Governance and different types of value: A framework for analysis

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Abstract

Organisational governance should not be detached from its effects. Based on this premise, this paper presents a selection of relevant theoretical elements and normative concerns for the study of governance and its consequences. Specifically, the paper considers a combination of resource integration mechanisms (contract, authority and cooperation) and structures (markets, exclusive structures and inclusive structures). These combinations are analysed along with their key effects with respect to information, knowledge sharing and creation, involvement and empowerment. The paper contributes to the governance literature by identifying criteria for appreciating the diverse ways of integrating and coordinating resources and anticipating the associated effects.

Keywords: contracts, hierarchies, inclusive governance, exclusive governance, stakeholders, empowerment, knowledge, public value creation.

1. INTRODUCTION

The idea that underpins this work is that there is a relationship between the features of organisational governance and the effects that governance choices produce. This relationship goes beyond the economic efficiency of an individual firm and can be extended to stakeholders and society more broadly. So far, the literature has analysed the impacts of governance on firm performance, mostly in terms of economic efficiency, competitiveness and growth of shareholder value [Beiner, Drobetz, Schmid and Zimmermann, 2006; Black and Kim, 2006; Klapper and Love, 2004]. However, an integrated approach that considers the broader effects of coordination choices, including the effects on the various stakeholders and on society more widely, is missing. In our view, this is in part due to the lack of a framework for studying governance and its components. In response, borrowing from a variety of literatures, this paper suggests a framework of features that can be used to study the relationship between governance and its expected effects.

Alongside the strategic governance approach [developed by Cowling and Sugden, 1998; Hymer, 1972; Pitelis and Sugden, 1986; Zeitlin, 1974], we consider governance as the set of rules that define access to the interconnected layers of decision making. The top layer is where strategic direction is defined [Zeitlin, 1974]. The intermediate level connects the strategies defined at the top of the hierarchy with the operational level at the bottom [Hymer, 1972]. Access to the different layers defines the actors' strategic control and power [Cowling and Sugden, 1998; Pitelis and Sugden, 1986]. The central question in this approach is who decides what is to be produced, how production is organised and how surplus is distributed. These issues are of relevance for a variety of groups that do not have, despite their interests, access to strategic control [AUTHOR, 2009]. This is a political economy issue, since the exclusion of stakeholders from the control function is a source of strategic failure [Cowling and Sugden, 1998; Pitelis and Sugden, 1986], such as the failure to include all relevant interests and those of society more broadly in economic decisions [Blair, 1995; Branston, Cowling and Sugden, 2006; AUTHOR, 2003; 2009, 2011; Sacconi, 2006]. In organisational analysis, the importance of giving voice to communities of interest was early emphasised by Hirschman [1970], in his seminal work "Exit, voice, and loyalty" where he explicitly considers behaviours within a collective context. His analysis in particular evidences the public benefits of participation and voice rather than exit, which may be exerted when individuals are locked-in, or alternatively (as he will hint at in "The passions and the interests", Hirschman, [1977]) when lock-in is paired or compensated by the will to be included, as well as by the pro-social motives of human activities.

The challenge, for us, is to appreciate differences in governance possibilities and associate each option to specific effects. Specifically, our contribution aims at providing an answer to this challenge by developing a specific framework, which relates a variety of possible governance solutions and then assesses their consequences in terms of their ability to include stakeholders and further the collective interest. We consider contracts, authority and cooperation as three coordination modalities that features at various degrees within the classic Williamsonian structural alternatives, mainly market and exchange on the one hand, and on administrative solutions on the other. For administrative solutions we allow for two alternatives (as in AUTHOR, 2015): exclusive and inclusive governance, with the latter featuring high levels of participation and rights to voice and decide. We assess these three modalities (markets, exclusive structures and inclusive structures) to detect the elements from which strategic failure may originate, focusing on knowledge, involvement and empowerment, and we ask what features may instead foster the public interest. The approach we develop aims at highlighting the unique role that governance choices have at collective level, and provides a complementary but different view from established approaches in organisational economics which have instead focused on issues of internal efficiency (Coase, 1937; Williamson, 1973; see also Appararo, et al. 2019).

The paper follows a step-by-step process. Following this introduction, Section two briefly introduces the elements that are used to assess governance. Section three addresses three coordination mechanisms, discussing coordination based on contracts, coordination based on authority and coordination based on cooperation. Cooperation (and its principles – see Novkovic, 2008) is not seen exclusively for cooperatives, but as a modality of coordination that is applicable to different organisational forms at various levels of intensity. Section four focuses on three coordination structures, namely markets, exclusive and inclusive structures. Section five introduces the effects of mechanisms and structures on specific organisational features, focusing on information and knowledge as well as empowerment and inclusion. Section six develops the interactions among coordination mechanisms, structures and processes. Section seven explores in more general terms the implications for assessing the effects of different forms of governance, focusing on outputs, outcomes and impacts. Concluding comments then follow.

2. HOW DO WE STUDY GOVERNANCE?

In broad terms, the governance literature has placed emphasis on aspects of cost minimisation, based on the assumptions of bounded rationality and asset specificity [Williamson, 1985; Nooteboom, 1993] or, alternatively, on the distribution of strategic control power [Hymer, 1972; Cowling and Sugden, 1998; Ietto-Gilles, 2012]. The literature has developed in the context of the modern corporation operating within neo-liberal market institutions, which rely on the existence of contracts, private property [Williamson, 1985], re-distribution and regulation by the state [Heath, 2011]. A common behavioural assumption is that actors pursue their self-interest, even to the detriment of others [Zeitlin, 1974]. More specifically, some approaches have emphasised the ability of the governance model to a) reach internal efficiency [Coase, 1937; Williamson, 1973], b) maximise strategic control over stakeholders, even to the detriment of the latter [cf. Cowling and Sugden, 1998, for a critique] and c) determine an effective cognitive framework for managing complexity [Loasby, 2006].

