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The notion of social responsibility across different types of nonprofit and for profit organizations

Abstract

This contribution focuses on forms of CSR of the likes of NPOs, social enterprises, co-operative firms, employee-owned companies (EOCs) and multi-stakeholder governance. Their common feature is that they all are organizational types which do not maximise profits, and add the social dimension in the operation and aims of the organization as fundamental elements. The explicit recognition of a social dimension can therefore be studied at different levels, starting from basic institutions, such as control rights and governance, up to strategic and operational dimensions such as organizational routines, managerial models and employment relations. The issue to be examined, in these respects, is how these firms design their governance consistently with the instrumental role of profit and other commercial objectives, and how the role of profit is reconciled with the main societal aims.

Key words: social responsibility; governance; welfare; co-operative enterprises; employee owned companies; non-profit organizations; social enterprises.

Introduction

The aim of this chapter is to analyse how Corporate Social Responsibility (CSR) can be observed in organisational forms that do not pursue commercial objectives in an exclusive or dominant way or, in other words, organisations that explicitly shape their aim and structure in terms of social responsibility.

The concept of CSR has traditionally been applied to profit making and commercial corporations. The European Commission defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2011, p. 3). With this approach companies act “over and above their legal obligations towards society and the environment”, whereby compliance to CSR can be favoured by a conducive regulatory environment. The intuition behind this kind of approach is that CSR criteria need to be added by means of legal constraints or, more often, through self-regulation by the organization in order to improve its competitiveness, social standing, and to reduce social costs or negative external effects deriving from traditional forms of entrepreneurship. The many contributions on what management science calls the “triple bottom line” have emphasised that firms can produce social and environmental value besides economic value (Elkington, 1998; Crane and Matten, 2007). The approach is often contrasted with Milton Friedman (1970) famous stating that the responsibility of a business is to maximise shareholder value while conforming to the basic rules of the society. The neo-liberal approach considered CSR as a sort of “tax” paid by corporations which is aimed at improving public welfare, whilst instead this is the role of the state. Unsatisfied with the answer of the neo-liberal approach to the “social costs” created by corporate activities, scholars have reasoned on how to nest socially relevant elements within

stripped-down commercial objectives. The debate has analysed different evolutionary patterns whereby CSR can be the result of exogenous interventions by regulators, as well as the endogenous result of self-regulation. For example, social accounting and ethical codes represent instances of self-regulation that have the function of fulfilling and communicating the firm's societal role, such as improving the conditions of non-investor stakeholders, and producing positive externalities that benefit communities and society at large.

Operationally, CSR becomes relevant in changing the working of the firm since it affects organizational routines. Notably, routines can “store” values, knowledge, and managerial models directed to reconcile commercial with social objectives (Jeenbaeva, 2015). Changing governance models, however, is a different matter. It requires re-thinking who partakes in the fundamental assets of the firm, which is the power to define its aims and strategic direction. This is a more radical approach to CSR, as it requires re-thinking who is involved, why, on what basis, and to what effects. At a fundamental level, deeper forms of CSR have included societal concerns amongst the firm's objectives and governance solutions. In all cases, still, CSR introduces some degree of change, whether at operational (in terms of socially relevant working rules and constraints) or more strategic level (in terms of governance and decision making processes), (Cf. Sacconi, 2012; Sacconi and Degli Antoni, 2011).

The challenge of CSR can be interpreted as how to legitimise the integration of broader societal interests into economic choices, or “why corporations must fulfil an extended range of obligations toward their stakeholders” (Sacconi, 2012, p. 4). Institutional economists, in particular, consider what can be called “deep CSR”, that is transformative solutions which embed societal interests in firm governance, that is in the rules defining who holds strategic control on the firm's direction and owns residual rights.

This contribution focuses on forms of CSR of the likes of NPOs, social enterprises, co-operative firms, employee-owned companies (EOCs) and multi-stakeholder governance.

Their common feature is that they all are organizational types which do not maximise profits, and add the social dimension in the operation and aims of the organization as fundamental elements. The explicit recognition of a social dimension can therefore be studied at different levels, starting from basic institutions, such as control rights and governance, up to strategic and operational dimensions such as organizational routines, managerial models and employment relations. The issue to be examined, in these respects, is how these firms design their governance consistently with the instrumental role of profit and other commercial objectives, and how the role of profit is reconciled with the main societal aims. We study the inclusion of societal elements (the desired “effects”) along three organizational dimensions: who decides what to produce, how production decisions are made, and to what effect (Bobbio, 1977; cfr also Ostrom, 1990). If we refer to these questions, we can study the presence and impact of the social dimension in any firm, under the assumption that the nature of governance contributes to determine the nature of aims and, therefore, the firm’s impact.

Following an explanatory strategy that fits within the framework presented in Borzaga, Depedri and Tortia (2014), Figure 1 introduces the analytical framework. We use a continuum to illustrate diverse governance models and aims. The continuum starts from governance models that are nearest to investor ownership and profit maximisation, and then proceeds farther away towards models that embody various social elements in their governance and objectives.

