

An Overview of Management Systems in the Cooperative Sector. An Analysis of the Italian Leghe

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Abstract

The paper is aimed at identifying the role of the Italian associations of cooperatives in the cooperative sector and, specifically, it addresses the issues of strategy definition, performance monitoring and stakeholders' openness. The cooperative sector is very important in the Italian economical and

2. Introduction

In the UE definition, the Third Sector is a set of institutions of the economic system, that act as a third form of production of goods and services between the State and the private market. This definition, used in the report "A project for Europe" (1978), was specifically developed after the crisis of the welfare State, in the Nineties.

The definition evidences the presence and the contribute of the organized civil participation (in various forms: non-profit organizations, cooperatives, voluntary and charitable activities, non-governmental agencies) to the welfare of the society. According to Smith (2005, p. 463): «The voluntary and non-profit sectors are increasingly viewed as central to the vitality and health of democratic societies. [...]»

However, there is an intrinsic difficulty to identify specific and simplistic defining schemes as the Third Sector is a socio-economical and cultural reality in continuous evolution whose boundaries are intertwined with the public and private sectors and the no-profit organizations: «[...] the need to make a new definition for the sector which belongs neither to the public sector nor to the private profit sector is realized gradually for those who seek an alternative scheme of social and economic movements.» (Ishizuka, 2002, p. 242).

In Italy, the analysis of the Third sector has been approached in sociological (Cesareo, 1985) and economical studies (Zamagni, 1998, Ranci, 1994). Both these approaches use the term to indicate a set of practices and organizational actors of private nature that produce goods and services with a public or collective relevance. Some of the characteristics of the

Third sector organizations are listed below:

- ‡ No profit distribution
- ‡ Private juridical nature
- ‡ Presence of a formal Agreement and a Statute among the associated people
- ‡ Opportunity to have a quote of voluntary work
- ‡ Democratic principles of functioning (e.g. in the election of the representative organs and in the participation of the associated people).

These characteristics can be identified from the ISTAT census on the Third Sector and from the Italian national laws. With regard to those characteristic and to the definition of Third sector, the study of the cooperative sector through its associations can be framed in the Third sector analysis.

The contribution of literature, both national and international, in this research field is still increasing: «Yet studies of the sector have been slow to incorporate explicit attention to the role and impact of [some diversity] variables» (Smith, 2005, p. 464).

According to Soboh et al. (2009), empirical studies have failed to address the cooperatives' (and their associations') objectives as represented by the theoretical literature on performance. Thus, the paper tries to contribute to the extant literature on the Third Sector, focusing on the cooperative sector and especially on the associations of cooperatives. Additionally, we identify the role of the associations of cooperatives and, address the issues of strategy

definition and performance monitoring within the role that these associations act for their cooperatives.

The paper is organized as follows: the second section introduces the theoretical framework and the research questions, the third section identifies the general characteristics of the cooperative sector and the associations of cooperatives. A fourth section defines the methodology and method of empirical analysis and the fifth one explores the results on the associations of cooperatives. The final section discusses the contribute and limits of the work, in light of the evidences.

1. Theoretical framework

Perrow (1986) underlines the importance of the contingency paradigm¹ (technological school) in reason of the search for an economical fit between the organization and its environment of reference. This fit seems to be implicitly founded on the efficiency concept.

Perrow (1982) argues that the organization's context is represented by all other organizations that have similar interests, modes of framing their reality and power.

The Author studies an inter-organizational framework, recognizing different levels of analysis (such as network, industrial sector, nation, region, etc.) and identifying for each level a topic of empirical analysis in the contingency paradigm.

According to Pfeffer (1982, p. 8) in the contingency paradigm, the action is interpreted as the result of a conscious and forward-looking decision process.

The organizational design, composed by structure, strategy, planning and control system is the result of specific choices, and it aims at increasing the efficiency of the organization compared with its own context.

The contingency approach tries to found the rational behavior (goal-directed), assuming that the administrative activity (and the management activity) directly and positively affects the performance of organizations.

