

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

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Abstract

We suggest that the pragmatist theory of public interest has implications for the contraposition between self-regarding and other-regarding preferences in economics. We re-consider this distinction and replace some of the existing categories with the idea of inclusive and exclusive social preferences over both organizational and strategic decision-making domains. The value is in the idea of both exclusive and inclusive preferences being social in nature and in the application both to the internal organization and its impacts on people outside. Our framework explains governance heterogeneity by contrasting exclusive and inclusive social preferences in cooperatives, social enterprises, as well as traditional corporations. A discussion of the evolution of social preferences is addressed through examples and regional experiences. We argue that the social preferences perspective contributes to understand the cause of strategic failure in the development of localities and regions.

JEL: B00, L2, L3

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“We may desire abolition of war, industrial justice, greater equality of opportunity for all. But no amount of preaching good will or the golden rule of cultivation of sentiments of love and equity will accomplish the results. There must be change in objective arrangements and institutions. We must work on the environment not merely on the hearts of men. To think otherwise is to suppose that flowers can be raised in a desert or motor cars run in a jungle. Both things can happen and without a miracle. But only by first changing the jungle and desert.”

(Dewey, 1922, p. 27)

1. Introduction

Like other critical approaches to an exclusive globalisation process centred around the aims, choices and modalities of conventional equity-based corporation, this paper starts from a recognition of the public failures associated with the dominant way of organising production (Cowling and Sugden, 1994, 1998a, 1998b). We wish to problematize such failures by offering an analytical perspective that unbundles the relationship between strategic choices in production and the public sphere, and argue that by recapturing the spirit of interconnectedness between strategic decisions, their contextual conditions and consequences we can identify the potential of different forms of production governance to meet societal needs.

The interconnections between private actions and public impacts have been profusely explored in economic analysis. However, analytically, the private and the public (or social) dimensions of individual action have been traditionally kept separate. 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).

Consistently, in their conceptualisation, preferences are typically divided in two categories: the self-regarding and the other-regarding, where the first are contextualised in a purely private domain, whilst the second denote individual dispositions towards others or towards society at large. Stakeholder management or policies correcting for market failures, consistently, would emphasise the support of “socially valued outcomes ... by harnessing selfish motives to socially valued ends...” (Gintis et al. 2005, p. 4),¹ such as when connecting pollution control or workplace safety to productivity or absence of penalties. On the other hand, experimental results suggest that individuals do not, in many instances, behave as self-seeking agents, but rather express other-regarding preferences when faced with a choice (Ben-Ner and Putterman, 1998).

In line with earlier pragmatists and institutionalists, we suggest that the separation between the private dimension and the sphere of others can lead to a misinterpretation of the context and consequences of what is commonly understood as a “private” choice (Dewey, 1927; Clark, 1926; Kapp, 1963). Differently, we want to emphasise the interaction between behaviours and their context, embedding the public dimension into the economic conceptualisation of private choices. The public dimension, in the interpretation of this paper,

¹ Gintis continues saying “Effective policies are those that support socially valued outcomes not only by harnessing selfish motives to socially valued ends, but also by evoking, cultivating, and empowering public-spirited motives” (Gintis et al. 2005, p. 4).

is not the arena of governmental policies,² as in Stigler (1971) and Posner (1974), or central planning, as in Hayek (1944). Rather we consider the public dimension as 1) the objective environment represented by social institutions which affect the formation of particular tendencies in the way individuals act (prior to action); 2) the known and unknown variable wave of influences that radiates from each individual choice (following action). What we aim at stressing more explicitly in comparison with established theories is that preferences and related choices are not, by their very nature, purely private, not least in their *antecedents* and *consequences*. Rather, following Dewey (1922, 1927), we openly recognise that, not some, but each private choice must include a public dimension:³

“Breathing is an affair of the air as truly as of the lungs; digesting an affair of food as truly as of tissues of stomach ... There are specific good reasons for the usual attribution of acts to the person they immediately proceed. But to convert this special reference into a belief of exclusive ownership is as misleading as to suppose that breathing and digesting are complete within the human body.” (Dewey, 1922, p. 24).

