

Co-operative networks in the Italian economy

by Tito Menzani and Vera Zamagni

(published in “Enterprise and Society”, 2010 (XI), no.1, pp. 98-127)

Abstract

This paper analyzes the co-operative enterprises networking in the Italian economy, in accordance with recent economic theory to throw light on the causes of the success of Italian co-operatives in the last 30 years. We resort to the vast literature about business networks to identify some interpretative lines that can be transferred to the co-operative world. On this basis, a typology of the Italian co-operative networks is offered, in order to evaluate the competitive advantages of each type of net, their governance methods, their evolution, and their impact on the recent flourishing of Italian co-operatives. Our conclusion is that the use of networks by co-ops has been very intensive and can still be strengthened, if the Italian co-operative umbrella organizations will merge. The building up of large co-operative corporations was often the result of networking, as well as the creation of joint stock companies owned by co-operatives.

1. A conceptual framework for the study of co-operative networks

The aim of identifying the causes of the success of Italian co-operative enterprises in the last 30 years has led us to become interested in networking, as we had noticed the intensive use of networks made by Italian co-ops across their history. We have therefore inspected the vast literature about business networks to identify some interpretative lines that could be transferred to the co-operative world. This exercise has allowed us to work out a typology of the Italian co-operative networks that we consider useful to evaluate the competitive advantages of each type of net, their governance methods, their evolution, and their impact on the recent flourishing of Italian co-operatives.

The economic literature has for long basically featured two forms of enterprises: the atomistic firm, typical of the neoclassical world where the «invisible hand» is at work, and the Chandlerian corporation, which acts according to a very «visible hand». Both of them have the peculiarity of being totally unrelated to the other enterprises and of “standing alone”¹. The Smithian enterprises give rise to a perfectly competitive system, because each small firm is specialized in a limited

¹ Chandler, *The visible hand*.

productive segment and is forced to turn frequently to market transactions. The Chandlerian enterprises, instead, internalize many market transactions, acquiring a large size that can only be administered by «hierarchy», i.e. by a long command chain capable of controlling the many steps needed to produce the final product, resorting to the market only sparingly and giving rise to oligopolistic competition. It is this the origin of the contrast between market (understood as the competitive market) and hierarchy, long featured in business theory².

The first attack to this conventional wisdom came in the late 1970s from theories developed to explain why small firms tended to bunch in clusters and entertain multiple relations with each other. The literature on the industrial districts highlighted the existence of a lot of formal and informal extra-market links among small enterprises, aimed at favouring flexibility in the use of labour and promoting product differentiation and customization, but it only surfaced peripherically in the international economic debate, because it applied predominantly to Italy³. However, we do not want to underrate the impact of the work done by such scholars like Piore, Sabel and Zeitlin in highlighting that after the Tayloristic revolution production was not only “mass” production in all parts of the world: small firms survived, industries continue to need some flexible lines, if nothing else in the production of dedicated machinery⁴, and some areas of the world showed a strong preference for the maintenance of a flexible production system⁵. Philip Scranton’s addition to this picture has been to demonstrate that in USA too the victory of mass production was not unchallenged⁶. These works were strategic in reminding that the real world of businesses was more plural than the market versus hierarchy modelization was ready to admit.

A second important line of attack to the conventional wisdom of firms standing alone was moved on the basis of the Japanese success, connected as this was to the widespread reticular framework of Japanese firms, the so called *keiretsu* (formerly *zaibatsu*)⁷. This structure, the existence of which could not be denied, was considered by Chandler a second best solution, to be found in economic systems where cultural or legislative obstacles prevented the adoption of the integrated corporation. In this context, we consider Granovetter’s contribution decisive. In his 1995 essay, he persuasively treated the business network as an extension of Coase’s theory about the firm, and so he freed this model from its previous subordinate position⁸.

² Williamson, *Markets and hierarchies*; Toninelli, *Storia d’impresa*.

³ Saba, *Il modello italiano*; Signorini, *Lo sviluppo locale*; Antoldi, ed., *Piccole imprese e distretti industriali*.

⁴ Piore and Sabel, *The second industrial divide*

⁵ Sabel and Zeitlin, *World of possibilities*

⁶ Scranton, *Endless novelty*

⁷ Aoki, “Toward an economic model of the Japanese firm”.

⁸ Coase, “The nature of the firm”; Granovetter, “Coase revisited”; Id., “Coase revisited,” review by Zamagni. See also Powell, “Neither market nor hierarchy”.

Since the 1990s, an extensive literature, which is not possible here to summarize exhaustively, has examined many features of business networking. For their relevance to the application we want to make to co-operative enterprises, we shall briefly recall here only three approaches. The first is a foundational one, that brings back in the economic discussion a forgotten element, i.e. the *benevolent* disposition towards others. The benevolent disposition – reciprocal and co-operative – is at least as much present in society as the self-interested one. This line of thinking shows that the non-market and non-hierarchical economic relations must be considered a source of important economic decisions. In Adam Smith’s theory, these two dispositions – the benevolent and the self-interested – were both present, although many commentators underlined mainly the second one, while the subsequent economic mainstream has developed only the self-interested relations, sometimes denying the importance, and even the existence, of relations based on benevolence. More recently, there are contributions showing the failures of a market solely based on self-interest as well as the failures of a State often incapable of enforcing law and order through the use of police and of adequately promoting social collaboration, demonstrating the irreplaceable role of economic activity based on benevolence⁹. Benevolence, together with the market and the State, allows the creation of civil communities where risk and responsibility are shared, producing a very harmonious public life. The need for a triadic structure of society – market, State and third sector – has been recently argued by Luigino Bruni and Stefano Zamagni, who maintain that reciprocity is the basis for the functioning of both the market exchange of equivalents and the gift-giving sector¹⁰. This line of thinking is important to understand the nature of co-operative firms, which are profit making companies, but distribute benefits to members in a solidaristic way.

The second approach is the modelling one, that formalizes networks – especially through games theory – studying them from many different points of view, with political and economic applications¹¹. From these studies, we can derive four main concepts: a) the network is a set of links, relating agents not always directly through bilateral relations but often making use of intermediaries who provide “knots”; b) the typology of firm relations is tripartite: collusion in the market, co-operation in production and marketing agreements among sellers and buyers on a large scale; c) the importance of ethnic, religious, ideological and family bases for business networking is due to the production of benefits of information, reputation, monitoring and commitment¹²; d) not

⁹ Bowles and Gintis, “Social capital”, in *Moral sentiments and material interests*, eds. Gintis, Bowles, Boyd and Fehr.

