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Social Enterprises and Welfare Systems. The Role of Multi-stakeholder Governance and Price Discrimination

ABSTRACT

Social enterprises (SEs) have been active for some decades and have been regulated by law in several countries. Their operation showed ability to complement the provision of welfare services, especially social services, by the public sector and private enterprises, and to innovate in the introduction of new services, organizational and managerial models. In some cases, SEs succeeded in producing and innovating in an autonomous way, without depending on public financial support and procurement agreements. This paper starts from the state of the art in the study of SEs to propose different avenues through which they can be able to expand supply of welfare services and contribute to the decentralization of welfare systems. It traces these specific abilities to SEs' peculiar institutional structure, especially their non-profit nature, the pursuit of public benefit and social missions, and multi-stakeholder governance. This last feature is considered the most remarkable emerging characteristic in the evolution of this organizational form. The paper then proceeds to focus on price discrimination as specific governance mechanism of the relations of production and exchange, involving different stakeholders and allowing SEs to widen their supply of services, achieve financial sustainability and contribute to the decentralization of the welfare system.

KEY-WORDS

SOCIAL ENTERPRISES, WELFARE SERVICES, WELFARE SYSTEMS, PRICE DISCRIMINATION, MULTI-STAKEHOLDER GOVERNANCE

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1. Introduction

To date, social enterprises (SEs) have been studied mainly in a quite narrow way, referring to their field activity, while it can be more important to work out their general features. In this regard, the most relevant contributions start from Borzaga and Defourny (2001) and Anheier and Ben-Ner (2003). Legislation quickly adapted in many countries, but usually in a quite narrow way, focusing for example on specific activities—like the law on social cooperatives in Italy that was aimed at the regulation of social services and work integration—, the regulation of fair trade, and micro-finance¹. The debate on the SE has been stimulated, to date, by their spontaneous and sketchy emergence in various niches of activity and in various countries, stemming from initiatives taken by social activists within the civil society. Following a new flourishing of new scientific contributions and new legislative developments, more general theoretical elaboration, inter-industry regulation and policy initiatives have taken place over the last 15 years, as the latest legal reforms concerning SEs follow just this more general and inter-industry approach (Kerlin, 2006; 2010; Defourny and Nyssens, 2008; 2010; Galera and Borzaga, 2009; Borzaga and Galera, 2016; Poledrini and Tortia, 2020; Sacchetti and Borzaga, 2020). Some sectors, especially those delivering welfare services, require further theoretical and legislative work, since the process of decentralization of welfare systems proceeds at a brisk pace in many countries and new legal and policy instruments are needed.

The implementation of the new legal schemes bore wide-ranging potentials and effective consequences, since they encompassed activities well-beyond the sectors traditionally populated by non-profit organizations and socially oriented firms, especially in social and welfare services. In these sectors, SEs contribute to the completion of markets and public supply in innovative ways. They can also spread in more traditional welfare service sectors, such as health-care and education, in niche areas of expertise and in support to marginal social groups, in cases in which the public sector is unable to intervene². Fair trade, micro and ethical finance, following the example of the Grameen Bank in Bangladesh, are new areas of operation, where the severity of market failures do not advice the reliance on purely commercial, profit-oriented firms, their possible higher efficiency notwithstanding.

Besides, new sectors are not out of sight. The COVID-19 pandemic revealed a strong need for organizations that have social aims and that are able to intervene in emergency situations to alleviate

¹ The introduction of national legislation on the Community Interest Company in the United Kingdom in 2005 and on the social enterprise (*impresa sociale*) in Italy in 2006 (as reformed by the new law on the third sector in 2016, which has elected social cooperatives as de jure SEs) called for new theoretical and empirical work on the premises and consequences of regulation. The ratio of both legislative acts was the introduction of a cross-ownership organizational form, including traditional cooperatives and mutual organizations, entrepreneurial non-profit organizations, and investor-owned firms that are constrained in the distribution of their profits and implement multi-stakeholder governance.

² The Italian law no. 118 of year 2005 stated the general principles of the normative, which was implemented with the legislative decree no. 155 of year 2006.

the consequences of severe crises. Similarly, environmental protection in the face of the climate crisis requires more and more sustained intervention of third sector organizations to complement public authorities in alleviating the negative impacts of extreme events. Organizations operating in these new sectors, even when they are investor owned, usually have all the necessary features of SEs, given the relational character of their services and the fiduciary features of the relations with clients, borrowers and sub-contractors (Hansmann, 1996; Borzaga and Tortia, 2017).

The completion of markets and the increase in production of public benefit goods involves those goods and services that neither for-profit firms, nor public provision would be able to guarantee autonomously, if not at too high costs and/or excluding low-income users. Higher supply and lower prices of SEs can increase social welfare in terms of both consumer satisfaction and employment. For instance, the main objective of micro-credit is not return maximization for members (investors and producers), but the maximization of the credit granted to disadvantaged social groups, which is itself a public benefit aim. The change in the objectives entails a shift in the parameters for the concession of credit: fiduciary relations are predominant over collateral guarantees, with important consequences on the relief of poverty.

In this perspective, our interpretation of SEs originates in the tradition initiated by Hansmann in 1980 (cf. also Hansmann, 1987), whose approach singles out two fundamental features of SEs: they are entrepreneurial organizations with a public benefit or social aim, as explicitly stated in their statutory bylaws and, at one and the same time, they are partially or totally constrained in the distribution of their profits. While the first feature is uncontroversial and is taken to be a necessary characteristic of all socially oriented entrepreneurial form, the second feature (the non-profit distribution constraint, NPDC hereafter) has been widely debated, and several models of SE do not include it (for example in Finland and the US).

