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**THE ROLE OF COOPERATIVE AND SOCIAL ENTERPRISES:
A MULTIFACETED APPROACH FOR AN ECONOMIC PLURALISM**

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The role of cooperative and social enterprises: A multifaceted approach for an economic pluralism

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Abstract

To date, the dominant economic approaches have downplayed and marginalised the role of cooperative and social enterprises in contemporary market economies. This insufficient attention derives from the limited applicability to the case of cooperative and social enterprises of two of the main assumptions of orthodox microeconomic theory: the presence of only 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 cooperative and social enterprises. An explanation for the persistence and growth of these organisational types has not been provided by institutional theory either. We thus maintain that the assumptions of the main theoretical models must be enlarged and deepened in order to improve the scientific understanding of cooperatives and social enterprises. Individuals as well as institutions can no longer be characterised as purely self-interested and profit maximizers. Instead, the importance of motivational complexity and the diverse nature of preferences needs to be introduced in the model as suggested by the behavioural approach. Diverse motivations must be assumed to drive both individual and organisational decisions. Furthermore, firms can also be conceived as coordination mechanisms of economic activities, as suggested by the evolutionary approach. To this end, they develop specific organisational routines and their objectives can be diverse, ranging from purely private appropriation, to public benefit aims supported by altruistic preferences.

Keywords: Cooperatives, social enterprises, organizational pluralism, economic theories

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1. Introduction

Cooperative 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, cooperative 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 cooperatives). 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. Their governance structure is similar to that of entrepreneurial non-profit organisations, as analysed by the most specialised literature (Weisbrod, 1977, 1988; Hansmann, 1980, 1988, 1996; Borzaga and Defourny, 2001).

Research concerning cooperatives 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 played in the past twenty years by cooperatives and social enterprises in the production of innovative services of general interest, or the results achieved by credit cooperatives during the past ten years, and particularly during the recent financial crisis.

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; Hansmann, 1996). The positive role of cooperative and social enterprises is recognised only in limited cases—e.g., 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 (e.g. under-provision of public goods).

There are various reasons for this contradiction. First, many studies on cooperatives and social enterprises have been based on approaches that were too generic and ideological. For example, supporters of cooperatives and social enterprises have stressed solidarity, altruism and reciprocity as values informing the work of these organisations. These values are at the root of their democratic principles, and of the socialised nature of the added value they generate. However, values and ideology alone cannot explain the increasing economic and social role of cooperatives and social enterprises, or their efficiency and long-term sustainability. They also cannot be indistinguishably applied to all forms of cooperative and social enterprises (Borzaga and Tortia, 2010). Rather, a suitable interpretative framework is needed in order to properly evaluate their nature and their role in modern economic systems.

The underestimation of the role of cooperative and social enterprises has also been reinforced by the difficulties in drawing general results from investigations and studies that frequently consider only specific sectors or geographical areas. The lack of shared objectives among researchers and specialised research institutions has hindered a coherent development of a doctrine and empirical research on these organisations. The predominant tendency has been to consider specific forms of cooperatives or social enterprises, often starting from highly 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. Moreover, cooperatives and social enterprises 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 characterize cooperative and social enterprises. Not surprisingly, then, the dominant theories are unable to explain the emergence and evolution of these forms of enterprise and interpret their distinctive features.

In light of these considerations, this paper aims to underline the shortcomings of the dominant economic approach to the study of cooperative and social enterprises and to suggest how some results emerging from the newest economic studies could help to deepen the understanding of the specific features of these forms of enterprises. Section two better explains the need for a re-thinking of the role of cooperative 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 utilizing new approaches, specifically referring to behavioural and evolutionary theory definitions of cooperative and not-self-interested behaviours and institutions. The paper concludes with some suggestions for researchers and policy-makers.

2. Re-thinking the role of cooperatives 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 evolution of cooperative and social enterprises: the increased presence and economic weight of cooperatives in some of the sectors in which they have operated for many years, such as agriculture and credit; the increasing importance of the general interest services sector; and the birth, development and progressive recognition of different forms of social enterprise. Moreover, cooperative and social enterprises have proven better able than traditional public and private firms to coordinate collective action and to manage common pools of resources (Ostrom, 1994). This means that cooperative and social enterprises are able to generate, motivate and govern the interaction of their stakeholders in sharing and pursuing the organisational mission.