¹⁰ Bruni and Zamagni, *Civil economy*; see also Sacco and Zamagni, *Teoria economica e relazioni interpersonali*.

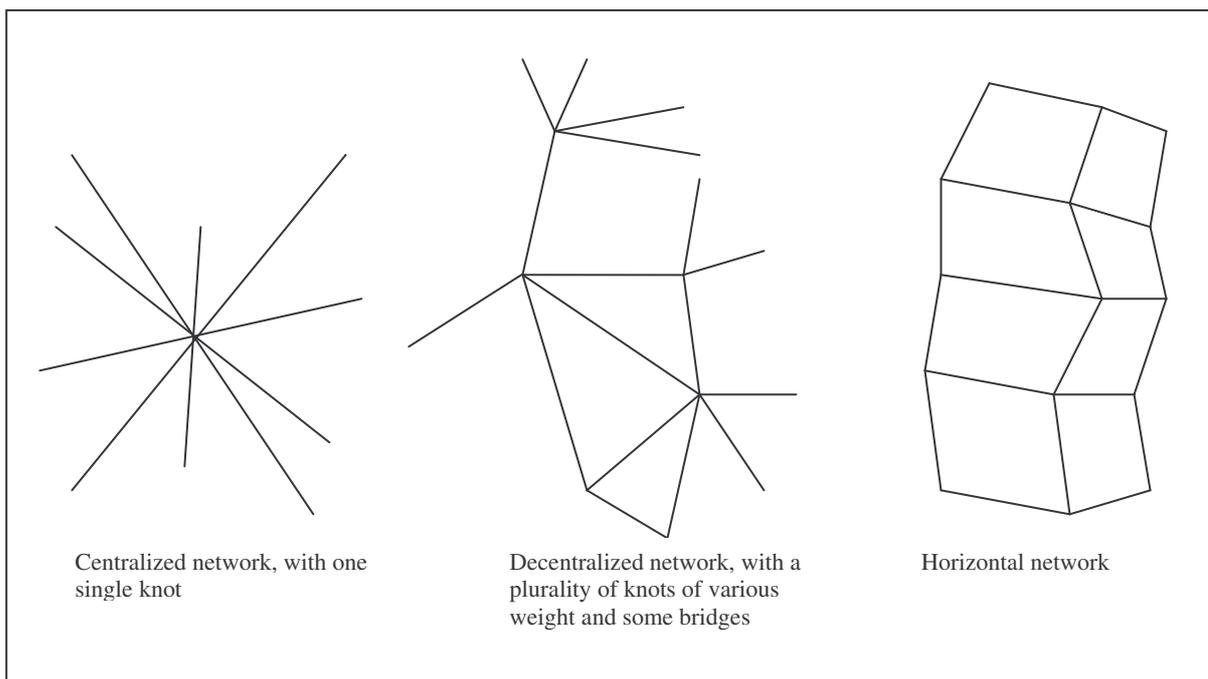
¹¹ Demange and Wooders, eds., *Group formation in Economics*.

¹² Belussi, “Fiducia e capitale sociale nelle reti di impresa”.

all types of networks work properly and some of them end up failing¹³. An example of this can be found in the authoritative book by Avner Greif on the business networks produced by the Italian city states of the Middle Ages, where the author shows the advantages of their “impersonal” networks versus the Maghribi ones based exclusively on family ties¹⁴. On the whole, this approach offers useful analytical instruments to study networks, but it is still in its infancy.

The third approach is empirical and is the most relevant to our discussion here, that aims at building a typology of the networks prevailing among the Italian co-operative enterprises. From this literature we learn that the position of each enterprise within a network can be different: an enterprise can be a simple member of a network, sometime with a single link with another enterprise, or it can behave as a bridge for a series of partners, performing a more strategic role, or it can be the key-enterprise of the entire network, with all the other enterprises depending on it, performing the role of overall coordinator of the network. Networks, therefore, can be tighter or looser and more or less hierarchical. Some examples of networks are reported in table 1.

Table 1. Position of enterprises within networks



In table 2, we have prepared a fivefold typology linking together various features of networks; the first three typologies are an adaptation from the work of De Man¹⁵, while the other two are

¹³ On networks failures, see Gössling, Oerlemans, Jansen, *Inside networks*, ch. 9 and also Hancock, “The trouble with networks”. The fact that networks suffer of conflicts or can be organized in a way that proves unsustainable over time is not sufficient to lead to the conclusion that networks are inferior to the hierarchical form of enterprise.

¹⁴ Greif, *Institutions and the path to the modern economy*.

¹⁵ De Man, *The network economy*.

original and respond to the features of co-operative enterprises, for which it has been written that «the construction of networks among firms is an inbred element»¹⁶. In the columns of table 2 we have tried to explain the aims assigned to each type of co-operative network, its most relevant features and the corresponding type of governance. But before testing the significance of the proposed typology, we now have to turn to a presentation of the Italian co-operative galaxy.

Table 2. A typology of co-operative networks

Type	Definition	Key characteristics	Governance
horizontal	networks to increase market power, to rationalize production, to offer common services, to share risks and opportunities	very integrated system; long lasting; sometimes they prelude to mergers; generally used by small and middle size firms	governance with special committees, consortia or other shared legal instruments
vertical	networks between suppliers and clients in a long value chain, developed to allow the concentration of each firm in its core business and at the same time the control of the entire production chain	vertical specialization; logistics coordination; product specifications; network used by many kinds of firms	governance by a partner who provides coordination in a stratified system
complementary	networks between complementary goods and service producers, to offer complete packages to their clients	Latent relationships, generally activated upon clients demand	steady alliances; equity cross-holdings; co-operative groups; consortia; common strategies; integration
financial	financial support networks	Supply of credit; temporary or long term equity holding, with financial and technical qualified services in view of company consolidation	strategically oriented independent agencies, with a view to promote business
network of networks	strategic coordination networks	external representation; lobby; co-operative identity defence; synergies among networks, common services and basic strategic decisions	elective and managerial system governance

2. An outline of the Italian co-operative movement

The Italian co-operative movement has a long tradition that plunges its roots deep into the second half of the 19th century. Today, it is outstanding in many economic sectors – from retail to credit, from agri-food to the building industry, from traditional services to the social ones – with a strong and widespread presence in the Italian economy, many large corporations and extensive networks. From a historical viewpoint, the Italian co-operative movement had its first expansion at the beginning of the XXth century, during the so-called «golden age of co-operation». In that period, it strengthened those features which have characterized the movement in the long run, in

¹⁶ Mazzoleni, “La rete cooperativistica”, in *Lezioni cooperative*, ed. Salani (our translation).

particular the ideological segmentation, with different umbrella organizations overlapping and competing with one another. The three largest umbrella organizations were Legacoop (of socialist origin), Confcooperative (of Catholic inspiration) and a liberal apex organization¹⁷. Liberal co-ops were the first to be born around the middle of the XIX century, but their organization as a group has always been loose, up to the formation in Ravenna at the beginning of the XX century of a Federation, that however remained pretty local. Legacoop was born in 1886 and for sometime was the only apex organization. Since the publication by Pope Leo XIII of the encyclical *Rerum Novarum* in 1891, a strong Catholic co-operative movement was promoted, which formed its apex organization in 1919.

