

Organisational Variety in Market Economies and the Role of Co-operative and Social Enterprises: A Plea for Economic Pluralism

Carlo Borzaga, Sara Depedri and Ermanno Tortia

To date, the dominant economic approaches have downplayed and marginalised the role of co-operative and social enterprises in contemporary market economies. This insufficient attention derives from the limited applicability to the case of co-operative and social enterprises of two of the main assumptions of orthodox microeconomic theory: the presence of self-interested individuals and profit-maximisation as the only possible firm objective. The mismatch between theoretical assumptions and empirical evidence has led to the underestimation of the growth potential, weight and role of co-operative and social enterprises. An explanation for the persistence and growth of these organisational types has not been provided by institutionalism either. We thus maintain that the assumptions of the main theoretical models must be enlarged to consider firms as coordination mechanisms of economic activities, whose stakeholders are driven by a plurality of motivations and display complex preferences. In order to manage motivational and behavioural complexity, co-operative and social enterprises develop specific organisational routines. Consistently, their objectives are not univocal: they can contemplate private appropriation, mutual benefit goals and public benefit aims supported by altruistic preferences.

1. Introduction

During the last decades the role of non-profit making organisations has been rediscovered and further developed. On the one hand, mutual benefit organisations such as co-operative firms have gone beyond their traditional fields of operation and have entered socially oriented fields of activity such as social services. On the other hand, non-profit organisations have taken up a more and more entrepreneurial character. The new category of the social enterprises emerged between the end of the nineteenth century and the beginning of the twentieth to testify the new demand of social innovation directed to tackling in new ways existing and emerging social issues.

In this context, co-operative firms and social enterprises can, despite their differences, be interpreted in a unitary way as socially-oriented firms: they are 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. Rather, co-operative firms are mutual-benefit organisations that are usually controlled on an equal voting rights basis not by investors, but by different types of patrons (eg producers, workers, consumers) or by a mix of them (multi-stakeholder co-operatives).¹ They are created to protect first and foremost their members through the satisfaction of their needs, which can be private or social in nature. 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 at least a partial non-profit constraint and by devoting the majority of their positive residuals and patrimony to socially-oriented activities.

Research concerning co-operatives and social enterprises 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 a significant and sometimes growing economic and social role in a variety of sectors and in many countries. As importantly, they often achieve economic and social outcomes that are better than those achieved by conventional enterprises and public institutions. Suffice it to mention, for example, the role they played in the past twenty years in the production of innovative services of general interest. On the other hand, the predominant theoretical approaches, primarily in economics, tend to underestimate these results and, consequently, the role and potential of this set of organisations (Ward, 1958; Furubotn and Pejovich, 1970). The positive role of co-operative and social enterprises is recognised only in limited cases — eg, in Hansmann's (1996) work — and even when it is, the theory assigns these organisations a transitional role and relegates their relevance only to contexts characterised by severe market

imperfections (such as lack of proper regulation and sufficient competition) and government failures (eg under-provision of public goods).

The underestimation of the role of co-operative and social enterprises has also been reinforced by the difficulties in drawing general results from fragmented investigations and studies that frequently consider only specific sectors or geographical areas. The predominant tendency among the researchers has been to consider specific forms of co-operatives, as it happened for worker co-operatives in the core of neoclassical economics. Other times co-operatives have been studied considering only specific research goals, with few attempts having been made to embed the analysis within broad and ambitious research designs. This has hampered the development of a general theory of these forms of enterprise that could stand comparison with the prevailing economic and social paradigms. Some exceptions are indeed recorded, such as the well-known Ward (1958) and Hansmann (1996) models. However, as it will further be explained later on, these models represent partial and limiting descriptions of the mechanisms underpinning the working of co-operative and social enterprises. Moreover, these entrepreneurial forms are regulated by laws that differ greatly among countries, which makes any attempt to give them a sufficiently general interpretation (independent of national specificities) particularly complex.

However, the main reason for this undervaluation seems to be the difficulty of reconciling the features of these forms of enterprise with the hypotheses, if not the value judgments, underlying the dominant theories. In fact, the predominant economic, sociological and legal models developed during the 1900s (which underlie the institutions on which the modern economic and social systems are based) rely on a set of assumptions that include the prevalence of self-interested behaviour and the self-regulatory capacity of markets. These assumptions privilege institutional forms that are often incompatible with the ones that characterise co-operative and social enterprises. Not surprisingly, then, the dominant theories are unable to explain their emergence and evolution, and interpret their distinctive features.

