

Incentives, Procurement and Regulation of Work Integration Social Enterprises: Old Ideas for New Firms ?

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Following french legislation (loi n° 2008-1249, December the first, 2008), the work-integration sector can be defined as a sector enabling « unemployed peoples, facing large social and/or professional problems, to obtain employment contract in order to ease professional integration in the labour market». This is done via individual social and professional training. The Work-integration sector in France is structured with Work Integration Social Entreprises (WISE) that fall into four distincts categories: the Intermediate Associations (IA), the Centres for Adaptation to Working Life (CAWL), the Integration Entreprises (IE) and the Temporary Work Integration Enterprises (TWIE).

In the context of major government budget savings and job activation policies, work-integration sector has been deeply impacted. This, in turn, impacts the business model of the WISEs. Firms are so induced to optimize both their productive and social activities. The first one is only the vehicle for work-integration while the second one corresponds to the main aim to re-socialise through and for work people with psychological and social problems.

On the one hand, public budget constraints (savings and ex-post evaluation) together with the introduction of market forces (public and private markets), as an alternative to the more traditional method of subsidising providers, favour competing mechanism. Beside, it tends toward more standardization and due professional care in order to be more competitive in the output market. Quasi-market reforms and the fact that WISEs mobilise more market resources that come from the sale of goods and/or services or from public procurement tend to shift them away from their social aims. This is a major change in the way in which WISEs are financed and in which WISEs produce.

On the other hand, while employment's concerns progressively substitute to empowerment programs in public agendas, the contractual compliance monitoring of WISEs practices takes form of outcome-based payment and contract based on so-called « social performances ». This kind of incentive regulation also transforms the aims and the organisational structure of the work-integration sector. This provides high-powered incentives for WISEs to reveal contractible measure of social and professional training. The indirect, but unobservable or non-contractible effect on capabilities, the easing of social and work integration are least taken into account than effective gained/needed skills management or than results in terms of number of people following new formations or actually employed. The government structure funding arrangements in such a way that WISEs are encouraged to achieve efficient and effective reintegration. The very nature of training and actions undertaken are so constrained and driven by accountable results, the resources of the WISEs depending on contractual compliance monitoring making an abstraction of the measurement problems and of whether the output is as desired.

At first glance, this kind of mechanism (use of auction mechanisms, incentives contracting etc...) seems to be an accurate implementation of the main contract and incentives theory results for WISEs regulation. The main object of this paper is so to address the normative results of the theory and incentives and procurement in the very specific frameworks of Work Integration Social Enterprises.

Are the main insights of this literature appealing for non-for-profit enterprises combining labour market integration?

More precisely, which results derived from a literature considering traditional for-profit firm regulation mechanism may still be optimal?

Conversely, does the traditional incentives theory ignore some very specific assumptions describing Work Integration Social Enterprises entities so that a new theory incorporating this feature deserve some new works? What kind of new results can suggest closely related models incorporating some of these features?

In the first part of this paper, we will briefly survey the traditional prescription of incentives and procurement theory (1.1). We will see why informational constraints limit the efficiency of control of WISEs by government agencies. We will compare the normative prescriptions of this literature to the actual practices in Work Integration Social Enterprises regulation. In a nutshell, using a competitive process in order to alleviate informational rents and designing incentives contract to tackle with moral hazard could appear to be the best practice in almost every economic situation. Such competitive process and incentives contract come as no surprise in current WISEs regulation. Subsection 1.2. will nevertheless point out what appear to be very specific features of WISEs that traditional incentives and procurement theory has not dealt with so far. In our second part, the paper presents so the trend toward quasi-market reforms in WISEs sector. The recent trend toward competitive process is described in subsection 2.1 while subsection 2.2 analyses the form of incentives contract toward workfare. Finally, our third part point-out the need of a new theoretical framework in order to address the question of wises sector regulation (3.1) and the consequences and potential drawback of potentially inaccurate forms of regulation contracts currently used (3.2).

1. The conceptual and empirical approach

1.1. Some principles of incentives and procurement theory

The Work integration sector is a professional sector based on two differentiated conceptions of activity, at times conflicting but more often complementary: on one hand, a public service mission of social integration delegated to private operators; on the other hand, a support service promoting employment and return to employment provided by Work Integration Social Enterprises (Wises).

Considering successively these two faces of Wises activities helps us understanding the current Wises regulation practices. In a nutshell, on the one hand, individual social and professional training in order to ease professional integration in the labour market (i.e. the outcome they produce), as any public service activities, deserves some subvention or funding from the government (national or local) to the firms, which in turn, implies some control from the regulator. On the second hand, the output produced by these firms can be bought by public agencies so that adapted procurement rules are another way to monitor the Wises activities.

At the very beginning of the theory of procurement and incentives is the asymmetric information puzzle. As LAFFONT AND TIROLE (1990) argue, regulators cannot rely on regulatory contracts that are contingent on information held only by the firm. Informational constraints limit the efficiency of control of Wises by government agencies. Basically, the traditional problems of adverse selection and moral hazard appear between the Wises and the regulator for both Wises activities: first, enterprises privately know their own productive efficiency (either in terms of output or in terms of outcome efficiency). Second, the regulator cannot perfectly observe the efforts undertaken to reduce production cost of the output or to fulfil the mission of social integration. At first glance, it comes with no surprise that traditional model of public sector regulation apply for this particular sector. In such a situation, the Revelation principle (MYERSON, 1979) tells us that we can restrict attention to mechanisms where enterprises tell the truth or reveal their own type. Thus, the revelation principle helps the regulator to find the best mechanism (whatever its objective is) by restricting the set of candidate mechanisms. In the following, we will briefly survey the main results of literature of mechanism design and describe the practical rules that can implement the suggested optimal policy.