The Fascist regime tried first to destroy co-operatives (especially the socialist ones), but then it decided to place the movement under Fascist control, shutting down the former apex organizations. Co-operation was not entirely cancelled and a number of co-operatives even prospered entrepreneurially, but without doubt Fascism slowed down the growth of the movement. With the restoration of democracy, the ideological partition of the Italian co-operative movement was brought back and Legacoop and Confcooperative got immediately reorganized, while the liberal umbrella organization was formed in 1952 as Agci and two smaller apex organizations were added later (Unci, 1975 and Unicoop, 2004). The 1948 new Italian constitution (art. 45) recognized the interest of the nation in the promotion of co-operation as a way of keeping together economic activity and solidaristic motivations, but during the economic boom of the 1950s and 1960s, the re-organized Italian co-operatives remained small and relatively marginal as it can be seen in table 3.

Table 3. Co-operative enterprises according to the official 1951-2001 censuses

	Number of co-operatives	% of total companies*	employees	% of total employees*
1951	10,782	0.7	137,885	2.0
1961	12,229	0.6	192,008	2.2
1971	10,744	0.5	207,477	1.9
1981	19,900	0.7	362,435	2.8
1991	35,646	1.1	584,322	4.0
2001	53,393	1.2	935,239	5.8

Source: Istat, *Censuses of industry and the service sector*, various years

Note: * excluding public institutions

The turning point is to be placed in the 1970s, when, as a result of the international crisis, many co-ops ran the risk of disappearing. This severe worsening of the financial situation of co-ops is at the basis of the strategies that the umbrella organizations of the co-operative movement put in place to strengthen their capitalization. To achieve this aim, the cooperative movement obtained a

¹⁷ In Italy this type of enterprises are labelled “republican”, because they were formed by members of the “republican” party which opposed the monarchy and had a liberal-populistic inspiration.

more favourable legislation. The first bill approved was the “small reform” (law 127 17/2/1971), that recognized members loans as a crucial element to increase capital available to co-ops and granted incentives to this form of coop financing (Zamagni, Battilani, Casali, 2004). The sector where members loans became more widespread was that of the consumers’ coops, given the very large number of members. Even more important was the bill approved in 1977, that allowed undistributed profits set aside in indivisible reserves not to pay the corporate tax, a measure that increased self-finance considerably¹⁸. In march 1983 a new bill was passed (law no. 72, labelled Visentini from the name of the minister who produced it), granting to cooperatives the permission to fully own or have a majority stake in a capitalist corporation. This allowed the largest cooperatives to collect capitals in the market in a variety of ways, including quotation in the stock exchange of the joint stock companies controlled by them. Another step in the direction of multiplying financial resources for cooperatives was done by the law 59 approved in 1992, which allowed cooperatives to have members who only supplied capitals (*socio sovventore*) and to issue special privileged shares (*azioni a partecipazione cooperativa*). The same law 59 imposed to co-ops to pay 3% of their profits to a fund constituted by their umbrella organizations with the aim of self promotion of the co-operative movement.

This improved capitalization, together with the networking that will be analyzed in the following paragraphs, strengthened Italian co-ops and allowed them to flourish, as it is documented in table 3 by census data: co-ops employment more than quadrupled in absolute terms in the span of 30 years between 1971 and 2001, while it almost trebled in relative terms. More up to date figures (2006) produced by the umbrella organizations are presented in table 4, where a further growth of the movement is documented and it can be seen that at present Legacoop and Confcooperative cover 90% of total turnover, while Emilia-Romagna stands out as the Italian region with the greatest concentration of co-operative enterprises (1/3 of total turnover). The expansion of Italian co-ops has not only been a quantitative phenomenon (in 2008 the co-op galaxy accounts for 7% of Italian GNP), but a qualitative one as well: co-operatives have formed large corporations, accounting for 9% of the few existing in Italy. The presence of co-operatives among the largest Italian enterprises is documented in table 5, showing the sectors to which they belong and their total turnover (approximately equal to 1/3 of total co-ops turnover)¹⁹.

¹⁸ The indivisible reserves form a capital that the co-op can invest, but never distribute back to members. If the co-op is liquidated, its indivisible capital is granted to the movement, to be employed back into active co-ops.

¹⁹ For more details, V. Zamagni, *Italy's cooperatives* and also S. Zamagni and V. Zamagni, *La cooperazione*. It must be noted that, being Italian enterprises in general very small (the average size in 2001 was 3.6 employees per firm!), the “largest” enterprises are defined as those with > than 500 employees, of which in 2001 only 1344 were in existence in the whole of the country. The average size of co-ops was in 2001 17.5 employees and the percentage of workers in co-ops with > than 500 employees was 9% (as against a share of 5.8% of total employees).

Table 4. The Italian co-operative movement in 2006 as portrayed through the data of co-operative umbrella organisations

	Number of co-operatives	Turnover (in billions of Euro)	% turnover in Emilia-Romagna	Members	Employees
Legacoop	15,200	50	45	7,500,000	414,000
Confcooperative	19,200	57	33	2,878,000	466,000
AGCI	5,768	6	25	439,000	70,000#
UNCI	7,825	3 [#]	10	558,000	129,000
Unicoop*	1,910	0.3 [#]	-	15,000	20,000 [#]
Non-members	21,561 [§]	3 [#]	20	100,000 [#]	150,000 [#]
Total	71,464	119	37	11,490,000	1,249,000

Sources: official figures from the co-operative umbrella organizations, including those for social co-operatives.

