



European Research Institute on Cooperative and Social Enterprises

EURICSE'S PHILOSOPHY

*GUIDING PRINCIPLES FOR THE STUDY OF COOPERATIVE AND
SOCIAL ENTERPRISES*

Introduction¹

The European Research Institute on Cooperative and Social Enterprises (Euricse) was created to (i) foster, through theoretical and empirical research, the understanding of the nature and potential of cooperatives and social enterprises (i.e., in addition to traditional cooperatives, all enterprise types engaged in the production of goods and services of collective interest or in the management of common resources); (ii) provide training consistent with the specificities of such organizations and the latest findings of research; and (iii) provide consulting services to cooperative and social enterprises and to their representative associations. Euricse approaches this work from an international (and in particular European) perspective.

In order to translate these objectives into concrete activities, it is necessary first to clarify how Euricse intends to approach the scientific discourse developed thus far, and then to specify the methodological approach that the Institute intends to adopt. In other words, it is necessary to identify and share the linking themes that give unity and coherence to the Institute's activities and scientific production.

The purpose of this document is the description of these linking themes. To this end, the document first examines the causes of the under-valuation of the role and importance of cooperatives and social enterprises by policy makers and researchers. After illustrating some of the economic and social changes currently underway, the document indicates the theoretical developments that may lead to a new and more convincing interpretation of these forms of enterprise. The document then ends with a description of the Institute's scientific strategy and activities.

1. The Limits of the Research on Cooperative and Social Enterprises and their Implications

The studies on cooperatives and social enterprises, at the national and international level, are characterized by a contradiction between the contentions put forward, explicitly or otherwise, by the predominant theories and what is actually happening in the world. On the one hand, an increasing number of empirical investigations show that such enterprises perform a significant and sometimes growing economic and social role in a variety of sectors and in many countries. As importantly, they often achieve economic and social outcomes that are better than those achieved by conventional enterprises and public institutions. Suffice it to mention, for example, the role played in the past twenty years by cooperatives and social enterprises in the production of social, educational, health, and general interest services, or the stark difference in the behaviour of credit cooperatives (compared to other lenders) during the past ten years, and particularly during the recent financial crisis. On the other hand, though, the predominant theoretical approaches (especially in economics) tend to ignore or deny these results.

There are several reasons for this contradiction. The main one seems to be the difficulty of reconciling the features of these forms of enterprise with the hypotheses (if not the value judgments) underlying the dominant theories. The predominant economic, sociological and legal models developed during the 1900s (which underlie the institutions on which the modern economic and social systems are based) rely on

¹ For a more detailed discussion of the topics presented here, see Borzaga C. "The role of cooperative and social enterprises: A multifaceted approach for an economic pluralism" Euricse Working Paper, nr.0, 2009.

a set of assumptions that include the prevalence of self-interested behaviour and the self-regulatory capacity of markets. These assumptions privilege institutional forms that are often incompatible with the ones that characterize cooperative and social enterprises. These organizations are based on motivations, behaviours, and principles (such as solidarity, reciprocity and direct participation in management) which are quite different from the ones underpinning other businesses. This difference between the dominant theoretical approaches and the characteristics of social and cooperative enterprises explains not only the difficulties in the analysis of these forms of enterprise, but also why so many people consider them outdated. It is not surprising, then, that cooperative and social enterprises have been paid increasingly less attention and that their potential contributions to human, social, and economic development have been grossly underestimated. Further, when these theories are translated into policy, they often result in regulations which force cooperative and social enterprises to operate according to logics that are not their own, stunting their growth and relegating them to the margins of the system.

The underestimation of the role of cooperative and social enterprises has also been reinforced by the fragmented and often too descriptive nature of much of the research conducted on this topic, by the ideological approach adopted by many studies, and by the limitations that arise from considering only specific sectors or geographic areas. Indeed, unlike for-profit firms, cooperatives and social enterprises are regulated by laws that differ greatly from country to country, which makes it more difficult to develop general interpretations that go beyond national specificities.

The lack of shared objectives among the community of researchers and research organizations that work on cooperatives and social enterprises also played a role. The general tendency has been to consider specific forms of cooperation, often starting from highly specific research goals, while few attempts have been made to embed the analysis within broad research designs. This has hampered the development of a general theory of these forms of enterprise that could stand comparison with the prevailing economic and social frameworks.