In this respect, a comparative perspective underlying the different economic rationale of different organisational forms was developed by some authors. In general terms, this would

amount to introduce different criteria to evaluate different organisational forms. While profit-making firms are to be evaluated by their ability to carry out production in an efficient way, non-profit making firms are instead to be evaluated on the basis of their ability to increase the material and non-material welfare of their stakeholders, which are usually groups of individuals or constituencies embedded at the local level, and which, in the most extreme cases, can also coincide with society at large. For example, Valentinov (2008) argues that the basic incentive problem for the non-profit sector lies with the strengthening intrinsic motivation, whereas in the non-profit sector it is in reducing opportunism. In a similar way, non-profit firms economise on transaction cost primarily by reducing the cost of information processing rather than by aligning incentives in order to minimise opportunism (Valentinov, 2007b).

In light of these considerations, this paper aims to underline the shortcomings of the dominant economic approaches and to suggest how some results emerging from newer research streams help to deepen the understanding of the specific features of co-operative and social enterprises. Section two better explains the need for a re-thinking of the role of co-operative and social enterprises in contemporary economies. Section three discusses the limitations of traditional economic approaches to the study of these forms of enterprises. Section four suggests utilising new approaches, specifically referring to behavioural and evolutionary theory definitions of co-operative and not-self-interested behaviours and institutions. The paper concludes with some suggestions for researchers and policy-makers.

2. Re-thinking the Role of Co-operatives and Social Enterprises

A growing body of empirical studies, conducted by researchers and national and international institutions in a large number of countries, has documented the positive evolution of co-operative and social enterprises: the increased presence and economic weight of co-operatives in some of the sectors in which they have operated for many years, such as agriculture and credit; the development and progressive recognition of different forms of social enterprise; finally the increasing importance of co-operative and social enterprises in the production of general interest

services sector. Moreover, co-operative and social enterprises have proven better able than traditional public and private firms to coordinate collective action and to manage common resources, often in sectors characterised by the intensive exploitation of natural resources (Ostrom, 1994).

The current economic crisis has made a re-thinking of the role of organisations and enterprises which pursue goals other than profit-maximisation even more necessary and urgent. Indeed, it has already stimulated a search for organisational and economic models that differ from those based on market fundamentalism which have predominated in recent decades. For example, financial co-operatives 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 to the brink of bankruptcy (Draghi, 2009). Furthermore, this crisis has already made it 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 co-operatives, 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 co-operative and social enterprises (and, in general, the diverse types of not-for-profit organisations) 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 development of governance forms based on inclusion and trust. 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”. In this context, the development of businesses run by people, not owned by shareholders, appears to be the crucial issue at stake (Zamagni, 2005; Birchall, 2010).

The re-thinking of the nature, features, and roles of the different enterprise types entails a

revision of conventional interpretations and consolidated 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 maximising 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 organisation 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 and local development has failed to consider the role of co-operatives as amongst the main collectors and enforcers of trust relations.

These arguments suggest clear directions for future economic and social research. New frameworks of analysis are required to understand the way in which co-operative and social enterprises can contribute to the creation of this “better world”. For example, closer examination of governance and control, working rules and distributive patterns best suited to their operation is needed. It is therefore necessary to single out the limitations of the standard economic approaches and to define a new approach that can overcome these limitations. This needs to be done by introducing innovative interpretations of the nature of enterprises and of their economic role. A new approach would start from the requirement that the evaluation of the efficiency of organisations (similarly to that of countries) must be enlarged from only private benefits to also mutual and public benefits. Furthermore, the role of intrinsic motivations and non self-interested preferences, heretofore considered exogenous to the working of entrepreneurial organisations, has to be made explicit and included among the explanatory variables of the entrepreneurial activity.

3. The Prevalent Economic Approaches and Their Limits

Elaborating new interpretive and analytical frameworks that can provide an effective understanding of co-operative and social

enterprises, also in terms of policy implications, requires starting from a critical evaluation of traditional approaches to the study of economics. In this section we will examine the most orthodox ones, ie the neoclassical and the new-institutionalist.