First consider the output function of Wises: as producers of goods or services, wises participate to public procurement. A huge amount of literature has so focus on the design of procurement auctions. Following LAFFONT & MARTIMORT (2009), « auctions are mechanisms by which principals attempt to use the competition among agents to decrease the information rents they have to give up to the agent they are contracting with. It requires a modelling of the relationship between bidders (the agents) who bid under incomplete information about the other agents' valuations for the auctioned good or contract. » The key element here is the informational rents. As soon as the regulator considers the rents costly (basically, as soon as at least partially, the regulator takes into account the social cost of public fund), he will try to minimize the informational rents the revelation of private information require. And competition between potential providers is a way to do that. Even if the optimality of these mechanisms has first been obtained (MYERSON 1981) considering a public buyer looking for expected cost minimizing mechanism, such competitive processes remain optimal over a broader range of assumptions.

One may argue that local authorities seeking to provide goods or services from Wises may not only consider procurement cost but also takes the utility of Wises (as producer of public services of integration) into account. But such distributive concerns of the objective function of the regulator do not preclude the optimality of competing mechanisms. At least as long as the authority put some weight into the procurement cost (and even if he overweighs the utility of Wises).

As for example, consider numerous identical work integration enterprises that can undertake a public contract. For now, just focus on price considerations. Consider also that the public buyer both take into account the surplus the contract generates and the utility of the wises. But the public buyer cannot observe the true cost of each firm¹ Consider finally that each euro sent from the public buyer to the selected firms costs, due to fiscal distortions, more than one euro. Then the best mechanism the public buyer can use is to auction off the contract and to commit to allocate it to the firm with the lowest cost. Beside, some papers extend the primary result of Myerson considering a utilitarian regulator, assuming heterogeneity between firms, preferences of the regulator toward specific firms (national ones against foreign in MOUGEOT & NAEGELEN, 1994, Small Business Firms versus large firms (MORAND 2004)) : the optimal mechanism, even if incorporating some optimal discrimination rules (i.e. biased competition toward specific firms who will not compete on an equal footing with other ones) remains a competitive selection process. The selection of an inefficient seller (in terms of cost) can then be a result of favouritism on the side of the procurement agency, but this is given the bias of the procurement agency still the optimal decision. The public buyer cannot do better than promoting some competition between providers.

One may also argue that most of the procurement contracts involving Wises have (or should have) qualitative attributes. And that the only price consideration is of limited interest for the public buyer. In fact the public buyer has the possibility to take into account social dimensions in the procedures for the award of public contracts. The award the contract to "the most economically advantageous tender" enables the authorities to take into consideration qualitative criteria such as social one) in their selection process. They can for example introduce social clauses regarding the integration of disadvantaged workers. But competition in procurement process also remains optimal if incorporating qualitative considerations. As for example, CHE (1993) shows that a scoring auction with a scoring rule that is linear in price implements the optimal scheme. In a scoring auction, the buyer announces the way he will rank different offers, that is, the scoring rule; suppliers submit an offer on all dimensions of the product, and the contract is awarded to the supplier who submitted the offer with the highest score according to the scoring rule. Even if this kind of competition isn't a pure price competition, it remains a competitive process.

Turn now to consider the second informational asymmetry. This latter refers to Moral hazard problem i.e. when the firm can undertake discretionary actions that will affect both the cost or the quality of its tasks (see for example HÖLSTROM 1979). Agents to whom a task has been delegated by a principal may choose actions which affect the quality (or the cost) of the task. If these actions cannot be contracted upon because no one can verify the value of the agent's decisions, the principal loses any ability to control these actions or, more generally, the agent's performance. In a moral hazard context, the principal can only design a contract based on the agent's observable performance. But this latter aggregate the agent's effort and the realization of pure luck. Through this contract, the principal wants

¹ For clarity, we neglect here all the technical assumptions needed to obtain this result.

to induce, at a reasonable cost, a high level of effort despite the impossibility to condition directly the agent's reward on his action.

Consider as for example the effort to provide real chance to re-integrate job market for unemployed people. While the regulator cannot design a contract based on this effort, he can observe the actual rate of employment after six months. But employment rate can both reflect the quality and the level of effort of the wise and the global and short-term job market situation. If we assume that the WISES are risk-neutral, the non-observability of effort may have no consequences: The regulator can obtain the same outcome as if he could directly control the agent's action with a contract which incentivize the agents by rewarding for good outcome levels and penalized otherwise. A bonus is affected if, as for example, a certain threshold of employment rate is observed and the firm is penalized otherwise. In this situation, the wises bear all the short-term risk of the job market but a efficient level of effort is obtained costless. If the agent is risk averse, which can be the case for WISES, a constant remuneration (like a lump-sum transfer) provides full insurance but induces no effort provision. Inducing effort requires letting the agent bear some risk (with some performance-pay contract) so that the agent must receive a risk premium. This creates an insurance-efficiency trade-off. The optimal contract is so a mix of performance-based and constant remuneration.

In a nutshell, using a competitive process in order to alleviate informational rents and/or designing incentives contract to tackle with moral hazard could appear to be the best practice in almost every economic situation. Such competitive process and incentives contract come as no surprise in current WISE regulation.

1.2. The very specific nature of this sector and these firms

At the macro-institutional level, the State uses its normative authority to regulate the sector through legislation and regulation. The law related to the fight against exclusions of 29 July 1998, delineates the legal framework of work integration sector, by defining the sector's missions and by identifying structures according to their commercial activities or social utility. It also determines the principles of intervention by public authorities (conventions of the structures, political leadership, public approval, public funding) and grants work integration sector full status in the labour code.

