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Deweyan Framework to
Explain Governance
Heterogeneity

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Inclusive and Exclusive Social Preferences: A Deweyan Framework to Explain Governance Heterogeneity

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Abstract

We suggest that Dewey's theory of value formation has implications for the contraposition between individual and social preferences in economics. We re-consider that distinction and introduce, instead, the notions of inclusive and exclusive social preferences. We then apply this distinction to governance forms and suggest an explanatory framework of governance heterogeneity which contrasts exclusive and inclusive governance structures. In the final discussion we illustrate a possible use of the framework for assessing cooperatives and social enterprises as well as traditional corporations. More generally, we argue that the assessment of governance heterogeneity would benefit from a consideration of the type of social preferences underlying formal as well as substantive involvement of publics.

JEL: B00, L2, L3

Keywords: private-public dichotomy, social preferences, pragmatism, governance heterogeneity, stakeholders.

1. Introduction

Business history, international business, organisation studies, institutional economics have provided evidence of the existence of a variety of business and production structures. Organisational variety has been explained in terms of links between resource allocation and the characteristics of each specific sector of activities, mainly building on ownership theory, transaction cost analysis, technological opportunities, the extent of the market and on the socio-cultural characteristics of communities (Chandler, 1973; Piore and Sabel, 1984; Weisbrod, 1991; Hansmann, 2000, Shleifer and Vishny, 1997; Aoki, 2000; Hall and Soskice, 2001; Grandori, 2004). Our aim here is to assess organisational variety from a perspective that has mostly gone unnoticed in previous literature and which accounts for the degree to which organisations care for “others.” In particular we enquire on whether organisations are prepared to integrate in their own decisions and doings the implications that their own strategies have on others, as part of the context in which they operate.

The nature of the organisational structure, exemplified in its formal governance and substantive practices, as well as the decision-makers’ preferences about strategic decisions and choices across alternatives, provide a fertile terrain to analyse the distinctive elements of preferences about others. The way we approach the problem is, as we shall argue, distinct from existing contributions in economics, and stakeholder theory in management.¹ Our work, in particular, addresses preferences about the motives and characteristics of decision-making processes with regards to the discovery of affected categories and impacts. We argue that the observation of a common behaviour, such as the search for impacts and publics, can be motivated by two opposite desires, one inclusive the other exclusive of others’ perspectives and interests. From these grounds, we analyse governance choices, strategies and methods of deliberation as “revealed preferences” about how decision-makers learn about others and

make use of such knowledge.

The methodological challenge consists of identifying the instruments for distinguishing amongst governance forms on the one hand and corresponding sets of preferences on the other. To this end, this work recognises a major area of concern with the current framework, exemplified by the debate around market failures, which particularly opposes the individual and the public domains of choice (Goodwin, 2005; Nelson, 2005; Sandel, 1998; Olson, 1965). This debate has considered economic choices a) as privately taken by self-interested individuals as part of a “free market” system; b) as “public” choices, centrally planned by the government, c) as a mix of the two, where the public role of governments is to correct for market failures. Rather, interpreting John Dewey’s work on value formation and publics, we consider the interconnections between the personal and the public dimension of so-called “private” choices, in the attempt to bypass the classic dichotomy that has separated them since the influential work of J.S. Mill (Mill, 1869; Dewey, 1927). In *On Liberty*, Mill seeks the philosophical basis for protecting individuality from the authority of society. The latter, for Mill, identifies the meaning of “public.”

The acts of an individual may be hurtful to others, or wanting in due consideration for their welfare, without going the length of violating any of their constituted rights. The offender may then be justly punished by opinion, though not by law. As soon as any part of a person's conduct affects prejudicially the interests of others, society has jurisdiction over it, and the question whether the general welfare will or will not be promoted by interfering with it, becomes open to discussion. *But there is no room for entertaining any such question when a person's conduct affects the interests of no persons besides himself, or needs not affect them unless they like* (all the persons concerned being of full age, and the

ordinary amount of understanding). In all such cases there should be perfect freedom, legal and social, to do the action and stand the consequences (Mill, 1859/1869, Ch. IV, our emphasis).