The current economic crisis has made a re-thinking of the role of organisations and enterprises which pursue goals other than profit-maximization 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 cooperatives and credit unions have been recently recognised as intermediaries that were not involved or were involved to a significantly lesser extent in the credit crunch that brought financial markets 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 cooperatives, with the objective of building a plural economic system with several pillars". The same thesis has been put forward by other scholars, who usually identify cooperative and social enterprises (and in general, the diverse types of not-for-profit 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 promotion of constructive collaboration and trust behaviours. To these assertions can be added those of the economic policy-makers, who insist on the need to build a "better world" based on "more ethical private behaviour", or on the "subordination of interests to values" developed by "everybody together".

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

The re-thinking of the nature, features, and roles of the different enterprise types entails a revision of conventional interpretations and consolidated legal and institutional systems. Stiglitz (2009) states this very clearly in regard to economists when he argues that "We ... have focused too long on one particular model, the profit maximizing firm, and in particular a variant of that model, the unfettered market. We have seen that that model does not work, and it is clear that we need alternative models. We need also to do more to identify the contribution that these alternative forms of 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 cooperatives as amongst the main collectors and enforcers of trust relations; or to the political scientists who have generally underestimated the contribution that these organisational and entrepreneurial forms may make to the workings of democracy in producing social inclusion and a more effective implementation of participatory rights.

These arguments suggest clear directions for future economic and social research. Specification is required regarding how cooperative and social enterprises can contribute to the creation of this “better world”. For example, closer examination of their features 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 approach assumes that efficiency of organisations (similarly to that of countries) must be enlarged from the evaluation of only private benefits to also mutual-benefits and public benefits.

3. The prevalent economic approaches and their limits

Elaborating new interpretive and analytical frameworks that can provide an effective understanding of cooperative and social enterprises, also in terms of policy implications, requires starting from traditional approaches to the study of economics. In this section we will examine the most orthodox approaches, i.e. the neoclassical and the new-institutionalist, which have dealt with cooperative and social enterprises.

3.1. The orthodox approaches

The 1900s were dominated by the idea that the best way to organize the production of goods and services so that general development and well-being could be obtained in the most efficient way was to allocate this task to two sole actors: the market and the state. The former – understood in highly restrictive terms as the set of competing for-profit firms – was entrusted with the production of the greatest possible quantity of private goods and services. The task of the latter was instead the production of public and collective goods, and the promotion of economic growth and development through the attainment of minimum income levels for the entire population. The state is thus recognised as having both a distributive 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 organized. Thus eliminated, at least in theory, was both the necessity and the usefulness of all those other actors – the community, the family, cooperatives, social enterprises, and other private non-profit organisations – inspired by the principles of mutuality or solidarity and widespread until the beginning of the 1900s. 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 or 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.

In a similar fashion, the concept of efficiency has been given to date an overly restrictive meaning. It has been understood as a purely technical concept mainly referring to the employed technologies and the optimal mix of inputs. The relevance of organisational efficiency has been underestimated by the inherited theories, with the notable exception of the concept of X-efficiency (Leibenstein, 1966). This is so because the most relevant concepts of efficiency took into consideration only the technical aspects of efficiency, while other aspects, such as the intrinsic and non-monetary motivations of the involved actors, and a broadly defined idea of well-being

were disregarded or marginalised. For example, the comparative analysis of different organisational and ownership forms has not been adequately developed. Consequently, objectives other than the maximisation of profit have been completely excluded from economic analysis. These reductive point of views have halted the explanatory potential even of the best known theories, which have not been able to give an adequate account of important phenomena, for example the growing socio-economic weight of non-profit organisations and social enterprises that often operate without supplying their stakeholders highly-powered monetary incentives. A more comprehensive theoretical framework should instead be able to properly take into account all of these elements: technological and financial factors, but also a rich variety of motivational drives, expressed preferences, and a general concept of well-being.