In our approach, SEs as non-profit enterprises are an especially suitable organizational model to run the production of welfare services because of their (social, historical and institutional) closeness with the spread of non-profit organizations in the same sectors. As it is well known, the NPDC has been interpreted as the fundamental institutional mechanism curbing producers' opportunism (both ex-ante and ex-post) in an effective way (Hansmann, 1996). Opportunism can stem from contractual incompleteness, abuse of decision making power and asymmetric information. In turn, reduced opportunism strengthens trust relations between producers and their clients, thus contributing to lower transaction costs, such as administrative and litigation costs (Borzaga and Tortia, 2017).

We refer the spread and development of this organizational form in the European context, especially as related to the EMES (ÉMergergence des Entreprises Sociales en Europe) definition of SEs, which has proved to be the most influential cross-country definition in continental Europe (Borzaga and Defourny, 2001; Defourny and Nyssens, 2008; 2010). This definition singles out three main characteristics of SEs: (i) the presence of an explicit social aim; (ii) the non-profit nature of the

venture; (iii) the involvement of all the relevant stakeholders in the governance of the organization³. Consequently, in this paper, as a matter of theory and convenience, we stick to the EMES definition of SEs as multi-stakeholder non-profit enterprises.

Given these premises, the aim of this paper is twofold. (i) We seek to develop the theory of multi-stakeholder governance in SEs. Our approach is related to the self-organization paradigm, as spelled out for example in Sacchetti and Tortia (2020). (ii) Among the manifold dimensions of governance, this paper specifically concentrates on the mechanisms of price formation and discrimination, which are not independent of the involvement of different stakeholders.

We interpret self-organization as a process in which stakeholders choose their own respective positioning inside the boundaries of the governance structure as a way to reach adaptive fitness in pursuing the organization's social missions. The process is intended to keep transaction costs (spelled out as contractual costs, organizational costs and exclusion costs as in Sacchetti and Borzaga, 2020) under control and favour the production of social value fulfilling the specific needs of each single stakeholder, especially beneficiaries. No stakeholder has primacy over the others, but it can be imagined that founding stakeholders that take hold of organizational governance in the early stages of its development end up having a more prominent role. In this case, it can be expected that the more prominent stakeholder will take the initiative in involving other stakeholder-groups and coordinate their interactions. On the other hand, it cannot be excluded that more than one stakeholder create and develop the organization together without any of them having a prominent position. In this case, the creation of second level coordination mechanisms and working rules can be the result of self-regulatory action (e.g., joint committees, mediation and dispute resolution; cf. for example, the eight design principles for the governance of common pool resources in Ostrom, 1990).

As for the mechanisms of price formation, the non-profit nature of SEs and the necessity to satisfy the needs of different stakeholders, which may not have sufficient ability to pay for the services, requires the organization to focus on financial and economic sustainability, and not on profit maximization, since maximizing profits would imply reduced supply and an excessive extraction of consumer surplus. The requirement that welfare services are delivered to any individual citizen, irrespective of his/her ability to pay implies that the objectives of the organization are instead maximization of production and break-even (financial sustainability). Maximization of production causes higher costs implying that revenue maximization is a better strategy than profit maximization. Mechanisms of price formation attached to the objective of revenue maximization are discussed in Section 3.

³ The EMES definition spells out four economic and five social characteristics of SEs. The economic characteristics are: continuous production; autonomy; economic risk bearing and presence of a paid workforce. The social characteristics are: SEs are initiatives promoted by social activists (groups of citizens); produce benefits for the community; their governance is based on inclusion of different people and groups and not on capital ownership; distribution of positive residuals (profits) is limited (Defourny and Nyssens, 2008; 2010).

In the remainder of the paper, Section 2 describes the basic features of SEs, while Section 3 discusses their potential for cost reduction and surplus increase as especially linked to price discrimination. Section 4 discusses the potential for the spread of SEs in the production of social services. Section 5 concludes.

2. The basic features of SEs

Given the new legal framework and the multiplicity of ownership and organizational forms to be comprehended in the unifying category of SEs, these can be suitably defined by their teleological connotation, i.e., starting from the public benefit aim. The ownership and organizational form becomes instrumental to this end, and its choice dependent on the specific activity carried out. Indeed, the non-profit nature of these organizations is compatible with a variety of forms, as the exclusion of the profit motive allows the inclusion among SEs of organizational typologies that were traditionally not contemplated among entrepreneurial activity, such as non-profit organizations.

2.1. Multi-stakeholder governance and social value creation

The ability of SEs to supply meritorious goods (private goods, producing positive external effects), can impact on different stakeholders either by increasing their welfare or by decreasing the social costs related to exclusion, marginality and poverty. In this, multi-stakeholder governance, its higher organizational costs notwithstanding, is more and more considered as a crucial coordination mechanism that allows to internalize and manage within organizational boundaries different typologies of contractual failures, as especially exclusion and marginality may be impossible to deal with contractually in several circumstances (Poledrini and Tortia, 2020; Sacchetti and Borzaga, 2020).

The non-profit and multi-stakeholder nature of the organization and the fiduciary character of both external and internal agency relations create institutionalized patterns that function as signalling allowing not purely instrumental relations to develop both between managers and workers, and between the organization and its publics, especially users, clients, and the local community (Hansmann, 1980; 1996; 2001; Borzaga and Mittone, 1997; Bacchiega and Borzaga, 2001; 2003). Fiduciary relations are supported by inclusive and democratic governance rules. Given the necessity to include several different stakeholders, organizational costs can be high but, at the same time, social benefits can be high too and trust relations can indeed be able to reduce transaction costs, including also organizational costs (Roseland, 2000; Waddock, Bodwell and Graves, 2002; Kakabadse, Rozuel and Lee-Davies, 2005; Enquist, Johnson and Skalen, 2006; Meyer, Cohen and Gauthier, 2020). This implies that the organizational efficiency of SEs must be evaluated empirically together with its determinants and cannot be assumed ex-ante (Poledrini and Tortia, 2020; Sacchetti and Borzaga, 2020).

