs could be identified and the interventions necessary to satisfy them organized. Thus eliminated, at least in theory, was both the necessity and the usefulness of all those other actors – the community, the family, and private non-profit organizations – inspired by the principles of mutuality or solidarity and widespread until the beginning of the 1900s, more precisely until the start of World War I. Indeed, it was alleged, these institutions were likely to become sources of inefficiency. They should therefore be progressively replaced with for-profit firms or public institutions, and this process is testified by the growing pressure observed in the last decades towards the enlargement of markets in



the globalised economy, while at the same time more and more binding financial constraints forced the reduction of the role of the State in the economy.

In a similar fashion, it is possible to state that also the concept of efficiency has been given to date an overly restrictive meaning. It has been understood as a purely technical concept mainly referred to the employed technologies and the optimal mix of inputs. The relevance of organisational efficiency has been underestimated by the inherited theories with the notable exception of the concept of X-efficiency (Leibenstein, 1961). This is so because the most relevant concepts of efficiency took into consideration only the technical aspects of efficiency, while other aspects, such as the intrinsic and non-monetary motivations of the involved actors, and a broadly defined idea of the well-being were disregarded or marginalised. For example, the comparative analysis of different organisational and ownership forms has not been adequately developed. Consequently, objectives other than the maximisation of the profit have been completely excluded from economic analysis. These reductive point of views have halted the explanatory potential even of the best known theories which have not been able to give an adequate account of important phenomena, for example the growing socio-economic weight of non-profit organisations and social enterprises that often operate without recurring to highly powered monetary incentives. A more comprehensive theoretical framework should instead be able to take properly into account all these elements: technological and financial factors, but also a rich variety of motivational drives, expressed preferences, and a general concept of well-being.

The distinction between the efficiency role of for-profit organizations and the distributive function of public agencies has therefore come to be exposed to various doubts and sustainability. As a consequence, the prevailing economic and social models revealed growing shortcomings, especially in recent years. It increased incomes only in some countries, and it was unable to redistribute such increases either among countries or among the citizens of the same country. And it failed to do so even to the minimum extent necessary to eliminate the most acute forms of poverty: indeed, income inequalities have markedly increased in recent decades. Moreover, despite a constant increase in public spending, the supply of services of collective interest became more and more unsatisfactory in quantity and quality, leaving an increasingly large part of needs unsatisfied (Borzaga, 1997). The weakening of social bonds brought about by an excessive emphasis on self-interested and competitive behaviour has heightened the sense of vulnerability and fears for the



future, and it has diminished trust relations and cooperative behaviours. Over the last decades, increased economic well-being in the richest countries has not been matched by increased happiness (Easterlin, ...; Pugno, ...). The various attempts made to remedy the shortcomings of this model by re-allocating responsibilities for managing certain social activities to one or other of the two actors, through, for example, the privatization policies adopted in recent decades, have not achieved the hoped-for results. This is borne out by the current crisis, which shows how difficult it is to obtain – solely through the constraints imposed by market competition and regulation – socially responsible behaviour from agents concerned only with the maximization of private returns informed by self-interest, and how costly it is to compensate for the damage caused by such behaviour. In many instances, such as the exclusion from the labour market of less able workers, costs can overcome benefits leading to the production of dead weight social losses.

The inability of the dominant economic and social model to respond to numerous needs has, amongst other things, created new space for the development of non-profit oriented entrepreneurial organisations created by groups of citizens and civil movements. In fact, in the past two decades, contrary to every forecast, and often in contrast with the prevailing culture and with the legislation in force, cooperatives and social enterprises have spread, evolved, and strengthened in many countries (Borzaga and Spears, 2004). Why this evolution and recovered role of cooperative and social enterprises? Various can be the reasons explaining the relevance of also cooperative and social enterprises in real economic systems. First, these organizations continue to cover an important social role, and they are not perfectly substituted by public bodies, since the latter are rather exposed to failures in the individuation of the demand and in the provision of services. Second, organisational solutions worked out in cooperative and social enterprises are often more effective and efficient than in the public sector and for-profit firms.