Notes: # estimated figure

§ estimated as the residual figure from the total (71,464) given by Unioncamere in its *Secondo rapporto sulle imprese cooperative*, 2006. Note that the co-operatives registered in the Co-operative Register, which was only set up on the 15th January 2006, number 62,253; this would suggest that the numbers of Unioncamere too were somewhat inflated by the inclusion of non-active co-operatives.

* This fifth co-operative umbrella organisation (of a rightwing orientation) was officially recognised only in May 2004 and very little is known about its activity.

Table 5. Italy's largest co-operatives in 2004 (>500 employees[#])

	Number of co-ops	Turnover (in millions of Euros)	employees	No. of members*
Manufacturing	20	6,738	27,453	75,480
Food & Drink	17	5,201	20,606	75,000
Construction industry	15	5,189	16,661	8,000
Large-scale retailing:	27	23,807	94,128	5,500,404
Coop	11	11,011	49,394	5,507,000
Conad	9	6,300	26,259	3,527
Others	7	6,496	18,475	3,877
Services:	43	3,453	120,024	826,072
Integrated services	27	1,973	55,913	18,605
Catering	4	1,082	21,849	20,806
Logistics	5	159	3,712	2,010
Other Services	4	239	2,450	10,427
Finance [§]	3	-	36,100	774,224
Total[§]	105	33,998	258,266	6,416,956

Source: from Co-operatives' financial statements, covering around 90% of the universe of cooperatives with > than 500 employees. With the exception of a few co-ops belonging to the umbrella organisation Confcooperative, most of these larger co-ops are members of Legacoop.

Notes: [#] the total number of the largest cooperatives is 9% of all the Italian largest corporations recorded in the 2001 census;

* in some cases, members are 2nd level co-operatives, and thus the figure is only indicative;

§ consisting of two insurance companies, one of which (Unipol) is the third largest insurance company in Italy (itself a j.s.c. owned by co-operatives), and of the credit unions system composed of 440 co-operative banks with 3,499 branches (11.2% of the total number of bank branches in Italy), with deposits representing 8.4% of total savings in Italy. Credit Unions have a very large share of the market in the 5900 Italian municipalities with < than 5000 inhabitants, in many of them being the only bank.

It must also be mentioned that the historical regional differences in the diffusion of co-ops remain almost unchanged to this very day, with a dynamic movement in the Centre-North – especially in Emilia-Romagna and Trentino-Alto Adige, both regions belonging to the North-East of the country – as opposed to a limited presence in the South of the country²⁰ (table 6). Compared with the share of population, the North-East has more co-operative employment, while the North-West and the Centre have approximately the same percentage and the South a considerably smaller one. If we add to this that all large co-ops are in the North-Centre, the conclusion is strengthened, although in the recent decades there has been a stronger growth of co-ops outside the North-East. This is not the place to discuss the reasons for this unbalanced distribution of co-ops in Italy, which commands a vast literature. Just a brief reference can be made to the scarcity in the South of the basic conditions allowing for the creation of co-operatives: widespread trust and support by local authorities in terms of promotion. Indeed, the famous book by Putnam²¹ which linked “civic virtues” to the level of development of Italian regions makes use, among other indicators, of the number of co-ops to measure “civic virtues”.

Table 6. Trends in the geographical distribution of cooperative employees *

	1971	% 1971	1981	1991	2001	% 2001	2001/ 1971	% 2001 population
North-West coops	49,323		74,774	122,214	217,751			
local units	48,834	23.5	72,978	119,295	212,854	27.0	3.4	26.4
North-East coops	83,379		139,375	188,180	253,765			
local units	82,634	39.8	137,180	184,416	243,689	31.0	1.9	19.0
<i>Emilia-Romagna coops</i>	53,780		94,937	111,097	144,480			
local units	52,153	25.1	91,112	105,876	133,027	16.9	1.6	7.2
Centre coops	34,477		64,243	100,272	151,603			
local units	34,612	16.7	65,980	103,089	156,118	19.9	3.5	19.3
<i>Tuscany coops</i>	16,838		26,186	43,189	51,689			
local units	17,563	8.5	26,638	42,660	52,526	6.7	2.0	6.2
Continental South coops	25,933		52,892	94,252	110,687			
local units	26,953	13.0	54,031	96,504	118,722	15.1	3.4	23.9
Sicily & Sardinia coops	14,365		31,151	51,894	52,286			
local units	14,444	7.0	32,259	53,508	54,709	7.0	2.8	11.4
Total	207,477	100	362,435	556,812	786,092	100	2.8	100.0

Source: see table 3, excluding social cooperatives

From what has been said, it can be concluded that in the areas where they are more present (Centre-North) and in the sectors where they concentrate (food and drink, construction, retailing, finance and other services) co-ops are a really significant part of the Italian enterprises system. In the European context too, Italian co-ops are today well placed, just below the level of Nordic co-operation (Denmark, Finland, Norway, Sweden are the most “co-operative” among the European

²⁰ Sapelli, ed., *Il movimento cooperativo in Italia*; Fornasari and Zamagni, *Il movimento cooperativo in Italia*.

²¹ Putnam, *Making democracy work: civic traditions in modern Italy*.

countries), though it is very difficult to document this in aggregate terms, for lack of comparative statistics²². In the recent ranking of the 300 major world co-operative corporations, Italy is present with 23²³, ranking fourth after USA, France and Germany in number of co-ops listed²⁴.

3. The horizontal networks

We are now in a position to use the typology developed in table 2 to analyze – in historical perspective – the motivations and the decisions that have conditioned the development of the Italian co-operative networking. The first type of network to be commented upon is the *horizontal* one, which is typical of the Italian co-operation pioneering periods, such as the origins in the XIX century-beginning of the XX century or the immediate post- second world war age, when co-operatives recovered from the fascist period.

This network's privileged instrument is the consortium, i.e. a co-operative of co-operatives, with the task of rationalizing marketing and resources to reap some economies of scale and work out «symmetrical integrations», which can prelude to mergers. The most important cases are to be found in the agricultural and industrial sectors, with a lot of provincial consortia developed between the post-war period and the 1970s. For example, the largest part of the building consortia affiliated to the Legcoop, organized with the aim of taking part to public tenders, supplied their co-operative members with services, such as projecting, auction preparation, or business assistance. We can make similar remarks about agricultural consortia, whatever their ideological stance. They carried out common functions, with accounting offices and technical departments servicing their members. The only difference was that agricultural consortia often performed a supplying service as well – of seeds, fertilizers, pesticides or machinery. This latter activity had been organized by co-operative consortia on a large scale since 1891 (*Consorti agrari*), but the fascist regime nationalized them in the late 1920s, and only recently some of them have been given back to the co-operative movement²⁵.

