

The relevance of the common goods approach to examine social enterprise

Insights from Ostrom to the SE field

M. Le Polain

M. Nyssens

A. Perilleux

CIRTES/UCL

If not for profit,
for what and how?

S O C I A L
E N T E R P R I S E

Outline

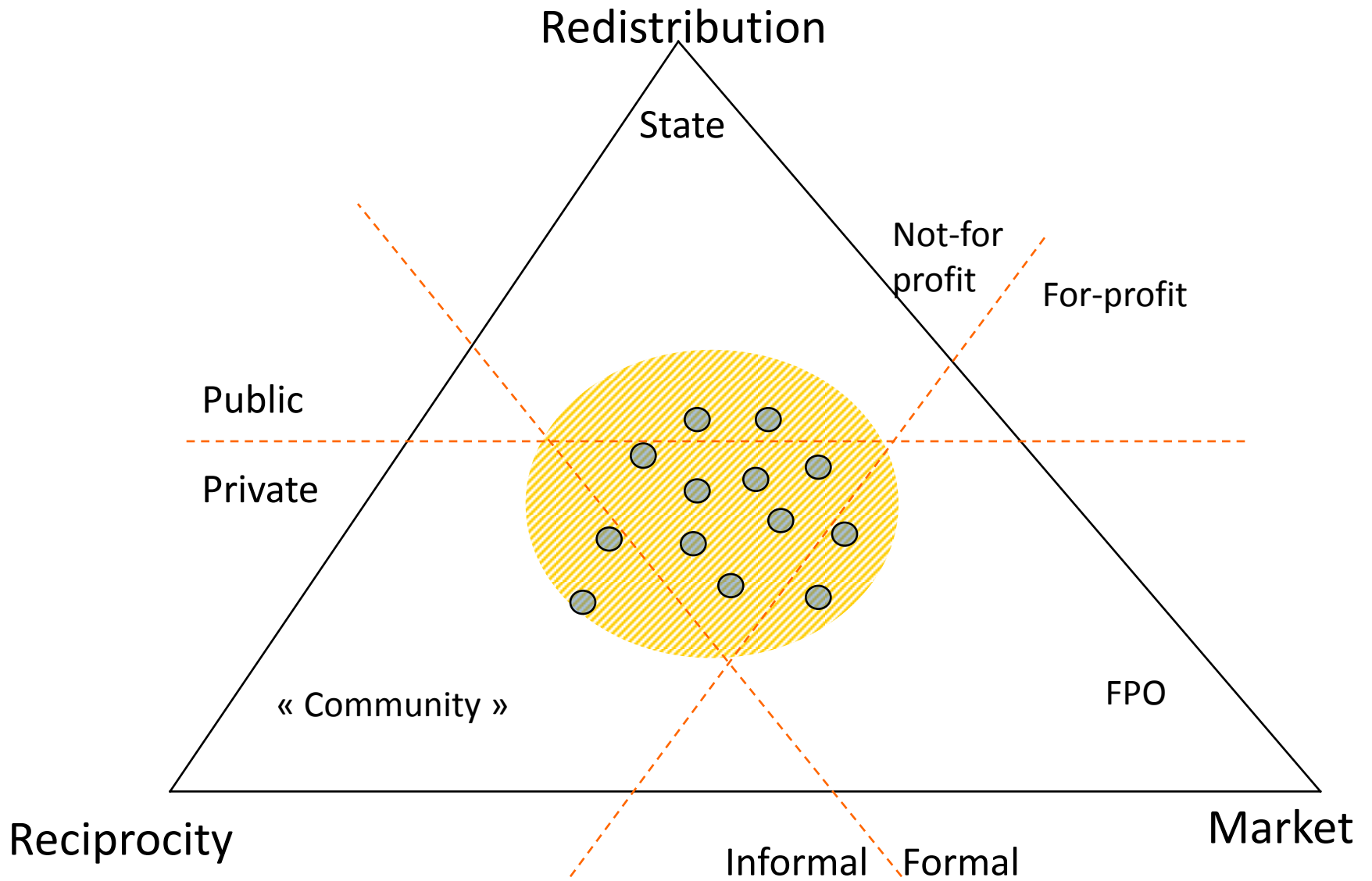
1. A common scientific quest: to understand "eco-diversity"
2. The nature of the collective benefit at stake: not the same
3. An Ostrom's insight for SE : co-produce rules in an environment of trust
4. From traditional commons to “new commons”
5. Example : Cooperative finance
6. Conclusions

Field of analysis: common goods and their governance structure

- Common pool resources
 - Non-exclusive in their access (“commons”)
 - Access to a rival resource
(fish in a lake, wood in a forest...)
- What are the conditions of sustainability of a governance structure implemented by the users ?