The aim of management is that to make operative what is necessary for the achievement of the (strategic) organizational goals.

Thus, in the contingency paradigm, the efficiency concept could be read as:

1. The relation between input and output,
2. The predictive definition of goals in order to improve the management control, through the comparison between goals and results in order to identify potential gaps,
3. .The circularity and the coherence of planning and control steps (strategy definition, planning, reporting and control, Figure 1).

¹ The contingency paradigm developed in the Seventies thanks to the contribution of Thompson J. (1967), *Organizations in Action*, Mc-Graw Hill, New York; Lawrence P. R., Lorsch J. W. (1967), *Organization and Environment*, Harvard University Press, Cambridge Mass; Perrow C. (1967), "A framework for Comparative Organizational Analysis", *American Sociological Review*, vol. 32, n. 2: 194-208.

3. Nature of the link between budget and performance evaluation.
4. To define the level of openness of the planning and control system among the associations of cooperatives:
5. Involvement of the stakeholders in the strategic/ planning step (input),
6. Involvement of the stakeholders in the communication of the organizational results (output).

3. The cooperative sector and the associations of cooperatives

«Cooperatives are self-governing organizations with democratic characters aimed at meeting the members' needs and promoting social equity» (Mojtahed, 2007). Generally, there is a consensus in the economic literature that a cooperative is a user-owned and a user-controlled organization that aims at directly benefiting its members (Sexton and Iskow, 1993). The associations of cooperatives aim at spreading the cooperative values and creating network and services around their associated cooperatives. Since there are a wide variety of cooperatives (see also Salamon and Anheier, 1994), their associations have to manage a variety of needs. At this point, it is fundamental to identify the importance of the cooperative sector in Italy in terms of economic diffusion, numbers and strategic relevance.



The cooperative sector was recognized in England in 1844, in England, when 28 workers created the first cooperative of consumers named “Rochdale Society of Equitable Pioneers”.

Although other cooperatives were previously founded, the Rochdale Pioneers’ cooperative was the prototype for that kind of organizations in Great Britain. The Rochdale’s principles have inspired all the cooperatives operating around the world, nowadays. The Rochdale’s Statute quoted that the purpose and agenda of that organization was to adopt measures in order to ensure the wellbeing and improve the family and social conditions of its members.

From that moment, the spread of the cooperative movement in Europe was very fast, especially in France, Germany and later in Italy.

According to Zamagni and Zamagni (2008), the cooperation is an internationally spread reality: the Nations with the higher number of cooperatives are Finland, Sweden, Ireland, Norway, Denmark, France, Canada, Japan, India, USA and Italy.

In the Scandinavian Nations (Finland, Sweden, Norway) the meaning of the cooperative sector (especially spread in the agricultural and financial support activity) is essentially political as their Government proposed that model of development as an alternative to the one of the close Russia and the other ex-URSS countries.

In Denmark, the associations of cooperatives are active in the economical and financial as-

sistance to the developing countries.

In France the cooperative sector was initially formed by “workers cooperatives” and it has received a formal recognition with a specific normative in 1947 and in 1968. The 1968 law recognizes the Groupement national de la coopération with representativeness aims at the French national level.

In Japan and India, the development of the cooperative sector followed the Occidental domination, while in the USA it mainly has a strong business development implication.

The first Italia cooperative was founded in 1854 in Torino, (North West of Italy), it was a consumer cooperative. It was aimed at facing a period of economic crisis. Two years later the first production cooperative was founded. In that period, the increase of relevance of cooperative sector follows from the attention paid to them by many historical and political such as Francesco Viganò(1807-1891), Giuseppe Mazzini (1805-1872) and Luigi Luzzatti (1841-1927). The cooperative model organization was officially recognized into Code of Commerce of the 1882.

The increased of number of cooperatives at the late of the nineteenth century (until First World War), favored the establishment the Federation of Italian cooperatives, which became “National League of Italian Cooperative” (known as National Legacoop or NLC), in 1893. NLC was founded in order to promote:

1. The development of the cooperation and the mutual assistance
2. The reciprocal solidarity and economic relations among the members of the

cooperatives,

3. The diffusion of principles and values of the cooperative model

As a matter of fact, cooperatives and their associations, in Italy, can be distinguished from the business organizations from the presence of specific elements (Table 1).