Other horizontal networks have been the retailing consortia of the second post-war period, subsequently transformed into vertical networks (see below). After Liberation from Fascism, the consumers' co-operatives organized themselves in a three-tier structure: the retail co-operatives, the

²² The International Cooperative Alliance (ICA) in its website (www.ica.coop) has resorted to a variety of indicators to give evidence of the importance of co-ops around the world: number of co-op members over population; co-ops share of turnover and employment in specific sectors.

²³ ICA, *Global 300list 2007. The world's major co-operatives and mutual business* (www.global300.coop). Data refer to 2004.

²⁴ Only 28 countries are present in the ranking and obviously the largest of them tend to have more enterprises listed, which explains why the Nordic countries, all very small, do not appear at the top of the ranking.

²⁵ Stupazzoni, *Cooperazione agricola*; Menzani, *La cooperazione in Emilia-Romagna*.

provincial consortia and the national consortium, called the Italian Alliance of the Consumers' Co-operatives (Aicc). In theory, Aicc should have centralized purchases, to supply goods to the provincial consortia, that in turn were to supply the retail co-operatives. In practice, this chain had many functional problems, so in the co-operative stores only 5% of sales were purchased from Aicc. In this way, before the optimization of this mechanism, the retail consortia were horizontal networks, offering services such as balance sheet auditing or communication strategies²⁶.

We can also consider the old rural credit unions as a horizontal network. In fact, these co-op banks were very tiny and needed a resource rationalization through collective services supply²⁷ (Fornasari, 1997). These services were provided by other banks, up to the formation in 1963 of a specialized service institution – Iccrea – only devoted to the support the credit unions. The Iccrea strategy to support networking among the rural credit unions (which have later become credit unions *tout court* extending credit out of agriculture) was the first step in the creation of a thicker network, with other national service institutions. In 2008, the 440 credit unions in existence handle 11% of the Italian bank branches, collect 105 billion euros of savings (8.5%), have 90 billion of financial investments and 15 billion assets, with 800.000 members and 27.000 employees²⁸.

More recently, there are a few cases of co-operative groups showing a horizontal network structure. All cases - the agricultural co-ops, the building co-ops, the consumers' co-ops and the rural credit unions - were involved in a progressive consolidation process through mergers. Especially during the 1950s-70s, the region with the highest co-operative density – i.e. Emilia-Romagna – was characterized by a continuous merger process, at the beginning at an inter-communal level, then at the provincial²⁹ one, and lastly at the regional or interregional level. Unification is the natural projection of a horizontal network, putting together formerly autonomous co-ops into a completely integrated unit³⁰.

These changes affected the horizontal networks too, and in several cases the old consortia were absorbed or substituted by other more complex organizations, often with a national structure, such as Iccrea – the credit unions national institute – and Coop Italia – the consumer co-operatives national wholesale society – or Ccc – the Italian building co-operatives' national consortium³¹. This means that, within the co-operative movement, the weight of the horizontal networks has decreased

²⁶ Casali, *I consorzi cooperativi*; Battilani, *La creazione di un moderno sistema di imprese*.

²⁷ Fornasari, *Il credito cooperativo in Emilia Romagna*.

²⁸ Schraffl, "Banche cooperative a reti integrate"; Cafaro, *La solidarietà efficiente*.

²⁹ The "province" in Italy is an administrative unit linking a number of smaller towns to a larger one. The "region" in turn groups a number of provinces.

³⁰ Menzani, *La cooperazione in Emilia-Romagna*.

³¹ Cafaro, *La solidarietà efficiente*; Fabbri, *Da birocciai a imprenditori*; Zamagni, Battilani and Casali, *La cooperazione di consumo in Italia*.

over time, with the important exception of social co-operation, born more recently³². In synthesis, the traditional consortium, which is the typical instrument of the horizontal network, was a historical strongpoint of co-operation, because it had a simple structure and performed a role of promotion of the affiliated firms. In the last decades of the XXth century, this simplicity became a weak point, and the horizontal consortium has been largely substituted by other types of networks.

4. The vertical networks

Vertical networks too began long ago. The idea of integration between supplying co-operatives and purchasing ones originates from the early co-operative theories. In Italy, sales in the retailing co-operatives of the produce from agricultural co-operatives had been advocated by entire generations of co-operators; and similarly, the construction of houses by the bricklayers co-operatives on demand from the housing co-operatives³³. Sometimes these aims were achieved, with the creation of vertical networks, sometimes they remained an utopia. In general, vertical integration concerns only a specific segment, such as agri-food or retail, without many intersectorial links, as it was hoped for at the beginning.

After the Second World War, the co-operative movement increased its efforts to develop vertical networks, especially in the agricultural sector. On the one side, the evolution of this sector attracted substantial investments for the first time; on the other side the agri-industrial opportunities were very promising. The co-operative federations invested to create new agri-food co-operative plants, such as wine-centres, dairies, mills, or slaughterhouses. The co-operators' aim was to challenge the local monopsonies by capitalists, that resulted in too low prices for farmers³⁴. On the same principle, the farm co-operators created purchasing co-operatives in the horticultural sector, in order not to depend on a single capitalist buyer. In this way, thousands of farmers conveyed their produce to a common warehouse, from where it was sold directly to the retail network. Thus it was possible to cut transaction costs, and defend farmers profits³⁵.

After the Italian economic miracle, which enlarged agricultural markets, co-operative agencies were created which operated on a second or third level, such as the consortia among horticultural co-operatives. These vertical networks carried on the same type of integration – from the producer to the customer – on a larger scale, exporting produce all over Europe, or transforming part of it in a

³² Pasquinelli, “La cooperazione sociale nella rete del welfare locale”, and Zandonai, “La cooperazione sociale in Italia”, both in *Beni comuni*, ed. Centro studi Cgm; Malucelli, *Lavori di cura*.

³³ Battilani, “I mille volti della cooperazione italiana”, in *Verso una nuova teoria*, eds. Mazzoli and Zamagni.

³⁴ Bertolini and Giovannetti, “Il processo innovativo nell’agroalimentare”; Degl’Innocenti, “La cooperazione agricola”, in *La cooperazione ravennate*, ed. Ravaoli.