Figure 1. Governance models and firm objectives



Moving from the left-end of the continuum, there are investor-led enterprise models that progressively introduced strategies to achieve the creation of multiple impacts, for example along the managerial ideas developed around the triple bottom line, emphasising economic, social and environmental elements. The main stakeholder remains the investor to which management holds a fiduciary duty. Further socio-economic aims are “added” consistently with the firm’s ability to maximise the interests of investors. Managerial approaches may work to some extent, but consistently with the profit maximising objective. The existence of alternative modalities, complementary, points to the fact that the traditional firm and its governance form has structural constraints and, despite CSR practices, is not suitable to address the variety of interests affected by the firm’s activities. We could in fact see the emergence of deeper forms of CSR as an answer to the institutional inadequacy of traditional firms to justify CSR. These other forms include changing the nature of the firm’s aims and its governance. One way of achieving this is changing the dominant stakeholder or engage multiple stakeholders in the governance bodies of the firm (Hansmann 1996; Borzaga and Sacchetti, 2015).

On the right side of the continuum we find socially oriented organizational models. These organisations do not pursue commercial objectives in a dominant way. Rather, they add social dimensions as fundamental elements in their operations, while commercial objectives tend to become instrumental to wider social ones (Borzaga et al., 2014). These are still firms, but their social remit implies that surplus capital is in large part reinvested in the community. At the extreme right of the spectrum, we find charitable NPOs (NPOs). These cannot be called enterprises, as commercial and profit-led objectives give way to dominant social objectives.

As an illustration of the arguments presented so far, the chapter presents case studies completed between 2011 and 2013 in the UK. These include all main non-investor owned organisational forms considered in the spectrum: employee-owned companies, co-operative enterprises, social enterprises and NPOs. The case studies were aimed at enquiring the governance and social role of non-investor owned forms, and can give important insights into how such organisations achieve economic and financial equilibrium; as well as solidifying their social standing. They reveal that some of the most common methods include:

- 1) Modifying control rights ('who takes part' and 'according to what criteria')
- 2) Including stakeholders in the firm's control and decision making processes (how decisions are made and what resources are shared)
- 3) Making societal aims explicit ('to what expected effects').

Multistakeholder governance

One approach to CSR is multi-stakeholder governance. This can be considered the emergent result of the institutionalization of CSR criteria, which have been analysed in strategic management and business ethics by Freeman (1984) amongst others. The approach normatively argues for corporations to share decision making responsibilities with various stakeholders. More critically, in law and economics, Blair and Stout (1999) have criticised the orthodox approach advocated by Friedman (1970) and Jensen (2001). Instead they argue for an extended fiduciary duty of the board of directors, which considers the interests of a plurality of stakeholder groups, rather than just those of shareholders.

Multiple-stakeholders can be embodied into different organizational forms using a variety of institutional solutions. These may differ depending on the statutory positions of stakeholders and access to strategic control. The German co-determination system represents

a model of multi-stakeholder governance in for-profit firms. Representatives of labour and capital coexist in the main elective bodies, and have very similar prerogatives in information disclosure and decision making processes. Likewise, the Japanese model analysed by Aoki (1984) introduces the notion of institutional complementarities. In the Japanese model of corporate governance stakeholders constitute the parts of a networked production system and share surplus according to their bargaining power.

Towards the right side of the spectrum firm types are increasingly characterised by mutuality and /or social objectives. When organisations are defined by the pursuit of social aims, multi-stakeholder governance may be required by regulation. This is the standard in community and socially oriented business forms, such as social co-operatives (*Co-operative Sociali*) in Italy, *Société Coopérative d'Intérêt Collectif* (Scic) in France, community interest companies (CIC) and community benefit societies (BenCom) in the UK.¹ It can also emerge spontaneously, as part of the socially oriented aims of the organisation.

Employee ownership

Employee ownership (EO) lies formally within investor ownership (IO). However, by exclusively assigning share ownership to workers, it represents a radical departure from standard IO control rights. This departure is key to introducing a mutual governance form. In some EO models, mutual governance is anchored to the number of shares owned by each employee while, in others, leans towards classic co-operative governance involving the “one employee, one vote” rule. While ownership is attributed to workers as investors, governance is modified to assign control rights to workers as members of the organisation. This solution

¹ BenCom were reformed in 2014 by the Cooperative and Community Benefit Societies Act, which replaced the Industrial and Provident Societies Act of 1965.

pairs market profitability with employee protection, mitigating the negative impacts that IO can have on employment contracts (Albanese, Navarra and Tortia, 2015).

The societal function of the organization coincides with the development of progressive labour relations, and with the improvement of the economic and moral conditions of workers. Albeit limited to workers, the societal function of EO has represented, over the last two centuries, a crucial milestone for those social movements advocating democracy and self-determination in all spheres of human activities, beyond State institutions and intervention. A well-known example is represented by the John Lewis Partnership in the United Kingdom, one of the largest UK retailers, as well as one of the oldest EOCs in the UK and in Europe (Storey, Basterretxea and Salaman, 2014).

Insofar as it allows for a potential mismatch between ownership and control, EO poses important challenges to institutional evolution. For one, the presence of saleable shares and potentially contestable ownership can induce distorted incentives and behaviours of managers, who can see in firm conversion and sale the easiest route to higher capitalization and profits. Case studies suggest that managerial decisions have been taken in these organisations with the aim of converting EO firms into IO, when conversion is readily available (Erdal, 2011, 2013).

