Cooperatives and Property Rights: Hansmann's Contribution

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ABSTRACT

Hansmann's theory explains the success of the traditional investor-owned firm in terms of transaction costs, asserting that the costs of ownership incurred by capitalist are lower with respect to the costs of contracting that other groups of patrons would have to incur for the acquisition of capital, through the instruments available to the market. The relatively low number of worker-owned firms, on the other hand, is mainly explained by the heterogeneity of the interests among the workers in a firm, which would lead to difficulties in taking collective decisions, thus sharply increasing the costs of ownership of this group of patrons. On the other hand, in traditional capitalist firms the interests of the investors would be homogeneous, being aimed simply at maximizing the current value of their capital contribution.

1. Toward a Theory of Property Rights

The neoclassical theory assumes that firms are perfectly efficient internally, but does not satisfactorily explain how this comes about. It does not discuss the problems of internal organization or incentives, and does not explain the factors determining the size of the firm. The principal-agent theory has managed to bridge one of these gaps, regarding incentives, by facing the problem of the correct remuneration of agents within the firm, first and foremost those with management responsibilities. This theory, however, only provides a partial contribution to understanding the organizational aspects, while leaving the problem of size unsolved. As we know, some functions of businesses can be undertaken internally, by extending their boundaries, or they can be outsourced by assigning them to third party suppliers. The theory examined here shows that a contract with optimal incentives can be stipulated between a firm and the manager in charge of one of its divisions or between the former and another completely independent company. In the former case there is a relationship pertaining to the internal organizational sphere, and in the latter a market relationship, but the theory being examined cannot justify the different choice (Hart 1995).

The main reason for this weak point lies in the fact that the principal-agent theory does not regard the incomplete nature of the contracts, i.e. the impossibility of stipulating contracts than can govern every eventuality, and the consequent need to undertake revisions and renegotiation. Due to the transaction costs, which tend to rise infinitely according to the degree of completeness of the contracts, it is impossible to stipulate optimal contracts. This realization, originally due to Coase (1937) and then more extensively developed by Williamson (1975, 1985), as well as Klein, Crawford and Alchian (1978), underlies the transaction costs theory.

Market relationships are therefore costly because it is impossible to reach exhaustive agreements, and the subsequent renegotiation required to complete the agreements represents an additional source of costs. However, the main cost item is a more subtle element, typical of market relationships. The contract parties, in fact, wish to maintain considerable room for manoeuvre with respect to their counterpart, in order to avoid being subjected to more constraints than necessary, and in particular, to be able to withdraw from the relationship, when they wish, while incurring the lowest cost possible. This is feasible only if the parties have not made specific investments with respect to the relationship, because otherwise there would be the risk of a hold-up in the relationship, with a consequent loss equivalent to the al value of the investments made. We can suppose, for example, that one of the parties, in order to supply goods or services, has had to incur expenses for the purchase of special machinery, utilizable only for the production requested, or required to spend for specific training of personnel. In such a case, the costs incurred can only be recovered within the existing relationship, and becomes a loss if this relationship, due to a decision by the counterpart, is terminated or not renewed before the complete depreciation of the costs incurred. The firms are then in-

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centivized to prefer generic investments which allow, in case of necessity, for changing the counterpart[2]. However, this produces lower efficiency, i.e. the lower productivity of generic investments with respect to specific ones. This is an important source of transaction costs and is used to explain the reason for the acquisition of ownership of a firm. If, for example, the supplier of a semi-finished product is incorporated into the company, becoming one of its divisions, the investments may certainly be specific (with respect to the relationship), because there is no longer any fear of incurring losses due to non-recoverable costs, allowing greater efficiency and thus a reduction of costs. However, while on the one hand the theory of transaction costs is an important step forward in explaining the size of the firm and its internal organization, on the other hand it fails to respond to questions on the limits of the integration between enterprises and the reasons for the different behaviour of persons when they are inserted in a firm (Why is there no single giant corporation deriving from the merger of all existing ones, if this reduces the costs? Why is the behaviour of individuals less opportunistic in enterprises? In other words, why don't the heads of single divisions, in certain circumstances, threaten to block negotiations, as they would probably do if they were the heads of an independent enterprise?).

