



The foundations of the “public organisation”: governance failure and the problem of external effects

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Published online: 16 August 2020
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Abstract

The article constructs a model of firm governance that considers the wider effects of economic activity, thus bridging the organisational level and the macro level. The theoretical framework builds on Hansmann’s ownership model and introduces an alternative. The “total cost model” advanced directs attention to concerns that are not entirely addressed by standard transaction cost theory and suggests that, when the external costs are high, a firm may need to extend the governance function to multiple patrons and absorb some external costs in pursuit of multiple public goals. Who should be included in the strategic control function will depend on the anticipated effects in terms of the external costs and the costs of organising. The article argues that this set-up helps to explain the “public organisation”, defined as a private organisation with public interest objectives, and further claims that this model helps to justify the recent emergence of multi-stakeholder social enterprises.

Keywords Membership · Externalities · Corporate social responsibility · Multi-stakeholder governance · Social enterprise · Henry Hansmann

1 Introduction

Economic activity often takes place through the use of long-term multi-actor solutions that involve economic organising, contractual agreements, or market exchanges. As regards the modality through which economic activity is coordinated, economists have attempted to answer two questions: why transactions take one form or the other and what the effects produced by each solution are (Goldberg 1980). Since economic transactions touch on multiple interests and bring together actors with different aims, these two questions can also be cast in normative terms. How

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should economic actors organise their transactions to coordinate diversities and similarities from the point of view of the actors involved and of society as a whole? This question is especially relevant to understanding firms and the way in which they can effectively become a means to coordinate a plurality of interests and needs to produce net value for the collectivity. Our argument is that multi-stakeholder governance with diffused membership and strategic control is needed to maximise value for society (including but not limited to profits). In explaining our argument, we advance a proposal to address a major economic challenge that has also been highlighted in the debate promoted by Mazzucato's work (2018), that is, the need to find novel institutional arrangements that favour the production of value while preventing the over-extraction of value from society. In particular, we challenge the theory of corporate governance on the ground that the efficiency considerations applied to governance choice fail to take into account the totality of the costs borne by the collectivity, thus engendering external costs. Hence, we suggest a total cost governance model aimed at preventing their production. A fresher approach is useful to address issues highlighted within the sustainable development discourse, which have received increasing attention from businesses following the institution of the seventeen, globally recognised Sustainable Development Goals instituted by the United Nations in 2015 in its 2030 Agenda for Sustainable Development.¹ The role of businesses, in particular large businesses, has been indicated within this debate² as a potential resource for addressing global challenges, with firms redefining their purpose as the pursuit of multiple interests and community welfare (see also Giovannini 2018). The core idea within the business debate is that “sustainable businesses are ‘long-term greedy’: they want to generate prosperity into the distant future, not make a quick buck. And they should create positive economic externalities, not extract economic rent.”³ “Stakeholders for a Cohesive and Sustainable World” is also the leading theme of the 2020 World Economic Forum.⁴

The current business debate has long been anticipated by law scholars and business ethicists, who have challenged the role of boards, arguing that their role is to further the interests of a team of patrons (Aoki 1984, 2010; Blair 1996; Blair and Stout 1999; Sacconi 1991, 2000, 2006, 2013). They have debated which groups deserve a fiduciary duty and argued in favour of multi-fiduciary stakeholder theory, whereby firm directors, by virtue of a broad fiduciary duty defined by corporate law, pursue the interests of multiple groups, including managers, employees, users, and

¹ Brookings reported that 7500 companies are currently issuing annual sustainability or corporate responsibility reports in accordance with the Global Reporting Initiative (<https://www.brookings.edu/blog/up-front/2019/01/08/how-corporations-are-approaching-sustainability-and-the-global-goals/>).

² See for example the debates in *The Economist* on “What companies are for”, 22 August 2019 (<https://www.economist.com/leaders/2019/08/22/what-companies-are-for>), or *The Financial Times* on “Sustainable business should be long-term greedy”, 15 March 2019 (<https://www.ft.com/content/bd30c5ec-20a9-11e9-a46f-08f9738d6b2b>).

³ *The Financial Times*, “Sustainable business should be long-term greedy”, 15 March 2019 (<https://www.ft.com/content/bd30c5ec-20a9-11e9-a46f-08f9738d6b2b>).

⁴ See <https://www.brookings.edu/blog/future-development/2020/01/21/stakeholder-capitalism-arrives-at-davos/>.

others, even if they have low power (e.g. in terms of monitoring decision makers) but high interest in the firm’s activities.⁵ However, what practical solutions with respect to organisational governance can reflect concern with the public and the public interest more broadly? Challenging traditional assumptions about ownership, Blair (1996) suggested that it is membership that underpins the obligation of the decision makers towards the interests of multiple patrons and the wider public.

The relevance of the question also transpires from the emergence of what are increasingly identified as multi-stakeholder organisations, especially in welfare sectors, albeit not exclusively.⁶ This growing tendency is evidenced in the literature (Borzaga and Mittone 1997; Ebrahim et al. 2014; Enjolras 2014; Pestoff and Hulgård 2016; Smith and Teasdale 2012), in policy documents, and by some of the regulations that social enterprises, as well as new firm forms such as Bcorp (Hiller 2013), have adopted to guarantee the participation of multiple patrons in strategic control (cf. Cafaggi and Iamiceli 2009 in a comparative study of legal requirements across European countries). Sector-wise, Cordery and Howell (2017) and Pestoff (2008) offered a perspective on stakeholder involvement in private educational and healthcare services. In addition, the policy on stakeholder inclusion was exemplified by the European Social Business Initiative (European Parliament 2012), and the 2014 report on European social enterprises prepared for the European Commission highlighted the rich range of stakeholders that forms the social enterprise ecosystem (European Commission 2016).

Despite these developments in the nature of firms, economic theory is still very much focused on single-stakeholder ownership and control. In the past decades, economic theory has explained who should be the controlling patron of a firm’s activities and who else is involved, on the other hand, by means of contractual agreements or impersonal market exchange. In particular, the transaction cost literature has argued that giving control rights to multiple patrons can be costly. Hansmann (1996) especially developed this paradigm with his theory of the ownership of the enterprise (see also Birchall 2014; Olson 1971; Vidal 2014). While this line of analysis has produced highly valuable insights into firm efficiency, these have not come without costs. The transaction cost paradigm has influenced research questions,

⁵ The idea of extending corporate governance to include the stakeholders’ interests in the institutional design of the firm and enlarging the management’s fiduciary duties can be seen as deeper and more radical approaches to the one introduced in Hart’s (1993) paper, which contains only a hypothesis about the extension of fiduciary duties and not a fully fledged theory about a wider view of corporate governance. Likewise, Heath (2011) argued for a role of business ethics in inducing the prevention of externalities through regulation but not for a change in the objective function of capitalistic firms (or the application of some theory of justice to corporations). (We thank the reviewer for bringing these points to our attention).