1. To inform and to understand "eco-diversity": a common quest

- Social economy, solidarity-based economy, non-profit, social enterprise ...
 - To recognize a "third sector"
 - To go over the "Market – State" dichotomy
- Frontiers are more blurred: key fact of the SE field



Source: Defourny, Nyssens, 2013

Neither the market, nor the State

"Some articles about the 'tragedy of the commons' recommend that 'the state' controls most natural resources to prevent their destruction; others recommend that privatizing these resources will resolve the problem. ...

Communities of individuals have relied on institutions resembling neither the state nor the market to govern some resource systems with reasonable degrees of success over long periods of time" (Ostrom 1990:1).

About blurred frontiers....

- *« les institutions sont rarement soit privées, soit publiques.... De nombreuses institutions ... sont riches de mélange d'institutions alliant caractère privés et publics qui remettent en cause toute classification en vertu d'une dichotomie stérile » (Ostrom, 2010: 28)*

Challenging the dominant conception of ownership

- Ownership (Hansman)
 - rights to residual control
 - rights to residual earnings (including sale's revenue)
- Two corollaries
 - Both rights must be combined (incentive)
 - Investors are the owners of the firm (Max profit)

- In NPO, strictly speaking, no one has the right to appropriate the residual earnings

“Non-profit organizations do not have owners”

- In coops and most SE forms
 - Cap on the remuneration of share
 - Asset Lock
 - One member/ one vote

=> "Property rights are not well defined leading to inefficiency" (NIE)

- "The world of property rights is far more complex than simply government, private and common property."
- Ownership: a bundle of rights

	Owner	Proprietor	Authorized Claimant	Authorized User	Authorized Entrant
Access	X	X	X	X	X
Withdrawal	X	X	X	X	
Management	X	X	X		
Exclusion	X	X			
Alienation	X				

Source: E. Ostrom and Schlager (1996: 133).

- a wide spectrum of configuration
- alienation is often not a right in sustainable governance structure

2. The nature of the collective benefit at stake: not the same...

- Ostrom : a group of homogeneous stakeholders (user of a common resource)
- to solve **social dilemma** which occur whenever individuals in interdependent situations face choices in which maximization of short term interests harm the sustainability of the resource in the long term

- Social enterprise
 - Quasi-collective goods which, beyond the satisfaction they give to their users, also generate effects for the collectivity as a whole
 - WISE : maintenance of local public parks
 - Workers
 - Inhabitants (users)
 - Local public bodies
 - Multiple stakeholders ownership in order to build a collective purpose

<p style="text-align: right;">Owner</p> <p>"beneficiary category"</p>	Invest.	Travail.	Usager	Fournis.	Volont.	Donat.	Citoyen	...	Pouv. Pub.
Investisseurs									
Travailleurs									
Usagers									
Fournisseurs									
Volontaires									
Donateurs privés									
Citoyens									
.....									
Pouvoirs publics									

Based on Gui (1991)

