



# Open Research Online

---

The Open University's repository of research publications  
and other research outputs

## Why Social Enterprises Are Asking to Be Multi-stakeholder and Deliberative: An Explanation around the Costs of Exclusion.

Other

How to cite:

Sacchetti, Silvia and Borzaga, Carlo (2015). Why Social Enterprises Are Asking to Be Multi-stakeholder and Deliberative: An Explanation around the Costs of Exclusion. Euricse (European Research Institute on Cooperatives and Social Enterprises).

For guidance on citations see [FAQs](#).

© [\[not recorded\]](#)

Version: Version of Record

Link(s) to article on publisher's website:

[http://www.euricse.eu/wp-content/uploads/2015/04/WP-75\\_15\\_Borzaga-Sacchetti.pdf](http://www.euricse.eu/wp-content/uploads/2015/04/WP-75_15_Borzaga-Sacchetti.pdf)

---

Copyright and Moral Rights for the articles on this site are retained by the individual authors and/or other copyright owners. For more information on Open Research Online's data [policy](#) on reuse of materials please consult the policies page.

---

[oro.open.ac.uk](http://oro.open.ac.uk)



**Euricse**

European Research Institute  
on Cooperative and Social Enterprises

# WORKING PAPER SERIES

ISSN 2281-8235

Working Paper n. 75 | 15

**Carlo Borzaga**

**Silvia Sacchetti**

## Why Social Enterprises Are Asking to Be Multi-stakeholder and Deliberative: An Explanation around the Costs of Exclusion

---

Please cite this paper as:

Borzaga, C. & Sacchetti, S. (2015) “Why Social Enterprises Are Asking to Be Multi-stakeholder and Deliberative: An Explanation around the Costs of Exclusion”, *Euricse Working Papers*, 75|15.

# Why Social Enterprises Are Asking to Be Multi-Stakeholder and Deliberative: An Explanation around the Costs of Exclusion\*

Carlo Borzaga\*\* & Silvia Sacchetti\*\*\*

## Abstract

The study of multi-stakeholdership (and multi-stakeholder social enterprises in particular) is only at the start. Entrepreneurial choices which have emerged spontaneously, as well as the first legal frameworks approved in this direction, lack an adequate theoretical support. The debate itself is underdeveloped, as the existing understanding of organisations and their aims resist an inclusive, public interest view of enterprise. Our contribution aims at enriching the thin theoretical reflections on multi-stakeholdership, in a context where they are already established, i.e. that of social and personal services.

The aim is to provide an economic justification on why the governance structure and decision-making praxis of the firm needs to account for multiple stakeholders. In particular with our analysis we want: a) to consider production and the role of firms in the context of the “public interest” which may or may not coincide with the non-profit objective; b) to ground the explanation of firm governance and processes upon the nature of production and the interconnections between demand and supply side; c) to explain that the costs associated with multi-stakeholder governance and deliberation in decision-making can increase internal efficiency and be “productive” since they lower internal costs and utilise resources that otherwise would go astray.

The key insight of this work is that, differently from major interpretations, property costs should be compared with a more comprehensive range of costs, such as the social costs that emerge when the supply of social and personal services is insufficient or when the identification of aims and means is not shared amongst stakeholders. Our model highlights that when social costs derived from exclusion are high, even an enterprise with costly decisional processes, such as the multi-stakeholder, can be the most efficient solution amongst other possible alternatives.

## Keywords

Social Value Chain; Governance; Multistakeholdership; Deliberation; Externalities; Impacts; Social Enterprise; Social Innovation; Social Services

## JEL codes

I14, I31, L21, L23, L31

---

\* We would like to thank Chris Cornforth, Iader Garavina, Pier Angelo Mori, Rob Paton, Ermanno Tortia, Barbara Franchini and Sara Depedri for suggestions and discussions. This working paper is published with the support of the Open University Business School Seedcorn funding scheme; and the Belgian Science Policy Office, within an Interuniversity Attraction Pole on social enterprise (IAP-SOCENT) entitled “If Not for Profit, for What? And How?”.

\*\* University of Trento and Euricse. Email: carlo.borzaga@unitn.it

\*\*\* The Open University Business School, Faculty of Business and Law, Department of Public Leadership and Social Enterprise; and Euricse. Email: silvia.sacchetti@open.ac.uk

## 1. Introduction

Welfare systems and their governance continue posing a number of questions to scholars, policy makers and practitioners. Most answers are on variants of public and private systems with the familiar shortcomings associated with each (Weisbrod, 1988). On the one hand, the public management of welfare services which prevailed in the past amongst European countries is not always able to capture demand and to satisfy it entirely (since it tends to be casted around the median voter, but also because of an increasing scarcity of financial resources). Moreover, bureaucracy may cause efficiency problems. On the other hand, private for profit firms avoid engaging in a low profit sector and tend to supply low quality output whenever services embed complex specialist knowledge and monitoring is imperfect, thus forcing the public sector to eventually grant large incentives to providers. Conventional investor-ownership moreover is argued to affect the destination of surplus and initial investment decisions, not necessarily in the best interests of other stakeholders.

The problem of information asymmetries between those who supply and those who demand personal and social services represents to all effects a factual problem and it is directly related to the supply of services, their quality and the welfare of beneficiaries. These services differ from other goods or general services since they have a public good dimension and exploitation of asymmetries would directly cause a health hazard on users. For this reason the sector is argued to require both public policy (e.g. in the form of regulation, monitoring and enforcement) and in many case the direct provision by public authorities.

Complementary, non-profit firms (and in particular specific forms of social enterprise) have been argued to be in a position to serve the welfare of users and other stakeholders since, in principle, they do not have an incentive to exploit information asymmetries to reward investors at the expenses of other stakeholders and, crucially, they can allocate property and control rights to a variety of stakeholders, including users (Ben-Ner, 1986; Ben Ner and Van Hoomissen, 1991; Hansmann, 1996; Mori, 2013). For this reasons economic literature suggests that it is the non-distribution constraint which allows firms to operate with a public interest remit. Albeit important, however, the non-distribution constraint is not sufficient. Hansmann too emphasises this point, defining it a “rude protection device”. The trust-creation function may be reinforced (and eventually substituted) by other tools and, in particular, by direct involvement of stakeholders in the organisation’s governance. In fact, it is especially in European countries with the tiniest non-profit and a larger co-operative tradition (whilst Hansmann talks specifically about foundations) that new private service providers have developed inclusive organisational configurations (increasingly denominated social enterprises) which have gradually opened up to a plurality of stakeholders. More recently, multi-stakeholder forms of governance have emerged out of organisational experiences and have entered legal definitions of new organizations. However, despite their widespread dissemination and potential relevance for the sector, there is no theoretical reflection or justification for multi-stakeholder governance.

Such reflection is even more needed if we think that the classic equation between the non-profit constraint and the public interest does not really answer the question of how organisations owned by one single stakeholder can (besides creating trust and avoiding opportunistic behaviour) dynamically identify welfare needs and appropriate answers without the involvement of the

plurality of stakeholders populating the demand and supply side. We need to explain how actors can overcome problems of knowledge incompleteness, false beliefs, information asymmetries and exploitation so that outcomes and impacts reflect the general interest and the interests of each and every stakeholder. If, by providing personal and social services, the pursuit of the public interest is the aim, what is the most appropriate form of production governance?

The paper proceeds as follows. After offering a critical perspective on governance, we assess personal and social service provision in terms of production organisation and division of labour. We then identify the presence of multiple patrons on the demand and supply side. We argue that the problem with negative external impacts is in the exclusion of publics from the governance of service production. We then build on the theory of externalities and shape our analysis around the negative effects produced by exclusive governance (whilst leaving out of the scope of this work the analysis of the benefits of inclusive governance, which deserves a specific focus and space). We apply our analysis to the social enterprise (a form of organisation that specifically arose to produce socially relevant services) and elaborate on Hansmann's classic theory to provide a justification for multi-stakeholdership which considers the costs of exclusion, besides ownership and contractual costs (Hansmann, 1996).

## **2. Governance: A Critical Perspective**

Governance refers to the structures, systems and processes that define who sets the aims and direction of production activities, who executes, who controls and monitors outcomes. It follows that the governance question asks also how community and business stakeholders participate and on what terms (Gereffi, 1994; Cowling and Sugden, 1998; Kaplinsky, 2000; Cornforth, 2012; Sacchetti and Sugden, 2009). This is because governance identifies who is responsible for the identification of needs, for the design of services, for surplus distribution, for defining the inter-organisational division of labour along the social value chain. These choices have clear implications for community prosperity and for the welfare of each stakeholder specifically.

The bottle neck, as we identify it, is when demand and supply-side stakeholders are excluded from governance and consequently from the strategic choice process, therefore losing voice, sight, direction and control of service provision. The problem can be phrased as such: when personal and social services are governed in an exclusive way, welfare needs are not addressed effectively and innovation is poor. However, despite being excluded and marginalised by prevailing governance forms, each and every stakeholder has the potential to contribute to the definition of needs and priorities by bringing their own experience and perspective into the process of choice (Dewey, 1927). The problem of marginalisation of stakeholders can assume diverse levels of intensity. For instance, when markets are competitive non-investor stakeholders can be protected, to some extent, by the contractual system. However, the presence of power asymmetries in the governance of organisations and markets leaves to these mechanisms, at best, a marginal role. In particular, the protection offered by a contractual system does not hold for services of general interest or for the non-monetary elements of stakeholder relations. From these premises we construct a justification for the involvement of stakeholders in the organisation of production and for multi-stakeholder governance.

The rationale behind including multiple interests (in particular through multi-stakeholder ownership as an alternative for example to public-private partnerships or co-production) can be explained by looking at the problems that emerge when this does not happen or, in other words, when exclusive interests prevail, even despite those of others. Cowling and Sugden (1998) called this specific problem “strategic failure”. Strategic failure occurs when the aims and goals of production (whatever the ownership) are not aligned with the interests of other stakeholders and with the development aims of communities more broadly. The reason for this incongruence is recognised in the concentration of strategic control over production, whereby objectives and modalities are determined by a restricted group of decision-makers (ibid.). With strategic failure, the stakeholders excluded from governance cannot contribute to improve or innovate the service and may have their interests disregarded or damaged.