Infusing our interpretation of the pragmatist and early institutional spirit, we consider decision-making in particular, as a composite function of the objective environment in which decisions are taken in the first place, of the subjective dispositions and habits of thought that underpin decisions, as well as of the consequences of related actions (Dewey, 1922; Veblen, 1898). It follows that particular patterns in strategic choice are not to be attributed solely to the subjective dispositions of decision-makers, but also to an objective component defined by social customs, pecuniary institutions (such as the “profit-seeking enterprise”, the price system, profit-seeking behaviour), business regulation, production technologies, and to the

² According to standard views in economics, the State is viewed as acting for the public interests against market failures or, as the Chicago school suggests, as the maker of regulatory policies which are nonetheless captured by specific industries for their own private interest. These perspectives and debate are reviewed by Chang (1997).

³ In Sandel’s view, the temptation to decontextualize choice from its context has seduced Rawls (1971) who, whilst seeking a construct for achieving just choices, had to cut bridges with individual identity and experience (Sandel, 1982; Quinn et al. 1997). This is however a problematic argument that would deserve a wider debate. In Rawl’s defence, the pre-commitment to the creation of an unbiased normative framework can be considered as a necessary condition for the development of the type of democratic interaction envisaged for example in the pragmatist approach.

pre-existing experience of each individual interacting with them (Atkins et al. 1931; Mitchell, 1924).

We convey Dewey's emphasis on the interconnectedness of individuals and their context by considering: the nature of decision-makers' dispositions towards others; whether there are tendencies in such dispositions that would prevail under different socio-economic institutions; the features of the socio-economic conditions in which particular tendencies in production organisations develop or perish. In practice, we observe how in different situations the choice of production aims and processes embed, at their heart, the methods for critically evaluating the contextual conditions and impacts of strategic choice.

The paper proceeds by overcoming the partition between self-regarding (private) and other-regarding (social) preferences, and considers instead that all preferences are social, whether inclusive or exclusive of the effects on others and society. We then argue that in the current economic environment, strategic choices do not reflect, as a norm, inclusive social preferences, therefore preventing production choices to achieve collectively beneficial ends. Following these considerations we present a framework to discriminate amongst business types and provide possible explanations for the emergence and persistence of exclusive rather than inclusive forms of production organisation. In particular, we reason on what elements can be expected to lead to the development of more (or less) inclusive social preferences amongst business decision makers, reinforcing, in our conclusions, the role of individual dispositions as well as the meaningfulness of institutions and policy action in supporting and empowering the expression of inclusive social preferences. Specific examples are used to exemplify our arguments.

2. Inclusive and exclusive social preferences

To explain the ambiguities that can originate when overlooking the interconnections between individual action, socio-economic institutions, and public impacts consider the conceptualisation put forward in Ben-Ner and Putterman (1998):

“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)

In this view procedural preferences provide the contextual dimension, defined by the shared values underpinning the choice of means, whilst self- and other-regarding preferences entail the subjective dimension, that is how individuals regard their own choices and the choices of others. Our perspective may help to comprehend how, by separating the objective and the subjective world, by keeping procedural preferences separate from self- and other-regarding preferences, treated in turn as separate entities, the three categories overlap at a number of cross-roads. As private actions have public bearings, it follows that also *self-regarding preferences* underpinning private actions have a public impact: they regard others. *Other-regarding preferences* may, in some respects, overlap with self-interest when, as utilitarians would put it, this maximises one’s utility, for example, drawing from a desire for self-esteem or, more crudely, from a self-centred 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. By providing the context in which humans interact, socially accepted processes are, moreover, means which can in turn impact on the formation of self- or other-regarding dispositions.