The distinction between the efficiency role of for-profit organisations and the distributive function of public agencies has therefore come to be exposed to various doubts about its sustainability. As a consequence, growing shortcomings in the prevailing economic and social models have been revealed, especially in recent years. Incomes increased in only some countries, under this model and such increases were not redistributed either among countries or among the citizens of the same country. And the model failed to do so even to the minimum extent necessary to eliminate the most acute forms of poverty: indeed, income inequalities have markedly increased in recent decades. Moreover, despite a constant increase in public spending, the supply of services of collective interest became more and more unsatisfactory in quantity and quality, leaving an increasingly large part of needs unsatisfied. The weakening of social bonds brought about by an excessive emphasis on self-interested and competitive behaviour has heightened the sense of vulnerability and fears for the future, and it has diminished trust relations and cooperative behaviours. Over the last decades, increased economic well-being in the richest countries has not been matched by increased happiness (Easterlin, 2001, 2005). 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 privatization policies adopted in recent decades, have not achieved the hoped-for results. 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 maximization of private returns informed by self-interest, and how costly it is to compensate for the damage caused by such behaviour. In many instances, such as the exclusion from the labour market of less able workers, costs can overcome benefits, leading to the production of dead weight social losses.

The inability of the dominant economic and social model to respond to numerous needs has, among other things, created new space for the development of 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, cooperatives and social enterprises have spread, evolved, and strengthened in many countries (Borzaga and Spears, 2004; Borzaga, Defourny, 2001). This evolution and recovered role of cooperative and social enterprises cannot be explained by the traditional theories. New approaches are needed.

3.2. New institutionalism

A way to cope with the assumption of only profit-maximizing organisations has been developed by institutional theory. New institutionalism tends to move away from a view of the firm centred solely on the profit maximization hypothesis, since the core of the analysis is cast in terms of cost minimisation, which represent the relevant efficiency criteria. The ability to minimise transaction costs singles out the organisations that have the greatest survival and expansion potential. Transaction costs represent a concept that has been used by many authors in this research stream starting from Coase (1937) and reaches its most mature elaboration in Hansmann's (1996) model. This way, the role of institutions, in terms of control rights, governance and organisational routines, takes centre stage, and it is not marginalised any longer as in the neo-classical approach. New-institutionalism emphasizes the role of coordination mechanisms, such as markets and hierarchies (Williamson, 1975) in solving collective problems in the production of goods or services.

Moreover, the new-institutionalist model fosters the understanding of the process of creation and diffusion of cooperatives, social enterprises and non-profit organisations by asserting that the organisations surviving on the market are those able to minimize the sum total of costs connected with their operation (Hansmann, 1996). 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. The costs linked with the operation of the market concern market power ex-ante (monopoly and monopsony), market power ex-post (lock-in) and asymmetric information. The costs of ownership are those linked with decisional processes, risk taking by entrepreneurs, and agency relationships, with the consequent costs of control of employees and managers.

The main advantage of cooperative 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 cooperatives, and/or of asymmetric information, which favours the creation of non-profit organisations and social enterprises (Hansmann, 1996; Borzaga and Tortia, 2010).² The new-institutional theory has the merit to propose a new conception of the private. It enlarges the opportunity for private organisations to also produce public and collective-interest goods,³ and it supports a positive, though limited role for mutual-benefit organisations. 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. Furthermore, the approach helps explain the origins of the cooperative 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.

The Hansmann model also identifies some shortcomings in the cooperative firm, represented primarily by higher collective decision-making costs, especially as firm dimension grows and its members, for example workers or borrowers, get more differentiated in terms of expressed preferences and endowments of financial wealth or human capital. These factors cause different members to develop different objectives, leading to inflated decision-making costs and organisational impasses. These limitations are very apparent in the case of big industrial firms, while they can

² Of course, the efficiency of cooperative and social enterprises is also driven by competitive pressure on the market, which pushes these organisations to reduce costs, thereby increasing efficiency.