*The guiding hypothesis of our theoretical analysis is that facing increasing specificity of personal and social needs, the governance form that produces the most effective outcomes for stakeholders and the most desirable collective impacts is constructed using a multi-stakeholder approach, and bases its decision-making praxis on inclusive deliberative processes.*

To make our considerations more specific, this work considers a specific organisational form amongst those populating the non-profit sector, i.e. the social enterprise. Social enterprises have seen a consistent growth in Europe and elsewhere over the last decade. Specifically for the provision of healthcare and welfare services more generally, social enterprises have flanked the public sector, developing innovative responses to particular welfare needs. According to scholarly and legal definitions (those regulating social enterprise in various countries), social enterprises are private businesses driven by an entrepreneurial approach, but they are also—as a norm—non profit organisations motivated by pro-social values. However, following our considerations, they should also adopt an inclusive governance, and factually many social enterprises have been characterised by inclusive governance since their foundation. In healthcare and welfare services they aim at improving the quality of life of the most disadvantaged people. For this specific reason the development of the sector has been the object of specific public policies in several European countries, where however public expenditures on health and welfare follow a decreasing trend thus calling for innovative solutions.

We ask under what circumstances welfare services can be provided by private enterprises, and specifically social enterprises, consistently with the interests of the disadvantaged groups and with the public interest more broadly (Borzaga and Fazzi, 2014). In answering this question, we emphasise how a theoretical appraisal of participatory governance can provide relevant indications on the effectiveness of outcomes (i.e. in terms of quality and innovativeness) and nature of impacts. In passing, this is one instance of a wider gap—the need to shift social enterprise research from the level of the firm to the level of the system, and system governance. Integrated approaches to social and personal services necessarily increase the complexity of responses and require sophisticated coordination systems between the suppliers and users of the services (Ben-Ner and Van Homissen, 1991; Pestoff, 2012).

### **3. The link between division of labour and extent of the market**

The evaluation of how service production, such as welfare and personal services, is governed and to what effects is a question that traditionally requires a consideration of supply and demand, of “division of labour” and “extent of the market”. From a classic Smithian perspective, division of labour consists in the separation of production processes in coordinated phases which allow workers and machines to specialise in one or few tasks, thus increasing productivity on the one hand and sunkness on the other, as per economies of scale. Cost efficiency, in other words, comes at the expense of flexibility—as a multitude of studies have emphasised—and can change the same nature of the product or service provided (Piore and Sabel, 1984; Kanter, 1989; Best, 1990). Across firms and sectors, moreover, division of labour leads to cost efficiency only when markets work, e.g. when transaction costs are low.

In this reasoning, the demand side plays an important role in determining how production is organised. It was very clear in Smith’s thinking that, if on the supply side skills and division of labour do have a fundamental role; it is the extent of the market that defines the scope of production organisation. Production adjusts to a diversified demand by adding “parallel” production potential (within the firm boundaries, or by externalising phases) only at those production stages for which differentiation is required by the market. All other phases grow by “multiplication” aiming at maximising scale economies or, as per more recent literature, strategic knowledge on core competences (Smith, 1776; Bianchi, 1991).

In these respects, the interaction between supply and demand has been at the centre of economic analysis for a long time. This two-way interaction, however, was framed in a world of mechanics, suitable for manufactured products that responded to standardised needs. In this market model, the customer’s role is to express her taste (whether of intrinsic nature or induced by contextual conditions, for example, by firms advertising strategy). The role of production is to customise processes and outputs in order to capture that taste, gain market shares, and ultimately profit. Work, in this production system, is undertaken by individuals who respond to incentives that are functional to the factory system, where the time of execution of tasks is the critical factor (Marx, 1867; cf. Langlois, 1996 for a discussion). The ideas of extent of the market and division of labour have explained investments in new capabilities (including technology), innovation dynamics and industrial efficiency (e.g. lower unit costs). In addition, divided units of production, in this system, are not coordinated solely by demand and supply interactions but also by market institutions or, in other words, by a set of rules (e.g. industrial standards) that when absent or inefficient can determine high transaction costs.

This analysis originated from the study of manufacturing activities, so that within traditional industrial organisation literature there is no particular consideration of social and personal services, which were deemed as marginal from an economic point of view and attributed to the state or thought as a responsibility of both families and public institutions. Despite diversity, the same logic that explained the organisation of production for manufacturing was applied, especially by public enterprises offering welfare services. However, being based on high volumes, standardisation and task specialisation, the manufacturing model, that used to work when needs were rather homogeneous, risks (in a world of highly differentiated needs, Weisbrod, 1988), to find little compatibility with the way in which, today, most social and personal services respond to users’ requirements. Such a model may as well be too costly at times of diminishing public resources.

Fundamentally this happens because, for social and personal services, the mechanics between division of labour and extent of the market is broken, thus impacting on the efficiency and effectiveness of service production.

If we take healthcare as an example, a first source of concern is related to the fact that conventional health programmes in European countries are standardised to be offered to large numbers of patients on the one hand, and minimise costs for the health system on the other. Second, this system is not necessarily thought to maximise the interest of patients or those of the health system. Other potentially competing interests may come to dominate, such as the industry interest to increment false needs and increase demand for health products and services that are not always leading to benefits or may even damage the patient (Alfieri, 2007; Grady and Redberg, 2010; WHO and the Government of South Australia, 2010). So organised, healthcare (whether public or private) fails to involve patients or carers in the development of dedicated care paths, leaving stakeholders on the receiver side rather than engaging with their sensibility and experience. In this respect, involvement of users (for example on life styles) can lead to a reduction of costs but also to the creation of new products, thus triggering also economic development. Moreover the “fragmentation” of healthcare provision incentivises cost reduction (without necessarily achieving it) in each separate specialism, eventually neglecting the individual, her health and the necessary cures in their totality. As an illustration of the impacts of fragmentation consider enduring healthcare, which is concerned with the prevention of chronic pathologies (e.g. mental health). Especially in this case, the “division of labour” between healthcare and social care is problematic since it separates physical, psychological and social needs (Alfieri, 2007). Besides damaging the patient, this approach can be argued to reduce the economic efficiency of the healthcare system, of other welfare services and of society at large. It increases transaction costs between one treatment and the other, it runs the risk of disregarding the social costs raised in complementary welfare spheres (such as education and employability) and on specific stakeholders (for example on carers, families, women, educators, employers etc.). Weisbrod (1988) highlighted in his analysis that non-profit firms produce meritorious goods. Consistently, we observe that for those who purchase the service, such as public administrations, its value may be higher than its price, thus originating a surplus for the buyers and or some of the users. For example, services offered towards the employability of disadvantaged categories of workers and their integration in the job market have been shown to provide clear benefits on the workers’ sociality and health, whilst improving the life quality of families and close bonds (Borzaga and Depedri, 2013).

To be efficient and effective, services—such as healthcare, education or other personal services—require knowledgeable and complex professions who understand, control and manage the entire provision process and who can customise the product. Rather than being equated to highly specialized workers (typically of mass production manufacturing), these workers can be compared with pre-factory-system artisans, when each artisan could master multiple production phases and had a socially embedded relation with the user, based on reciprocal trust and recognition of the worker’s mastery. Moreover, and this is an important point for explaining new production processes and organisations (such as social enterprise), this artisan system works towards meeting users’ needs, favouring adaptation to multiple and diversified situations, with an *ad personam* approach. In other words, by adopting an artisan-like and flexible system, this approach to service provision is a substantive alternative to the equivalent of a mass-production approach and standardisation of welfare services, where specialisations are activated within one single organisation by means of



bureaucratic coordination. Alternatively, we suggest that service complexity can be interpreted effectively and cost-efficiently by networked organisations that organise in part through the market according to the principle of division of labour, but also through coordination mechanisms based on cooperation amongst stakeholders and deliberation, as argued in the remaining of this work.

#### 4. Multiple patrons in the social value chain

In healthcare, and likewise in the case of other social and personal services, the interaction between demand and supply unfolds into a complex interchange between a variety of stakeholders with different roles, albeit potentially accomodable interests. In the example the main stakeholders, at user level, are the patients. Patients are clearly those individuals whose life quality is directly affected by the nature of the service offered. Close bonds, family members and intimate friends, are the next most proximate level of stakeholders, since their life experience is immediately interconnected with the one of the patient. Furthermore, impacts can go through constituencies that operate at community level and are affected by the quality of the service offered. Here we find doctors and their practices, schools, employers, social enterprises, city councils etc.

The interconnectedness between a plurality of needs and interests can be captured if we analyse the production of value *through the chain of activities*. The idea of value chain finds its origins in the division of labour without focusing exclusively on transformations occurring inside the firm, but extending production planning across organisations, to maximise coordination and cooperation, complementarities, efficiency and the competitiveness of local production systems<sup>1</sup>. Taking a direct interest in social services, Rogers et al. (2001: 91) write:

*“The value chain describes the sequence of activities through which value is created and added as a service is delivered to meet the needs of one or more clients. Understanding the value chain helps provide insight into how a service is delivered, who is involved in its delivery and what opportunities there may be to improve service delivery”.*