In order to avoid the ambiguity surrounding the interaction between the individual and the

public sphere, we suggest in the first place overcoming the distinction between self- and other-regarding preferences, purely individual and social preferences. If we do so, the first problem for the decision-maker becomes of understanding the possible consequences of one's actions. Besides the impacts of choices on society at large, Dewey talks about the existence of a plurality of "publics" rather than "the public" as a monolithic entity (Long, 1990). In this sense we can say that specific publics are generated by each action. It also follows that each socio-economic actor is part of one or more publics (Dewey, 1927). An appreciation of consequences, therefore, comes from the discovery of publics. What this requires is a disposition towards enquiry at the subjective level, as well as supporting and enabling institutions at an objective level (ibid.).

We follow the pragmatist interpretation of action, and build a perspective on the dispositions of decision-makers towards two dimensions: cognition and inclusion. The *cognitive* element signals the decision-maker's attitude towards enquiry, his/her desire to uncover false beliefs and create new ones. This is a disposition towards discovery and use of critical thought, which is not the same as saying that human cognition does not have limitations. Rather, the opposite is true: enquiry requires recognition of human cognitive limitations, from which the relevance of reflecting on experience, using critical thinking and deliberation. Such a process involves the constant appraisal of initial ends and actions as we interact with others and with the context more broadly. Learning about what we find acceptable must be an inter-subjective experience.

Complementary, the *inclusion* element pertains to the means or processes through which actors pursue enquiry and inform their choices. Actors can pursue knowledge either by processes that are exclusive or alternatively inclusive. In the first case actors adopt a "presentist" or "libertarian" approach, as Offe (2011) calls it, by which the individual actor is at the centre of the strategic decision-making process, regardless or despite the interests of

others, including future generations (Cf. Zeitlin, 1974; Cowling and Sugden, 1994). Alternatively, actors can account for the known impacts of their own choices on self and others, whilst seeking to improve understanding, mostly by sharing knowledge, experiences and decision-making power (Sacchetti and Sugden, 2009; Sacconi, 2011).

Both dispositions, the exclusive and the inclusive, carry implications (more or less significant, more or less acknowledged) that reach beyond the individual sphere. The first disposition stresses the individualist or elitist dimension of decision-making, detaching the process (but not the outcomes) of decision-making from its wider consequences. The second pursues enquiry and choice by means of inclusion. It follows that *both the exclusive and inclusive preferences are, in different ways, public and social in their nature*. For the first, the public and social dimensions are defined solely by their consequences, whilst for the second they are inherent features of both consequences and process. To clarify we would say that the exclusive disposition encompasses the public dimension to the extent that it marginalises the interests of the publics affected (others) or the interests of society at large (the common good), therefore placing the needs of the excluded in jeopardy.

Reflecting on the nature of free trade, Cowling and Sugden (1998a: 349) have referred to this phenomenon as *strategic failure* or “the failure of an economy’s system or process of strategic decision-making to yield the most appropriate outcomes for the society served by that economy” due to strategic decisions in production being concentrated in corporate hierarchies and made by a restricted group of managers or stockholders. Differently, true enquiry requires a cooperative and democratic discovery process, which finds at its heart the constant and critical appraisal of means, ends and consequences. It follows that actions based on the inclusive disposition reach beyond the individual actor’s sphere: not only because they impact on others and society at large (thus affecting others’ ‘negative freedom’), but also by means of engagement, shared decision-making and learning (the ‘positive freedom’ aspect)

(Berlin 1958; Joas, 1996).

3. The problem of false believes and the need for deliberation

From a pragmatist perspective, the desirability of production processes that favour enquiry and involvement is justifiable on the basis that exclusive allocation of decision-making power can undermine enquiry and perpetuate ‘false believes’ about conditions and consequences on the one hand, whilst causing strategic failure on the other. The first reason is of philosophical nature, whilst the second builds on the strategic and operational aims of firms. Our argument is that the more strategic decision-making and responsibilities in production are shared and enquiry is pursued a) the more society eradicates false believes around the aims and modalities of production, and b) the lower is strategic failure.