³ The assignment of the 2010 Nobel Prize for Economics to Elinor Olstrom stands as an evident recognition of the relevance of this new school of thought.

be overcome in small organisations in which members have homogeneous features, such as small cooperatives of producers and professional partnerships. Not all typologies of cooperatives suffer this limitation in the same way, but the problem is relevant any time members' interests are not highly homogeneous. In the case of non-profit organisations and social enterprises, the main shortcomings are recognized instead in the difficulty of gathering sufficient risk capital and offering adequate incentives to their stakeholders, leading to a reduced efficiency of the production process.

Overall, new institutionalism gives a relevant, but reductive picture of socially-oriented firms in market economies. While it is able to deal with and explain the existence of all entrepreneurial forms, and hence also of cooperative and social enterprises, it undergoes serious shortcomings, which can be summarized as: 1. the underestimation of the role of governance changes in fixing the problems generating higher ownership costs; 2. a conception of the firm exclusively based on cost-minimization; 3. the assumption of the exclusively self-interested individual; 4. the neglect of the social role of cooperatives, of social enterprises and of their institutional peculiarities. In more general terms, the lack of recognition of the role of cooperative and social enterprises in the solution of social dilemmas, which for-profit firms and public agencies are not able to cope with, depends crucially on the too restrictive and unrealistic assumption that cooperative and social enterprises and the main actors inside them behave in an exclusively self-interested way, pursuing exclusively the private benefit of members. This assumption needs to be widened to account for the presence of social preferences (Fehr and Gächter, 2000; Fehr and Fischbacher, 2002), as well as of intrinsic motivations linked to reciprocity and other-regarding objectives.

3.3 A conclusion on the shortcomings of the prevalent economic approaches

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

4. The potential of new theoretical contributions

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

The main assumption of this new approach is that the conventional interpretative paradigm, but also the neo-institutional approach are – at least partially – insufficient and new interpretations of organisational behaviour and coordination must be proposed. Two main theoretical streams can be singled out and involved in the analysis: behavioural economics, which analyses individual behaviours, and evolutionary economics, which introduces the idea of organisations as problem solvers and explains the way in which organisational routines and economic systems change over time.

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.

The behavioural economics approach was first inspired by developments in social psychology (e.g., DeCharms, 1968; Deci, 1975), which took into consideration the relevance of intrinsic and non-monetary motivations. Then it sprang in economics in connection with the doctrine of limited rationality (Simon, 1979) and decision-making under risk (Khaneman and Tversky, 1979). Frey (1997) evidenced the interplay between intrinsic motivations and extrinsic incentives envisaging a possible effect of crowding out of the former by the latter when monetary and other extrinsic incentives displace self-determined choices informed by intrinsic motivations. For these authors, extrinsic and intrinsic motivations drive individual behaviour through external compensations or through individual interest and personal satisfaction in carrying out an activity. While in the former case we should assume that only economic incentives increase individual wellbeing and explain economic actions, intrinsic motivations allow for a broader analysis, also explaining the willingness of individuals to cooperate, relate with other people, and support development objectives that benefit other people as well. Hence, it is possible to maintain that motivations are multifaceted, and people are moved simultaneously by self-interested, other-regarding and process-regarding preferences (Ben-Ner and Putterman, 1998).

The continuum of motivations characterising economic agents is described by the self-determination theory of Gagnè and Deci (2005), who assert that people progressively internalise in their objectives some rules of behaviour which at the beginning come from outside (so called externally regulated behaviour, which includes economic incentives, authority, and control) and which over time are transformed into individual ethical rules and then into individual aims (so called introjected regulation, identified regulation and integrated regulation). People's willingness to cooperate in interpersonal interaction can derive from economic convenience or imposition, from social norms on which the individual is morally obliged to adhere, or from a real community of interest of people. The behavioural economics approach, informed by self-determination theory, focuses on the non-instrumental aspects of human behaviour and on an organisation of work that stresses reciprocity and non-hierarchical relations. It helps us understand that in cooperatives and social enterprises, the sharing of values and common aims should prevail. Members' and stakeholders' behaviours are not only dictated by financial and other monetary variables, but instead reflect primarily their social and moral norms, and intrinsic interests, which need to be correctly coordinated with extrinsic incentives and self-interested preferences.