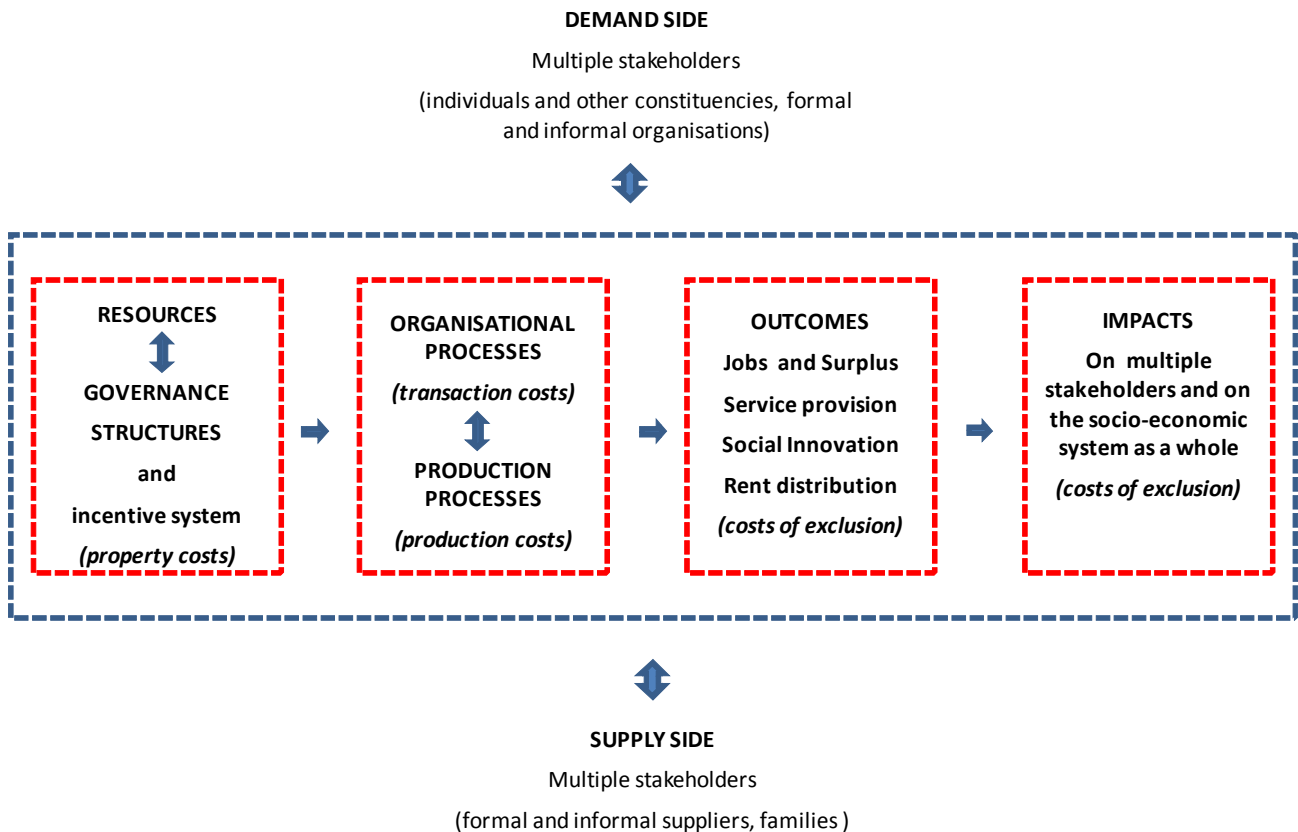
Figure 1 visually represents the value chain<sup>2</sup> for social and personal service provision where, in line with Wei-Skillern et al. (2007), we have enriched traditional analysis with considerations of governance and impacts. Furthermore, consistently with and Ben-Ner and Van Hoomissen (1991) we include demand-side stakeholders alongside suppliers of social and personal services. So conceived, the social value chain becomes nested into a set of interactions that include multiple patrons, their values and aims. As a result, we can expect different outcomes (as in the quality of services) and impacts on stakeholders and society more broadly (as illustrated later in Figure 2).

---

<sup>1</sup> These ideas found their first applications in Italian industrial districts and French production *filières*. As Kaplinsky (2000) notices, they were then descriptively addressed by Porter's work (Porter, 1990) who highlighted, besides material transformation (logistics, operations, marketing and sales, after-sale service) the role of support services (in terms of financing, planning, investor relations, human resource management, technology development, procurement) for social value production and competitiveness (Porter, 1990; Porter and Kramer, 2006).

<sup>2</sup> The notion of the value chain has been mainly applied to manufacturing and to some services (e.g. restaurants, retailing, marketing, e-commerce, and banking) in standard investor-owned organisations.

**Figure 1 – The social value chain for social service provision**



In healthcare-related social and personal services the production process overcomes the traditional separation between demand and supply (cf. Brophy, 1994). On the supply side, families and organisations provide a plurality of services or products under a variety of organisational structures which can be either private with profit objectives, private with non-profit objectives, public<sup>3</sup>. Families are the most obvious example of the interdependence between demand and supply, since they are in demand for services (for example for their children or the elderly) and, at the same time, they produce these services, by providing exhaustive or partial responses to specific welfare needs. Likewise governmental and community-based organisations can demand but also co-produce the service.

Ben-Ner and Van Hoomissen (1991) emphasise that in the production of social services, demand-side patrons can form coalitions to provide themselves with the services that are not adequately provided in the for-profit or public sectors. The “confluence of demand and supply factors”,

<sup>3</sup> This last point, specifically, is consistent with co-production analysis, which makes clients an active part in the production of a service or good: “By coproduction, I mean the process through which inputs used to produce a good or service are contributed by individuals who are not ‘in’ the same organization... Coproduction implies that citizens can play an active role in producing public goods and services of consequence to them” (Ostrom, 1996: 1073). What we would like to highlight, nonetheless, is that here we embody inclusion in the organisation through its governance rather than as a feature of the production process alone. In other words, in what we suggest, inclusion is an aspect of both production organisation and firm governance at the same time. This perspective is meant to reach beyond the involvement of users in the planning and delivery of a service. Rather it includes, at strategic and operational level, a variety of actors who have an interest in the values and aims of the organisation, its production processes, modalities of service delivery and surplus distribution. This clearly implies the need for integrating *in the governance of the organisation* various categories of providers and users who are not solely identified with the owners of financial capital in a traditional sense.

specifically, can be the key determinant of specific forms of non-profit organisations such as the social enterprise or, as in the above mentioned study, of consumer cooperatives with a non-distribution constraint. Demand-side stakeholders' principal contribution to the supply side is to ensure that the service is provided in their interest in a way that is economically sustainable. Billis and Glennerster (1998: 84) likewise bring the demand side into the analysis pointing out the need to "incorporate the users of human services and their characteristics or the interaction between users and organisations". Coherently, along the value chain each phase is the product of the interaction of multiple actors endowed with different sets of interests and resources (economic but also knowledge-based and relational) which, in turn, define the modalities of interface and nature of services.

However, albeit all the relevant patrons would have an incentive to cooperate across the social value chain, they may fail to do so. Literature on participation is mixed on this point and highlights the presence of conflict on values or aims as barriers to meaningful participation. In particular, interested actors on the demand and supply side would hold different values and priorities, indicating potentially conflicting situations (Billis and Glennerster, 1998; Kendall and Knapp, 2000). Moreover, since the value added by each production activity varies and generates differential impacts for patrons and communities at large (both in monetary and non-monetary terms), we could argue that one of the concurrent determinants to a failure to cooperate is the persistent lack of mechanisms suitable to coordinate choices and actions, especially in the presence of an articulated division of labour and/or decision-making power. The higher the division of labour and the differences in value added generated by each patron, the higher the degree of asymmetries and potential conflict amongst patrons and across society (and vice versa).

This debate reinforces the argument suggested also in Sacchetti and Sugden (2009) that in order to accommodate diverse interests some form of coordination different from market and authority is needed. Depending on the nature of patrons and on the governance structures and processes chosen we can expect multiple possible combinations of interests along the social value chain. Accordingly, each combination will respond to specific needs, distribute surplus and predispose the production of social value according to different values and aims. But what governance solutions are best placed to meet stakeholders' and wider community needs and realise valued impacts? To answer this question we specifically draw attention on two elements:

- a) The impacts produced on specific patrons and on society more broadly whilst answering personal and social needs. This implies focusing on impacts, but also on processes and outcomes.
- b) The role of governance solutions and decision-making processes.

Our point is that in order to fully appreciate the costs and the value produced by organisations and other constituencies offering and demanding social services, we need to consider how different stakeholders interact when making production and consumption choices (governance) together with the public impacts of such interactions. The underlying assumption here is the unity between processes and resulting impacts, or the fact that the process are chosen on the ground of their assumed ability to achieve desired results and avoid undesired ones, or what Sen (2002) calls comprehensive preferences (cf. Sacchetti 2013). To reinforce the dependence of impacts on governance, we start from an analysis of impacts to then underline the type of governance which may favour socially desired effects.

## 5. Impacts

We suggest here to consider *two types of interacting “public” impacts: specific on each and every stakeholder; generalisable to the entire community*. Whilst specific effects are excludable, systemic effects are non-excludable effects of production governance. Albeit no specific effect is isolated and each and every choice interacts (albeit to different extents) with the interests of other publics, if the effects can be attributed mainly to specific stakeholders we call them specific effects. If the effects apply to the community at large, we refer to systemic effects (as illustrated in Figure 2). We further discern specific impacts into stakeholders-specific (when related to the needs of groups of interested actors excluded from the governance structure of the organisation), and patrons-specific (when related to the needs of groups of actors included in the governance structure of the organisation). The interconnectedness between governance and public impacts is illustrated in Figure 2. In the case of personal and social services, exclusion produces both stakeholder-specific effects, such as insufficient, excessively standard and parcelled services or persistence of problems affecting the weakest groups, plus systemic effects such as low cooperative attitudes and deliberative skills across society, uneven distribution of value added and inequality. Overall, exclusion creates a deficit in the capacity of communities to meet socio-economic needs.

The standard economic perspective focuses mainly on systemic effects, e.g. on market failures. Essentially these refer to market externalities, which represent “uncompensated interdependencies” due to the absence of markets, which can produce social benefits or social costs (Cornes and Sandler, 1996). Here the definition of externalities is tied to the benchmark of competitive markets, as in Arrow (1970). The argument is that when no incentive is present (i.e. there is no regulatory constraint) private rewards and social returns tend to diverge. Firms or governments overexploit resources (through higher prices, creating excessive financial risk or debt) or provide inefficient services (for example because they do not invest in social innovation). In order to reprimatinate allocative efficiency, a solution, according to conventional theory, is to include external effects into business decisions by means of taxation, subsidies, regulation or by identifying property rights for the externality, so that its value can be negotiated on the market (Pigou, 1952; Coase, 1960; Cheung, 1973).

The evaluation of the social cost by means of markets is however a contested issue, specifically because in personal and social service provision we often deal with non-monetary motivations (meaning that allocation decisions are not taken with the aim of maximising profits or other monetary returns) and other forms of market failures, such as knowledge incompleteness, information asymmetries, and uneven access to decision-making. In other words, as Marglin (2008) also notices, there is an inherent contradiction in trying to resolve the failure of markets by means of introducing more markets.

By building on the market failure perspective, the traditional economic approach has associated systemic effects with the price system and with the costs of ownership. But in fact these costs reflect the inadequacy of the price mechanism and of mono-stakeholder ownership to recognise and internalise the multiplicity of the needs and interests of other groups attached to each and every production choice, in addition to the public interest more generally. For these reasons, solutions conceived in terms of mainstream theory such as taxation and regulation are not completely effective in the case of complex services whose aim is needs satisfaction rather than cost minimisation.