More generally, even in the absence of this type of managerial decisions, the possibility to sell shares can favour or accelerate processes of demutualization, especially in difficult economic times, since in the prediction of a downturn it can be convenient for worker members to sell their shares before their value is diminished. Evidence from the Spanish economy is illustrative of this point. When comparing the behaviour of EO companies (*Sociedad Laborales*) with other organizational forms (worker co-operatives and IO firms) during the last six years, results confirm a stronger tendency of EO firms to layoff, reduce

dimension and demutualize during a crisis (Tello, 2016). The risk of demutualization can be reduced by holding shares in trust funds, this way limiting of excluding saleability, like in the John Lewis Partnership case.

Case study: Highland Home Carers (HHC)

Highland Home Carers (HHC) operates to provide homecare and support services to people who suffer from social and health-related forms of impediment. This is an EO company located in Inverness, in the Highlands of Scotland. The region consists of many remote areas, which makes homecare a major societal need and challenge. The main benefits for users are that they can remain in their homes, keep their lifestyle and become more independent (where possible).

HHC is the result of a leveraged buy-out carried out in 2004. The buyout was accomplished through the financial support of Baxi, a financial intermediary specialised in conversions from IO to EO firms. Highland Home Carers currently employs 400 people, who produce an annual £6 million turnover.

The study was implemented through one in depth focus group with the founding members, managerial staff and operators of the company. This in-depth collective interview allowed to listen to different voices as they debated and interacted about the main motivations, outcomes, and critical elements of the employee-ownership project.

What emerged from the focus group is a smooth process of conversion into an EO company. The process led to increased financial turnover, expanded employment, more limited worker turnover and wider range of services provided, most of them being dependent on public procurement contracts and tenders. No specific critical elements emerged in the description of the firm operation and organization. Governance is structured around employee

control, as each employee is required to hold a significant amount of shares. Only employed workers own shares, which are bought back by the organization in the case of quittance, retirement or lay-off. An internal market for the shares of the company has been set up, whereby each employee can sell part of his or her shares to other employees and to the organization itself. Since shares are not priced by financial markets, their price is set internally through a yearly process of accounting and evaluation. Even if the ownership of shares is not completely levelled (different employees can hold substantially different amounts of shares depending on their seniority, income and several other individual conditions) the governance of the organization is implemented on a "one employee, one vote" basis, which is considered to be the fairest, easiest to implement, least controversial and most effective solution.

The HHC governance structure has clearly been able to solve the allegedly severe failures in collective entrepreneurial action, which have been evidenced several times in the economic literature, as related especially to free riding (Alchian and Demsetz, 1972; Ostrom, 1990), and to organizational costs due to diverging members' interests (Hansmann, 1996, 2013; Borzaga and Tortia, 2017). The only critical element that emerged during the interview is represented by the high financial costs of the leveraged buy-out, which the organization predicted to overcome in about ten years.

The two main motivations backing the transformation from investor to employee ownership were:

- 1) To improve workers' autonomy and their involvement in decision-making processes.
- 2) To create organisational structures and solutions which would reflect employees' views and understanding concerning care services. In other words, EO would be a more suitable organisational model than IO in the production of personal and care services thanks

to employee involvement in decision-making and in the production of non-standardized services.

The first motivation benefits workers, while the second contributes to users' benefit. Production organisation, specifically in the provision of home care services, favours the use of an EO model because of qualitative and efficiency reasons. In fact, personal care is characterised by relatively low capital intensity, whilst featuring high labour intensity and relational drive. By reflecting the specific needs and situations of each user, personal services are defined by the relation between users and care providers. Given the non-standardised and relational nature of personal and social services, work effectiveness has been argued to require on-the-job autonomy (Borzaga and Depedri, 2005; Gui, 2000). Likewise, workers are large sources of tacit knowledge that accumulates with experience. Economic explanations, besides, emphasise that workers' active participation in production and in decision making can resolve asymmetric information and contract incompleteness, since workers are more informed than managers about users' conditions. Workers' involvement would, therefore, deliver improved quality and effectiveness. For these reasons, employee involvement has been judged to have a fundamental role in organizational governance in this sector.

Overall, results from the HHC case illustrate how CSR can be embedded in governance by including workers ("who"). They are employed and own shares in the organisation ("according to what criteria"), and participate in production decisions, strategic control and economic results ("to partake in what") as a solution for improving their self-determination and the quality of personal and social services ("to what effects").