The theory of the property rights attempts to provide an answer to these questions (Hart 1995). As we mentioned, the contracts are necessarily incomplete and do not succeed in covering all the future eventualities regarding a given scope. If the latter is assets-related, in all the circumstances that cannot be governed by contract, the party with rights of ownership on the matter will decide unilaterally and without constraints. In other words, the ownership of an asset endows the residual right of control over it, i.e. the possibility choosing what to do in all the situations not stated in the contract. If an firm is owned by another company, it is no longer possible to block the negotiations which, as we have seen, is possible in certain circumstances. This means that they no longer need to make generic investments to defend themselves from any opportunistic behaviour by the counterpart. The ownership of one firm by another, in fact, endows the former with the power of utilizing all the occasions not governed by contract. A subsidiary company, for example, cannot refuse to revise an existing contract, because an eventual refusal could involve the removal of the directors. On the other hand, in the case of the relationship between independent firms, one of the two can oppose the revision, proposed by the counterpart, of a current contract, if it believes that the proposal is not very advantageous. A negative response, or hold-up, represents damage to the proposing company if the latter, due to the effect of specific investments made for the relationship in the past, it is required to stay in the business relationship with the counterpart. The damage will be equivalent to the quota of profits that the proposing party must transfer to the reluctant counterpart, in order to convince the other party to accept the renegotiation of the contract. The proposing enterprise will obviously not incur any damage if it is the owner of the counterpart; in this case, in fact, the specific investments of the relationship can be enhanced to the utmost by the parent company.

A similar result is obtained when we consider the relationship between a firm and one of its stakeholders. If the latter is, for example, in the category of funding entities, it will avoid providing funds for financing specific investments on the basis of a mere loan contract. If this is not the case, it would be trapped in the relationship (a lock-in situation), because it would find itself financing assets the value of which would not be recoverable in case of insolvency. Consequently efficiency requires the funding of the specific assets to determine the allocation of the ownership of the firm (Hart & Moore 1990). In other words, the ownership of the firm is attributed to the parties controlling the specific capital, i.e. that part of the capital which it is hard to finance by recurring to borrowing. This need is explained by the fact that normally, a reasonably large amount of the investments made by an enterprise maintains its value only if it is kept in the enterprise. If, for example, the company were liquidated and its assets sold separately, the ones usable elsewhere could allow the recovery of a substantial part of their value, but the ones usable only within the original firm would basically lose all their value. It is hard for the latter specific-firm assets to attract funding from third parties due to obvious problems of guarantees in case of the insolvency of the enterprise. Consequently, the financing can only be provided for the parties that take on the ownership of the firm.

Hansmann, however, says that the presence of specific-firm capital does not explain the origin of the ownership but is a consequence of it[3]. The specific investments are funded by those who are already the owners of

[2] For example, purchasing machinery that is less specialized compared to that required to supply products to a given customer, so that this machinery can also be used to supply products to other customers.
[3] Hansmann (1996), pp. 299-300, note 8, and pp. 302-303, note 5. See laso Hansmann (1988).

the enterprise, and this is the cause and not a consequence of the presence of specific investments. The origin of the ownership must therefore be explained in another way.

2. Hansmann's Model of Analysis

Ownership consists in the sum of the power of control and of the appropriation of the surplus. The two powers are always joint because the possibility of appropriation of the surplus, by nature variable and depending on performance trends, is the incentive for the control activity to be undertaken as effectively as possible. Moreover, ownership is not a consequence of possession of the capital. To cite an example preferred by Hansmann, a cheese cooperative could lease machinery, but also in this case the milk suppliers would still have the control (be the owners) of the business.