The identification of an individual sphere which bears no consequences for other envioning conditions (including other people) is portrayed, for example, in the economic theory of consumer preferences. Consumer preferences, and related choices, are worked out by looking at quantities of competing goods which are demanded by consumers for a specific set of prices. It follows that the study of consumer choices does not have an explicit public dimension: the consumer is strictly concerned with the utility that each unit of competing goods can bring him/her (See Earl, 1983 for an extensive methodological critique). Consistently, revealed preferences represent what actors in the economy are willing and able to pay. One of the widespread criticisms is that the willingness and ability to pay (strictly assimilated to what society values, or social preferences) allocates resources according to the will of those who can actually pay, disregarding the needs and desires of the poorest (Sen, 1985; UNDP, 1990; Goodwin, 2005). Typically, the demand for iPads of a small minority of relatively wealthy people would polarise market resources, despite the need for basic healthcare for these with very low income.

Market failure theory, on the other hand, has emphasised that in most circumstances individual preferences have social implications, although these are considered mainly as indirect effects of private action, which can be explained by the perfectibility of market institutions, as for externalities and market power. However, what we would stress more explicitly is that preferences are not, by their very nature, purely private, not least in their consequences. Rather, following Dewey (1927), each private choice must include a public dimension. Such dimension, in this interpretation, is not the arena of governmental choices. Rather it is the variable wave of influences that radiates from each individual choice. That is

why Dewey talks about a plurality of “publics” rather than “the public” as a monolithic entity.

For Dewey, it can be hardly argued that individuals are ever completely unaware of the fact that their choices impact, to some extent, on others (Dewey, 1917). The challenge for the decision-maker is to get to know what these impacts are, and use that experience to reassess his/her original aims. While Dewey’s moral philosophy places strong emphasis on this argument, economic literature, it seems to us, has neglected the point. In following this approach we are not alone, as the idea of an inquisitive decision-maker is very much the focus of Earl’s application of Kelly’s work to the study of behavioural choices, or of Habermas’ theory of communicative action, and is reflected also in Sacchetti and Sugden’s argument in favour of public *fora* for enquiry and creativity (Kelly, 1955; Earl, 1983; Habermas, 1996; Sacchetti and Sugden, 2009). Distinctively, in this work we differentiate and classify individual preferences with respect to the desire for learning about the public dimension of individual actions. After having considered the implications of this line of analysis for the conceptualisation of preferences, the paper explores possible applications to the study of organisations, and suggests an explanatory model of organisational heterogeneity based on inclusive and exclusive social preferences.

2. The costs of ignoring social inter-subjectivity in value formation

For Dewey (1917) the interaction of desires, habits, and conditions occurs through enquiry and experience: a process of discovery and valuation of both means and ends. These elements identify a learning process that can be detailed over time. Far from assuming complete specification, learning from experience means that the elements that individuals value and their connections are constantly incomplete, changed and restructured (Popper, 1945/2006;

Loasby, 2003). The aim of such constant scrutiny is the improvement of the life experience, and the sense of fulfilment associated with it. Here is why Dewey identifies the need to make human judgement subject to change as the overarching objective of this theory. In particular, he does so by recognising three main elements:

- 1) The interconnectedness of individual choices and actions with contextual conditions (including others);
- 2) The need to exercise enquiry to discover connections and understand their implications in order to form judgement;
- 3) The need to create deliberation methods that can support the enquiry process.

Especially in light of the need to base judgement on enquiry, value formation is not seen exclusively as an individualistic process. Rather, it requires the search for desires and perspectives as of those who are substantially affected by a private act, but not yet included in the process of evaluation. Individual desires interact and change as a function of other people's perspectives. The distinctiveness of an approach grounded on constant interaction amongst individuals with diverse views is that the ranking amongst potentially conflicting desires is constantly incomplete, as it changes following experience and context (Dewey, 1927; Habermas, 1996).

Echoing Dewey the publics are those who are affected by private choices but not included in the making of such decisions (Dewey, 1927). The cost of excluding interconnectedness from the formation of desires and ends is, for those doing a private act, a limitation in the scope of adaptation between desires and ends, as well as of those who are impacted by it. The effect of the private act occurs on others in the form of a change in the environment which they experience: other individuals may suffer the change and decide to act. This is more likely to happen if those who are impacted can discern the causal connections of their initial suffering, for example by combining intuition, enquiry, and communication. Such is the precondition

for scattered individuals to recognise and coordinate themselves as the publics of the private act and try to change the balance from suffering to doing. For Dewey it is such balance that defines the quality of life of the individual. The lower the possibility of changing the environment, the poorer is the life experience.

The issue becomes one of inclusion and exclusion, of who suffers *and* does, as against who mainly suffers the private acts of others, or environmental changes more generally. Differently, as the debate on methodological individualism in economics has emphasised, individual agency and choice have undergone a process of disconnection from their broader context, to which, however, the individual is linked through a variety of bonds (Hodgson, 1986; Kirman, 1992; Lawson, 2006). In practice, this methodological perspective creates the problem of the publics: excluded individuals or groups of people whose identity is related to the particular private decision at stake (Dewey, 1927).