These approaches can coexist in explaining aspects of organisational governance and evidencing the prevailing principles that underpin control structures and coordination tools. However, analyses of governance tend to take one perspective, often focusing on internal efficiency for the benefit of one specific stakeholder (e.g. stockholders). Such analyses explain forms of coordination that are useful for minimising ownership and contractual costs under different conditions defined by uncertainty, bounded rationality and the specificity of assets [cf. Sacconi, 1991, for an analysis]. The cost minimisation criterion, however, cannot explain forms of governance that are inclusive of multiple interests and promote a movement towards the reduction of exclusion and failures in addressing diverse societal needs, as pointed out by strategic failure scholars [AUTHORS, 2017]. This happens, as Heath [2011] observes, because it is assumed that transactions with excluded stakeholders occur in competitive markets, thus ensuring optimal solutions for non-proprietor stakeholders. Hansmann [1996] takes this approach in his work on 'The ownership of the firm', where he explains that the inclusion of multiple stakeholders is costly; instead, the costs of governing a firm are kept low when those who are in control belong to a category with homogeneous interests.

However, if the presence of market failures is contemplated (as Hansmann also does in his work), governance can be studied from the point of view of its capability to include stakeholders whose interests are not mediated by the market. So, although the transaction cost approach has suggested one solution to market failures, other possibilities need to be considered as well. An approach that is able to account for the inclusion of multiple stakeholders requires to go beyond considerations of internal efficiency and profit maximisation. The transaction cost model in fact cannot explain the emergence of organisations that include multiple stakeholders, such as recent institutional models of social enterprises and non-profit associations (see for instance Pestoff [2008] and Cordery & Howell [2017] for organisational cases in the education and healthcare). These organisations explicitly share the control function with a variety of stakeholders with the aim of producing positive collective value. The control function is shared, as AUTHOR [2017] point out, in order to include the interests of stakeholders in the decision-making process and, in this way, reduce the risk of producing negative external effects or, if we look at the other side of the coin, to maximise the production of positive

collective value. The fundamental idea is that organisational governance, by means of inclusion, can maximise collective efficiency, rather than the efficiency for one stakeholder only. Business ethicists have analysed the problem from the point of view of board composition and managerial fiduciary duties, arguing that the problem of value creation for stakeholders and the collectivity depends on the capability of boards to further the interests of a team of patrons [Aoki, 2010; Blair, 1996; Sacconi, 2006]. More specifically, some contributions have considered structures and rules that are able to balance a diversity of interests and powers and encompass multiple sets of interests and motivations. These include the organisational models studied by cooperative governance scholars [Borzaga, Depedri and Tortia, 2010; Borzaga and Mittone, 1997]. A similar logic can be applied to the study of the governance of networks, including public, private and civil society partnerships, as well as to studies of collaborative governance where the search for 'collaborative advantage' takes central stage [Bruneel, Moray, Stevens and Fassin, 2016; Huxham, 1993; Pittz and Adler, 2016; Vangen, Hayes and Cornforth, 2015; Vangen and Huxham, 2010].
In particular, AUTHOR [2017] argues that governance is one of the key elements that differentiate the ethical dimension of economic coordination. This is because it influences the distribution of resources and the nature of the outcomes. Governance's core function is to coordinate the development of answers to an acknowledged problem. With this aim, formal and informal rules serve the function of framing the modalities for accessing strategic control. The question is how a concern for inclusion in strategic decision making can be reconciled with efficiency, which represents the central criterion for assessing governance in the major economic approaches, namely transaction cost theory and agency theory. Scholarly answers emphasise more and more the need to consider a broader array of elements when assessing efficiency, including an assessment of the external costs produced by the exclusion of relevant stakeholders [see especially AUTHOR, 2017]. The central argument of these contributions, taken together, is that when considering external efficiency, the inclusion of multiple interests is not inconsistent with total efficiency. And in the business debate, the potential role of large business for the creation of global sustainable solutions is emerging more prominently than in the past, with some firms aiming at redefining their overall aims in terms of community welfare (Giovannini, 2018). The core idea within the business community[i] is that a long-term approach to business requires a focus on the production of positive external effects rather than on extracting value from communities (Santos, 2012).

From this perspective, governance may consider:

A) The specificities of the coordination mechanisms and their corresponding structures, each articulating how control over the strategic direction of the firm is allocated [AUTHOR, 2015; Ostrom, 2005; Rahman and Carpano, 2017; Williamson, 1973].

B) The effects of mechanisms and structures on public interest objectives (i.e. their effectiveness in moving towards the greater inclusion of stakeholders and communities of interest).

3. COORDINATION MECHANISMS

Organisational economics highlights that coordination aims to allocate and distribute resources according to transparent criteria, harmonising behaviours and making them consistent with a firm's goals, as well as fostering consistency in the aims and decisions taken in the various governance layers [Sabel, 1993; Williamson, 2000]. In parallel, coordination favours consistency in investment decisions, especially when asset specificity is high and economies can be grasped in terms of modularity, scale and scope, information sharing and innovation [Brusoni and Prencipe, 2001; Brusoni, Prencipe and Pavitt, 2001; Lorenzoni and Lipparini, 1999; Williamson, 1973]. The complexity of coordination depends on various elements, including the nature of the products, the resources available and the value chain's features [Pietrobelli and Rabellotti, 2011; Porter, 2001], the availability and distribution of strategic capabilities [Teece and Pisano, 1994], the enterprise's size and its organisational structure [Chandler, 2014] and stakeholders' access to information and their power to influence strategic decisions and the use of resources [Blair and Stout, 1999].

Contracts, authority and cooperation have been identified as complementary mechanisms aimed at coordinating resources [Borzaga, Sacchetti and Tortia, 2016; Grandori, 1997b; cf. also Bekker, 2014; Daboub and Calton, 2002; Jackson and Thelen, n.d.; Wu, Hsia and Huo, 2015]. Scholars emphasise that the use of more than one mechanism reflects not only the existence of multiple and diverse production problems and situational contexts [AUTHORS 2019] but also multiple motivations and behavioural attitudes [Adler et al., 2009; Pittz and Adler, 2016]. Thus, contracts, authority and cooperation can be seen as components of mixed coordination solutions [Borzaga, 2018]. The three mechanisms should not be considered as exclusive: an organisation may use authority to organise internal transactions among divisions when asset specificity and information asymmetry are high, while using contractual solutions to trade with some of its suppliers when transaction costs are low [AUTHOR 2019]. It can, at the same time, engage with other stakeholders through cooperative relations. Worker cooperatives are a good example because they engage member owners through democratic governance bodies and mutuality, using hierarchy to enforce basic principles and rules (e.g. the accumulation of reserves and the distribution of surplus), while they may resort to contracts with non-strategic suppliers and establish cooperative partnerships with strategic suppliers (e.g. by investing in the development of joint assets).