⁶ We do not discuss other forms of coordination, such as state coordination, since this responds to a coordination mechanism based on regulation rather than organised cooperation among self-organising actors. Our approach is instead consistent with the self-management of commons analysed by Ostrom (1990), with the bottom-up emergence of community enterprises that address neglected community needs (Mori and Sforzi 2018) and with organised social partnerships that address the problem of social costs, as suggested by Luo and Kaul (2019). Approaches based on corporate social responsibility also address the issue of social costs, while they tend to identify collaborative solutions that do not alter the governance structure of corporations, as the issue would instead require (as argued by Blair 1996).

suggesting certain directions and ignoring others. In addition, it risks providing partial answers to old and new questions that require a more comprehensive approach. The existing model does not explain the emergence of firms that share the strategic control function among a variety of patrons and have aims that do not necessarily coincide with profit maximisation but rather with the furthering of the societal values. Our point, in line with Coase's (1960) call to account for social costs when choosing among alternative coordination solutions,⁷ is that we need a model that explains wider effects, besides those confined to the firm and the market, as well as historical trends (Ietto-Gillies 2012).

The approach of this article is to move from a focus on internal efficiency to the total cost of production governance or to the fact that, although access to strategic control by multiple patrons can cause governance costs to rise, excluding patrons from governance can also be costly. As argued by Zeitlin (1974), governance is defined in terms of who owns strategic control or the power to make strategic decisions, with or without ownership (cf. Berle and Means 1932). For the purposes of this article, we name the patrons holding strategic control the members. We call patrons who have no access to strategic control the "non-members". Note that non-members could be inside the organisation (e.g. workers in a conventional investor-owned firm linked with members' decisions solely by means of a contractual obligation) but still have no voice in strategic control. Introducing this line of thinking, Cowling and Sugden (1987, p. 12) provided the following definition of a firm: "A firm is the means of coordinating production from one center of strategic decision-making" with or without ownership.

Understanding who has access to the strategic decision-making function is therefore essential to appreciate the potential total effects of economic activities. In their analysis of corporate governance, Hymer (1972), and later Cowling and Sugden (1998) and Ietto-Gillies (2012), suggested that uneven distribution of strategic control among patrons is responsible for concentrating the benefits of production activities in the hands of members while denying benefits to non-members, despite their interests. This becomes more apparent the greater the market failure is. Access to strategic control has a positive impact on the income, status, knowledge, and general welfare of patrons who retain control. It is therefore access to the governance function that generates positive effects on patrons. Conversely, we can argue that exclusion from governance induces negative effects or costs, which are borne by patrons with no control rights and can affect society as a whole, for example in terms of overall inequality.

Our approach keeps its focus on the firm cost calculus but takes into explicit account the external costs that derive from excluding certain groups of patrons from strategic control. Meade's idea of externalities helps to explain the source of these external costs (Meade 1973). He defined an externality as "an event which confers

⁷ "[E]conomists who study problems of the firm habitually use an opportunity cost approach and compare the receipts obtained from a given combination of factors with alternative business arrangements. It would seem desirable to use a similar approach when dealing with questions of economic policy and to compare the total product yielded by alternative social arrangements" (Coase 1960, p. 42).

an appreciable benefit (inflicts an appreciable damage) on some person or persons who were not fully consenting parties in reaching the decision or decisions which led directly or indirectly to the event in question” (quoted in Cornes and Sandler 1996, p. 39). Interestingly, Meade related the occurrence of externalities to the exclusion of interested actors from the decisions that led to the external effect. Another peculiarity of this definition is that it does not refer to any specific context or institutional solution (Cornes and Sandler 1996). Therefore, externalities exist because interested patrons are excluded from control, but this is not necessarily due to the absence of markets and property rights. In addition, Meade’s logic can be applied to decisions not taken. If benefits or damage happen because somebody takes a decision, with consequences falling on others who do not participate in the decision making, the same could also be said for any abstention from possible decisions that fail to engender benefits with respect to some right that has been positively settled or some actually possible state of affairs.⁸

The objective of the article, which is Meadean in both spirit and formulation, is to advance propositions that challenge the dominant theory of corporate governance and propose a model that considers the total effects of economic arrangements. Here we take Hansmann’s model of firm governance as our starting point because this is the model that, within the existing literature, considers ownership and other contractual costs in the definition of different designations of strategic control within firms. Then, because we are concerned with the total effects of strategic control, we suggest that an efficient governance structure must minimise the sum of the costs of organising together with the external costs associated with exclusion from strategic control (including the costs of contracting) for all the firm’s patrons combined. Last, we show that the emergence of firms in which strategic control is shared among different groups of patrons can be explained as a way to economise on negative external costs and move towards a fairer distribution of the net public utility produced by organisations. By shedding light on shared control, the model sets the premises for what can be called the *public organisation*, defined as a private organisation with public interest objectives.⁹ Here the word “public” is not used in the traditional sense of being owned by the public authority (as understood by the “core approach” to publicness in public management, cf. Bozeman and Bretschneider 1994 for an overview). Nor is it understood alongside the interpretation by Bozeman (1984), (1987), who—by addressing both organisational outcomes and resources—suggested that “all organizations are public” to some extent if considering the influence of external political authority. It is rather understood in the sense of giving control rights to multiple patrons so that they can pursue a plurality of needs and interests

⁸ For example, assume that country C lacks a market for some specific health services and nobody decides to institute the state provision for such health services. Therefore, these services are simply not provided in C; for example, nobody offers dentist services. If we apply Meade’s logic and ask whether there is a negative externality for this, we can identify inflicted damage with respect to some positively settled right or some actually possible state of affairs.

⁹ Examples can be found within the social enterprise model but are not confined to it.

by means of organised activity.¹⁰ This view, which is Deweyan in nature, is distinct from the pure ownership approach. In this vein, Sacchetti (2015) emphasises that all organisations are the expression of public preferences if it is taken into consideration that they all engender (positive or negative) consequences for specific communities of interest and for the collectivity.

The structure of the article is as follows. Section 2 complements this introductory section with a discussion of Hansmann's governance model. Section 3 presents the problem of governance failure and exclusion from strategic control and lays the foundations for justifying why societal welfare is increased if strategic control is extended to multiple patrons. Section 4 presents the total cost model, which accounts for the negative external costs related to exclusion. Section 5 discusses the new model in terms of supporting institutional solutions. In Sect. 6, we summarise our argument and highlight the research implications.

2 Discussion of Hansmann's model

We begin by presenting Hansmann's idea to move towards a novel model. Hansmann's calculus indicates that, to reach efficiency, governance must minimise the total costs or the sum, across all the firm patrons, of the costs of contracting (CCs) and costs of ownership (COs). Ideally, the category of patrons with the highest CCs and the lowest COs should have ownership.

$$\min CO_j + \sum_{i=1}^{n-1} CC_i$$

In this way, ownership economises on transaction costs by excluding market contracting for one class of homogeneous patrons (cf. Tortia 2010). Even in the presence of low COs, however, there is no a priori reason to believe that such costs are lower than the CCs for only one class of patrons—this could be the case for multiple patrons and perhaps even all patrons. Hansmann (1996), p. 44 actually pointed this out in his book in the sub-section entitled “Why not make everybody an owner?” but maintained that the COs would multiply if multiple groups were involved due to heterogeneity of interests. He suggested that control over strategic decision making should be given to only one patron, specifically the one whose interests are less safeguarded by a contract with respect to other interest holders, provided that the COs are kept at reasonable levels. Capital was argued to be best protected by investor ownership, especially in the presence of idiosyncratic investments and information asymmetry (i.e. a firm would want to own and control its capital assets if these are sunk with respect to other complementary activities run by the firm). Applying a similar logic, users can be owners in situations characterised by market failure

¹⁰ In the literature, the closest examples can be found inside the German co-determination system as well as in multi-stakeholder enterprise with social aims, to which we will refer in more details towards the end of the article.

and conflicts of interest with stronger patrons. For instance, the ownership of the most vulnerable public is the solution to contract incompleteness and information asymmetries and ultimately a response to the possibility that investors will pass on the risk of enterprises to users or clients (for instance, in healthcare, patients may form cooperative clinics to provide themselves with healthcare services to align the organisational objectives with their own needs, whereas investor-owned clinics would be less likely to do so since they are assumed to be run in the interest of the investors. For similar reasons, in education, services can be provided by organisations that are established and self-managed by parents). This criterion works towards producing more value for the owners since it minimises the risk that those who hold strategic control will undermine the interests of the excluded.