Case study: Lock Fyne Oysters

The case of Scottish-based fishing company Loch Fyne Oysters illustrates a less successful case of EO, with a double transition experience, from family business to employee owned and then to investor-owned company. Loch Fyne Oysters had been the main business activity in the Loch Fyne community of Argyll, West coast of Scotland since 1978 when it was founded by Johnny Noble and Andy Lane. The principles set by the local founders were inspired to environmental values and care for the community. The transition to employee ownership that followed the disappearance of the last founding entrepreneur, Johnny Noble, was meant to allow for decisions to be shared within the local community. On similar communitarian values, his sister, Christina Noble, founded in 2002 the community non-profit “Here We Are,” which is analysed later in this Chapter. When John Noble died in 2002 the company was sold to its employees. The transition from conventional to EO in 2003 was supported again by Baxi, which provided consultancy over the governance transition as well as the capital and relevant knowledge for the hundred employee buyout. The transition process aimed also at shaping a culture of involvement and deliberation, integrating deliberative processes at different levels in the management of the organisation. Our case study identified that problems arose at this stage, thus putting the transition in jeopardy. On another critical point, with the aim of expanding the business, the management engaged into new acquisitions. Interviews evidenced that the indebtedness that followed the acquisition process lowered competitiveness as well as the morale of employees which disengaged from the idea of shared ownership and responsibilities. Eventually in 2012 the fishing company was demutualised with the backing of the 105 employee members in order to clear liabilities and keep occupational levels. Soon after the interviews, the new owner became Scottish Seafood Investments Ltd, which is controlled by Northern Link Ltd (owning 67 % of the shares of Scottish Seafood Investments; Source, Reuters 2012).

Co-operative enterprises

A co-operative firm is an organisation controlled by its members rather than by members of a family or by external investors. Co-operatives can take several different forms, such as worker-owned, consumer-owned, and user-owned co-operatives (e.g. credit unions in the finance sector). Co-operatives can also be formed by small private businesses, such as farmers – these are often known as producer-owned co-operatives -, or have public benefit objectives. Given that control is based on membership, co-operatives operate in the interest of their members, rather than that of external investors. This results in a collective goal derived from a mixture of:

- 1) individual '**private benefit**', in that members seek to maximise their own welfare;
- 2) collective '**mutual benefit**', in that the co-operatives aim to enhance the welfare of the whole membership (e.g. by seeking fairness in distributing benefits and enabling everyone to participate in decision-making processes and partake in the wealth produced);
- 3) '**social benefit**' when the co-operative is socially oriented, like in the case of social co-operatives in Italy.

Table 1. Objectives pursued by different co-operative enterprises.

Co-operative enterprises	Mutualistic aims
Worker-owned enterprises	Pursue job stability
Co-operative banks and credit unions	Pursue the reduction of credit rationing for small businesses
Consumer co-operatives	Aim at better quality and lower prices for their products
Producer co-operatives	Aim at gaining fairer prices for their inputs

Co-operative firms are understood as the most classical model of firm that coordinates economic activities to achieve mutual benefit by means of collective entrepreneurial action (Borzaga and Tortia, 2017). Control is adjudicated to one or several groups (in the case of multi-stakeholder co-operatives) of non-investor stakeholders, which represent the membership of the organization, on the basis of the "one member, one vote" rule (Birchall, 2010). Control rights can be assigned to a plurality of groups of non-financial patrons (consumer, workers, users, borrowers etc...). In co-operatives, ownership of assets and members' control are not decoupled, but are instead constructed to pursue and protect members' objectives. Two main models of asset ownership have emerged over time. The first is diffused in Anglo-Saxon countries. It is characterized by divided or divisible ownership, which can be appropriated and cashed in by members when they quit the organization, or upon the organization dissolution. The second model, mainly spread in continental Europe, is

instead characterized by non-divided, or common ownership (Tortia, 2015). In both models, ownership of assets is not conceived as a financial investment whose marketable value is to be maximized. Instead, ownership has an instrumental role, which aims at members' welfare in both monetary and non-monetary terms. Authority relations are allowed only in terms of delegated decision making power, whereby managers are agents of members, and are appointed by an elected board (Borzaga and Tortia, 2017). The self-directed and collective nature of governance supports representation in boards and the effective achievement of members' interests (Ostrom, 1990; Hansmann, 2013).

The social role of co-operatives and the mechanisms that are set out to pursue it are embedded in the firm's institutional structure. Given the non-contracted nature of membership rights (Dow, 2003; Birchall, 2010; Ellerman, 2015), co-operatives enjoy better chances to internalize in their internal procedures and decisional processes important welfare effects, which may not be manageable in the same way by means of contractual relations entertained with IOFs. For example, they have been proved to adequately pursue job stability in worker co-operatives, the reduction of credit rationing in financial co-operatives and banks, and in credit unions; better quality and lower prices of products in consumer co-operatives; higher prices of inputs in producer co-operatives.

The objectives of co-operative enterprises are likely to be more complex than in investor owned companies. This is because a co-operative needs to reflect different and stratified needs and motivations at the same time (Borzaga and Tortia, 2017; Sacchetti and Tortia, 2016). Similarly to IOFs, the monetary component of the firm objective crucially influences firm survival, that is to the long run balance between revenues and costs; and growth, which requires sufficiently wide net residuals and investments programs. However, the way in which monetary results are conjugated with other objectives still calls for further enquiry. Specifically, whether co-operatives pursue more general welfare functions is a hypothesis that