In our interpretation, the issue with the prevailing economic approach relates to a cognitive bias that separates the private and public spheres of interest, creating a gap which fails to account for the public dimension of private choices, the numerous stakeholders affected, their knowledge and needs (Mintzberg, 1983; Sacchetti, 2013). This gap is reflected and reinforced by the prevailing governance system which concentrates control over strategic decisions within a restricted group, excludes specific and general needs and, not surprisingly, fails to meet them. Differently from mainstream approaches, our perspective considers social costs as the outcome of negative external effects that are generated by the exclusion of some groups of stakeholders (such as workers, users, suppliers) and of community interests more broadly. With exclusion, strategic decisions are taken despite the interests of affected stakeholders. It follows that exclusive production governance generates uneven distribution of rights and opportunities at a broad societal scale and across regions, in terms of income, status, authority, embedded knowledge and opportunities (Hymer, 1972; Marglin, 1974; Cowling and Sugden, 1994, 1998; Sacchetti, 2004).

Cowling and Sugden (1994), as highlighted earlier, identify societal costs with the “strategic failure” of exclusive production governance. Consistently with these concerns, Meade (1979) centres his definition of externalities on the exclusion of the affected parties in the decisions that led to the external economy or diseconomy<sup>4</sup>. This interpretation of externalities explains their existence by pointing at the exclusion of stakeholders’ interests (rather than to the absence of markets). This approach allows also to position effects which cannot be monetised, since the focus is on the decision-making process rather than on the entity of the external effect (which is rather a consequence of governance processes). *The crucial point of our interpretation is that negative public impacts (on specific stakeholders and communities) are due to a governance failure rather than to a market failure.* In the first type of failure exclusion is purposeful, since it is the governance level that prevents inclusion and desired impacts. In the latter, conversely, exclusion and its impacts are due to the absence of markets and therefore conceived as involuntary.

As in Meade’s seminal example of beehives and apple growers (Meade, 1952) where “pollination services and honey yield are components of a joint product generated by the hive” (Cheung, 1973: 19), the governance of production activities and the quality of services are all components of a joint public impact (positive or negative) generated by networked organisations in the value chain. When organisations adopt exclusive governance structures, excessive standardisation, and incentives that favour the pursuit of exclusive interests (as it happens when coordination is managed through hierarchical coordination or markets) we expect the social product to be negative and generate social costs (such as increased social exclusion, erosion of social capital and community failures (cf. Sacchetti and Campbell, 2015). When organisations adopt inclusive governance structures, a personalised approach, and incentives that favour cooperation and deliberation we expect the social product to be positive and generate social benefits (such as increased social capital, deliberative skills, social inclusion, justice, and trust across society)<sup>5</sup>.

---

<sup>4</sup> “An external economy (diseconomy) is an event which confers an appreciable benefit (inflicts an appreciable damage) on some person or persons who were not fully consenting parties in reaching the decision or decisions which led directly or indirectly to the event in question” (Meade, 1979: 15).

<sup>5</sup> A rental price can be paid to the enterprises for placing their activities in the community (as for the apple grower, who would pay to have the beehive in her orchard) in terms of subsidy, tax reduction, free infrastructures or a combination of them. Specifically the provision of physical spaces and other infrastructures for social enterprises (e.g. vocational schools) would be a policy tool to acknowledge the generation of non-monetary positive externalities which cannot be quantified and therefore compensated.

In terms of specific effects on stakeholders, concentration of control leaves the excluded out of significant and empowering learning processes. These consist of skills, such as understanding and mastering the whole production process, articulating an argument, discussing, assessing data and alternatives, holding offices, building connections with other groups of patrons (Dahl, 1985; Pateman, 1970; Marglin, 1974; Putnam, 2000; Hirschman, 2002).

Exclusion implies also that stakeholders are not willing to contribute with additional resources, for example in terms of ideas, connections, commitment, effort and finance. In this regard, literature suggests that with isolation and penalising incentives (such as retaliation on those who exercise voice) specific patrons lose deliberative skills and interest in participating, with a clear damage for the organisation (losing for example trust, reputation and resources) but also for society as a whole (Habermas, 1998; Hirschmann, 2002; Sacchetti et al., 2009). The experience of the excluded becomes partial and mediated by externally defined objectives; their perspectives, creativity and knowledge are disregarded, affecting motivation to participate (thus generating non-monetary, patron-specific negative impacts) (Amabile, 1997; Sacchetti et al., 2009).

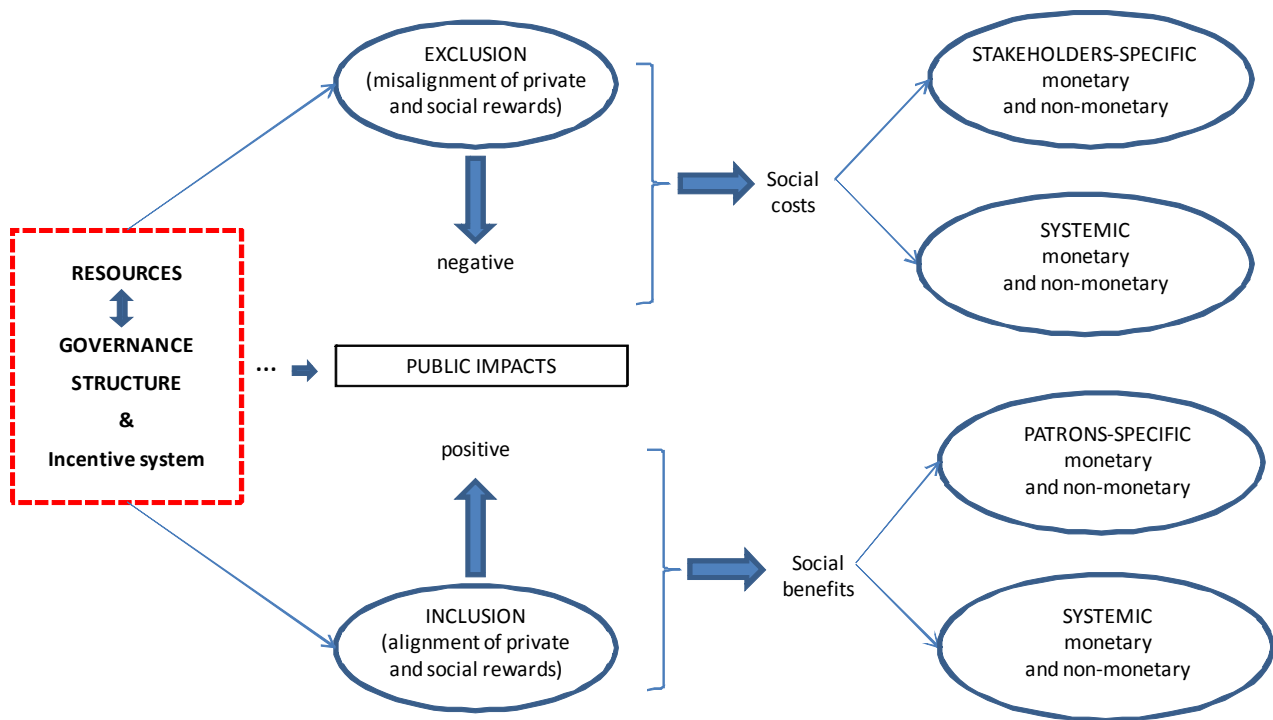
Systemically, exclusion contributes to accentuate the incoherence between community needs and production system, furthering the distance between production choices and community development objectives (Sugden and Wilson, 2002; Sacchetti et al., 2009; Mori, 2014).

Moreover, restricted access to connections, knowledge and learning opportunities creates a barrier to the diffusion of cooperation and democratic praxis, across society as a whole. Social capital scholars have argued that communities with poor levels of cooperation generate also less material wealth and overall are less prosperous (Putnam, 2000), for exclusion and isolation negatively effects social cohesion, equality and, ultimately, the human life experience (thus generating non-monetary, systemic negative impacts).

From the perspective of the rational decision maker, disregarding participatory decision-making can cause the persistence of power asymmetries and false beliefs about needs, opportunities and solutions in society (Dewey, 1927; Sacchetti, 2013). In terms of production outputs, it follows that exclusive governance lowers the quality of the decision-making process and creates barriers to innovation thus directly impacting on users and communities more broadly (Sacchetti, 2013).

The illustrations of specific and systemic impacts suggests that *we can further discern them between monetary or non-monetary*. In the traditional economic approach, impacts are monetised to reflect the assumption of individual pecuniary motivation. The line of reasoning would be that if individuals are driven by pecuniary motivations, it is possible to monetise the external effect and compensate patrons or alternatively quantify the cost advantages. Differently, institutional accounts have built on psychology and brought a more elaborated perspective, pointing at the plurality of individual needs and motivational drivers that lead to individual wellbeing and health (Maslow, 1943; Deci and Ryan, 2000, 2008). Multiple and coexisting motivations have been synthesised by behavioural economic analysis in two interacting broad categories, monetary and non-monetary, which exemplify what is driven by economic incentives and what is driven by other factors. At the same time motivations can be intrinsic or extrinsic, i.e. self-determined by the individual or imposed by an external force.

**Figure 2 - Public impacts**



Monetary and extrinsic motivation may overlap in some cases but not necessarily. For example, an extrinsic motivation can be driven by non-monetary forces such as a deadline, evaluation criteria, and threats or imposed objectives (Deci and Ryan, 2000). Monetary-driven incentives and choices generate external effects which can be monetised, but they also impact positively or negatively on coexisting non-monetary values (assuming that not all motivations can be converted into some kind of economic incentive). A classic example is that of “gift relationships” such as blood donation, where non-monetary motivation can be drained by monetary incentives (Titmuss, 1970; Frey and Jegen, 2000). In this case it is the intrinsic nature (i.e. not imposed by an external force) of the non-monetary motivation that makes the blood donor willing to donate. Likewise, non-monetary motivations of intrinsic nature can activate monetary public effects (e.g. increase the economic efficiency of markets) as well as non-monetary impacts, such as cooperative behavioural patterns. Such public impacts do not have a monetary equivalent that can be compensated for a price (since individuals would not respond to it)<sup>6</sup>.

