

The Multi-Stakeholders Versus the Nonprofit Organisation

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Abstract

In Italy, as well as in other countries, two debates have developed in these years: the first is that of the reform of welfare system and the second regards the growing role assumed by non profit organisations. In this paper we link these topics and we try to understand if not-for-profit organisations offer advantages in the provision of welfare services, when compared with public agencies or for-profit firms. Our thesis is the comparative advantage of not-for-profit organisations is mainly due to their institutional and organisational features.

1. Introduction

In the European Countries, scholars and policy makers are paying increasing attention to the phenomenon of not-for-profit organisations¹. The majority of them expect that the spread of these organisational forms will give rise to two outcomes: an increase in the private production of welfare services², with the consequent relieving of pressure on public supply, and the creation of new jobs.

The relative lack of theoretical and empirical analysis of the subject, evident in all the European countries, has bred the tendency to use models and theories elaborated in the USA, while the institutional differences between not-for-profit organisations in the two continents and the changes

in the role that they play have been overlooked. Hence derives the tendency to identify not-for-profit organisations with those characterised by the non-profit distribution constraint³, and to neglect the other characteristics of these organisations, especially those that have arisen more recently. A certain enthusiasm for the potential associated with the not-for profit organisations (Hansmann, 1995), moreover, has distracted attention from the literature on nonprofit organisations which highlights its shortcomings, as well as from the possible solutions.

Closer attention to the institutional differences which characterise the different organisational features assumed by the not-for-profit organisations and to the connected comparative advantages and disadvantages is necessary, for at least two reasons:

1. because, if not-for-profit organisations offer advantages compared with public agencies or for-profit firms, this is due precisely to their institutional and organisational features, of which the non-profit distribution constraint is only one possible; if these are significantly different among organisations then it is obvious that these advantages may be modified;

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¹ In the paper we use the term "not-for-profit" to define all the private organisations producing welfare services which pursue a declared social aim, also if some of them, as the cooperatives, can distribute a limited amount of profits; whereas we use the term "nonprofit" to define the organisations characterised mainly or exclusively by the "non-profit distribution constraint". Others specifications will be introduced in the rest of the paper.

² In the paper we shall use the term "welfare services" to define a sort of extended merit goods category which includes goods that show different compositions of two main characteristics: 1) they give rise to some form of information asymmetry; 2) their production implies positive externalities taking the form of pure public goods. To understand what is meant by different compositions of these two characteristics one may usefully refer to Ben-Ner and Van Hoomissen (1991), who draw a basic distinction between two main kinds of good which can be broadly identified with the welfare services category: trust goods and collective goods. Both these categories can be included in our definition of welfare services because for both them there is an asymmetric information problem, albeit one of different degree, and a phenomenon of positive externalities.

³ A Clear example of this tendency is the definition used in the comparative research organised by the Johns Hopkins University (Salamon, Anheier, 1995).

2. because of the policy consequences that may arise now that in some European Countries the legislation that regulates not-for-profit has being changed⁴.

In this article we shall be mainly concerned with the first of these two aspects.

The question can be addressed by starting with the reasons traditionally adduced to explain the relative advantageousness of nonprofit organisations. The most widely accepted argument (Hansmann, 1980, 1987) is that, by disincentivating profit maximisation and opportunistic behaviour by the producer, the non-profit distribution constraint makes it possible to deal with the contract failures caused by information asymmetries between organisation and donor and between producer and consumers.

Various criticisms have been brought against this argument (Fiorentini, 1996; Ortmann, 1996), although they have been only partially incorporated into the debate. Moreover, it seems that a logical error has been committed in its use. Put forward to explain the existence of specific organisations like the American foundations, characterised mainly or only by the non-profit distribution constraint, this argument has been used as if the non-profit distribution constraint was the only, or the most effective means to combat the contract failure. By contrast, it is plainly only one of the possible ways to deal with contract failures, and it has been argued (Young, 1989; Chasse,

1995) that the same contract failures can be handled in other ways, and in particular by means of organisations with, for example, “open records, high consumer participation, charismatic leadership” (Chasse, 1995). These are exactly some of the characteristics of the institutional and organisational forms, especially the new ones, utilised in all countries, but especially in Europe where foundations are less widespread, to produce welfare services⁵; forms, however, which are not always and only characterised by a strict non-profit distribution constraint. This absence of the formal constraint on the distribution of profits has led to the exclusion of some of the not-for-profit forms, cooperatives in particular, from the research⁶ and literature on nonprofit organisations. This exclusion, however, is not entirely convincing from a theoretical point of view (Gui, 1990). It introduces bias into empirical surveys and obscures a number of ongoing organisational changes which instead seem designed to increase control over information asymmetries and the opportunistic behaviour. The most interesting of these organisational changes, at least in Europe, are those intended to alter the forms of internal control by extending the membership and managerial bodies to include a plurality of stakeholders (not only donors, but also

⁵ That European organisations give priority to these features as evidenced by the French “Charter of Social Economy” signed by the major not-for-profit organisations in 1980. It specifies the basic principles underlying the sector: solidarity among members: the free entrance and the free exit of individual members, democratic management (one person, one vote) and, instead of the non-profit distribution constraint, the more general rule that “profit is not the aim of the organisation” with the addition that “capital can not be shared”.