3.1. The orthodox approaches

The 1900s were dominated by the idea that the best way to organise 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 at the lowest possible cost. The task of the latter was instead the production of public and collective goods, and the promotion of economic growth and development through the attainment of minimum income levels for the entire population. The state is thus recognised as having both a productive and a re-distributive function. 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 organised. Thus reduced, at least in theory, was both the necessity and the usefulness of all those other actors – the community, the family, co-operatives, social enterprises, and other private non-profit organisations – inspired by the principles of mutuality or solidarity. Indeed, it was alleged, these institutions were likely to become sources of inefficiency. According to this theory, they should therefore be progressively replaced with for-profit firms operating on more and more complete markets, and with public institutions. The growing pressure observed in the last decades towards the enlargement of markets in the globalised economy and at the same time more and more binding financial constraints forcing the reduction of the role of the state in the economy, are testimony to this process.

The critical perspective that we are endeavouring can help to overcome the rigid divide between the efficiency role of for-profit organisations and the distributive function of public agencies. The various attempts made to remedy the shortcomings of this model by re-allocating responsibilities for managing certain

social activities to one or the other of the two actors, through, for example, the privatisation policies adopted in recent decades, have not achieved the hoped-for results, not even in terms of reduction of the total cost of welfare systems. This is borne out by the current economic 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 maximisation of private returns informed by self-interest, and how costly it is to compensate with public expenditure for the damage caused by such behaviours. 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, among other things, created new space for co-operative and socially-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, co-operatives and social enterprises have spread, evolved, and strengthened in many countries (Borzaga and Defourny, 2001) calling for the utilisation of different analytical and interpretive tools. Here the challenge rests with the inclusion of the new concepts and firms objectives into new theories and manageable economic models.

3.2. New institutionalism

The more orthodox approaches to the study of co-operative and other typologies of non-profit making firms used to relegate them into extremely marginal positions in market economies. The analytical implications of the Ward (1958) model were used to accuse worker co-operative of engendering serious allocative inefficiencies leading to the presence of a downward sloping supply curve. By the same token, in two separate works in 1970, Furubotn and Pejovich, and Vanek, show the dynamic inefficiencies of worker co-operatives leading to underinvestment and undercapitalisation. Such accusations resulted in the neglect of non-profit making entrepreneurial form as viable alternatives to profit making firm even in restricted ambit of operation and specific sectors.

The initial attempts to cope with organisational

variety in market economies to overcome profit maximisation as the only possible driver of entrepreneurial activity in market economies was carried out by institutional theory. More specifically, some authors in new institutionalism, starting from Coase (1937) and Williamson (1975) have been emphasising the role of coordination mechanisms, such as markets and hierarchies, in solving collective problems in the production of goods or services. Some authors in new institutionalism moved away from a view of the firm centred solely on the profit maximisation hypothesis and changed the meaning of efficiency, which was cast in terms of cost minimisation. 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 Hansmann's (1996) model. The role of institutions, in terms of control rights and governance, takes centre stage. The ability to minimise transaction costs singles out the organisations that have the greatest survival and expansion potential.

One relevant outcome of the new-institutionalist model is the possibility to understand the process of creation and diffusion of co-operatives, social enterprises and non-profit organisations by asserting that the organisations surviving on the market are those able to minimise the sum total of costs connected with their operation (Hansmann, 1996).² In this framework, the main explanation of the existence of co-operative and social enterprises is to reduce transaction costs in the presence of market imperfections, for example market power, which favours the creation of worker and consumer co-operatives, and/or of asymmetric information, which favours the creation of non-profit organisations and social enterprises (Borzaga and Tortia, 2010).³

The new-institutional theory has the merit to propose a new conception of the private enterprise. It opens the door to the possibility that private organisations produce also public and collective-interest goods,⁴ since non-investor owned organisations have often shown to be the most effective producers of these kinds of goods also in the presence of market competition or in the presence of shortcomings of supply of public goods by the government (Weisbrod, 1988). Furthermore, the approach helps explain the origins of the co-operative and social enterprises movement by evidencing the higher efficiency of these organisations in

contexts characterised by the existence of market power and pronounced asymmetric information. New institutionalism also enables a re-thinking of the most relevant institutional features of non-profit oriented firms, most notably the profit distribution constraint and innovative forms of governance (Valentinov, 2007a).