The identification of publics and enquiry go hand in hand. We have pointed to the fact that experience and learning are particularly significant in a world of uncertainty. The individual is in fact a discoverer of reality, of the constructs (e.g. theories, ideas) that lead his/her choices. Very much in line with Dewey's call for a recovery of enquiry in philosophy and society, Kelly (1955) and Earl (1983) also build a parallel between the enquiring individual and the scientist. The constructs, or ideas, through which individuals approach reality are subject to change, following interaction with the environment and critical assessment. Each individual's world of ideas represents therefore a provisional way (although rather stable over time) of interpreting events (Kelly, 1955; Earl, 1983; Sacchetti and Sugden, 2009).² Moreover, across individuals we observe a multiplicity of constructs. It follows that there is not a unique interpretation of reality. This applies to the present, because of multiple interpretations, and over time, as experience can destabilise existing constructs.

The problem of the identification of publics, seen from this angle, is therefore not only one of identifying diverse interests, but that of accounting for multiple constructs through which individuals understand the nature of things. It is the diversity of the systems of ideas through which individuals see reality which in turn contributes to generate the interests and arguments around which publics cluster.

The consequence of excluding publics is the pervasiveness and the propagation of one approach to reality, of suffering over doing, debouching into a reduction in the quality of the life experience, a denial of individual inner creativeness, as well as into a limited understanding of impacts and opportunities (Sacchetti et al., 2009). The question is, therefore, how the identification of publics and their engagement are addressed at institutional level, across production governance settings and processes.

3. Inclusive and exclusive social preferences

In theory, the probability of each impact may be integrated in the assessment of the options initially considered by the decision-maker. However, the uncertainty which surrounds the actual results of a private action makes the initial assessment of public impacts a complex matter.³ Overall, cognitive limitations, incomplete information and uncertainty of outcomes shift the focus from ex-ante evaluation to experience. Experience entails a process of learning, which is activated by the articulation of particular preferences into actions, and by the observation and assessment of their interactions with surrounding conditions. As recognised also in evolutionary game theory, through learning decision-makers progressively address the limitations posed by cognition and imperfect information. Still, they can make use of their wisdom in different ways, shaping the relationship between private and public impacts discretionary depending, amongst other things, on their relative “power” *vis à vis* that

of others. We could observe a situation in which, even if known or learned during the implementation of specific private actions, public impacts are still excluded from the private decision. Typically in game theory explanations, where self-interest is the motive, this would occur if the decision-maker gets a higher pay-off, expecting the neglect for others not to cause any relevant negative feedback on him/her, provided that impacted actors are not in a position to retaliate (for experimental evidence, see Sacconi et al. 2011).

The decision-maker's preferences for improving his/her knowledge of the public impacts may be a reflection of quite different attitudes towards the publics. One attitude pertains those who, as part of the process of learning, look for ways to unearth the known and unknown sets of people who are affected by private choices with the aim of minimising their present or future influence on decision-making. From a production governance perspective, this behaviour denotes preferences towards the pursuit of private objectives even against the will of others (Zeitlin, 1974; Cowling and Sugden, 1998). The other attitude pertains those who, as part of the process of learning, look for ways to holistically unearth the known and unknown sets of people who are affected by private choices, but who do not necessarily affect the decision-maker in turn, in view of increasing their understanding, as an epistemological action towards the construction of "truth" rather than manipulation (Soros, 2007).⁴

So far, we can summarise our line of reasoning by saying that decision-makers' choices are empirical acts which bear practical effects on others. Such choices are private actions, in Dewey's terms, with a number of public impacts. We therefore argue that, if there is always a public dimension attached to private action (whether it is regarded or not by the decision-maker) the construct that separates self- and other-regarding preferences can be reviewed. The distinction is a basic pillar of extensive studies by institutionalists, game theorists, socio-economists and behavioural economists (Scitovsky, 1976; Bowles, 1998). These

contributions have addressed the evolution of behavioural patterns and connected social norms and genetics with individual preferences (Gintis et al., 2005; Ben-Ner and Putterman, 1998, 2000). By observing altruism amongst kin and reciprocal cooperation among non-kin, behavioural approaches in particular have contested the focus on purely self-interested motives and contend, rather, that individuals do account for others when making choices by reciprocating behaviours: for example, by punishing what they regard as a violation of culturally relevant behavioural norms or by responding fairly to fair behaviour⁵ (Rabin, 1993; Zamagni, 1995; Fehr and Schmidt, 1999; Fehr and Gächter, 2000; Hargraves Heap, 2008; see also Gintis et al., 2005 for an extended review of contributions, and Santos, 2011 for a critique).