Behavioural economics introduces social preferences as crucial drives of behaviours. Social preferences include behaviours that are not-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). In order to explain cooperative and social enterprises, some theoretical approaches have assigned particular attention to the notion of reciprocity (e.g., Zamagni, 2005) and to the notion of donation and altruism (Rose-Ackerman, 1996). On the other hand, empirical findings have maintained that workers in non-profit organisations are more attentive to intrinsic motivations, relations, and other-regarding preferences (Preston, 1989; Borzaga and Depedri, 2005; Borzaga and Tortia, 2006). These behaviours are quite aligned with the cooperative principles, and especially with: the democratic rules that enforce procedural and distributive fairness; autonomy and independence, which support intrinsic motivations; cooperative education, which enhances the internalization of the organisational mission in the stakeholders' aims and the conformism to collective social norms; the interest of members, which requires solidarity and not-self-interested aims; the interest for the community, which enforces altruism. Procedural fairness represents one of the main organisational results in terms of formation and evolution of organisational routines that allows the actors involved to conform to common and recognised norms of behaviour (Sacconi, 2000; Tortia, 2008). The stress put on the sharing of values—instead of hierarchy, control mechanisms and monetary incentives—should result in increased satisfaction, effort, and loyalty to the organisation. These results are considered over and above cost reduction connected with the less intense utilisation of monetary incentives and with lower control costs.

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

However, approaching cooperative and social enterprises 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 (Borzaga and Mittone, 1997; Bacchiaga and Borzaga, 2001, 2003). Future research will have to answer the question of how different kinds of individual motivations, preferences and incentives interact and inform organisational behaviour, and of how governance rules in different organisational forms can influence individual preferences and choice.

4.3. The evolutionary theory

The second approach that we suggest considering when analyzing cooperative and social enterprises is evolutionary theory. The first reason why the evolutionary doctrine is crucial for the understanding of the emergence, development and change of cooperative and social enterprises is that it focuses on the emergence and change of organisational routines, and on institutional evolution. Cooperatives and social enterprises can be considered organisational forms that have been created by developing and implementing innovative organisational routines. The study of these 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 on mere cost-

minimization, but on the production of surplus directed to the satisfaction of relevant private and social needs. The production of an economic and social surplus is the main driver of economic activity and of its change, and does not amount either to the production of the profit, nor to its maximization. One consequence is that the production of an increased surplus does not entail or require cost minimization, as the standard microeconomic approaches maintain. Higher costs can be a viable solution if the surplus allows the organisation to survive and expand anyway. However, the surplus need not be characterized exclusively by private economic returns, but can well have a collective and social connotation.

The approach has therefore many interesting implications, for example in dealing with the role of the firm in local development (Granovetter, 1985) and in the understanding of the emergence of multi-stakeholder governance forms. The embeddedness of the organisation at the local level is crucial since knowledge and resources (both physical and human) present at the local level always represent the core of the firm's operative capacity. This is all the more true in the case of cooperative and social enterprises, whose members are necessarily located and embedded at the local level, expressing needs that are usually shared by many other subjects in the locality. Multi-stakeholder governance is therefore an emergent feature of cooperative and social enterprises and needs to be carefully considered when analyzing their role in socio-economic development (Borzaga and Tortia, 2009). Moreover, by considering the production of surplus as the main objective of economic activities, the evolutionary approach broadens the evaluation of the efficiency of organisations, also taking into consideration the externalities produced at both the micro and macro levels, for example, respectively, on the well-being of stakeholders and on employment.

The evolutionary doctrine is compatible with a conception of the firm not as a mere maximizer of the net returns accruing to their investment programmes, but, rather, as a coordinating device geared toward satisfying needs that can be private and material, but also collective and psychological. Furthermore, as a rule, firms do not operate in perfect markets and this forecloses the possibility of obtaining the maximization 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. This way the metaphysical shortcomings highlighted in the previous sections and linked to the ex-ante assumption of self-seeking preferences are avoided since nothing in this definition of the firm requires individuals within organisations to be only and fully self-interested and the social aspect of the operation of firms can be as crucial as their economic objectives.