3.1. New institutionalism

A way to cope with the assumption of only profit-maximizers organizations have been developed by institutional theory. New institutionalism tend to move away from a view of the firm centred solely the profit maximization hypothesis since the core of the analysis is cast in terms of cost minimisation, which represent the relevant efficiency criteria. The ability to minimise transaction costs singles out the organisations that



have the greatest survival and expansion potential. Transaction costs represent a concept that has been used by many authors in this research stream starting from Coase (1937) and reaches its most mature elaboration in the Hansmann's (1996) model. This way the role of institutions, in terms of control rights, governance and organisational routines takes the centre of the stage, and it is not marginalised any more like in the neo-classical approach. New-institutionalism foregrounds the role of coordination mechanisms, such as markets and hierarchies (Williamson, 1975) in solving collective problems in the production of goods or services. This way it prepares the ground for further developments coming from evolutionary and behavioural economics, even if its main focus still rests with the minimisation of transaction costs and does not depart significantly from the most traditional approaches to the study of efficiency.

The new-institutionalist model fosters the understanding of the process of creation and diffusion of cooperative organizations by focusing on transaction costs. The organizations surviving on the market are those able to minimize the sum total of costs connected with their operation (Hansmann, 1996). Costs are sorted into the costs of the use of the market and ownership costs. The costs linked with the operation of the market concern market power ex-ante (monopoly and monopsony), market power ex-post (lock-in) and asymmetric information. The costs of ownership are those linked with decisional processes, risk taking by entrepreneurs, and agency relation with the consequent costs of control of employees and managers. The costs of ownership are undergone by the firm's owners, while the other costs are undergone by the other stakeholders that interact with the firm by means of contracted transactions.

Competitive pressure on the market, which exists also in the case of cooperative and social enterprises, pushes these organizations to reduce costs, this way increasing efficiency. In this context, the main advantage of cooperative and social enterprises is to reduce transaction costs in the presence of market imperfections, for example market power, which favors the creation of worker and consumer cooperatives, and/or of asymmetric information, which favors the creation of non-profit organizations, social cooperatives and social enterprises (Hansmann, 1996; Borzaga and Tortia, 2010). In Hansmann's view, the main shortcoming of cooperative firms is represented by higher collective decision making costs, especially as firm dimension grows and its members, for example workers or borrowers, get more differentiated in terms of expressed preferences and endowments of financial wealth or human capital. These



factors cause different members to develop different objectives leading to inflated decision making costs and organizational impasses. These limitations are very apparent in the case of big industrial firms, while they can be overcome in small organizations in which members have homogeneous features, such as small cooperatives of producers and professional partnerships. Not all typologies of cooperatives suffer this limitation in the same way, but the problem is relevant any time members' interests are not highly homogeneous. In the case of non-profit organizations and social enterprises, the main shortcomings are recognized instead in the difficulty to gather sufficient risk capital and to offer adequate incentives to their stakeholders, leading to a reduced efficiency of the production process.

The new-institutional theory has the merit to propose a new conception of the private firm enlarging its space of action to include the production of public and collective-interest goods,¹ and a positive, though limited role for mutual benefit organisations. New institutionalism also enables rethinking of the most relevant institutional features of non-profit oriented firms, most notably the profits distribution constraint and innovative forms of governance. Furthermore, the approach allows explaining the emergence of cooperative and social enterprises at their origin, by evidencing their higher efficiency in contexts characterised by the existence of market power and pronounced asymmetric information.

Hence, new institutionalism gives a relevant, but reductive picture of non-profit oriented firms in market economies. While it is able to deal with and explain the existence of all entrepreneurial forms, and hence also of cooperative and social enterprises, it undergoes serious shortcomings, which can be summarized in: 1. the underestimation of the role of governance changes in fixing the problems generating higher ownership costs; 2. a conception of the firm exclusively based on cost-minimization; 3. the assumption of exclusively self-interested individual; 4. the neglect of the social role of cooperatives, of social enterprises and of their institutional peculiarities. In more general terms, the lack of recognition of the role of cooperative and social enterprises in the solution of social dilemmas, which for-profit firms and public agencies are not able to cope with, depends crucially on the too restrictive and unrealistic assumption that cooperative and social enterprises and the main actors inside them behave in an exclusively self-interested way, pursuing exclusively the private benefit of members. This assumption needs to be widened to account for the



presence of social preferences (Fehr and Fischbacher, 2002) informed by motivations linked to reciprocity and other regarding objectives (Zamagni, 200?).

