

## Chapter 1 - Social regeneration and cooperative institutions

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### Social regeneration and social poverty

In a recent conversation, a Scottish general practitioner noted that the major source of illness in her patients were loneliness and isolation. Albeit anecdotal, this conversation pointed at one of the paradoxes of the socio-economic development model that has dominated economic policy after the Second World War. The paradox can be phrased as follows: how come that in an era of material and technological progress people are overly falling into problems caused by isolation and emotional dissatisfaction? Why intended solutions, such as for example redistributive welfare policies or some spatial regeneration experiences, have increased isolation, not only of single persons but also of entire communities, instead of promoting socio-economic integration (see Barber and Hall, 2008)?

In *The Spirit Level*, Richard Wilkinson and Kate Pickett take on this challenge. Their results point to the fact that some of the major societal problems we face today originate from uneven wealth distribution (Wilkinson and Pickett, 2010). It is almost needless to remind that this follows an era dominated by globalisation. Its implications for deindustrialisation, the worsening of the living conditions of entire urban and rural areas indicates that traditional welfare policies are not effective anymore in contrasting these trends (see Fazzi in this volume). The economic crisis, moreover, seems to have hit social groups asymmetrically, improving the purchasing power of some categories (e.g. in some countries, typically, public servants)<sup>2</sup> and reduced that of others. Re-distributive policies, in the current situation, run the risk of pushing regions into excessive protectionism, strengthening global inequality rather

than reducing it. For this reason, economic policies cannot be conceived, as in the past, as an exclusive prerogative of the central authority and cannot be based only on monetary transfers and standardised social services.

Given this problem, the objective of this chapter is to identify some alternative institutional solutions to the interrelated issues of social degradation and inequality. We build on the idea that the richness and poverty of social relations, and the outcomes that originate from this are in part caused by the unequal distribution of income and wealth, but also by the type of socio-economic institutions that a society gives itself and the behavioural attitudes associated with them. We discuss how, by reinstating cooperation and inclusion strategies within economic institutions, it becomes possible to deal with and balance at the same time individual behaviours and distributional issues.

Over time, deindustrialisation and economic crises made more evident what effects institutions based on self-interested behaviour could have (one amongst others, the decline of Detroit, Michigan in the US). The decline and ruin of cities in so-called developed or rich countries was not only visible in the buildings and material assets of cities. The degradation of income and physical assets was a reflection of uneven policy interventions (see Barber and Hall, 2008), but also of the paucity of social relations, of how people and organisations had neglected acting together for their common and mutual benefit. The chapter starts, therefore, by outlining the need to recover this ability, or the need for social regeneration.

The idea of social regeneration has a clear policy appeal, and can be traced in policy agendas<sup>3</sup> often in relation with social deprivation, urban regeneration, social housing and social policy more broadly, overall meaning actions aimed at improving people's quality of life (Ginsburg, 1999; Blanc, 2002; Osman et al. 2015). Our take on social regeneration is not confined to specific areas of deprivation and social exclusion. More broadly, it takes a behavioural stand

and addresses the problem of reinstating cooperation between and among actors in pursuit of collective benefit, and asks what institutional solutions can favour this process. In this work, social regeneration is about the transformative processes which, through institutional choices that embody cooperation and inclusion, develop opportunities and capabilities for multiple categories of actors, and especially weak categories, leading to societal benefits and community resilience.

Although it is not the aim of this chapter to discuss social regeneration policy and the underpinning ethical arguments in favour or against the idea of social regeneration, we nonetheless reason why social regeneration is needed, and where. Our answer is that social regeneration requires to be addressed wherever a specific form of poverty becomes endemic. We are thinking of “social poverty,” or a paucity of those relations that are not necessarily mediated by power asymmetries, authority, contracts and prices. It occurs when relations are dominated by consumerism, opportunism and when conflict is high, leading to an erosion of other relational types based on cooperation and, ultimately, to isolation and feeling of not counting (Sacchetti et al. 2009; Hirschman, 1979). The damaging consequence of social poverty is the widespread idea of being constrained by a horizon of set, inadequate, and damaging alternatives in the face of major personal and societal challenges, leading to public and community failure, or the failure of socio-economic relations and decision processes to identify and address multiple needs and interests across society and communities (Ostrom, 1990; Sacchetti and Sugden, 2010; Sacchetti and Campbell, 2014). Social poverty, in this sense, is the outcome of a deterioration process of a key resource in society, which is the human motivation to cooperate, formally or informally, in collective processes of decision-making. The phenomenon is not a prerogative of economically poor regions and can occur transversally in so-called “advanced” and “impoverished” regions. So, how can this failure be explained and are there solutions?