The path followed by Hansmann in his research ranges from cooperatives to profit-based firms. The methodology followed enables him to assert that a limited company is a special type of production cooperative (which in his particular language corresponds to a cooperative of suppliers), in which the members are suppliers of capital, just as in the cheese-making cooperative the members are the suppliers of the milk. Hansmann recognizes two differences: 1) in a limited company, the contribution, except for extraordinary cases, is permanent (cannot be withdrawn) and is not recurring; 2) voting takes on the basis of the number of shares (quotas) owned and not by head count. But these elements are not deemed to be relevant. Consequently, a limited company could be set up in the form of a cooperative in which the members provide capital to the company in exchange for zero fixed interest, but with the possibility of collecting the eventual surplus recorded. As can take place in suppliers' cooperatives, voting is not by head count but by quota. If all this does not take place in practice, it is because this particular form of cooperative is very widespread, and specific rules have been established for it. The cooperative can thus be considered as the form of original firm from which the others derive.

Patrons are "*all persons who transact with a firm either as purchasers of the firm's products or as seller to the firm of supplies, labor, or other factors of production*" (Hansmann 1996, p. 12). The pure entrepreneur as defined by Knight, external with respect to the owners of the production factors, is not considered to be a patron by Hansmann. Normally, the ownership of the firm pertains to a specific category of patron (underwriters of the capital, suppliers of labour, suppliers of goods, customers). The notion of patron does not coincide with that of stakeholder, a term used more frequently, because it excludes the figure of the pure entrepreneur.

The firm is nexus of contracts; in other words, "*a firm is in essence the common signatory of a group of contracts*" (Hansmann 1996, p. 18) which have as their counterparts the various classes of patrons, and a limited company is just an instrumental legal entity having the purpose of signing and managing those contracts. In a sole proprietorship, this superstructure is not necessary, since the owner undertakes these tasks. The room for discretionary decisions left by the contracts stipulated by the firm is one of the prerogatives left to the parties controlling the firm; the essence of control, in fact, lies in the use of this discretionary power deriving from the incompleteness of the contract, i.e. from the fact that due to high transaction costs, it is not possible to regulate all future eventualities in contracts (Grossman & Hart 1986).

There are two types of relationship of the firm with its patrons: ownership, limited to the group of patrons who have control, and contractual with all the others. Control (ownership) of the firm is normally attributed to one of the classes of patrons, because this allows for the reduction of transaction costs. If ownership were assigned to a non-patron, such as a third party pure entrepreneur, the enterprise would have to undertake contract relationships with all the patrons. If ownership is attributed to just one of them, on the other hand, transaction costs between the category of owner-patrons and the firm can be eliminated.

The importance of the transaction costs is highlighted by the fact that the markets are not competitive. In case of monopolistic behaviour or information asymmetry, one of the parties can impose heavy charges on the counterpart, and these charges are an important component of transaction costs. However, it should be recalled that ownership also produces costs, and consequently it is not sufficient to attribute it to a group of patrons with whom it is expensive for the firm to have contract relationships. If there are very high costs of ownership, the advantage for the firm, deriving from having avoided contracting costs will be annulled. It is thus necessary to minimize the sum of the contracting and ownership costs. More specifically, it is necessary

to minimize the sum of the costs of ownership originating from the group of patrons controlling the firm and the costs of contracting with groups of patrons that are not owners.

In other words, and with greater precision, Hansmann says that it is efficient for the ownership to be assigned to the group of patrons *j* which minimizes the following sum:

$$S = O_j + \sum_{i \neq j} C_{ij}$$

in which S is the sum of transaction costs, O_j are the costs of ownership for the group of patrons j and C_{ij} are the market contracting costs incurred by group i when group j is the owner of the firm.

3. Costs of contracting

The costs of contracting between the firm and patrons can derive from the market power acquired by the firm. For example, the monopolistic attitude of an enterprise causes an increase in the prices applied by it and reduced availability of goods produced, with damage on the private and social level. This type of situation can induce client to set up a consumer cooperative. On the other hand, monopsonistic behaviour can be an incentive to setting up supplier cooperatives. In this case we refer to *ex ante* market power.