In their analysis of the role of values in economic choices, Ben-Ner and Putterman (1998) add process-regarding preferences to the categories of self-regarding and other-regarding preferences:

“Self-regarding preferences concern the individual’s own consumption and other outcomes, other-regarding preferences concern the consumption and outcomes of others, and process-regarding preferences concern the manner in which the individual in question and others behave, *including the ways in which they attain outcomes of interest*. We shall refer to process-regarding preferences mainly as values, but sometimes also as codes of behaviour, mores, ethics, and by other terms, depending mostly on the context” (Ben-Ner and Putterman, 1998, p. 7, our emphasis)

The pragmatist perspective may help to comprehend how those three categories overlap at a number of cross-roads. As private actions have public bearings, it follows that also *self-regarding preferences* that underpin private actions have a public impact: they regard others.

Other-regarding preferences may, in some respects, overlap with self-interest when, for example, drawing from a desire for self-esteem or, more crudely, from a functional assessment of what can ensure survival in the long-run. *Process-regarding preferences* represent the choice of means towards the end; and means, besides ends, can be defined as self- or other-regarding. Process regarding preferences, from this angle, may not solve the puzzle that is created by the stark opposition of self- and other- regarding preferences, which reflects the distinction between the private and the public spheres of action.

Bypassing the partition between self-regarding and other-regarding preferences, we argue that *all preferences are social*, even though to different extents; which is to say that all choices attached to preferences have an impact (more or less significant, more or less acknowledged) on both the individual and the environment (including others). In order to avoid the ambiguity surrounding the interaction between the individual and the environment, we suggest overcoming the distinction between self- and other-regarding preferences, individual and social preferences. Rather, we would account for *inclusive* social preferences and *exclusive* social preferences. Opposing inclusive and exclusive social preferences does not need to contrast preferences towards selfishness and altruism, inequality and equality, justice and injustice, which are typically constructs related to the historical context in which they are applied.⁶ Still, our distinction does not eliminate the presence of the above motives from human action. Rather, it generalises the analysis by internalising the plurality of human motives and their evolution. It emphasises the dynamics of value formation, through consideration of the broader consequences and arguing for the need of creating appropriate processes of enquiry. It is essentially a critical angle based on pragmatic philosophy about learning to make sense of situations by accounting for the context, for others' perspectives and for the broad implications of actions.

The significance for the self/other dichotomy is the need for a repositioning of the economic

question also in the theory of market failure. In the orthodox economic approach there is no inter-subjectivity in preference formation: the self-regarding individual treats the environment, including other individuals, as an outsider, rather than as part of the experience. What happens, unsurprisingly, is that that environment is treated as an externality, to be eventually internalised in terms of additional compensation and negotiation costs (Coase, 1961; Bertrand, 2006).⁷ The internalisation of the externality, as a possible solution, assumes that the impacts are known. The theory of market failures itself, however, suggests the existence of information asymmetries and bounded rationality as one co-cause of transaction costs, a further form of market failure. If information asymmetries affect market transactions, we could expect the same type of failure for the “indirect effects” of these very transactions, i.e. externalities could be only partially known. As such, the presence of externalities is in principle consistent with the idea of inclusive social preferences: externalities can be, to some extent, unknown but the decision-maker could be willing and able to engage in a process of discovery. It is by dint of such process that the social impacts become part of the decision-making experience, which could lead, as a result, to a variety of solutions, not necessarily coinciding with compensatory transactions. This is because it is not the sum of the “utility” of each public that leads to the best possible outcome, but rather the search for “truth” through enquiry and communication. The process of inclusion is an open process of enquiry which is constantly incomplete. This point reflects Popper’s critique to closed systems when arguing for democracy, but hints also to the need for institutional solutions that recognise and require that actors engage in inclusive enquiry processes (Popper, 1945/2006; Habermas, 1996; Avio, 2002; Soros, 2007).