Exclusion—even if compensated by monetary rewards—would specifically damage non-monetary motivations of the intrinsic nature, which represent an important element of the functioning of social service provision, social enterprises and third sector organisations more broadly<sup>7</sup>. Exclusion

<sup>6</sup> This point adds to transaction costs analysis, which considers non-monetary motivations and their benefits strictly in terms of their *internal* effects, i.e. when pro-social motivations reduce transaction costs inside the organisation (e.g. in Borzaga and Tortia, 2010; or Tortia et al., 2014).

<sup>7</sup> For example, non-monetary intrinsic motivations are often present among third-sector entrepreneurs and workers. Hendy and Katz (1998) and later on Borzaga and Tortia (2006) show, in this respect, that this type of motivations supports efficiency over and above the effect of monetary incentive systems. Within the organisation, non-monetary pro-social motivations compensate for lower salaries and volunteer work, thus allowing users to obtain services at more



reduces the feeling of “counting” and, in doing so, the non-monetary intrinsic motivations of excluded patrons (e.g. workers, volunteers, users). Moreover, exclusion—by recurring to monetary compensation—would also play a role in weakening non-monetary values in society (non-monetary, systemic negative externalities). The relationship between lack of authentic motivation and exclusion has been maintained following the contributions of Deci and Ryan in psychology, who observed that “human beings can be proactive and engaged or, alternatively, passive and alienated, largely as a function of the social conditions in which they develop and function” (Deci and Ryan, 2000: 68). Such conditions include being in control of the goals, the processes and the outcomes of activities, being acknowledged and feeling competent whilst doing this, and related to others who share similar values and aims. This means, in the case of service provision, that stakeholders share a common entrepreneurial project where each of them is included rather than excluded from the governance of production and from production choices.

## **6. Multi-stakeholder governance**

Building on Marglin’s study of the modern production organisation, we could say that also in social services the most important innovation is not technological, but organisational. The pyramidal hierarchy of the modern enterprise (whether ownership is public or private) is increasingly substituted by a heterarchy of patrons (more consistent, also in terms of production organisation, with craft production where master, apprentice and client can interact at different levels of the production process). This innovation happened in the first place, through the creation of cooperative governance solutions which could have involved actors with diverse interests, think for example about 19th century community cooperatives that provided goods or services in reply to the needs of territorially defined communities (cf. Mori, 2014). Even if after these initial experiences cooperative governance has been typically designed to advance the interests of one patron at the time (whether the consumer/user, the producer, the worker), still the initial use of the cooperative form for the production of social services and of general interest supported the development of a more advanced form, which is capable of including multiple interests.

A current example of how the inclusive governance model can be applied is provided by multi-stakeholdership (Pestoff, 2012). Consider, for example, recent multi-stakeholder cooperatives. These are owned and/or controlled by a variety of patrons (such as workers, public bodies, volunteers, suppliers, users). The inclusion of stakeholders is a challenging process for organisations, which requires, amongst other things, re-thinking the governance structure and the decision-making praxis. Using original survey data (ICSI Database, 2007) on an Italian form of social enterprise (the social cooperative) Borzaga et al. (2011) have undertaken an effort to map the governance status of Italian social enterprises. They evidence that nearly 80 percent of enterprises providing personal, social and work integration services feature some form of multiple stakeholder involvement. Specifically, one out of three social enterprises (34 percent) are multi-stakeholder (albeit, as the authors notice, users are included in the membership by one out of 10 social

---

accessible prices (monetary patron-specific effect). At the same time, non-monetary motivations can reduce opportunism within the organisation and across the value chain, thus lowering transaction costs and increasing economic efficiency (monetary systemic effect).



enterprises only), 29 percent are hybrid organisations with multiple membership but with a single stakeholder (workers) represented in the board of directors, 16 percent have a dual stakeholdership (including workers and volunteers), whilst the remaining 21 percent are mono-stakeholder (workers) social enterprises. Borzaga and Depedri (2014) have further noticed that users (i.e. disadvantaged workers) are members in the majority of social cooperatives that provide work integration services (across sectors, e.g. environmental maintenance, manufacturing), whilst the remaining cooperatives (typically providing assistance and educational services) tend not to involve users (ibid.). These findings also show that the involvement in the membership of other organisations (e.g. public administration units) is unusual. Rather, what is rising is the involvement in the membership of other social cooperatives (with whom, we would say, a commonality of values, practices and aims exists). These first general findings point at the need to discover more about diverse forms of inclusion—which must be suitable for stakeholders with different needs, knowledge and experiences—considering, for example, participation in the board, with or without ownership.

Consistently, specific case studies highlighting the most innovative experiences in the governance of social enterprise seem to support the view that the evolution of multi-stakeholder organisations can be explained by the efficiency gains associated with lower exclusion; but also with productivity and other efficiency gains that come from stakeholders' non-monetary intrinsic motivations, which have been argued to reduce agency costs and increase innovation (Borzaga and Tortia, 2006). Sacchetti and Tortia (2014), for example, show how a dynamic and inclusive approach to the governance of social enterprises can capitalise on the knowledge of multiple patrons by involving them as owners (e.g. disadvantaged workers and volunteers) and/or by including them in the board of directors (e.g. public administration, job centres, clients and suppliers, parent associations). Multi-stakeholdership, in this case, historically emerges from an evolving “percorso” during which a growing network of stakeholders embeds socio-economic activities in the locality and contributes to give space to community interests.

In other cases, multi-stakeholdership is the product of a more formal institutional framework, or a mix of the two, i.e. when law reflects successful organisational experiences. In fact, similar organisations in other countries follow the principles of a mixed membership approach because required by law. For example, the French law on SCIC (Société Coopérative d'Intérêt Collectif) provides for three types of members being represented in the board: workers and beneficiaries, plus a third category to be nominated. In some cases, public administration or private for-profit organisations can also be members of a social enterprise, e.g. in France and in Spain.

To interpret this diversity of approaches we advance some criteria to assess, in the first place, when multi-stakeholdership is sustainable and when it can work.

### *6.1 Processes: The Deliberative Nexus*

We have argued that, especially in the case of personal and social services, demand and supply-side actors interact to the point of becoming blurred categories. In this context, multi-stakeholdership represents a coordination mechanism that institutionalises cooperation through the governance structure of the organisation, as an alternative to market and hierarchical coordination. As mentioned, multi-stakeholder structures can be initiated spontaneously as a form of organisational innovation and then spread across the sector, or be shaped by legal requirements. The challenge for

multi-stakeholder organisations is then one of creating an organisational space that is conducive to cooperation and that is effective in achieving its social goals. This issue clearly requires a consideration of *how* stakeholders with diverse but potentially convergent interests could interact consistently with the idea of multi-stakeholdership presented so far.

If we think about the meaning of “interest” we can recognise its Latin origins, which are made of two distinct words: *inter* and *est*, meaning that what concerns individual actors or groups of patrons is “what exists in between” or what places us in relation with others. The meaning of the word itself sheds light on the mistaken interpretation of the way organisational, and individual interests more generally, have been framed in economic analysis. In effects, as noticed in Sacchetti (2013), the etymology of the word interest excludes the private-public dichotomy of prevalent economic approaches and emphasises that interests are relational or, in other words, that they are not exclusively the interests of those who express them, but also the interests of all those who come into contact with their expression. Therefore, given the inter-subjective nature of interests, we can interpret the workings of multi-stakeholder governance as a space populated by multiple actors and where the relational nature of each patron’s interests becomes explicit. This process is allowed through a nexus of deliberation which serves the purpose of dynamically identifying the needs, processes, outcomes and impacts of production. The nexus is populated by a multiplicity of actors across sectors (civil society, public sector, private for-profit, private not-for-profit) who recognise the value of shared access to decision-making and cooperation. Experience shows that stakeholders can enter the nexus as owners (by which previously excluded stakeholders become active patrons and share property costs) and/or through participation in the board.

The existence of the nexus depends on the disposition of patrons to cooperate, reciprocate and share decision-making for the production of social value. We hypothesise that, in the nexus, convergence over decisions can be largely related to reciprocity, whereby patrons share an initial willingness to reach consensus (albeit they may not agree on the final decision). They do this knowing that there is a common awareness amongst participants that forsaken needs at a particular point in time will be acknowledged in the future, as soon as the possibility emerges. As deliberation brings participants towards convergence during the decision-making process, the equilibrium amongst the different needs is achieved internally to the nexus rather than being reached through the market, or other types of exclusive exchanges, or public authority via a bureaucratic hierarchy or else being transformed into a negative externality. In this sense, with deliberation there is no teleology of ends, save for the fact that the method of interaction of the enterprise is plural. Likewise, surplus allocation is defined through the cooperative solutions achieved by patrons by using the deliberative process.

Reciprocity among patrons in the allocation of surplus is supported also by institutionalised forms of democratic governance (e.g. one head one vote, in the case of social cooperatives). One of the first definitions of social enterprise to appear in the European context—the EMES definition—paired explicitly stakeholder inclusion and forms of democratic governance (Borzaga and Defourny, 2001; Defourny and Nyssens, 2010)<sup>8</sup>, emphasising that “an ‘ideal-typical’ social

---

<sup>8</sup> A working definition used by the EMES network summarises the elements of social enterprises and entrepreneurship: “Social enterprises are not-for-profit private organizations providing goods or services directly related to their explicit aim to benefit the community. They rely on a collective dynamics involving various types of stakeholders in their governing bodies, they place a high value on their autonomy and they bear economic risks linked to their activity” (Defourny and Nyssens, 2008: 204).

enterprise could be seen as a multiple-goal, multi-stakeholder and multipleresource enterprise” (Defourny and Nyssens, 2010: 43). Likewise, reciprocity feeds on transparent processes, improved accountability and reporting since they improve accuracy when it comes to assessing participants’ contribution, supporting informed and fair decisions on resource allocation.

## **7. Outcomes: Innovation and surplus distribution in multi-stakeholder social enterprises**

The distribution of surplus is an indicator of the quality of outcomes that the organisation aims at achieving. Surplus distribution can be expected to observe a different pattern (clearly with respect to standard mono-stakeholder organisations) when the organisation is multi-stakeholder and adopts a deliberative approach to decision-making.