More generally, for all organisations, cooperative relations should not be seen as inconsistent with hierarchical structures [Borzaga and Tortia, 2017; Grandori, 1997a]. For example, such relations may exist in teams or outside firm boundaries when cooperation is extended to competitors in pursuit of a mutually beneficial goal (e.g. the joint creation of a vocational school to improve localised learning and access to specific skills). The following subsections expand on each of the three resource integration mechanisms.

3.1. Contracts

Contracts are the principal coordination tool used in markets, and they are commonly seen as a means of exchange. They are also used within hierarchies, where internal contracts regulate relationships between organisational units or between the employer and the employee. Principal-agent theory suggests that contracts are not an exclusive prerogative of markets but rather at the heart of organisational functioning. In complex organisations, the main stakeholder or principal (usually the shareholder) delegates agency (or resource coordination) to the management [Hill and Jones, 1992; Jensen and Meckling, 1976]. Contracts serve the purpose of aligning the management's objectives with the main stakeholder's interests, typically using performance-oriented incentives and authority, with the aim of enforcing and monitoring contracts and reducing the risk of opportunistic behaviours. In a principal-agent relationship, both parties are motivated by self-interest and will try to get the maximum benefit from the exchange. If we assume independent and self-seeking behaviour, both actors may deceive each other and act against the other party's interests—and even against the agreement—by exploiting what is not specified in the contract. The more complete and accurate the contract, especially through the inclusion of uncertain scenarios, and the greater the presence of monitoring and enforcing, the lower the chance of ex-ante opportunism and ex-post litigation. Traditionally, economic theory forecasts that the greater the asset specificity, the larger the firm, and that ex-ante and ex-post contractual costs increase with size [Coase, 1937; Williamson, 1973].

Though this may suggest that organisational size determines whether contracts are a suitable coordination solution within organisations, we should remember that contractual costs are also related to qualitative features (e.g. the nature and complexity of the production problem to be solved and the governance solution in place). For instance, a certain degree of cooperation, or what Ertell [1957] calls superficial cooperation, is required to abide with the contract and manage unforeseen circumstances [Ertell, 1957, cited in Blackwood, 1977; Thompson, 2015]. Hence, contracts are not necessarily related to the firm's size, even though contractual costs are likely to grow as size increases.

Rather, contracts may be suitable when their incompleteness does not place the weakest stakeholder under excessive risk of opportunistic turns from the other party (i.e. when the nature of the problem does not imply high information asymmetries between the user and the service provider) [Hansmann, 1996] and when the substantive elements of the relationship do not have marked immaterial characteristics (e.g. intrinsic motivation, as in the case of the voluntary sector) [AUTHOR 2015; Borzaga and Tortia, 2017]. In these cases, other solutions can be the preferred coordination modality.

3.2. Authority

Principal-agent theory suggests that authority is needed because different actors have different interests, and hence the goals of principal and agent are not the same; thus, authority is used to direct the agent's behaviour towards the principal's expectations (although monitoring costs can be high when involvement in decision making is absent). The direction of one actor by another is possible because authority implies that actor A agrees to act under the direction of actor B in a specific sphere, which is typically associated with ownership [Sacconi, 1991]. This means that authority works within a structure based on the uneven distribution of strategic control between A and B.

This does not imply, however, that authority derives solely from ownership or that ownership necessarily implies authority [Cowling and Sugden, 1998; Grandori, 1997b; AUTHOR, 2017]. Instead, authority may be embedded in contractual relations (e.g. between the employer and the employee). Authority is also conferred to boards and management in organisations where ownership is spread widely among owners or other groups of members (e.g. workers, users and consumers in cooperative firms) in order to manage and monitor the cooperative agreement. Hence, more broadly, authority can be defined as a coordination modality according to which a contract allows a person to give commands within a certain range, as defined in the contract, to other people to influence their behaviour, with or without ownership [Borzaga and Tortia, 2017; Cowling and Sugden, 1998; AUTHOR, 2003]. Still, even when these conditions are present, authority should not be considered as the only coordination modality at work. Some degree of superficial cooperation is also necessary, not least to avoid the escalation of monitoring costs. This leads us to clarify the third coordination modality.

3.3. Cooperation

The institutionalist literature identifies at the basis of the cooperation mechanism a set of inclusive social preferences that lead to the sharing of objectives, resources and results [see AUTHOR 2015; AUTHOR and Tortia, 2020]. The cooperative enterprise is one specific organisational formwhere the cooperative mechanism is implemented in a prevalent way. The prevalent use of this mechanism in cooperative firms builds on specific values and principles, which have been discussed and analysed in their functioning by Novkovic [2008] and Jussila [2013]. Novkovic [2008], in particular, has discussed the cooperative principles which differentiate the cooperative from other types of firm. According to her view, the adherence to the cooperative principles leads to flat management structures, encourages participation, social learning and networking, promotes self-organization and it ends more often to social innovation [Novkovic, 2008:8]. As mentioned, however, cooperation as a coordination mode does not apply solely to cooperative firms. According to Jussila, [2013:2] cooperation should be considered as a combination of various principles applied at a different intensity to the management of an enterprise (being either a cooperative or another form of firm). The take-off of cooperative activities might be facilitated by social exchanges (which is one of the fundamental elements of the cooperation mechanism), which find in cooperative institutions a more fertile terrain [Jussila et al., 2012].

To account for intensity, and in line with Ertell [1957], we consider superficial and deep cooperation. Superficial cooperation does not relate to institutional individualities, identities or programs. Rather, as noted by Thompson [2015], it is based on contractual obligations or, in the case of market exchange, on an occasional sharing of resources. This type of cooperation is consistent with contracts and complements authority, which, as mentioned, can be used ex-ante in the definition of contracts and ex-post in enforcing them. Unlike authority-based relations between dominant and subordinate agents, deep cooperation is a level of cooperation where there is a shared understanding of roles and where actors rely on mutual expectations and trust, beyond what contracts can specify [Blackwood, 1977]. The actors trust the other parties because they share expectations. Thus, attitudes towards deep cooperation are matched by expectations of reciprocity among peers. Reciprocity differs from exchange in important ways. Exchange asks for an equivalence (at least supposed or perceived by both parties) in the goods exchanged between actor A and actor B. Reciprocity, conversely, follows the principle of equity and does not necessarily occur between two actors (e.g. A, the giver, and B, the receiver); instead, it may involve a third actor (C), who may receive something from B as an act of restitution for what B originally received from A [K. Polanyi, 1944].