Similar concerns with the interests of publics can be observed in stakeholder management theory (Freeman et al., 2010). This places the corporation at the centre of the analysis, being

about what the firm's objectives are and, consistently, what managers' constructs suggest about the surrounding reality and the concerns to be taken into account when making decisions. Managers are the decision-makers who are positioned at the centre of a mesh of relationships, from where they can discriminate and provide legitimisation to stakeholders and confer to themselves the role of representing their interests. They have the faculty to retain control over strategic decision-making because of the governance structure of the traditional corporation. Consequently, decisions are likely to be taken not on the "power of the better argument," but on strategic power (Avio, 2002, p. 514). The scope for change is also bounded by corporate governance, which is not significantly altered by stakeholder engagement. Decision-making remains essentially a private act taken by a restricted group of individuals who may account, or not, for the interests of others, or their views of reality. Functionally, it is the fear of being regulated or to loose competitiveness that plays in favour of the legitimisation of key stakeholders. Normatively, engagement is argued as desirable because, ethically, it is the right thing to do, a perspective that may however leave the validity of arguments unscrutinised but which may, in turn, have positive functional implications for the firm. Problems however arise when the others affected are neither in a position to effectively argue, communicate and influence national regulation (such as local communities or employees), nor in a position to become the company's customers or suppliers (e.g. those who have sufficient levels of income, or domain-relevant knowledge that can be strategic for the firm).

Consider, for example, the widespread attacks to shipments of Somali pirates started in the Nineties. Piracy has clearly increased costs for the global shipping industry, whilst impacting on the economic and social development of communities in Somalia. An inquiry, however, on what triggered the initial metamorphosis of fishermen into out-of-laws would uncover issues which have roots in the way foreign business has exclusively decided on the use of the

Somali sea and costs, as well as the institutional and political vacuum in which the country lays (Lehr, 2006; AEDI, 2009). The Somali example, besides, suggests that exclusive social preferences, over time, misallocate resources, adding extra costs to businesses (e.g. transport, insurance, private security) in the attempt to protect ships, people, and commodities from pirate hijacking. At the same time, piracy impacts on the development of economic activities within communities, crowding out initiative by distributing money from ransoms, as well as by jeopardising the delivery of food aids to the country. The initial choices of foreign fishing companies to exploit the institutional vacuum by overexploiting fishing, or the choices of those countries that later on dumped toxic wastes into the sea, explicitly disregarded the interests of costal Somali communities, and were actually the expression of exclusive social preferences, which eventually have been turned against them.

Alternatively, a desire to engage in the discovery of connections through enquiry requires a desire for setting appropriate deliberation methods, beyond the price mechanism when it comes to externalities, and ahead of the bounded perspective and interests of few within and across corporate networks. A deficit in deliberation denotes exclusive preferences and, at the same time, affects choice. It undermines enquiry, beyond fairness, leading to the wrong conclusions about what may happen next, and therefore misleading the formation of desires, aims and their evaluation over time. Alternatively, even when some effects on the publics could be anticipated, under conditions of power and information asymmetries, or institutional vacuum, private choices may be made so that such effects are disregarded, leading to decisions that hijack the experience of people more broadly. Such behaviour denotes preferences towards the exclusion of known impacts at the expense of others.

4. A framework for the analysis of production organisations

If we consider all preferences as inherently social, production choices can be reconsidered consistently in terms of the degree to which they include appropriate methods of enquiry and deliberation. There are two aspects of production choices, specifically, that are taken into account here. The first is the choice of the formal structure of the corporation, which provides a view on the structural nature of the organisation and the formal mechanisms of deliberation. The hierarchical corporation would be an exemplification of concentrated decision-making power and exclusive social preferences regarding formal structures. On the other hand, a cooperative or an employee-owned enterprise would exemplify a governance structure with inclusive deliberation mechanisms, with a focus on the empowerment of its members or employees more specifically.

The second aspect of production choices regards behavioural attitudes, or strategies as far as organisations are concerned. Strategies concern the attitude of decision makers towards “others” and, therefore, they are about making sense of choices and their impacts. Strategic decision-making mechanisms that reflect socially inclusive preferences are those which problematise situations not just regarding one’s own private concerns, but include and search for publics and their perspectives. Such publics may be scattered and yet to be found, or may not be in a position to impact on the operations of the organisation. Stakeholder management may at times get close to this ideal situation, although with the limits earlier emphasised in stakeholder theory. In particular, being located in the framework defined by the traditional for-profit corporation, stakeholder management tends to consider those stakeholders who can impact on corporate profitability or, alternatively to focus on the moral imperative of doing good, rather than on enquiry. The Deweyan idea of publics goes beyond that, identifying as publics all those who have “a shared concern with the consequences” of a private act and still

may happen to be unaware of these effects (Long, 1990, p. 171; Branston et al., 2006). On the other hand, it feeds the enquiry process by nourishing deliberation with diverse views of reality, knowledge and interests.