However, the most prominent new institutionalist authors never ceased to consider co-operative and social enterprises as marginal organisational forms, whose weight is bound to shrink and fade away as market regulation is perfected and competitive pressure increases. In the Hansmann framework, the main shortcoming of co-operative firms and social enterprises is represented by higher collective decision-making costs leading to organisational impasses and in possible difficulties of gathering sufficient risk capital and offering adequate incentives to their stakeholders, leading to a reduced efficiency of the production process.

New institutionalism gives a relevant, but still reductive picture of socially-oriented firms in market economies. While it is able to deal with and explain the existence of all entrepreneurial forms, it undergoes serious shortcomings in explaining co-operative and social enterprises. These shortcomings can be summarised as follows: 1. a conception of the firm exclusively based on cost-minimisation; 2. the assumption of the exclusively self-interested individual; 3. the neglect of intrinsic and value laden motivations as drivers of the economic activity beyond the profit motivation; 4. the underestimation of the role of governance changes in fixing the problems generating higher ownership costs; 5. the neglect of the social role of co-operatives, of social enterprises and of their institutional peculiarities in generating social well-being beyond private appropriation. The introduction in the explanatory framework of social preferences (Fehr and Gächter, 2000; Fehr and Fischbacher, 2002), intrinsic motivations (Frey, 1997), and organisational routines (Nelson and Winter, 1982) is the essential precondition for the accomplishment of a more convincing theory of co-operative and social enterprises.

The mere recognition of the shortcomings of the dominant models and the renewed vitality of co-operatives 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 co-operative and social enterprises to satisfy private and social needs.⁵

4. The Potential of New Theoretical Approaches

Some newer theoretical and methodological streams in economic research make it easier not only to explain the recent revival and growth of co-operative and social enterprises, but also to argue that they could perform a much greater role than what has been granted to them to date, thus contributing to the design of a different and better economic and social system. This section is devoted to giving a general outline of those scientific developments which seem most relevant to our analysis.

While the conventional paradigm, but also the new-institutionalist approach deliver only partial explanations, they can be supplemented and corrected by at least two emerging paradigms: behavioural and evolutionary economics. The core elements of the former are developed at the individual level and account for the role of motivations and other psychological elements in the economic discourse. The latter considers enterprises as problem solvers and coordinating mechanisms of the economic activity, not any more as sheer production technologies represented as production functions. The organisational routines, which enable the firm to pursue its objectives, become the crucial unit of analysis (Nelson and Winter, 1982; Hodgson, 1993).

4.1. Behavioural economics

Analyses of individual behaviour carried out by the behavioural school question the hypothesis that every human action, and especially every economic action, is governed exclusively by self-interest. Behavioural economics maintains instead that human actions spring from a mix of motivations and preferences. Motivations are mainly sorted into intrinsic and extrinsic (Deci, 1975), while preferences can be sorted into self-regarding, other-regarding and process oriented (Ben-Ner and Putterman, 1998).

While traditional economic approaches assume that only economic incentives increase individual wellbeing and explain economic actions, the introduction of intrinsic motivations and social preferences, for example concerning reciprocating behaviours, allow the carrying out of broader analyses. It becomes possible to

explain why individuals are willing to co-operate and support development objectives that benefit other people as well.

Starting from the role of motivational drives in economic behaviour, the continuum of motivations characterising economic agents is best described by the self-determination theory of Gagnè and Deci (2005). These authors assert that people progressively internalise in their objectives some rules of behaviour which at the beginning are exogenously given. Externally regulated behaviour is transformed over time into individual ethical rules and then into individual aims. People's willingness to co-operate 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 with other people. This way behavioural economics informed by self-determination theory is able to stress the non-instrumental aspects of human behaviour and an organisation of work based on reciprocity and non-hierarchical relations. This approach can help to understand why governance and working rules found in co-operative and social enterprises can support the sharing of values and common aims over and above the pursuit of self-regarding objectives. Organisational processes based on inclusion foster the introjection of common values and the pursuit of common goals through self-determined, not hierarchically imposed, objectives. Members' and stakeholders' behaviours are not only dictated by financial and other monetary variables come instead to reflect emerging social and moral norms. Conversely, and contrary to what orthodox economics has been used to assume, extrinsic incentives and self-interested preferences represent adaptable constraints that can both limit and enable the expression of intrinsic motivations and the compliance with social norms.