Firstly, the problem that we identify with substituting a market with organised transactions under the ownership and control of one single category of patrons lies in Hansmann’s assumption that, in general, there is only one market that does not coordinate resources efficiently. This means that, even if investor ownership resolves the risks related to the use of the market (for example by ensuring the ownership and control of the knowledge created as a result of R&D to research a vaccine for a new disease), the market can still fail to address users’ interests or governments’ interests, for instance by limiting access to the vaccine by applying monopoly prices. However (as Hansmann admitted in his treatment of CCs), when multiple and potentially conflicting interests are at stake and transaction costs are present, neither market contracting nor the ownership of one class of owners can avoid producing negative (intended or unintended) effects—externalities—on the excluded patrons and on society more broadly unless there is a way to broaden the scope of strategic control or strategic decision making.

The assumption that underpins the imperative of single-stakeholder ownership is that this solution maximises efficiency. However, Hansmann noticed that occasionally “enfranchising” a patron requires another to be “disenfranchised”, and yet another patron is denied franchise (Hansmann 1996, p. 43). The disenfranchised, in Hansmann’s calculus, are all the non-owners linked to the controlling patron (who bears the COs) by means of market contracting (for which the internal and external patrons bear the sum of the CCs generated by transactions). For example, an investor-owned organisation is justified by high levels of CCs affecting investors. Because of this, investors would be “enfranchised” whilst other patrons (e.g. consumers, workers, volunteers, and creditors) would be disenfranchised. For all the disenfranchised patrons, the owner would set contracts on the assumption that markets work with low transaction costs and, overall, market relations are assumed to protect disenfranchised patrons using regulation and well-defined contracts (Boatright 2002). However, Hansmann acknowledged that there are circumstances under which both the ownership and the contracting costs are high for all patrons, which is the type of situation that justifies the non-profit organisation: for example, the production of social and educational services in a context of high information asymmetries for both workers (in terms of effort) and users who cannot control the quality of the service. This may lead to low effort from workers and consequently low service quality. The model, nonetheless, states that multiple markets can fail for a variety of patrons at the same time, such as the market for capital, for labour, for credit, or for

goods or services, as Heath (2011) emphasised. Typically, contractual solutions are likely to fail when non-controlling patrons engage in transactions of highly specific types (opportunism may become an expensive possibility; Williamson 1985). For example, Navarra and Tortia (2014) argued that, when labour markets do not offer high degrees of protection, specialised workers mastering sunk skills can be subject to opportunistic behaviour from the management. In such cases, then, contractual solutions that improve efficiency for one patron (i.e. the investors) whilst disenfranchising other patrons (i.e. workers) cannot be argued to be a Pareto improvement overall (cf. Sacconi 1991). The theory neglects the possibility that the low COs of one patron could be interdependent with the high CCs of another patron; that is, these could be inseparable, as it happens in the case of abuse of authority: A, having control, exploits B, thus increasing her CCs. At any rate, let us assume that A has high CCs (10) and low COs (2), so the sum is minimised by this substitution (-8) with respect to other possible substitutions. Nevertheless, patron B may have even higher CCs (11), even with relatively higher COs (6), so that the substitution (-5) may be inefficient with respect to that concerning A (-8). Nevertheless, it is intuitive that finding an intermediate solution in which also B's CCs are reduced by protecting B through some governance arrangement would be more efficient. After all, the proposed solution does not minimise the contracting costs (being $11 > 10$). This is the efficiency defect of the unilateral solution. What we suggest instead is that multiple failures occur for a variety of patrons, at least in part because market contracting is a good solution only when there is no power asymmetry among patrons, when transactions are non-specific, standardised and recurrent and when any of the parties can turn elsewhere if transactional costs emerge (Williamson 1985). It follows that single ownership, in general, does not resolve the problem of external costs.

Overall, the above arguments delineate the distinctive limitation of adopting contractual solutions for all but one patron.

Proposition 1 *Multiple contractual solutions are likely to fail at the same time rather than only one contractual solution failing.*

Proposition 2 *Because multiple markets fail at the same time, contracted patrons without control rights can bear higher costs than members whose interests are protected by access to strategic control.*

Furthermore, we can consider the effects of interactions that are not mediated by ownership or by market contracting. The existing model does not present generalisable solutions for marginalised categories with a neglected problem with which external effects are associated (cf. Santos 2012). These categories of patrons do not interact with the organisation, via ownership or via market contracting, and are excluded from the calculus altogether.¹¹ These patrons are typically also neglected

¹¹ Hansmann (1996: 21) writes that “[A]ssigning ownership of the firm to one or another class of the firm’s patrons can... often reduce the costs of transacting with those patrons—costs that would otherwise be borne by the firm or its patrons. To assign ownership to someone who is not among the firm’s patrons would waste the opportunity to use ownership to reduce these costs”.

by governments (Santos 2012). For example, groups that are excluded from public welfare provision (e.g. people with no citizenship), immigrants with no refugee status, categories that have unresolved needs but no political exchange power, and future generations have no voice in strategic control through ownership or contracts and often not even through governmental provision.

Proposition 3 *By failing to consider the interests of patrons who are not engaged in ownership or in contractual relations, the model leads to an incomplete assessment of the external costs borne by patrons with no formal connections with the firm and by the collectivity overall.*

Propositions 2 and 3 together identify non-members, that is, all those patrons who hold contracts but no strategic control of the organisation, as well as patrons who have an interest in it but no formal connections. Because of their status, their specific interests may be excluded or only partially included in the strategic control function, thus leading to external costs (as explained by Meade). This governance failure emerges in Hansmann’s treatment of non-profits, although they are not addressed fully by the model. He acknowledged that non-profits may prevail when the costs of both ownership and contracting are exceptionally high for a given class of patrons (usually donors/users) and identified a paradox. On the one hand, giving ownership to any other class of patrons would “inefficiently threaten those patrons’ interests”. Nonetheless, giving ownership to the weakest class would incur very high COs because of the managerial agency problem (Hansmann 1996, pp. 48–49). Notably, this logic is inconsistent with his usual calculus of comparing the costs of contracting with those of ownership since neither of the two solutions is applicable. It therefore seems that even his analysis of non-profits confirms that the calculus is based on some missing type of cost (which he did not explicitly identify but which seems to be related to the absolute CCs as opposed to only their comparison with COs). What Hansmann suggested is that, even if it is not efficient to make a certain class of patrons owners, excluding them from governance would incur such a high level of costs (unspecified) for it to be undesirable (which Hansmann dubiously referred to as “inefficiently threatening their interests”). The point here relates not only to non-profits but to all types of firms since Hansmann in fact stated that “the distinction between non-profit firms and firms owned by patrons who are very poor monitors is often negligible” (Hansmann 1996, p. 49) and proceeded to show how this is true for all single-stakeholder types of enterprise (e.g. worker cooperatives, user cooperatives, and investor-owned firms, despite acknowledging that the latter typology can be equivalent to a cooperative of investors).