A good example of deep cooperation is found in the principles of cooperative organisations. These are organisations where ownership and alternatively labour or production or consumption coincide. Small family-owned firms are an example of deep cooperation based on the overlap between work and ownership.

Deep cooperation can also to some extent occur when a firm is owned or managed progressively by the management, adopting a human-centred approach to workers' relations[1] by privileging participation, fairness and workers' self-actualisation, which is a concept of organisational psychology. Its early origins in Maslow's theory of needs [Maslow, 1998; McGregor, 1960], which suggests that self-actualisation may be seen as the development of one person's full potential by means of learning and by respectfully integrating experiences with others. Self-determination theory, which has evolved from needs theory, identifies autonomy (having an internal locus of determination), competence (mastering relevant skills effectively), and relatedness (proximity and relatedness with others) as the determinants of people's self-actualisation [Deci and Ryan, 2000]. The self-actualisation approach to human resources requires deep cooperation since it assumes that individuals have the will and the abilities to actively voice and shape the environment using their competences, rather than being the passive recipient of behavioural incentives [Van den Broeck et al. 2017].

Similarly, we find examples of deep cooperation in inter-organisational networks. In the Marshallian industrial district, for instance, deep cooperation can lie at the origin of static and dynamic efficiency. Deep cooperation can be associated with institutional and relational proximity, which refer to shared norms and rules of behaviour, leading to relations based on reciprocity and trust. Industrial district scholars emphasise that institutional and relational proximity discourage opportunistic behaviour and facilitate the development of a dense web of production interconnections [Camagni and Capello, 2002]. Likewise, the work of Ostrom [1990] on the management of common pool resources evidences how deep cooperation, even in the absence of an organisation, is grounded in the ability of users and other institutional actors to communicate and preserve some degree of relational proximity, leading to the definition of shared and binding rules. Once more, cooperation does not exclude the presence of authority, which is needed in order to monitor and enforce the cooperative agreement.

4. COORDINATION STRUCTURES

So far, we have addressed three different resource coordination modalities: contract, authority and cooperation. These modalities feature in very different coordination structures: the market, exclusive structures and inclusive structures [AUTHOR, 2015; AUTHOR, 2003]. As described below, in each structure all three coordination modalities are present although with different weights. As an example, in exclusive structures, the prevalent modality of coordination is authority while cooperation occurs

[1] The organisational psychology evidence suggests that if workers feel committed (even identifying with a firm's objectives), they are more productive and industrial relations are rarely conflictual (Huselid, 1995).

at a superficial level. Differently, in the inclusive structures, cooperation plays the main role; however, hierarchy might be present and contracts might govern some interactions.

Markets

Market relations, typically contractual, have been justified in terms of the convergence between different but complementary goals, which are quantified by a price. Actors' choices are hypothesised as mainly driven by self-interest, since interactions do not have a long-term temporal horizon. Competition is a basic element of the market structure, and empirical findings indicate that this strongly correlates with shareholder, customer and employee satisfaction [Fonseca, Amílcar, Álvaro, Ana, and Sampaio, 2016]. The problems generated by market failures are well known, emphasising that when decision-making power and information are not equally shared, markets become unbalanced and stop allocating and distributing resources efficiently.

Exclusive structures

When the market fails, organised transactions have been presented as a solution to the costs of transacting. Such hierarchical structures can take different forms. Here we are interested in distinguishing these based on the degree of access to strategic control. To this end, we follow AUTHOR [2015] who identifies exclusive and inclusive governance structures. In exclusive structures, actors are connected through asymmetric power relationships, where the strategic decision maker A exercises authority over the directed agent B. The distinguish feature is that the strategic decision maker's choices overtake all other interests. Typically, the owner's preferences and interests define the aims and drive the decision-making process, although we could equally talk of the preferences of top management. The distinctive point is that the power of strategic direction is concentrated, whether the controlling group is comprised of owners or managers [Cowling and Sugden, 1998]. Therefore, exclusive governance structures lead to a failure to consider the broader implications on those excluded from decision making [Cowling and Sugden, 1998; Rake and Grayson, 2009; Heckscher, 2013; AUTHOR, 2015].

Despite the market failures, the theory of the firm is limited in terms of finding alternatives and moving away from exclusive structures. The problem is that inclusion in strategic control is contemplated among peers with homogeneous interests but not across the hierarchical line that connects stakeholders at different levels of decision making (e.g. owners, workers and users) or even outside the legal boundaries of the firm. Likewise, however, interests may be diverse also within the same stakeholder category – consider for example different types of owners such as minority and majority shareholders in business corporations, or small and large farmers in agricultural cooperatives.

Given the uneven nature of a layered command-and-control governance structure, deep cooperation would have a marginal role, as it operates only among peers [K. Polanyi, 1977]. Even within exclusive structures, however, some degree of cooperation may emerge among teams and workers with a 'jobholder' attitude [Akerlof, 1982; Akerlof and Kranton, 2005], as well as among those with a positive job attitude that elicits efforts towards initiative, judgement and actions in the face of unresolved gaps [Fehr and Gächter, 1998] and in instances of what Williamson [1985] calls 'consummate cooperation'.

Inclusive structures

Unlike the case illustrated above, inclusive structures involve stakeholders in decision-making processes. The assumption is that stakeholders are known and willing to actively participate in a firm's ventures with or without property rights. This solution implies the presence of specific constitutional norms, which define the stakeholders' right to access strategic control governance bodies [Helmsing and Vellema, 2011]. This means they are represented on the governance boards of organisations and that managers may legitimately pursue multiple interests rather than those of one key stakeholder only [Blair and Stout, 1999]. Cooperation is the main resource-integration modality, even though the use of market contracting or authority (e.g. by the board) complements this institutional setting [Borzaga and Tortia, 2017].

The difference with respect to exclusive structures is that within the inclusive alternatives, authority is justified through the stakeholders' pre-agreement that such authority will be used alongside criteria of equity and inclusiveness. This means that stakeholders legitimise authority as long as the results are distributed equitably ex-post and stakeholders' interests are represented fairly when defining the firm's strategic direction ex-ante [Sacconi, 1991].