When preferences, defined as the expression of individual needs and motivations in specific contexts, are considered, behavioural economics introduces social preferences as crucial drives of behaviours. Social preferences induce behaviours that are not necessarily self-interested since people can make decisions that are driven by interest for the wellbeing of others (altruism), by a general inclination to reciprocity (Fehr and Gächter, 2000) and by a quest for justice and equity (Fehr and Schmidt, 2001; Tyler and Blader, 2000). The explanation of the

specific nature of co-operative and social enterprises relies, for some authors, on notions such as reciprocity (eg, Zamagni, 2005) and altruism informed by ideology (Rose-Ackerman, 1996). 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 considered of little interest, but which instead are commonplace in co-operatives and social enterprises.

However, approaching co-operative and social enterprises by looking only at 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 organisational behaviours must be considered (Bacchiega and Borzaga, 2001). 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.

4.2. The evolutionary theory

The second approach that we suggest considering when analysing co-operative and social enterprises is the evolutionary theory. The first reason why the evolutionary doctrine is crucial for the understanding of the emergence, and development of co-operative and social enterprises is that it focuses on the emergence and change of organisational routines, and on institutional evolution. Co-operatives and social enterprises can be considered as a specific pattern of organisational evolution, whose features and working mechanisms can be analyzed as an internally consistent, though open and changing system.⁶ Given their mutual benefit and/or public benefit orientation, they represent indeed new genres that comprehend different organisational species, for example the different typologies of co-operative firms. In this context, the study of emerging routines, both in terms of economic analysis and in an historical perspective represents one of the most crucial elements for the understanding of these enterprises. Second, the evolutionary doctrine does not focus necessarily on cost-minimisation or on the sheer alignment of economic incentives, but on the production of surplus directed to the satisfaction of relevant private and

social needs (Valentinov, 2008). The production of an economic and social surplus is the main driver of economic activity and of its change, and does not amount either to the production of the profit, nor to its maximisation. One consequence is that the production of an increased surplus does not entail or require cost minimisation, as the standard microeconomic approaches maintain. Higher costs can be a viable solution if the surplus allows the organisation to survive and expand anyway. However, the surplus need not be characterised exclusively as private economic return, but can well have a collective and social connotation as well. Multi-stakeholder governance is therefore an emergent feature of co-operative and social enterprises and needs to be carefully considered when analysing their role in socio-economic development.

The evolutionary doctrine is compatible with a conception of the firm which does not assume profit maximisation as the unique objective of the firm, but, rather, as a coordinating device geared toward satisfying needs that can be private and material, but also collective and psychological (Viale, 2005). In this sense, profit maximisation becomes a special, not general, kind of firm objective. Furthermore, as a rule, firms do not operate in perfect markets and this forecloses the possibility of obtaining the maximisation of social welfare by means of perfect competition among price-taking, atomistic organisations. Instead, organisational 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.

4.3. Combining the different approaches

The evolutionary approach and the behavioural one are complementary in the understanding of human agency and social evolution. To start with, many results coming from the study of group selection clearly show that altruism and pro-social attitudes can be functional to increasing the reproductive success of individuals, organisations, communities and society at large (Hodgson, 1993; Bowles, 1998) by boosting sympathy, trust and the sense of community. Applied to co-operative and social enterprises, the approach seems to maintain that members can share an organisational mission which

differs from both profit maximisation and individual wellbeing. This is so because, in order to take into account also collective and social objectives, individuals characterised by motivational complexity interact in a suitable institutional environment supporting non self-regarding preferences.

Second, since the focus of evolutionary theory is on institutions, which take the form of property rights, governance structures and organisational models (Williamson, 2000) and on their change, preferences are clearly endogenous because different institutional contexts exert a relevant differential impact on individual behaviour, even when the social problems to be solved have exactly the same nature (Bowles, 1998, 2004). This implies that the emergence of co-operative and social enterprises and their increasing role must be analysed within the embedding social and institutional domain by analysing the interaction with local demand, with local social capital, with the political system, and with anthropological dimensions also linked with the local culture. Such dimensions directly influence the emergence of new institutions answering unsatisfied needs and they explain why co-operative and social enterprises spread in regions characterised by a high level of social capital.