An understanding of social poverty and social regeneration opportunities is supported by social capital theory. Social capital scholars associate individual, organisational, and regional prosperity with the presence of rules, behaviours and networks that allow cooperation or collective action for the common good (cf. Coalter, 2007; Cento Bull and Jones, 2006; Cornelius and Wallace, 2010 for applications). For social capital theory cooperative outcomes require trust between and among social actors, which may reach actors' close bonds, bridge between different groups, or link actors across decision-making layers within and between diverse levels of enterprising (Woolcock, 2001; Putnam, 2000). Social capital has informed developmental models around the world (see Campbell and Sacchetti in this volume). But its formula does not address the problem of continuity and persistence, and it is at risk of failing to deliver expected outcomes, in the long term, if social capital was thought to work in isolation, without consistent institutions in place.

In conjunction with social theory, institutional theory has contributed to explain cooperation and the conditions under which this can happen and persist, using both experimental evidence and case studies (Grimalda and Sacconi, 2005; Sacconi and Faillo, 2010). By developing a wide array of case materials, Elinor Ostrom and institutional scholars have repeatedly emphasised that, in the long-run, cooperation benefits all, and that it leads to the creation of the most adequate solutions and greater compliance (Ostrom, 1990). Documented experiences of enduring communities and of their self-designed answers to common resources show that, if the appropriate institutions are in place, cooperation is possible.

This is not to deny, however, that individual preferences can shape institutions in the first place. Rational choice theory has emphasised this point, highlighting that individuals hold preferences on what institutions they want, and that such preferences regard the distributional consequences of institutions, that is what benefits are distributed and to whom (Knight,

1992). However, the limitation to rational choice theory has been presented by Ostrom, who shows that individual preferences require, in turn, that consistent institutions are in place in order to be maintained (cf. Sacchetti, 2015). This perspective will drive our analysis.

Altogether, institutional approaches have shed light on the fact that institutional solutions must be assessed in terms of their distributional consequences, and according to the type of preferences that they contribute to reproducing. This requires a new way of thinking about economic solutions to societal problems. The aim of this chapter is to contribute to this reflection by framing the problem of social poverty and by outlining new forms of publicly accessible goods, by which we refer to economic institutions which nurture cooperation and contribute to overall social regeneration.<sup>4</sup> In synthesis, a social poverty perspective acknowledges that lack of cooperation is at the heart of key societal failures and people's discomfort and that, on the contrary, the quality of social relations underpins the wellbeing of people and the overall prosperity of communities. It then emphasises the role of institutional solutions to the problem.

The chapter proceeds as follows. Starting from Ostrom's idea of commons, Section two discusses the role that community self-management can play in solving collective problems. In Section three we use some of the analytical categories developed in the theory of commons to outline the relation between institutional resources and cooperation. Section four addresses the societal surplus produced by cooperation, leading to reduction of social poverty. Finally Section five discusses some institutional solutions in support of cooperation: multi-stakeholder participatory structures, and deliberative nexus. Section six discusses the outcomes of institutional solutions and addresses surplus socialisation. Section seven concludes.

### **Theory of commons: the “cooperative way”**

The theory of commons developed by Ostrom has been introduced in the policy and economics curricula of most of the major universities. Her theory does have a policy urgency and an immediacy generated by humans need to act collectively and preserve the environment in which they live and, therefore, their own livelihood. Ostrom reveals the behavioural foundations of collective action in a practical, applied context, that of common-pool resources (CPR). In “Governing the commons” Ostrom says that:

the term ‘common-pool resource’ refers to a natural or man-made resource system that is sufficiently large as to make it costly (but not impossible) to exclude potential beneficiaries from obtaining benefits from its use (1990, 30).

The idea of CPR as resource system is crucial, as this is the “stock” that should not be compromised by usage. Resource systems are, for example: fishing grounds, irrigation canals, lakes, alpine meadows. Ostrom is clear on the need to distinguish between the stock variables and the flow of resource units which can be produced by the resource system under particular conditions, for example fish, water for the fields, food for the cattle. These units represent what individuals can appropriate when using the resource system. The condition for system resilience is that the maximum quantity of flow variables appropriated does not harm the stock of the resource system (Ostrom, 1990, 31). However, while the system can be used collectively, the units produced cannot. This means that, for example, “the fish harvested by one boat are not there for someone else” (ibid.). Resource units are said by Ostrom to be “subtractable”.