3. An Ostrom's insight: co-produce rules in an environment of trust

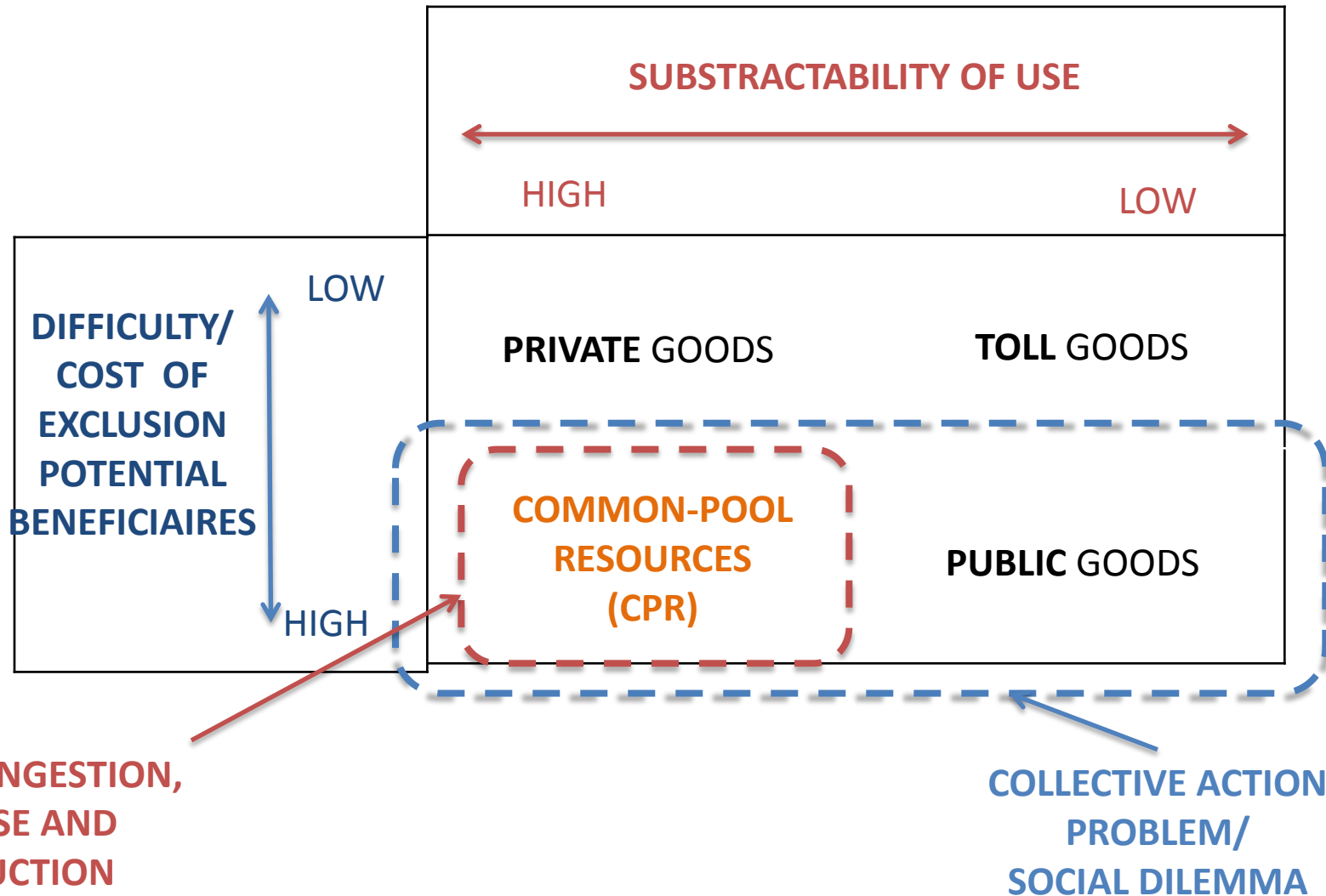
In order for an agreement to be effective (Ostrom, 1990), the following conditions must be met:

1. Access rights must be clearly defined;
2. The advantages must be proportionate to the costs incurred
3. Collective-choice arrangements must be set up;
4. Monitoring and auditing rules must exist;
5. Graduated and differentiated sanctions must be applied;
6. Conflict-resolution mechanisms must be put in place;
7. The state must recognize the organization;
8. The whole system must be organized at several levels.

- Co-producing rules by the actors themselves
- Building trust and social capital to produce shared norms and reciprocity to face incomplete information

=> The importance of a collective production of rules : the institutional dimension of SE

4. From traditional commons...



4. From traditional commons...

- **Common-pool resource (CPR) = resource system** that is sufficiently large as to make it costly (but not impossible) to exclude potential beneficiaries from obtaining benefits from its use” (*Ostrom, 1990: 30*).
- **Distinction** between the **resource system** and the flow of **resource units** produced by the system
 - **Resource systems** = stock variables that are capable, under favorable conditions, of producing a maximum quantity of a flow variable without harming the stock or the resource system itself.
 - **Resource units** = what individuals appropriate or use from resource system
- Resource system is subject to joint use/ joint appropriation but not the resource units:
 - *improvements to the system are simultaneously available to all appropriators.*
- Sustainability of resource systems :
 - As long as the average rate of **withdrawal** \leq average rate of **replenishment**, a CPR is **sustained over time**.

4. From traditional commons...

Examples:

<i>RESOURCE SYSTEMS</i>	<i>RESOURCE UNITS</i>
<ul style="list-style-type: none">• Fishing ground	<ul style="list-style-type: none">• Tons of fish harvested
<ul style="list-style-type: none">• Groundwater basins	<ul style="list-style-type: none">• Cubic meters of water withdrawn
<ul style="list-style-type: none">• Irrigation canals	<ul style="list-style-type: none">• Cubic meters of water withdrawn
<ul style="list-style-type: none">• Grazing areas	<ul style="list-style-type: none">• Tons of fodder consumed by animals

Source: Ostrom (1990:30)

Resource systems can be **natural** or **human-made**.

Social dilemma in:

- Natural CPR (e.g. fishing ground) : risk of **overuse/ overconsumption**,
- Human-made (e.g. irrigation canals) : risk of **underinvestment** in the resource systems

4. From traditional commons... to « new commons »

Now, the question is **how far the things that we have learnt about traditional commons apply to the “new commons” ?**

The Economist, July 2008

Can models of cooperative finance been recognized as common-property regimes of “new common”?