As an illustration of the argument, consider 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 enquiry, however, on what triggered the initial metamorphosis of fishermen into out-of-laws would uncover issues which have roots in the way 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, eroding efficiency by adding additional costs to businesses (e.g. for 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 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 coastal Somali communities exacerbating strategic failure. These choices were the expression of the interaction between objective institutional conditions and the subjective personal dispositions of decision makers (which eventually have been turned also against the decision makers).

The problem of false believes has been a favourite theme in the pragmatist philosophy of science. Peirce and later Dewey, in particular, emphasised that scientific enquiry has at its core the liberal tradition of questioning false believes and the creation of new ones. But because false believes can jeopardise the development of a variety of other aspects of human life, Dewey also argued that the need for enquiry should have not be confined to the scientific domain, but be extended to other fields of society by means of deliberative inter-subjective processes of learning (Dewey, 1927; Kelly, 1955; Earl, 1983).

The deliberative method entails open communication among individuals based on the quality of arguments rather than on power or information asymmetries. Understanding and learning are therefore the result of an inter-subjective process, i.e. they depend on the publics involved and on the historically and culturally situated circumstances with which decision-makers interact. It follows that the efficacy of deliberation must be monitored and assessed by virtue of the extent to which diverse and *potentially* conflicting interests are accommodated and strategic failure is minimized over time. We can reasonably associate the odds of achieving such outcomes with objective contextual conditions, defining the possibility for publics to access and make sense of the decision-making processes, as well as with the habits and disposition of individuals to imagine the consequences of different patterns of action, exchange views and knowledge, learn and achieve a shared decision, despite diversities.

Albeit the case for deliberation can be argued on the ground of the desirability of enquiry, the pre-conditions for effective deliberation are very demanding, as it would require the creation

of an enquiry habit, or a pattern in the way individuals tackle decision-making by exercising critical thinking, creative intelligence and imagination (Dewey, 1917; Taylor, 1989; McVea, 2006; Sacchetti et al. 2009). The emergence of such tendencies requires the existence of factors (such as specific skills, even distribution of decision-making rights, knowledge sharing, trust and reciprocity amongst actors) that permit understanding, awareness, access and meaningful participation in deliberative processes (Dewey, 1922; Habermas, 1996; Sacchetti and Tortia, 2013). These conditions clearly exceed the nature of individual dispositions to include the creation of an institutional framework that enables consistent governance models, different from the one promoted by conventional corporate hierarchies (Quinn et al., 1997). At the same time, the decision-making process must maintain resilience to the intensification of complexity brought about by deliberation, specifically by identifying governance structures and practices that can make inclusion meaningful and sustainable, such as those based on stakeholder membership and democratic management of resources (Ostrom and Basurto, 2011).

Note that the consolidation of enquiry-led inclusive behaviors is not against the functioning of markets. Nonetheless, market institutions, like other objective conditions, can change as an outcome of such dispositions. We must not think, however, that a change in market institutions, albeit possible, shall be always viable. In most cases it shall not, as for objective conditions to change a “crisis of experience” would have to be acknowledged and acted upon across different levels of society (Dewey, 1922:37; Nelson, 1994; David, 1985).

4. Corporate hierarchy and strategic failure: widening the consideration of contexts and consequences

Such crisis, apparently, has yet to come. Mostly we would argue, because only a portion of

the consequences of production organisation are measured (e.g. productivity and competitiveness) and because the appropriate conditions for deliberation are lacking in conventional hierarchical corporations.

The reality of production governance and strategic decision-making, differently from the deliberative ideal, is based on explanations centred on the exploitation of power differentials. In other words, because relations are unequal, there is no spirit of enquiry inside corporate hierarchies (e.g. in the relation between superiors and subordinates) or in the governance of inter-firm production relations (Erdal, 2011; Marglin, 1974; Quinn et al. 1997; Sacchetti and Sugden, 2003). Rather, decision-making is understood in terms of a negotiation among self-interested actors who will exploit power and information asymmetries, even at the detriment of others (Coase, 1960). To illustrate, consider the transaction cost approach and the strategic choice approach to the theory of the firm.