If costly improvements to the resource system are made, everyone (that is, appropriators who contributed and appropriators who did not) will be able to benefit. The collective action problem derives from joint access to the system *and* subtractability of the resource units. Traditional approaches say that appropriators will refuse to contribute to the maintenance of the system, which will collapse as a consequence. This analysis reflects the neo-classical behavioural assumption about individuals' self-interest. To use an analogy, consider a situation in which your sustainable fishing practices are being disregarded by uncaring boats. As their activity is quickly using up all the resource units (fish) in the sea, you realise you do not want to be a fool and start fishing irresponsibly too, as the resource is going to be exhausted by others anyway. Collective action theory would predict this – that a person's principles would be subdued by short-term economic self-interest.

What is remarkable in Ostrom's theory is that her application of behavioural, group theories to CPR comes from ideas around institutions that, when she wrote, were not conventional at all. From her work we learn that there is not one best way that fits all situational contexts and that neither the 'Leviathan' (or state centralised authority) nor private use via property rights and market can resolve the problem of the impossibility of individuals to achieve their common, group interest. Ostrom suggests a third way, which involves cooperation among actors and community self-management. This complements the other two, and it is related to her findings from game theoretical analysis, building on Axelrod (1984) and others. Her findings support the view that even though self-interest may push people to behave uncooperatively and confrontationally, they have nevertheless an inclination and an interest in cooperating, since cooperation enables to preserve the resource system which, in turn, sustains users.

Cooperation, specifically, is the coordinating mechanism used to define rules and their application. In addition, cooperation must be widespread, between and among interdependent institutional layers and sectors of activities. Her theory predicts that in the absence of rules that regulate who can access the system and how resource units can be appropriated after access has been granted, the system will collapse. If rules are not designed/ implemented/ enforced, the resource system is compromised and – without a resource system - no appropriation of resource units can occur. The important conclusion of Ostrom's work is that cooperation can play an important role in many situations, but it operates only under specific conditions, that is, if the institutions that enable it are in place. These institutions correspond in many instances with self-management.

### **Institutions as a resource system**

The idea of social regeneration through the creation of specific institutions that reinforce and enable cooperation is supported by the theory of commons, which proves that cooperation can engender benefits for individuals and for the collectivity more broadly. A way to approach social poverty, therefore, is to foster institutional solutions that enable cooperation. Though we are not trying to build an analogy with CPRs, which would be inappropriate given the different nature of the resources discussed, it is nonetheless useful to apply some of the analytical categories of that theory.

Specifically, it is fruitful to distinguish between the resource system and the resource units produced by a particular good. Let's think of institutions that favour cooperation as a non-excludable resource system that can produce resource units, represented by individual's



preferences towards cooperation and the surplus deriving from it (Figure 1.1). Experimental results support the view that such system, over time, engenders preferences towards cooperation even among those individuals that entered the system because of a binding requirement (Grimalda and Sacconi, 2005). Preferences towards cooperation, hence, can be considered as the resource units produced by the institutional solution. Now, albeit we could not say that such preferences are subtractable, experimental results make it plausible to argue that if a co-operator is repeatedly cheated upon by a non-cooperator, she will change her preferences towards selfishness, reproducing results predicted by collective action theory. We could therefore say that cooperative preferences are “erodible” resource units.

The fact that nobody wants to be fooled is what Ostrom has described in her studies. The cheaters are users of the institutional system who abuse diffused cooperative preferences. In so doing they can weaken cooperators’ preferences, or else cooperators may move out to seek a more cooperative endeavour (cf. Ben Nér and Ellman, 2012). The system of institutions that supports cooperation will collapse as a consequence.

An example of this is the demutualisation that occurred in the UK. This ceased the existence of cooperative firms, which were explicitly structured around mutualistic principles and governed democratically by members. Authors have explained demutualisation with undercapitalisation (Tortia, 2007, 2015; Perotin, 2013). Furthermore, if we take a social poverty perspective, it may be argued that such conditions are a result of the individualist values dominant in the broader social context that crowded out cooperative activities. This can happen alongside the erosion of cooperative preferences inside the organisation, which may then be contagious for other organisations, where more members may nurture preferences to behave selfishly and sell their assets (Sacchetti, 2015). Birchall (2010), in particular, sheds light on the role of managers, who had lost touch with the meaning and

consequences of directing self-managed organisations as if the cooperative element was absent, in order to earn higher salaries and bonuses. For example, managers expanded the business in new risky markets with strategies that were not included in the mutual's original mission. This, in turn, favoured the conversion of the mutual into investor-owned businesses.