Conversely, exclusive social preferences shape deliberation mechanisms which do not contemplate the inclusion of other perspectives and interests rather than those of the decision-makers themselves. On this extreme we find for example traditional corporations with no strategy towards stakeholder involvement.

Social preferences regarding strategies subsume also the nature of network relationships across firms, encompassing governance beyond the legal boundaries of the organisation. Networks are a particularly fertile terrain for the analysis of social preferences in decision-making, as the characteristics and implications of the organisation of inter-firm linkages are typically identifiable through an analysis of subcontracting relationships and collaborative agreements. Existing analysis, in particular, has identified networks based on direction (and therefore exclusion) and networks based on mutual dependence (and therefore inclusion) as the two extreme situations alongside which to position the organisation of production, and for assessing the extent to which specific publics are included (Markusen, 1996; Sacchetti and Sugden, 2003).

If we bring together social preferences regarding formal government structures with those about strategic decision-making, we obtain the following hypothetical combinations.

Figure 1: Social preferences in organisational choices

		Social Preferences on Strategy Making	
		Inclusive	Exclusive
Social Preferences on Governance Structure	Inclusive	1. Inclusive/Inclusive (e.g. social enterprises with a membership; cooperatives and employee-owned companies with some deliberation mechanisms or strategies for the inclusion of publics)	2. Inclusive/Exclusive (e.g. Employee ownership or cooperatives with no deliberation mechanisms or strategies for the inclusion of publics)
	Exclusive	3. Exclusive/Inclusive (e.g. the traditional corporation engaging in genuine strategies for the search and inclusion of publics; a social enterprise highly committed to the mission with a mono-stakeholder structure and low involvement of publics, e.g. a private foundation)	4. Exclusive/Exclusive (e.g. the traditional corporation with no strategies for the inclusion of publics; or addressing stakeholder engagement as a form of constraint to the corporation's activities)

The combination of social preferences regarding governance and those regarding strategy-making highlights situations of idiosyncratic preferences, as in cells one and four; as well as combinations of heterogeneous preferences, as in cells two and three. In cell one, the initial values and ideas that supported the choice of governance, exemplified by the membership, are consistently carried forward to include the strategies towards other publics, operating within (e.g. volunteers) and outside the organisation (e.g. suppliers or other actors in the civil society, such as users, costumers, the public administration, or other interested actors depending on the mission). This is often the case for particular forms of social enterprises characterised by multi-stakeholder governance (Tortia, 2010). In cell four, we find quite the

opposite, with a consistent persistence of exclusive social preferences, both in the initial choice of government and in the decision-making approach, which is controlled by a few who, in this particular case, prefer not to account for the needs and views of others.

In cell two we find organizations which show inclusive social preferences towards the internal membership, but do not go beyond, by retaining an exclusive approach to strategic decision-making. We locate in this cell firms founded on democratic governance principles, such as cooperatives, which however are mainly accountable to their members and with no particular concern with other types of impacts. This interpretation would be consistent with Hansmann's analysis of cooperatives, which grounds governance choices in the minimization of transaction costs when market failure is present (Hansmann, 2000).

Heterogeneous situations, where the values expressed in the governance structure do not, or only in part, match behavioural attitudes and methods of deliberation, may be the outcome of a change in management or leadership, emphasizing the importance of individual values. Or they can be the effect of environmental changes, such as a change in the market structure or public action introducing new regulation, thus channeling corporate behavior towards what is acknowledged as being beneficial for the wider community. In cell three we may find firms which react to such exogenous changes, as well as adjustments introduced by managers or entrepreneurs who come to support inclusive social preferences for example through a wider engagement with stakeholders. We can position here also social enterprises with a board of managers that is strongly driven by the initial mission, but with no membership.

More radical changes, with movements from exclusive governance structures (as in cells three and four) to inclusive structures (cells one and two) have occurred in particular as some companies experience a generational change. This is exemplified by the case of John Lewis in Scotland, which has turned into an employee-owned company (Erdal, 2011), or by social

enterprises buying out family businesses with no prospects for continuation after the owner retires, as exemplified by a recent initiative lead by Social Firms Scotland, an umbrella organisation which promotes the employability of disadvantaged workers.

5. Analysis

In cell one, inclusive preferences identify an ideal-type organisation in which the structure and the methods of deliberation reflect a desire for inclusion and social cohesion. The main stakeholders are included and the publics are searched for with the aim of debating around their interests. Internally, recognised and established stakeholders can actively voice their desires and ends. They are involved in the definition of objectives at different levels – e.g. workgroup, managerial, corporate policy levels. Coordination mechanisms are based on democratic rules at a formal level, and on deliberation at the substantive level. One basic feature of such organisations is their receptivity towards the evolution of values and associated aims. Performance measures change accordingly, or even anticipate change by creating information and communication systems which are exploratory of new potential publics.