At the regional level, different public stakeholders have supervisory authority, in coordination and management of the delegated private operators, through subventions and requirements of the integration process for the "beneficiaries" of entitlements or "recipients" of aid. Capital grants come mainly from Direccte (*Directions régionales des entreprises, de la concurrence, de la consommation, du travail et de l'emploi*, emanation of the State)². Urban social cohesion contracts (Cucs – *Contrats urbains de cohésion sociale*), within the framework of city policy, and the Départements (decentralized public authority) allocate additional funding as appropriate. Operating grants concern employment of socio-professional mentors³ and employment through integration⁴. Regarding the requirements of individual integration programmes, three major public stakeholders guide job seekers toward the contracted private operators: local agencies of the *Pôle-emploi* (public employment service), territorial units of the Départements, and local plans for integration and employment, PLIE (*Plans locaux pour l'insertion et l'emploi*) established at an inter-communal level.

In a period of budget cutbacks in social spending, Wises are often viewed by public stakeholders as potential service providers (public procurement rationale) (GIANFALDONI, ROSTAING, 2010, pp. 148-150). Paradoxically, they still represent an essential type of private operator in the general system of

² Direccte mobilizes Départemental integration funds from private operators, to assist with advising, start-up and development, consolidation and professionalization, following examination of the nature, duration and purpose of the initiative financed.

³ Mentors' workstations are subsidised both by Direccte following the different terms and conditions according to the type of operators, the Départements for welfare recipients RSA (*revenu de solidarité active*), local plans for integration and employment (PLIE – *Plans locaux pour l'insertion et l'emploi*) within the framework of the European Social Fund (ESF) and in certain Régions (other decentralized public authorities) for non-RSA subsidized contracts.

⁴ Employment through integration is largely supported by Direccte at a variable rate according to subsidised contracts and may benefit, in the case of a fixed-term integration contract, from substantial reductions in social contributions. The degree of support (and thus the wages) may be increased for welfare recipients RSA through subsidised contracts according to the policy regarding Départements and Régions, within their employment-training policy jurisdiction, which may award vocational training assistance.

contractualization (*Figure 1*). The different interrelated contractual arrangements thus require established relations of intermediation (technical committees and regular meetings) in order to guarantee effective coordination of support in advance of and within Wises (GIANFALDONI, 2012a). In other words, the multi- and inter- standardisation in contract execution involves reiterated interactions (comprehensive contracts) between public stakeholders and Wises. The non-contractual rules relevant to management and co-operational standards (norm of reciprocity; acts of co-operation) (TIROLLE, 1988), confer upon the contractualisation an intrinsically relational character (BOUTHINON-DUMAS, 2000, pp.346-349 ; MACKAY, ROUSSEAU, 2008, pp.417-419): a multi-stakeholder organisation with multilateral transactions; an unpredictability resulting from unanticipated circumstances or unplanned situations caused by the overlapping of contracts; the creation of sustainable collaborative relationships established through active communication, trust, reputation, and acceptance of the specific characteristics of the stakeholders.

As a particular feature of the social enterprise, all Wise are characterised first of all by two attributes of non-profit organisations: decision making authority which does not require holding capital and the non-existent or limited distribution of benefits (BUCCOLO, EME, GARDIN, 2012, pp.208-2013). However it should be noted that the associations, center for adaptation to working life (CAWL) and the intermediate associations (IA), conform to the principle of non-profit or limited pursuit of profit and are, as such, tax exempt, in contrast to integration enterprises (IE) and temporary work integration enterprises (TWIE), which usually adopt a commercial enterprise status. Secondly, the production function of Wises is more complex than in the case of a productive representative firm. The socioeconomic legitimacy of all Wises rests on the realisation of a social outcome or social impact (DEFOURNY, NYSSSENS, 2010), evidenced by the induced effects of the supporting-training service on the capabilities, qualifications, skills and employability of the individuals re-integrating.

In the case of CAWL and IE, the outcome is accompanied by a corresponding output of goods and services produced (quantity, quality, value) in a wide variety of productive sectors. The activity of production thus constitutes the necessary support to the integration activity. Within this type of enterprise, the supporting-training service has a “twice dual” nature (CERVERA, DEFALVARD, 2009, p.52). Tied to their employer by a common law work contract of a certain type⁵, the employees being integrated occupy transitional employment with the goal of finding a stable job. The duality between their professional integration project and the production programme of the host structure demands a partnership, socio-professional mentor – technical supervisor. The socio-professional mentor, a social worker in a productive organisation, has the function of facilitating the re-socialisation and the enrolment of employees being integrated in work collectives, by trying to eliminate the “social barriers” specific to each individual⁶ while also addressing, in direct collaboration with the technical supervisor, their professional inadequacies⁷. The technical supervisor, a production technician in a social enterprise, assumes the role of team leader. Three principal supervisory tasks are subsequently assigned: managing the production and organisation of the work; transmitting the experiential knowledge and technical expertise; and communicating to the socio-professional mentor the rhythms and the growth potential of the employees being integrated. The latter may request an orientation period with another employer in the commercial sector (or should be encouraged by a socio-professional mentor), in order to acquire the qualifications and skills. This loan of labour is authorised as it is not for profit and the modalities of implementation are specified in an availability contract.

In the case of IA and TWIE, the output is absent. These two types of social enterprises rely on a derogation of the requirements in the labour code to implement the principle of dual contractualisation⁸. The requirements lead to an organisational alternative of supporting-training service according to an external flexibility of employment. IA and TWIE play an intermediary role in the labour market⁹ by establishing links, through the management of administrative formalities and the

⁵ The single integration contract (CUI – *contrat unique d'insertion*), coupled with the contract for mentoring in employment (CAE – *contrat d'accompagnement dans l'emploi*), to which the CAWL can add a specific work contract setting the terms of the wage ratio. The IE primarily use the fixed-term integration contract (CDDI – *contrat à durée déterminée d'insertion*).