5. PROCEDURAL FEATURES

The organisational space defined by structures (markets, exclusive and inclusive structures) and coordination modalities (contracts, authority, cooperation) interacts with the operational levels of an organisation, impacting on the practices that may favour or hinder the integration of multiple voices. The literature on governance has addressed various aspects of the procedural features of governance. Bridging these approaches through coordination types has the advantage of highlighting consistency and enables a contrast between governance mechanisms and structures, on the one hand, and organisational processes, on the other. Our focus is on the procedural features that favour stakeholder integration, such as information sharing, knowledge creation, empowerment and stakeholder involvement. We turn to each of these in the next subsections.

5.1. Information and knowledge

Information and knowledge, and their role within firms, have been debated by many authors in economics as well as management, to the extent that firms have been explained not only in terms of their ability to minimise transaction costs or reduce agency problems but also in terms of their ability to promote knowledge creation, knowledge transferability and innovation [Kogut and Zander, 1993; Loasby, 2006; Nonaka and Takeuchi, 1995]. Complementary evolutionary approaches, developed from the seminal work of Nelson and Winter [1982], have introduced explanations for how organisations develop routines and learn as collective entities. With some exceptions [Grandori, 2001; Spender, 1996], less has been written on how these functionalities relate to governance and how the various governance frames can influence knowledge-creation and knowledge-transfer processes. Before analysing this relationship in more detail, we clarify the basic conceptual categories of information and knowledge often referred to in this debate.

Information can be understood as the raw data that can be transferred from one stakeholder to another or spread openly in a specific environment. Unlike information, knowledge requires that actors engage with cognitive processes of sense making and critical thinking [Dosi and Egidi, 1991; Nonaka, Umemoto and Senoo, 1996]. Knowledge formation is dynamic and intensive in terms of time and capital (i.e. social, human and physical capital). Thus, if information is potentially available to everyone in a certain context (e.g. in the form of production factors), the capacity of selecting, collecting and using relevant information would need specific knowledge on the recipient's side regarding how to best use this information [Cohen and Levinthal, 1990].

The process of 'knowing' that underpins knowledge creation and transfer was analysed by M. Polanyi [1966], who identified practice and experience as major sources of learning, in addition to logical reasoning. The personal and relational nature of the way people learn, as identified by Polanyi, has implications for how knowledge is transferred and used over time. In particular, for Polanyi, personal knowledge can be transmitted and applied through the master-apprentice relationship or, more generally, through the sharing of day-to-day activities. Part of our personal knowledge (also known as tacit knowledge), however, can be codified and thus made independent of the inter-subjective relationship between two individuals. As the industrial innovation literature emphasises [Cohen and Levinthal, 1989; Lewin, Massini and Peeters, 2011], codified knowledge can take the form of blueprints, codes and rules that can be read, interpreted, and disseminated among those who have the skills (or absorptive capacity) to de-codify the text. Within firms, this codified knowledge represents ‘only the tip of the iceberg’, while most of the relevant knowledge is personal, hard to recognise and formalised [Nonaka and Takeuchi, 1995, p. 3]. In their seminal work, Nonaka and Takeuchi [1995] applied Polanyi’s analysis of knowledge creation and diffusion to firms. Their knowledge spiral model acknowledges that tacit and codified knowledge can interact, but only within an interpretative process that is essentially the product of organisational solutions that favour socialisation. An essential part of knowledge socialisation among stakeholders may be defined by their degree of empowerment and involvement [AUTHOR, 2015].

5.2. Stakeholder empowerment and involvement

The second feature characterising governance processes is the empowerment of stakeholders. Empowerment research has flourished in community and organisational studies [Perkins and Zimmerman, 1995]. Among the many definitions, there is a common element tending to emphasise empowerment as a process involving ‘mutual respect, critical reflection, caring, and group participation, through which people lacking an equal share of valued resources gain greater access to and control over those resources’ [Perkins, 2000, p. 207]. In their research on organisational empowerment, Gandz and Bird describe the empowerment of people as the ‘organisational revolution of the 1990s’ [1996, p. 383]. In the study of organisations, the creation of rules and routines that support stakeholders’ voice and include their knowledge into the decision-making process have been acknowledged as effective in identifying needs and designing processes that can provide effective and more innovative responses (Hirschmann, 1980). However, within organisations, empowerment has not always gone in the direction advocated by Hirschmann or by community scholars.

In the organisational literature, empowerment studies refer principally to workers, although other forms of empowerment highlighted more broadly by stakeholder theory literature relate to other groups (e.g. consumers, users and suppliers) [Freeman et al., 2010]. In this context, empowerment tends to be approached as a strategy aiming to increase the performance of organisations [Bogart, 2013; Wilkinson, 1998]. These outcomes can be generated in different ways. A good example of worker empowerment is provided by Gandz and Bird [1996], who identify different forms of empowerment: (i) role empowerment (related to the discretionality of workers to decide about their own work); (ii) reward empowerment (related to the quality of workers’ performance); (iii) process empowerment (enabling workers to affect the design of organisational processes); and (iv) governance empowerment (enabling workers to participate in and influence the direction of the organisation). The first two relate to day-to-day tasks, the third to processes, and the fourth to strategic direction.

Complementarily, involvement can be identified as a pre-condition of empowerment. Involvement can take different forms and feature diverse degrees of participation. Generally, it reflects the extent to which multiple interests and reciprocal interdependencies enter into the definitions of the four levels identified by Gandz and Bird, [1996] as described above. Involvement can be limited to consultation, with no sharing of decision-making power. In this case, involvement is not paired with empowerment. The absence of empowerment means that while actors can participate, their decision-making role is not recognised. Here the incentive to participate is that stakeholders may still increase their reputation as they contribute to the process. However, we would more commonly expect that stakeholder involvement ends up in some form of empowerment.

When this expectation—or the equilibrium between involvement and empowerment levels—is not respected, we may observe higher conflict among stakeholders and lower production efficiency.[ii].

Other authors suggest that the level of stakeholder involvement depends on the stage of a firm's growth. Talking about conventional for-profit firms, Aguilera, Filatotchev, Gospel and Jackson [2006] argue in favour of involvement only when firms reach the maturity stage. They suggest that in the initial stage, innovation and growth should be the main goals. The implication for governance is that when priority is given to the bottom line, firms should choose exclusive governance. For these authors, it is more important to take into account stakeholders' voices as a firm moves along its lifecycle (e.g. in the more mature phase when involvement serves the function of managing production relations along the value chain, with the aim of loosening control from subcontractors and younger firms) [Aguilera et al., 2006].