Let us consider first the meaning of surplus in social services and in particular for the social enterprise. Here surplus (or rent) is the return to social innovation, which can be seen as an outcome of the entrepreneurial activity. The difference with the conventional view of the process that leads to innovative outcomes is that entrepreneurial activity, in our approach, is associated with the participation of multiple patrons by means of shared ownership and deliberative praxis. Surplus is an outcome generated when the price of the service is greater than the cost of production, partly because the coordination of multiple patrons can find ways to keep the costs of participation low, and partly because production and entrepreneurial activity may benefit from the presence and involvement of volunteers at low costs (e.g. recruitment and training costs)<sup>9</sup>, workers and users.

Differently from the mono-stakeholder enterprise where the objective is identified with the interests of the controlling patron, in the multi-stakeholder enterprise objectives, and therefore the destination of surplus, are not fully predictable. The patrons towards whom surplus is directed vary depending on the type of service provided and, within each enterprise, according to the patrons involved in the decision-making process. This is a crucial difference with respect to the mono-stakeholder notion of the firm where there is one specific stakeholder whose utility is to be maximised.

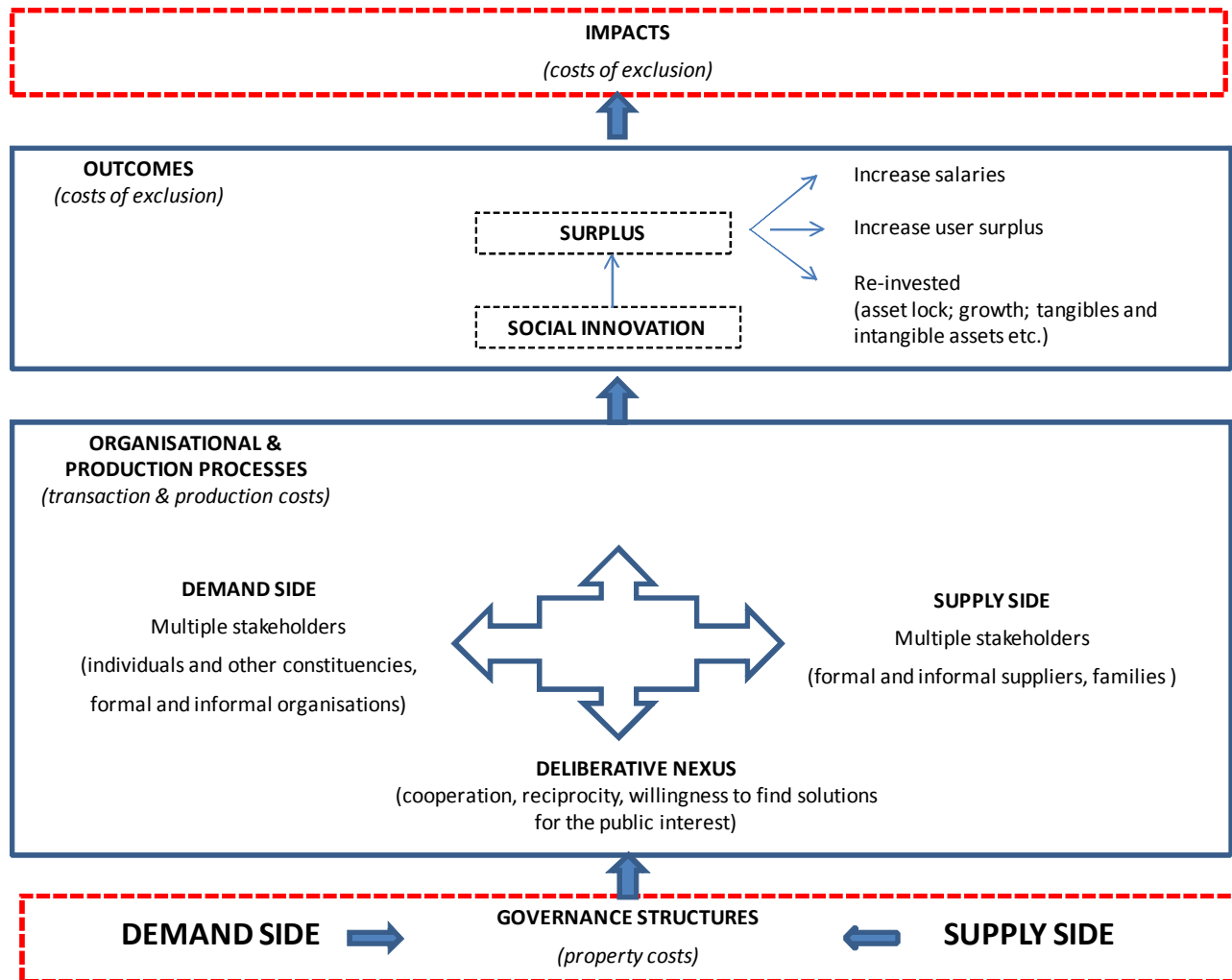
The deliberative nexus specifically allows balancing the allocation of surplus amongst these possible different destinations. It is because of the possible allocations and functions that rent works as a generator of social value, in terms of workers’ material welfare, user surplus, accessibility and service quality. Since multiple patrons are part of the deliberative nexus, rent allocation reflects a variety of needs and contributes to lower uneven access to opportunities and social exclusion. For example, in social enterprises (which are, as a norm, not-for-profit) decision-makers can opt for income distribution by transferring the surplus to users, who pay  $\{p \leq \text{cost}\}$  at least for some categories of users. Again, using the ICSI Database on Italian social enterprises mentioned in the previous Section, Borzaga et al. (2011) show evidence of the distributive activity of social cooperatives which happens mostly by setting prices lower than production costs or by promoting aspects of community development through public benefit policies. One interesting aspect of these results is that they show that multi-stakeholder enterprises exhibit a greater tendency to redistribute surplus towards users than mono-stakeholder enterprises. Otherwise, surplus can be redistributed to

---

<sup>9</sup> In the not-for-profit sector.

workers by increasing salaries, or be re-invested, or placed into an asset lock. Therefore, rent is either distributed to stakeholders or re-allocated in the firm's activities to induce further innovation (Figure 3). Bacchiega and Borzaga (2001) capture these aspects of surplus distribution by introducing the idea of “distributive function” of social cooperatives.

**Figure 3 – Surplus allocation in a nexus of deliberation**



Seen as a network of interacting actors with complementary experiences and competences, multi-stakeholdership is similar to a community-embedded “system of innovation”, whereby cooperation leads to increasing knowledge and understanding of persistent issues, and to the generation of ideas and possible solutions (Edquist, 2001). The way innovation emerges is through interaction, which is often practice-based especially in the case of personal and social services. This implies also a high degree of tacitness in the process which, as Dosi (1988) understands, originates “the permanent existence of *asymmetries* among firms, in terms of their process technologies and quality of output. That is, firms can be ranked as ‘better’ or ‘worse’ according to their distance from the technological frontier” (Dosi, 1988: 1155-1156). As mentioned, with multi-stakeholder organisations the crucial innovation is organisational, by which the inclusion of multiple interests and proximity of stakeholders enhances innovation. The governance structure is constructed to reflect complementarities, interdependence and to reduce knowledge asymmetries, enhancing—through

deliberation—enquiry and communicative processes, thus taking organisational features, production and outcomes closer to their technological frontiers.

Deliberation, in this respect, addresses the problem of bounded rationality and lock-in (David, 1985; Simon, 1999). Bounded rationality is reduced by means of enquiry and cooperation, whilst lock-in into inadequate behaviours or inefficient solutions is more easily identified and overcome through a systemic approach where solutions to problems and new ideas are found and implemented cooperatively across the nexus, linking all parts of the system with one another.

Multi-stakeholder governance is more likely to produce innovation since it is consistent with projects aimed at generating synergies across needs and services, thus possibly lowering the long-term cost of welfare services whilst benefiting society at large via non-monetary effects. Here we have in mind the capacity of multi-stakeholdership to recover resources that would go astray otherwise, such as volunteers and their entrepreneurial skills.

## 8. An inclusive model

From our analysis of impacts, governance, processes and outcomes we can now re-think the idea of control in production organisation. Economic theory justifies control by means of ownership rights and typically associates those with one category of stakeholders (Hansmann, 1996). In explaining the ownership of enterprises, Hansmann's law states that the efficient allocation of property rights occurs by minimising total costs: those related to ownership (CP) and those associated with the use of market contracting (CC). Given these costs, according to Hansmann, the ownership of the firm goes to the stakeholder who minimises the sum of the costs of market contracting (CC) and the costs of ownership (CP):

$$CP_j + \sum_{i=1}^{n-1} CC_i$$

Hansmann's model consistently explains mono-stakeholder organisations with respect to these two categories of costs whatever the nature of the patrons who own the firm. Non-conventional ownership spreads where interests are homogeneous (whether those are the interests of workers, farmers, consumers, partnerships of professionals, etc.) and the costs of contracting for non-investor stakeholders are high. In other words, homogeneity of interests is not sufficient. If the costs of contracting are low then the investor-owned enterprise would prevail (cf. Borzaga and Tortia 2005 for a critical review).

Differently, when stakeholders have heterogeneous interests, Hansmann's model predicts that property costs rise, since the alignment of aims requires greater coordination and monitoring. It follows, in Hansmann's model, that not all of the patrons can have a representation and a decision-making role in the board of directors. Albeit Hansmann does not consider multi-stakeholdership, his perspective would suggest that multi-stakeholder ownership is extraordinary costly and therefore economically impossible.

This claim, however, needs to be re-assessed in light of the costs of exclusion produced by mono-stakeholder organisations on specific publics and on society overall, which are not taken into account in Hansmann's seminal contribution. The costs of exclusion can be monetary or non-

monetary costs associated with the negative specific and systemic impacts of production activity. They can be assessed by looking, counterfactually, at what is lost by adopting a mono-stakeholder traditional approach with respect to the gains of a multi-stakeholder deliberative approach, such as value losses due to lower service quality and scantier capacity of supply to satisfy demand, loss of creativity and motivation, inability to recognise and address stakeholders' needs, loss of capabilities, persistent inequality, social exclusion. The historical evolution towards multi-stakeholdership can be taken as an indicator of the relevance of the social costs derived from exclusion. Moreover, against Hansmann's claim for homogeneity, the actualisation of successful experiences shows the potential marginality of coordination costs amongst heterogeneous stakeholders<sup>10</sup>. In addition, we can account for the benefits of complementary knowledge resources brought by heterogeneous actors.