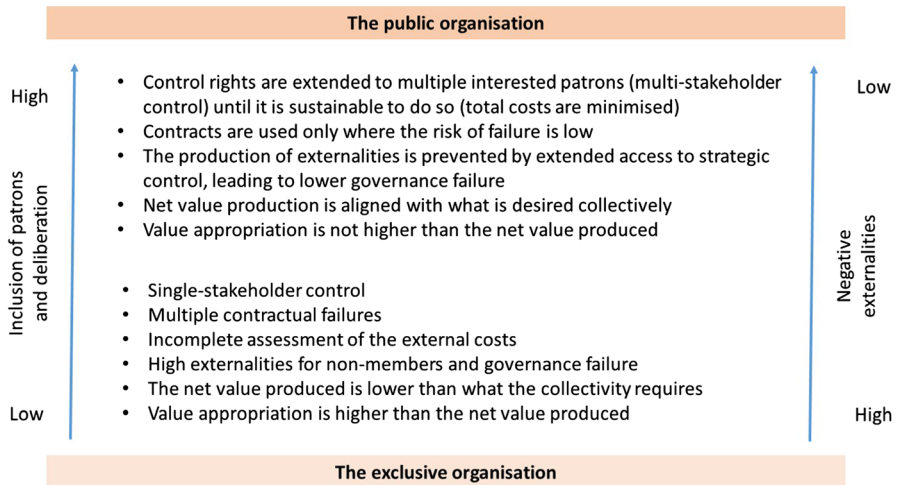


Fig. 1 The inverse relationship between the inclusion of stakeholders and the production of negative externalities

3 Governance failure and the problem of exclusion from strategic control

We have argued so far that single ownership paired with market contracting may not represent a viable solution for including all the relevant societal costs and interests. Firstly, this occurs when there is simultaneous failure on multiple markets and therefore substantive levels of external costs persist for non-members (Propositions 1 and 2). Note that, in Hansmann’s model, the costs of contracting born by non-owners are considered negligible with respect to the amount of CCs that would be borne by the controlling patron if it were not the owner. Secondly, further external costs are generated when marginalised interests are neglected altogether (Proposition 3).

Figure 1 brings together all the propositions suggested so far and leads the argument to the next four propositions to reinforce how together they can help to move away from exclusive organising and towards a theory of the “public organisation”. The two arrows positioned at the edges of the figure illustrate the inverse relationship between stakeholder inclusion and the production of negative externalities, which means that, as organisations move towards the public organisation model, fewer negative externalities will be shouldered by stakeholders and society overall.

What we suggest is that, since there are substantive external costs that are not resolved by contracting, we need to consider solutions centred on firm governance rather than on market transactions. A focus on governance implies that regulation by means of the state authority can also fail, thus adding a complementary perspective to the one presented by scholars who have focused mainly on regulation as a solution to market failure (see Heath 2011). More importantly, a focus on governance-based solutions addresses the problem of fairness. Suppose that control by A is more efficient. Why should B accept this governance structure and then bear the highest CCs (consider the illustration above, in which $CC = 11$)? If the reason is that A

transfers something to B, then we would be changing the fundamental governance rules with a redress commitment. Otherwise, B would not agree to the creation of a firm in which s/he holds an incomplete (labour, for example) contract, while A owns the firm and is legitimised to appropriate the surplus. Similarly to a dictator game, when the proposed solution is too asymmetric, parties can reject the agreement. Hansmann’s theory does not address this issue since it explains the governance of a firm not as a result of an agreement among patrons but as a result of a minimisation process that is spontaneously carried out by the market. However, this is somehow inconsistent. It is unclear why the selection of the most efficient form of governance should be credited to the market, which fails in so many contractual relations. As suggested by Sacconi (2004), the agreement thesis, leading to specific governance rules, seems to be more intuitive and explicative, as the firm arises from an agreement among those who interact through it, and normatively significant, as it results from the autonomous decision of the parties.

From this perspective, our argument is that the failure to address multiple patrons and their interests can be considered as failure of the market as well as of the nature of the agreement among the parties. This is *governance failure* besides market failure. Governance failure refers to the structures and processes that underlie the main functions of governance, such as strategic decision making and monitoring (Sacchetti and Sugden 2009; Sacchetti 2015). When strategic control involves one category of interests that may be exerted at the expense of other interests, there is a risk of governance failure (Cowling and Sugden 1998). The consequence is that the combination of control rights and contractual solutions does not make negative externalities significantly low for patrons without control rights and for the collectivity overall. Chronic underinvestment by corporations in favour of stock buybacks to increase the wealth of managers and investors in the short term (Lazonick 2014) or the process and consequences of the deindustrialisation that has characterised some European regions over the past 30 years provide evidence of these multiple failures.

Proposition 4 *Governance failure occurs when the combination of control rights and contracting does not make negative externalities significantly low for non-members, whether they are contracted or not, and for the collectivity overall.*

Although governance failure is far from being a concept stranger to Hansmann’s model,¹² here we refer to governance failure further than the costs of reaching a good decision within the patron group that is given ownership and control. We also understand such failure as externalities shouldered by contracted patrons with no control rights and other non-contracted publics, even if the controlling patron does not suffer from governance failure (such as aggregation, coordination, or participation in the voting procedure). These decisions can be quite effective but nevertheless can entail the exclusion of external interests and hence negative effects and incentive

¹² Governance failures are possible also in Hansmann’s approach that in fact explicitly considers a number of them, such as for example collective action failures (free riding and the voter paradox), coordination failure, free riding in teams, Arrow impossibility of coherent aggregation of personal values.

destruction for contracting patrons who predict that they will not be protected when taking a subordinate position with respect to those who have an authority position in the firm. As in a prisoner dilemma setting, when one actor cooperates and the other does not, the non-cooperator's behaviour affects the cooperator's utility. Likewise, negative effects are produced for other non-contracted patrons. Externalities consistently (a) exist as a consequence of the interdependencies between members' COs and contracted non-member patrons' CCs and (b) concern those who are affected by the firm even if they do not own, control, or contract with it. For example, reducing the number of courses and subject areas in education may lower the unitary costs and favour investors or taxpayers, but at the same time it would reduce the opportunities for students to satisfy a variety of study interests and for society to benefit from diversified knowledge and human capital resources. The same cost reduction rationale applied to the public healthcare sector has led to a shortage of hospital beds over time, especially in intensive therapy departments, without fully accounting for the social costs attached to this strategy in the event of a pandemic.

Overall, governance failure generates costs for specific categories ("localised externalities", to use the terminology of Santos 2012, p. 343) as well as for the collectivity. In social care, for example, when relevant categories (such as users and carers) are excluded from strategic control (in a private or a publicly owned organisation), the service may not respond to specific care needs and users are at risk of receiving lower-quality care. In this case, if they can, users will rely on unpaid care from family members (and especially from women in the family) or will buy extra services. At localised levels, the result is higher risk of deterioration in patients' health as well as worsening of the status of carers (see Himmelweit 1995).¹³ These dynamics lower households' income and—at the societal level—reinforce social and economic inequality.