### **The 'cooperation' surplus**

Cooperation produces a variety of effects that work towards social regeneration. These effects can be identified with the surplus produced. It follows that every institution should be assessed in terms of its ability to generate cooperation and surplus, or resource units, without jeopardising the institutional resource system. The problem with interpreting surplus as resource units is that normally surplus is confused with economic profit, and consequently the evaluation of effects is done on a partial basis. In this work, surplus is defined as the value added produced by socio-economic activities and is only in some measure reflected in the difference between revenues and costs. Besides, the idea of surplus as profit is associated with the interests of one main stakeholder, i.e. the investor, which is what cooperative institutions aim at avoiding.

Counterfactually, we can say that the surplus produced through cooperation mirrors the costs that would be born in its absence, by actors and more broadly by society (Borzaga and Sacchetti, 2015). So, here surplus is used broadly, meaning the positive outcomes generated by cooperation, including material and immaterial elements.

Material surplus is reflected in economic output. Economic output is qualified by the fact that it can be appropriated. However, when the rules that define its appropriation are guided by cooperative preferences, it enables a distribution that can differ for the one typically provided following the market rules, and the accumulation of common capital resources. As Tortia (2017) suggests, common capital resources which cannot be appropriated, such as in cooperative firms, can be interpreted as a form of organisational common.

In addition, immaterial elements that are especially relevant for social regeneration are psychological benefits to individuals, improved social capital, and overall democracy. Psychological surplus is generated because cooperation includes actors, and in so doing it improves their sense of belonging, accomplishment and overall health and wellbeing (Deci and Ryan, 2008). Moreover, the fact that actors can bring into the debate their interests, ideas, knowledge and experience creates surplus in terms of the quality of services or products. This happens because cooperation furthers the advantages of diversity rather than its limitations,<sup>5</sup> generating benefits in terms of problem framing,<sup>6</sup> use of creativity amongst participants, and a better match between the innovations introduced and societal needs.<sup>7</sup>

Diversity represents a starting point for recognising and addressing the interconnectedness of interests and generate new solutions. On this political scientists have also argued about the advantages of plural decision-making whereby shared processes of deliberation are functional not only in identifying where conflict resides, but also in appreciating how points of intersection and mutual understanding can be fostered (Dewey, 1927; Ostrom, 2010; Sacchetti and Sugden 2009, Young, 2000; Lewanski in this volume). This strengthens the legitimacy of solutions and generates democratic surplus.

Finally, cooperation reinforces social capital. Empirical findings in the work of Sabatini et al. (2014) show that across types of organisations, those that activate overall social trust of workers are firms that place cooperation at the centre of their governance structures.

Having discussed the benefits of cooperation, the question to be addressed is what type of institutions can support cooperation.

INSERT FIGURE 1.1 HERE

### **Institutional solutions**

“Certainly not all the social institutions that underlie the web of interests ... are favourable to the poor or marginalised; many are themselves a source of repression.” (Meinzen-Dick and Mwangi, 2009, 41). Partaking concerns for social poverty and the need of social regeneration requires developing institutional solutions and practices that embed and promote cooperative preferences, as well as the identification of specific modalities to include multiple actors, and especially the marginalised. Besides the classic (but uncomprehensive and possibly ineffective) alternative between public and private for-profit solutions, and avoiding overreliance on the effects of social capital alone, this section presents some institutional arrangements which have become observable in organisations. Specifically, in those that are explicitly pursuing cooperation and, more recently, in social enterprises. We are not addressing here other forms of institutional solutions, namely we will not touch on collective political processes or social movements (on which cf. Hargrave and Vand de Ven, 2006). We

hope, however, that the focus on economic organisations provides a useful starting point to discuss institutions that back cooperation more broadly.

Because of the social role of enterprising, here we focus on production organisations and on the solutions developed to embed cooperative preferences and re-produce them. New ways of conceiving economic organising have occupied legislators and policy makers for some years now, at least in Europe (as demonstrated by the recent approval of the Social Business Act) but also elsewhere. Though private, these solutions embed cooperation between and among a variety of actors using specific forms of governance, and are able to contribute to the production of goods and services of public interest, thus reinforcing the value of cooperation. And, as Ostrom (1990) has repeatedly observed, this may occur even in the absence of regulation or state intervention. We build on lessons learned from this literature to develop a discussion on the institutional arrangements that can favour cooperative preferences in general within and among organisations.

### *The deliberative nexus*

A precondition for cooperation has been identified in communication (Ostrom, 1990). Again, experimental results and case studies show that when individuals can communicate between and among each other, agreements are respected (Sacconi and Faillo, 2010). More forcefully, experimental results show that cooperative agreements are respected also by those who are not cooperative in the first place. In their work, Grimalda and Sacconi (2005) show that this happens because, as individuals interact within a cooperative institutional setting, they develop preferences that enable them to respect the agreement. In other words, preferences

towards cooperation (our resource units) are shaped by the interaction of actors within an appropriate agreement, formal or informal (our resource system). In this analysis, communication emerges as a key determinant of cooperation.