3.3 A conclusion on the shortcomings of the prevalent economic approaches

In order to explain why cooperative and social enterprises can be efficient organisations we must overcome the abovementioned shortcoming in the traditional notion of efficiency, which resting exclusively with the role of technology and production in quantitative terms. The mere recognition of the shortcomings of the dominant social and economic models and the renewed vitality of cooperatives and social enterprises is not enough to foresee their future evolution. Identifying possible new equilibria among different organisational forms necessarily requires a re-thinking of the ideas and the theories hitherto predominant, starting from the concept of efficiency, and from the ability of cooperative and social enterprises to satisfy private and social needs (Borzaga and Tortia, 2006, 2007, 2010). Consistently, it is necessary to single out new and more advanced efficiency indicators that are able to consider the relevance of motivations, work effort and their results in terms of product quality. This endeavour is worth pursuing since, for example, recent theoretical and empirical results show a clear positive connection between intrinsic and pro-social motivations on the one hand, and work effort and productive efficiency on the other.

4. The potential of new theoretical contributions

Various new theoretical and methodological streams in economic research make it possible not only to explain the recent strengthening of cooperative and social enterprises, but also to argue that they could perform a much greater role than what has been granted to them by economics to date, thus contributing to the design of a different and better economic and social system. This section is devoted to a giving a general outline of those scientific developments, which seem most relevant to the analysis of the economic and social role of social enterprises.

The main assumption of this new approach is that the conventional interpretative paradigm, but also the neo-institutional approach are –at least partially- gainsaid and new interpretations of organisational behaviour and coordination must be proposed.

¹ The assignment of the 2010 Nobel Prize for Economics to Elinor Olstrom stands as an evident recognition to the relevance of this new school of thought.



Two main theoretical streams can be singled out and involved in the analysis: behavioural economics, which analyses individual behaviours, and evolutionary economics, which introduces the idea of organizations as problem solvers and explains the way in which organisational routines and economic systems change over time.

4.1. Behavioural economics

The second relevant approach for the study of cooperative and social enterprises is behavioural economics. Analyses of individual behaviour carried out by the behavioural school and by experimental economics 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 development in social psychology (e.g., DeCharms, 1968; Deci, 1975), which took into consideration the relevance of intrinsic and non-monetary motivations. Then it sprang in economics in connection with the doctrine of limited rationality (Simon, ...) and decision making under risk (Khaneman and Tversky, ...). Frey (1997) evidenced the interplay between intrinsic motivations and extrinsic incentives envisaging a possible effect of crowding out of the former by the latter when monetary and other extrinsic incentives displace self-determined choices informed by intrinsic motivations. For these authors, extrinsic and intrinsic motivations drive the individual behaviour through external compensations or thanks to the individual interest and personal satisfaction in carrying out an activity. While in the former case we should assume that only economic incentives increase individual wellbeing and explain economic actions, intrinsic motivations allow to widen the analysis explaining also the willingness of individuals to cooperate, relate with other people, and support development objectives that benefit also other people. Hence, it is possible to maintain that motivations are multifaceted, and people are moved simultaneously by self-interested, other- and process-regarding preferences (Ben-Ner and Putterman, 1999).

The continuum of motivations characterised economic agents is described by the self-determination theory of Gagnè and Deci (2005), who assert that people progressively internalise in their objectives some rules of behaviour which at the beginning come from outside (so called externally regulated behaviour, which includes economic incentives, authority, and control) and over time is transformed into individual ethical



rules and then into individual aims (so called introjected regulation, identified regulation and integrated regulation). People's willingness to cooperate in interpersonal interaction can derive from economic convenience or imposition, from social norms on which the individual is morally obliged to adhere, or from a real community of interest of people. The approach of behavioural economics informed by self-determination theory focuses on the non-instrumental aspects of human behaviour and on an organisation of work that stresses reciprocity and non-hierarchical relations. It helps us understand that in cooperatives and social enterprises, the sharing of values and common aims should prevail. Members' and stakeholders' behaviours are not only dictated by financial and other monetary variables, but instead reflect primarily their social and moral norms, and intrinsic interests, which need to be correctly coordinated with extrinsic incentives and self-interested preferences..

