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ORGANIZATION AND GOVERNANCE IN SOCIAL ECONOMY ENTERPRISES: AN INTRODUCTION

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The aim of the special issue is to improve our understanding of existing governance arrangements which are commonly adopted in social economy enterprises such as co-operatives, mutual organizations, social businesses, or charities. Among the many topics which might be studied in this context are questions related to strategic stakeholder management, inter- and intra-firm alliances, social enterprises' organizational governance and hierarchical structures, and manager and member compensation (e.g. Jegers 2009, Nilsson 2001). In particular, to what extent are social enterprises more or less prone than profit-maximizing firms to pay variable compensation schemes to their managers and members and prefer to rely on fixed wages and other more intrinsic forms of incentives? Why do social economy enterprises prefer to adopt horizontal and democratic forms of organizations rather than vertical and hierarchical organizational structures? Can we shed light on their natural tendency to be embedded into informal networks of relationships rather than into hierarchical and formal structures?

Recent work has shown, for example, that socially concerned enterprises, firms that pursue non-profit motives, and other hybrid organizational forms are used to deal with their managers in quite a different way from their profit-maximizing rivals (e.g. Cai et al. 2011, Frye et al. 2006, Mahoney and Thorn 2005, 2006, Berrone and Gomez-Mejia 2009, Deckop et al. 2006). The literature on the corporate governance of cooperatives has quite intensively discussed the relations between members of social enterprises, their board of directors and managers (see e.g. Richards et al. 1998, Nilsson 2001, Sykuta and Cook 2001, Cornforth 2004, Spear 2004). Moreover, focusing on incentives and performance measurement, existing empirical work has repeatedly shown that social economy enterprises – in contrast to profit-maximizing firms – avoid providing high-powered incentives to their managers and rely to a much higher extent on peer monitoring, implicit contracts (enforced by social ties between CEOs and board members) and subjective performance evaluation (see, for instance, Ittner et al. 2007).

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The empirical findings for socially responsible firms and cooperatives are in line with the findings for (other) non-profit organizations, see e.g. Hallock (2002), Brandl and Güttel (2007), and Frumkin and Keating (2010). To understand these observations, two main reasons have been advanced. First, from an agency perspective, using low-powered incentives for the managers in social economy enterprises is the board's optimal response since the objectives are difficult to quantify (Preyra and Pink 2001, Hallock 2002). In non-profit organizations the goals are vague and ill-defined and the danger of giving dysfunctional incentives is high (Theuvsen 2004, Spear 2004). Additionally, in social economy enterprises the heterogeneity across members makes it difficult to agree on performance targets, which results in low-powered incentives for CEOs (Hueth and Marcoul 2009). Moroever, strong extrinsic financial incentives are against the principle of fairness and might crowd out intrinsic motivation of individuals who have (been) selected to work in a social economy enterprise (Spear 2004, Theuvsen 2004). Finally, the product market competition and the strategic interactions between firms, can also play a role in shaping incentive contracts and governance. In the last years, several empirical papers have shown that the interplay between the strategic interaction between firms and the internal organization plays an important role (e.g. Cunat and Guadalupe 2005, Karuna 2007, Vroom and Gimeno 2007).

The contributions included in this special issue take three different perspectives.

(1) A theoretical perspective, mainly aimed at formally disentangling the different behaviors of social enterprises under imperfect competition in mixed markets or facing the issue to raise sufficient venture capital.
(2) An empirical perspective, mainly having the purpose to check whether the behavior of nonprofits and cooperatives as predicted by theory can be confirmed by the empirical data.
(3) A case-based, qualitative perspective, analyzing in detail the behavior of individual or small groups of particular social enterprises in their day-to-day operations.

Three papers take the theory perspective. *Patrick Herbst* and *Jens Prüfer* compare the efficiency of firms in a market in which they can provide products of different qualities. The authors show that in equilibrium for-profit firms provide the lowest quality level, cooperatives provide an intermediate level and non-profit organizations the highest one among them. The efficiency of these different organizational forms, though, ultimately depends on the cost of production and the cost of collective decision making. It is shown that for high cost of collective decision making, a profit-maximizing firm is usually the most efficient form. Yet, for lower levels of these costs, profit-maximizing firms are increasingly dominated by either nonprofits or cooperatives (depending on the incremental cost of quality production). As the level of competition increases, the efficiency of profit-maximizing firms improves vis-á-vis nonprofits and cooperatives and, thus, may drive organizational change. *Alessandro Fedele* and *Sara Depedri* study the role of social enterprises in a mixed market where they compete against profit-maximizing firms. To understand how access to social services and welfare are affected, they consider a differentiated-products duopoly model of the Hotelling type and assume that social enterprises maximize surplus of consumers. Compared to a market economy where only profit-maximizing firms compete, in a mixed economy public policy might face a trade-off between access and welfare. *Kazuhiko Mikami* explores the economic and legal implications of transferable shares in a cooperative as compared with the usual adoption of stock-equity in a traditional capitalist firm. He shows that, with transferable shares, a cooperative firm becomes isomorphic to a capitalist firm while maintaining its essential characteristics of being owned by the members as input providers or output customers, and not by 'capitalists'. Based on this starting point, the author explores the possibility for a government of developing a unified business law that regulates both capitalist and cooperative firms within a single legal framework.

The empirical perspective is taken by *Joaquim Rubens Fontes Filho* and *Michelle Bronstein* who compare the governance practices adopted by a sample of Brazilian companies listed on the stock-exchange and of non-profit organisations. To compare governance solutions, the author introduce a framework based on five categories, or building blocks, existing in every governance system and addressed in different governance codes. All information was collected from non-profits' by-laws and companies' official documents. This comparison helps to identify a few major differences as well as similarities between governance practices of the two types of firms, as a more accentuate internal participation and democracy, less monitoring, low managers' turn-over, more diverse shareholder groups and lower salaries for managers in non-profits than in for-profit firms. *Derek C. Jones*, *Iiro Jussila* and *Panu Kalmi* use panel data of Finish cooperative banks to study in detail the determinants of membership. Using a rational choice framework, they argue that both economic and associational motives might explain the decision to join the cooperative. Among other reasons, they find that the most prominent ones are monetary incentives and the size of the community from which members are recruited from.

A case-based perspective is adopted by *Anjel Errasti, Baleren Bakaikoa* and *Enekoitz Etxezarreta* who investigate the challenges that cooperatives face as they transform into multinational enterprises. As a case they focus on Mondragon cooperatives and provide a qualitative, interview-based study on the economic and organizational problems alternative organizations might encounter as they become internationally active. Like in the case of Fagor (the Basque domestic appliance company), these problems might eventually lead to bankruptcy. *Simon Berge*, *Wayne Caldwell* and *Phil Mount* use a qualitative study based on semi-structured interviews to gain insights into the governance of nine food cooperatives in Ontario, Canada. Based on responses of managers of the cooperatives, they argue that the theory of cyclical board behavior provides new insights into the evolution of a cooperatives' board of directors. Specifically, being aware of the current phase in which the cooperative's board is in can actually help the management to adapt the role and composition of the board. Finally, *Yena Lee*, *Yunhwan Nam* and *Sanghoon Lee* conduct focus group and in-depth interviews within a group of cooperatives self-organized in secondary associations in a district of Seoul, South Korea. Their study analyses the characteristics of these organizations and proposes possible models and strategies for cooperation. In particular, the authors explore whether secondary organizations can, and in which way, boost the collaboration among cooperatives. Based on these interviews, the authors drew a conceptual model and a few specific strategies to enhance cooperation.

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