Communicative processes can take various forms. Here we consider institutional solutions that support open and non-opportunistic communication between and among stakeholders. This form of communication has been discussed as deliberation, especially in the context of democratic and participatory institutions (cf. Lewanski in this volume).

The deliberative element becomes a fundamental component of the resource system, which is suited to account for the diversity of participants. Cooperation amongst a variety of partakers is achieved by emphasising a ‘nexus of deliberation’.<sup>8</sup> This view embraces the inter-subjective nature of participants’ interests (as in Dewey, 1927) and a relational conception of resource systems (as in Granovetter, 1991; Yeung, 2005), and suggests that institutions that support cooperation must pair binding agreements with deliberative processes. This logic applies, for example, to the shaping of organisations and their networks, when these institutional systems are based on principles of symmetry and even distribution of decision-making power on the one hand, and practices of deliberation on the other (Allen, 1997; Bridge, 1997; Sacchetti and Sugden, 2003; 2009).

For example, the nexus of deliberation can pre-exist formal institutions when it occurs among individuals who share common aims and values, without necessarily formalising their cooperative activities via an organisation. Casari (2007) illustrates this point by analysing the process that led to the definition of community governance in the Italian Alps. The work

sheds light on the role of informal interactions among villagers to sustain the management of common pastures and forests, but also on the limitations of this modality, especially where the complexity of the system grew, which led to the institutions of formal agreements (“charters”).

Instead, in the case of more complex aims, production processes, and complementarity of investments (as in the case of social service production whereby service continuity is essential), cooperation is supported by specific organisational solutions. These are more costly, but serves the function of supporting cooperation with binding agreements. In this context, deliberation would work as a form of substantive involvement which goes beyond the formal engagement entailed in the right to vote in organisational assemblies, or the contractual obligation to deliver a service. Rather, it is based on communication amongst actors, on a genuine intention to assess ideas and generate solutions based on argument rather than on power unbalances among actors. An example is cooperation between public administrations and social economy organisations in the co-production of specific community services (Pestoff, 2012; Ostrom, 1996; Sacchetti, 2016).

The deliberative nexus, therefore, can be interpreted as a space populated by one or more actors, with different interests, who not only occupy equal positions or power structurally, but who practice deliberation as a way to exercise their cooperative preferences. The structural and procedural elements go together, with a specific function: to achieve cooperative solutions to shared problems. This function is intrinsic in the meaning of “interest”, which is made of two distinct words: *inter* and *est*. It means that what concerns individual actors or groups of patrons is ‘what exists in between’ or what places us in relation with others. Given the inter-subjective nature of interests, the function of the deliberative nexus is to emphasise the relational nature of each actor’s interests, make it explicit and yet transformed by the

cooperative interaction. The existence and reproduction of the nexus depends on the disposition of actors to ground their decisions on impartial arguments rather than power asymmetries, thus supporting the production of preferences towards cooperation (Dewey, 1927; Sacconi, 2015). The type of cooperation generated within the deliberative nexus is what Ertell (1957) calls ‘deep cooperation’ as an integrated level of cooperation that happens at the grass roots of an organisation (Blackwood, 1977). It implies a shared understanding around the value of deliberative practice and mutual expectations of trust. Through the deliberative nexus, cooperation can go beyond contractual obligations or initial agreements. Because decisions are based on impartial arguments, the deliberative nexus is transformative of institutional individualities, identities or programmes (Ertell, 1957; cited in Blackwood, 1977).

In addition, deliberation is a way to increase learning and knowledge creation in production organisation (Sacchetti and Sugden, 2010), as well as the legitimacy of decisions (Benhabib, 1996; Cohen, 1987; Dryzek, 2001), to create trust and prevent opportunism, thus complementing formal monitoring solutions (Borzaga and Sacchetti, 2015; Tortia, 2015).<sup>9</sup> The dialogic and participatory nature of this process acknowledges the existence not only of multiple interests, but also of multiple knowledge bases and experiences (Sacchetti et al. 2009). By bringing these together and effectively socialising knowledge (M. Polanyi, 1966; Nonaka and Takeuchi, 1995), the deliberative nexus promotes creativity, learning, and enquiry (Dewey, 1927). In doing so, it can be argued to motivate stakeholders and renew their cooperative attitude (McGregor, 1960; Hirschman, 1982).