Transaction cost economics has explained organisational structures in terms of their efficiency in reducing asymmetries that leads to opportunistic behaviour and moral hazard (Williamson, 1985). Transaction cost theory, in these respects, sees firms as instruments operated for the reduction of such asymmetries and the pursuit of economic efficiency. In doing so, it typically interprets extensive inclusion in deliberation processes as leading to a rise in transaction costs and, therefore, as detrimental to economic efficiency and competitiveness.

From a different angle, theories of strategic failure and uneven development see conventional corporate organisations as mechanisms aimed at the exploitation of asymmetries. As Cowling and Sugden (1994) have explained, by concentrating control, decision makers can shape strategic choice (for example, on investments, employment and output) according to their own private interests, with no guarantee that such interests will correspond to what society

deems as desirable (Cowling and Sugden, 1994; Cowling and Sugden, 1998a; Cowling and Tomlinson, 2000). The consequence, as Hymer argued, is that the concentration of control over production decisions within the elites of corporate hierarchies has the power to promote inequality of ‘income, status and authority’ across regions and people (Hymer, 1972). This particular critique of globalization shares a concern for the fact that production choices have become increasingly a prerogative of restricted elites, mostly sitting in large transnational corporations. Authors have argued that the current situation compromises the principles of self-determination of communities and democracy, whilst perpetuating uneven development and strategic failure (Hymer 1972; Cowling and Sugden 1998a; Cowling and Tomlinson, 2000; Sacchetti, 2004; Sugden and Wilson, 2002).

Albeit from diverse perspectives, the transaction cost approach and the strategic failure approach offer two relevant focal points for interpreting the multifaceted socio-economic consequences of production organisation. We could say that transaction cost theory reflects, at operational levels, the organisational attempt to reduce the exploitation of information asymmetries and other moral hazards which undermine economic efficiency. To make sense of the wider socio-economic impacts, however, we need to see this type of economic efficiency as nested within the overarching strategic aim that, as strategic failure theorists argue, animates the fundamental governance choices of conventional corporations. Such aim would be the concentration of strategic decision-making power for the pursuit of particular interests.

Against the 1950s view that presented conventional equity-based companies as entities that look after the public interest (Cf. Ireland, 2010 and Wade, 2009 for a criticism), exclusive governance indicates that, despite the intent of achieving internal cost minimisation, we can expect strategic decision-making to omit a multiplicity of relevant views and interests, thus

fostering the perpetuation of false beliefs regarding the needs of society (such as the that production must be organised by means of conventional corporate hierarchies) and eventually decreasing organisational efficiency besides failing to account for wider social objectives and interests.⁴ Moreover, even if debate was extended to include a variety of interests and views, because of the concentrated nature of conventional corporate governance and the profit-making objective, there is no guarantee, as a norm, that decisions will, systematically and consistently, take into account the wider interests of society and publics, as in situations when social responsible practices are applied to some strategic aspects, but not to others which are more hidden to the public opinion.

5. A taxonomy of production organisations

Because of the inherent public and social dimension of every individual decision, we are raising a question on how decision-making in production can move towards an understanding of impacts beyond those currently regarded by conventional corporate hierarchies.

We have focused in particular on the need to acquire the habit of enquiry and inclusion, which are, tendentially, not pivotal in conventional governance settings. Rather, following the strategic failure approach, corporate hierarchies are structured, as a norm, by a concentration of strategic decision-making power which leads to the exclusion of publics and broader social interests, thus limiting the potential of deliberation and enquiry. The implication for societies is one of strategic failure, exclusion of the interests of publics, and perpetuation of false beliefs.

The above shortcomings provide reasons to support the desirability of a production system that places enquiry and inclusion as working rules, both at strategic and operational levels.

⁴ In addition to the failures associated with concentrated decision-making power, the shortcomings of limited liability of shareholders in conventional equity-based corporations have recently attracted further attention. See the special issues on corporate liability and on the global financial crisis appeared on Cambridge Journal of Economics in 2010 and 2009 respectively.