⁶ Addictions, social isolation, debt, problems with justice, mobility, housing, group behaviour.

⁷ Prolonged inactivity, linguistic difficulties, poor qualifications, lack of professional projection, ...

⁸ A fixed-term contract (IA) or an assignment contract (TWIE) tied to employee integration and, simultaneously, an availability contract with users that can be individuals (services to individuals make-up a large part of IA), associations, local authorities or host enterprises (currently in construction and public works sector for the TWIE).

⁹ Significant presence in sectors experiencing recruitment difficulties and requiring periodic labour (additional

definition of tailored assignments, between the unskilled employees being integrated and the client-users having irregular or occasional needs. The function of the socio-professional mentor is internalised in the IA and TWIE when the technical function is allocated to the employees of the host organisations. Given their specific stance, socio-professional mentor must demonstrate availability (close monitoring) and responsiveness (urgent situations). Acquisition of knowledge and skills depends on the professional environment in which the employee being integrated is situated (technicality of the enterprise and the position occupied, number of hours worked, quality of the missions and supervision).

Based upon analysis by LAVILLE (2008), we have discerned that the strategy of Work Integration Social Enterprises has been influenced, in recent years, by a hybrid mode of public regulation: a rationale of supervisory regulation characterised by coercive mechanisms of public intervention. The goal being to correlate contracts and subventions with the quality of the integration services provided (outcomes) ; a competitive rationale characterised by competing mechanisms to promote the economic value and the technical efficiency of the goods and services produced (GIANFALDONI, 2013, GIANFALDONI, 2012b, pp.138-141). While accepting the evaluation of their economic and social practices, Wises are now obliged to seek several funding sources, public and private, in order to balance their budget or fuel their revenue. Their business model is thus affected, through a transformation of their strategic choices and their rational behaviour (DEMIL, LECOCQ, 2008, p.115 ; BRINK, HOLMÉN, 2009, p.109). Wises must thus rethink their productive organisation and their governance structure, regarding the appropriation and creation of economic value, the generation and distribution of incomes, the promotion of resources and skills, and the creation of competitive advantages¹⁰.

Competitive-supervisory public regulation simultaneously establishes quasi-hierarchical and market/quasi-market relationships between public authorities, social enterprises established in the sector and commercial companies in the process of market penetration.

2. Competitive-supervisory public regulation

2.1. The trend toward competitive process

On one hand, one must distinguish market relations, with as a corollary commercial competition *stricto sensu* between enterprises of different natures in private markets, from quasi-market¹¹ relationships considered to be markets established by public stakeholders. The latter continue to assume the function of financing public goods and services while allocating production to a variety of independent providers of public or private status, for-profit or non-profit, placed in competition (LE GRAND, 1991, p.1257). Public procurement implies administered market transactions, through unbiased calls for tender (competitive processes for the provision of works, goods or services), dedicated calls for tender (containing a social clause) and the contracting of services by mutual agreements (bilateral transactions).

Work integration social enterprises have increasingly resorted to commercial resources through public and private markets. Local authorities, social housing authorities and State public services (hospitals, universities...) are thus far the principal clientele of Wises, in fields as diverse as restoration-renovation-cleaning of buildings, pruning and landscaping, market gardening, educational services, transport or leisure. A variable share of revenue is derived from the provision of goods and services to individuals or enterprises, with significant differences between the CAWL on one hand and the IA, EI and TWIE on the other. Meanwhile, the decline in public subventions and competition in public and private markets is pushing Wises to seek private non-commercial resources, through financial philanthropy activity (endowments, foundations, direct donations). Enterprises' foundations then tend to finance Wises within the professionalization of structures (Foundation *Agir pour l'emploi*), within educational initiatives or training, sectorial or innovative environmental projects (Foundations *Carrefour*, *Veolia*, *Vinci*, *Macif*...) or focus on access to citizenship, culture and employment for certain

activity, replacement of personnel, seasonal work...).

¹⁰ The evolution is however, more marked in the case of CAWL due to their heavy budgetary dependence to public funding (between 65 to 80% of grants), their smaller size economically (measured by the volume of their monetary resources) and a minor contribution in working hours of less productive and unskilled employees being integrated.

¹¹ "They are "quasi" because service providers do not necessarily aim at maximizing profits, nor are they necessarily privately owned". (LE GRAND, BARTLETT, 1993, p.10).

types of marginalised “audiences” (Foundations *Chèque déjeuner, La Mondiale, Crédit Coopératif and Société Générale...*). We note on one hand that this form of financing does not directly affect the integration activity (start-up funding-development or investment in an enterprise) and, on the other hand, that it represents a limited portion of the operating revenues of Wises. Financial philanthropy may perhaps be supplemented by contributions of non-monetary resources, donations of equipment and skills-based sponsorship (availability of skilled workers, training initiatives).

Public procurement results in three types of quasi-markets. First, unbiased calls for tender correspond to common quasi-markets, sharpening competition between enterprises of different natures to the detriment of less technically advanced Wises, which are more fragile fiscally and smaller in size. Dedicated calls for tender match the intended quasi-markets, which limit the competition and favour Wises with qualified and available staff for instruction of encrypted files. The contracting of services by mutual agreements corresponds to disguised quasi-markets, establishing bilateral monopolies and protecting locally based Wises¹².