### ***Multi-stakeholder organising***



The deliberative nexus underpins institutional solutions in which strategic direction is exerted collectively. In particular, multi-stakeholder organising is a way of governing the production of goods or services where multiple actors (such as managers, workers, volunteers, users, donors, funders) share strategic control for their common good. It is meant to give voice and to empower all the relevant stakeholders in an organisational context, normally designed to produce meritorious goods, such as welfare and community services, including public utilities, but not exclusively. Strategic control functions can be held through ownership or by other coordination mechanisms (Sacchetti and Borzaga, 2015). The role of multi-stakeholder structures has been discussed by scholars who have emphasised its role in the provision of social and welfare services (Pestoff 1994, 1996; Borzaga and Mittone, 1997; Laville and Nyssens, 2001; Sacconi, 2006; Sacchetti and Tortia, 2008; Cafaggi and Iamiceli, 2009). In parallel, the spread of multi-stakeholder governance in some countries such as France, Italy and Spain, was explicitly enabled by the evolving public regulation on specific types of organisations, namely social enterprises (SEs).<sup>10</sup>

The distinguishing feature of multi-stakeholder organisations is that diverse actors with an interest in the activities of the organisation can contribute to decide what and how to produce, or how economic surplus is distributed. Case studies show that multi-stakeholder forms capitalise on the resources of multiple actors at different levels, by involving them as member owners, or by including them in the board of directors or through consultative or controlling committees (Sacchetti and Tortia, 2014; Sacchetti 2016). By sharing decision-making power, this socially participated form of governance leads to a unique feature, which is that the activities of the organisation are run cooperatively. In this way, the outcomes can benefit multiple categories, including members but also non-members (Borzaga and Mittone, 1997).

This last point sheds light on the challenges of multi-stakeholder structures, which require, amongst other things, valuing and implementing participatory decision-making processes. As the above mentioned studies document, multi-stakeholdership historically emerges from an evolving ‘percorso’ during which the organisation interprets community unmet needs, contextual changes (e.g. in service demand, in the legal framework), or stakeholders’ changing preferences towards engagement and cooperation. The open organisation transforms production activities and creates the structural conditions for the inclusion of each emerging stakeholder (for example, the inclusion of workers with disabilities as members may require the introduction of a psychologist within the organisation and the reformulation of human resource strategies). A gradually growing network of stakeholders gains voice in the definition of socio-economic activities and creates space to stakeholders and community interests. As a result, multi-stakeholder solutions can be expected to be open projects, or institutional solutions that are ‘means to multiple aims’ (cf. Sacconi, 2015, 282 and his analysis of commons).

In summary, organisations with an open approach to beneficiaries will require that the actors involved engage in collective action, meaning that they will cooperate and develop preferences towards cooperating. Exclusion will be limited to the presence of conflicts of interest and the possibility of opportunistic behavior. These organisations are run in a genuine democratic way, which is not limited to formal voting rules (e.g. one-head-one-vote), but by the establishment of practices that ensure continued participation and deliberation on relevant decisions, especially those related to economic surplus distribution.

### **Nested systemic governance**

In a section entitled “*Similarities among enduring, self-governing CPR institutions,*” Ostrom (1990, 90) illustrates the patterns of binding agreements observed in a number of situations, worldwide.<sup>11</sup> All these institutional solutions specify who can access the common and under what conditions, as well as monitoring, sanctions and enforcement of sanctions. The last point in the list, specifically, tells us that all these agreed functions must be organised ‘in multiple layers of nested enterprises’. The theory of commons identifies the principles that would make self-management work, but adds that these principles must be pervasive across the institutional system that supports the common.

This implies that institutional solutions are looked at multiple, nested complementary levels. What we obtain is a nested system of institutions where many centres of decision-making that are formally independent come to constitute, to different extents, an interdependent system of relations, building on common cooperative values and aims. Actors (not only organisations but also individuals and other community constituencies) who recognise reciprocal interdependencies enter in various formal and informal cooperative undertakings (cf. Ostrom 2010 on polycentric governance). Nested networks of institutions form what can be called systemic governance, and are evidenced by the densely knitted relationships in the production of community services. They enable long-term interactions with public administrations, private organisations and their federations. The presence of thematic networks, regional networks, and federations, can support the development of institutional communities, building deliberative processes on the common cultural roots within a region or a sector (Campbell and Sacchetti, 2014). In this sense systemic integration can be based on self-regulation of economic actors which, as explained by Ostrom (1990), becomes self-constraining, leading to cooperative behaviours also where there are no property rights

defined (Heath, 2006). Self-regulation includes multiple stakeholders and – because of their active participation – supports long-term investments and planning. It builds on complementarities and it can aim at increasing coordination along the social value chain of service provision. At this level, cooperative preferences define how organisations link and work together to coordinate on production. Each organisation promotes cooperative behaviours also outside the organisational borders, without the constraints imposed by profit maximisation, but with the aim of accruing collectively beneficial outcomes (cf. Sacchetti, 2016 for an illustration).