³⁵ Nava, *Vivere in cooperativa*; Capitello, “Cooperative ortofrutticole e reti d’imprese”; Giovannetti, “Le virtù dei commons”.

controlled agri-food factory (often a joint stock company). In the 1960s and '70s in Italy there were hundreds and hundreds of these agricultural co-operatives. A lot of these had their core-business in a specific segment, such as potato or cherry purchasing, and were frequently affiliated to Legacoop or Confcooperative³⁶. For example, a Sicilian farmer turned over his oranges to the local fruit purchasing co-operative, that in turn conveyed the oranges to an interregional agri-food consortium, which distributed them in other markets, and – if it was considered profitable – transformed part of the oranges into fruit-juice in its own factory³⁷. If the consortium was the typical organization of the horizontal network, we cannot say the same of the vertical network. The vertical network can include a few purchasing co-operatives and second level consortia, but it can also organize itself as an integrated group with a tight apex structure in the form of holding³⁸. The logic that presides to this kind of network is to encourage each element of the chain to reach optimum efficiency, within an overall coordination. In the agricultural sector, the vertical network has obtained an important success, mostly coming from economies of scope³⁹.

The retailing co-operatives have created vertical networks, too. Both the consumer co-ops and the retailers co-ops have built an integrated chain, based on a national wholesale consortium. If we consider the example of Coop, the most important Italian grocery chain, we have CoopItalia (the former Aicc), that centralizes all purchases and directs them to the local co-op shops. This network is similar to the agricultural one, because goods are handed over from the supplier/conferrer to the customer/buyer⁴⁰. Only the direction is inverted; in the retail network goods start from the centre (warehouses) and reach the periphery (points of sale), while in the agricultural network they come from the periphery (farmers) and arrive to the centre (warehouses). However, the wholesale consortium of the consumer co-operatives is more complex, because it is generally playing the additional role of activating some producers, often co-operative firms, but also other types of firms, to work for the Coop branded products (amounting in 2008 to 20% of total turnover). So, CoopItalia is a very strong centre that coordinates on the one side the large-scale retailing co-operatives and on the other side manufacturing firms.

After the Second World War, in Italy there were hundreds of small and medium consumer co-operatives, mostly with a socialist or communist identity. They were principally in the North, but also in the central areas, while the largest part of Southern and insular regions were incapable of

³⁶ Menzani, *La cooperazione in Emilia-Romagna*.

³⁷ Giovannetti, "Evoluzione delle imprese cooperative"; Bertagnoni, ed., *Una storia di qualità*; Poma, *Le grandi cooperative in Italia*; Zuppiroli and Vecchio, *L'Utilità distintiva misurata*.

³⁸ Often the holding is a co-op but not all the companies of the group are co-ops, depending on the amount of capital needed and the servicing role of some business units. The best account of co-operative groups is to be found in Bitossi, *I gruppi cooperativi*

³⁹ Giovannetti, "Organizzazione e contratti nell'agroindustria".

⁴⁰ Ferrucci, ed., *Coop Centro Italia*; Id., "La cooperazione di consumo", in *Lezioni cooperative*, ed. Salani; Tognarini, ed., *Dalla Proletaria a Unicoop Tirreno*; Viviani and Dessì, eds., *Conad*.

supporting the few co-operative shops in existence, that failed. Beginning in the 1950s a progressive process of mergers caused the reduction of the number of these societies, leading to a high degree of concentration of nine very big enterprises covering more than 90% of total turnover of consumer co-operatives⁴¹. This merger process was accompanied by the modernization of the distribution network, to overcome the traditional stores and to create supermarkets⁴². Today the retailing network has many hypermarkets too, and everyday each one of them can satisfy the needs of thousands of customers. These transformations were managed and governed by a strong centre, CoopItalia, that invested in efficiency through the adoption of scale and scope economies. In 2004, Coop's network is the largest Italian agent in retailing, with 17,9% market share, 54.000 employees and 6,5 million members. More than 1.300 points of sales in 15 regions – all regions, except Valle d'Aosta, Molise, Basilicata, Calabria and Sardegna – command 1.516.000 m² of sale surface and assure 11,8 billion of euro of turnover⁴³. However, CoopItalia has extended its influence as a wholesaler over other retailing co-operatives and smaller capitalist chains and manages ¼ of the Italian retailing market. If to this we add the co-operatives put up by retailers themselves (Conad), we can conclude that over 1/3 of the Italian retailing market is managed by co-ops.

From a historical perspective, the vertical network is the preferred one by the co-operative movement. Advocated since the very beginning of the movement, it found some application in the first half of the XXth century, but it was completely developed only after the II World War. While in the agricultural case, these vertical networks were created from scratch, in the retail case they were obtained by strengthening previously horizontal consortia.

5. The complementary networks

If the horizontal and vertical networks are the co-operative movement's historical legacy, the *complementary* ones are a quite recent development. These networks allow their components to interact in order to search for synergies and integrations, while preserving the flexibility of organization of the single component, which is what makes networks so different from the monocratic Chandlerian corporation. The beginning of these networks must be traced in the 1970s, when co-operatives increased their market power, raised the quality of their activity, and expanded the segments connected to their core business. We can examine the example of Ccc – the Italian national building co-operatives' consortium – derived from a previous smaller consortium that

⁴¹ Novacoop, Coop Liguria, Coop Lombardia, Coop Consumatori Nordest, Coop Estense, Coop Adriatica, Unicoop Firenze, Unicoop Tirreno, Coop Centro Italia.

⁴² Baravelli, *Il giusto prezzo*.

⁴³ Zamagni, Battilani and Casali, *La cooperazione di consumo in Italia*.

covered only the Bologna district. In the seventies, the Ccc became a «general contractor», i.e. a company taking responsibility for large construction works, the actual implementation of which is granted to the co-op members. While in the 1950s and 60s the consortium mostly shared work on an equal basis (horizontal network), from the '70s onwards Ccc opted for splitting work in accordance with the specific know-how of the co-op members. In this way each affiliated firm developed a specialization, and the overall efficiency was better guaranteed⁴⁴.

Lately, the service co-operatives too have created similar networks, managed by two different national consortia, the Cns, which is affiliated to the Legacoop, and the Ciclat, which is connected to Confcooperative. These two consortia offer to their customers a whole package of services, labelled *facility management*, or *global service*. So the customer – for example a local health agency – interacts with a single agent, the consortium, that in turn coordinates the affiliated co-ops: a co-op cleans the rooms, a second one takes care of special wastes, a third runs the routine maintenance, a fourth conducts the call-centre, a fifth supplies catering and so on⁴⁵.