As extensively shown by Williamson (1985), the position of power can also arise after a contract relationship has been established, due to the very nature of the relationship (*ex post* market power). For example, if a category of patrons must make large investments to enter into a relationship with the firm and these investments are usable only for that contract relationship, as we have seen, the conditions for subsequent exploitation of the patrons by the firm (*lock-in*) will arise. The latter will, in fact, be in an advantageous situation, because their contract counterparts will be constrained by the relationship; within certain limits, they cannot withdraw from it in case of disagreements on contract interpretation or for events not covered by the contact, without incurring the loss of the specific investments made previously. The typical situation is the one in which (small) suppliers for (large) industrial enterprises, are sometimes forced to change their production structure significantly in order to acquire new orders. Another typical situation is that of workers, who can be asked to undertake highly specialized training, in the extreme case usable in a single firm, in order to have access to certain job or, more often, to keep the job they have already acquired. As already mentioned, literature has highlighted that in these cases, when the parties are firms, an incentive is created to integrate them through mergers or incorporation. In other cases, when one of the parties consists of an entire category of patrons, it will probably acquire the ownership of the counterpart firm, because the production factor that must be supplied would have such a high price, due to the risk of loss of independence, that would be unsustainable for the firm. It should therefore be clear that when the lock-in threat regards the investors (suppliers of the capital) there is a natural incentive to the formation of the traditional (capitalistic) firm, while when this threat massively affects the workers, suppliers or customers, the result will be the birth of cooperatives respectively for labour, suppliers (for example agricultural) and consumers.

In order to overcome the problems connected with threatened closure of a relationship, when one of the parties has incurred heavy expenditure for investments, it might be useful to adopt long term contracts. However, even if the latter sometimes overcome part of the problems described, they are likewise a third source of contracting cost, because they introduce rigidity-related risks regarding changes in market conditions. A long term contract cannot, in fact, provide for future changes, for example, in prices, interest rates or exchange rates, and can therefore lead to unfair transfers of resources between the parties. The mechanisms tending to avoid or hedge these risks, even when effective, are in turn a source of costs.

Another cause of costs in contract relationships is the information asymmetry between the parties, i.e. the greater amount of information available to one contract party with respect to the others on the characteristics of the item exchanged, resulting in a situation of advantage. The party with less information cannot be certain about the complete fulfilment of the contract by the counterpart, and this influences that party's willingness to negotiate. If the selling firm has the information advantage, it might not be able to trade if the risk is deemed very high by the buyers; or it might be able only to trade the worse products if the buyers, doubting the quality of the goods, are only willing to offer a price that does not compensate the cost of higher quality products. In this type of situation, the firm might be taken over by the clients, in order to

bring trade back to an efficient level. Finally, there may be situations in which the firm has less information than its patrons; this occurs in the evaluation of the effort made by the employees during their work, when this involves complex or team work. It might also occur with insured parties who avoid the occurrence of an accident or reduce its harmful effects. The potential unfair behaviour of the patrons (moral hazard) is a source of costs and may, in turn, lead to the acquisition of the ownership of the firms, in order to reduce this inefficiency. In this case, however, unlike the previous one, this measure will not necessarily lead to the elimination of opportunistic behaviour. If the category of patrons is very large, thus making mutual monitoring difficult, unfair behaviour can be continued to the detriment of other members of the group, i.e., recalling the examples given, of the other employees or ensured parties.

Contracting also becomes expensive due to the strategic behaviour of the parties, made possible by the information asymmetry. In the initial stages for the stipulation of a contract of any type, the parties tend to keep their respective conditions secret beyond which they are unwilling to negotiate, in the attempt to obtain better conditions. All of this involves long, complex negotiations causing losses of efficiency and heavier costs. A typical example can be seen in the loss of production due to trade union protests, often associated with collective labour contract renewal.

4. The Costs of Ownership

We said in section 2 that the ownership of a firm consists in the power of control over it and in the right to the appropriation of the surplus after all the obligations to third parties have been fulfilled. The power of control is connected with two categories of costs: control over management and the undertaking of collective decisions. A third category of costs is associated with the right to the residual income, deriving from the risk associated with the firm.