The example illustrates that governance failure gives rise to unsatisfactory answers for non-members, whether they are contracted (e.g. patients) or not (e.g. family carers). When unilateral governance fails, the risk of not creating the desired, or desirable, societal value is higher than when governance includes multiple interests (Sacchetti and Sugden 2011).¹⁴ The mismatch between what is produced and its societal relevance assumes both qualitative (what services or goods are produced, for whom, and with what resources) and quantitative (how much is being produced and at what cost) connotations. To explain, we can reason in terms of the net public utility generated by production activities when the aggregate social welfare increases, having accounted for the costs of the resources used (Santos 2012). All the net public utility (Y) produced can be compared with the increase in value desired by patrons in accordance with societal needs or welfare (W). We argue

¹³ Negative localized externalities are strengthened for unpaid carers attached to the loss of self-actualisation, which social psychologists have associated with a lack of recognition and the feeling of not counting and being locked into undesired situations that lead to a reduction of individual well-being (Deci and Ryan 2000; Maslow 1968).

¹⁴ The same line of reasoning could be extended from private organisations to neo-statalist models when they entail the use of concentration of strategic control over local development objectives and solutions (Sugden and Wilson 2002).

that, with governance failure, the first (net utility, Y) will be lower than the second (the increase in value desired by society at the localised and collective levels, W). For example, consider a foundation that pursues the promotion of young artists while being controlled by representatives of the arts industry, for instance commercial art galleries. Governance failure is generated if the foundation’s activities are biased towards the promotion of young painters who produce artwork according to the market taste, while instead societal interests would include innovative artistic approaches that may remain, however, unsupported. Here, the meaning of public utility concurs with Meade’s definition of externalities. It presumes that, if some benefits are possible or are normatively designed as a right, then there is a normative request to achieve them (or a moral duty to produce them) to maximise social welfare. The possibility to create benefits, when ignored or not implemented by a consistent decision, identifies the presence of a negative externality. This may occur for instance if a) there is an incomplete market for a specific meritorious service (e.g. public health, culture, and education) and the supplier provides services opportunistically, exploiting information asymmetries and renegotiations; or b) there is no market for the service, and no contracts, but the supplier has the duty to provide the service (directly or indirectly by delegating to another provider) according to an accepted social welfare function.

Proposition 5 *With governance failure, all the net public utility produced is likely to be lower than the net public utility required to satisfy localised (patron-specific) and collective needs ($Y < W$).*

In addition, value creation at the societal level can be compared with value appropriation by patrons with access to strategic control. The distinction between creation and appropriation of value (π) is central in the work by Santos (2012) as well as Lavie (2007) and Mazzucato (2018). By value appropriation, they mean the amount of value that the controlling patron can appropriate once it has accounted for the relevant costs. As argued, with governance failure, the costs borne by excluded patrons are not fully computed in the cost calculus. Hence, controlling patrons will tend to appropriate too much value, thus generating negative external effects locally (on specific patrons) and for the collectivity more broadly. The example of the Mexican Bank Compartamos illustrated by Santos (2012) describes a context in which microfinance organisations may create significant benefits for society until they keep their focus on value creation while instead losing their purpose and values when they transform their strategy in favour of value appropriation and apply interest rates above what is necessary to cover costs and reinvest in organisational development.

Proposition 6 *With governance failure, the value appropriation by controlling patrons is likely to be higher than the net utility produced ($\pi > Y$) since external costs borne at the localised and at the collective level are not considered.*

If we bring together Propositions 4, 5, and 6, we can hypothesise the effects of governance failure in the following way: $\pi > Y < W$. This relationship indicates that

the value appropriated by patrons with access to strategic control is higher than the value produced, which is in turn lower than what is needed by society at the localised and collective levels. We are therefore interested in alternative governance solutions that act on the production and distribution of the net utility appropriated so that $\pi \leq Y$ and that move production towards the objective $Y \approx W$.

3.1 From ownership to membership

To reduce governance failure, organisations need to be clear about the locus of strategic control, that is, who decides about the production and distribution of value. As mentioned, control can be exerted across the organisation's legal borders even in the absence of ownership (Cowling and Sugden 1998); prime contractors' control over subcontractors is an example (Sacchetti and Sugden 2003). A focus on ownership rather than strategic control can also be limitative in the opposite case, that is, when ownership rights do not imply strategic control. For example, consider organisations in which the decision-making bodies fail to give representation to all the types of owners, such as minority and majority shareholders in business corporations, small and large farmers/users in cooperative firms, and old and new member workers in worker cooperatives. The same can be said when the management cannot be monitored or is not made accountable to all the owners.¹⁵

A focus on strategic control, rather than ownership, addresses all forms of access to the control function, including representation in decision-making bodies without ownership. The idea is to overcome the impasse of the weak patron for whom neither ownership nor contract can further their specific interests. The approach is different from Hansmann's, in which the goal is to produce value for one class of patrons through ownership while internal agency costs between owners and managers are resolved by means of incentives. In contrast, the model that we suggest produces value for multiple patrons by assigning access to strategic control on the basis of membership (for instance non-profit organisations that assign membership on the basis of an associative contract, which may include different patrons, such as workers, users, and donors, a model that is increasingly being applied by social enterprises, for example). To encompass multiple ways to access the control function, we refer to membership rather than ownership, where membership assigns the

¹⁵ Hansmann would agree on this, since he defined ownership of the firm as a double criterion: the claim to profit after contracts have been paid and the residual control right, which is the right to make strategic decisions. In fact, Hansmann, in the non-profit case, defined the governance structure as "no ownership", since there is no residual claimant even if somebody can be appointed to take residual decisions, that is, in this case, the conditions for ownership are not completely satisfied. The problem was originally identified by Berle and Means (1932), who observed the separation between owners and managers controlling the firm, and then developed by Jensen and Meckling (1976), who theorized about the opportunity of making managers owners to align the objectives of managers with those of owners. Agency theory sees the firm as a complex system of contracts between different agents with conflicting interests. Internal contracts, in particular, specify the decision rights of agents, how performance is evaluated, the rewards, how residual claims are distributed for each agent involved in internal contracting, and finally the decision-making rules on issues such as performance measurement and reward distribution (Fama and Jensen 1983).

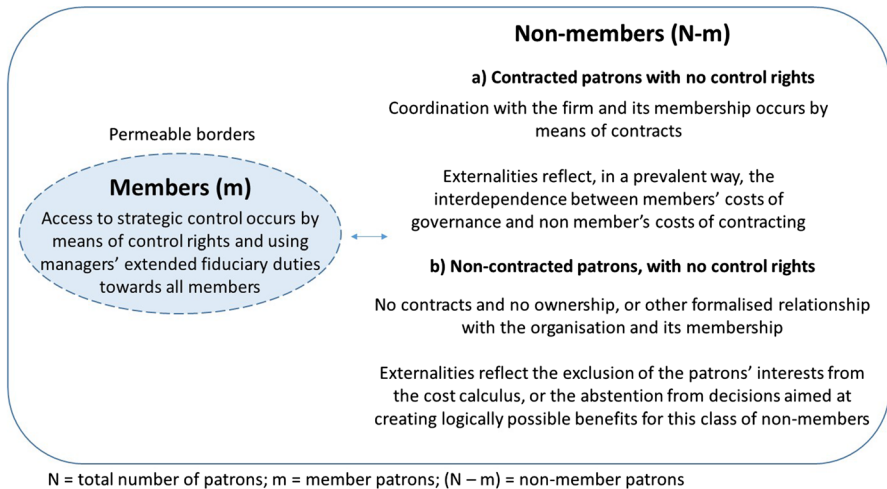


Fig. 2 A typology of patrons, means of coordination, and externalities

right to access the governing function of the organisation, with or without ownership. This shift is also consistent with Pestoff (2017), p. 90, who recommended “making membership meaningful”. Figure 2 clarifies the relationship between the concept of membership (as participation in the firm/organisation governance) and the status of the actors whom we have called non-members, who are (a) patrons who are linked to the firm through contracts only, such as employees and clients, and (b) non-contracted patrons. It postulates that, in general, membership depends not on ownership but on holding the right to participate in the strategic control of the firm. In our model:

- a) Members can be owners or non-owners as long as they have the right to access the control function. They may have a contractual relation but nevertheless have some control right. Ownership is understood in its milder form since here it does not include, in general, the right to alienate the assets accumulated by the organisation, which are locked.
- b) Contracted non-member patrons are related to the organisation through contracts only and are not members since they do not hold control rights.
- c) Non-contracted patrons are not related to the organisation's cost calculus since they hold no contractual or participatory relationship with the firm. They are, however, stakeholders since their welfare is affected by members' strategic choices.