### **Outcomes: socialisation of surplus**

Let us go back to Figure 1.1, which sketches the relation between the institutional resource system and cooperative preferences. It is because of the institutional system interacting with cooperative preferences that output works as a generator of surplus, or social value, in terms of workers' material welfare, psychological satisfaction, social capital, user surplus, accessibility and service quality. The theory of commons is again useful to shed light on the appropriation of surplus and its different components. The idea suggested in the chapter is that surplus is produced by the interaction between institutional resources and cooperative preferences. Surplus, therefore, is part of the resource units produced by the system and represents what actors 'appropriate or use' from the resource system (Ostrom, 1990, 90). In order to ensure the sustainability of the resource system, the appropriation of this 'flow' of units should not jeopardise the institutional system or erode cooperative preferences.

Let us now consider the economic element of surplus, which derives from the institutional system. In non-monopolistic markets, economic surplus is the return to innovation, which is conventionally seen as the outcome of entrepreneurial activity. The entrepreneur is therefore seen as the appropriator. Differently, in institutional solutions that promote cooperation, entrepreneurial activity occurs within a multi-stakeholder structure and using deliberative praxis. The stakeholders who took part in surplus production and towards whom surplus is directed vary depending on the type of service provided and, within each enterprise, according to the actors involved in the deliberative nexus.

The deliberative nexus specifically allows to balance the allocation of surplus amongst these possible different destinations. Since multiple actors are part of the organisation's decision-making bodies, they can engage with deliberative processes for the allocation of economic surplus, which does not coincide with allocation to the entrepreneur.

Participants' cooperative preferences are expressed by the willingness of stakeholders to pursue collective benefit, whilst improving the welfare of the weakest actors (Sacconi, 1991; Rawls, 1971). In this sense, for example, in SEs (which are, as a norm, not-for-profit or are subject to limited profit distribution) decision-makers can opt for distribution by transferring rent to the weakest users, for instance by setting service price lower than the cost of production (Bacchiega and Borzaga, 2001; Borzaga and Tortia, 2010), or by promoting aspects of community development through public benefit policies. One interesting aspect of empirical evidence is that multi-stakeholder enterprises exhibit a greater tendency to redistribute economic surplus towards users than single-stakeholder enterprises (Borzaga et al., 2011). Otherwise, surplus can be redistributed to workers by increasing salaries, or be re-invested, or placed into common assets.

Common assets serves the purpose of increasing the financial stability of the organisation but, mostly, to allow for re-investment in the community, provided that sufficient levels of resources are placed in the common asset. These resources, moreover, can be leveraged by matching other financial resources from external partners. The use of common assets is determined by the presence of cooperative preferences, which are influenced, in turn, by multi-stakeholder institutional arrangements and by the deliberative nexus. They depend on the presence of common norms and solidarity values. In this way, it can compel joint planning among stakeholders on a long-term basis. Common assets, therefore, are not static. Rather, through surplus reinvestment they are the dynamic element of the system, which allow to address emerging needs over time. For example, in SEs that offer work integration services to disadvantaged categories, asset lock and surplus reinvestment not only operate towards the rehabilitation of individuals in need. Through reinvestment they create activities where disadvantaged individuals can work and, in doing this, they create jobs for ordinary workers in the community.

The example sheds light also on the fact that besides sharing work and salary, cooperation between disadvantaged and ordinary workers extends to include the sharing of relations which are built within the work environment and can extend beyond it. Together with the enhancement of deliberative processes the possibility to build relations facilitates the emergence of multiple perspectives and experiences across stakeholders, which represents a first step towards challenging non-cooperative attitudes at a broader societal level. Interestingly, this example sheds light on the fact that economic surplus is not the only aspect to be re-socialised or re-distributed or re-invested. By integrating multiple actors, in fact, the institutional system enables sharing surplus at the collective level, including the relational, psychological and democratic surplus that originates from partaking in the making of choices that impact on people's lives.

### **Discussion: implications for social regeneration**

When asking the question of what can be changed in the way socio-economic systems work, we are inevitably framing a complex problem. Too many policy makers are looking for a formula, but even good formulas need to interact with a variety of other ideas about how communities and society more broadly understand economic organising and social interactions.