The costs connected with the control over management are agency costs, and regard firms with widespread shareholding in which the shareholders entrust the management to directors and professional managers, but an equally typical case regards a consumer cooperative where the customer-members entrust the management of the firm to experts. Within this category, Hansmann distinguishes between monitoring costs and costs deriving from the opportunism of the managers. The former consist in the acquisition of information on the firm not coming from the managers to be monitored. This feature makes such information relatively expenses. The amount of the costs derives from the frequency of contacts between the patron-owners and the firm. In the case of a public company, it is very expensive for a single shareholder to gain control because the relationship between shareholders and the firm is substantially sporadic, basically limited to the entitlement to participate and vote in the shareholders' meetings. In the case of worker or supplier cooperatives, on the other hand, control can prove much more effective according to the effort made, and consequently less expensive, because the presence of the workers or suppliers in the firm will be much more intensive.

The costs regarding opportunistic behaviour by managers occur when the latter are not in line with the purposes pursued by the owners. However, a distinction must be made between the actions tending to make the managers wealthy to the detriment of the firm, and thus of the owners, and the actions which, while diverging from the instructions of the owners and creating advantages for management, do not cause damage to the firm. The costs derive mainly from the former type, which are, however, harder to implement, because even without monitoring by ownership, they require violations of the law that come under the supervision of bodies outside the firm. The other actions, extensively described by managerial theories of the firm (Marris 1964), are much easier to implement, because they often fall within the discretionary powers of management. However, there is doubt whether this could cause a worsening of the conditions of the firm, usually consisting of postponement in the distribution of dividends, in order to raise funds internally for expanding the company size.

The costs regarding the taking of collective decisions are those stemming from the lack of homogeneity in the interests of the owners. They differ from the agency costs mentioned previously because their presence is independent from the separation of the control from the ownership. The cost is due to the fact that any decision taken by the voting mechanism causes the formation of a majority in which the vote of the median shareholder is decisive, and the latter's preferences are different from those of the mean shareholder, who should prevail. In this type of situation the result is thus an inefficient, though perfectly legitimate decision.

Another source of costs regarding collective decisions is the nature of the procedures. These are the costs for participation in the shareholders' meetings and first of all for the acquisition of information to ensure that the parties can significantly exercise their rights. We should also consider the charges deriving from frequent changes in majorities, which occur when the interests are diverging and there is no stable prevalence of one party over another. The resulting changes in business policies may lead to very high corporate transaction costs.

Risk associated with the firm, another cause of costs for ownership, has more immediate effects on the residual earnings to be assigned to the party with the right of ownership. In case of a negative performance result, this amount could be nil or even negative, leading to the loss of resources utilized in the firm. This risk can easily be covered by some types of patrons while others are significantly penalized. For example, this risk can be mitigated through diversification by the capital investors and the members of a consumer cooperative. On the other hand, diversification is very hard for the members of a workers' cooperative. According to Hansmann, the importance of this source of costs is however overestimated, because in practice it would be of secondary importance in choosing the ownership structures (Hansmann 1996, p. 45). He also believes that the issues covered by the economic theory of cooperatives after the works by Ward (1958) and Vanek (1970) have no relevance in penalizing the dissemination of firms owned by the workers.

For our author, what affects the choice of the forms of ownership is the trade-off between the costs of contracting and the costs of ownership. More specifically, the minimization of the sum total is relevant. Normally, the class of patrons for which the contracting costs are higher and the ownership costs are lower will be the owners. A typical example is that of small family-owned farms, producing cereals, and forming the backbone of the American economy. In them, the capital is not specific, and can thus be invested by third parties through the loan channel. The products are standardized and thus easy to sell on lower price markets. The costs of contracting for hiring personnel, potentially high, are avoided by using the labour of family members, while monitoring and decision making costs are low or absent. The only significant cost of ownership is the one related to the risk associated with the firm, which in any case can be partly transferred to the State, through agricultural subsidy policies, and partly to insurance companies by the stipulation of specific policies.

For large companies, the situation is usually more complex, because while the contracting costs are high for a given class of patrons, the same occurs for ownership costs. In these cases, it is found that the patrons who have acquired the ownership in any case operate efficiently. Probably, the high costs of ownership, i.e. being unable to effectively control the managers, are not fundamental, since it is sufficient for these managers to avoid serving the interests of another class of patrons.