⁶ Explicitly excluded by Hansmann (1980), the cooperative form is considered not to belong to the non-profit sector, with the sole exception of the Italian social cooperatives, by the recent international study co-ordinated by Johns Hopkins University (Salomon,

⁴ In Belgium a new law on “social enterprise” was approved in 1996. In Italy two laws on “social cooperatives” and “voluntary organisations” were passed. In other countries there are demands asking for new laws on nonprofit organisations.

volunteers, workers, consumers and local authorities). Associations and cooperatives operating in the field of welfare services are in fact transforming themselves from single-stakeholder into multi-stakeholders (Pestoff, 1994)⁷. We believe that these changes have significant consequences not only on the contract failures problems but also on efficiency and, as a consequence, on the comparative advantages and disadvantages of these organisations. They warrant closer scrutiny than they have received to date.

The principal aim of this paper is to explore precisely this latter aspects. It begins with a short description of the main organisational forms and of their evolution (section 2) followed by the construction of a typology of all existing not-for-profit organisations, at least in the European countries (section 3). After a theoretical analysis of some limitations in the private production of welfare services (section 4), the paper carries out a preliminary analysis of the comparative advantages and disadvantages of multi-stakeholder organisations both in controlling asymmetric information problems (section 5) and in improving the efficiency (section 6).

It should be pointed out that the paper does not refer to the entire sector of not-for-profit organisations but only to that part of it concerned with the organised and relatively stable production of welfare services. It therefore does not deal with all those organisations with mainly redistributive roles

Anheier, 1995). This gives rise to an underestimation of the sector as regards almost all the European and especially the Mediterranean countries.

⁷ Here we use the term "stakeholder" to define the formal members of the organisation and not simply the agents that have some interest in the relationship with the organisation itself.

(as the grant-giving foundations) and advocacy roles (the majority of associations and voluntary organisations).

2. Organisational forms compared

There is no disputing that the production of welfare services is undertaken, in Western economies, less by for-profit firms than by public institutions, or by a heterogeneous set of private organisations generally defined as 'established for goals other than profit'. However, whereas for-profit firms and public institutions are better defined and are more or less similar in different countries, there are notable differences among not-for-profit organisations. In general, scholars interested in not-for-profit organisations have paid scant attention to their distinctive differences. More specifically, economists often include them all, without distinction, in the category of organisations characterised by the non-profit distribution constraint. But the recent evolution of these organisations, the increased differences among them, and the differentiated growth of different types, requires that some distinctions should now be drawn among them.

The most traditional distinction - which takes simultaneous account of institutional and organisational features, and of the cultural and historical

Another definition of these organisation forms that we could use here is "multi-membership".

context in which the various organisational types have developed - is that among foundations, associations and cooperatives.

Common to these three types is their private nature and self-government, and the fact that they are constituted by a formal deed which often requires enrolment on a special public register. A further commonly shared feature is that they normally have a homogeneous membership; that is, they are mainly controlled by a single type of stakeholder, or at least by trustees appointed to run the organisation for a single purpose. The typology set out in Gui (1991), which excludes all forms with a membership made up of several kinds of stakeholder, illustrates this feature well. Scholars of the nonprofit sector have always taken this homogeneity of membership for granted.

Nonetheless, these organisations differ in many respects on which it is worth dwelling briefly.

The distinctive features of foundations is that they are constituted by a fund, usually in the form of a donation, which is invested so that they may pursue goals of public utility. Foundations are prohibited from distributing a monetary residual to individuals who exercise control over them, such as members, officers, directors or trustees (Hansmann, 1980; Gui, 1990). Normally, the non distribution constraint is backed by laws or by controls exerted by the state or other organisations deemed to be reliable (the Church, trade unions, etc.).

However, the prohibition on distributing any monetary residual is regarded as unsatisfactory by several authors, especially as regards foundations undertaking commercial activities, given the existence of

implicit channels of profit distribution, both overt and covert, favourable prices or other advantages for members and various kinds of fringe benefit for managers. For this reason, it has been argued that the non distribution constraint should be reinforced by further limitations on the discretion of decision-makers, such as restrictions on the remuneration of employees and managers, the exclusion from membership and decision-making roles of categories which may influence the distribution of surplus in their favour, the obligation to direct a part of their activity to particularly needy persons free of charge (Frank, Salkever, 1994).

The features of the association are more difficult to define, also because in this case differences among national legal systems are more marked. Diffused in all countries, the association was born as a 'moral entity' for idealistic purposes. In many European countries associations was explicitly forbidden to carry out commercial, and more in general productive activities. According to the original legislation, the association should be distinguished by "the absence of a continuous productive or speculative activity". Which meant not only that its members could not derive any economic advantage from an association's activity but also that it could not engage continuously in productive activity, and therefore had to be financed mainly by annual contributions of its members. The non-profit distribution constraint, even when stipulated, was of secondary importance.

Thus defined, an association could have a membership which consists equally of users and of disinterested parties, in particular volunteers. This enables a further distinction to be drawn between public and mutual associations or nonprofit organisations. The former, which can also be

defined as nonprofit organisations in the strict sense (Gui, 1990), are those in which the members do not derive any personal benefit from the organisation, whose sole beneficiaries are other individuals. The latter in fact operate for the benefit, not necessarily exclusive, of those who have promoted and controlled the association. However, workers were normally excluded from the membership, at least in theory.