This is consistent with production being organised around inclusive social dispositions, a principle that does not disregard efficiency, but nonetheless re-positions it at an operational level, rather than at a strategic one. Our aim now is to use these ideas to identify a specific framework which can support an assessment of social preferences in firms and production systems.

There are two aspects of production choices, specifically, that are taken into account here: governance choices and other strategic choices. The first is the mother of all strategic choices; it defines the nature of the firm, its ownership and formal structure. At this level, governance provides a view on the aim and formal rules for decision-making. For example investor-owned companies will be expected to set profit maximisation as their primary aim; a self-managed firm instead will likely act in the pursuit of the welfare of its members; a social enterprise is awaited to act for the achievement of a particular welfare, cultural, or environmental objective. We use social preferences regarding governance as an indication of the decision-makers pre-commitment towards enquiry and inclusion. The second aspect of production choices regards other aims and strategies, typically marking internal practices and incentives, investment decisions, inter-firm coordination⁵, industrial relations, community involvement, and consumer policy.

Both types of strategic choices, at different levels, incorporate the attitude of decision-makers towards “others” and society at large. Strategic decision-making mechanisms that reflect inclusive social preferences would be designed so that situations can be problematized, and not just regarding a restricted group’s private concerns. The aim would be to define rules and practices that allow the search and inclusion of the publics and their perspectives, as well as

⁵ Social preferences concerning strategies subsume also the nature of network relationships amongst firms, encompassing governance beyond the legal boundaries of the organisation (Buckley and Carter, 1996; Cowling and Sugden, 1994; Hodgson, 2002). 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 (Markusen, 1996; Parrilli and Sacchetti, 2008; Sacchetti and Sugden, 2003).

considerations of the wider common good (Sacchetti and Sugden, 2011). Close to this ideal are organisations created with the core social aim of providing welfare, cultural or environmental services through multi-stakeholder governance (Sacchetti and Tortia, 2012; Tortia, 2010). Conversely, exclusive social preferences would not, as a norm, support the inclusion of other perspectives and interests rather than those of the decision-makers themselves. On this extreme we find for example traditional equity-based corporations with no or limited strategy towards stakeholder involvement.

If we bring together social preferences regarding formal governance structures with those about other strategic decision-making processes, 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 homogeneous 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 inclusive social preferences supporting the choice of governance, exemplified, for example, by membership in self-managed firms, are consistently carried forward to include the strategies towards other publics, operating within (e.g. volunteers, salaried workers) 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 both mutualistic nature and multi-stakeholder governance (Sacchetti and Tortia, 2013). The crucial difference with socially responsible conventional business (cell 3) is that conventional business fundamentally retains an exclusive governance structure centred around investor interests, even in the presence of corporate social responsibility, whilst alternative business forms such as self-managed firms with social aims have embedded, in principle, ideas of shared decision-making power and multi-stakeholder benefit in their aims and governance structure.

In *cell four*, we find quite the opposite, with a consistent persistence of exclusive social preferences, both in the initial choice of governance and in the strategic decision-making approach.

In *cell two* we find organizations, such as cooperative firms, which show inclusive social preferences at least towards one major stakeholder. This is typically not the investor but the weakest stakeholder. Inclusive preferences, however, do not go beyond membership. Albeit founded on democratic governance principles, these cooperatives are mainly accountable to their members and do not implement particular practices for the inclusion of other types of impacts. An exclusive focus on membership would be consistent with the neo-institutionalist

analysis of cooperatives, which grounds the emergence of cooperative governance in the need for particular publics (such as workers, consumers, users, producers) to minimize transaction costs when market failure is present (Hansmann, 2000).

In *cell three* we may find conventional investor-owned firms engaging in *genuine* strategies for the search and inclusion of publics. We can position here also social enterprises and non-profit organisations in general (such as private foundations) with a board of managers that is strongly driven by the initial social mission, but with no membership.