When for a given class of patrons the costs of contracting and ownership are both exceptionally high, the ownership is not assigned, and as we shall soon see, leads to the creation of a non-profit firm.

5. The Main Ownership Structures

It now remains to be seen what the justifications are for some of the types of ownership considered by Hansmann. In this regard, examining the author's thoughts, we will analyze the role of the individual costs of contracting and ownership described previously, and summarized in Table 1. First of all, we have to identify the amount of the cost for contracting between the group of patrons considered from time to time and the firm, if there is a contract relationship between the parties. Afterwards, we have to analyze the size of ownership costs when the group is the owner of the firm. Since ownership, as we have said, is efficiently assigned to the group of patrons for which the sum of (their own) costs of ownership and costs of contracting is lower compared to the other patrons (not forming part of the ownership), a good candidate for ownership will be the group of patrons having high costs of contracting (when it is not the owner) and lower costs of ownership (when it is the owner).

Table 1. *Classification and origin of the main transaction costs considered by Hansmann*

Costs of contracting originating from:	- *ex ante* market power
	- *ex post* market power
	- long term contracts
	- information asymmetry
	- strategic bargaining
Costs of ownership originating from:	- monitoring the management
	- opportunistic activities of managers
	- inefficient collective decisions
	- complex decision making procedures
	- risk associated with the firm

5.1. *Firms Owned by Capital Investors*

With regard to the costs of contracting, the firm cannot have any *ex ante* market power because, however large it may be, it will not be able to influence the financial market. What is important, however, is the power that the firm can exercise in the phase after the issue of the credit. If the goods financed are specific, the creditor party will not be able to recover its credit through the enforced sale of the product, and will find itself in a typical lock-in situation. If the funding is short term, it must be continuously renegotiated, thus producing further costs. On the other hand, if the funding is long term, there will be costs for hedging market risks connected with long term risks (involving changes in prices or other market parameters). There are also considerable costs deriving from information asymmetry: the debtor firm is the only party with correct information on its own economic and financial situation. Third party lenders will never be able to find out if the business policy implemented by the patron owners is effectively safeguarding lenders interests. The company could, for example, distribute excess profits or utilize the funds received in overly risky investments. Finally, costs due to strategic bargaining are also high in all those cases when loans must be renegotiated. To conclude, the raising of funds through the borrowing channel involves considerable costs of contracting.

We shall now go on to examine the costs connected with ownership. We should thus assess their size when the group of patrons owning the firm are the owners of the capital, as in the case of investor-owned firms. The difficulty of monitoring the activity of the managers makes such monitoring costs high. This difficulty is due to the dispersion of the share capital, especially widespread in the United States. An important role in the containment of these costs is in any case played indirectly by market sanction mechanisms, represented by hostile buyouts, which can punish the directors and managers not deemed to be suitable. In this respect, government or independent supervisory authorities, and entities for the dissemination of information, can play an important role. With regard to the costs connected with the collective decision-making process, we can say that these are relatively low thanks to the substantial singleness of intent by the owners of the firm, which is to maximize the current value of the profits. Finally, the costs deriving from the risk of the firm are low, because the perfect divisibility of the financial capital allows for optimal risk diversification.

The costs of ownership in firms which are owned by the capital investors are, on the whole, relatively low, while as we have seen, contracting costs for the acquisition of capital, incurred by eventual alternative patrons offering to take on the ownership of the firm, are high. According to Hansmann this is the reason for the universal dissemination of business corporations.

5.2. *Employee-Owned Firms*

Similarly to what has been done for capitalistic firms, we should now determine the size of the costs of contracting for hiring employees by a class of owner-patrons other than the one considered. There would be no costs deriving from *ex ante* market power, because no firm can have such a high monopsonistic power. On the other hand there may be power problems after the employment relationship has been set up if the employees, as often happens, are forced to acquire highly specialized skills usable only the firm where they are employed. This is another typical case of lock-in which over time increases the "dependency" of the worker on the firm. This phenomenon, however, occurs more often in processing sectors where a capitalist owner structure is prevalent, while it is less important in the services and the professions where, at least in the United States, there is a significant number of employee-owned firms. It consequently has a limited explanatory value.