In the course of time, however, and especially in the last twenty years, the nature of the association has changed. In particular, its non-commercial and idealistic nature has been attenuated and its productive role has increased. In some countries, France for instance, this transformation has been encouraged by legislation, or at least by the interpretation by law-implementing bodies. In other countries, like Italy, the transformation has been slower, more difficult, and at any rate only partial. As a consequence of this change the non distribution constraint has become more important, but it has come to assume a different meaning from that which attached to it in foundations, since associations are not constituted on assets but around a group of persons who commit their activity and their professionalism to the organisation. Despite this evolution, the association is still not entirely suited to productive activities, since by not envisaging in some countries the limited responsibility of its members and the issue of shares, it finds difficult to raise loans and to establish relations with third parties.

Unlike the association, the cooperative is considered by all legal systems to be an enterprise in every respect. What differentiates among the various national legal orders is the fact that only some of them (Italy, Spain) attribute also a social function to the cooperative, and regulate it accordingly

(for example, by setting restrictions on the distribution of profits and controls on the cooperative's activity). In general, cooperatives have two characteristics in common: the coincidence between member and beneficiary, and a membership composed of only one type of stakeholder (workers, or farmers, or consumers). Its social purpose is constituted not so much by the fact that it works for needy categories different from its members as by the fact that the categories to which its members belong have needs which warrant protection. It is these features that make cooperatives 'mutual' *par excellence* and which have persuaded most scholars of the nonprofit sector to exclude them from it⁸. But this does not mean that the cooperative can pursue only a mutual aim.

Since the end of the 1970s, these organisational forms have undergone significant changes due mainly to their increasing involvement in the production of social services and services of collective interest which have, in part, substituted for their traditional functions of advocacy and redistribution. Whilst in the United States this increased productive role has given rise mainly to the growth of operating foundations, to the detriment of

⁸ Hansmann (1980, p. 842), after pointing out that despite the similarity between the cooperative and the non-profit 'mutual', "they are by no means the same thing", mainly because "cooperative corporation statutes typically permit a cooperative's net earnings to be distributed to its patrons or investors, who may in turn exercise control over the organisation", concludes categorically that "cooperatives are not subject to the non distribution constraint that is the defining characteristic of non-profit organisations". A different opinion is expressed by Gui (1990), who argues that since "the prohibition of any explicit distribution does not modify the self-regarding nature of the organisation", one fails to understand why "a theoretical distribution should be made between mutual benefit NPOs and cooperatives".

grant-giving foundations, in Europe it has led to the birth of a new organisational type which is a mix of the association and the cooperative.

Associations have accentuated their involvement in the production of services and they now also admit workers into their memberships. Cooperatives, on the other hand, especially in Italy and Spain, have broadened their range of service activities, effectively departing from the two characteristics distinctive of the cooperative by working also in favour of beneficiaries other than members, and by admitting a membership with different stakeholders (workers and volunteers, workers and users).

Both the associative and cooperative forms have evolved quite markedly towards a new model of organisation which displays the following characteristics:

- It produces various types of welfare services and collective goods in a manner not unlike that of a for-profit firm, but it explicitly pursues a goal which differs not only from profit maximisation but also from the pursuing of economic benefits for a specific category of members.
- It often has a membership which consists generally of diverse stakeholders (mainly users and workers or workers and volunteers, or all three categories, or, in addition to them, benefactor members and representatives from public bodies).
- It undertakes democratic management which ensures participation by the stakeholders in the main decisions.
- It does not necessarily adopt the non-profit distribution constraint, although it can distribute profits only to a limited extent.

Whether it adopts the legal personality of an association or a cooperative - a decision which depends on national legislation - this new organisational form may be called (as in, for example, Pestoff 1994 and 1996) a multi-stakeholders or a multi-membership organisation in order to emphasise that it is characterised principally by the composition of its social membership. This is in turn the consequence (as is the non-profit constraint in foundations) of the fact that this new form sets out to achieve, albeit not exclusively, an explicit social goal which takes concrete form in a particular welfare service for one or more categories of beneficiary. This form is not definable as either wholly mutual or as wholly public, in that it endeavours to satisfy both the interest of its members (although not necessarily all of them) and that of persons external to the social membership.

In order to understand both the development of and the prospects for the multi-stakeholders organisation, analysis is required of how it relates to the traditional nonprofit organisation and of the relative advantages and disadvantages of each with respect to the other⁹.

3. A typology of the not-for-profit organisations

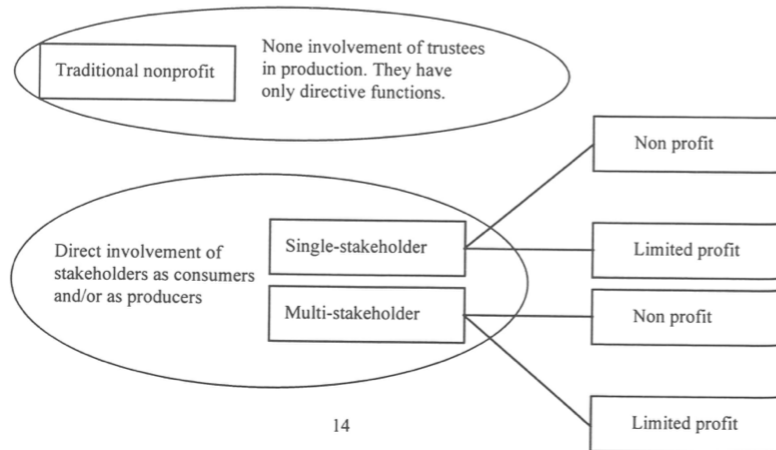
To better proceed with discussion of the topics treated here it is useful to accompany the institutional typology just described with a theoretical taxonomy of the private not-for-profit organisations that supply welfare

⁹ Of equal interest is analysis of the relationships between multi-membership and for-profit firms, and the relative advantages and disadvantages. This, however, would be beyond the scope of this paper.

services. More precisely, we shall introduce five definitions that allow us to order almost all known forms of such organisations. These definitions are reported in fig. 1.