Behavioural economics introduce social preferences as crucial drives of behaviours. 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 and Gaechter, 2000) and by a quest for justice and equity (Fehr and Schmidt, 2001; Tyler and Blader, 2000). From a theoretical perspective, particular attention has been assigned by supporters of cooperative and social enterprises to the notion of reciprocity (e.g., Zamagni, 2002) and to the notion of donation and altruism (Rose-Ackerman, 1996). On the other side, empirical findings have maintained that workers in nonprofit organizations are more attentive to intrinsic motivations, relations, and other-regarding preferences (Preston, 1989; Borzaga and Depedri, 2005; Borzaga and Tortia, 2006). These behaviours are quite aligned with the cooperative principles, and especially with: the democratic rules that enforce procedural and distributive fairness; autonomy and independence, which support intrinsic motivations; cooperative education, which enhances the internalization of the organizational mission in the stakeholders' aims and the conformism to collective social norms; the interest of members, which requires solidarity and not-self-interested aims; the interest for the community, which enforces altruism. Procedural fairness represents one of the main organisational results in terms of formation and evolution of organisational routines that allows the actors involved to conform to common and recognised norms of behaviour (Sacconi,; Tortia, 2008). The stress put on the sharing of values as versus hierarchy, control and monetary incentives should result in increased satisfaction, effort, and loyalty to the organisations. These



results are considered over and above cost reduction connected with the less intense utilisation of monetary incentives and with lower control costs.

Thus behavioural economics makes it possible to include in economic analysis, and hence to valorise in economic terms as well, behavioural propensities and organisational models which to date have been neglected and considered of little interest, but which instead are commonplace in cooperatives and social enterprises.

However, approaching cooperative and social enterprises only by looking to social preferences (mainly altruism and reciprocity) is as limiting as considering only self-interested aims. Rather, a mix of incentives and motivations driving people's and organizational behaviours must be considered (Borzaga and Mittone, 1997; Bacchiega and Borzaga, 2001, 2003). Future research will have to answer the question of how different kinds of individual motivations, preferences and incentives interact and inform organisational behaviour, and of how governance rules in different organisational forms can influence individual preferences and choice.

4.3. The evolutionary theory

The third approach that we suggest to consider when analyzing cooperative and social enterprises is the evolutionary theory. The first reason why the evolutionary doctrine can be crucial for the understanding of the emergence, development and change of cooperative and social enterprises is that its focus is not on mere cost-minimization, but on the production of surplus directed to the satisfaction of relevant private and social needs. The production of an economic and social surplus is the main driver of economic activity and of its change, and does not amount neither to the production of the profit, nor to its maximization. One consequence is that the production of an increased surplus does not entail or require cost minimization, as the standard microeconomic approaches maintain. Higher costs can be a viable solution if the surplus allows the organization to survive and expand anyway. However, the surplus need not be characterized exclusively by private economic returns, but can well have collective and social connotation. The approach has therefore interesting implications also in dealing with the role of the firm in local development (Granovetter, 1985). The embeddedness of the organization at the local level is crucial since knowledge and resources (both physical and human) present at the local level always represent the core of the firm operative capacity. This is all the more true in the case of cooperative and social enterprises, whose members are necessarily located and embedded at the local level, expressing needs that are usually in common with many other subjects in



the locality. Multi-stakeholder governance is therefore an emergent feature of cooperative and social enterprises and needs to be carefully considered when analyzing their role in socio-economic development (Borzaga and Tortia, 2009). Moreover, by considering the production of surplus as the main objective of economic activities, the evolutionary approach requires to enlarge the evaluation of the efficiency of organizations, considering also the externalities produced and both the micro and macro levels, for example, respectively, on the well-being of stakeholders and on employment. - (as for example employment) consequences.