The potential of the evolutionary approach for developing a more realistic and scientifically relevant understanding of human agency is supported by various elements. To start with, many results coming from the study of group selection clearly show that altruism and pro-social attitudes can be functional in increasing the reproductive success of individuals, organisations, communities and society at large (Hodgson, 1993; Bowles, 1998, 2004) by boosting sympathy, trust and the sense of community. Here it is clear that the evolutionary approach and the behavioural one are complementary in the understanding of human agency and social evolution. This is so because, in order to take into account also collective and social objectives, individuals need to be characterized by motivational complexity and interact in a suitable institutional environment supporting non self-regarding attitudes. Applied to

cooperative and social enterprises, the approach seems to maintain that members can share an organisational mission which differs from both profit maximization and individual wellbeing. It is instead guided by common objectives and by cooperative intentions. Similar motivations can also explain customer choices, when clients of cooperative and social enterprise choose goods and services because of sympathy, trust, and sense of community, which relate them with the organisation. Furthermore, in the case of workers, a high monetary remuneration may not be able to displace the negative effect of the perception of an unfair work-environment. On the contrary, workers can agree to cooperate and increase effort because they share the mission of their firm and seek involvement in the organisational processes (Akerlof and Kranton, 2000).

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 evolution, preferences are clearly endogenous because different cultural contexts and institutions exert a relevant differential impact on individual behaviour, even when the social problems to be solved have exactly the same nature (Bowles, 1998, 2004). For example, the importance of working in a fair environment, where decisional processes are transparent versus working in a hierarchical system in which the motivations lying behind the decisions made by superiors are never disclosed. Hence the understanding of individual behaviour cannot be defined *ex ante* on the basis of some general criteria, but has to be assessed empirically by identifying the relevance of the interaction between the individual and the institutional environment. This implies that the emergence of cooperative and social enterprises and their increasing role must be analyzed within the embedding social and institutional domain and by testing the possible interaction with the local demand, with the local social capital, with the political system, and with anthropological dimensions also linked to the local culture. Such dimensions directly influence the emergence of new institutions answering to unsatisfied needs or to cultural movements; they explain the enforcement of institutions supported by law and the increasing number of cooperative and social enterprises in regions characterized by a high level of social capital. Furthermore, if the socio-economic context relates to the development of cooperative and social enterprises, differences among countries do not limit the relevance of sectoral or territorial research, but instead reveal the importance of the differences in the diffusion and characteristics of cooperative and social enterprises, since they highlight the ever growing differentiation between different national and local contexts, leading to increased institutional richness.

4.4. Combining the different approaches

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

- A reinterpretation of the problems linked to the relations between market and hierarchies (Williamson, 1975) since in this new approach market exchanges are by no means equivalent to the spread of profit maximising firms. Indeed, a plurality of entrepreneurial forms – private-benefit, mutual-benefit, and social benefit – can be envisaged on the market. Furthermore, when public-benefit entrepreneurial forms are considered, the mediating role of the government should also be taken into consideration;

- The definition of a wider concept of enterprises, which is not restricted to the narrow focus on profit maximization and cost minimisation inherited from the most orthodox approaches. It needs to define firms broadly as coordinating devices of economic activity, whose main or sole objective is the satisfaction of private and social needs. This is affected through the management of common pools of resources (Ostrom, 1994), which requires the implementation of proper governance and working rules, or organisational routines;
- The consideration of a wide variety of economic actors – investors, donors, managers, workers, volunteers, customers, users, beneficiaries, and the local community – who are driven by a plurality of motivational drives, intrinsic and extrinsic, monetary and non-monetary, and express different preferences, which can be self-regarding, but also other regarding or informed by criteria of reciprocity (Zamagni and Sacco, 2002). Behavioural, experimental, and neuro economics become crucial tools of analysis for understating the complex interaction between all these different behavioural propensities.

The need to explain self-interest together with social preferences, efficiency together with effectiveness and social wellbeing, transaction costs together with social effects, requires 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, cooperative. Moreover, such cooperation, even when partial, may enable the enterprise not only to pursue common interests, but also to obtain the resources necessary for that purpose. It is thus possible to explain cooperative and social enterprises in a manner different from what has been attempted in the past, and to understand their modes of operation and socio-economic role.