For the sake of simplicity fig. 1 considers only the main characteristics on which the taxonomy is based: the role played within each organisation by its members, the presence-absence of the non-profit constraint, and the composition of the membership. As we shall see it will be necessary to introduce some further characteristics (that we may consider as “secondary”) so that the taxonomy fits better with the various organisational forms. Among these secondary characteristics the two most important are the presence-absence of volunteers within organisations and the structure of the controlling board.

Fig. 1 Not-for-profit organisations



The first definition identifies the traditional non-profit (TNP from now) as foundations, i.e. the original “vocational” organisations in which the trustees are in no way directly involved either in the productive process or in the consumption of the services provided (a pure public nonprofit). Generally the trustees board is appointed or set up by the organisation’s financiers or according to the statute, and it performs strategic and directive tasks, leaving practical, operative decisions to managers and workers. It does not have any economic advantage. Given their organisational structure there are no strong reasons to suppose that TNP should be more effective and efficient in providing welfare services than a traditional public institution¹⁰. Consequently in the following paragraphs we shall use TNP mainly as a touchstone to evaluate the other organisations.

The second organisational model shown in fig. 1 is the single stakeholder, in its two varieties: nonprofit (henceforth SSNP on) and limited-profit (SSLP). In these organisations the stakeholders (including the controlling board members) manage and are directly involved either in the productive process, or in the consumption of the goods provided. Examples of SSNP are therefore provided either by associations of consumers or of volunteers (as the advocacy organisations), while the typical examples of SSLP are workers or consumers co-operatives.

¹⁰ This statement is not agreed on by all scholars. According to Holtmann (1983), non-profits may, for example, apply more efficient rationing mechanisms than those available to public organizations because they are less constrained by considerations of ethics or equity. According to Weisbrod (1977), non-profits tend to satisfy demand not catered to by the state, whose decisions are conditioned by the demand for services advanced by the median voter.

The third kind of organisation suggested by the taxonomy set out in fig. 1 is the multi-stakeholder, also in this case divided into two sub-models: nonprofit (MSNP) and the limited-profit (MSLP). These organisations are the most recent among all those considered and their distinctive feature is the complex structure of the membership, which can include both consumers and workers as well as volunteers and even representatives of public bodies. A possible example of an MSNP is an association within which workers collaborate with volunteers to provide free services to disadvantaged people, and both categories (workers and volunteer representatives) sit on the controlling board. Examples of MSLP are provided by worker, volunteer and consumer cooperatives, like the Italian social cooperative (Borzaga, 1995) or some new associations, like “parental creches” in France (Laville, 1996)¹¹.

For the purposes of the comparisons conducted in the next sections among the different organisations we assume that both SSNP and SSLP differ from the MSNP and MSLP only because they are constituted by a single type of stakeholder. An example of SSNP is a consumer nonprofit organisation within which some stakeholders work voluntarily, benefiting only from the service produced by the organisation.

In the following sections we consider some issues related to the productive nature of private not-for-profit organisations that supply welfare services. More specifically, we shall carry out a first comparison of the five

models of organisation have described in paragraph 3, paying particular attention to comparison between the traditional non-profits (TNP), examined by the majority of studies on the subject, and the multi-stakeholders.

Among the possible analytical approaches that can be adopted to evaluate these different organisational forms in the following sections we shall follow a double one: after a short discussion of market failures in the supply of welfare services, we examine the advantages of our five organisation models in controlling information problems. We discuss the efficiency problems that arise from the nonprofit distribution constraint and we compare the TNP with the NSNP on the NSLP, taking account of the degree and nature of the X-efficiency problem that each kind of organisation may have to cope with.

4. The private supply of welfare services: problems and limits

The market failures or the market alterations that traditionally justify the public provision, or the public financial support of the production of welfare services, are four:

a) the existence of distortions in the consumption choices, due to severe cognitive-informational constraints (insufficiency of consumers' cognitive skills, that prevent them to correctly evaluate the effects produced by the consumption of some of these services, e.g. health services);

b) the wide diffusion of positive externalities in the whole economic system, produced as a consequence of the consumption of these services.

¹¹ The spread of this type of organisation in Europe is documented in Consorzio Gino Mattarelli (1995).

c) the information asymmetries between consumer and producer which cause moral hazard problems.

d) insufficient supply, due to environmental constraints, related to the unwillingness of consumers to travel for long distances to reach the delivery points;

These market failures justify, together with the opportunity to carry out wealth redistribution through the total or partial (by selling the services to a reduced price) free delivery of welfare services, both state intervention and the existence of the nonprofit organisation. The degree of success that the State or nonprofits can achieve either by pursuing its redistributive policy, or by pursuing the objective of reducing the extent of market failures, is closely related to the production process chosen to guarantee the supply of the services. Furthermore, since production choices are often closely influenced by the organisational structure of the firm, it follows that when the provision of these services is delegated or left to private producers, different organisational formulas may make the difference between success or a failure.