The tendency to involve a wide range of subjects in terms of membership rights and in terms of substantive organisational practices, both internally and outside the organisation, has a clear correspondence with each member's desire to participate substantively in the activity of the organisation and in the definition of its objectives, without denying the emergence of others along the process. In an organisational environment based on involvement, consistent patterns of behaviour are facilitated by specific routines which aim at smoothing the barriers imposed by exclusive preferences. In this way, diverse desires interact adding beneficial

effects in terms of information and effective communication, as well as in terms of creation and accumulation of organisation specific knowledge. The interaction among multiple individual desires and values becomes institutionalised within the organisation, opening up development potentials whereby individuals can relate in a set up that has been specifically designed to enhance the benefits of cooperative effort. In this regard, inclusive preferences become a governance criterion for the evolution of organisational behaviour and decision-making processes.

The other extreme of the framework (cell four) defines an ideal type organisation where control (and ownership, but not necessarily) is concentrated in the hands of one or few subjects. In the exclusive preference characterisation, the preferences regarding the structure and decision-making are exclusive, reflecting strategic control as a causal value. Hierarchy, as a coordinating mechanism, is paired by the exclusive exercise of control over choices about the structure and strategic decision-making, including resource allocation and distribution. We call such hierarchies exclusive, as opposed to other hierarchical structures where governance follows a democratic principle (i.e. one member one vote rule). Within the exclusive hierarchy, the desires and ends that matter are in the core, where decision-making power sits. Therefore, only the valuation process of those sitting in the core is relevant in terms of analysing strategic choice. This occurs because all the others are not empowered by the core and, therefore, what they value is not taken into account or is not allowed to emerge, except in terms of potential difficulties or negotiation costs, and constraints.

The exclusive exercise of control through hierarchy lacks to accommodate diverse and evolving desires and values in at least two respects. First, rather than following the plurality of values that decision making in the organisation of production entails, paired with a

hierarchical structure, exclusive governance allows, in principle, that the desires, ends and corresponding values of the few superimpose on those of the majority of individuals, those on which choices in production governance have a substantive impact, and who have nonetheless to comply with extra-personal wants. Secondly, and as a corollary of the first point, a hierarchy of values is created, where the highest rank is occupied by the values associated with the objectives, processes, and outcomes defined by few. The first problem refers to the presence of individuals with different desires and aims. The second issue arises because prior judgement does not give to desires and aims equal dignity, therefore countervailing the idea that evaluation evolves through enquiry, communication and experience, changes with action and modifies individual desires and aims accordingly.

The choice of exclusive hierarchy reflects the assessment of particular qualities. It is the decision-maker who deliberates on what is to be valued. Still, exclusion from the decision-making experience may not constitute a negative value of hierarchy to the eyes of decision-makers. Yet, exclusion negatively affects the decision-makers themselves, as the exclusive hierarchy may become an un-scrutinised end with unwanted results in the organisation of production. In this case, the use of exclusive organisational structures and practices cannot be defined as the intermediate objective which fulfils a desire for efficiency. Rather it is an objective fulfilling the desire for control of strategic choice processes (Cowling and Sugden, 1998).

If such desire for concentration and control over production governance, implemented through the application of exclusive decision-making rules and hierarchy is not subject to enquiry or when its value is not tested *vis a vis* its broad consequences, society may fall into false beliefs, lacking to address its broader needs with the means at hand; even decision makers will loose, in the long run, their capacity to address future uncertainty. Besides, exclusion deprives individuals of the experience of governing production, negatively

impacting on the exercise of their own judgement and creativity (Sacchetti et al., 2009).

6. Conclusions

The framework that we have suggested offers an explanatory model of governance heterogeneity which considers the type of social preferences underlying the formal as well as the substantive role of publics in strategic decision-making. The model has explanatory power in so far as it can assess the degree of inclusiveness or exclusiveness of governance structures and of decision-maker preferences inside organisations. We have argued for a dynamic analysis, whereby the evolution of preferences, specifically, occurs through communicative and reflexive experience, such as when the outcomes of choice feeds back on preference formation, by means of critical thinking, communication, and learning. Consistently, the social preferences framework points at the possibility of movements from exclusive to inclusive preferences, and vice versa. In order for dynamism to occur, we would argue, in conclusion, for a proactive policy approach which supports individual critical abilities and the creation and evolution of a variety of governance structures and decision-making mechanisms, so to reflect the evolving plurality of social preferences in society.