Table 1 – Specific elements of the cooperatives and their associations

Specific elements	Explanation
Social function	The art. 45 of the Italian Constitution recognizes the social function of the cooperation, its mutual aim and the avoidance of for-profit objectives. In Italy they are further regulated through the artt. 2511-2548 of the present Civil Code.

professional associations

The role of any professional associations is to defend the economical interests of those institutions or people that belong to a specific profession or economical sector (category) i.e. the craftsmanship. The professional associations safeguard the needs of the related sector, they make arrangements with other organizations, promote the establishment of consortia and pursue analysis of the specific sector.

The cooperative associations that operate in Italy are professional associations that safeguard the needs of the cooperatives. In Italy, those associations are in a number of four: Legacoop, Cofcooperative, Unicoop and Unci. Each cooperative can choose the preferred association in relation to its needs and the type of services that the association provides.

Table 2 summarizes the main differences among the four cooperative associations.

Table 2 – Cooperative associations in Italy - 2011

The Table 2 shows a great similarity among the aims of the four main cooperatives associations in Italy. The statutes analysis underlines some common denominators about the aims of the cooperative associations, for instance: to promote, develop and safeguard the cooperative organization, their work and their improvement.

The presence of different associations with similar aims in the cooperative system can be justified through the political diversity (thus the various streams of political ideology representativeness).

The present analysis was addressed to the Leghecoop because:

- ‡ The Leghecoop were the first cooperatives association, in the Italian history
- ‡ The association has a good geographical distribution (especially at the local level: 76 Leghe), thus it is presumable it has a good territorial representation over the cooperative system (number of cooperatives associated on the total number of cooperatives).

Legacoop was constituted in 1886: it associated 248 cooperatives without a political distinction among them (Bagnoli, 2008). Its foremost aim was to sustain the promotion and development of the cooperative system and to favor the relationships among cooperatives. To achieve this goal Legacoop has always supported the constitution of new cooperatives and increased the role and compliance to cooperative values.

Legacoop was founded in compliance with the same principles and values of the cooperative

organizations, like democracy, pluralism, free participation, emancipation².

As a consequence, it is possible to recognize the presence of common values in Legacoop and its associated cooperatives. The extent of those values and the cited commonality have to be both taken into account in the analysis of the management and control system.

Legacoop has a pyramidal structure that matches with the different geographical levels: at the top there is the National Legacoop, then there are the regional Leghecoop organizations (21) and each of them can have a different number of Local Leghecoop organizations (76 in total).

The degree of autonomy of the local level associations (in delivering services and managing

