

THE NOTION OF SOCIAL RESPONSIBILITY IN SOCIAL ENTERPRISES AND NON-PROFIT ORGANIZATIONS

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Abstract

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

1. INTRODUCTION

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

The concept of CSR has traditionally been applied to profit-making and commercial corporations. The European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Noak, 2012, p. 3). With this approach companies act over and above their legal obligations towards society and the environment, whereby compliance to CSR can be favoured by a conducive regulatory environment. The intuition behind this kind of approach is that CSR criteria need to be added by means of legal constraints or, more often, through self-regulation by the organization in order to improve its competitiveness, social standing, and to reduce social costs or negative external effects deriving from traditional forms of entrepreneurship. The many contributions on what management science calls the "triple bottom line" have emphasized that firms can produce social and environmental value besides economic value (Elkington, 1998; Crane & Matten, 2007). The approach is often contrasted with Milton Friedman (1970) famous statement that the responsibility of a business is to maximize shareholder value while conforming to the basic rules of the society. The neo-liberal approach considered CSR as a sort of "tax" paid by corporations which is aimed at improving public welfare, whilst instead, this is the role of the state. Unsatisfied with the answer of the neo-liberal approach to the "social costs" created by corporate activities, scholars have reasoned on how to nest socially relevant elements within stripped-down commercial objectives. The debate has analyzed different evolutionary patterns whereby CSR can be the result of exogenous interventions by regulators, as well as the endogenous result of self-regulation. For example, social accounting and ethical codes represent instances of self-regulation that have the function of fulfilling and communicating the firm's societal role, such as improving the conditions of non-investor stakeholders and producing positive externalities that benefit communities and society at large.

The challenge of CSR can be interpreted as how to legitimize the integration of broader societal interests into economic choices, or "why corporations must fulfill an extended range of obligations toward their stakeholders" (Sacconi, 2012; Sacconi & Degli Antoni, 2011). Institutional economists, in particular, consider what can be called "deep CSR", that is transformative solutions which embed societal interests in firm governance, that is in the rules defining who holds strategic control on the firm's direction and owns residual rights.

2. RESEARCH QUESTIONS

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

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

Figure 1. Governance models and firm objectives



Moving from the left-end of the continuum, there are investor-led enterprise models that progressively introduced strategies to achieve the creation of multiple impacts, for example along the managerial ideas developed around the triple bottom line, emphasizing economic, social and environmental elements. The main stakeholder remains the investor to which management holds a fiduciary duty. Further socio-economic aims are added consistently with the firm's ability to maximize the

interests of investors. Traditional firms and their governance undergo structural constraints due to profit maximization and, despite CSR practices, are not suitable to address the variety of interests affected by the firm's activities. We could in fact see the emergence of deeper forms of CSR as an answer to the institutional inadequacy of traditional firms to justify CSR. These other forms include changing the nature of the firm's aims and its governance. One way of achieving this is changing the dominant stakeholder or engaging multiple stakeholders in the governance bodies of the firm (Birchall, 2010; Sacchetti & Sugden, 2009; Borzaga & Sacchetti, 2015).

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

As an illustration of the arguments presented so far, the chapter presents case studies completed between 2011 and 2013 in the UK. These include co-operative enterprises, social enterprises and NPOs. The case studies reveal that some of the most common methods to achieve social responsibility in social enterprises include: 1) modifying control rights (who takes part and according to what criteria); 2) including stakeholders in the firm's control and decision making processes (how decisions are made and what resources are shared); 3) making societal aims explicit (to what expected effects).

3. LITERATURE REVIEW AND THEORETICAL BACKGROUND ON SOCIAL ENTERPRISES AND NON-PROFIT ORGANISATIONS

Social enterprises (SEs) represent a relatively new entrepreneurial model, which was initially introduced in the UK and Italy in the early 2000s to mark the possibility of pairing entrepreneurial action with societal objectives. Since they are defined on the basis of their social objective, and differently from traditional forms of co-operative enterprises, the presence of membership of non-investor stakeholders is not a necessary requirement in SEs (Borzaga & Galera, 2009). This implies that SEs can take a variety of forms (e.g. foundation, co-operative, investor-owned etc.). The social objective is required by law and made explicit in the company statute: it has to be recognized either by a national regulatory agency (UK) or included in a closed set of sectors, mainly referring to health care, social and educational activities (Italy). Community Interest Company is the newest form of SE in the

UK. Regulations 2005 states that "CICs are a new type of limited company for people wishing to establish businesses which trade with a social purpose (social enterprises) or to carry on other activities for the benefit of the community" (CIC Regulator, 2016). In the UK, there is not a sectorial limitation to operations, but the CIC Regulator has the ability to accept or reject any application concerning the start-up of a new social enterprise and decides on the basis of the public benefit aim of the activity. In a similar vein, the Italian law No. 118/2005, as completed by the legislative decree No. 155/2006, defines social enterprises as private organizations that carry out an organized economic activity aiming at the production and exchange of goods and services with public benefit, directed to the accomplishment of general interest ends. Italian social enterprises cannot be controlled directly or indirectly by public bodies and by private for-profit firms. The asset lock is present in the Italian system in a very similar way as for the CICs. The preclusion concerns direct distribution to financial supporters and members, but also the indirect distribution to other organizations, managers and workers.