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

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

4.5. Other non-economic aspects of the new approach

The economic theory of cooperative and social enterprises is supported by the increasing attention paid by the political and legal sciences to the theme of subsidiarity. Application of this concept, especially in its horizontal sense, yields innovative models of socio-economic 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 organized actors, also in the form of firms, where cooperatives and social enterprises are more effective than public agencies and for-profit firms. The affirmation of the subsidiarity principle also changes the way in which a community forms its "social preference function", i.e. its desired combination between the supply of goods and services and the distribution of income. The approach predominant to date has considered the formation of the social preference function to be the exclusive task of governments. But according to the subsidiarity principle, it should instead derive from the joint action of public and private subjects concurring in its formation with their decisions about how much, and especially what, to produce, and how to allocate and therefore distribute resources. There thus emerges a new understanding of democracy in general which also comprises forms of economic democracy, while re-valuing the role of democratically created and managed enterprises. These become places not only of production, but also of the expression and formation of social preferences. For example, the bottom-up formation of development objectives by the same actors that will benefit from the results of the same development patterns becomes possible when cooperative and social enterprises are locally embedded (Borzaga and Tortia, 2009; Sacchetti and Sugden, 2009). Finally, along these same lines is 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 cooperatives and social enterprises. For the development of the social sciences in general, the development of cooperative and social enterprises offers a unique occasion to study social contexts in which, at least in principle, social capital in terms of trust relations can be produced and accumulated.

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

5. Final remarks and suggestions

In order to re-think the role of cooperative and social enterprises so that they can respond innovatively and adequately to the needs highlighted by the foregoing discussion, the first step to be taken is to reverse the research strategy which to date has inspired most of the scientific reflections on these topics. Instead of interpreting these 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 are found and competition is as possible as collaborative relations when objectives coincide. These new theories and interpretative models need to identify the factors which have led to the formation of the different forms of enterprise (particularly of mutual-benefit and public-benefit forms), the motivations and values that condition their action, and the system of incentives that they activate (also through definition of distinctive governance and control models) in order to aggregate human and material resources around the activities undertaken and the goals pursued. Among the main objectives of this scientific endeavour should be the identification of the conditions which ensure or prevent long-term sustainability, and the understanding of the specific contribution that cooperative and social enterprises can make to economic and human development.

The philosophy underlying this scientific attempt needs to be based on the overcoming of the narrow focus of past theories and empirical research. To do this, it will be necessary to integrate the existing theories in practice with an organic approach by overcoming the traditional concept of efficiency and by looking not only at the ability of the organisation to survive on the market and to become competitive (and therefore efficient), but also at the organization's 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 cooperative and social enterprises, but also to verify in what contexts such enterprises prove more efficient and effective than other organisational forms. Attention should therefore be devoted not only to the strengths, but also to the limitations and weaknesses of cooperative and social enterprises. Empirical research should try to investigate from a critical perspective the functioning and the objectives of these organisations, their governance structures and their managerial practices, and their transaction and governance costs, beyond the costs of the resources and technologies used. The analysis of the inside dynamics would also allow for offering suggestions to practitioners for improving the management of not-for-profit organisations, to the political arena in terms of policy implications, and to researchers who want to develop the analysis further. These efforts will allow the accomplishment of a complete picture, and the development of a new theoretical approach represents the framework for this picture.

As a conclusion and suggestion to scientists, the preliminary analysis of the role of cooperatives and social enterprises introduced in this paper underlines the need for more research and understanding of these organisations. 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 proposes changes that may enable them to operate more efficiently and effectively in different social contexts. As said, however, the identification of the common features of cooperative and social enterprises will not impede differentiation in their organisational models and working rules at the local and national level, given the different cultural, social, and institutional conditions (Ostrom, 1994). Theoretical and empirical research must be implemented both in specific settings and in comparative terms. Theoretical developments, laboratory experiments, case studies and empirical tests may be the

best way in which to obtain these results. Furthermore, a multi-disciplinary perspective must be adopted by promoting and undertaking research in various scientific domains—from sociology to law, from economics to psychology—and by encouraging comparison and exchange among different disciplines, above all those with interpretative purposes and those concerned with the regulation of cooperative and social enterprises, their activities, and their relations with other actors.

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