The key organisational characteristic, which the literature usually addresses, is the formal aim on which the organisation is built. The formal objective function may prove to be more or less able to improve the redistributive function and at the same time reduce the moral hazard problem and keep externalities under control, thereby obtaining a different market response to the production choices made by the organisation itself. For example, and from this point of view, non-profit firms, as opposed to for-profit ones, are considered by some authors (Hansmann, 1980) to be a

better organisational solution to these problems. However, from a traditional neo-classical perspective this conclusion is not completely acceptable, because non-profit organisations cannot achieve the efficiency objective because they lack the appropriate incentive, i.e. profit maximisation.

To return to our original scheme and focus attention on comparison between TNP organisations and SSNP, SSLP, MSNP and MSLP, we may start by discussing the degree of effectiveness that these organisations can realise in coping with some market failure problems. We then pass to the X-inefficiency issue. We shall not deal with the topic of redistribution because this function is mainly realised by the total or partial free delivery of services. The effectiveness of the choice to pursue the redistribution goal by the free delivery of welfare services is not under discussion here, and it is therefore clear that the extent to which this goal is achieved is substantially independent of the formal nature of the providers of services. They can in fact be private for-profit firms, which stipulate a contract that obliges the state to finance the difference between the market price and the tariff required of consumers, as well as public bodies or private non-profit organisations. On the other hand, as will become clear, some issues related to the redistributive function will be discussed by analysing both market failures and the x-inefficiency phenomenon. We begin with the first of these topics.

5. Information asymmetries, local monopolies and not-for profit organisations

Information asymmetries - According to Hansmann (1980 and 1987), the existence of nonprofit organisations is due to the capacity of the non-profit constraint to enhance trust between donors, consumer and firm when the exchange is seriously affected by information asymmetries. Apart from not explaining why economic agents are induced to create organisations of this kind, seeing that they cannot derive benefits from them, this theory loses at least part of their explanatory power when nonprofit organisations are engaged in the production of a service sold, wholly or in part, directly to the consumers. Hansmann himself (1995), after noting that by now in certain sectors - the health sector, for example - commercial nonprofit organisations have assumed considerable importance, acknowledges that "at least in industries such as hospital care, commercial nonprofit do not offer consumers significantly higher quality than do for-profit firms. A simple prohibition on distribution of profit is, after all, a rather blunt instrument for consumer protection".

It is important to be in mind that in a competitive environment for-profit firms can obtain important market advantages if they are able to rely on a good reputation built on a strong policy of consumer protection. On the other hand also this consideration can be criticised by arguing that reputation is a virtuous mechanism, i.e. can work as an effective guarantee only if consumers are able to evaluate the true quality-quantity content of the service consumed, i.e. only if they are able to judge the effects of the

service on their welfare after its consumption. When consumers are unable correctly to assess the effects on their welfare of consumption of a given good, they are also unable to transmit correct information to other consumers, and therefore they may paradoxically and unconsciously help to build a false good reputation for a bad producer.

This problem cannot be overcome by the spontaneous birth of consumer associations, because the quality control that these organisations are able to apply is mainly at an aggregate level, for example the national market of some consumer good produced by a few large firms. When the good is delivered only within a small local market these associations cannot effectively protect consumers because the cost of prouning a serious information campaign outstrips the advantages. Even if the markets for welfare services are formally national or at least regional, access to delivery points for each consumer is often restricted by distance. This means that consumers can choose among only a few suppliers, so that they are forced to choose within a closed local market. We shall return to this point at the end of the discussion.

In this context the non-profit, and partially the limited-profit, formula seem better able to cope with information problems because the absence of the profit-maximising objective should eliminate (or at least reduce) the incentive to deceive. More precisely the organisational form assumed by either TNP, SSNP, MSNP and even by SSLP and MSLP may bear out this argument, depending on the kind of actor involved in the production process. The presence of consumers in the decision-making and production process is a key advantage for consumers themselves. The strategic point is

therefore the composition of the controlling board, which in the case of MSNP and MSLP may include donors (or trustees), together with consumers, volunteers and workers, while in the case of both SSNP and SSLP it can include only one type of actor. Also TNP normally have a controlling board which includes homogeneous actors.

Fig. 2 Information asymmetry and correction devices

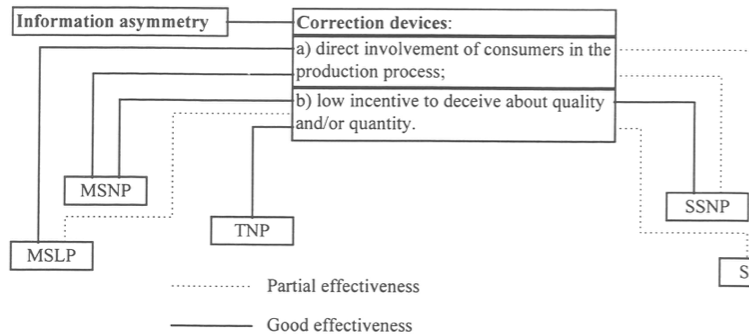


Fig. 2 shows the five organisational models considered here and their positions with regard to the two correction devices just introduced. One notes that the organisations best able to cope with information asymmetries are the MSNP while all the others suffer some limitations. The worst position in the hierarchy suggested in fig. 2 is occupied by TNP and by SSLP if they are not consumer organisations.