6. BRIDGING ANALYTICAL ELEMENTS

We now bring together the different parts of our framework to see in more details how the combinations of structures (market, exclusive and inclusive structures) and coordination modalities (contracts, authority, cooperation) interact with the procedural aspects of organisations that we have selected (knowledge, stakeholder involvement and empowerment) to generate consequences at the collective level. Graphically, the framework is illustrated in Figure 1, which summarises our findings, linking contextual features, coordination modalities and structures, and their likely effects. The top part of Figure 1 identifies context using three standard situations, which justify, when they are dominant, the need to coordinate resources in different ways. Of course this does not exclude that the features identified in each block are present in other blocks, e.g. some degree of asymmetry can occur also when actors decide to use contracts. Each of the three blocks in this part of the Figure identifies prevailing contextual features when contracts, authority or cooperation are chosen as coordination modalities. The latter are illustrated moving down towards the centre of Figure 1, where the match between coordination modalities and their relative structures is depicted. Moving down in Figure 1, the procedural features highlight the dimensions against which we assess the likely consequences of the combination of modalities and structures, illustrated in the bottom part of the Figure. We explain these interactions in the Sections below.

Figure 1 about here

6.1. Knowledge

6.1.1. Knowledge, contracts and the market

Political economy considers knowledge as a resource that is only partially excludable and non-rivalrous. Hence, the attribution of intellectual property rights enables the exchange of codified knowledge on the market using licensing contracts. Complementarily, incentive schemes and constraints should induce actors to avoid opportunistic behaviours [Deutsch and Valente, 2013]. To support the commodification and exchange of knowledge, contracts for intellectual property rights have been harmonised under international agreements, though bilateral agreements have in parallel increased in importance. This suggests that there is extensive bargaining and exercise of power around knowledge exchange. Institutional scholars [Heath, 2001; Brandom, 1994] have highlighted this point in more general terms, suggesting that the lack of non-market mechanisms for knowledge circulation can cause negative macro effects. For instance, the exclusive use of competitive market exchanges can be an obstacle for sectorial cooperation (e.g. shared intra- and inter-sector planning among producers). This can reduce, for example, joint training and vocational programmes, thus decreasing the transfer of tacit elements to new workers. By contrast, labour market competition can achieve some degree of knowledge circulation through workers' mobility [Hall and Soskice, 2001].

Moreover, the analyses of M. Polanyi [1966], Nonaka and Takeuchi [1995] and Brusoni et al. [2001] suggest that when knowledge is prevalently coordinated via contractual exchange, part of the relevant knowledge cannot be accounted for. Because of tacit knowledge and organisational routines, intellectual property rights and contracts regulating their use are an incomplete expression of what is known and its potential. It follows that non-market forms of coordination become central for ensuring knowledge-creation and knowledge-transfer processes that account for tacit and routine-like components.

6.1.2. Knowledge, authority and exclusive structures

Let us now consider authority-based coordination within exclusive governance structures. The literature has extensively addressed the debate around hierarchies and information, investigating the relationship between the design of hierarchies, how information flows and the tasks allocated within firms. Applied studies confirm that decision makers within hierarchies rely mainly on codified information, since subjective information escapes the hierarchical net, requiring inter-subjective forms of communication [Liberti and Mian, 2009]. Building on these studies, we expect hierarchies to increase the distance between decision makers, strategic users of information and other stakeholders who may be the source or collectors of information. We therefore expect decision makers to use codified information and omit information that may be derived from experience and inter-personal relations. We can reasonably expect that the distance is inversely related to stakeholder empowerment/involvement, since participatory features increase inter-subjective exchanges and hence reduce hierarchical distance and decision-making errors [AUTHOR, 2015], and directly related to firm size, since size increases the layers between strategic decision makers and other stakeholders, hence increasing hierarchical distance and decision-making errors [Coase, 1937]. Hierarchical distance increases inefficiencies in terms of the risk of opportunistic use and manipulation of information [Crawford and Sobel, 1982], the cost of incentives for information collection [Aghion and Tirole, 1997] and ex-post communication costs [Radner, 1993; cf. Liberti and Mian, 2009].

In terms of production knowledge (although the same can be said for information), asymmetries reflect the division of labour and the fragmentation of tasks along the firm's internal value chain, as well as the decentralisation of decision making at different managerial levels. Task division, and the division of knowledge and information related to each production task, has been explained as an answer to production and environmental complexity [Langlois, 2013].

Since the governance function essentially reflects the ability to assess situations, decide on strategic aims and monitor processes and results, the main limitation of hierarchies relates to inefficiencies deriving from the exclusion of stakeholders' subjective knowledge, experiences and interests. For stakeholders, by contrast, the lack of participation reduces the opportunity to learn decision-making skills or to see their interests represented in strategic decision making [AUTHOR, 2015].

Let us consider instead that hierarchies can be advantageous for an organisation and its stakeholders when subjective knowledge is not relevant or interests are aligned and both decision makers and stakeholders have similar preferences. In this case, firms benefit from lower costs derived from the concentration of strategic decision-making processes. Likewise, hierarchy can benefit excluded stakeholders if their relation with the organisation is simple enough to be delegated effectively to contractual agreements, particularly under conditions of low information asymmetry and low risk of opportunism on both sides, which allow for the establishment of almost complete contracts between organisations and stakeholders [Heath, 2011].

6.1.3. Knowledge, cooperation and inclusive structures

Socialisation of knowledge, as well as information sharing, define the nature of deeply cooperative interactions. Empirical evidence on teams, for example, indicates that cooperation can happen when fair relations are in place [Amabile, 1997; AUTHOR, 2013]. We consider knowledge socialisation as a feature of cooperative interactions, strengthened especially by inclusive governance structures, where access to decision making reinforces deep cooperation, leading to joint learning, improved competences, and knowledge co-production. Inclusive structures are particularly suited to enabling this process because they explicitly aim at extracting stakeholders' knowledge, as well as their interests [AUTHOR, 2015]. Moreover, the inclusive, dialogic process in which stakeholders engage through open communication not only promotes mutual learning and creativity [Dewey, 1954] but also contributes to motivating stakeholders [Amabile, 1997; Hirschman, 1982; McGregor, 1960].