requires attention. Involvement in decision making, autonomy, procedural and interactional fairness can be organizational dimensions which contribute to increase members' welfare. Members may decide to forsake part of their remuneration in exchange for a more agreeable organizational environment (Jossa, 2014, 2015). On the other hand, specific additional objectives for each individual type of co-operative enterprise can be detected. Worker members in worker co-operatives can give a positive weight to the pursuit of job stability over and beyond income maximization, which was hypothesized as their dominant objective in the classical article by Benjamin Ward (1958). Members of producer co-operatives clearly weight in a positive way the possibility to preserve legal and organizational independence, and the possibility to retain ownership of their business, and especially of their land in the case of agricultural co-operatives (Tortia, Valentinov and Iliopoulos, 2013). Members in credit co-operatives aim at reducing credit rationing disfavoured small and medium sized enterprises deprived of collateral guarantees (Birchall, 2013). Finally, all typologies of co-operatives may want to favour the expression of the inner needs of members, such as creativity and self-actualization, needs that have been often connected with the realization of intrinsic, more than extrinsic motivations (Deci and Ryan, 2000). Heightened complexity in the objectives of the organization would testify the different social role of co-operatives relative to IOFs. Comparative analysis would be needed in these respects to enquire on whether sheer monetary objectives would be in fact substituted by a set of interlocked and stratified aims that fulfil multifaceted needs. These aims refer mainly to the individual member. Wider societal aims are not explicitly expressed in co-operatives, but neither necessarily absent. Some empirical results show positive and strong correlation between intrinsic and other-regarding worker motivations, which would translate into the pursuit of both individual and social objectives (Depedri, Tortia and Carpita, 2012). Such evidence would imply that organizational channels supporting the expression of intrinsic motivations

would also support the pursuit of social aims through governance and collective decision making processes.

Still, CSR in co-operatives mainly refers to members' welfare, which is internal to organizational boundaries, but also has positive external effects at the societal level. Some authors evidenced the peculiar role of co-operative firms in endogenously driven processes of local economic development, pointing out that their local embeddedness, and their geographically rooted nature, make them a localised "sunk" asset, which exerts its effects locally, benefiting first and foremost local communities (Borzaga and Tortia, 2009). Other works have evidenced the potential of co-operatives in social capital creation at the local level. The creation of social capital would be fostered by a better relational context underpinned by inclusive governance (Sabatini, Modena and Tortia, 2014).

Case study: Edinburgh Bicycle Co-operative

This case study was implemented through two in depth interviews to the founding members and managerial staff of the Edinburgh Bicycle Co-operative. The first interview was conducted at the industrial plant in which bicycles are assembled, the second in the main shop in Bruntsfield, Edinburgh.

The Edinburgh Bicycle Co-operative (EBC) was created in 1977 by three cycling experts who were passionate about cycling tourism. The co-operative started as a simple repair workshop, and slowly became a medium-sized retailer in the bicycle industry, growing to around 170 employees in 2012, of whom 135 were members. Turnover reached £12 million in 2011, when EBC jointly sold about 20,000 bicycles through its six shops in Scotland and Northern England, and through its online shop. Today, EBC is the largest bicycle retailer in Scotland and Northern England. Its board is made of six directors, all employed workers

elected within the membership, and three executive directors appointed every three years, who are themselves part of the membership. Profits are equally distributed through an annual bonus. Pay differentials are compressed, as the maximum ratio of the highest to lowest wage is five to one.

EBC mainly operates in the retail sector, as the industrial plant is exclusively used to assemble, not to produce, bicycles. Consequently, it is characterised by medium to low capital intensity. High capital intensity would be out of its reach given well-known difficulties of this kind of enterprise to access financial markets (Podivinsky and Steward, 2006; Jossa, 2014). The bulk of the capital is held in common funds, even is a share incentive plan was introduced in 2010 to strengthen financial involvement. The research interviews showed that governance and its bodies work smoothly and do not present critical elements.

All major decisions concerning members and the co-operative are taken by the general assembly on a majority basis, where specialised lawyers are used to work out internal regulation and by-laws compatible with national legislation. For example, after 24 years in which EBC had a single store in Edinburgh, the decision was taken in 2001 to expand and open new stores. This changed members' perception of the business, since the small dimension had favoured direct worker involvement in decision-making and the development of close interpersonal relations, which might have not been possible any more in a multi store organisation. The decision to expand was supported in the general assembly by 60% of members.

Societal criteria are reflected in the attention paid to the welfare and involvement of worker members. In addition, the co-operative was created on an alternative cultural basis, introducing cycling as a form of green counter-narrative to the automobile industry's rampant running in the last decades of twentieth century. Following this approach, self-determination

at work is paired with environmentally-oriented preferences. Overall, results illustrate how societal aims and effects are embedded in governance solutions by:

1. Having worker-based governing bodies employed by the organisation ('who takes part' and 'according to what criteria')
2. Giving worker-members strategic control of production decisions and access to economic results ('to partake in what')
3. Improving self-determination at work and the promotion of a greener alternative to car mobility and leisure ('to what effects').