The direct involvement of consumers is essential for SSLP and important for the TSP because is the best way to prevent the paradox of double

information asymmetry, which is one of the reasons why the direct provision of services by the state so often fails. The double information asymmetry paradox is produced by a situation where the producers do not know the consumers' needs while the consumers are unaware of the characteristics of the service provided. Imagine for example a service financed by the state out of taxes and supplied gratuitously. In this situation the producers are not concerned to know the degree of user satisfaction, since they receive their resources directly from the state, and at the same time they lack of incentive to transmit information to users about the characteristics of their product. The same problem may arise with a TNP financed by donors.

With regard to this point, the non-profit literature dealing with the stakeholders' role not surprisingly attributes mainly to consumers the role of providing a guarantee against the risk of low quality, as explained by Ben-Ner and Van Hoomissen (1991):

“One type of organisation that will arise more interest is one controlled by stakeholders. Because trust goods have non-rival aspects, non-controlling stakeholders consume the same unit(s) simultaneously with controlling stakeholders; the latter can deceive others only if they are willing to ‘punish’ themselves as well”

Unfortunately this argument, when referred to organisations controlled only by consumers, does not completely meet all the possible criticisms - both because perfectly non-rival goods are very uncommon in welfare services, and because even when the goods are perfectly non-rival the

controlling stakeholders may have an utility budget (made up of the interpersonally comparable influential factors entering the utility function) which differs from that of the non-controlling stakeholders. As Ben-Ner and Van Hoomissen themselves stress, if the goods are only partially non-rival there may be room for opportunistic behaviour by the controlling stakeholders, who provide the non-controlling consumers with a service very different (worse) than that reserved for themselves. For example one can imagine a school where the controlling stakeholders decide to concentrate the best teachers in a few classes, which will then be reserved for their own children. The differences between controlling and non-controlling stakeholder utility budgets arise because the controllers can obtain advantages from their role whose value exceeds the damage suffered as a consequence of a low quality service. This is the case of all those services that do not entail risks for consumers and which therefore cannot seriously damage the stakeholders welfare. It is worth noting that when situations of this kind arise, SSNP or SSLP consumers' organisations cope with information problems no better than for-profit ones.

Let us now consider the nature of the asymmetric information problem in the case of multi-stakeholders organisations, that is, when the membership and the controlling board include not only consumers but also workers and volunteers. The two latter categories of agents may have very different effects on productive performance, depending on the objective factors determining their decision to participate in the organisation. The presence of both volunteers and workers in the controlling board provides a strong guarantee for consumers only if their objective functions are largely the

same as those of the consumers, but it is totally ineffective if they pursue interests extraneous to the consumers' wishes. An example of this kind of non-homogeneity between the objective functions of volunteers and consumers is provided by a religious organisation. The volunteers who participate in this kind of organisation may be motivated by a generically altruistic aim, perfectly coincident with the consumers' wishes and welfare; but they may also be motivated by a more specific objective, i.e. to "save human souls" (where the human beings to be saved are primarily the users of the service provided by the organisation). When consumers find this latter, more specific aim of no interest, the information asymmetry problem may be even worse than it would be if the service were provided by a private firm financed by the state.

At the same time the presence of volunteers can reduce the asymmetry information problem, because the advantages that these members obtain from direct involvement are more closely related to the quality of the service provided than it would be for non-volunteer stakeholders. This is due to the fact that the non-volunteer controlling stakeholders generally envisage some form of monetary gain. As a consequence the value that they attribute to this reward may give rise to the just-mentioned problem of different utility budgets. This is not the case of volunteers who decide to participate directly in the production process for mainly moral reasons, and therefore see their reward as closely related to the good performance of the organisation itself.

Finally it should be stressed that the advantages of multi-stakeholders organisations are not inferior to those of traditional nonprofit organisations, again arguing from the information asymmetry perspective. The former, in

fact, are in any case limited in their ability to distribute profits, and this form of control by consumers augments the direct control secured by the participation of volunteers or consumer representatives in the organisation's membership and administrative bodies. The particular legal form that assigns a vote to each member prevents control from being assumed by a few stakeholders, restricts the managers' decision-making power, and facilitates access to the information required to monitor the organisation's activities (Ben-Ner, 1994). Besides ensuring just as much control by consumers, when necessary, the multi-stakeholders organisation also seems able to cope with other failures that characterise the production of welfare services, such as those provoked by rationing (of capital for example), market power, non-rival consumption goods, difficulties in the transmission of preferences, existence of asymmetries to the detriment of the organisation (Gui, 1991)¹².

Local monopolies - Turning to the problem of the insufficient supply of welfare services due to spatial constraints (impossibility or unwillingness to reach delivery points), the main advantage of all three types of organisation considered here, compared with private for-profit or public organisations, concerns their greater organisational flexibility.