2. Why It Is Necessary to Rethink the Role of Cooperative and Social Enterprises

In recent years, profound changes in the socio-economic context (ranging from globalization to changes in the labour market to the evolution of social needs) contributed to the questioning of the conventional wisdom and paved the way to new reflections and interpretations, including in regard to cooperatives and social enterprises.

The current economic crisis has made such rethinking even more necessary and urgent. Indeed, the economic downturn has stimulated a search for organizational and economic models that are different from those that predominated in recent decades, which were essentially based on market fundamentalism. Further, it has already helped identify some of the directions in which such rethinking should move. Several social scientists are already arguing that, in the words of Joseph Stiglitz, "a massive rethinking of the role of the government and of the market²" is necessary, not only to propose large-scale public interventions in the economy, but also to recast the role traditionally assigned to the various types of enterprises. Stiglitz argues that it is

² Stiglitz D.J. (2009), "Moving Beyond Market Fundamentalism to a more Balanced Economy", *Annals of Public and Cooperative Economics*, 80:3, pp. 345-360.

necessary “to find a balance between markets, government, and other institutions, including not-for-profits and cooperatives,” with the objective of building “a plural economic system with several pillars to it”. The same thesis has been put forward by other authors, who claim that, in the words of Ralf Dahrendorf³, cooperative and social enterprises are one of the four pillars on which a solution of the crisis should be based. From a different point of view, Partha Dasgupta maintains that the cooperative movement can provide interesting ideas for the renewal of the relationship between capital and labour needed to cope with the expected demographic growth. More in general, several scholars argue, like Amartya Sen, that the economic crisis requires us to rethink the organization of the economic system and to seek a new balance among institutions, and that cooperative and social enterprises can make an important contribution in this regard. Indeed, these types of enterprise are well suited to promote the development of forms of constructive collaboration, enhance trust, and increase positive freedoms (i.e. opportunities for citizens to choose among a larger number of options, including through the self-organization of responses to their own needs). To these assertions can be added those of the economic policy-makers who insist on the need to build a ‘better world’ based on ‘more ethical private behaviour’, or on the ‘subordination of interests to values’ that need to be developed collectively.

A clear connection is thus emerging between the nature of the economic crisis, the need to rethink the ways in which economic and social systems work, and the discourse on the role of organizations and enterprises that pursue goals other than profit. Affirming economic pluralism means abandoning the preference for a single type of enterprise – the one driven by profit maximization – and instead asserting the value of diversity. The diverse motivations and values on which the different enterprise types are based thus become a resource and assume an economic and social importance hitherto little recognized. However, in order to fully appreciate this resource, it is necessary to significantly rethink the economic and institutional order and the underlying interpretative approaches.

Euricse’s objectives include contributing to this rethinking, particularly with regards to the analysis of the nature, features and roles of the different enterprise types.

3. The Prevalent Interpretative Model and Its Shortcomings

During the 1900s, the conviction grew that the best way to organize the production of goods and services in order to ensure development and well-being was to entrust it to two sole actors: the market and the state. The former – understood in restrictive terms as the set of competing for-profit firms – was entrusted with the production of the greatest possible quantity of private goods. The latter was instead tasked with producing public and collective goods, promoting the development of all regions and countries, and ensuring adequate income levels for the entire population. To this end, it was argued, markets should be made as competitive as possible, and public intervention should be managed democratically, which would enable the identification of the most important unmet needs and the delivery of the services necessary to satisfy them. This eliminates, at least in theory, both the need for and the usefulness of all other actors, including the community and private non-profit organizations inspired by the principles of mutuality or solidarity. Allegedly, these institutions could even become sources of inefficiency and should therefore be progressively replaced with for-profit firms or public institutions.

³ Dahrendorf R. (2009), “Se torna l’uomo forte”, *Internazionale*, 784, February 27, 2009.

Although this model gained an increasing consensus, especially in recent years it revealed ever greater shortcomings. While, on the one side, it led to increased incomes in many countries, on the other it failed to redistribute such increases among countries or even among citizens of the same country. It failed to do so even to the minimum extent necessary to eliminate the most acute forms of poverty - indeed, income inequalities have markedly increased in recent decades. Moreover, despite a constant increase in public spending, the supply of services of collective interest has become more and more unsatisfactory in quantity and quality, leaving a large portion of needs unmet. The weakening of social bonds brought about by an excessive emphasis on self-interested and competitive behaviour has heightened the sense of vulnerability and fears for the future, and it has diminished trust relations and cooperative behaviour. Increased economic well-being has not been matched by increased happiness.