Social enterprises

Social enterprises (SEs) represent a relatively new entrepreneurial model, which was initially introduced in the UK and Italy in the early 2000s to mark the possibility of pairing entrepreneurial action with societal objectives. Since they are defined on the basis of their social objective, and differently from traditional forms of co-operative enterprises, the presence of a membership of non-investor stakeholders is not a necessary requirement in SEs (Borzaga and Galera, 2009). This implies that SEs can take a variety of forms (e.g. foundation, co-operative, investor-owned etc.). The social objective is required by law and made explicit in the company statute: it has to be recognised either by a national regulatory agency (UK) or included in a closed set of sectors, mainly referring to health care, social and educational activities (Italy). Community Interest Company is the newest form of SE in the UK. Regulations 2005 states that 'CICs are a new type of limited company for people wishing to establish businesses which trade with a social purpose (social enterprises), or to carry on other activities for the benefit of the community'" (CIC Regulator, 2016). In the UK, there is not a sectorial limitation to operations, but the CIC Regulator has the ability to accept

or reject any application concerning the start-up of a new social enterprise, and decides on the basis of the public benefit aim of the activity. In a similar vein, the Italian law no. 118/2005, as completed by the legislative decree no. 155/2006, defines social enterprises as: "... private organizations, ..., that carry out an organized economic activity aiming at the production and exchange of goods and services with public benefit, directed to the accomplishment of general interest ends, ...". Italian social enterprises cannot be controlled directly or indirectly by public bodies and by private for-profit firms. The asset lock is present in the Italian system in a very similar way as for the CICs. The preclusion concerns direct distribution to financial supporters and members, but also the indirect distribution to other organizations, managers and workers. Direct distribution is ascertained when financiers without any control power are paid more than the reference interest rate plus 5 percent, while the capital invested by controlling stake-holders cannot be remunerated.

In order to pursue the social objective, private appropriation of net residuals (surplus) should be limited or excluded. In the UK and Italy social enterprises can distribute a limited amount of residuals in the form of capped, higher than market clearing interest rate. In both countries, the SE is required to build indivisible reserves of capital through the imposition of the asset lock. Indivisible funds cannot be privately appropriated or directed to mutualistic aims, but must serve exclusively the organization social aims (Borzaga and Galera, 2009; Borzaga, Depedri and Galera, 2015). If the organization is sold, the value of the asset lock cannot be distributed, but has to be conferred to other organizations with a similar nature and characterized, in turn, by the presence of the asset lock (e.g. non-profit organizations).

Given the public benefit objective of the organization, multi-stakeholder governance is usually considered integral part of these firms. Involvement in decision making and consultation of different stakeholders is usually required, though not necessarily at the level of governing bodies (e.g. as directors or auditors). Given the variety of different ways in

which SEs can involve their stakeholders, including contracts, the organisation has a duty to explain how stakeholders are engaged. For example, the Italian law requires that the SE spells out in its statute the ways in which workers and customers are consulted and involved in decision making.

When dealing with SEs, multi-stakeholdership deserves particular attention. It can be argued that SEs need active participation of different communities of interest to fulfil their social mission equitably. Equitably is used here to mean that stakeholders must partake in control as well as in surplus distribution, to which all stakeholders have co-operatively contributed (Sacconi, 2012). The exclusion of profit maximisation, the necessity to involve different actors in the entrepreneurial venture and in its decision making processes are likely to be conducive to pluralistic and isocratic forms of governance (Sacchetti and Sugden, 2009; Borzaga and Sacchetti, 2015).

Case study: Unity Enterprise

This case illustrates how a social enterprise used contractual relations to engage with external stakeholders, namely public sector, contractors and the contractor's workers. The case is interesting because contracts work to coordinate activities with stakeholders who are in a strong position relative to other categories (e.g. disadvantaged workers). Unity Enterprise is a Glasgow-based social enterprise with a charitable status. It provides social integration to vulnerable people (including long run unemployed) by offering training and job opportunities. Starting out as a small enterprise in 1989, with a £3 million turnover, its subsequent development was linked to its catering activities attached to the 2014 Commonwealth Games. This brought on a number of procurement contracts at Glasgow City Council, as the Council included Community Benefit Clauses (CBCs) in tenders for the

construction of the Games infrastructures. Unity was the first enterprise in Scotland to get contracted through a CBC. Their activities also had important media coverage: the enterprise was contracted for two years of catering services by McAlpine, the main contractor for the National Indoor Sports Arena, and by the Sir Chris Hoy Velodrome in Glasgow.

The direct impact of this procurement was the employment of seven workers with disabilities along with ten additional members of staff. Aside from this, Unity worked with site workers (those building the velodrome) to change their perceptions on how to approach people with disabilities, and the values and aims of social enterprises. This educational initiative reached a thousand workers, and changes in attitude amongst them were visible when they ate in the canteen. Workers as well as managers learnt that there was a fundamental difference between working in partnership with a social enterprise and merely giving money as an act of charity. Following Unity's success, other catering experiences followed in its path.

The research indicated that the challenge that Unity and social enterprises more generally face when entering partnerships with other organisations is the common expectation that a social enterprise can bend to meet other organisations' needs. A former director, pointed out that, however, the responsibility of Unity, in this case, was towards the people who would go back to unemployment if their business were not sustainable. In this sense the responsibility of the social enterprise was identified in learning from profit oriented companies "to negotiate with a business mind", to give continuity and stability to disadvantaged workers. Working with a profit oriented contractor, Unity also learned to match economic sustainability alongside the social aim. The approach towards keeping "social impact with business sense" was used as a benchmark for major decisions, and synthesised by the question: "is the business model right to meet the need?" On the other hand, once McAlpine learned that training and social integration through work was the main business of Unity, they

could collaborate and support Unity decisions on staff, catering operations, and menu revision. This mutual learning dynamic between Unity and McAlpine created high levels of trust between the two organisations. Public sector organisations also started a learning curve, and more Councils introduced CBCs in procurement, which opened the door to other social enterprises to deliver social inclusion.