As anticipated at the beginning of this section many welfare services are subject to a strong location constraint because consumers find it difficult or impossible to travel long distances to obtain the services. Examples of this

kind abound in the health sector and in the social services sector (consider day-care hospitals, handicapped rehabilitation day-care clinics, and the like). But also schools can sometimes present this problem - when, for example, they are located in low-density areas of the countryside. The location constraint may produce a local monopoly effect that reduces or even destroys the competitive market mechanism. Because SSNP and MSNP (and sometime also SSLP and MSLP to some extent) are less influenced by the market constraint, because they are often at least partially financed or supported by public contributions and/or by private donations, they can offer a wider delivery system, which reaches even the most peripheral or disadvantaged consumers.

6. Inefficiency and not-for profit organisations

We shall begin discussion of the efficiency topic by drawing some general comparisons between TNP and multi-stakeholders organisations, then passing to examination of the x-inefficiency phenomenon.

Traditional analysis of non-profit organisations has not paid particular attention to the efficiency problem, taking it for granted that the problem is the same as that faced by for-profit organisations operating in the same areas of activity, and ignoring the consequences on efficiency of the absence of incentives to maximise profit by the owners.

However, with the increasing productive role of non-profits, the question can no longer be avoided, and a number of authors have recently

¹² This statement warrants more careful analysis than is possible here; analysis that would reveal the existence of comparative advantages with respect to for-profit organisations.

turned their attention to it, most notably Ortmann and Hansmann. According to Ortmann (1996), there is no guarantee that non-profits can ensure efficiency, while Hansmann (1995) stresses that, since nonprofit organisations do not have to remunerate capital, once they have been constituted they may operate and expand even though they are less efficient than the average of for-profit enterprises, thereby reducing the overall efficiency of the economic system (Hansmann, 1995).

To even superficial analysis, multi-stakeholders organisations seem instead to offer significant advantages compared with the nonprofit ones. Here we mention only the principal of these advantages.

Although multi-stakeholders organisations are created for purposes other than the maximisation of profit, several of their features suggest that they can perform, from the efficiency point of view, better than TNP and sometimes even than for-profit organisations, as we shall see when we discuss the x-efficiency problem.

First of all, control over MSNP and MSLP is also exercised by categories of stakeholders, consumers and volunteers, different from those that receive monetary benefits from membership of the organisation - workers in particular. This should in itself ensure a certain amount of control over costs, especially when services are supplied against payment. Moreover, participation by consumers, who are often involved also as co-producers, reduces production costs by favouring their direct engagement in production, also by voluntary work, and by reducing the incentive to adopt opportunistic behaviour. Also positively affecting efficiency is the voluntary labour provided by certain stakeholders, who contribute to the

organisation's activity without charge and whose services are often highly specialised.

Further advantages of MSLP, this time alone, i.e. not including MSNP, compared with traditional nonprofit ones, lie in their better ability to attract resources, mainly financial, and their potentially greater efficiency. Since MSLP organisations are not wholly constrained in the distribution of profits, and since in some cases they may partly remunerate capital (that subscribed by financier members or made available by members in the form of loans), they are better able than TNP organisations to finance not only routine activities but also development projects. This capacity to remunerate capital - albeit to a limited extent - has favoured the development of financial institutions specialised in gathering ethical savings and in investing in social initiatives. These institutions are wholly different from the umbrella organisations: whereas the latter collect donations, the former finance projects, at low rates of interest, but with the undertaking that they will repay the loans received.

Unlike the TNP organisations, the MSLP are more susceptible to change in demand and to the market entry of more efficient organisations. Their chances of survival when demand and profitability decline, or in the face of increasing competition by more efficient or innovative organisations, is limited by the fact that they are often under-capitalised and that workers and consumers are sensitive to pay and price conditions and to the quality of services. The market mechanism therefore seems to function to its fullest or almost fullest extent.

These advantages compared with the traditional nonprofit organisation are matched by at least two disadvantages: higher transaction costs, owing to the greater complexity of the decision process (Hirschman, 1882), and a lesser capacity to attract donations, owing to the organisation's less 'donative' character. This latter disadvantage, however, does not seem to be particularly severe: donations, in fact, have never been a significant source of income in the countries where the single and multi-stakeholders are most developed.

Let now go examine the efficiency issue, beginning with the traditional criticism of the non-profit formula, i.e. the assumption that the absence of the profit maximisation goal deprives the firm of the incentive to achieve the efficiency frontier. From the neo-classical perspective, this crucial difference between for-profit and not-for-profit organisations also has an important effect on the correct functioning of the market itself. Taken to its extreme consequences, the presence of non-profit firms may paralyse the competitive mechanism, reducing the productive performance of the economic system as a whole.

The lack of efficiency due to the abdication of the profit maximising strategy may, on the other hand, be off-set, and even transformed into a productive advantage, if we consider some recent analyses of the organisational foundations of the x-inefficiency phenomenon (Leibenstein & Maital, 1994). Leibenstein's (1966) original thesis was that x-inefficiency was due basically to the lack of an effective motivation mechanism for workers. More precisely, the existence of x-inefficiency is due to three main factors: "a) incomplete contracts; b) a production function not perfectly

specified or known; c) unavailability of (or lack of markets for) specific inputs or availability to some buyers on terms which are different from those available for others" (Leibenstein, 1966, p. 412). Both the poor motivation explanation and the other three reasons just cited can be related to the various nonprofit formulas in order to see whether this kind of organisation is affected by the x-inefficiency phenomenon in the same way and to the same extent as for-profit firms.