As part of its potential, the framework can help with the evaluation of socio-economic systems in terms of the typology and variety of organisations that populate it. One possible application is the analysis of relationships between socio-economic development measures and observable social preferences in the governance of production. Beyond private organisation, the framework could be applied also to governmental organisations. Decision-makers in the public government arena develop different views of the world and adopt, not less than others, diverse behaviours with respect to the inclusion of publics. Our framework can help clarify aspects of social preferences as reflected in the analysis of the motivations and outcomes of industrial policy (Cowling and Tomlinson, 2011; Chang, 1997), as well as in

other specific policy areas,⁸ in the processes characterising regulatory arenas (Hancher and Moran, 1989), and more generally in practices of problem solving in public policy dilemmas (Avio, 2002).

Still, the contradiction that we are left to explain is why, despite the fact that inclusive social preferences and deliberation improve understanding and validity of choices, the reality of production organisation is widely characterised by exclusion (Sacchetti et al. 2009). There must be a cumulative cycle which perpetuates one type of approach. The body of research which has been developed by institutional economists offers a number of perspectives on the persistence of established patterns. Efficiency, in particular, may not be the key when maturing exclusive rather than inclusive preferences. Rather, reflecting Hymer's study of transnational corporations and the strategic governance literature, there may be other motivations at play, such as the desire to control (Hymer, 1972; Zeitlin, 1974; Cowling and Sugden, 1998) or, conversely, pro-social motivations (Borzaga and Becchetti, 2010).

A concurrent explanation mirrors the complexity of deliberation, or the fact that exclusive organisational structures can be simpler than those requiring more sophisticated collaboration mechanisms, and can be also easier to implement. For example, besides community size and actors' distance, as emphasised by Dixit (2009), the formation of social preferences has been associated with complex courses of value transmission through socialisation (Ben-Ner and Putterman, 1998). In general, institutional design is the synthesis of complex historical circumstances and experiences which require fine-tuning over time, as the studies on the self-management of common pool resources suggest (Ostrom and Basurto, 2011).

Finally, path-dependence and institutional inertia can limit or slow down the opportunities for change, even when individuals show different social preferences *vis à vis* those embedded in existing governance structures.

Our framework, in these respects, can be enriched towards explaining where the loop is, by introducing contextual elements, such as the nature and distribution of production resources, market structure, and the institutional and regulatory framework supporting value formation and organisational variety.

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Footnotes

1. From our angle, concerns expressed in behavioural economics and stakeholder theory would come in the analysis at a second stage, as specific cases, once the values, or conditions, underlying decision-making are understood.
2. Simon (1962) analyses the resilience of explanatory structures, which depends on the strength of the links between theoretical constructs and reality. Simon argues that it is the extent to which the structure is decomposable that defines its survival in the face of turmoil. Cf. Earl (1983) for an extensive treatment.
3. Consistently with bounded rationality, the search for options and impacts is never complete, due to cognitive limitations, lack of information and context dynamism. Rather than engaging in complex calculations, individuals tend to assess situations and chose following habit or using a rule-of thumb aiming at satisfying outcomes (Simon, 1959; Loasby, 1979; Earl, 1983).
4. Both attitudes towards the search of publics are consistent, in management, with broad definitions of stakeholders as those who are affected or can affect the interests of the company (Freeman et al., 2010).
5. In public goods games, consistently, cooperation is enhanced by the setting of appropriate rules which allow individuals to punish free-riders even though at a cost to themselves.
6. Even so, although we can justify the use of inclusion and exclusion on the ground of enquiry and rational decision-making criteria, the basic conditions of deliberation and inclusion of publics have been argued to increase the overall justice of social and economic systems (Young, 2000).
7. Externalities are considered the indirect outcome of private choices. These are confined to ends which are served by for-profit objectives within markets. Indirect

effects occur outside, via different channels, and are therefore disregarded: such ends do not represent an option where private investors would allocate resources. The literature on market failures identifies a separation of private and social costs and benefits, mirrored by the disconnection between the preferences of private actors on the one hand and the preferences of the excluded actors on the other. The eventual internalisation of social costs can be determined by the willingness to avoid sanctions established by government regulation (Coase, 1961; Goodwin, 2005).

8. An example is urban planning, where community engagement has become a fundamental component of planning and regeneration projects (Secondini and Proli, 2007).