With enlarged control rights, managers can be asked to justify their actions in front of multiple patrons. At the same time, managers' extended fiduciary duties (as in Sacconi 2004, 2006, 2011a, b) would enable managers to take into account a wider set of interests, beyond those of owners, when making strategic decisions. Besides, the idea of extended fiduciary duties is used with respect to CSR as a

model of extended corporate governance that may be applied to the governance of any private company in terms of the allocation of residual control rights. It is compatible with different ownership forms, and of course extending fiduciary duties entails some participatory rights, held by those who must be accounted for the satisfaction of their interest. The idea is therefore applicable beyond non-profit or public service organisations or not only to the case in which membership is related to patrons as recipients of externalities. It applies to all patrons in all corporations when multiple specific investments are at stake.

As an illustration, consider the case of a hospital and community care clinics owned by investors. Suppose also that this arrangement happens where there is a social goal and right to receive healthcare and that the investor-owned firm is delegated to provide that right and achieve the goal. The owners decide to centralise diabetes community services within the hospital to take advantage of scale economies. This implies a closure of local diabetes clinics. We can expect costs attached to market failure, such as under-consumption caused by the difficulties in reaching the hospital premises. We can also expect localised externalities to arise, including a decrease in patients' health and well-being and an increase in family care duties, which strengthen the carers' load of unpaid work. At the collective level, we can expect greater inequality, which in turn creates further health disparities (Kawachi and Kennedy 1999). Despite the external costs engendered for specific patrons and for the collectivity, it would be hard for managers to reject this strategy if they owed a fiduciary duty exclusively to investors.

Rather, if managers' duty of loyalty is broadly understood to apply to a wider set of patrons (i.e. patients in general and specific classes of patients, such as elderly people and people with reduced mobility, but also medical staff who would not want to put their professional ethics at risk by denying healthcare to patients with reduced mobility), it would be possible for health managers to reject the indication to centralise services on the grounds that there are members and society at large who would suffer from centralisation, increasingly so given the demographic trends. The losses for these classes of patrons (e.g. worsening of health conditions; unpaid carers within the family) and for society (e.g. in terms of under-consumption of preventative care, hospitalisation, and increased marginalisation of elderly people and of family carers) would be considered together with the gains for investors. By extending control rights, managers would not be able to support and justify their actions (and preserve their positions) while, at the same time, disregarding the interests of controlling patrons. Extending governance rights to excluded patrons and, therefore, managers' fiduciary duty would have the effect of moving away from profit maximisation for investors towards reducing the production of negative externalities for specific groups and for society more broadly (Blair 1996; Blair and Stout 1999; Sacconi 1991).

Focusing on governance failure, we propose a model that: (a) considers strategic control rather than ownership; (b) associates strategic control with membership (with or without ownership); and (c) identifies incomplete membership as the source of external costs, which we introduce into the governance economic calculus, in addition to the costs of internal coordination.

4 The total cost model

Our propositions suggest the inadequacy of exclusive control by a restricted class of patrons when multiple, complex interests are at stake. They posit the existence of multiple market failures or the absence of markets altogether for patrons who are excluded from strategic control. They address the effects of governance failure, arguing for lower levels of net public utility when governance failure occurs. We are therefore interested in alternative governance solutions that: (a) extend control rights to non-members, who as a consequence become members, and (b) align the net utility produced and appropriated with what is desired at the localised and collective levels. We need to ask, therefore, how long the organisation, to reach (b), continues to enlarge its membership by including non-member patrons. The question uncovers a trade-off between the costs of extending membership on the one hand and the persistence of negative external costs that reduce net public utility on the other.

Given a total number of patrons, N , who are interconnected with the organisation (by means of membership, contract, or informally; see Fig. 2), the inclusion of patrons minimises a function that includes membership costs (CMs) and external costs due to exclusion from the strategic choice (CEs). CEs include the costs of contracting (CCs).

CEs equal CCs only when one market fails (the one that is substituted by ownership), so all patrons excluded from strategic control are satisfied with the contractual solutions and there are no marginalised patrons. We expect the CEs to be higher than the CCs for transactions in which multiple markets present important failures and when there are patrons who are not contracted at all but bear negative externalities.

With CEs, the model shifts the costs of externalities inside the organisation and, with CMs, it recognises the internal costs of coordination among internal patrons or members. As illustrated in Fig. 2, member patrons are those with access to the control function (m). Non-member patrons are those who hold contracts without partaking in strategic control and those who have an interest but no voice either through membership or through contracts ($N-m$). To simplify, we assume that, within each group of patrons, there are no collective action costs. We also assume that the cost of the interaction between patrons is the same for all combinations of patrons.

$$TC = \sum_m CM + \sum_{N-m} CE$$

Starting with a firm controlled by one type of patron, the choice of whether to include additional patrons requires the consideration of CMs and CEs together. Accordingly, an additional patron can be included if, for each added patron, the sum of CEs is lower than the sum of CMs.

CMs and CEs are dynamic in our model, since, when one non-member is included and changes his or her status from non-member to member, the sum of CEs is reduced. The inclusion of one more patron implies an increase in CMs and a change in the distribution of strategic control that lowers the CEs, the external costs due to exclusion (i.e. inequality in terms of income, status, power, or knowledge), thus taking Y closer to W . If a contractual relation is internalised and transformed

into a membership relationship, the contractual costs component of CEs decreases as well. For the CEs to be irrelevant, contracts should remain in place only for patrons whose interest is largely satisfied by means of market/contractual exchange (that is, if the interests of the patrons who do not have membership can largely be protected by means of a contract). Following this construct, Hansmann's model would be a specific solution that can be applied only when the sum of CEs is negligible or, in other words, when only one market significantly fails and all the other patrons can usefully be protected or compensated by means of contracts.

In this interpretation, the most efficient solution at the organisation level is one for which the *total* costs (CMs + CEs) are the lowest. At the system level, this solution a) maximises Y, b) distributes Y among members so that $\pi \leq Y$, and c) takes Y close to W.