Let us focus the analysis on the intended quasi-markets. Transcribing a 2004 European directive related to the coordination of public procurement procedures, the decree of August 1, 2006 establishes the rules of competition through calls for tender incorporating social and professional clauses. The IA, IE and TWIE are positioned primarily in quasi-markets where the competition is biased by taking the integration factor into account. However, no criterion linked to integration interferes in the choice of the benefiting enterprise¹³. When the object of the contract itself is the social and professional integration service, by virtue of the promotion of a social utility, then we consider it to be a protected market favouring the CAWL¹⁴.

The intended quasi-markets can be considered sub-optimal because they have the particularity of generating both the additional costs of integration (socio-professional mentor and technical supervisor), addressed by the public purchasers, and transaction costs (information, negotiation, control) legitimising the creation of “facilitator” positions within the local authorities or intermediary structures (PLIE or employment public services – *Maisons de l'emploi*). The “facilitators” thus play an intermediary role in the legal and social engineering between public purchasers and bidding enterprises (BUCOLO, GARDIN, PHILIPPE, 2009, pp.138-140)¹⁵.

The quasi-markets characterised by open or biased competition encourage cooperative alliances, through outsourcing and co-sourcing contracts. The subcontracting of commercial enterprises outside Work integration sector (some affiliated with industrial groups) and social enterprises are based on reports of economic opportunities. Commercial enterprises have technological skills (specialised equipment and trained personnel) and demonstrate production capacities. Wises offer their technical skills in production (specialist knowledge held by their technical support) or in socio-professional mentoring, as well as labour, certainly unskilled but plentiful and inexpensive. The commercial enterprises submit as generalists and attribute, in the case of obtaining a public contract, a part of the supplies, works or services to one or more Wises on the basis of a sub-contract concluded prior to the call for tender. Following a second configuration, the co-contracting is driven by social and professional clauses resulting in hours of integration work. Response strategies grouped by dedicated calls for tender may involve commercial enterprises outside Work integration sector. Commercial enterprises are obliged to include hours of integration work and have neither the experience of

¹² Tailored procedure and exemption from publication of a public notice and competitive procurement (Decree of 9 December 2011) while these formalities are impossible or clearly unnecessary due in particular to the subject of the contract, its amount estimated at less than 15 000 euros HT or the lack of competition in the sector in question.

¹³ Article 14 of the public procurement code : within the promotion of employment of persons experiencing particular difficulties in integration and the fight against unemployment, the conditions of execution of a contract reserve a portion of the working hours generated by the contract to an integration activity. Article 53 : the conditions of execution of a call for tender for work or services favours enterprises taking into consideration “persons in difficulty” and demonstrating their performance in terms of integration.

¹⁴ Article 30 of the public procurement code: concerns structures whose purpose is the management of persons furthest removed from the labour market through support services in employment, training or pre-qualification or certification experience.

¹⁵ The principal missions of a “facilitator” are to assist with a good “calibration” of the clause (local labour market, aptitude for work integration, costs incurred), to establish relations between Wises and the commercial enterprises outside Work integration sector, to identify the “audience” in captive integration, to follow-up on the execution of the clause, to estimate the impact of the integration initiative. (BRUNAUD, 2010, pp. 22-23)

assembling an administrative dossier nor the skills of a socio-professional mentor. Social enterprises see in this type of collaboration potential availability (special cases of IA and TWIE) and the potential for permanent employment. The partnerships between Wises are formed on the basis of a search for the critical size, the complementarities in human factors (quantity and technicality) and in skills (sectorial and professional), and a distribution of extended regions of intervention. We emphasise that the allotment in public procurement corresponding to the integration clauses facilitates access of Wises of a very small size to quasi-markets and encourages co-contracting¹⁶.

2.2. Incentives contract toward workfare

On the other hand, the quasi-hierarchical relations result in relationships of subordination between public stakeholders and social enterprises. They are established through non-commercial administered transactions, through agreement of Wises and public financing increasingly defined by criteria of the economic viability of enterprises and the employability of the employees being integrated. The established tendency is to replace the prevailing culture of subvention with a culture of contractualisation through performance based objectives and results. Four directions are privileged: tenders for projects with “target audiences”; social development projects in specific areas (national agency for urban renewal; funding correlated with the management and placement rates of social welfare recipients; and funding correlated with return to work.

With a workfare rationale, employment activation policies prioritise the individuation of people’s predispositions and abilities. Concomitantly the increased levels of activity are considered to be a vector of “social inclusion” and “access to employment”. Recommendations associated with financial leverage that form the ESF rest on the postulate of interdependence between the increase of labour supply and the reduction in unemployment¹⁷. Emanating from this new institutional matrix, “social performance” lends itself to a quantitative evaluation in the work integration sector, through the application of methods of social benchmarking (BRUNO, 2010) : the systematic use of rules for “calibration” of the integration benefits and the setting of measurable objectives. “A tool for demonstration and coordination by the numbers” (DESROSIÈRES, 2008), “social performance” comes down to evaluating the effects of integration mentoring and support with the aid of criteria and indicators. Following a “consequentialist” model and with an instrumental intent (SALAIS, 2010), “social performance” is integrated into a new model of public decision-making, inspired by New Public Management (NPM). This model determines the decision-making process by Direccte (agreement and funding for social enterprises)¹⁸ and PLIE (financing and orientation of their adherents). Consequently, Wises integration activity is evaluated through scoring rubrics by “employment outcomes”, tangible results of their method of mentoring and support.