We advance Hansmann's model by adding the costs associated with exclusion. Whilst price and quantity-related inefficiencies caused by ex-ante and ex-post market power are typically included among contractual costs (CC), the costs of exclusion (CE) consider specifically the social costs produced by specific and systemic effects (monetary and non-monetary), as in Figure 2. We assume that an enterprise (and especially an enterprise with social aims) must minimise not only the sum of contractual and ownership costs but also the sum of the costs of exclusion, whilst ensuring economic efficiency along the value chain. Given a number of stakeholders,  $N$ , who interact (directly or indirectly, informally or on a contractual basis) with the organisation, the integration of stakeholders (IS) into the governance structure minimises a function that includes property costs (CP), contractual costs (CC), and the negative external impacts produced or costs of exclusion (CE). To recapitulate, Hansmann's theory says that the best governance solution is the one that minimises total costs. However, his theory has not considered the presence of CE when assessing governance decisions.

We suggest that the choice of whether to include new stakeholders (IS) needs considering CP, CC and CE together.

$$\text{Min} \sum_{i=1}^n (CP_i + CC_i + CE_i)$$

Hansmann's theory suggests that CP increase in inclusion  $\left(\frac{\partial CP}{\partial IS} \equiv \partial CP_i > 0\right)$ . A rational decision maker, who wishes to pursue her needs consistently with the public interest, chooses the level of inclusion (IS\*) that minimises the total costs of the activity, for herself *and for others* (not least because this improves outcomes and reduces the costs of exclusion). Assuming that CC do not change across governance forms (albeit this may not be the case, since when the enterprise is non-profit contractual costs, e.g. costs associated with information asymmetries, could decrease as well) the decision-making criteria outlined above yields to the condition  $CP = CC + CE$ . It follows that, in our model, stakeholders are integrated in the governance structure of the organisation when

---

<sup>10</sup> To explain, we can hypothesise the existence of a learning curve that reduces the costs associated with the deliberative process over time. The process of finding consensus, where there can be conflicting interests, is facilitated by the establishment of rules that support reciprocity, cooperative practices and trust inside the organisation (Sacchetti and Tortia, 2014). Social enterprise, specifically, adopt a form of governance that reflects the deliberative idea. This is necessary because in the social enterprise objectives are complex and change in the long-run as a function of community needs.



$CP < (CC + CE)$ . This means that stakeholders are included until CP are lower than the sum of CC and CE or, given CC, when CP are lower than CE.

So conceived, the internalisation of multiple patrons in the governance of the organisation has the effect of reducing exclusion from strategic choice. It follows that multi-stakeholder governance can be often found in all those activities characterised by high social costs and strategic failure because of its higher efficiency (albeit on a pure abstract, theoretical ground, it should always prevail in a world of rational agents). Rather than compensating social costs (as in the theory of externalities) the aim is to avoid their production.

## 9. Concluding remarks

The study of multi-stakeholdership (and multi-stakeholder social enterprises in particular) is only at the start. Entrepreneurial choices which have emerged spontaneously, as well as the first legal frameworks approved in this direction, lack an adequate theoretical support. The debate itself is underdeveloped, as the existing understanding of organisations and their aims resist an inclusive, public interest view of enterprise. Our contribution has aimed at enriching the thin theoretical reflections on multi-stakeholdership, in a context where they are already established, i.e. that of social and personal services.

Social costs, in our model, are not a transitory feature of conventional market organisations or of the public sector but an intrinsic consequence of exclusive processes determined by conventional mono-stakeholder approaches, related governance and incentive system (Borzaga and Tortia, 2005; Zamagni, 2005). In order to reduce social costs is therefore necessary to act on governance structures and decision-making processes, moving away from conventional mono-stakeholder forms based on bureaucratic coordination (whether the organisation is privately or publicly owned) towards multi-stakeholder organisations based on deliberative praxis. It follows that inclusive governance and deliberation do not have a transitional character but represent specific solutions which recognise the complexity and richness of public interests and of production structures (as described by the social value chain), with the aim of addressing multiple welfare aspects.

The key insight of this work is that, differently from major interpretations, property costs should be compared with a more comprehensive range of costs, such as the social costs that emerge when the supply of social and personal services is insufficient or when the identification of aims and means is not shared amongst stakeholders. Our model highlights that when social costs derived from exclusion are high, even an enterprise with costly decisional processes, such as the multi-stakeholder, can be the most efficient solution amongst other possible alternatives. The answer we indicate to the persistence of social costs is to design inclusive governance solutions that are consistent with deliberative processes and shared decision-making power, aimed at reducing the negative impacts whilst amplifying the positive ones. Making these interactions explicit is bound to generate new ways of integrating the competences and needs coming from multiple actors. In other words, multi-stakeholder governance is more likely to fulfil stakeholder-specific and societal needs. Integrated solutions to heterogeneous interests require a form of multi-stakeholder governance which relies on the deliberative praxis amongst patrons who demand and supply the service, across production phases and sectors of activities.

## References

- Alfieri, R. (2007) *Le idee che nuocciono alla sanità e alla salute*. Milano: Franco Angeli.
- Amabile, T. M. (1997) Motivating Creativity in Organizations: On Doing What You Love and Loving What You Do, *California Management Review*, 40(1), 39-58. <http://dx.doi.org/10.2307/41165921>
- Arrow, K. (1970) Political and Economic Evaluation of Social Effects and Externalities, in J. Margolis (Ed.) *The Analysis of Public Output*, UMI, pp. 1-30.
- Bacchiaga, A. & Borzaga, C. (2001) Social enterprise as an incentive structures, in C. Borzaga and J. Defourny (Eds.) *The Emergence of Social Enterprise*. London: Routledge, pp. 273-95.
- Ben-Ner A. (1986) Nonprofit Organizations: Why Do They Exist in Market Economies?, in Rose-Ackennan, S. (Ed.). Oxford: Oxford University Press, pp. 94-113.
- Ben-Ner, A. & Van Hoomissen, T. (1991) Nonprofit Organizations in the Mixed Economy: A Demand and Supply Analysis, *Annals of Public and Cooperative Economics*, 62(4): 519-550. <http://dx.doi.org/10.1111/j.1467-8292.1991.tb01366.x>
- Best, M. H. (1990) *The New Competition. Institutions of Industrial Restructuring*. Cambridge (Mass.): Harvard University Press.
- Bianchi, P. (1991) *Produzione e potere di mercato*. Roma: Ediesse.
- Billis, D. & Glennerster, H. (1998) Human Services and the Voluntary Sector: Towards a Theory of Comparative Advantage, *Journal of Social Policy*, 27(1): 79-98. <http://dx.doi.org/10.1017/S0047279497005175>
- Borzaga, C. & Defourny, J. (Eds.) (2001) *The Emergence of Social Enterprise*. London and New York: Routledge.
- Borzaga, C., Depedri, S. & Tortia, E. C. (2011) Testing the Distributive Effects of Social Enterprises: The Case of Italy, in L. Sacconi & G. Degli Antoni (Eds.) *Social Capital, Corporate Social Responsibility, Economic Behaviour and Performance*. New York: Palgrave Macmillan, pp. 282-303.
- Borzaga, C. & Depedri, S. (2013). When social enterprises do it better: efficiency and efficacy of work integration in Italian social cooperatives, in S. Denny & F. Simmon (Eds.) *Social Enterprises. Accountability and Evaluation around the World*. London: Routledge, pp. 85-101.
- Borzaga, C. & Depedri, S. (2014). Multi-stakeholder governance in Civil Society Organizations: Models and Outcomes. University of Trento and Euricse, mimeo.
- Borzaga, C. & Fazzi, L. (2014) Civil Society, Third Sector, and Healthcare: The Case of Social Cooperatives in Italy, *Social Science and Medicine*, 123: 234-241. <http://dx.doi.org/10.1016/j.socscimed.2014.10.001>
- Borzaga, C. & Tortia, E. C. (2005) Dalla cooperazione mutualistica alla cooperazione per la produzione di beni di interesse collettivo, in E. Mazzoli & S. Zamagni (a cura di) *Verso una nuova teoria economica della cooperazione*. Bologna: Il Mulino, pp. 225-268.
- Borzaga, C. & Tortia, E. C. (2006) Worker Motivations, Job Satisfaction, and Loyalty in Public and Non-Profit Social Services, *Nonprofit and Voluntary Sector Quarterly* 35(2): 225-248. <http://dx.doi.org/10.1177/0899764006287207>
- Borzaga, C. & Tortia, E. C. (2010) The Economics of Social Enterprises, in L. Becchetti & C. Borzaga (Eds.) *The Economics of Social Responsibility. The World of Social Enterprises*. London: Routledge, pp. 15-33.
- Brophy, J. (1994) Parent Management Committees and Pre-School Playgroups: The Partnership Model and Future Management Policy, *Journal of Social Policy*, 23(2): 161-194. <http://dx.doi.org/10.1017/S0047279400021619>
- Cheung, S. N. S. (1973) The Fable of the Bees: An Economic Investigation, *Journal of Law and Economics*, 16(1): 11-33. <http://dx.doi.org/10.1086/466753>