The project was led to a large extent by the chief executive at Unity. Overall, results illustrate how CSR is embedded in the social integration aims of the enterprise and are reflected also in a collaborative partnership between a social enterprise and a for-profit company; CSR is also promoted by the public sector procurement strategy as a solution for integrating economic and social results (“to what effects”).

Non-profit organisations (NPOs)

Last in our discussion are non-profit organization, whose century long tradition entered economic analysis only during the last decades of last century, in the well-known works by Weisbrod (1977, 1988) and Hansmann (1988, 1996). NPOs can be broadly sub-divided into entrepreneurial and non-entrepreneurial. The latter category, which includes purely charitable and advocative NPOs is not usually included in economic analysis, if not in a marginal way. On the other hand, entrepreneurial NPOs received growing attention in the discipline due to their growing economic weight (value added produced) employment created and social impact. The ability of entrepreneurial nonprofits to complement and at times substitute public sector production of public and merit goods and services was recognized and studied by several authors (Becchiega and Borzaga, 2003). Economic analysis of NPOs developed following different main lines of enquiry, especially concerning: (i) their economic efficiency, as compared to other private organisational forms, and the public sector; (ii) their

growth and spread in relation to the presence of different fiscal systems; (iii) the peculiarities of their governance, especially as related to the public benefit and social aims pursued; (iv) the peculiarities of their managerial models, especially as related to labour relations. This growing stream of literature was implicated in the development of broader approaches to microeconomics, for example behavioural economics, leading to a wider and more complete understanding of human motivations in the economy, the working of economic systems and of community development (Rose Ackerman, 1996).

Economic theory has justified the governance on NPOs on different grounds with respect to other forms. Hansmann (1996), in particular, justified the attribution of ownership on the basis of an economic calculus that assigns control rights to the stakeholder incurring the lowest ratio of costs of governance to costs of contracting relative to all other stakeholders. However in the case of non-profits this calculus does not work. In fact, due to strong information asymmetries, the stakeholder for whom it is less convenient to rely on a contractual relation with the organisation is the weakest stakeholder (as a norm, classes of users such as children, elderly people, prisoners, disabled etc.). On the other hand, the weak stakeholders are expected to be bad monitors of the activities of managers, if control were assigned to them. So here is the dilemma: weak stakeholders cannot coordinate with the organisation through contracts because they would bear high costs (e.g. a poor service, higher prices), but they cannot control it either since they would not be in a position to monitor choices and outcomes. The solution for Hansmann is that NPOs have no ownership and are governed by boards of trustees, who agree to act in the best interest of the weak stakeholders.

Case study: Here We Are

Here We Are (HWA) is a rural community centre located in Cairndow, West Scotland. This can be considered as a non-profit, inclusive, community-based social enterprise. The small community is placed by the picturesque Loch Fyne, with great abundance of water resources and fisheries. Having been a prosperous community living off the fishing industry brought by Lock Fyne Oysters (an aquaculture/seafood restaurant business), the community went through a period of isolation due to population decline and the construction of a new motorway, which hid the village from popular routes. HWA was set up, in the words of founder Christina Noble, to strengthen the identity of the Cairndow community and to “narrow the gap between ‘them and us’” (Linklater, 2015).

The overall philosophy of the initiative can be described through Christina Noble’s words, which we take from HWA 2011 annual report:

“If we are not aware of our own values, we become victims of other people’s decisions. We have to bend to their agenda rather than ours, and that means not just a lack of trust in ourselves, but an aversion to risk, and an inability to take decisions of our own.”

For HWA, this meant providing an answer to the pressures sustained on this small rural community. HWA community centre has walls populated by giant posters of old community photographs, weddings, houses and classrooms from the past century. Each exhibition is the outcome of community engagement projects, during which parts of the community’s identity were rediscovered and showcased. These projects are all funded through competitive grants. The centre also hosts a computer lab for the community, used as a distance-learning point by students from Argyll College and the University of Highlands and Islands, which operate in remote areas of Scotland.

HWA is governed by a local committee of nine people, including a chair and a secretary. In addition to HWA fund-raising and project development, the committee is responsible for entrepreneurial renewable energy projects that have been created to achieve economic sustainability. Energy schemes are the “trading arm” of the charity. Through the trustees, the governance takes a bottom-up approach with the aim of increasing community participation, from decisions about projects to their management and execution. The aim of engagement is to always create benefits for the community, building on trust, reciprocity, and respect for the people, their culture, and the environment.