Specific forms of organisations or enterprises, such as commons or SEs to which this chapter has referred for illustrations, cover now an important role across continents. Compared to other sectors and ways of organising they are still growing out of the initial stage of their life-cycle. Like social capital, specific organisations or enterprises cannot be considered a solution to social poverty if left on their own. The most complete formula, then, would be one that encompasses areas of organising, transacting, and relating which empower individuals, communities and society overall, to contribute to the identification of assets, opportunities and ways to eradicate social poverty.

Regeneration, in this sense, requires enabling and supporting institutions that use participatory and deliberative modalities, leading to cooperative preferences, surplus generation and its re-investment. Perhaps, if asked about what difference a system of participatory and deliberative socio-economic institutions would make, the answer would be to judge from its non-existence. What if these institutions were lacking? If these ways of

organising were absent, many more communities would be crippled by social poverty and marginalisation. We have presented specific forms of organising that are extremely effective and will grow in importance. However, their cooperative principles should be more pervasive, albeit not unique, across all socio-economic systems. If they become the prevalent way of socio-economic organising (besides standard hierarchies and contracting), their effects will be less likely to be countervailed and, on the whole, nullified by conflicting ways of doing things.

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<sup>2</sup> This may not be true for countries that initiate fiscal consolidation or new public management practices, resulting in the reduction of public sector services and employment.

<sup>3</sup> Definitions tend to be rather vague in policy making. For instance Scotland's Big Nose initiative for promoting health through music provides the following: 'Social regeneration' refers to social interventions and approaches which are typically embedded alongside physical and economic dimensions of a 'holistic' regeneration strategy; where an overarching vision for the community or area co-ordinates all three aspects of regeneration (social, physical and economic) (Glasgow Centre for Population Health, 2016: 5).

<sup>4</sup> Our perspective on social poverty carries an explicit Polanyian flavour by placing emphasis on the negative consequences of contemporary modalities of social interaction and organisation (Polanyi, 1977).

<sup>5</sup> Economic literature has traditionally focused on the limitations of diversity, and especially on the reasons why diversity inflates the costs of decision-making (Williamson, 1985; Hansmann, 1996).

<sup>6</sup> The problem of coordinating dispersed knowledge and use it effectively has been addressed in a variety of ways, not necessarily through cooperation. A crucial benefit of cooperation, however, is the creation of a shared understanding about the surrounding context, or the mental model that defines it (Dosi and Marengo, 1994; Cefis et al, 2008). In this sense, cooperation can help "problem framing" or "all those activities leading from the identification of the problem to the selection of possible actions" (Dosi and Egidi, 1991: 150).

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<sup>7</sup> This interpretation is consistent also with rational choice theory, which has emphasised substantive uncertainty, or the knowledge gaps between decision-makers and the world around them. Likewise it has shed light on procedural uncertainty, or the gap between problem complexity and the capability to solve it (Dosi and Egidi, 1991; Cefis et al. 2008).

<sup>8</sup> The nexus of deliberation can be seen as a specific type of “nexus of treaties”, introduced by Aoki and colleagues, which described contractual and non-contractual institutional solutions within and among organisations (Aoki et al., 1990).

<sup>9</sup> The problem of deliberation among different interests and discourses in the public sphere has been widely debated, starting from the seminal work of Habermas (1996), and with Bourdieu (1993), speaking of ‘discursive field’ between opposed actors, where deliberation between different stakeholders has been deemed as possible with the ‘de-traditionalisation’ of society (Beck et al. 1994). Though it is not the aim of this chapter to enter the deliberation debate, we note that this is understood differently by Habermas and Bourdieu. The former argues in the context of an idealized public sphere, on the basis of a universal reason à la Kant; whereas the latter stresses the power asymmetries and struggles within the public sphere and the conditions for the emergence of ‘universality’. See, for instance, Poupeau (2001).

<sup>10</sup> SEs are enterprises with a social aim. They are characterised by a non-profit distribution constraint and include stakeholders as organisation members or as part of a governing body of the organisation (e.g. the board of directors).

<sup>11</sup> These are (Ostrom, 1990, p. 90): clearly defined boundaries

- a. clear appropriation rules, related to local conditions and provision rules
- b. participation in the definition of operational rules by those affected

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- c. monitoring, where monitors “audit CPR conditions and appropriator behaviours. They are in turn accountable to the appropriators or are the appropriators” (ibid. p. 94)
  - d. graduated sanctions (as for monitoring, sanctions are undertaken by participants themselves)
  - e. conflict-resolution mechanisms (“access to low cost local arenas to resolve conflicts” formal or informal)
  - f. external government institutions give at least minimal recognition of the right to self-organise
  - g. nested enterprises – all the above functions (appropriation, provision of resources, monitoring, enforcement, conflict resolution, governance activities) “are organised in multiple layers of nested enterprises”.