Beyond the costs of ownership and contracting: the role of the costs of exclusion in the provision of general interest services

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Abstract

The study of private eneterprises that offer general interest services 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 theoretical reflections on multi-stakeholder governance, 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 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 general interest 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

Governance, Externalities, Public Interest, Multistakeholdership; Transaction Costs, Property Costs, Costs of Exclusion, Social Enterprise.

JEL codes I14, I31, L21, L23, L31

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

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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 services of general interest such as 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. We identify the problem of inefficiencies and strategic failure to meet specific welfare needs with stakeholder exclusion. 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

On the one hand the governance issue has been interpreted by economic theory in terms of how the board and regulators can control managers' actions (Birchall, 2014). The principal-agent theory focuses on control and accountability of management to the main patron of the company. "Governance failure", in this sense, puts emphasis on reactive measures in the face of opportunism and corruption, greed and short terminism.

However this is only part of the issue. Besides the principal-agent relation, a more comprehensive perspective considers strategic choice as the primary function of governance (Cowling and Sugden, 1998). From this stand point, 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; OECD, 2004). 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. More broadly a strategic account of governance considers the structural and procedural features that not only guarantee accountability but are consistent with the nature of production and its stakeholders' needs. It suggests that the governance failure is not necessarily generated by the behaviour of managers, directors, and regulators. Rather, it may be generated by a failure in acknowledging the nature of the service provided, the social value chain involved with its production, and its stakeholders.

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 services of general interest, such as 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 services 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. 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 1. 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 repristinate 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) 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[1]. 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

[1] "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).

product to be positive and generate social benefits (such as increased social capital, deliberative skills, social inclusion, justice, and trust across society)[2].

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).

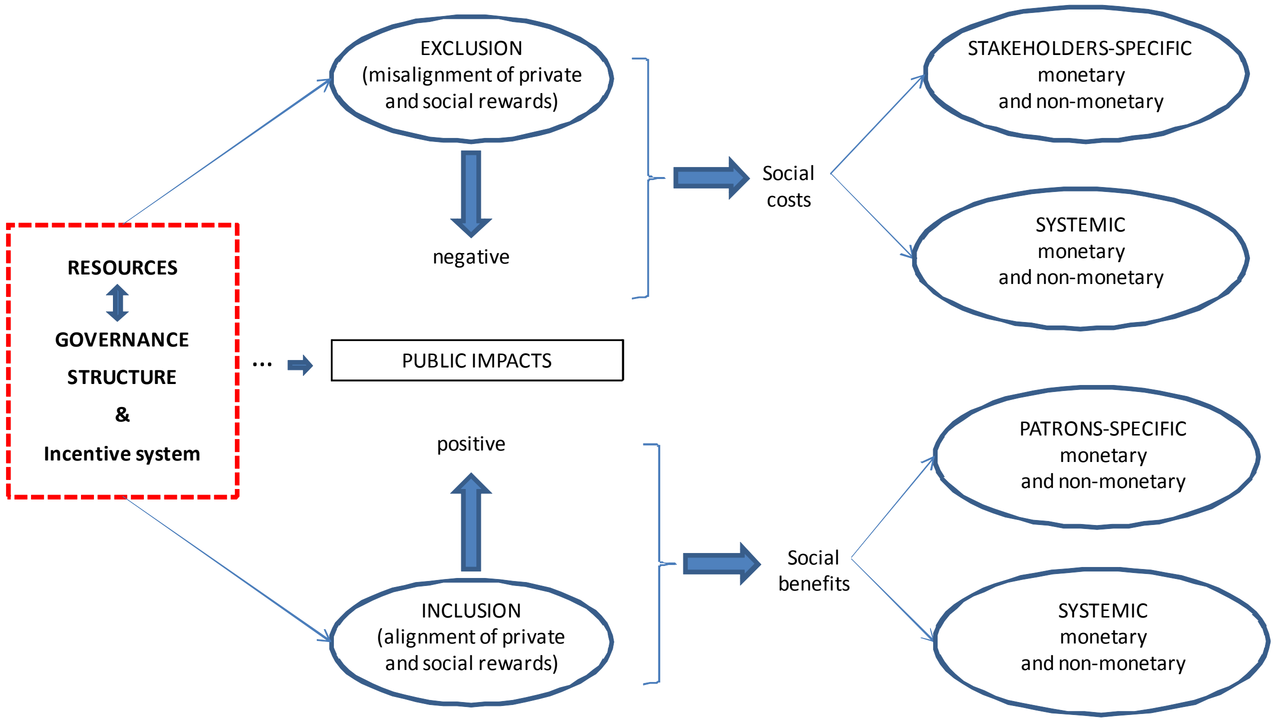
Systemically, exclusion contributes to accentuate the incoherence between community needs and production system, furthering the distance between production choices and community development objectives (Sugden and Wilson, 2002; Sacchetti et al., 2009; Mori, 2014).

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).

Figure 1 - Public impacts

[2] 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.



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.

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)[3].

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[4]. Exclusion 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.

4. 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.

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[3] 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).

[4] 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 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).

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 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). With the first option, since the management and directors have to respond to the expectations of owners, multi-stakeholdership is one way to integrate multiple needs into such expectations and consistent strategies.

Multi-stakeholdership, in this case, historically emerges from an evolving "percorso" during which a gradually 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.

5. An inclusive model

The prevailing approach to governance supports the view that trying to pursue the interests of multiple patrons makes the firm less efficient, for example with respect to mono-stakeholder competitors (Birchall, 2014). The inclusion of multiple interests, specifically, may generate conflict specifically over the distribution of the value added in production.

Consistently, 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. In line with Sacchetti (2013) we have argued that exclusion makes solutions to needs of general interest partial and generates social costs for the community. 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[5]. 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.

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

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

5 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.

6. 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.

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