At the beginning of their history, consortia guaranteed some services to their associates, from participation to public tenders to technical assistance, while successively they became the fulcrum of the system, with the idea of achieving complementary synergies. A new way to manage tenders was the turning point. In fact, until the 1970s, the large work orders were subdivided among the co-operatives on the basis of an equality principle, so each firm obtained a share proportional to its size. The decline of egalitarian ideologies allowed the adoption of other methods, implying a specialization of each cooperative in a segment of the total activity being delivered, promoting rationalization and a better efficiency of the entire system. For example, in the 1970s, Ciclat and Cns gained some tenders in the Ravenna petrochemical plant, which included maintenance, portage, industrial cleaning, and so on. Each consortium had associates in Ravenna, asking for a share of the work. At the beginning, in the same factory five or six small service co-operatives worked alongside one another, with a conflictual relationship, because the type of activity they were engaged in was the same and competition was very high. In this way, each co-operative was inclined to offer a large discount in the auctions, with a substantial drop in quality⁴⁶.

Consortia learned later that it was better to distribute work across a co-ordinated pool of co-operatives, each one with its specific role. This approach allowed an increase of know-how in each co-operative and a net gain of market shares, because the customer was interested in interacting with a single agent, i.e. the consortium, that took responsibility to organize the work of its

⁴⁴ Fabbri, *Da birocciai a imprenditori*.

⁴⁵ Battilani and Bertagnoni, eds., *Competitività e valorizzazione del lavoro*.

⁴⁶ Menzani, "Temi e problemi della rete," in *Competitività e valorizzazione del lavoro*, eds. Battilani and Bertagnoni.

associates⁴⁷, achieving higher profits⁴⁸. Today, Ciclat, Cns, and their associates, are capable of offering a global service to their customers, thanks to the experience accumulated and to the development of an excellent know-how. These changes were neither easy nor simple, and the process was not as straightforward as we have presented it here. Long discussions and unsuccessful trials were the order of the day; although the final result is positive, this does not mean that the path was linear.

Many co-operative groups work with the same aims of consortia, but with different means. A group is generally born when some business activities are outsourced from the main co-operative to one or more joint stock companies controlled by the same co-operative. This evolution has been adopted by an increasing number of important co-operatives, in a variety of solutions. Like the consortium, the group can develop and strengthen horizontal, vertical or complementary connections. The main difference between these two instruments is their governance: the consortium typically has a democratic governance, while the group relies more on hierarchical relations, because of the different structure of ownership⁴⁹. In spite of this difference, we do not think that the co-operative groups represent a special type of network, because they are organized to serve different purposes and can be enlisted in the different categories of networks, in accordance with their specific features⁵⁰.

In synthesis, the complementary network is an instrument used to enlarge co-ops presence in a market segment, to rationalize operations and cut risks. At the same time, the synergies which can be developed enhance the innovation process and better satisfy the stakeholders.

6. The financial networks

The fourth type of co-operative network is made up of those agencies which have a *financial* function towards their members – single members or co-ops – but also work for other clients. Catholic co-ops tended to remain small and were quite satisfied of their links with credit unions. Socialist co-operatives, instead, when in the 1970s decided to increase their size, soon realized the need for stronger financial support⁵¹ and acted in correspondence. In 1969 Fincooper was created, which became really effective in 1977 with manifold functions: holding equities, supplying loans, acting as clearing house for co-ops credits and debts. In 2001, Fincooper was merged together with

⁴⁷ Felice, “Il Consorzio Nazionale dei Servizi,” in *Competitività e valorizzazione del lavoro*, eds. Battilani and Bertagnoni.

⁴⁸ Rondeau, Brown and Lapides, *Facility management*; D’Egidio, *Il global service management*; Sciarelli, *L’outsourcing strategico*; Bombelli and Del Gatto, *Strutture sanitarie, mercato immobiliare e facility management*.

⁴⁹ Schiano di Pepe, ed., *Cooperative, consorzi, raggruppamenti*; Sapelli, *Cooperazione, proprietà, management*.

⁵⁰ Cafaggi, ed., *Reti di imprese tra regolazione e norme sociali*.

⁵¹ Zamagni and Felice, *Oltre il secolo*.

another similar agency, the Ccfr – which was born in 1904, but developed its financial function only since 1975 – to create the Ccfs (Financial Co-operative consortium for development)⁵². Furthermore, in 1986 Banec (Co-operative economic bank) was created, but soon merged into Unipol, which became the most important financial institution of Legacoop. Unipol is an insurance company created in 1963 by Legacoop as a joint stock company, which is now number three in Italy. Unipol steadily grew, up to becoming the first joint stock company controlled by co-operatives to be quoted in the Italian stock exchange in 1986. With the aim of producing a solid bank-insurance pole, Unipol absorbed Banec in 1998 to form Unipol Bank. In 2005, Unipol tried to enlarge still its banking activity, through the acquisition of one of the largest Italian capitalist banks, the Bnl (National labour bank)⁵³, but this project did not have a positive conclusion, ending with a major scandal. It appeared that Unipol's chairman and ceo Giovanni Consorte used less than ethical means to achieve his ends, rallying with financiers who tried to enrich themselves through mergers and acquisitions and were found guilty of various illegal practices⁵⁴. Unipol changed its leadership in early 2006 and withdrew from BNL, selling its shares to Bnp, but remains still the most important financial pillar of Legacoop.

Another financial network run by the three most important co-operative umbrella organizations (Legacoop, Confcooperative and Agci) is Cfi – Co-operation, finance, enterprise – an institutional investor created in 1986 to handle the so-called Marcora fund, which gave financial support to the conversion of bankrupted capitalist firms into co-operatives owned by their employees⁵⁵. Cfi has taken up shares in the newly formed co-ops, has supported investments, and guaranteed managerial assistance. In 2006 it had 100 million euros in assets and 55 co-operatives in its portfolio⁵⁶.

In 1992, a new law on co-operatives introduced the compulsory creation of mutual funds to support the existing co-operatives consolidation and to promote start-up projects, with 3% of the profits of the co-operatives. The funds were to be managed by the umbrella organizations. Thus, Coopfond was instituted by Legacoop, Fondosviluppo by Confcooperative, Generalfond by Agci, and Promocoop by Unci. If we consider Coopfond – for which we have more information – we can say that it generally finances plans of networking, to increase the number of groups and consortia,

⁵² Dondi and Utili, eds., *Fincooper 1969-1999*; Basenghi and Motta, *Uomini, cooperative, finanza*.