6.2. Stakeholder involvement and empowerment

6.2.1. Involvement, contracts and markets

On the market, actors can be assumed to interact through arm's-length relationships. In this case, involvement, understood as a process of strategic co-determination, is weak or not present [AUTHOR, 2003]. Stakeholders are assumed to agree on a contract and can act independently of each other within the remit of the contractual specifications. They may exercise some degree of power in the negotiation phase, depending on the strength of the contractual position, before finalising the contract. However, once the contract is signed, the use of their voice is limited or not contemplated. As it is impossible to renegotiate the contract, defection is possible [Farrell and Maskin, 1989].

6.2.2. Involvement, authority and exclusive structures

With exclusive governance structures, coordination is expected to occur primarily by means of authority and command-and-control mechanisms,[2] while the power to define a firm's strategic direction is concentrated in the hands of a restricted group [Cowling and Sugden, 1998; AUTHOR, 2015]. By introducing stakeholder theory, Freeman, among others, has provided firms with a way to legitimise stakeholder engagement, even in the presence of exclusive structures [Freeman, 1994].

[2] Command-and-control mechanisms are defined as 'the direct regulation of an industry or activity by legislation that states what is permitted and what is illegal', without using economic incentives for compliance. This mechanism involves (i) the 'command', which is the presentation of quality standards/targets by a government authority that must be complied with and (ii) the 'control', through negative sanctions that may result from non-compliance [Baldwin, Cave and Lodge, 2012].

Stakeholder theory explains how communication and conflict resolution between diverse and contrasting interests may lead to higher value creation for a firm. The theory, however, focuses on modifications of organisational practices rather than substantive changes in the nature of corporate governance [Clarkson, 1998; Freeman, Harrison, Wicks, Parmar and De Colle, 2010; Freeman, 1994; Freeman, Martin and Parmar, 2007].

6.2.3. Involvement, cooperation and inclusive structures

With inclusive structures, the involvement of stakeholders is pivotal for achieving organisational aims. Actors are acknowledged as being fundamentally interdependent, especially regarding the complementary resources that they may input into the decision-making process. In this case, deep cooperation, including the dialogic process of learning and knowledge creation, engenders a reciprocal system of relations. The creation of value for multiple stakeholders is the rationale underpinning the inclusive governance structure rather than a means of pursuing exclusive interests [cf. Ali, 2015; Boström, Jönsson, Lockie, Mol and Oosterveer, 2015; Coff, 2010; Pittz and Adler, 2016; Ramaswamy, 2010].

6.2.4. Stakeholder empowerment

Given the features of contractual involvement and involvement within exclusive hierarchies, we can conclude that empowerment is marginal within market structures and exchange. Similarly, empowerment is not a foundational feature of exclusive governance structures, with some exceptions depending on how stakeholder involvement is practised. Within an inclusive governance structure, by contrast, each stakeholder is assumed to hold the power to co-determine the direction of the firm and share results, since inclusive governance assigns an active and strategic decision-making role to stakeholders.

The processes of informing, knowing, involving and empowering are coordinated by means of deep cooperation, which is expected to enable a more equal distribution of resources. While involvement and empowerment are fundamental features, informing and knowing can be considered as functional (or implicit) elements of empowerment.

7. CONCLUSION: CAN WE HYPOTHESISE THE EFFECTS OF GOVERNANCE?

This analysis indicates that each governance model is characterised by one prevailing coordination mechanism, while the other mechanisms remain marginal. This provides an important contribution to the governance literature, showing that it is possible to discriminate among different models while giving them simultaneous consideration. This approach is different from existing accounts where markets and hierarchies have polarised scholarly attention. The features of the governance model, in parallel, reflect the level of knowledge and information sharing and the level of stakeholder involvement and empowerment.

The general lesson is that exclusive governance is not effective when considered in the whole using a broad measure of its likely consequences on multiple stakeholders and society. This conclusion holds especially when needs are multiple and complex, while it can work when the production problem is primarily confined within one category of stakeholder, information asymmetries within the hierarchy are low and knowledge is homogenously accessible. Market contracting, likewise, is effective with respect to its capacity to generate benefits for stakeholders and society when asymmetries are low and the interests of stakeholders are effectively integrated in the contract. Last but not least, inclusive governance and its related procedural features are more likely to reduce governance failures when complexity and asymmetries among stakeholders are high.

In this way, hypotheses on the effectiveness of governance in reducing governance failures, or to produce public value,can be anticipated by observing the features of governance. This can then be tested by observing outputs, outcomes and impacts beyond financial results, a practice that social accounting has developed as the right of communities of interest to be informed has gained importance [Gray, 2001].

The norm is that organisations report first on their outputs, which are the goods or services produced [Bagnoli and Megali, 2011]. By contrast, outcomes require a diverse level of analysis examining the effects produced by an organisation. Outcomes are the actual effects produced on stakeholders (e.g. workers and consumers) and wider communities of interest (e.g. neighbourhoods). These are obtained through actions mediated by governance. Reinvestment in the community, innovation, client satisfaction, worker wellbeing, labour exploitation, social relations and polluting emissions can all be considered as outcomes. It would be misleading, however, to confine effects to those produced directly on stakeholders and communities of interest. This is why broader impacts on societal institutions and values, the natural and physical environment, and the quality of human relations and capital should also be considered [AUTHOR, 2015].

While well-defined and quantifiable features of outputs can be easily accounted for, outcomes and impacts can be more difficult to assess. The point of relating governance to its multiple effects is to form expectations based on the observation of governance features. Ours is, in a way, a deductive approach, which we see as complementary to the direct measurement of effects.