Thus, the bulletin for the general delegation for employment and vocational training (DGEFP – *Délégation Générale à l'Emploi et à la Formation Professionnelle*) from 10 December 2008 related to the new modalities of agreement of Wises introduced operational objectives in terms of systematically negotiated employment outcomes: “Based on a regionalised integration project presented by the structure, linked with the means mobilised and associated with indicators that permit assessment of the results finally obtained”. The Direccte and the PLIE apply evaluation rubrics from Wises integration rates to the status of their financing of mentoring workstations. The Direccte require social enterprises to provide data on the proven job prospects at the end of the integration contracts¹⁹ and to achieve

¹⁶ The infra- or interdepartmental collectives of Wises were created as an association. Initially sought by public local authority, certain Wises have designed them as cartels capable of providing grouped responses to markets covering a volume of production and a region (inter-communal, interdepartmental) disproportionate to each, but presenting the advantage of an integration clause over several accessible lots.

¹⁷ As part of the European strategy set out in Lisbon (March 2000) and in accordance with the recommendations of the OECD, the social policy of the European Union (EU) has moved toward the activation of employment in particular. The two instruments of EU social policy – the OMC (Open Method of Coordination) and the ESF (European Social Fund) – are in perfect agreement with the evaluation objectives of public policy in France (defined by organic law related to the laws of finance; LOLF – 2001) and the rules established by the social cohesion law of 2005.

¹⁸ The French government, through the intermediary Direccte, is aligned with the guidelines set by the ESF on one of its four priorities, professional integration, so much so that community funding to improve access to employment requires the payment of a national counterpart.

¹⁹ Percentage of “employment outcomes” over the course of one year: permanent work contract unassisted or within the structure, fixed-term contract of more than 6 months unassisted or interim period of more than 6

within an interval of three years “dynamic outcomes” of 60%: “sustainable jobs (at least 25%), “transitional jobs” or “positive outcomes”²⁰. Under grants from the ESF, PLIE are required to provide figures on the “positive outcomes” in the employment of their adherents. The transfer of ESF from PLIE to ESI is subject to “employment outcomes” (42%) or “skills training outcomes” (8%) achieved.

The management of employability by indicators is accompanied by a managerialisation and reorganisation of mentoring. On one hand, the “proceduralisation” of the integration path is based on the widespread use of digital management tools. The new procedures related to the 2007-2013 European programming of the ESF are integrated with the software “PRESAGE”, used in the process of evaluating cases, and the management and disbursement of funds. The PLIE and the Départements experiment, with the goal of tailoring individualised plans, with different reporting software in order to identify the skills that respond to the “needs of the labour market”. A certain number of professions and jobs are identified and characterised through the aptitudes and abilities required, the associated tasks, basic and behavioural knowledge, expertise linked to training and finally graduation. On the other hand, the traceability of the pathways to integration introduces a functional prioritisation and an automation of tasks. The socio-professional mentor records information on each employee under contract upon entrance, during and at the conclusion of Wise (personal situation, socio-institutional status, disabilities, social restraints, professional experience, training...). Employment mentors, employees of PLIE, visualising in real time the validation of the progress of the adherents they are following, can thus control the initiatives achieved and “deferred” by the socio-professional mentor. The prevalence of computer tools gradually brings about a depersonalisation and a technification of mentoring practices, leading to devaluation of the social dimension of the profession of socio-professional mentor and a de-legitimisation of the public activism of the social worker.

In recent years, the French State has embarked on a path of modulation of the financial aid provided to Wises. A project of “performance contracts” was developed by the services of the DGEFP in 2011. Correlating the number of socio-professional mentors and contract aided workstations to the rate of employment outcomes, the “performance contracts” have been evaluated since 2011 in four pilot Départements and simultaneously the DGEFP concluded a framework agreement with three large temporary work groups having invested in Work integration sector²¹. This is a significant alteration of administrative contracts by incorporating incentives intended to become widespread. The recent report by IGF and IGSA²² proposed replacing all existing aid with assistance at the integration position, without distinguishing between socio-professional mentoring and technical guidance. The amount will consist of a base “aimed at securing the financing of the cost of managing the public served” and “an additional amount modulated according to the various criteria linked to the effectiveness of the structure with regard to the objective of social and professional integration of the persons hired”. The modulation aims to “sanction positively or negatively the quality of the mentoring implemented” based on three criteria: the results obtained in terms of return to work and the progress in employability²³; the efforts deployed to promote professional integration²⁴; and the profile of the employees being integrated²⁵.

months, fixed-term contract of less than 6 months unassisted, subsidised contract (included in another Wise), entrepreneurship, training, ...

²⁰ At least 60% of employees being integrated should meet one of the following three situations:

- “Sustainable employment” (minimum rate of 25%): permanent work contract, fixed-term contract or temporary assignment of six months or more, internship or tenure in the public service, entrepreneurship;
- “Transitional employment”: fixed-term contract or temporary assignment of less than six months, subsidised contract outside work integration sector;
- “Positive outcome”: training or hiring by another Wise.

²¹ Payment of 200 000 € (*Adecco Insertion*), 240 000 € (*ID'EES group*) and 240 000 € (*Vitamine T*) over three years to finance the hiring of 17 project manager positions (full-time equivalent) working in job placement for employees being integrated. In exchange, the three groups of temporary work integration enterprises are committed to achieving, over three years, an outcome of more than 50% sustainable employment or skills training (with at least 30% of outcomes in sustainable employment).

²² “The funding of integration through economic activity”, a report of the Inspectorate-General of Finance and the Inspectorate-General of social affairs, January 2013.

²³ Suggested weighting of this criteria by measuring the rate of integration (return to employment) at six months, a differentiation between the objectives of the CAWL and IE, taking into account the local context (labour pool), the removal of social barriers to employment (obtaining a drivers license, housing, childcare solutions...), the use of sociograms and scales to set and estimate the peripheral employment problems and the distance to the labour market.