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

- The definition of a wider concept of enterprises, which is not restricted to the narrow focus on profit maximisation and cost minimisation inherited from the most orthodox approaches. It needs to define firms broadly as coordinating devices of the economic activity, whose main or sole objective is the satisfaction of private and social needs. Different forms of property rights and governance systems are directed to manage the firm's resources, be they privately owned, contracted with external suppliers, or held in common by the organisation. These mechanisms need to be understood more broadly than in the past and need to be better connected with stakeholders' welfare, while economic and financial targets are merely instrumental to

these aims (Stiglitz, 2009; Borzaga and Tortia, 2010);

- 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 only 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, the mediating role of the government should also be taken into consideration;
- 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 and Sacco, 2002). Behavioural economics and the development of the experimental methodology become crucial to understating the complex interaction between different behavioural patterns.

The need to explain self-interest together with social preferences, efficiency together with effectiveness and social wellbeing, transaction costs together with social effects, requires a combination of 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, co-operative. Moreover, such co-operation, 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 co-operative 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, for example, a clear positive connection between intrinsic and pro-social motivations, on the one hand, and effort and productivity on the other (Becchetti, 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 consequences in terms of product quality and societal wellbeing.

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. However, they require a wider understanding and consideration of fundamental economic variables, which were myopically excluded from the economic debate. Consequently, our approach prioritises a more pluralist economic system than the present one, which is characterised 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. Still more fundamentally, competition is to put side by side with other and less harsh coordination mechanisms, such as co-operation.

4.4. Other non-economic aspects of the new approach

The suggested economic approach to co-operative and social enterprises is supported by the increasing attention paid by the political and other social sciences to the theme of subsidiarity. Application of this concept, especially in its horizontal sense, yields innovative models of socio-economic organisation 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 organised actors, also in the form of firms, where co-operatives 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", ie 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 from the results of development patterns becomes possible when co-operative and social enterprises are locally embedded (Sacchetti and Sugden, 2003; Borzaga and Tortia, 2009).

Along these same lines, it is necessary to consider 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 organisational forms that are able to contribute to the strengthening of trust relations and to the accumulation of social capital, such as co-operatives and social enterprises. For the development of the social sciences in general, co-operative and social enterprises offers a unique occasion to study social contexts in which, at least in principle, social capital can be produced and accumulated.

The preceding examples are only some of the theoretical developments useful for an innovative interpretation of co-operative and social enterprises. For the time being, they seem sufficient to develop a new theoretical interpretation of these entrepreneurial forms, allowing also the identification of coherent policy strategies. Furthermore, the highlighted theoretical developments can be able to explain, contrary to the predictions of orthodox economic approaches, why co-operative and social enterprises show high adaptive potential and are resilient to socio-economic change. They can overcome the limitations of other organisational forms by innovating institutional and organisational structures and by singling out different and more socially oriented firm objectives. Mostly importantly, they are able to

conjugate economic advantages for their stakeholders and the production of positive externalities with broader societal aims (Borzaga et al, 2010).

5. Final Remarks and Suggestions

In order to re-think the role of co-operative and social enterprises so that they can respond innovatively and adequately to the highlighted needs, the first necessary step is to reverse the research strategy which to date has inspired most of the scientific reflections on these topics. Instead of interpreting these organisational 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 and behavioural patterns are found and competition is as possible as collaborative relations when objectives are compatible.

These new theories and interpretative models need to identify the factors which have led to the formation of different forms of enterprise, the motivations and values that inform their action, and the system of incentives (economic and non-economic) that they activate through definition of distinctive governance and control models. Among the main objectives of this scientific endeavour should be the identification of the conditions which ensure or prevent long-term sustainability, and the understanding of the specific contribution that co-operative and social enterprises can make

to economic and human development.

The philosophy underlying this scientific attempt is 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 in a more comprehensive approach by overcoming the traditional concept of efficiency and by looking not only at the ability of the organisations to survive on the market and to become competitive (and therefore efficient), but also at their contribution to 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 co-operative and social enterprises, but also to verify in what contexts such enterprises prove more effective than other organisational forms. Attention should therefore be devoted not only to the strengths, but also to the limitations and weaknesses of co-operative and social enterprises.

As a conclusion and suggestion to scientists, as regards theory, an analytical approach is needed which disregards how these organisations are regulated in different countries and privileges identification and analysis of their key characteristics, thereby enabling critical assessment of the adequacy and shortcomings of current regulations, and then proposing reforms that may enable them to operate more effectively in different social contexts. This will allow the implementation of research in specific settings and in comparative terms. Finally, 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.