The involvement of different publics, the peculiar mix of monetary and non-monetary incentives, and the utilization of non-market resources such as volunteer labour and charitable donations allow SEs to distribute resources beyond what would be obtained by means of market exchanges, to marginal subjects that would not benefit from such exchanges due to their low ability to pay. Such outcomes can be able to reduce poverty and social exclusion, while increasing welfare (Borzaga, Depedri and Tortia, 2011; Sacchetti and Borzaga, 2020).

Involvement is facilitated by and supports the creation of social capital. Several authors insist on the importance of social capital in lowering costs and abating organizational barriers, for example in lowering the degree of litigation, opportunism and hold-up, and the need to resort to top-down, command and control hierarchical relations. On the other hand, social capital favours the development of shared narratives and codes of conduct, new relational dimensions, and networking (corresponding to the three dimensions of cognitive, relational and structural social capital, cf. Nahapiet and Ghoshal, 1998). In turn, these organizational dimensions lead to the development of intellectual capital and more effective organizational performance. In our approach, the development of multi-stakeholder governance and the involvement of different publics are tightly connected with both the utilization of existing social capital, without which SEs are clearly a weaker organizational form surrounded by a more hostile and maladapted social context, and the creation of new social capital, which serves as repository of new relational, cognitive and intellectual resources that are used to achieve social goals (Sabatini, Modena and Tortia, 2014; Tortia, Sacchetti and Valentinov, 2020). Also structural dimensions, such as networks based on the mutual dependence of actors and collective action, which are not necessarily built around a dominant stakeholder, are expected to contribute to scale-up production of welfare services with larger scope, exploiting strong linkages and shared interests with territorial systems and local actors. Mutuality is built around norms of trust and reciprocal help, not rivalry and divergent interests, between the different stakeholder-patrons contributing to organizational goals (Sacchetti and Sugden, 2003; Tomlinson, 2012). The rationale of multi-stakeholder governance is the combination of different interests, that can result in a higher total welfare than the sum of the surpluses reachable by each stakeholder individually on the basis of market exchanges. This more than additive result derives from the fiduciary and inclusive character of the governance structure. While ownership costs are traditionally considered to be a weak organizational dimension of SEs, since they can be inflated by heterogeneity of members and stakeholders (Hansmann, 1996; Iliopoulos and Valentinov, 2018), to the potential of fiduciary relations and participation to reduce organizational costs is a crucial feature of inclusive governance in our approach (Blandi, 2018; Sacchetti and Borzaga, 2020). On the other hand, hierarchy and control, heightening contrasts of interests and flawed information flows increase organizational costs and can require simpler governance forms, such as the mono-stakeholder one (Hansmann, 1996). A substantial reduction in organizational costs and the achievement of superior outcomes in terms of completion of supply of social and welfare services, service innovation and reduction of social costs are necessary conditions for the sustainability of this kind of entrepreneurial venture (Blandi, 2018; Sacchetti and Borzaga, 2020).

The entrepreneurial connotation of SEs is meant to favour innovation both in the organizational and production domains. Competitive pressure, though not intended to be the main force driving efficiency and innovation as in most inherited economic approaches, represents a relevant selective mechanism that is absent or much weaker in the case of public provision. When public benefit is the aim of production, competition between different organizations takes place not only on the market, but in the adjudication of public funding, liberal donations, and intrinsically motivated employees and volunteers: more innovative and convincing projects should be able to fare better with respect to clients, donors, and public authorities' evaluations. The usual evolutionary argument concerning the adaptive fitness of the best projects is valid here, though inter-organizational cooperation, involvement of different stakeholders and networks of SEs are likely to represent important coordination mechanisms favouring cooperative effort and the accumulation of localized knowledge. Also, the network-like character of governance, involving different publics, though to different degrees, can allow better information flows between the involved actors and the production of firm-specific knowledge supporting the production of increased social and economic surplus, and the implementation of more innovative activities (Nahapiet and Ghoshal, 1998; Fazzi, 2007; Tortia, Degavre and Poledrini, 2020). In the presence of asymmetric information, multidimensionality of services, contract incompleteness and external effects, tight interpersonal relations and trust between the interested parties can be the only way to achieve the organization's aims. Multi-stakeholder governance is geared to support such relations.

3. The supply of welfare services and price formation

The supply of public and meritorious goods, especially trust and relational goods, is usually associated with non-traditional features of the organization, such as the presence of a NPDC and a flat governance based on the involvement of different publics, not on command and control mechanisms. Supply by profit-seeking firms can be inefficient, since profit maximization induces restriction of the quantity supplied and higher prices, which are functions to achieve shareholder value maximization.

In this regards, non-profit SEs can be able to increase production, employment and welfare, as they can lower prices, expand production capacity in favour of disadvantaged social groups, and reduce poverty. Increased supply and lower prices in sectors characterized by users' insufficient ability to pay increase social equity. The governance of contractual relations, in this context, can modify the allocation of resources, for example by increasing employment and reducing capital intensity. The two main avenues through which increased supply is achieved are the utilization of additional, non-market resources, and price discrimination. Non-market resources correspond primarily to (partial or complete) voluntary work. These additional resources allow to reduce costs and increase efficiency when compared to State and private provision. Their function is to boost the supply of meritorious goods in sectors in which market failures are pronounced and the services

provided produce positive external effects, which can cause free riding on contribution (Olson, 1965). The emergence of trust relations and the expression of intrinsic and pro-social motivations become the core elements in the evaluation of organizational activity, while the commercial activity is instrumental to the possibility of attaining the social missions (Hansmann, 1996; Frey, 1997; Blandi, 2018). Finally, given also the entrepreneurial vocation of SEs, the involvement of different active stakeholders, and the presence of moderate degrees of market competition, their innovative potential appears stronger than public and non-profit providers (Tortia, Sacchetti and Valentinov, 2020).