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

Given the public benefit objective of the organization, multi-stakeholder governance is usually considered an integral part of these firms. Involvement in decision making and consultation of different stakeholders is usually required, though not necessarily at the level of governing bodies (e.g. as directors or auditors). Given the variety of different ways in which SEs can involve their stakeholders, including contracts, the organization has a duty to explain how stakeholders are engaged. For example, the Italian law requires that the SE spells out in its statute the ways in which workers and customers are consulted and involved in decision making.

Multi-stakeholder governance can be considered the emergent result of the institutionalization of CSR criteria, which have been analyzed in strategic management and business ethics by Freeman (1984) amongst others. The approach normatively argues for corporations to share decision making responsibilities with various stakeholders. More critically, in law and economics, Blair and Stout (1999) have criticized the orthodox approach advocated by Friedman (1970) and

Jensen (2001). Instead, they argue for an extended fiduciary duty of the board of directors, which considers the interests of a plurality of stakeholder groups, rather than just those of shareholders.

Multiple-stakeholders can be embodied in different organizational forms using a variety of institutional solutions. These may differ depending on the statutory positions of stakeholders and access to strategic control. The German co-determination system represents a model of multi-stakeholder governance in for-profit firms. Representatives of labour and capital coexist in the main elective bodies and have very similar prerogatives in information disclosure and decision making processes. Likewise, the Japanese model analyzed by Aoki (1984) introduces the notion of institutional complementarities. In the Japanese model of corporate governance, stakeholders constitute the parts of a networked production system and share surplus according to their bargaining power.

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

The literature on non-profit organization shows that their century-long tradition entered economic analysis only during the last decades of last century, in the well-known works by Weisbrod (1977, 1988), Hansmann (1988, 1996) and Ben-Ner Van Hoomissen (1991). NPOs can be broadly sub-divided into entrepreneurial and non-entrepreneurial. The latter category, which includes purely charitable and advocative NPOs is not usually included in the economic analysis, if not in a marginal way. On the other hand, entrepreneurial NPOs received growing attention in the discipline due to their growing economic weight (value added produced) employment created and social impact. The ability of entrepreneurial non-profits to complement and at times substitute public sector production of public and merit goods and services was recognized and studied by several authors (Becchiaga & Borzaga, 2003). Economic analysis of NPOs developed following different main lines of enquiry, especially concerning: 1) their economic efficiency, as compared to other private organizational forms, and the public sector; 2) their growth and spread in relation to the presence of different fiscal systems; 3) the peculiarities of their governance, especially as related to the public benefit and social aims pursued; 4) the peculiarities of their

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

managerial models, especially as related to labour relations. This growing stream of literature was implicated in the development of broader approaches to microeconomics, for example, behavioural economics, leading to a wider and more complete understanding of human motivations in the economy, the working of economic systems and of community development (Rose Ackerman, 1996).

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

4. CASE STUDIES

4.1. A case study of social enterprises: Unity enterprise

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

by McAlpine, the main contractor for the National Indoor Sports Arena, and by the Sir Chris Hoy Velodrome in Glasgow.

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

The research indicated that the challenge that Unity and social enterprises more generally face when entering partnerships with other organizations is the common expectation that a social enterprise can bend to meet other organizations' needs. A former director pointed out that, however, the responsibility of Unity, in this case, was towards the people who would go back to unemployment if their business were not sustainable. In this sense the responsibility of the social enterprise was identified in learning from profit-oriented companies to negotiate with a business mind, to give continuity and stability to disadvantaged workers. Working with a profit-oriented contractor, Unity also learned to match economic sustainability alongside the social aim. The approach towards keeping social impact with the business sense was used as a benchmark for major decisions, and synthesized by the question: *"Is the business model right to meet the need?"* On the other hand, once McAlpine learned that training and social integration through work was the main business of Unity, they could collaborate and support Unity decisions on staff, catering operations, and menu revision. This mutual learning dynamic between Unity and McAlpine created high levels of trust between the two organizations. Public sector organizations also started a learning curve, and more Council introduced CBCs in procurement, which opened the door to other social enterprises to deliver social inclusion.

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

4.2. A case study of non-profit organizations: Here We Are

Here We Are (HWA) is a rural community centre located in Cairndow, West Scotland. This can be considered as a non-profit, inclusive, community-based social enterprise. The small community is placed by the picturesque Loch Fyne, with a great abundance of water resources

and fisheries. Having been a prosperous community living off the fishing industry brought by Loch Fyne Oysters (an aquaculture/seafood restaurant business), the community went through a period of isolation due to population decline and the construction of a new motorway, which hid the village from popular routes. HWA was set up, in the words of founder Christina Noble, to strengthen the identity of the Cairndow community and to "narrow the gap between 'them and us'" (Linklater, 2015).