The various attempts made to remedy the shortcomings of this model (e.g. by re-allocating to the market, through the privatization policies adopted in recent decades, the responsibilities for managing activities previously assigned to public entities) have not achieved the expected results. This is borne out by the crisis that started in 2008, which shows how difficult it is to obtain – solely through the constraints imposed by the market and a system of rules – socially responsible behaviour from agents concerned only with the maximization of their self-interest – and how costly it is to remedy the damage caused by such behaviour.

At the same time, the inability of the dominant model to respond to numerous needs has, among other things, made room for the development of cooperative and social enterprises created by groups of citizens and civic movements. In fact, in the past three decades, contrary to every forecast (and often in contrast with the prevailing culture and with the legislation in force), cooperatives and social enterprises have spread, evolved, and strengthened in many countries, proving to be more adept at coordinating collective action than traditional public and private organizations. A growing body of empirical studies conducted by both researchers and international institutions has widely documented the strengthening of cooperative enterprises in all the sectors in which they have operated for many years, as well as the birth and development of various new forms of social enterprise.

However, mere recognition of the shortcomings of the existing social and economic models and the renewed vitality of cooperative and social enterprises is not enough to foresee their future evolution. Identifying possible new equilibria among different institutional forms necessarily requires a rethinking of the theories that have dominated thus far. To this end, it is necessary to examine the theoretical developments which best lend themselves to this analysis.

4. The New Theoretical Approaches and their Potential

Various theoretical developments help not only explain the recent strengthening of cooperative and social enterprises, but also argue that these organizations could perform a much greater role than the one they currently play, and contribute to the creation of a different and better economic and social system. Since it is not possible to thoroughly describe here all of these theoretical developments, this document will outline the ones that seem most pertinent to framing Euricse's activities.⁴

⁴ These ideas are examined in more detail in Borzaga C. "The role of cooperative and social enterprises: A multifaceted approach for an economic pluralism" Euricse Working Paper, nr.0, 2009.

First, there are some important developments in economic theory which gainsay the conventional paradigm and propose new interpretations of economic behaviour and coordination of activities among people and organizations.

The new theories of the firm, for instance, tend to shift from a view of the firm as centred on profit maximization to one which highlights its role as a coordination mechanism aimed at solving collective problems through the production of goods or services. This new conception of the firm broadens its role by envisaging its use in the production of public and collective-interest goods as well. It also leads to a reflection on the features that characterize private enterprises, including in particular ownership and governance.

At the same time, the contributions given by the behaviourist school and experimental economics to the analysis of individual behaviours question the hypothesis that every human action, and in particular every economic action, is governed exclusively by self-interest. This school of thought instead maintains that human actions spring from a mix of motivations (intrinsic and extrinsic; self, others, and process-regarding) and are influenced by a general inclination to reciprocity and a quest for justice and equity. This makes it possible to analyze in economic terms (and hence to attribute economic value to) forms of behaviour that have been thus far neglected and considered of little interest.

The combination of these two theoretical developments yields very interesting results. If the objective of the enterprise is, or can be, also the solution of a collective problem, and if the motivations at the basis of economic behaviour are not limited to the pursuit of personal benefits, the relations among agents within and without the enterprise may be not only (and not necessarily) competitive, but also, and in some cases principally, cooperative in nature. Moreover, such cooperation may enable the enterprise to pursue collective interests and to obtain the resources necessary to do so.

It is thus possible to develop an innovative interpretation of cooperative and social enterprises, of their socio-economic role and of their modes of operation. It is also possible to understand the advantages of cooperative and social enterprises relative to other organizational forms, and to more correctly evaluate their social and economic impact. Further, the application of these new theories demonstrates that firms such as cooperative and social enterprises can be more efficient, so long as the analysis of efficiency is not limited to the evaluation of the technologies that are deployed or of the combination of labour and capital, but is defined in terms of broader objectives, such as, for instance, job satisfaction and quality of life.

These considerations do not reject the results hitherto obtained by economic analysis; in particular, they do not deny the role of the market and the for-profit firm. More simply, they pave the way for a more pluralistic economic system, characterized by competition among enterprises which differ in their objectives, ownership forms, and governance systems.

In addition to these strands of thought, which pertain primarily to economics, legal and political scientists in particular have been paying increasing attention to the theme of subsidiarity. The application of this concept, especially in its horizontal meaning, could lead to innovative models of socioeconomic organization that would be more open to the autonomous contribution of private actors to defining and pursuing the collective interest. This creates new room for the direct involvement of individual and organized actors (including in the form of enterprises), a space where

cooperatives and social enterprises can be more effective than public institutions and private firms.