Let us begin with workers' lack of motivation; this problem is closely related to the impossibility of defining a perfectly complete contract, i.e. to the impossibility of including in a contract a system of incentives able to cope with the different preferences of each individual worker. Since contractual relationships are normally based on a collective agreement between proprietors and workers, incentives must necessarily refer to some sort of representative worker. When the contract is poorly defined, the incentives scheme cannot cope satisfactorily with the many different utility functions of workers, which weakens the organisational response and reduces overall efficiency. Also to be stressed is that the low incentives problem is often combined with negative psychological reactions, like the feeling of embarrassment felt by supervisors, or even by fellow workers, when they detect an error in the production due to "mistakes" made by some other worker (Argyris, 1985).

The motivation problem can be reasonably considered as an advantage for both MSNP and MSLP organisations, compared with for-profit and nonprofit firms, both when the co-operating stakeholders are volunteers and when they are consumers and workers. The motivations of each of these

categories may change, but common to all of them is their extra-contractual nature. Volunteers work for an organisation, not for monetary recompense but because they obtain some form of moral reward which cannot be explicitly included in a contract. They are therefore automatically stimulated to do their best independently of the specific situation with which they must cope. Consumers, on the other hand, co-operate because they wish to extract the best output possible. Nor can this incentive be explicitly written into a contract, and it should work in all possible productive situations. Finally, the workers may be induced to identify their welfare with that of the organisation to which they belong as stakeholders. They may therefore be strongly stimulated to produce the best effort possible.

The direct involvement of workers in management helps to reduce costs, because it allows simplification of the system of control on opportunistic behaviour and favours flexibility in the use of labour. Moreover, a number of studies on the cost of labour in these organisations have shown that pay levels are usually lower than in public supply units and for-profit organisations. This, however, does not provoke greater labour mobility, given the existence of a trade-off between monetary remuneration and other characteristics of work such as commitment to the organisation's mission, greater flexibility, a better working environment. The influence of workers' participation on costs and therefore on efficiency is greater, the more labour intensive is the service produced.

Obviously, all these considerations apply only in a very ideal situation. When some form of free-riding behaviour appears within the organisation, its non-profit or limited-profit nature cannot by itself provide any guarantee

as to the real efficiency level attainable. A similar caution also applies to psychological problems just mentioned. Since the hierarchical structure of multi-stakeholders organisations is often less strict than that of a for-profit firm, it follows that the psychological constraints on change may be even worse than those operating in traditional firms. It is in fact reasonable to suppose that if a volunteer commits some systematic error due to a personal inability to perform her/his task, the feeling of embarrassment that the other stakeholders must repress is presumably greater than that felt by a manager whose explicit duty is to prevent undesirable behaviour.

Since the difficulty of knowing the real production function is not a characteristic peculiar to either the profit or the not-for-profit organisations, we pass rapidly to the last of the x-inefficiency sources, i.e. the unavailability of (or lack of markets for) specific inputs. This final efficiency problem is particularly interesting because its onset may sometimes even justify the birth of a multi-stakeholders organisation. This may be the case of inputs (mainly labour) whose nature is closely related to the characteristics (or to the overall quality) of the service provided. Care of the handicapped is a good example of a labour-intensive productive process which depends closely on the quality of the inputs used. A good service, in fact, may be provided much more efficiently by using motivated volunteers than by taking on workers who are psychologically reluctant to interact with the handicapped. This kind of situation, furthermore, precludes the possibility of producing the service when demand is too low to justify high expenditure on the workforce (which often entails large investments in human capital as well), as in the case of small local communities. In this

situation a non-profit organisation can deal with the scarcity of human resources by involving volunteers and consumers (the handicapped themselves in day care clinics) in the production process, thereby saving resources and enabling the good functioning of even a very small organisation.

7. Conclusions

The paper has sought to show that privatisation of the supply of welfare services has led not only to an increase in the relative importance of nonprofit organisations, but also to the birth and consolidation of a new type of organisation characterised more by the mixed nature of their membership than by the non-profit constraint. We have labelled this new organisational form the 'multi-stakeholder organisation', as the outcome of the merger of two types of pre-existing organisation: the association and the co-operative. When compared both with the traditional nonprofit and the for-profit organisation, this type offers various advantages. Firstly, in the presence of information asymmetry both MSNP and MSLP organisations can provide consumers with more reliable guarantees of the quality-quantity composition of their output than can TNP and for-profit firms. Secondly the level of efficiency is not necessarily a weakness in MSNP and MSLP organisations, compared with for-profit firms, unless we restrict our definition of efficiency only to the neo-classical one. Thirdly, some of the devices used by for-profit firms to increase their market shares (i.e. the

building of a good reputation as a quality guarantee), can be adopted quite easily by the MSNP and MSLP organisations as well, especially if they shift from a traditional donative organisational form to a more complex and competitive one.

The institutionalisation of this new organisational form has only just begun, and it seems that too little attention has been paid to its innovative impact. However, its recent development confirms that if the private production of welfare services is to be properly understood, it is necessary to abandon the partial standpoint adopted by most recent studies, and to articulate analysis more carefully by sector and organisational form (6, 1994a and 1994b), the purpose being also to contribute to their legal definition.

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