Consequently, the evolutionary doctrine is compatible with a conception of the firm not as a mere maximizer of the net returns accruing to their investment programs, but, rather, as a coordinating device geared to satisfy needs that can be private and material, but also collective and psychological. Furthermore, as a rule, firms do not operate in perfect or markets. Rather, firms are a. Organizational routines have evolved and continue to evolve to allow different subjects to come together and pursue production objectives in entrepreneurial ventures (Nelson and Winter, 1982) with the aim of enjoying the results (the surplus) in economic and monetary, but also in social and psychological terms. This way the metaphysical shortcomings highlighted in the previous sections and linked to the ex-ante assumption of self-seeking preferences are avoided since nothing in this definition of the firm requires individuals within organizations to be only and fully self-interested and the social aspect of the operation of firms can be as crucial as their economic objectives.

The potential of the evolutionary approach in developing a more realistic and scientifically relevant understanding of human agency is supported by various elements. To start with, many results coming from the study of group selection clearly show that altruism and pro-social attitudes can be functional in increasing the reproductive success of individuals, organizations, communities and society at large (Hodgson, 1993; Bowles, 2004) by boosting sympathy, trust and the sense of community. Here it is clear that the evolutionary approach and the behavioral one are complementary in the understanding of human agency and social evolution. This is so because, in order to take into account also collective and social objectives, individuals need to be characterized by motivational complexity and interact in a suitable institutional environment supporting non self-regarding attitudes. Applied to cooperative and social enterprises, the approach seems to maintain that members can share an organizational mission which differs from both profit maximization and individual wellbeing. It is instead guided by common objective and by cooperative



intentions. Similar motivations can also explain customer choices, when clients of cooperative and social enterprise choose goods and services because of sympathy, trust, and sense of community which relate them with the organization. Furthermore, in the case of workers, a high monetary remuneration may not be able to displace the negative effect of the perception of an unfair work-environment. On the contrary, workers can accept to cooperate and increase effort because they share the mission of their firm and seek involvement in the organizational processes (Akerlof and Kranton, 2002).

Second, since the focus of the evolutionary theory is on institutions, which take the form of property rights, governance structures and organizational models (Williamson, 2000) and on their evolution, preferences are clearly endogenous because different cultural contexts and institutions exert a relevant differential impact on individual behavior even when the social problems to be solved have exactly the same nature (Bowles, 1998, 2007). Just think of the importance of working in a fair environment, where decisional processes are transparent as versus working in a hierarchical system in which the motivations lying behind the decisions taken by superiors are never disclosed. Hence the understanding of individual behavior cannot be defined ex ante on the basis of some general criteria, but has to be assessed empirically identifying the relevance of the interaction between the individual and the institutional environment. This implies that the emergence of cooperative and social enterprises and their increasing role must be analyzed within the embedding social and institutional domain and by testing the possible interaction with the local demand, with the local social capital, with the political system, and with anthropological dimensions also linked to the local culture. Such dimensions directly influence the emergence of new institutions answering to unsatisfied needs or to cultural movements; they explain the enforcement of institutions supported by law and the increasing number of cooperative and social enterprises in regions characterized by a high level of social capital. Furthermore, if the socio-economic context relates to the development of cooperative and social enterprises, differences among countries do not limit the relevance of sectoral or territorial research, but instead reveal the importance of the differences in the diffusion and characteristics of cooperative and social enterprises, since they highlight the ever growing differentiation between different national and local contexts, leading to increased institutional richness.



4.4. Combining the different approaches

Given the foregoing arguments, a new scientific project for a better and more correct understanding of the economic and social nature, and of the objectives of cooperative and social enterprises needs to take into consideration at least three crucial elements:

- A reinterpretation of the problems linked to the relations between market and hierarchies (Williamson, 1975) since in this new approach market exchanges are by no means equivalent to the spread of profit maximising firms. Indeed, a plurality of entrepreneurial forms – private-benefit, mutual-benefit, and social benefit – can be envisaged on the market. Furthermore, when public-benefit entrepreneurial forms are considered, also the mediating role of the government is to be taken into consideration;
- The definition of a wider concept of the enterprises, which is not restricted to the narrow focus on profit maximization and cost minimisation inherited from the most orthodox approaches, namely the neoclassical and the new-institutionalist. It needs to define firms broadly as coordinating devices of the economic activity, whose main or sole objectives is the satisfaction of private and social needs. This is affected through the management of common pools of resources (Ostrom, 1994), which requires the implementation of proper governance and working rules, or organisational routines;
- The consideration of a wide variety of economic actors – investors, donors, managers, workers, volunteers, customers, users, beneficiaries, and the local community – who are driven by a plurality of motivational drives, intrinsic and extrinsic, monetary and non-monetary, and express different preferences, which can be self-regarding, but also other regarding or informed by criteria of reciprocity (Zamagni, 2002). Behavioural, experimental, and neuro economics become crucial tools of analysis for understating the complex interaction between all these different behavioural propensities.