According to Hansmann, a similar analysis can be applied to the other sources of contracting costs such as information asymmetry and strategic behaviour. According to Alchian and Demsetz (1972), we find worker-owned firms where monitoring of workers is extremely difficult, as happens in American law firms. On the contrary, Hansmann maintains that monitoring the activities of professionals, such as lawyers, is easy for they have to provide detailed reports of their activity. Consequently, the possibility of whether or not monitoring the workers does not seem to be a major reason for the efficient distribution of business ownership[4]. Similarly, the greater circulation of information would make strategic bargaining useless.

According to Hansmann, the costs of contracting would thus fail to account for the existence of worker-owned firms, so he assigns greater explanatory significance to the cost-differentials connected with ownership and in particular to the collective decision-making processes (Hansmann 1996, 2013). For example, it is easier to monitor the managers because the workers are constantly present in the firms. However, since worker-owned firms are small and medium-size, a valid and cheap form of monitoring the managers would be possible even if the firm were owned by capital investors. The business risk-bearing function should be one of the causes strongly penalizing worker ownership because, as we have said, they cannot implement diversification policies. Hansmann, on the other hand, says that the importance of this cause should be reduced on the basis of empirical evidence (above all in the United States) and of considerations on the proper functioning of the financial market, though without providing specific analysis results in this regard. Finally, he focuses on the formation of collective decisions, which would be the key factor to explain the existence of worker ownership of firms.

Generally speaking there are greater divergences of interest and opinions between the workers in a firm than among the shareholders. This is due to the division of labour, and thus to the different functions undertaken and positions occupied in the firm. An eventual different contribution of capital also plays a major role. According to Hansmann, the evidence shows that in successful worker-owned enterprises, there is usually a set of members who undertake similar activities and who have positions with equivalent relevance. Cooperatives are not found in sectors having a sharp differentiation of role and positions in the firms, and when the decisions can have a differing impact on the various categories of workers. The homogeneity of the general characteristics of the workers and their interest thus seems to be a key factor for the existence of a cooperative.

5.3. *Nonprofit and Quasi Nonprofit Organizations*

Hansmann asserts that "*nonprofit firms are the only form of private enterprise that is not, in effect, a species of cooperative. Nonprofit firms are not owned by their patrons; indeed, they are not owned by anyone at all*" (Hansmann 2013, p. 2). Unlike investor-owned or worker-owned firms that protect respective patron "*nonprofit firms typically serve to protect consumers in situations where the consumers have great difficulty in judging the quality or quantity of the goods or services that the firm produces for them*" (Hansmann 2013, p. 2).

A non-profit organization is set up when the costs of ownership and contracting are exceptionally high for any class of patrons. In this type of organization the driving force lies in the group of donors utilizing the structure to provide its beneficiaries with special goods and services. By its very nature, this type involves high costs of contracting due first of all to information asymmetry. The donors are not unable to check whether the amount and quality of services rendered to the beneficiaries correspond to their contributions, because this information is known only to the managers of the organization. One solution would be to assign the ownership of the organization to the donors, but this would not be practicable since the large number, changing composition and dispersion of these persons would make any attempt at monitoring very expensive, thus leading to high costs of ownership. In these cases, according to Hansmann, the most efficient solution would be not to assign ownership, and to set up non-profit organizations.