6. Evolution

Our taxonomy depicts four representative situations. It is a static picture of ideal-typical features of organisations at any given time. But how do firms move from one cell to the other? Or, what elements can be expected to lead to the development of more or less inclusive patterns of behaviour amongst decision makers? The contradiction that we are left to explain is why, despite the fact that inclusive social dispositions improve understanding and validity of choices, the reality of production organisation is widely characterised by exclusion (Sacchetti et al. 2009).

There must be, then, a cumulative cycle which perpetuates one type of approach. The problem does not lay perhaps in the absence of subjective dispositions towards inclusion, but in the institutional bias which does not favour the expression of such preferences. The body of research developed by institutional economists offers a number of perspectives on the persistence of established patterns. Path-dependence and institutional inertia can reinforce false beliefs, limiting or slowing down the opportunities for change, even when more socially or economically efficient alternatives are available or when individuals show

different social preferences *vis à vis* those embedded in existing governance structures (Mahoney, 2000).

A complementary explanation can be found in the complexity of inclusion and enquiry, or the fact that coordination by means of exclusive organisational structures can be more immediate than those requiring cooperation,⁶ and can be easier to implement, in terms of time, costs, constitutional work, process design, creation of deliberative skills. For example, the formation of socially inclusive habits of behaviour has been associated with complex courses of value transmission through socialisation (Ben-Ner and Putterman, 1998), where potential obstacles may come from community size and actors' distance (Dixit, 2009).

Despite these difficulties, a number of experiences show that socially inclusive institutions can be more resilient to the cyclicity of economies and to complexity (Birchall and Ketilson, 2009; Ostrom and Basurto, 2010). This was the case also when self-management was initiated by individual innovators, prompting social recognition and diffusion by imitation. Experiences indicate that radical changes in the organisation of production activities were introduced as a highly reasoned and structured reply to the contradictions and the problems observed in the environment. The founder of worker cooperatives such as, amongst others, father Jose Maria Arizmendiarrreta creator of Mondragon in the Bask countries is perhaps the most followed and celebrated example, but certainly not the only one. Employee buyouts were pioneered, in the 1920s UK, by John Spedan Lewis in the retail sector. More recently, in the 1980s, David Erdal led the transition to employee ownership of the family papermill Tullis Russell (Erdal, 2011). What the stories of these transitions seem to point at is that the distance between the prevailing customs and habits of thinking and the

⁶ Coordination, differently from cooperation, can take different paradigmatic forms, market and hierarchy, as well as a number of intermediate arrangements which link actors through "strong and weak ties" (Granovetter, 1973; Sacchetti and Sugden, 2009). Cooperation however is not implicit in any coordination arrangement, as it happens only when actors can reciprocate each other (Gintis et al. 2005).

needs perceived by the innovator has led to a critical consideration of alternative means and ends. Innovators had to think about new rules, new governance settings that could address a failure of business to meet worker needs. They did so mostly by supporting the achievement of inclusive democratic work environments. The complex constitutional settings that innovators elaborated expressed dispositions that were in stark opposition with the corporate governance and work policies of the 1920s and 80s. With their resilience and growth, these companies showed that alternative ways were possible, provided that a careful reconsideration of institutional settings were done.

Still, we would argue that the role played by individual choice does not rule out the relevance of the context. In this sense, the entrepreneur's choice can be considered as a reply to historical contextual conditions, whilst at the same time remaining central to the introduction of governance innovations and their diffusion. With Dewey (1922), we would say that individual decisions are connected with both subjective dispositions and objective conditions, that the history or experience of each individual is built around the critical interaction of the individual with the context. For John Spedan Lewis experience meant to observe the uneven distribution of wealth in the family company and having the possibility to reflect upon it because of a long illness. It is because of such historical circumstances and because of his critical appreciation of his own and the workers' needs, that decisions could depart from existing habits of thinking and become more closely dependent on individual dispositions.