The need to explain self-interest together with social preferences, efficiency together with effectiveness and social wellbeing, transaction costs together with social effects, requires to combine the above-described theories. If the objective of the enterprise is, or can be, also the solution of collective action problems in the presence of scarce resources and of a relevant degree of non-excludability (Ostrom, 1994), and if the



motivations at the basis of economic behaviour do not concern obtaining personal benefits alone, it is possible to argue that the relations among agents inside and outside the enterprise may be not only or not necessarily competitive but also, and in some cases mainly, cooperative. Moreover, such cooperation, even when partial, may enable the enterprise not only to pursue common interests, but also to obtain the resources necessary for that purpose. It is thus possible to explain cooperative and social enterprises in a manner different from what has been attempted in the past, and to understand their modes of operation and socio-economic role.

At the same time, it is possible to reconsider fundamental economic concepts such as efficiency. Theoretical and empirical results show a clear positive connection between intrinsic and pro-social motivations, on the one hand, and effort and productivity on the other (Bacchetti, Castriota and Tortia, 2009). Consistently, it is necessary to single out new and more advanced efficiency indicators that are able to consider the relevance of satisfaction, motivations, work effort, and their results in terms of product quality.

These considerations do not reject the results hitherto obtained by economic analysis; in particular they do not gainsay the role of the market and the for-profit firm. More simply, they propose a more pluralist economic system than the present one, which is characterized by competition among similar enterprises. In the new perspective, the idea of competition is extended to enterprises differing in their objectives, ownership forms, governance systems, and organisational models.

4.5. Other non-economic aspects of the new approach

The economic theory of cooperative and social enterprises is supported by the increasing attention paid by the political and legal sciences, to the theme of subsidiarity. Application of this concept, especially in its horizontal sense, yields innovative models of socio-economic- organization more open than traditional ones to the direct contribution of private actors in defining and pursuing collective interest directly, and not just through delegation. Thus created are new spaces for the direct commitment of individual and organized actors, also in the form of firms, where cooperatives and social enterprises are more effective than public agencies and for-profit firms. The affirmation of the subsidiarity principle also changes the way in which a community forms its 'social preference function', i.e. its desired combination between the supply of goods and services and the distribution of income. The



approach predominant to date has considered the formation of the social preference function to be the exclusive task of governments. But according to the subsidiarity principle, it should instead derive from the joint action of public and private subjects concurring in its formation with their decisions about how much, and especially what, to produce, and how to allocate and therefore distribute resources. There thus emerges a new understanding of democracy in general which also comprises forms of economic democracy, while re-valuing the role of democratically created and managed enterprises. These become places not only of production but also of the expression and formation of social preferences. For example, the bottom-up formation of development objectives by the same actors that will benefit of the results of the same development patterns becomes possible when cooperative and social enterprises are locally embedded (Borzaga and Tortia, 2009; Sacchetti and Sugden, 2009). Finally, in this same direction goes the increasing insistence of social scientists on the importance of social capital as a factor in both social cohesion and economic development. In this case, too, special significance is acquired by all the institutions and organizational forms that are able to contribute to the strengthening of trust relations and to the accumulation of social capital, such as cooperatives and social enterprises. For the development of the social sciences in general, the development of cooperative and social enterprises offers a unique occasion to study social contexts in which, at least in principle, social capital in terms of trust relations can be produced and accumulated.