²⁴ Traceability of socio-professional mentors working hours, access to training for employees being integrated,

To “stick” to the predetermined target of return to work, Wises are now facing a trade-off: pre-screen the employees being integrated or strengthen the mentoring. But, in situations characterised by a lack of resources, the multiplication of evaluation tools and managerial procedures absorbs the time devoted to relational work with the persons being integrated. In addition, the productive efficiency required by the increasing reliance on public and private markets demands higher labour capacities and quality of goods and services ordered. This new imperative necessitates the enlistment of employees to be integrated that demonstrate a certain technical and economic efficiency and contributes more generally to the transformation of the economic model of work integration social enterprises.

3. The main results of analysis

3.1. The need of a new theoretical framework

As the previous discussion shows, the traditional recommendations of incentives theory tends to be more and more effective in WISES regulation. This is true with the incentives and performance-pay contracts used in order to monitor the public service mission. This is also true with the large amount of resources the WISES obtained directly from public procurement.

But, two very specific features of WISES described in our previous discussion, are far from the traditional framework used in this literature. First, WISES are non-profit organization and not simple profit-maximizer agents. Second, regulation of WISES has to influence both the output (goods and/or services produced) and the outcome (public service mission of social integration). To the best of our knowledge, no papers address this question. But some connected research may help us to shed light on the theoretical prescriptions of contract and incentives theory in this very specific framework.

The theoretical results presented in the first section made the implicit assumption that, first, the regulated firms are traditional profit-maximizer agents and that, second, there is only one principal (regulator) designing a contract with the enterprises and the last discussion shows that Wises regulation implies a far more complex setting. Let us begin with the non-profit organisations characteristics. In many industries, firms are expected to maximize profits, since the majority of them are public companies. In the Wises sector, the majority of firms are non-profit organizations. But, a payment system that relies on the reactions of a pure profit-maximizing provider may lead to unintended consequences when the provider's objective includes social benefits. Second, and perhaps more importantly, a firm may be motivated to explore new ways to react to a particular payment system. To the best of our knowledge, no paper specifically address the question of optimal regulation of non-profit enterprise combining labour market integration with genuine. And this may be a radically different approach, notably because the objective function of the firm diverges from the one implicitly or explicitly assumed in traditional assumptions. Some connected literatures give us nevertheless some useful insights: As CHONE & MA (2005) note, while studying hospitals regulation with altruistic physician: « once economists depart from a pure profit-maximization approach, it is unclear what is the most compelling alternative. The optimal mechanism must have pooling, and pooling can even be complete. » In other words, will pure profit-maximizer agents implies separating contract, that is a different type of contract for each type of firm. While, roughly speaking, a menu of contracts is said pooling if different type of firm obtain the same contract. Consider as for example optimal procurement design. In a nutshell, at separating equilibrium, each type of firm will obtain a different probability of winning the contest (basically, the higher the efficiency, the greater the probability). In such a case, a competitive process will implement the optimal solution: ex ante a high efficiency firm has higher probability of winning than low efficiency one. Conversely, if the equilibrium of the optimal design is pooling, the probability of winning is the same, whatever the efficiency of the firms. A High efficiency firm must have the same probability of winning than a low one. In such a situation, no competitive process can implement the optimal contract. Take-it-or-leave-it offers, random selection process etc... may correspond to optimal mechanism.

mobilisation of the services of partners like the public employment service (Pôle-emploi), sponsorship network and gateway between Wises and commercial enterprises outside Work integration sector, followed in mentoring (methodological guides, orientation documents, monitoring and evaluation) and follow-up post-insertion.

²⁵ It is an incentive to focus efforts on the persons who need it most and should relativize the employability criteria, since the rate of return to work will be weaker the further people are estranged from the labour market.

Beside the organizational and legal form of the sector which impact the objective function of the firms, we may also argue that managers or workers of WISES are differing from other types of agents in the relatively higher priority given to promoting social value versus capturing economic value. Once again considering altruistic agents in regulation may totally reverse the traditional results. While non-pooling (separating) mechanism are optimal when considering profit-maximizer agent pooling process may become the optimal procedure.

As for example, DIXIT (2005) notes that many governments enlist and support faith-based organizations to provide various social services. The argument in favour of this policy is that such organizations can be efficient providers of such services, not only because they are closer to the recipients of the services than are official civil servants and therefore have better information about the needs, but also because they experience some direct benefit from these actions and will therefore perform them for weaker incentive payments. Same arguments clearly apply in the Wises sector. BESLEY & GHATAK (2006) discuss a theoretical framework to study the issues of competition and incentives without relying on the standard profit-oriented market model. It uses the idea that production of public services coheres around a mission, and discusses how productivity can rise by matching motivated workers to their preferred mission. At its heart is the idea that organizations that provide collective goods cohere around a mission. Thus production of collective goods can be viewed as mission-oriented. Workers are typically motivated agents, i.e., agents who pursue goals because they perceive intrinsic benefits from doing so. As a result, traditional mechanisms do not remain optimal.

3.2. Consequences of non-adapted regulation models

The previous section suggests so that the current regulation tools used in the wises are based upon an inaccurate or partial analysis of the sector. But, the effect of any given payment system depends critically on a firm's reactions. Such reactions in turn are the results of a firm's attempt to optimize on an objective function within a set of feasible actions. If the contracts proposed are inaccurate, some perverse and unexpected results can appear. This section briefly reviews some of the potential drawback of un-adapted regulation.