5. Example: Cooperative finance

Financial Cooperatives & ROSCAs: formal and informal cooperative finance

Financial Cooperatives & ROSCAs = Common property regimes

- Property rights originate among **resources users** (Schlager & Ostrom, 1992)
- Institutions for **collective action**: Self-organization and self-governance
- **No alienation rights** (collective proprietorship rather than collective ownership)

5. Example: Cooperative finance

Bundles of rights

	ROSCA/ASCA	Cooperatives	Commercial Banks
Access	✓ Membership	✓ Membership	✓ Clients
Withdrawal	✓ Use of Service by members	✓ Use of services by members	✓ Use of services by Clients
Management	✓ Self-governance	✓ Self-Governance (1 member = 1 vote)	✓ Shareholders
Exclusion	✓ Self-selection of members	It depends (CU: Common bond)	It depends (In practices no exclusion)
Alienation	X Members are not allowed to buy/sell membership rights	X Members' shares can not be sold	✓ Shareholders can sell their shares

5. Example: Cooperative finance

Common behind financial cooperatives (FCs):

- **Resource system**: Reserve = Communal wealth
- **Units**: Gain benefits flowing from it (Davis, 2001).

Why can reserves be recognized as a common?

- Members' shares have a **nominal value**: They do not include the total value of the FC $><$ Stock value (*theoretically*)
 - \Rightarrow Individual members do not own the total value of the FC
- The stock is inherited from past generations to be transferred to future ones: **intergenerational endowment** (Birchall, 2009)
- **No alienation rights**: Shares can not be sold \rightarrow Members are proprietors but not owners

5. Example: Cooperative finance

Social dilemma :

1) **Underinvestment in the common:** no reserve accumulation since benefits are collective and for future generations

- But asset locks accumulation is a widespread practice (Stolz et al., 2003; Birchall, 2009 ; Ayadi et al., 2010 ; Borzaga and Depedri, forthcoming)

Benefits of large reserves

- High stability => Increasingly valued by members (savers)
- Access to low cost funding (low IR on wholesale funding - e.g., Rabobank)
- Managers' incentive to have large reserves to support growth & Jobs security (Brown & Davis, 2009)

2) **Potential destruction of the common = Demutualization**

- Reserve stolen by present generation
- External pressures (Mollet, 2002)

Sustainability :

- Stable & Resilient to crises (Cihak and Hesse 2007, Groeneveld & Vries, 2009, Ayadi et al., 2010)

⇒ Positive impact on financial systemic risk

5. Example: Cooperative finance

- Informal savings and credit associations (ROSCAs and ASCAs)
- One dominant function: Savings protection mechanisms
(James, 1979; Platteau, 1996; Bouman; 1995; Baland and Anderson, 2002; Ambec & Treich, 2007)

Common behind informal savings and credit associations

- **Resource system** = The **economic system** composed of: natural stock variables + accumulated stock variables (= human-made).
- **Resource units** = **Flows** derived from it.
- **Sustainability of the Economic system**: as long as the average rate of **withdrawal** \leq average rate of **replenishment**, the resource system is **sustained over time**.
 - Risk of **overusing** the natural stock
 - Risk of **underinvesting** in the Accumulated stock

5. Example: Cooperative finance

- **Units** derived from the economic system: **flows = f (chance; effort)**
 - Success tends to be attributed to luck: Flows = f (chance)
 - Norms of wealth-sharing (Platteau, 2000)
 - Poverty trap** → Redistributive norms are at any time a deterrent to making superior effort → Underinvestment in Productive Stock.
 - Success tends to be attributed to the individual: Flows = f (effort)
 - Individual appropriation of wealth
- ROSCAs/ ASCAs to overcome social dilemma/ Underinvestment of effort...
 - 1) **Clearly defined boundaries**
 - 2) **Congruence between appropriation and provision rules and local conditions**
 - 3) **Collective-choice arrangements**
 - 4) **Monitoring**
 - 5) **Graduated sanctions**
 - 6) **Conflict-resolution mechanisms**
 - 7) **Minimal recognition of rights to organize**

6. Conclusions

Why to apply things learnt about traditional commons to the “new commons” ?

Ostrom’s contributions for **traditional commons** :

- **Visibility**: of the traditional commons >< Robert J. Smith (1981)
- **Sustainability**: of the common-property regime to governance of commons >< Traditional theories
⇒ Shows the Robustness of those institutions: their resilience to crisis
- **Policies**: to create favourable environment for those institutions

Using Ostrom’s theories to bring similar contributions for **new commons**...

- **Visibility** → Stress the existence of new commons
- **Sustainability** → Show the sustainability of institutions for self-governance of those commons
- **Policies** → Argue for public policies which recognize and support those institutions
⇒ In order to Create of a favourable environment