- Coase, R. (1960) The Problem of Social Cost, *Journal of Law and Economics*, 3: 1-44. <http://dx.doi.org/10.1086/466560>
- Cornes, R. & Sandler, T. (1996) *The Theory of Externalities, Public Goods and Club Goods*. Cambridge: Cambridge University Press (Second Edition). <http://dx.doi.org/10.1017/CBO9781139174312>
- Cornforth, C. (2012) Nonprofit Governance Research: Limitations of the Focus on Boards and Suggestions for New Directions, *Nonprofit and Voluntary Sector Quarterly*, 41(6):1117-36. <http://dx.doi.org/10.1177/0899764011427959>
- Cowling, K. & Sugden, R. (1994) *Beyond Capitalism. Towards a New World Economic Order*. London: Pinter Publishers. <http://dx.doi.org/10.1111/1467-9957.00089>
- Cowling, K. & Sugden, R. (1998). The essence of the modern corporation: markets, strategic decision-making and the theory of the firm. *The Manchester School*, 66(1): 59-86.
- Dahl, R. A. (1985) *A Preface to Economic Democracy*. Berkeley: University of California Press.
- David, P. (1985) Clio and the Economics of QWERTY, *American Economic Review*, 75(2): 332-337.
- Deci, E. L., & Ryan, R. M. (2000) The 'what' and 'why' of goal pursuits: human needs and the self-determination of behavior, *Psychological Enquiry*, 11(4): 227-268. [http://dx.doi.org/10.1207/S15327965PLI1104\\_01](http://dx.doi.org/10.1207/S15327965PLI1104_01)
- Deci, E. L. & Ryan M. R. (2008) Self-determination theory: A macrotheory of human motivation, development, and health, *Canadian Psychology/Psychologie canadienne*, 49(3): 182-185. <http://dx.doi.org/10.1037/a0012801>
- Defourny, J. & Nyssens, M. (2008) Social Enterprise in Europe: Recent Trends and Developments, *Social Enterprise Journal*, 4 (3): 202-228. <http://dx.doi.org/10.1108/17508610810922703>
- Defourny, J. & Nyssens, M. (2010) Conceptions of Social Enterprise and Social Entrepreneurship in Europe and the United States: Convergences and Divergences, *Journal of Social Entrepreneurship*, 1(1): 32-53. <http://dx.doi.org/10.1080/19420670903442053>
- Dewey, J. (1927) *The Public and its Problems*. Denver (CO): Holt.
- Dosi, G. (1988) Sources, Procedures and Microeconomic Effects of Innovation, *Journal of Economic Literature*, 26: 1120-1171.
- Edquist, C. (2001) Systems of Innovation, in J. Michie (Ed.) *A Reader's Guide to the Social Sciences*. London: Fitzroy Dearborn, Routledge.
- Frey, B. S., & Jegen, R. (2000) Motivation Crowding Theory: A Survey of Empirical Evidence, *CESifo Working Paper*, No. 245/2000.
- Gereffi, G. (1994) The organisation of buyerdriven global commodity chains: how US retailers shape overseas production networks, in Gereffi, G. & Korzeniewicz, M. (Eds.) *Commodity Chains and Global Capitalism*. Westport, CT: Praeger, pp. 95-122.
- Grady, D. & Redberg, R. F. (2010) Less Is More: How Less Health Care Can Result in Better Health, *Arch Intern Med*, 170(9): 749-750. <http://dx.doi.org/10.1001/archinternmed.2010.90>
- Habermas, J. (1998) The Inclusion of the Other: Studies in Political Theory, in Cronin, C. & De Greif, P. (Eds.) Cambridge (Mass.): MIT Press, pp. 165-202.
- Handy, F. & Katz, E. (1998) The Wage Differential Between Nonprofit Institutions and Corporations: Getting More by Paying Less?, *Journal of Cooperative Economics*, 26(2): 246-261. <http://dx.doi.org/10.1006/jcec.1998.1520>
- Hansmann, H. (1996) *The Ownership of the Enterprise*. Harvard, MA: Harvard University Press.
- Hymer, S. (1972) The Multinational Corporation and the Law of Uneven Development, in Bhagwati, J. N. (Ed.) *Economics and the World Order from the 1970 to the 1990s*. London: Collier-Macmillan, pp. 113-40.

- Hirschman, A. O. (2002) *Shifting Involvements: Private Interests and Public Action*. Princeton: Princeton University Press.
- Kanter, R-M. (1989) *When Giants Learn to Dance*. New York: Simon and Schuster.
- Kaplinsky, R. (2000) Spreading the gains from globalisation: what can be learned from value chain analysis?, *IDS Working Paper*, n. 110.
- Kendall, J. & Knapp, M. (2000) Measuring the Performance of Voluntary Organizations, *Public Management*, 2(1): 105-132. <http://dx.doi.org/10.1080/146166700360181>
- Langlois, R. (1996) The Coevolution of Technology and Organization in the Transition to the Factory System, Department of Economics Working Paper Series, No. 1996-04, University of Connecticut.
- Marglin, S. (1974) What Do Bosses Do? The Origins and Functions of Hierarchy in Capitalist Production, *Review of Radical Political Economics* 6(2): 60-112.
- Marglin, S. (2008) *The Dismal Science*. Cambridge (Mass.): Harvard University Press.
- Marx, K. (1867) *Capital*, Vol. 1: A critique of Political Economy (translation by Ben Fowkes). New York: Vintage Books, 1977.
- Maslow, A. H. (1943) A theory of human motivation, *Psychological Review*, 50(4): 370-396. <http://dx.doi.org/10.1037/h0054346>
- Meade, J. E. (1952) External Economies and Diseconomies in a Competitive Situation, *Economic Journal* 62(245): 54-67. <http://dx.doi.org/10.2307/2227173>
- Meade, J. E. (1979) *The Theory of Economic Externalities: The Control of Environmental Pollution and Similar Social Costs*. Leiden: Sijhoff.
- Mintzberg, H. (1983) The Case for Corporate Responsibility, *Journal of Business Strategy*. 4(2): 3-15. <http://dx.doi.org/10.1108/eb039015>
- Mori, P. A. (2013) Customer Ownership of Public Utilities: New Wine in Old Bottles, *Journal of Entrepreneurial and Organizational Diversity (JEOD)*, 2(1): 54-74. <http://dx.doi.org/10.5947/jeod.2013.004>
- Mori, P. A. (2014) Community and Cooperation: The Evolution of Cooperatives towards New Models of Citizens' Democratic Participation in Public Services Provision, *Annals of Public and Cooperative Economics*, 85(3):327-352. <http://dx.doi.org/10.1111/apce.12045>
- Ostrom, E. (1996) Crossing the Great Divide: Coproduction, Synergy and Development, *World Development* 24(6): 1073-87. [http://dx.doi.org/10.1016/0305-750X\(96\)00023-X](http://dx.doi.org/10.1016/0305-750X(96)00023-X)
- Pateman, C. (1970) *Participation and Democratic Theory*. Cambridge: Cambridge University Press. <http://dx.doi.org/10.1017/CBO9780511720444>
- Pestoff, V. (2012) Co-production and Third Sector Social Services in Europe: Some Concepts and Evidence, *Voluntas*, 23(4): 1102-18. <http://dx.doi.org/10.1007/s11266-012-9308-7>
- Pigou, A. C. (1952) *The Economics of Welfare*. London: Macmillan & Co.
- Piore, M. & Sabel, C. F. (1984) *The Second Industrial Divide*. New York: Basic Books.
- Porter, M. E. (1990) *The Competitive Advantage of Nations*. London: Macmillan.
- Porter, M. E. & Kramer, M. R. (2006), Strategy and society. The link between competitive advantage and corporate social responsibility, *Harvard Business Review*, December, pp. 78-93.
- Putnam, R. D. (2000) *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon and Schuster. <http://dx.doi.org/10.1145/358916.361990>
- Rogers, G., Finley, D. S. & Galloway J. R. (2001) *Strategic Planning in Social Service Organizations: A Practical Guide*. Toronto, Ontario: Canadian Scholars' Press.
- Sacchetti, S. (2004) Knowledge Caps in Industrial Development, *New Political Economy*, 9(3):389-412. <http://dx.doi.org/10.1080/1356346042000259848>

- Sacchetti, S. (2013) Inclusive and exclusive social preferences: A Deweyan framework to explain governance heterogeneity, *Journal of Business Ethics*, 126: 473-485. <http://dx.doi.org/10.1007/s10551-013-1971-0>
- Sacchetti, S. & Campbell, C. (2015) Creating Space for Communities: Social Enterprise and the Bright Side of Social Capital, *Journal of Entrepreneurial and Organizational Diversity (JEOD)*, 3(2): 32-48. <http://dx.doi.org/10.5947/jeod.2014.012>
- Sacchetti, F., Sacchetti, S. & Sugden, R. (2009) Creativity and Socio-Economic Development. Space for the Interests of Publics. *International Review of Applied Economics*, 23(6): 653-672. <http://dx.doi.org/10.1080/02692170903239846>
- Sacchetti, S. & Sugden, R. (2009) The Organization of Production and its Publics: Mental Proximity, Market and Hierarchies, *Review of Social Economy*, 67(3): 289-311. <http://dx.doi.org/10.1080/00346760802621906>
- Sacchetti, S. & Tortia, E. C. (2014) The social value of multi-stakeholder co-operatives: The case of the CEFF system in Italy, in T. Mazzarol, S. Rebooud, E. M. Limnios, & D. Clark (Eds.) *Research Handbook on Sustainable Co-operative Enterprise: Case Studies of Organisational Resilience in the Co-operative Business Model*. Cheltenham: Edward Elgar, pp. 285-302. <http://dx.doi.org/10.4337/9781783472024.00025>
- Sen, A. (2002) *Rationality and freedom*. Cambridge (Mass.): Harvard University Press.
- Simon, H. A. (1999) The Many Shapes of Knowledge, *Revue d'Economie Industrielle*, 88(2): 23-41. <http://dx.doi.org/10.3406/rei.1999.1743>
- Smith, A. (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations*, Edimburgh. Italian translation: (1995) *La ricchezza delle nazioni*. Roma: Newton.
- Sugden, R. & Wilson, J. (2002) Economic Development in the Shadow of the Consensus: A Strategic Decision-Making Approach, *Contributions to Political Economy*, 21(1):111-134. <http://dx.doi.org/10.1093/cpe/21.1.111>
- Titmuss, R. M. (1970) *The Gift Relationship*. London: Allen and Unwin.
- Tortia, E. C., Borzaga, C., & Depedri, S. (2014) Organizational Variety in Market Economies and the Emergent Role of Socially Oriented Enterprises, in J. Defourny, L. Hulgård & V. Pestoff (Eds.) *Social Enterprise and the Third Sector. Changing European Landscapes in a Comparative Perspective*. London: Routledge, pp. 85-101.
- Weisbrod, B. (1988) *The Non-Profit Economy*. Cambridge Mass: Harvard University Press.
- Wei-Skillern, J., Austin, J. E., Leonard, H. & Stevenson, H. (Eds.) (2007) *Entrepreneurship in the Social Sector*. London: Sage.
- WHO & the Government of South Australia (2010) The Adelaide Statement on Health in All Policies: moving towards a shared governance for health and well-being. *Health Promotion International*, 25(2): 258-260. <http://dx.doi.org/10.1093/heapro/daq034>
- Zamagni, S. (2005) *Per una nuova teoria economica della cooperazione*. Bologna: Il Mulino.