Non-profit and potentially altruistic organisation, they also obtain funding and resources from a lot of public agencies (local and national ones). This is constitutive of a multi-task and multi-principals setting. In a seminal paper, HOLMSTRÖM & MILGROM (1991) analyzed optimal incentive provision in a multi-task principal-agent model. They show that there are important interaction effects between the incentives given for one task and the agent's incentives for engaging in other tasks. For example, if the different tasks are complements at the margin in the principal's payoff function, i.e. if it is important for the wise to engage in all tasks rather than concentrating his efforts on a single one, it is optimal for the principal to reduce the incentives for the task that is easy to measure in comparison to a situation where the agent is engaged in just this task. The reason is that if the principal offers high-powered incentives for a task that is easy to measure and low-powered incentives for a task where measurement is difficult, then the agent will focus his efforts on the task that is rewarded and disregard the other task for which only small incentives can be offered. The case of employment against empowerment is illustrative: employment results would be disproportionately emphasized over aspects that lend themselves less easily to monitoring and measurement like empowerment. Incentive schemes are most suitable when outcomes are clearly defined, observable and unambiguous, and become weak when neither outcomes nor actions are observable.

Over and above the problem of vague output measures, the existence of multiple principals reduces the agent's incentives, because activities often desired by the principals to realize their respective goals are substitutes for each other. Each principal dilutes the incentives offered by other principals, making the agent's incentives less high powered, unless the incentives contracts are cooperatively chosen to internalize externalities between regulators.

Furthermore, not only can the wises contract with a lot of regulator but for a large amount, they also find resources on private market. When deciding to participate to a public procurement or to obtain some public funding, these firms must evaluate alternative private opportunities. In many cases there is a positive correlation between the agent's productivity in a given principal-agent relationship and his outside opportunity. This may in turn generate countervailing incentives. Basically, to attract the efficient type who has such profitable outside opportunities it is necessary to offer him a very high transfer. But then this contract becomes attractive for less efficient firms who now capture some strictly

positive rent. Countervailing incentives necessitate thus some pooling at equilibrium. And not adapted contract can attract less efficient firms/

Beside the specificity of the objective function of the WISE, the nature of the empowerment goal departs also from standard model. The qualitative feature of empowerment effort is so more closely related to credence good than contractible quality. While employment can be easily measured with short or middle terms statistics of employed people, empowerment

Once again, this feature is not specifically address by the literature. But some connected works help us to understand the impact of such characteristics. As for example, MORAND & THOMAS (2007) design the optimal procurement mechanisms, when agents are privately informed on their own efficiency and on observable but neither verifiable nor contractible quality. Their model highlights some drawbacks of widely used competitive process for allocating multi-attribute contracts. Consider as for example a local authority seeking to procure a cleaning contract dedicated to Wises. This procurement contract includes a specific valuation of the "quality" of accompaniment services proposed. If providing high quality of service is costly but quality non-contractible, the public buyer cannot disentangle, when observing a low cost tender a high efficiency firm with high quality and a inefficient one offering low quality. In such a situation, optimal procedures may imply some partial pooling of types, which is very far from actual practice or public procurement legislations, which either imply a totally separating mechanism when an auction is used.

The recent introduction of performance incentives in several branches of the public service sector, such as in job training, education, and health, has also raised concerns as to their impact on enrolment decisions. At the center of this debate is the issue that incentives induce to select applicants on the basis of performance on measured outcomes instead of value added according to the program's stated objectives. More precisely, where there is any discretion in taking or subsequently excluding unemployed people, incentive payments based on simple performance outcomes may lead to the taking on of those peoples most likely to achieve payable outcomes. Similarly, competition within quasi-markets in combination with output financing can give rise to such creaming: the Wises may want select the job seekers who are the easiest to place, in order to increase their measurable performance. Peoples at the greatest distance from the labour market may so be left out in the cold.

Incentives contract or performance-pay subvention may induce some Wises to provide little assistance to those with either insurmountable or high barriers to obtaining work, or who have low likelihood of achieving payable outcomes.

Conclusion

During the last few years, work integration social enterprises have been increasingly dependent on commercial resources through public and private markets. Following New Public Management reforms that try to modernise the sector via market oriented management, they have evolved, restructured and modified their practices. They so must be considered as organizations that react to incentives, try to optimize their objective subject to the constraint of public funding and alternative private resources.

Of course, if mechanisms were well designed, accurately designed, they of course may promote efficiency, enhance results in terms of quality of the integration services provided, and favour useful restructuring of the sector. But conversely, if these mechanisms are inadequate to this type of firms, insufficiently coordinated between local and national administrative layers etc... it may lead to unintended or even countervailing consequences. Creaming strategies, reduction of quality of services implied by low-powered incentives, countervailing incentives as for example, can be thought of as unfortunate effects of poorly defined policies. Because the service of integration through economic activity is a very special service, combining traditional output and more specific integration outcome, the regulator can't only cut and paste standard public company regulation 's model to Wises sector.

Our discussion yields useful insights into ongoing debates about the regulation of the WISEs. From a purely theoretical aspect, it emphasis the need of specific modelling development, taking into account the specificity of these firms, in terms of objective, motivations and activities. For a more applied perspective, it joints the debate currently at work in France concerning reform of the WISEs funding.

It is worth noting that a lot of French WISEs association, in a recent publication following the report on the funding of integration through economic activity of the Inspectorate-General of Finance and the

Inspectorate-General of social affairs, simultaneously accept the principle of performance-based subventions but ask for an enlargement ad a more comprehensive definition of the performance. Employment appears to be a poor indicator of the real social performances, as our discussion tends to show. They also ask for a simplification of the administrative layer-cake that may echo the problems the multi-tasking and multi-principals environment may generate.

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FIGURE 1: GENERAL SYSTEM OF CONTRACTUALIZATION