Price discrimination, a core topic in this paper, is directed to increase supply in favour of weak individuals and social groups (Grillo, 1989; Borzaga, Depedri and Tortia, 2011). The economic rationale of price discrimination is not found in profit maximization but, quite the opposite, in the exclusion of the profit motivation (imposition of the NPDC and multi-stakeholder governance), since setting different prices for different users is directed (and can be accepted by regulators) to reach, at one and the same time, two crucial aims: (i) allow the organization to reach financial sustainability (revenues must at least match costs); (ii) set prices that are low enough for users with low ability to pay to afford the service.

3.1. The completion of supply

A main surplus-increasing feature of SEs relates to the completion of supply in many sectors where public and welfare goods and services are under-provided. The access to additional non-market resources (donations and volunteer work) and relations based on trust has already been evidenced as a factor limiting morally hazardous behaviours by suppliers (Lohmann, 1992; 2015; Tortia, 2010; Blandi, 2018). As for State provision of welfare services, it has long been evidenced that it can undergo serious limitations, since administrative authorities decide the degree and variety of provision of public goods on the basis of budget constraints and of the median voter's preferences (Weisbrod, 1975; 1988). In Weisbrod's view, niche public goods are often not supplied by the public sector, and their under-provision represents one of the main reasons for the creation of non-profit organizations. Other failures in the bureaucratic processes can be added to show as the intervention of third sector organization can improve supply both quantitatively and qualitatively. In these respects, SEs can keep on operating as non-profit firms that complete public provision.

Other shortcoming of traditional suppliers related to internal agency relations can be added, like contract incompleteness and the relational nature of the services provided (Borzaga and Tortia, 2017), which cause radically uncertain and evolving outcomes (Kreps, 1990). In the presence of contract incompleteness and severe asymmetries in information, some services can be produced only if all the interested stakeholders are involved in the governance of the organization. In the absence of participation rights of different patrons, the controlling stakeholder would have too strong an incentive to exploit information advantages and decision-making power, and the excluded stakeholders would not be in the position to adequately protect themselves against unfair

decisions (Sacchetti and Borzaga, 2020). All these features militate against the implementation of rigid hierarchy and control, since the non-standardized nature of services is not amenable to rigid organizational practices and routines (Blandi, 2018). On the other hand, given the impossibility to produce high value-added goods and services, SEs cannot resort to high powered monetary incentives. Consequently, in the absence of non-profit SEs, the supply of this kind of services can be expected to be inefficiently low and ineffective.

This is especially true also in the case of communal services that require a high degree of local embeddedness of the organization and strong personal ties that can generate a high degree of trust (Granovetter, 1973). The welfare of local communities can be substantially improved if local actors are involved in the production of services. Hardly-transferable resources, such as the environmental, relational and cultural ones, can be valorised only by in situ processes of production and would be wasted or underutilized in the absence of a capacity to manage them together in dedicated organizational forms. This way, SEs can play a crucial role in the implementation of the processes of local development, given their ability to channel the needs and preferences of all the actors involved at the local level (Borzaga and Tortia, 2009).

3.2. Price discrimination

A peculiar result that can be obtained by SEs, and in more general terms by non-profit seeking enterprises that involve costumers and users in the govern of the organization, is their ability to carry out production even when unitary costs are higher than prices, even in the absence of unilateral transfers like donations and volunteer work.

One of the commonest problems in the provision of welfare services is the inability of all the users to pay its full exchange value on the market. While historically this problem has been mainly coped with through the creation of mutual insurance societies and by the redistributive intervention of the State, SEs can open up new possibilities when they are able to discriminate on prices thanks to better information flows and to the absence of the profit motive (that is to the absence of the possibility of private appropriation of surpluses and distribution of dividends). Price discrimination does not take place in ordinary market exchanges since the disclosure of information concerning consumers' reserve prices would allow producers to reap part or the whole amount of consumer surplus, which would be added to their profits. Because of this, profit orientation can lead to inefficient outcomes, since the organization is not able to increase production by setting different prices for different clients. On the other hand, when production is not possible in the presence of simple market equilibrium because demand is too weak and the unit price is not sufficient to cover average costs, discrimination can become a necessary condition for production (Grillo, 1989). This is a widespread condition in sectors such as culture and historical heritage, and the performing arts, which often require the involvement of users with a high ability and willingness to pay in order to achieve financial sustainability (voluntary donations and fee based honorary fellowships are typical mechanisms in such cases). Price differentiation on the basis of the different willingness and ability

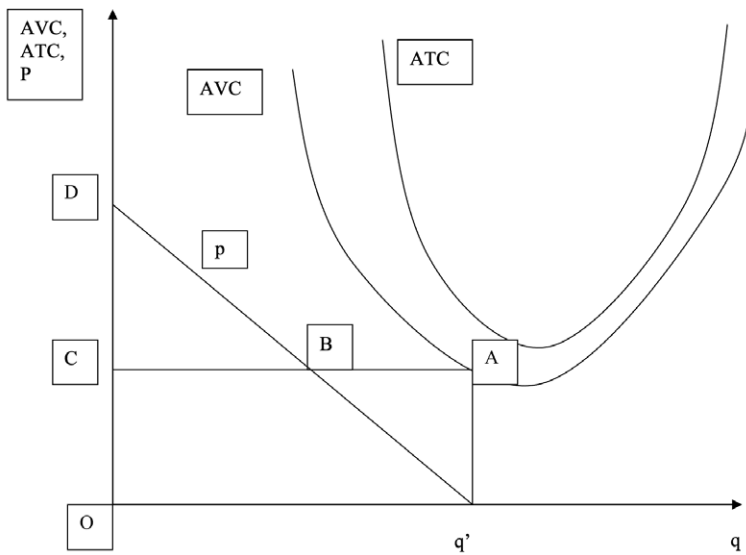
can contribute to overcome weak demand and insufficient supply.

