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Governance in the Social Economy

An Introduction

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Preface

The term governance is on everyone's lips. If you enter the term in Amazon, you will get more than 100,000 results[1]. But what does this term mean? Benz et al. understand governance to be new forms of coordination between actors whose actions are interdependent, that is, they can support or impair each other (Benz et al., 2007, 9). So governance is about regulating something together. The term is derived from the Latin *gubernare* (steer the rudder, guide, lead) or the French *gouverner* (manage, lead, educate). In English, *governance* is understood to mean "the action or manner of governing" (Oxford Dictionary).

Governance is "the totality of the many ways in which individuals as well as public and private institutions regulate their common affairs. It is a continuous process through which controversial or different interests are reconciled and cooperative action can be initiated. The term includes both formal institutions and authority systems with enforcement power as well as informal rules that are agreed upon or considered to be in their own interest by people and institutions […]." Definition of the UN Commission on Global Governance, quoted after Stiftung Entwicklung und Frieden 1995: 4 et seq. http://www.bpb.de/veranstaltungen/netzwerke/teamglobal/67464/definition

The discussion about governance is gaining importance as known control and regulation forms, from which one generally expects the solution of problems in modern society, "that is, the state or the hierarchical model in politics, administration and companies, the market or associations and social communities, have become problematic" (Benz et al., 2007, 9). Modern societies are characterized by a variety of network-like structures and negotiation systems that are formed by

[1] As of March 2021.

state and non-state actors. State, market and civil society interact with their different steering mechanisms or -logics. (The state steering mechanisms or logics is the law, the market is oriented towards the means of exchanging money and in civil society it is negotiated.)

Negotiation processes in economics and political science have gained in importance, and since, in the social economy, resources are negotiated politically while the social is managed, governance aspects are of general importance. In Chap. 1, the two main sources of the governance discussion, "economy" and "political science", are considered in more detail. In general, a distinction is made between the three governance levels: macro (Chap. 2), meso (Chap. 3) and micro level (Chap. 4). Chap. 2, first looks at the macro level of governance with the three "orders of governance" (first, second and third). The meso level ("cooperation", coordination, control and control forms of social enterprises) is discussed in Chap. 3, and the micro level ("interactions") in Chap. 4, which is about actor relationships and interaction mechanisms.

For the sake of better readability, this book uses the generic masculine form for the most part. This always implies both forms, thus also includes the female form.

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About the Author

Prof. Dr. phil. Ludger Kolhoff Year of birth 1957, studied pedagogy, electrical engineering and political science in Berlin (First Technical-Scientific State Examination, Magister Examination, Promotion to Dr. phil.). From 1979 to 1984 he was managing director and special representative for self-help projects of the Martinswerk e. V. (member of the Diakonisches Werk) in Berlin. After the study referee (Second Technical-Scientific State Examination) he worked in Berlin from 1986 to 1993 as study councillor at a vocational school for students with special needs, and from 1983 to 1993 he was also chairman of the supervisory board and expert advisory board of the Sanierungstreuhand- und Beschäftigungsträger “Stattbau Stadtentwicklungs-GmbH”, and from 1991 to 1993 founding managing director of the “Perspektive, Gesellschaft für Bauberatung und Betreuung mbH”, a subsidiary of the Paritätischer Wohlfahrtsverband (Landesverband Berlin) and the Stattbau GmbH. Since 1993 he is professor at the Faculty of Social Work of the Ostfalia University of Applied Sciences in Braunschweig-Wolfenbüttel and represents the subject area of social management tasked with priorities organisation/organisational development/project management, financing, personnel management as well as start-up and company founding. Since 2001 he heads the Master’s program in Social Management. He is chairman of the Bundesarbeitsgemeinschaft Sozialmanagement/Sozialwirtschaft an Hochschulen (BAG SMW) e. V.

1 Sources of the Governance Discussion

Abstract

According to the basic definition, governance includes various forms of control and regulation of different actors who are in a dependent relationship with each other, that is, they do not act autonomously, but can support or affect each other. The roots of the governance discussion can be found in both economics and political science. These two sources of the governance discussion are to be considered in more detail.

Learning Objectives
A deeper understanding should be developed of what can be included in governance. First, it will be conveyed that the use of the term governance must be considered in different contexts.

1.1 Economy

Transaction cost economics, founded by Oliver Williamson as part of the new institutional economics, compares the efficiency of institutional arrangements in which economic transactions take place. It is based on the assumption that every trade, every form of exchange is associated with costs. For example, before the contract is concluded, information costs may arise in order to ascertain prices and qualities, further negotiation costs, costs for the preparation of the contract, expert opinion, etc., and after conclusion expenses for control and enforcement arise, for example in connection with the transfer and enforcement of disposal rights.

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Furthermore, if necessary, post-contractual and adaptation costs for errors and controls, e.g., quality controls, must be taken into account. Transactions are efficient when the actors choose a form of coordination in which the transaction costs are minimal. Therefore, the goal of transaction cost economics is to examine schemes of institutional coordination of transactions (Benz & Dose, 2010, p. 17 et seq.).

"Governance" is, according to Williamson, the term for institutional regulations of action coordination. And these rules do not always lead to the market, because the costs of economic transactions are not necessarily lowest when transactions are settled via a market (Benz et al., 2007, p. 11). Instead, hierarchies or networks seem to be superior. The criterion for selection of the appropriate "governance mode" is the level of transaction costs (Williamson, 1990, p. 78 et seq.).

Transactions are efficient when they are organized in such a way that they have low costs. In doing so, certain properties of the transactions under consideration (factor specificity) are important, such as their "frequency" and "uncertainty" as well as the specificity of the investments required in human and physical capital, i.e., qualifications, knowledge and reputation ("human specificity") or location ("location specificity") and production-specific facilities ("physical specificity").

In the case of low factor specificity, i.e., when specific capital is not or only to a limited extent required for the transaction, market-based processing should take place. It is suitable for simple, uncomplicated transactions (Fig. 1.1).

However, if specific investments are significant, it is advisable to involve the transaction relationship in an institutional manner, for example, by means of long-term contracts (e.g., cooperation contracts).

In the case of very highly specific investments, integration into the corporate hierarchy is advisable.

Example: Newspaper

An example is the newspaper, which only fulfills its function if it is ready at breakfast time. For this reason, the printing press is centrally positioned in relation to the newspaper publisher and usually owned by the publisher. In contrast, the quality of its own output is separable from that of an input that is positioned peripherally. Thus, a book publisher can negotiate with different printers and reject a bad offer. Therefore, book publishers usually do not own printing presses, but contract via the market.

Source: http://wirtschaftslexikon.gabler.de/Definition/transaktionskostenoekonomik.html. Accessed: 25.05.2019.