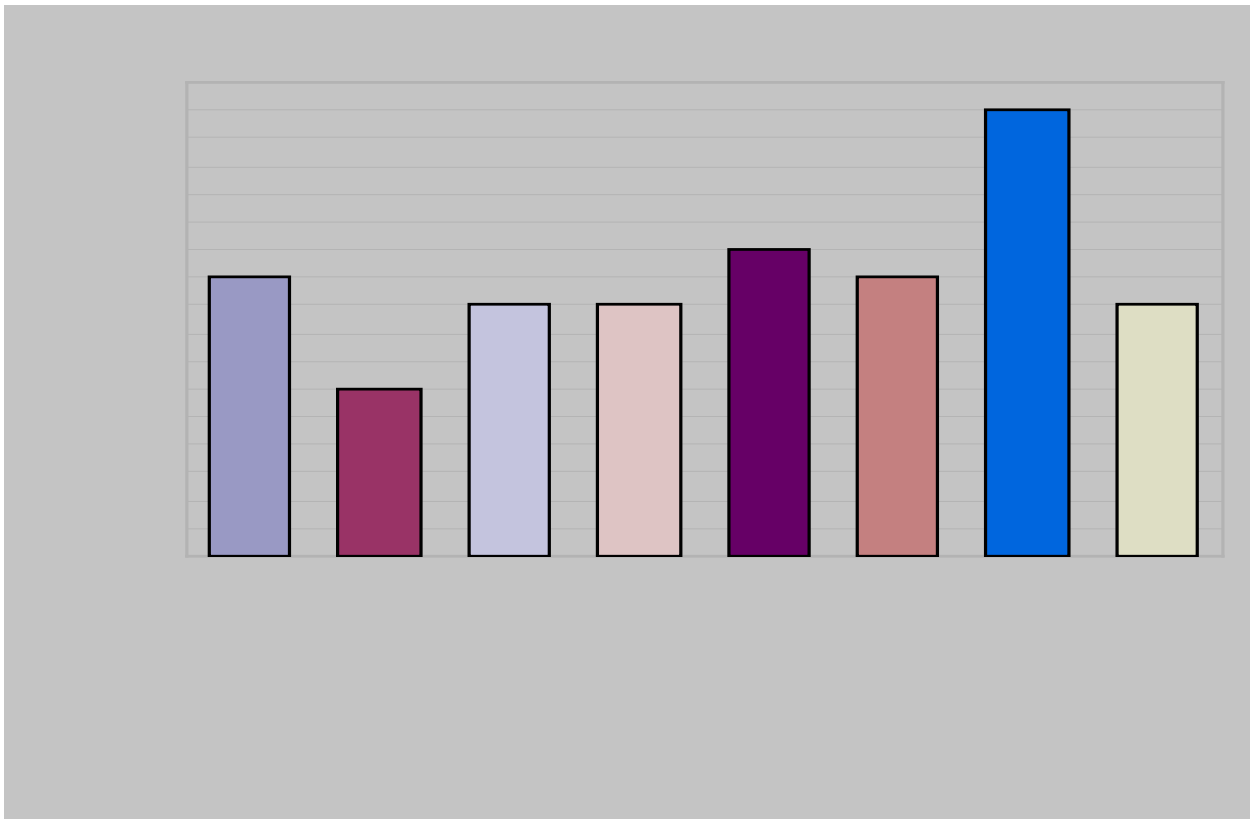
The questionnaire structure is as follows:

1. LC general data such as the denomination of the organization, the number of associated cooperatives, etc.
2. Section 1: this section analyses which are the services that LCs provide and their relevance for the organization.
3. Section 2: this is the main section. It intends to outline which is the internal structure the planning and control systems organization.
4. Section 3: this one is directed to acquire information on the relationships within the LCs and their stakeholders. Particularly to capture how the stakeholders are involved in the organization decision system.
5. Section 4: the last section intends to outline the relationship between the LCs and their cooperative associates.

The response scale to the questionnaire questions is mainly the Likert scale (1-7 where 1= low, and 7 = high) for those elements that imply the perceptions of the respondents.

After drafting the questionnaire, it was tested in a LC organization and then it was sent to the whole universe of 76 Italian local LC organizations.

The type of mailing was chosen according to the expressed preferences of the addressed LCs.



A 53% of the respondents also indicates a specific commitment to the promotion of new services (Figure 3) for their associated cooperatives. These pertain especially the adaptation to the work security normative (12 Leghe) and the application of the environmental normative (10 Leghe) however none of the Leghe replied about their ownership of a specific certification on the above mentioned subjects (work security and environment).

Figure 3 – Leghe’s commitment to the offer of new services

Table 1bis – Composition of the Leghe’s associated cooperatives

Questions	Mean	Std Dev
Agriculture	2,55	2,61
Hotel and restaurants	1,95	1,10
Public services	3,97	3,32
Estate, computer systems and research activities	3,17	3,86
Manufacturing	4,03	4,11
Commerce	5,86	2,55
Building construction	3,85	3,71
Health care	4,10	5,33
Transport and communication	3,93	2,07
Other	3,92	1,54

Table 2bis – Leghe’s strategy planning

Questions	Mean	Std Dev
The Lega’s strategic objectives are clear and the whole organization know them	6,27	0,69
The definition of the Lega’s		

In relation to the first research question (level of coherence among the tools of the planning and control system among the associations of cooperatives), the analysis searched for both the level of diffusion/ use of the planning and control tools and the link between budget and performance evaluation system.