Hansmann reckons that worker-owned firms of some European country are quasi-nonprofit organizations "*in Italy (as in France), the statutes governing worker cooperatives impose on them a quasi non-profit*

[4] In this respect, Hansmann's thesis seems somewhat questionable. It is probable that in the professions monitoring *seems* easier because the individual professional have an interest in providing extremely detailed reports of their activity for purposes of assignment of the operating surplus. The monitoring, or better the documentation of their activity is thus performed by the professionals themselves, is a consequence of the ownership structure and not its cause. In other words, in a capitalistic milieu, salaried professionals would have less interest in documenting their activities, and the employer would have the task (probably very arduous) to provide monitoring procedures. Consequently, Alchian and Demsetz's old theory does not seem to be obsolete.

structure" (Hansmann 1996, p. 104). Worker-cooperatives of most European countries, in fact, and in particular the Italian ones, have the form of "quasi-nonprofit" firms, in which the sovereignty of the members is limited by severe constraints regarding the distribution of profits, so that their remuneration tends in practice to be equivalent to that of the corresponding workers in the capitalistic sector. In the case of the Spanish cooperative complex of Mondragòn (Basque Country), probably the most important one in the world in the industrial sector, the limitation of member sovereignty is more complex and regards to a lesser extent, with respect to the Italian and French experience, the distribution of the profits, but also extends to the stage of strategic choices regarding the corporate activity, that is agreed with the investing party (Roelants 2000a, 2000b; Cuomo 2003). It is also important that the cooperatives in which the rights of ownership of the members do not have constraints, tend to be converted into business corporations (as Vanek has also theorized and as shown by what happened to North American plywood cooperatives in the last century (Hansmann 1996, p. 80). The thesis of the transitional character of the worker-cooperative is shared, for different reasons, by Hansmann (2013, pp. 6-7), who proposes additional causes of transformation from worker-owned to investor-owned firms (better governmental regulation, more efficient markets for firm inputs and outputs).

6. Concluding Remarks

Hansmann's theory explains the success of the traditional (capitalistic) firm in terms of transaction costs, asserting that the costs of ownership incurred by capitalist are lower with respect to the costs of contracting that other groups of patrons would have to incur for the acquisition of capital, through the instruments available to the market. The relatively low number of worker-owned firms, on the other hand, is mainly explained by the heterogeneity of the interests among the workers in a firm, which would lead to difficulties in taking collective decisions, thus sharply increasing the costs of ownership of this group of patrons. On the other hand, in traditional capitalist firms the interests of the investors would be homogeneous, being aimed simply at maximizing the current value of their capital contribution.

This is a very summary description of the most significant part of Hansmann's innovative proposals[5]. With regard to workers' cooperatives, he believes that the main obstacles to their functioning as indicated in literature, such as the impossibility of diversifying the risk associated with the firm and difficulties in funding, actually exist but are not very significant; and he also believes that the other obstacle discussed in literature on self-management over the years, the perverse supply curve, is irrelevant (Hansmann 1996, pp. 84-85). In this regard, while it is true for the latter that empirical research has never confirmed its existence, though forecasted on the basis of the Ward-Vanek model, probably not suited to the institutional framework of the western countries, it would seem that in connection with the relevance of the problems of diversification of risk and funding, Hansmann is excessively influenced by the American experience, which shows very special features, being limited to specific sectors, some of which, such as the legal, accountancy and financial professions, are quite atypical.

Hansmann's analysis, since it actually rejects the results of the Ward-Vanek model on the different objective function of cooperatives with respect to traditional firms, is unaffected by criticism made against the latter model. In his analysis, it thus seems implicit that the firms managed by the workers pursue the same aims as capitalistic firm in maximizing total profit, and consequently there are no structural differences, save for the organizational form and the different governance procedures. This, for example, was the idea proposed by Maffeo Pantaleoni (1898), and set aside after Ward's 1958 article started up an independent area of literature on labour-managed firms. As we know, the Ward-Vanek theory highlights the role played by average income of the partners and radically changes the previous theory, but has the collateral effect of raising a number of doubts on the actual possibility of survival of this type of firm. It has also fostered a wide debate on the differences between cooperatives with respect to the dominant capitalistic firm. It has also raised a number of questions on the adequacy of the model in representing cooperative firms,[6] creating the premises for the development of new theories able to describe and summarize their functioning[7].

[5] For substantially similar conclusions, see Jossa (2005).
[6] As we have seen, empirical studies have not given convincing confirmation of Ward and Vanek's theory.
[7] See for example Meade (1989), Cuomo (2010).

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