The imposition of the NPDC represents a necessary precondition for the implementation of price discrimination in SEs, since it signals the intention not to maximize private returns by discriminating on prices. While profits are not maximized, the main aim of price discrimination is financial sustainability, that is allow the organization to at least break even. The exclusion of the profit motivation can more easily support users' information disclosure concerning their willingness to pay for the service. More formally, the objective function of the organization coincides with the break-even constraint:

$$\int p(q) dq \geq AC(q)q \quad (1)$$

where AC are average costs. Production can take place also when reserve prices defined along the demand curve are lower than costs for each and every level of supply. In Figure 1 the same result is represented graphically on Cartesian axes:

Figure 1. Price discrimination and the production of welfare services



The area under the demand curve, that is the total willingness to pay by users, coincides with the total revenue in the case of perfect discrimination, and needs to be at least equal to total costs for break-even to be obtained. While potential demand is equal to q' , the ability to pay is low and the price fixed on a competitive market would not be sufficient to break even. We take as reference average variable costs (AVC) and not average total costs (ATC), since the former represent the basis for the calculation of the fee-per-service payments, while fixed costs may be dealt with in a different way, for example by reinvesting the positive end-of-the-year surpluses of the organization, through public subsidies, through annual membership subscription fees, or through private donations.

Total variable costs are represented by the area of the rectangle $Oq'AC$. In the absence of price discrimination production is not possible. Even fixing the price to maximize revenues (point of unitary elasticity on the demand curve) would not allow production to take place economically (Grillo, 1989). On the other hand, as long as the area of the triangle CBD is bigger than the area of the triangle ABq' , production can be sustained if the reserve price is charged to every user. In this case, also the demand of the marginal customer, who needs the service, but is not able to pay any amount for it, can be satisfied. When revenues are generated by charging reserve prices and just enough to meet costs social surplus is nil, but the allocation is Pareto efficient like in the case of the perfectly discriminating monopoly.

Of course, many other examples could be spelled out. If the point q' is found in correspondence of the increasing part of the cost curve, satisfying the whole demand may be more difficult since total average costs would increase more than proportionally with the increase of supply. In such cases it can be advisable for the firm to ration supply and produce at minimum efficient scale (in correspondence of the minimum cost). This solution would reduce entry barriers and allow more sustained competition in the industry. Price discrimination can sustain relevant increases in social welfare through the autonomous contribution of SEs in dealing with customers' demands. As increased supply would not take place based on the standard logic of equilibrium between supply by profit seeking entities and demand, non-profit SEs take up a clearly different role when compared to both public and private agencies.

4. Financial sustainability and price discrimination

One of the most fruitful fields of activity for this new form of enterprise is in the reform of welfare systems, whose decentralization, at least in some sectors, and for some service typologies, has long been envisaged in many countries. Provasi (2007) provides a valuable introduction to the role of SEs in welfare systems. The basic problem relates to the production of common goods generating positive external effects. That is goods that are meritorious, because they are privately provided and consumed, hence rival, but that cannot be excludable because of social requirements that equate them to social rights and because of their important social roles. Classical examples are education and health care. In the absence of redistribution of resources and of public provision, the access to these services would be rationed and the portion of the population not able to pay for them would be excluded from their use. This result is not acceptable on political and moral grounds, at the very least because of its conspicuously negative social consequences.

The need to guarantee universality made the production of welfare services by mutual-aid societies inadequate starting from the beginning of the 20th century and has required the expansion of public provision, which came to absorb bigger and bigger slices of national income after World War II. Public welfare systems absorb a substantial share of GDP even now, their main aim being the fulfilment of social rights through the universal provision of services to all the citizens irrespective

of their income levels and social conditions. However, in the last thirty years, public welfare systems have undergone quite severe crises and restructuring processes due to various reasons: binding budgets constraints; under-provision of niche public goods; bureaucratization of production with an ensuing rigid and ineffective supply; lack of innovation and surplus increasing solutions. Its relevant limitations notwithstanding, the public system still represents the core of welfare provision in most countries, with few notable exceptions, such as the US and some Asian countries like South Korea and Japan. This paradoxical result (crisis but, at one and the same time, a dominant role in welfare systems) can be interpreted by seeing the public sector as the provider of last resort, which has to intervene when decentralized production based on market exchange and community-based organization is not able to guarantee universality and minimal quality standard.

In the presence of public provision, universal coverage of the whole citizenship takes place on the basis of sustained redistributive processes transferring resources from the wealthy to the poor. We saw in the previous section various reasons why SEs can be envisaged as an adequate and additional response—that is complementary to the public one—which can nonetheless achieve better results than public provision at least in some respects. Expected improvements are particularly relevant as long as completion of markets, reduction of costs, entrepreneurship and innovation in the production and organizational spheres are concerned. The severity of market and State failures can be so strong as to allow only SEs to produce certain goods and services, and past experience has shown that this is the case for example for work-integration social enterprises (WISEs, as in Galera and Borzaga, 2009; Borzaga and Galera, 2016). Of course, SEs undergo some weaknesses as well. For one, their non-profit nature makes it difficult to access financial markets, especially equity markets and achieve adequate levels of capitalization in capital intensive sectors. For two, as long as the bottom line of economic and financial viability needs to be met, a system based on private provision and entrepreneurship, which resorts to market exchanges (especially fee payments) in a substantial way, may not be able to guarantee universality of social rights. The addition of supplementary resources like volunteer work and financial donations may or may not be sufficient to achieve this goal. In the following sub-section, we resort to a specific model of price discrimination, which may be implemented by SEs and take them closer to universal coverage in the supply of welfare services.