Proposition 7 *The total cost model indicates that the inclusion of an additional patron in the strategic control of the organisation increases societal welfare if it reduces the sum of CEs more than it raises the sum of CMs.*

5 Discussion

By considering the total costs, our model recasts the firm governance question as follows: what is the lowest total cost assignment of strategic control? The model shows that the inclusion of an additional patron in the strategic control of the organisation increases societal welfare if it reduces the sum of CEs more than it raises the sum of CMs. This means that total efficiency at the system level depends on the interaction between the micro and the macro level, that is, on the combination of membership and contracts chosen by organisations and their implications for the net public utility produced, appropriated, and desired at the collective level. The public organisation, as defined in the introduction, "internalises" patrons, thus absorbing some of the external costs, in pursuit of multiple localised and collective welfare. The choice of people to include in the strategic control function will depend on the anticipated effects in terms of external costs (understood in the sense explained by Meade) and the costs of organising. Internalising would not necessarily change the status of the included patron into ownership (for instance, consumers or workers can keep their status without having to become owners) but would require a change in the costs of their positions with respect to the firm and its activities.

For Proposition 7 to hold, non-members must gain a considerable advantage from joining the organisation. This can happen if the decision-making process succeeds in including the patrons' interests and needs more than contractual solutions can do. On the other hand, members must benefit from including one more patron. For instance, when the aim of the organisation (for example, a third-sector organisation, a public sector organisation, or a benefit corporation) is to produce merit goods or public goods, the members are likely to consider the advantage of including patrons in terms of the general net public utility created by their inclusion. Organisations,

more generally, can consider the additional resources brought in by non-members and their contribution to $Y \approx W$.

5.1 Multi-stakeholder solutions

The total cost model can usefully be applied to the study of multi-stakeholder forms. Although multi-stakeholdership can, in principle, operate for any organisation, it is used mainly to produce meritorious goods, such as health, educational, cultural, and a variety of community services aimed at reducing social exclusion, and can also include community management of public utilities. Examples can be seen in healthcare, in which organisations can be governed by patients, medical doctors, and donors together (Pestoff 2008), or in culture and education, in which strategic control can be held by parents, teachers, and representatives of public administrations together, alongside co-production models in the provision of public services (Pestoff 2009). Their contribution to the creation of high levels of public utility and low levels of appropriation has especially been discussed by scholars who have emphasised the role of stakeholder participation in the provision of social and welfare services in the form of voluntary associations and social enterprises, which emerged mainly from the end of the last century onwards, as in the case of Italian social cooperatives of which the membership can include users, volunteers, and workers (Sacchetti and Tortia 2008; Borzaga, Depedri and Tortia 2011; Borzaga and Mittone 1997, 2015; Defourny and Nyssens 2008; Munkner 2004; Santos 2012).

Multi-stakeholding institutes the principle of inclusion of multiple patrons through a formal governance agreement. This agreement is the pre-condition that supports the production of socially desired aims ($Y \approx W$) as well as of levels of appropriation of surplus that are equal to or lower than the value added produced ($\pi \leq Y$). Access to strategic control can be tied to the distribution of voting rights and to a fair representation of members in decision-making bodies by means of appropriate architectures. Turnbull (2001), for example, suggested that multiple interests can be represented through separate boards, which can then be joined in a common board, leading to a form of distributed control (cf. Sacchetti and Birchall 2018). Alternatively, diversity of interests can be interpreted through a voting process organised by means of separate assemblies, each made of different types of stakeholders (in investor-owned companies, this solution is applied by creating separate assemblies for different types of shareholders). A different solution, which would possibly generate lower transaction costs than the one just described, is to pair single-stakeholder ownership with the representation of patrons with ownership and patrons without ownership on the board of directors. According to the Italian law on cooperatives, for example, the general assembly of a mono-stakeholder company can elect a minority number of directors to represent the interest of non-member stakeholders. As an example, in the specific case of a worker cooperative, the workers, through their general assembly, can express their preference from multiple lists of stakeholders, leading to a form of distributed control.

These organisations produce and sell meritorious goods with a marked public benefit connotation. Their principal aim must be to maximise localised and

collective positive effects in two ways: by giving voice to patrons by means of multi-stakeholdership and by reinvesting surplus. The pursuit of public goals is normally also supported by rules that ensure that surplus is reinvested to the benefit of members and the community more broadly. The peculiarity of multi-stakeholder organisations is that, when all of the main patrons are included, the reinvestment of monetary surplus is effectively a way to socialise (rather than appropriate) the net public utility produced. This is because external costs have been internalised through shared strategic control. In this way, the net collective utility appropriated by patrons does not exceed the net utility produced ($\pi \leq Y$).

In addition, these organisations tend to comply with non-profit distribution constraints and asset lock rules. These are another binding agreement that supports the inclusion of non-members since it represents a form of insurance against opportunistic behaviours (cf. Simon 1997; Williamson 1975): for example, the emergence of short-term objectives either from patrons who are about to exit the organisation or from new entrants (on the time horizon issue in non-conventional firms, cf. Furubotom and Pejovich 1972; Navarra 2010). When strategic control is shared, reserves are controlled by multiple patrons, who have an interest in preventing the over-appropriation of the cumulated net utility ($\pi > Y$) by one patron only. Rather, stocks of cumulated surplus are meant to satisfy the needs of all patrons according to principles of reciprocity; this lowers the external costs.

5.2 Deliberation

Consider an organisation with a board of directors on which different patrons are represented. One pre-condition for reaching cooperative agreements so that inclusion actually reduces CE and moves the entire system towards efficiency is that patrons engage in non-opportunistic communication. This form of communication has been discussed as cooperative deliberation, especially in the context of democratic and participatory institutions (Bobbio 2007; Dewey 1927; Elster 1998). In addition, social contract theory concurs with deliberation theory since it suggests that the social contract is adhered to by means of pre-play communication, which may affect the beliefs and preferences of agents besides lowering the transaction costs associated with information asymmetries (Sacconi 2015). Deliberation works as a form of substantive involvement, which extends beyond the formal engagement entailed in the right to vote in organisational assemblies (which is typical of the ownership relation) as well as beyond the contractual obligation to deliver a service. Rather, the function of deliberation is to make each and every patron's interests explicit yet to transform them through the cooperative interaction, generating solutions based on argument rather than on power imbalances. Deliberation, in this sense, is not seen as a waste of time and resources but rather as a way to legitimise decisions and compliance as well as a way to inject the needs, experience, and knowledge of multiple actors into the cooperative decision-making process, thus lowering the sum of CEs and aligning Y and W . In addition, since it favours reciprocal learning, knowledge, and trust, deliberation can work towards the reduction of opportunistic behaviours, hence lowering the CMs.

6 Concluding remarks and implications for research

Existing contributions have explained why the ownership of one class of patrons can be an efficient governance solution only when one market fails. Because this explanation refers to a specific case, it does not provide effective solutions when multiple markets fail. Single stakeholderhood then produces governance failure. It generates negative external effects, which imply that the net public utility produced is lower than what is desired by the collectivity and by specific patrons and that too much value is appropriated by those who hold exclusive strategic control. Governance failure and its effects can be even more relevant in sectors (such as health, social services, culture, and education) in which information asymmetries and the complexity of the interests involved require a “public organisation” (as defined in the introduction). To develop a more general model, we have accounted for the external costs (CEs), which are generated whenever interested patrons are excluded from the strategic decisions affecting them. In our model, CEs are not a transitory feature of governance solutions but an intrinsic consequence of the failure of these coordination solutions to identify and address the needs of multiple patrons and society at large.