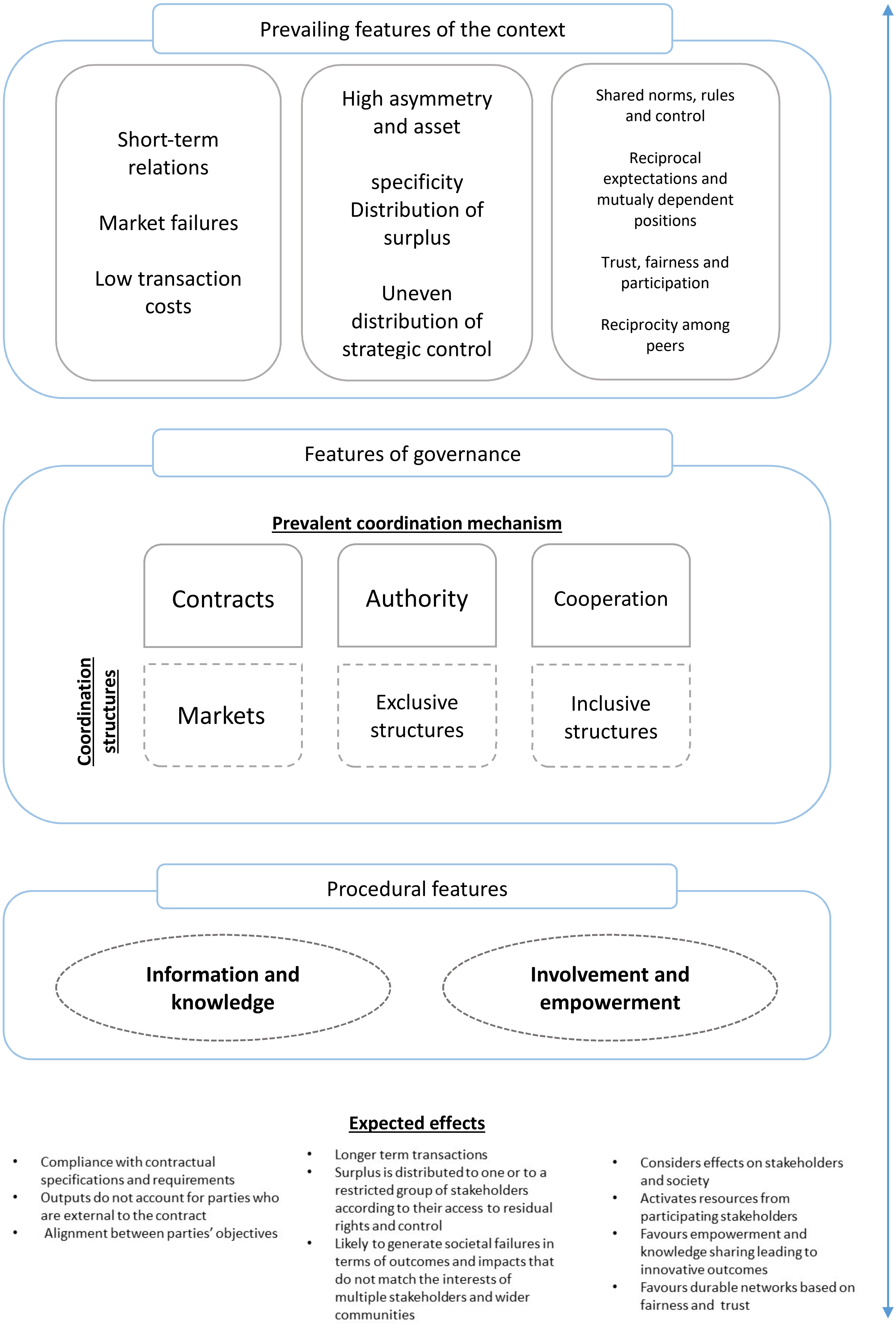
Given a production problem, the choice of governance affects the capacity of an organisation to use resources in pursuit of its overarching aims, while at the same time generating effects beyond these aims. When the prevailing mechanism of coordination is the contract, effects are assessed by verifying compliance with contractual specifications and requirements. Achieving private goals is the pivotal aim of the exchange as well as the measure of success. The number of actors involved in the same transaction is generally small and usually overlaps with the parties involved in the exchange. Typically, stakeholders, wider communities and broader societal effects are not included in negotiations or in the assessment of effects, which focus instead on the economic value exchanged and produced. Outcomes and impacts are generally treated as externalities. Moreover, when a transaction occurs at arm's length, even the effects on the two parties are only partially accounted for, since the future implications of the current arrangements may not be contemplated in the contract. If the issue is to reduce strategic failure, we conclude that contracts are an effective coordination solution when the effects can be circumscribed to outcomes specific to the parties involved in the transaction and when the contracts are complete.

Coordination by means of authority is used to provide a longer-term perspective under circumstances of asset specificity and high transaction costs in general. This may favour specific investments and outcomes (e.g. product or process innovation), which can be more difficult to achieve through exchange when transaction costs are high. When authority is applied within exclusive governance to favour the objectives of the controlling stakeholder, we can expect effects (voluntary or involuntary) upon a large number of stakeholders (e.g. shareholders in investor-owned firms) and on society more broadly [AUTHOR, 2015]. As suggested, this is likely to generate failures because of uneven access to decision making, leading to outcomes and impacts that do not match stakeholder interests or wider societal needs. However, corporate responsibility can generate intermediate governance solutions, with the implementation of some degree of involvement, while retaining exclusive access to decision making and authority. As an example, consider the philanthropic organisation of factories, as in the case of Olivetti [Molteni, 2006]. In such cases, outcomes and impacts are intentionally generated by the decision maker's ex-ante recognition of the needs of the weakest stakeholders (e.g. workers and their families), although stakeholders are not formally included in the governance bodies.

Finally, cooperation and inclusive governance are mostly effective when organisational aims affect a plurality of interests and when solutions require the contribution of multiple stakeholders. Access to governance serves the function of taking into account multiple effects, including outcomes and impacts [AUTHOR, 2015]. When focusing exclusively on outputs, inclusive firms may appear less efficient, assuming they have higher governance costs [Hansmann, 1996]. However, by extending the evaluation to outcomes and broader societal impacts, inclusive governance may be said to present a number of advantages. For instance, inclusive governance can activate resources from participating stakeholders and produce durable networks, as well as innovative outcomes, based on reciprocity and trust. [AUTHOR, 2015; Rezaee, 2016]. The solutions can be hypothesised as being close to the users' needs, especially when they reflect the users' interests in the definition of strategic aims by means of inclusion, empowerment, knowledge and information sharing.

Though this work brings together a variety of themes, thus offering a comprehensive approach to governance, it does not cover the applications of governance. Further research in this direction would contribute to the construction of empirical support for the relations identified between the driving forces of resource coordination, their supporting governance structures and their produced effects.

Figure 1: The governance framework overview



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[i] Financial Times, "Sustainable business should be long-term greedy" March 15th 2019 (https://www.ft.com/content/bd30c5ec-20a9-11e9-a46f-08f9738d6b2b)

[ii] The lean production literature, in particular, relates efficiency considerations to worker involvement, arguing for a relationship between production efficiency and the capacity of organisational processes to include and retain workers' learned experiences [Adler et al., 2009; Bonavia and Marin-Garcia, 2011]