4.1. A model for price discrimination

As anticipated in Section 3, price discrimination in non-profit SEs can be used as a tool that widens supply and serves substantially larger slices of potential demand. The problem that confronts us in this section is how to make price discrimination workable and effective in real world SEs, as we know them. The wealthier part of the population is in a better position to cover the full cost of provision. Equilibrium prices can be well above the minimum level of average costs for wealthier users, but ability to pay may not be sufficient in the general case of the median or average income level. Demand for welfare services can be strong as it involves basic needs of large shares of the whole

population, but reserve prices may not be high enough for providers to at least break even.

Figure 1 in Section 3 represented the case of perfect discrimination, the case in which all reserve prices are known in advance to the provider and prices equal reserve prices. However, perfect price discrimination may not be implemented for various reasons, especially the impossibility to clearly identify reserve prices, since users may not be willing to disclose their true willingness to pay, even when their income levels are known. Besides, perfect price discrimination, even when feasible, may not be accepted as it implies the complete hollowing out of consumer surplus. A milder approach would advise to establish a limited set of different prices for the same service, which reduce but do not eliminate consumer surplus, by resorting to known techniques of second- and third-degree price discrimination. In this section we consider the possibility of implementing second-degree price discrimination aimed at maximizing revenues, which would serve to achieve both maximum production (corresponding to potential demand) and financial sustainability (break-even). Subsidization by public authorities is not excluded, but it is not a necessary feature of this scheme.

A recursive process of second-degree price discrimination is proposed. When reserve prices for each user cannot be identified, while it is possible to identify the demand curve at the industry level, second-degree price discrimination can be applied. In basic microeconomics, second-degree discrimination occurs when the firm knows that it faces different individuals with different individual demand functions and reserve prices, but it cannot tell who is who. In this case, the firm offers a menu of different packages or options designed in such a way that consumers sort themselves out (self-select) by choosing different packages. Clients are charged different prices on the basis of the total amount of product purchased down to the lowest possible price (equal to marginal cost). This kind of discrimination does not allow the firm to extract the whole consumer surplus.

In our case, a slightly modified scheme of second-degree discrimination can be applied. The SE does not know the reserve price of each users, as it can be too difficult to reconstruct the preferences and willingness to pay of different users, hence their exact demand curve. However, given the social relevance of the services delivered, the SE can have information on each user income level. Higher prices can be charged to wealthier users, on the basis of the reasonable (but not necessarily true for each and every user) assumption that wealthier users are willing to pay more. Users would be sorted ex-ante income level, which is exogenous to the model and an objectively observable category. They would not have a menu of prices among which they can choose. The identification of reserve prices with income levels, which would imply the identification of willingness and ability to pay, is not without controversy, but it can be presumed that this identification is correct on average over the whole population.

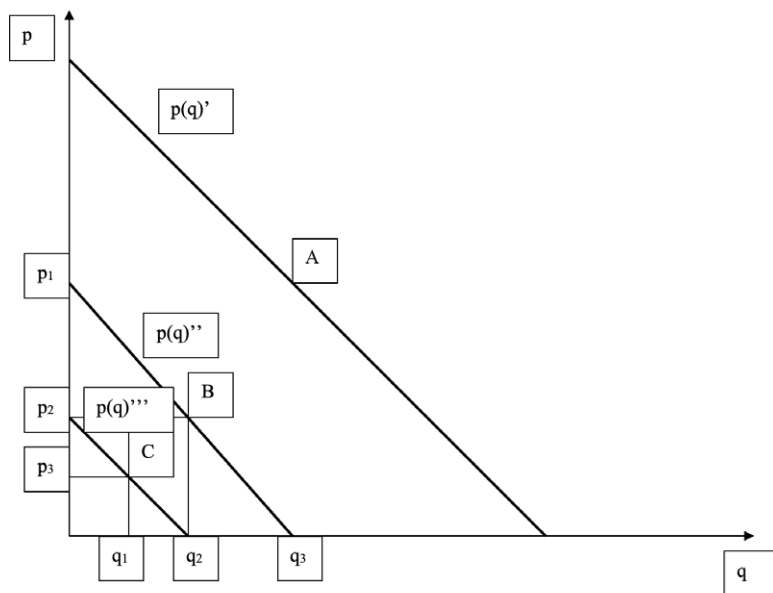
Lower-income users would be positioned on stretches of the demand curve characterized by lower elasticity than high-income users. Prices could be set on stretches of the demand curve on which demand elasticity of demand is lower than one down to quantities of production that correspond to potential demand or to minimum average costs. However, since the SE can discriminate on prices and aims to maximize revenues, lower prices would contribute to achieve its objective like higher prices. If the objective of the organization is not profit maximization, but production maximization in correspondence with potential demand, welfare effects can be positive since both producers and

users can increase their benefits in correspondence in a situation of revenue maximization and price discrimination. These welfare gain would be conspicuous when compared to the standard outcome in which the firm sets only one price in imperfect markets. Additional fractions of the population of users would be served since low-income users would pay lower prices, while they would be excluded in the absence of price discrimination.

Prices can be formed in such a way as to have revenues meeting costs (break-even) or come close to this condition. Cost control is, of course, the second crucial dimension of this scheme. Costs can be put under control by capping wages and other factor costs, and regulation can play an important role in this regard. Wages for the different categories of workers can be capped at levels that impede excessive cost inflation and, at the same time, allow competition between different providers in the recruitment of qualified personnel.