Our total cost model suggests that failure to consider CEs is associated with resource coordination choices, whether the coordination modality is the contract or the organisation. This means that both market and organised transactions can fail. We have argued that shared control is effective when CEs are high, even after control rights and contractual obligations have been defined. Our model shows that it is most advantageous to establish an organisation with multiple patrons in those circumstances when, in its absence, the sum of CEs is higher than the sums of CMs taken together.

Multi-stakeholder governance is therefore desirable when it minimises the total costs, thus working towards public utility objectives ($Y \approx W$, $\pi \leq Y$). CEs can be reduced by opening strategic control to multiple patrons by means of participation and representation in decision-making bodies. In addition, the model indicates that governance innovations towards this goal must provide clear benefits for members and non-members.

Overall, the total cost model sketches a comprehensive theory of the firm, which accounts for the public dimension of production activities. It explains a new way of conceiving a “public organisation”, that is, an organisation that sustainably extends control rights to multiple interested actors consistent with the net collective utility required at the societal level. The implications of the total cost model apply to private organisations and are in line with the concerns raised around the inequality effects of business (cf. Brammer et al. 2012). For instance, within the corporate social responsibility (CSR) literature, specific perplexities have been presented by scholars who have questioned “the paradoxes and ambivalences of CSR as a form of private governance”, which, in systems of neo-liberal inspiration, have failed to challenge the primacy of shareholder value (Amable 2011; Fransen 2012; Kang and Moon 2012; Kinderman 2011). On the other hand, to counterbalance the above critique, other scholars (as discussed in

the introduction) have intended CSR differently, arguing for an extended form of corporate governance, which entails extending fiduciary duties and recognising control rights well beyond the shareholders and hence providing an alternative to the shareholder primacy model. Consistently, the total cost model contributes to the policy debate around value creation (Mazzucato 2018) by offering arguments in support of organisational variety and cooperation for the production of public value. Along a similar line, this article contributes to the policy debate concerning the creation of governance models for more inclusive economies, under the so-called “inclusive capitalism” agenda promoted by the former US Treasury Secretary Lawrence Summers, which recently also featured in a Governor of the Bank of England’s speech (Carney 2014) as well as in the renewed awareness of political representations of cooperative forms of ownership.¹⁶ This line of reasoning also finds points of connection in the recent debate on post-Fordism forms of organising, in which the idea of diversity management within “productive spaces” is discussed (Zanoni and Janssens 2004) alongside contributions from identity theory in critical management (Avelsson and Willmott 2002). More broadly, economic justifications for inclusivity in governance can be explored further in conjunction with critical management studies that argue for a humanistic approach to management and build on a critique of corporate capitalism (Taskin and Willmott 2000).

The total cost model also applies to public administrations, helping to resolve the problem of how to govern organisations efficiently and in the public interest. Additionally, the application of our model contrasts with new public management solutions that have aimed at improving efficiency by enhancing contractual solutions without inclusion in strategic choice functions (see Grönblom and Willner 2009 for a critique).

To reduce CEs, multi-stakeholder solutions have already emerged, though the challenges posed by the CMs for these organisations require further research. Advocacy initiatives may be needed to raise awareness among contracted patrons or excluded groups. These may require a change in management culture. Limitations may derive from managerial opportunism, which, as agency theory suggests, may jeopardise the interest of multiple patrons, as this undermines the interest of shareholders (Heath and Norman 2004). Problems in implementing multi-stakeholding may also come from managerial slack in providing or renewing appropriate platforms for participation and engagement (Spear 2004). Further threats may originate in the free-riding and short-term orientations of existing members, who may not want to share strategic control and benefits with a wider set of patrons, in which case π can be higher than Y . Although we cannot enter into the details of suggested solutions to these problems, we refer to literature that has emphasised the role of

¹⁶ “This standard capitalist model of business organisation may be loosely defined as a legal structure in which private capital investors have the collective right to appoint management, as well as ownership rights to any residual income generation. The hegemonic position of this form of ownership does not necessarily imply that it is the most beneficial method through which to provide economic and social well-being to our society” (Labour Party UK 2017, p. 6).

well-specified rules and procedures in enhancing cooperation and in directing members’ preferences towards it (Cornforth 2012; Grimalda and Sacconi 2005; Ostrom 1990; Shaw 2006). For instance, light has been shed on the role of fair and shared rules that reflect the long-term interest of patrons (Ostrom 1990); the importance of selecting managers who understand the value of an enlarged fiduciary duty and pursue the interests of multiple patrons (Blair 1996; Hart 1993; Sacconi 2013); the positive role of board representatives’ diversity for both social and economic performance (Cornforth 2012; Fryxell and Lerner 1989; Siciliano 1996; Zahra and Stanton 1988); the importance of monitoring and sanctioning free-riding problems (Ostrom 1990; Williamson 1975); the centrality of education, and management education, oriented towards the features of inclusion, cooperation, and deliberation (Dewey 1927; Enslin et al. 2001); and the intensity of relational interactions between members and external patrons (Bridoux and Stoelhorst 2016).

Following the experiences of multi-stakeholder organisations, further research is needed to explore which institutional arrangements and organisational factors can lower CMs and promote a culture of shared control and deliberation and to determine the extent to which these can reduce CEs.¹⁷ Clarifying these points could improve the understanding of the specific drives and solutions designed by organisations to implement plural membership.¹⁸

In all these cases, research can enquire into how the efficacy of collective action is ensured and how cooperation and preferences regarding cooperation are developed so that membership can be extended, agreements respected, and CMs kept under control. This would entail exploring when patrons are best included via ownership, via board representation, both, or in other ways. In parallel, research can address when strategic control cannot be shared or can be shared to a limited extent, even in the presence of high CCs, hypothesising for instance the presence of conflicts of interest leading to the effective possibility of opportunistic behaviour.

Acknowledgements We wish to thank PierAngelo Mori, Ermanno Tortia, Murray Fulton, and the anonymous reviewers of the JMG who have commented on the manuscript. Thank you to ICA (Paris, 2015) and SIE (Trento, 2015) conference participants. This paper was written with the contribution of the British Academy/Leverhulme Research Grant Nr. SG150560 on “Assessing governance models of healthcare social enterprises” and with the contribution of the Autonomous Province of Trento (Italy) at Euricse.

Funding Open access funding provided by Università degli Studi di Trento within the CRUI-CARE Agreement.

¹⁷ A growing amount of experience, moreover, evidences that multi-stakeholdership can occur in a variety of sectors and prior to or instead of regulation through voluntary multiple membership. Examples are the retail cooperative Eroski, in the Basque Countries, which includes both workers and consumers, or the Korean ICoop, the members of which are farmer and consumer organisations (cf. Sacchetti and Birchall 2018).

¹⁸ We know in fact that, in specific sectors, such as care and education, the inclusion of more than one patron can be required or strongly encouraged by law (for the French Société Coopérative d’Intérêt Collectif (SCIC), the Italian social cooperatives, and the Primary Health Organisations of New Zealand). In France, multi-stakeholding in social enterprises has become a specific requirement. In the SCIC, three patrons must be represented on the board: workers, beneficiaries, plus a third category to be nominated (this can include public administrations). In Italy, differently, the number and typology of patrons are open. In fact, the law has instituted a “non-discrimination principle” in the selection of members and the principle of independence from public administrations, which cannot be present on the board.

Compliance with ethical standards

Ethical approval This article does not contain any studies with human participants or animals performed by any of the authors.

Conflict of interest Silvia Sacchetti declares that she has no conflict of interest. Carlo Borzaga declares that he has no conflict of interest.

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