The Authors

Carlo Borzaga is Professor of Economic Policy and of the Economics of Cooperatives and Nonprofit Organisations at the Faculty of Economics of the University of Trento. He is also President of the European Research Institute on Cooperative and Social Enterprises (Euricse). Sara Depedri is Research Fellow in the Department of Economics at the University of Trento, Italy and Researcher at Euricse in Trento. She teaches employment choices and workers' motivations and economics of co-operatives and nonprofit organisations. Ermanno Tortia is Lecturer in Economic Policy at Trento University's Department of Economics, lecturing on the theory of the firm, institutional economics, and the economics of co-operative firms and social enterprises. He is also affiliated with Euricse.

A version of this article in French will appear in the August 2011 edition of RECMA, the Revue Internationale de L'Economie Sociale (<http://www.recma.org>). The Society for Co-operative Studies is grateful to the publishers of RECMA for granting permission for the publication of this English version.

Bibliography

- Bacchiaga, A and Borzaga, C (2001) "Social enterprise as an incentive structures", in Borzaga, C and Defourny, J (eds) *The Emergence of Social Enterprise*, London: Routledge, pp273-95.
- Bartling, B, Fehr, E, and Schmidt, K M (2011) "Screening, Competition, and Job Design: Economic Origins of Good Jobs", *The American Economic Review*, forthcoming.
- Becchetti, L, Castriota, S and Tortia, E (2009) "Productivity, wages and intrinsic motivation in social enterprises", Milan, *Econometrica Working Paper no 16*. <http://www.econometrica.it/wp/wp16.pdf>
- Ben-Ner, A and Putterman, L (eds) (1998) *Economics, Values, and Organization*, Cambridge: Cambridge University Press.
- Birchall, J (2010) *People-centred Businesses: Co-operatives, Mutuals and the Idea of Membership*, London: Palgrave Macmillan.
- Borzaga, C and Defourny, J (eds) (2001) *The Emergence of Social Enterprise*, London: Routledge.
- Borzaga, C, Depedri, S and Tortia, E C (2010) "Testing the Distributive Effects of Social Enterprises. The Case of Italy", in Degli Antoni, G and Sacconi L (eds), *Social capital, Corporate social responsibility, Economic Behaviour and Performance*, Basingstoke, Palgrave MacMillan, 2010, pp280-301.
- Borzaga, C and Tortia, E C (2010) "The economics of social enterprises: an interpretive framework", in Becchetti, L and Borzaga, C (eds) *The Economics of Social Responsibility: the World of Social Enterprises*, London Routledge, pp15-33.
- Borzaga, C and Tortia, E C (2009) "Social enterprises and local economic development", in Noya, A (ed) *The Changing Boundaries of Social Enterprises*, Paris: OECD Publishing, pp195-228.
- Bowles, S (2004) *Microeconomics, behaviour, institutions and evolution*. Princeton, NJ: Russel Sage Foundation/ Princeton University Press.
- Bowles, S (1998) "Endogenous preferences: the cultural consequences of markets and other economic institutions", *Journal of Economic Literature*, 36(1): 75-111.
- Coase, R (1937) "The nature of the firm", *Economica*, 4(16): 386-405.
- Deci, E L (1975) *Intrinsic Motivation*, New York: Plenum Press.
- Draghi, M (2009) "Solidarietà nelle crisi. Il Credito Cooperativo nelle economie locali", Rome: Bank of Italy.
- Fehr, E and Fischbacher, U (2002) "Why social preferences matter. The impact of non-selfish motives on competition, cooperation and incentives", *Economic Journal*, 112(478): C1-C33.
- Fehr, E and Gächter, S (2000) "Fairness and retaliation: the economics of reciprocity", *Journal of Economic Perspectives*, 14(3): 159-81.
- Fehr, E and Schmidt, K (2001) "Theories of fairness and reciprocity: evidence and economic applications", Working Paper no 75, Zurich: Institute for Empirical Research in Economics, University of Zurich.
- Frey B S (1997) *Not Just for the Money. An Economic Theory of Personal Motivation*, Cheltenham, UK, Edward Elgar Publications.
- Furubotn, E G and Pejovich, S (1970) "Property rights and the behaviour of the firm in a socialist state: the example of Yugoslavia", *Zeitschrift für Nationalökonomie*, 30(5): 431-54.
- Gagnè, M and Deci E L (2005) "Self-determination theory and work motivation", *Journal of Organizational behavior*, 26: 331-362.
- Hansmann, H (1996) *The Ownership of Enterprise*, Cambridge, MA: Harvard University Press.
- Hodgson, G M (1993) *Economics and Evolution: bringing life back into economics*, Cambridge: Polity Press.
- Hodgson, G M (2006) *Economics in the Shadows of Darwin and Marx: essays on institutional and evolutionary themes*, Cheltenham, UK: Edward Elgar.
- Nelson, R R and Winter, S G (1982) *An Evolutionary Theory of Economic Change*, Cambridge, MA: Harvard University Press.
- Ostrom, E (1994) *Governing the Commons. The Evolution of Institutions for Collective Action*, Cambridge, Cambridge University Press.
- Rose-Ackerman, S (1996) "Altruism, nonprofits, and economic theory", *Journal of Economic Literature*, 34(2): 701-28.
- Sacchetti, S and Sugden, R (2003) "The governance of networks and economic power: the nature and impact of subcontracting relationships", *Journal of Economic Surveys*, 17(5): 669-91.
- Stiglitz, J E (2009) "Moving beyond market fundamentalism to a more balanced economy", *Annals of Public and Cooperative Economics*, 80(3), 345-360.
- Tyler, T R and Blader S L (2000) *Cooperation in Groups. Procedural Justice, Social Identity, and Behavioral Engagement*, Philadelphia, Psychology Press.
- Vanek, J (1970) *The General Theory of Labor Managed Market Economies*, Thaca, Cornell University Press.
- Valentinov, V (2007a) The property rights approach to nonprofit organisations: the role of intrinsic motivation, *Public Organisation Review*, 7 (1).
- Valentinov, V (2007b) The Transaction Cost Theory of the Nonprofit Firm: Beyond Opportunism, *Nonprofit and Voluntary Sector Quarterly*, 37(5): 5-18.