Figure 2 spells out graphically the recursive model of price discrimination aimed at attaining at one and the same time both maximum production and maximum revenues. Price discrimination does not cause rationing and reduction of supply. The iterative process of price discrimination based on revenue maximization would set a series of decreasing prices in correspondence with unitary elasticity. This point, by definition, maximizes revenues. The first price set is the highest and is charged to the highest-income users. The same process would be repeated on the stretches of the demand curve that are positioned to the right of the highest price set. These parts of demand are left unserved because reserve prices are lower than the lowest price. The process would stop when the price reaches a specified lower bound (a price that is low enough to serve as sheer disincentive to increase supply in a wasteful way).

Figure 2. Second degree price discrimination and the production of welfare services



In the diagram, the firm would start producing at price p_1 (point A), where revenues are maximized and the elasticity of demand to price is unitary. In the absence of price discrimination, the lower part of the demand curve would not be served causing a more or less severe rationing of supply. However, a second price p_2 could be fixed at point B and would maximize revenues for the residual demand $p(q)''$. And so on, a third price p_3 could be fixed at point C and would maximize revenues on the residual demand $p(q)'''$.

Since the objective is not the maximization of the surplus, costs would enter the calculation as a constraint that requires to be met. Hence, we do not look at the equality between marginal revenue and marginal cost as in standard monopoly analysis. Instead, it is sufficient that total revenues are at least equal to total costs calculated on the whole produced amount. In order for production to be economically viable it would be sufficient that:

$$\sum_{i=1}^n p_i q_i \geq AVC(Q)Q \quad (2)$$

where n is the number of different prices set, q_i are the quantities corresponding to the individual prices p_i , and Q is the total amount of production that corresponds to a specified level of average variable costs.

4.2. Discussion

The model of governance and price determination developed in this paper evidences that users of SEs would be sorted ex-ante on the basis of their income level into as many groups as the number of prices defined by the analysis⁴. Information disclosure concerning users' income is clearly a very sensible aspect of the problem, since this information can be exploited and misused in various ways by SEs as by any other organization. For users to agree to the definition of different prices on the basis of their income levels, it is necessary that they can control the destination of the amounts paid in the form of service fees. Hence, users' involvement in decision-making through information, consultation, and control of the cost structure and revenue utilization can be a necessary precondition to achieve the stated aims. If these mechanisms were actually implemented, it would imply that the peculiar control rights and governance of SEs can allow them to increase supply in situations in which other organizational forms, most notably the profit-seeking ones, but also the public sector, would produce at socially inefficient levels.

⁴ A similar pricing mechanism, whose possibility is just pointed out but not analyzed in this paper, would set one unique price, the highest one, which would be charged to the wealthier users, while a series of discounts (a, b, c, etc.) would be made available for the lower-income brackets. This solution may simplify information disclosure.

Users' involvement requires the setting up of multi-stakeholder governance. The existence of SEs directly run by users' representatives (e.g., as users' cooperatives), or where users are represented in the governing bodies implies some kind of positive right to evaluate the decisions of the organization concerning the production process and price policies. Different degrees of control can be envisaged, from the formal right to elect the board of directors and advisory bodies in user-controlled enterprises to weaker rights. These aspects need to be carefully evaluated and regulated in both national legislation and in statutory bylaws. Fully-blown users' control may not be feasible in many circumstances, either because other organizational solutions turn out to be more effective or efficient, or because the interactions between the organization and its users is not strong enough to grant user control as an effective solution. The primary objective of legal and statutory regulation would be the determination of the minimum necessary degree of users' involvement and control that would be able to foreclose the insurgence of damaging decisions, including of course the transparency of the mechanisms of price formation.

While SEs delivering welfare service can still be directly financed and/or subsidized by the public actor, for example in setting up the organization and covering other fixed costs, price discrimination concerning fee-per-service delivery could help substituting (partially or totally) redistribution of resources operated through the fiscal system. This shift would have important efficiency enhancing consequences. First, the revenue of SEs would be defined directly by the amount of services delivered, and not by transfers defined on the basis of balance sheet data. Transparency would be enhanced and the possibility of accounting make-up reduced. Second, supply could respond more quickly to changes in consumers' needs and demands, while administrative decisions backed by the availability of public funds tend to retard the dynamic of supply. Third, market exchanges enhance information flows relative to centralized and bureaucratized production in the public domain, and this fact can be true also in the presence of not-perfectly competitive markets and quasi markets. Fourth, the annual balance sheet of SEs would be presented directly to the users of the services (and possibly even approved or rejected by them), who would be in a good position to judge the achieved results, exit being an option in many circumstances.

On the negative side, the possibility of the pursuit of objectives different from the public benefit, for example linked to individual or group interest by the stakeholder groups controlling the organization cannot be excluded. In this respect, beyond the formal guarantees to be accorded to users and the reduced intervention of the public actor, also local authorities are likely to be needed as an active stakeholder. The involvement of local authorities, supplementing national legislation and the central government, would play some crucial functions. First, they would control the proper utilization of the information disclosed by users, especially concerning users' income, which can be made strictly confidential. Second, in order to prevent segregation of demand at high- and low-income brackets, additional rules can be mandated, forcing SEs to accept users coming from all income levels. Income bands would be broadly defined at the national level, and specified in precise terms by local authorities. Third, the process of price fixation would be left to individual enterprises, leaving the role of regulatory agencies and watchdogs to national

and local authorities⁵. Four, on the basis of the total dimension of demand, local public authorities may be allowed to define the maximum number of licenses to be offered to new SEs for different service typologies, so as to maximize production efficiency and reduce unitary costs of services.