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

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

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

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

Several trusts and foundations supported HWA in the first years. Projects regarded community identity and exhibitions were produced on 19th-20th century Highland schools and education, on weddings in Cairndow dating back to 1900, on land ownership to show how changes affected community prosperity, employment and housing, and on local power generation. A cookery book produced at HWA is in every house in Cairndow, albeit it contains more than recipes, but rather the personal history of Cairndow's women who contributed their recipes. One of the most ambitious projects was, at the time, the reconstruction of the history of 107 Cairndow houses, sponsored by the Heritage Lottery Fund. All these projects required the voluntary work of people from the

community. Anticipating the coming cuts to grants, and to make the organization sustainable, HWA built some infrastructures that generate rents, such as a meeting room, a shop (The Tree Shop) to sell outdoor equipment. This, however, was again supported through grants. To gain further independence from grants, HWA then invested in renewable energy, again building on the community experience of 18th-century water mills. Through supported energy surveys, the opportunity to build a biomass heat scheme and a hydro-power scheme emerged. The biomass scheme was supported by the demand coming from the local salmon hatchery at Lakeland Smolts. In 2008 this exploratory feasibility study led to the creation of a wood chipping plant in the form of a Community Interest Company called "Our Power", an initiative that was shortlisted for Scottish Green Energy Awards "Best Community Initiative". The plant supports the energy needs of Loch Fyne Oysters restaurant, HWA centre, and the attached shop. The hydro scheme proved more difficult to be implemented. New partnerships had to be put in place, creating a joint venture with local hydro developers. The biggest challenge was to persuade investors, and at the end of a long and at times disappointing process, the Co-operative Bank agreed to fund it and Our Hydro Ltd was founded. The foresight of the founder was crucial in pursuing HWA sustainability, which has been linked to the two renewable energy companies (one CIC and one Ltd).

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

The main features responsible for generating positive impacts are as follows: 1) HWA was built with resources intrinsic to Cairndow's local community in terms of social connections and inner trust, on a shared understanding of the community and its culture, and on local skills and competencies; 2) HWA addressed a variety of social goals simultaneously: increasing societal identity, achieving environmental goals through renewable energy schemes, ensuring economic sustainability of activities, reinvesting in the community and pursuing local cultural needs; 3) community participation was crucial; 4) the individual initiative and life-

experience of the founder was crucial; 5) the capacity to bid for external grants and identify relevant funders amongst the trustees; 6) the ability to generate start-ups, or trading arms, to sustain community charitable activities; 7) the network of relations with other small communities in northern Europe, and the ongoing debate on how transferable initiatives are to communities with similar societal challenges.

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

5. CONCLUSION, FUTURE RESEARCH, AND LIMITATIONS

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

The pattern that emerges from the analysis includes: 1) the shifting of control rights from investor to non-investor stakeholders, either in the form of mutual benefit control rights in co-operative enterprises and in EOCs, or in the form of collaborative partnerships and multi-stakeholder governance in social enterprises; 2) the progressive introduction in governance and in contracts of private and social objectives that are not purely monetary. These can be the mutual benefit for members in co-operatives, and EOCs, or social in social enterprises and NPOs; 3) the new role of surpluses, as means to mutualistic or social ends, through the introduction of a partial or complete non-profit constraint, and of the asset lock, which is observed in some models of co-operative and social enterprises, while it is instead mandatory in NPOs. Case studies of organizations that embody these features offer insights on the institutional mechanisms and governance solutions through which purely monetary aims are overcome, or integrated and nested within wider individual, organizational and social objectives. The studies, in particular, illustrate how CSR criteria are introduced and internalized using coordination mechanisms offered by governance.

Future research needs to deepen the study of governance with the underlying values and needs of involved stakeholders. While the literature on governance so far has been dominated by traditional approaches such as the agency model, the study of the needs of involved actors and of the way in which these needs are expressed and mirrored in working rules that are geared to support their fulfillment has been under-researched to date. This led to under-evaluation of fundamental behavioural aspects, such as the development of processes that allow participation and deliberation, and the exaltation of trust and fairness, and not only of control and efficiency, as vectors of positive organizational outcomes, both for individuals and for society at large, in a CSR perspective.

The main limitation of this study is that is only based on qualitative and interpretive methodologies, which do not allow generalizations and statistically robust induction. In this, this study can be considered as simply a first step in a wider research project, in which case studies constitute the basis for qualitative research, especially based on survey data. Wider sampling, both cross-sectional and longitudinal, may represent the final step in the program, leading to more robust inference on the main relations that underpin the working of governance and CSR in SEs and NPOs. On the other hand, the accomplishment of additional case studies with similar features as the already performed ones can add detail, and interpretation of institutional and behavioural complexity.

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