The affirmation of the subsidiarity principle also has implications for the formation of the 'social preference function' of a community (i.e. the desired combination between the supply of goods and services and the distribution of income). The predominant approach deems the formation of the social preference function to be the exclusive task of governments. According to the subsidiarity principle, on the other hand, this function should arise from the joint actions of public and private subjects deciding how much and what to produce, and how to allocate (and therefore distribute) resources. More in general, then, this leads to a new understanding of democracy, which includes forms of economic democracy and highlights the role of democratically created and managed enterprises. These forms of enterprise can thus become places for the expression and formation of social preferences.

While they are not the only useful ones, these theoretical developments are for the moment sufficient to begin developing a new interpretation of cooperative and social entrepreneurial forms, in order to more realistically appraise their role and identify coherent policy strategies.

5. Euricse's Scientific Project

In order to innovatively rethink the role of cooperative and social enterprises, Euricse chose to reverse the research strategy which has inspired most of the scientific analysis of these topics. Instead of interpreting these organizational and entrepreneurial forms and their economic and social role by means of models developed for other purposes (and therefore generally based on hypotheses not fully compatible with their specific features), Euricse intends to prioritize the development of new models and theories that are based on the principles and values that are specific to these organizations.

The scientific project that derives from this inversion in perspective must necessarily start from a view of economic systems as characterized by a plurality of organizations and enterprises with diverse goals. These organizations can either compete or collaborate with each other when their objectives are aligned. Consequently, this project must identify the factors which led and continue to lead to the formation of the different forms of enterprise (and of cooperative and social enterprises in particular); the motivations and values that inform their actions; the incentive systems they put in place; and the definition of the ownership models they adopt in order to attract and manage human and material resources. It is therefore necessary to recognize and explain the specificities of such organizations, by applying the theories mentioned above and by supporting the development of new theoretical frameworks. The goal should be to identify the conditions which ensure or prevent the long-term sustainability of these organizations, and to understand the specific contributions they can make to economic and human development, i.e. to the formation of an economic system that responds to collective values and needs.

It will also be necessary to verify in what contexts such enterprises are more efficient and effective than other organizations. Finally, special attention should be devoted to the limits of cooperative and social enterprises, by trying –especially with the contribution of empirical research- to investigate from a critical perspective the functioning and the objectives of these organizations, their governance structures,

their managerial practices, and their transaction and governance costs. These analyses are key to developing new policy ideas and suggestions for improving their management.

In order to achieve these objective, Euricse has made a few choices that inform its activities. These choices concern three main dimensions: the subject, the methodological framework, and the relational system.

Regarding the subject, Euricse chose to focus not on a single enterprise type, but on the universe of enterprises and organizations that pursue aims other than profit. In doing so, it will seek to highlight, primarily in theoretical terms, all of the features they have in common. This does not mean overlooking their differences; rather, it means acknowledging that, despite their differences, these organizations share important features. To this end, the Institute will adopt an international perspective, paying particular attention to the broadening scope of activities performed by cooperatives and to the creation of new forms of social enterprise.

With respect to the methodology, Euricse combines empirical and theoretical research, diverse approaches and disciplines, case studies and sector analyses. The Institute aims primarily to develop and sustain comparative theoretical and empirical research, prioritizing projects that test hypotheses that are consistent with Euricse's overall research mission. Secondly, Euricse favours a multi-disciplinary perspective by promoting and undertaking research in different scientific domains, and by encouraging comparison and exchange among different disciplines (and particularly those with interpretative purposes and those concerned with the regulation of the activities of social enterprises and their relations with other actors). Moreover, Euricse prioritizes an analytic approach which is not too constrained by how existing organizations are regulated in different countries. Rather, its approach pays attention to their defining characteristics, thereby enabling a critical assessment of the adequacy of current regulations and then proposing policy changes that may enable these types of enterprises to operate more efficiently and effectively.

Within this design, the development of partnerships with researchers with different training and background is of strategic importance. To this end, Euricse intends to encourage collaboration among research centres (particularly within the EU) by carrying out joint research projects and dissemination activities. The Institute also promotes the employment of young researchers through the funding of PhD grants and post-doctoral research fellowships, as well as through the promotion of exchange and mobility initiatives. Moreover, Euricse's activities are carried out by maintaining regular contacts both with the cooperative movement and the organizations representing social enterprises, and with individual organizations or firms interested in the results of Euricse's research – without ever limiting the freedom of the researchers or influencing the research results.