The multi-stakeholder nature of non-profit SEs delivering welfare services is now evident: the organization would be managed in the interest of users and under the control of communal authorities, but following strict economic criteria as long as their economic and financial viability are concerned. The main stakeholder would be the users, the local authorities, employees, donors, and volunteers. For each stakeholder group, laws and other regulations need to set the minimum required standard (general principles) for its involvement, while the specific working rules would be left to individual organizations. The position of users, donors, and public authorities would be critical for the above cited reasons, though public authorities would enter the picture mainly in the role of guarantor and regulator, as the representatives of the community at large. The stakeholder-patron(s) with whom the formal right to appoint the governing bodies (board of directors and/or advisory board) rests are not determined in advance. These patrons can be one unique stakeholder, with the exclusion of public authorities in order to prevent public control, or more than one stakeholder. The right to appoint the governing bodies and the most suitable ownership forms are relatively unimportant in this context and will mainly depend on the specific activity of operation and other contextual elements.

While we focused on users' and local authorities' involvement, employees' involvement is necessary as well, given the relatively low degree of standardization, the relational content and the strong incompleteness of labour contracts in the provision of welfare services. In such a context, given the low effectiveness of hierarchy, monetary incentives and control, worker involvement can lead to better information flows, lower transaction costs, and improved procedural fairness, all conducive to higher productivity and increased quality of services (Benz and Stutzer, 2002; Benz, 2005; Borzaga and Tortia, 2006; Tortia, 2008; Blandi, 2018). The internal equilibrium between the different actors and the governance mechanisms regulating their interaction may not be defined in advance beyond the above-mentioned general criteria. Indeed, the paradigm of self-organization is brought in to evidence that the autonomous decisions of different stakeholders in identifying and choosing their relative positioning within organizational boundaries is most likely to lead to the expected results in terms of quality and quantity of the services delivered (Sacchetti and Tortia, 2014; 2020). The exact definition of the working rules and specific governance mechanisms is left to statutory bylaws and managerial decisions, so as to allow the maximum possible degree of adaptation of the individual organization to specific social objectives and to contextual conditions. In practice, SEs might be operated as worker and/or user cooperatives, as non-profits where the appointed management governs the organization on the behalf of its beneficiaries, or as investor-owned firms whose surpluses and investments are devoted to their social missions.

⁵ We do not exclude the possibility of direct pricing by local authorities, but this possibility is not analyzed here. In very general terms, the stronger the competitive pressure between different providers, the lower the need for price regulation, while in the presence of imperfect markets and monopoly power, price regulation may be necessary.

5. Concluding remarks

SEs represent an innovative organizational solution that has the potential to spread well beyond the traditional sectors and organizational forms, especially the public sector and investor owned, profit-seeking enterprises. The cross-ownership character of SEs adds flexibility to its utilization in different sectors in the provision of different typologies of goods and services. The aim being the pursuit of public benefit, important improvements are expected mainly in comparison with public production in terms of efficiency enhancing, cost-reducing and surplus-augmenting solutions. Innovative activities, the completion of supply, and the utilization of supplementary resources with respect to more traditional organizational forms would all contribute to increase the economic and social surplus produced by SEs.

The well-known limitations of contemporary welfare systems, and the more and more binding financial constraints they undergo imply that externalization and decentralization based on market exchanges and private provision will become a growing phenomenon in the production of public and welfare services. While bureaucratization and procedural inefficiencies can halt the innovative potentials of the public sector, SEs may not suffer from these limitations to the same extent. Consequently, given their public benefit vocation, SEs can be expected to both complement and substitute public provision.

In this paper, attention was specifically focused on the possibility for SEs to produce welfare service, since their peculiar ownership rights and organizational solutions could help alleviating long lasting problems that affect mainly public but also private provision, such as various kinds of inefficiencies and the low innovative potential. Among the manifold dimension of the working of SEs, we pointed our attention to their most typical forms of governance and its expected consequences on price determination in the production of welfare services. Given the presence of important contractual failures and the non-standardized and relational character of the services produced by SEs, multi-stakeholder governance was already singled out by several authors and in several pieces of national legislation as the most typical way in which SEs are able to coordinate different stakeholder-patrons within organizational boundaries, this way overcoming the limitations of contractual relations. We agree with this stance, and resort to the paradigm of self-organization to clarify how multi-stakeholder governance can emerge and develop overtime. We evidence how the autonomous decisions of different stakeholder-patrons in positioning themselves within the governance structure (including, of course, the relative position of each stakeholder) is key to achieving organizational efficiency and effectiveness, and welfare increasing solutions. Price determination and the related mechanisms of discrimination, in the presence of multi-stakeholder governance and the NPDC, are instrumental to achieving the fundamental objective of universal coverage of basic welfare services as social right. A proper regulation of price discrimination and revenue maximization can allow the attainment, at one and the same time, of the coverage of the whole potential demand for services and of financial sustainability. While revenue maximization is functional to the gathering of the resources necessary to carry

out efficient production, cost control is necessary to keep service fees under control and to allow revenues to meet costs. The utilization of non-market resources such as financial and labour donations (also in terms of lowers than market equilibrium wages) can help achieve this objective. When public subsidization becomes necessary (due to too low ability to pay of some shares of the users), cost control can also be affected through regulation and public expenditure control by public authorities.

Though tentative, the solutions proposed, especially the ones highlighting the advantages of price discrimination, are intended to be a starting point in the direction of the creation of at least partially decentralized welfare systems. While traditional welfare services may be left to public provision, new welfare services connected to the evolution of social needs and demands, and especially linked to the aging of the population and to the weakening of family ties in industrialized country, will offer many new opportunities for increased supply. In the presence of binding public budget constraints, SEs may become a crucial actor able to take up and accomplish these developmental trends.

The main limitation of this paper is found in the early stages of its analysis, which will require several theoretical (both analytical and conceptual) and empirical extensions. Besides, regulation and policy tools in public-private partnerships, and the related financial instruments, which already exist, need to be developed and tailored to the specific features of non-profit SEs. These remarks also constitute the most fundamental suggestions for future research.

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