The results on the strategic planning are evidenced in Table 2bis: they show a high level of clearness and communication of the strategic objectives within the Leghe’s organization. They are mainly based on the spread of the ethical values of the cooperative system and on the representativeness principles.

ronment. About the Lega's services to the associated cooperatives, the aim is to develop their own competences taking into account that they are initially founded with a little amount of asset and a poor organizational structure. However, the monitoring does not concern the audit of their balance-sheets: it concerns the check of the presence of mutual values in their respective Statutes and activity. [...] The associated cooperatives have different sizes and needs and the recent reform of the societal law (decree law 6/2003) has had an important impact. It distinguishes between cooperatives with prevalent mutuality and the others: this distinction is important for fiscal aims, thus the reform fostered the requirement of fiscal services from the Lega.»

Both the survey results and the interview evidence the quality of the Lega's strategic objectives and the importance of the associated cooperatives in the specific definition of the Lega's strategy.

The survey further evidences the use of the budget as the main tool of operative planning. In the exploration of its use, it emerges that it supports the coordination among the operative objectives and it motivates the managers of the different services. However it is scarcely used as a basis to evaluate the services' offer (the variance on a mean response of 5,17 is 3,15) and/or the managers' performances (mean: 4,30, see Table 3).

Table 3 – Leghe's use of the budget

Questions	Mean	Std Dev
To support the coordination among operative objectives	6,03	1,03
To communicate the operative objectives to the managers	5,76	1,90
To motivate the managers to reach their objectives	5,72	1,78
To make the managers have a services vision towards the associated cooperatives	5,83	1,72
As a base for the performance evaluation of the different managers	5,17	3,15
As a base to evaluate the services offer	4,30	1,38

In order to verify the coherence of the control cycle, those results have to be compared with the performance evaluation system of the Leghe.

In turn, the performance evaluation system is based on a systemic reporting. The interview to a President of a Lega points out that: «The reporting of the Lega's activity is based on the President's report and the sector reports of the different area managers. Of course, we analyze the revenues (total and per sectors), the number to associates, the level of employment, the type of employment contracts, the age of the managers, the number and kind of relationships between the Lega, its cooperatives and the socio-economic environment. This reporting is aimed at evaluating the whole impact of the Lega on its environment, however it is difficult to identify a specific business model of reporting as we do not know appropriate indicators. For instance, how do we catch the

The results of Table 5 show a high involvement of the associated cooperatives, while there is a high standard deviation about the involvement of other institutional organizations. It seems that the strategy would be finalized to the sole cooperatives (mean: 5,83). Nevertheless the possibility to define the Lega's services on the basis of the cooperatives' needs shows a little support, especially if referred to marketing surveys on the subject (mean: 4,10).

The results on the involvement of other institutional organizations (than the associated cooperatives) requires to be deepened through the frequency of relationships between the Lega and those stakeholders.

Table 6 shows the frequency of relationships

1. the managerial tools are present at the different step of the Leghe's planning and control systems, however the inter-links among the different tools are not clearly defined;
2. it is difficult to understand the means of declared involvement of their main stakeholders (associated cooperatives) within the control system as the latter deficits of specific tools to catch that involvement;
3. the budget is used to support the coordination among the operative goals and to motivate the managers of the different services, however
4. there is a scarce use of the budget as a basis to evaluate the services' offer and/or the managers' performances;
- 5.

tive values, ...) are excluded from that area of economic rationalization. In these conditions, there is the potential of a detachment between the strategy and the effective Leghe's activity and, above all, there is the possibility of self-determinism and the risk of avoidance of the real stakeholders' needs.

Further research can clarify and quantify that eventual detachment, through the comparison with both the cooperatives' perceptions and needs and other international realities■