⁵³ This bank, created in 1913 as a bank for the co-ops, was turned in the late 1920s into a bank for the corporative economy by Mussolini. Fornasari and Zamagni, *Il movimento cooperativo in Italia*.

⁵⁴ Zamagni and Felice, *Oltre il secolo*. At the time of writing Consorte has been found guilty only of having been paid for “private” advice offered to some of his partners, outside his formal engagement with Unipol, but trials are still open.

⁵⁵ Fornasari and Zamagni, *Il movimento cooperativo in Italia*.

⁵⁶ Zamagni and Felice, *Oltre il secolo*.

which are recognized as the strong-points of the movement⁵⁷. This has been done by promoting new co-ops, helping to build new groups and sustaining the already existing ones. In particular, an effort is being made to strengthen Southern co-ops, traditionally quite isolated, weak and economically not too relevant, putting them together in networks led by some of the much more solid Northern co-ops.

7. The network of networks

The last type of network is the most typical of the co-operative movement, but is not easily defined. We refer to the co-operative umbrella (or apex) organizations, i.e. those organizations – called in Italy *Centrali* – which carry out fundamental roles within the co-operative system. They have numerous territorial agencies – the regional federations of Legacoop, Agci and Unci, the Provincial unions of Confcooperative, and the Departments of Unicoop – which are interwoven with many national sectoral agencies. The complexity of these grids has generally made their analysis quite difficult, and so we have few valuable studies to lean on⁵⁸. We are of the view that the umbrella organizations are a crucial strategic element in the co-operative movement, although they are a very different type of network compared with the previous four. They cover a middle ground between a purely representative function and a system governance. Their tasks are manifold: new co-operatives promotion, strategic marketing, ethical control of the affiliated firms, know-how and human resources circulation, internal conflict resolution and coordination of the major strategic decisions, new legislation proposals, lobby at the local, national and European government level⁵⁹.

It is a network interwoven with the other previously discussed networks, capable of producing a more comprehensive vision of the co-operative galaxy and therefore of better understanding common problems and suggesting adequate solutions and strategies for the whole movement. From a historical perspective, we can consider the apex organizations as dynamic networks adapting themselves to the changing economic and institutional context, with a governance based on a mix of participation from below and decisions from above⁶⁰. In this paper, we cannot discuss in depth the features and the roles of the umbrella organizations, but we are of the opinion that they are the glue among the many elements of the co-operative universe made up of co-ops, consortia, groups, federations, agencies, controlled joint stock companies.

⁵⁷ Fabiani and Iacobelli, “Reti, internazionalizzazione e innovazione”, in *La promozione cooperativa*, eds. Bulgarelli and Viviani.

⁵⁸ Zan, *La cooperazione in Italia*; Sangalli, *Lo sviluppo delle organizzazioni di rappresentanza*.

⁵⁹ Zangheri, Galasso and Castronovo, *Storia del movimento cooperativo*; Zaninelli, ed., *Mezzo secolo di ricerca storica*; Casadio, *Cinquant'anni dell'Associazione Generale*.

⁶⁰ Poma, “La governance della conoscenza”, in *Lezioni cooperative*, ed. Salani.

This network of networks is not only the driving force of identity inside the co-operative movement, but historically has offered to the rest of society the image of co-operation. In this connection, we want to argue here that precisely for the reasons mentioned, the existence of five different umbrella organizations results in a large overlapping, with a waste of energy and resources. After the collapse of the iron curtain, ideologies and cultures have moved closer together, and it is time for the apex co-operative organizations to project unification, if they want to further strengthen the co-operative movement in the Italian economic system.

8. Conclusions

It is by now well established that there is a space between market and hierarchy which is occupied by networks, made up of autonomous firms with many links among them⁶¹. While Chandler considered the integrated corporation standing alone as optimal in a teleological development of business forms, the authors of this essay think that the business system is all the time made up of many types of firms, each form resulting more or less efficient in a historical context according to the evolution of culture, technology, consumption patterns and legislation. So, we think impossible to produce a definition of the «optimal firm», because no business form is optimal under any cultural, political and historical context⁶². In a world of plural forms of enterprise, there is room for the co-operative enterprise, that can be perfectly efficient in specific circumstances, and should not be considered an inferior form of business organization *a-priori*. Obviously, the co-operative enterprises, as all other forms of enterprise, must show their advantages in practice and have to be capable to compete in the market.

A second conclusion of this work is that co-op networking, previously considered typical of the co-operative enterprises seen as too weak to operate as single units within the market system, can be inscribed, with some adjustments, in a general typology of networks. There have been many advantages reaped by co-ops through networking: a) achievement of a “critical mass” in the market, often paving the way to mergers and the growth of stronger corporations, a process which has been more marked in Italy among co-operatives than among traditional owner operated small businesses. In the retail sector, for example, the Italian consumer co-operatives were the first to overcome the single shop tradition in order to put in place modern chains of super and hyper markets; b) capability to put in place economies of scope especially through the complementary networks, allowing co-ops to offer complex services; c) exploitation of a common brand and of a coordinated

⁶¹ Lamoreaux, Raff and Temin, “Beyond markets and hierarchies”.

⁶² Langlois, “Vanishing hand”.

presence in the market. In the age of Bauman's "liquid modernity"⁶³, it is imperative, as Philip Scranton has written, to avoid "constructing dense and durable structures, physically or organizationally"⁶⁴. Networks are much more adaptive than gigantic corporate structures and can be shaped and re-shaped according to markets needs.

A third conclusion concerns the thickness of co-operative networking, which is widely encompassing and more stratified than in capitalist business. For co-operatives, networking is not an opportunity among many others, but it is the *normal* way of operating as a result of their solidaristic dimension, and this has been lately recognized also by the International Co-operative Alliance (Ica), which included this as one of its seven basic principles. National legislations tend to recognize this and normally accommodate co-ops networking (especially consortia) explicitly. Co-ops can use many types of networks at the same time and in so doing they stratify their economic and social relations; they can build up a dedicated finance, which in a world experiencing a detachment of finance from business is certainly a first rate asset. They can develop an overall strategy encompassing many different sectors through the *Centrali*. If this is usually an advantage, it can occasionally cause interference and/or duplication, so the co-operative network system continuously searches for better efficiency among countless possibilities. This is why the unification of the five co-operative apex organizations would simplify and rationalize matters substantially.

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⁶³ Bauman, *Liquid modernity*

⁶⁴ Scranton, *Beyond Chandler?*

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