Those just summarized are only some of the theoretical developments useful for an innovative interpretation of cooperative and social enterprises. However, for the time being they seem sufficient to develop a new interpretation of these entrepreneurial forms and with which to appraise their economic and social role more realistically, and to identify coherent policy strategies. Furthermore, the highlighted theoretical developments allow to explain why cooperative and social enterprises show high adaptive potential and are resilient to socio-economic change: their ability to answer to inefficiencies of other institutions and to local needs, the economic advantages generated by their principles for their members, users and beneficiaries, their ability to increase the production of positive externalities, their contribution to valorise local resources and local economic activities, the diffusion of culture, social norms and social capital.



5. Final remarks and suggestions

In order to re-think the role of cooperative and social enterprises so that they can respond innovatively and adequately to the needs highlighted by the foregoing discussion, the first step to be taken is to reverse the research strategy which to date has inspired most of the scientific reflections on these topics. Instead of interpreting these organizational and entrepreneurial forms and their economic and social role by means of models developed for other purposes, and therefore generally based on hypotheses incompatible with their specific features, priority should be given to constructing models and theories consistent with the principles and values that have long determined the activities of these enterprises. The scientific project which derives from this logical reversal must necessarily start from a view of economic systems as entities based on organisational variety where differentiated goals are found and competition is as possible as collaborative relations when objectives coincide. These new theories and interpretative models need to identify the factors which have led to the formation of the different forms of enterprise — particularly of mutual-benefit and public-benefit forms—, the motivations and values that condition their action, and the system of incentives that they activate (also through definition of distinctive governance and control models) in order to aggregate human and material resources around the activities undertaken and the goals pursued. Among the main objectives of this scientific endeavour should be the identification of the conditions which ensure or prevent long-period sustainability, and the understanding of the specific contribution that cooperative and social enterprises can make to economic and human development. The results obtained can be used to re-think the relationships that cooperative and social enterprises must establish with other public and private actors, and with other mediating institutions, especially the market. And they will yield understanding of how these other actors should reposition themselves and be regulated so as to create more space for cooperative and social enterprises whenever they prove more effective or more efficient. This process of scientific enquiry would amount to move in the opposite direction to the one followed since the beginning of the 1900s.

The philosophy underlying this scientific enquiry is to be based on the overcoming of the narrow focus of past theories and empirical research. To do this, it will be necessary to integrate the existing theories also in practice with an organic approach by overcoming the traditional concept of efficiency and by looking not only at the ability of the organization to survive on the market and to become competitive (and



therefore efficient), but also at their contribution to local economic development and to the creation of a welfare mix directed to the satisfaction of community needs and to the growth of the social wellbeing.

The objective should be not only to show the degree of efficiency of cooperative and social enterprises, but also to verify in what contexts such enterprises prove efficient and effective more than the other organizational forms. Attention should therefore be devoted not only to the strengths, but also to the limitations and weak aspects of cooperative and social enterprises. Empirical research will try to investigate from a critical perspective the functioning and the objective of these organizations, their governance structures and their managerial practices, their transaction and governance costs, beyond the costs of the resources and technologies used. The analysis of the inside dynamics will also allow to offer suggestions to the practitioners for improving the management of not-for-profit organisations, to the political arena in terms of policy implications, and to researchers who want to develop the analysis further. These efforts will allow the accomplishment of a complete picture, of which the development of a new and complete theoretical approach represents the framework.

As a conclusion and suggestion to scientists, the preliminary analysis of the role of cooperatives and social enterprises introduced in this paper underlines the need for more research and understanding of these organizations. As regards theory, an analytical approach is needed which disregards how these organizations are regulated in different countries and privileges identification and analysis of their key characteristics, thereby enabling critical assessment of the adequacy of current regulations and their shortcomings, and then proposes changes that may enable them to operate more efficiently and effectively in different social contexts. As said, however, the identification of the common features of cooperative and social enterprises will not impede differentiation in their organisational models and working rules at the local and national level, given the different cultural, social, and institutional conditions (Ostrom, 1994) Theoretical and empirical research must be implemented both in specific settings and in comparative terms. Theoretical developments, laboratory experiments, case studies and empirical tests may be the best way in which these results are obtained. Furthermore, a multi-disciplinary perspective must be adopted by promoting and undertaking research in various scientific domains—from sociology to law, from economics to psychology—and by encouraging comparison and exchange among different disciplines, above all those



with interpretative purposes and those concerned with the regulation of cooperative and social enterprises, their activities, and their relations with other actors.