Several trusts and foundations supported HWA in the first years. Projects regarded community identity and exhibitions were produced on 19th-20th century Highland schools and education, on weddings in Cairndow dating back to 1900, on land ownership to show how changes affected community prosperity, employment and housing, and on local power generation. A cookery book produced at HWA is in every house in Cairndow, albeit it contains more than recipes, but rather the personal history of Cairndow’s women who contributed their recipes. One of the most ambitious projects was, at the time, the reconstruction of the history of 107 Cairndow houses, sponsored by the Heritage Lottery Fund. All these projects required the voluntary work of people from the community. Anticipating the coming cuts to grants, and to make the organisation sustainable, HWA built some infrastructures that generate rents, such as a meeting room, a shop (The Tree Shop) to sell outdoor equipment. This however was again supported through grants. To gain further independence from grants, HWA then invested in renewable energy, again building on the community experience of 18th century water mills. Through supported energy surveys, the opportunity to build a biomass heat scheme and a hydro-power scheme emerged. The biomass scheme was supported by the demand coming from the local salmon hatchery at Lakeland Smolts. In 2008 this exploratory feasibility study led to the creation of a wood

chipping plant in the form of a Community Interest Company called “Our Power”, an initiative that was shortlisted for Scottish Green Energy Awards “Best Community Initiative”. The plant supports energy needs of Loch Fyne Oysters restaurant, HWA centre, and the attached shop. The hydro scheme proved more difficult to be implemented. New partnerships had to be put in place, creating a joint venture with local hydro developers. The biggest challenge was to persuade investors, and at the end of a long and at times disappointing process, the Co-operative Bank agreed to fund it and Our Hydro Ltd was founded. The foresight of the founder was crucial in pursuing HWA sustainability, which has been linked to the two renewable energy companies (one CIC and one Ltd).

Results highlight that a non-profit organisation such as HWA has had socio-cultural, environmental and economic impacts for the community. The social and cultural impact was acknowledged by the Scottish Community Foundation which commissioned, in 2008, a Social Capital case study and designated HWA a Social Capital Champion. The economic impact is manifested in the creation of two the businesses, which bear on the environmental impact embodied in the two renewable energy schemes that serve the local community. Beyond the community, similar problems in other rural and rather isolated communities were making - at the time of the interview - other non-profits to look at HWA and its commercial schemes as a model to be followed. This confidence in building self-determination of communities into their heritage, social and environmental justice is exemplified by a short publication which was put together at HWA “as an introduction to encourage others to set up a Here We Are”.

The main features responsible for generating positive impacts are as follows:

- HWA was built with resources intrinsic to Cairndow’s local community in terms of social connections and inner trust, on a shared understanding of the community and its culture, and on local skills and competences.
- HWA addressed a variety of social goals simultaneously: increasing societal identity, achieving environmental goals through renewable energy schemes, ensuring economic sustainability of activities, reinvesting in the community and pursuing local cultural needs.
- Community participation was crucial.
- The individual initiative and life-experience of the founder was crucial.
- The capacity to bid for external grants and identify relevant funders amongst the trustees.
- The ability to generate start-ups, or trading arms, to sustain community charitable activities.
- The network of relations with other small communities in northern Europe, and the ongoing debate on how transferable initiatives are to communities with similar societal challenges.

Overall, results illustrate how CSR is embedded in governance through a community-based governing body (“who”) whose members are willing to engage the community in constructing and reconstructing the history of the community and in developing a lively rural environment for current generations (“according to what criteria”). All community members can partake in new project development whose results are shared with the entire community (“to partake in what”) as a solution for integrating economic, social and environmental results (“to what effects”).

Conclusion

This chapter has been devoted to discuss CRS criteria and impact in non-investor owned organizations. Illustrations have pointed to the existence of a variety of governance and coordination solutions that can face societal challenges, in terms of positive impacts for communities and specific stakeholders. Key factors for understanding governance were summarised in four questions: who controls production decisions, what criterion is used, what do participants partake in, and what are the desired effects of the activity. By understanding the answers to these questions, societal impacts of organisations can be to some extent anticipated.

The pattern that emerges from the analysis includes: (i) the shifting of control rights from investor to non-investor stakeholders, either in the form of mutual benefit control rights in co-operative enterprises and in EOCs, or in the form of collaborative partnerships and multi-stakeholder governance in social enterprises; (ii) the progressive introduction in governance and in contracts of private and social objectives that are not purely monetary. These can be the mutual benefit for members in co-operatives, and EOCs, or social in social enterprises and NPOs; (iii) the new role of surpluses, as means to mutualistic or social ends, through the introduction of a partial or complete non-profit constraint, and of the asset lock, which is observed in some models of co-operative and social enterprises, while it is instead mandatory in NPOs.

Case studies of organisations that embody these features offer insights on the institutional mechanisms and governance solutions through which purely monetary aims are overcome, or integrated and nested within wider individual, organisational and social objectives. The studies, in particular, illustrate how CSR criteria are introduced and internalized using coordination mechanisms offered by governance (Edinburgh Bicycle Co-operative; Highland

Homecarers), complemented by contractual tools (Unity Enterprise) and social capital (HWA). The case of Lock Fine Oysters, indicates that management's pursuit of growth and poor monitoring from worker-members can lead to alienation of control rights and ownership to investors. Given the complexity of this process of institutional evolution, this chapter cannot but represent an introduction based on instances, whose development requires careful assessment of central issues characterising the relationship between governance and societal outcomes. Case studies cannot have general validity, but helped formulating relevant hypotheses and paving the way to future research.

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