- Valentinov, V (2008) Toward an Incentive Alignment Theory of Nonprofit Organization, *Evolutionary and Institutional Economics Review*, 5(1): 189-196.
- Viale, R (2005) (Eds) *Le nuove economie*, Milan: Il Sole 24 Ore.
- Ward, B (1958) "The firm in Illyria: market syndicalism", *American Economic Review*, 44(4): 566-89.
- Weisbrod, B A (1988) *The Non-Profit Economy*, Cambridge, MA, Harvard University Press.
- Williamson, O E (1975) *The Economic Institutions of Capitalism*, New York, Free Press.
- Williamson, O E (2000) "The new institutional economics. Taking stock, looking ahead", *Journal of Economic Literature*, 38(3): 595-613.
- Zamagni, S (2005) "Per una teoria civile dell'impresa cooperativa", In E Mazzoli and S Zamagni (eds) *Verso una Nuova Teoria della Cooperazione*, Bologna: Il Mulino, pp15-56.
- Zamagni, S and Sacco, P (eds) (2002), *Complessità relazionale e comportamento economico*, Bologna: Il Mulino, 2002.

Notes

- 1 The basic divide between co-operatives and investor owned firms is found by some authors (Birchall, 2010) in the different nature of control rights. While in co-operatives these have personal character because they are always bestowed upon personal members, in the case of investor owned firms control rights are assigned instead to financial titles such as share, which are representative of the capital invested in the firms.
- 2 Transaction costs are sorted into the costs of the use of the market and ownership costs. The former are undergone by the non-controlling stakeholders that interact with the firm by means of contracted transactions, while the latter are undergone by the firm's owners
- 3 Of course, the efficiency of co-operative and social enterprises is also driven by competitive pressure on the market, which pushes these organisations to reduce costs, thereby increasing efficiency.
- 4 The assignment of the 2010 Nobel Prize for Economics to Elinor Ostrom stands as an evident recognition of the relevance of this new school of thought.
- 5 For example, when evaluating the efficiency of the production process, while technical efficiency is not sufficient anymore to assess firm performance, intrinsic motivations and non-self-interested preferences are more and more often brought into the picture as crucial determinants of work effort and labour productivity (Becchetti et al, 2009; Bartling et al, 2011). At the same time, non-monetary satisfaction is more and more brought to bear as a relevant measurement of the wellbeing produced by the organisation (Stiglitz, 2009).
- 6 For a definition of evolutionary open vis-à-vis closed system the reader can refer to Hodgson (2006).