6.1 Policy action and inclusive social preferences

The diffusion of governance innovations has generated minority patterns of inclusive governance, coexisting with conventional business forms. Policy has in some cases supported diffusion by introducing appropriate legal frameworks. Less so perhaps by

promoting awareness of alternatives and, more generally, the generation of deliberative skills through education and training which, especially in business education, is subject to the strategic choices of higher education institutions (Sugden, 2013). Academia has also been argued to have a specific policy role in selecting and weighting beliefs. Within economics and business, in particular, the discipline has historically exerted strong influence on economic policies as well as in shaping the nature of businesses and their strategies (Currie et al., 2010; Fleckenstein, 1997).

Awareness of alternative ways of organising production, especially in the presence of habits of thought and organisational inertia, can be directly promoted also by policies that channel the *commitment* of production organisations towards particular sets of strategies. Here commitment entails the possibility of stringent adherence to collectively defined rules which may require contractual solutions or radical governance changes (Sacconi, 2011).⁷ As an exemplification of gradual movements from cell 4 towards cell 3 by means of pre-commitment, consider the recent introduction, in the UK, of the community benefit clause in public procurement (CBC). CBCs essentially require contractors to deliver social value added to communities (Sacchetti, Campbell, Simmons, 2012). These clauses are generally meant to maximise local social welfare generated by public demand, e.g. for infrastructures or specific services, e.g. employability services. Specifically, policies at local and regional level in the UK have identified the production of value added with respect to employment, training and urban regeneration. The criteria set by public administrations aim at delivering wider social benefits than those associated exclusively with the provision of a particular good or service. For example, CBCs may require, directly or indirectly, contracting out activities to social enterprises. In this way, the conventional business firm commits (at least within the remit of

⁷ The perspective is different from stakeholder theory, where the inclusion of stakeholder interests is typically presented in the context of win-win situations that emerge spontaneously and despite a conventional governance structure.

the procurement contract) to the implementation of some inclusive social strategies, clearly encouraged by the institutional framework defined by CBCs.

Moreover, when a conventional for-profit company commits to the production of community benefits, stakeholders' expectations towards the inclusion of wider public interests may change beyond the remit of the initial commitment contract and become a permanent feature of the aims and processes of organisations (Sacconi et al. 2011). As a consequence of renewed stakeholder expectations and of the learning generated through engagement with social enterprises, organisations may further adjust their governance and/or strategies. Specifically the evolution of social preferences towards inclusion would occur when conventional businesses and social enterprises enter a reciprocal learning process which may prompt a change of strategic aims and processes beyond and consistently with the remit of CBCs (Sacchetti, Campbell, Simmons, 2012).

6.2 Institutions matter: historical circumstances and prevailing values

Albeit representing in general the expression of a niche business culture, since the end of WWII⁸, in some areas of Europe cooperation has grown. Countries like Spain and Italy, for example, have a long-standing and stable tradition in self-management.⁹ In Italy, as Zamagni (2006) observes, ideas of human dignity, fairness and solidarity across a variety of political orientations (liberal, socialist and catholic) ensured support across local administrations and contributed (together with other elements, such as the solidarity and ties amongst

⁸ In Italy, after 1924, during fascism, and until the end of the war, all civic and economic associations had been forbidden by law, thus putting a halt to the diffusion of cooperatives.

⁹ Over the last thirty years, in Italy cooperation entered a clear growing pattern. In 2001 cooperative firms represented 1.2 % of firms counting for about 6 % of the total employment (ISTAT, 2008). Using national census data Zamagni (2006) observes that during 1990-2000 the overall occupation grew by 60.1 % within cooperatives, contributing to one fourth of the overall occupational growth for the decade.

cooperatives formally coordinated through federations and consortia) to the continuity over time of the cooperative business form. This process was supported by the recognition in the 1948 Italian Constitution of the role of cooperatives¹⁰, and in the implementation of this principle through consistent legislation and fiscal incentives (Zamagni 2006).

Specifically (besides manufacturing, financial services and retailing) cooperation has prevailed in the provision of social services,¹¹ where Southern European countries were lacking adequate government provision. During the 1970s social cooperation was supported as one way of delivering services for which there was demand but lack of supply, provide job opportunities against increasing unemployment, and avoid further expansion of public spending (Borzaga, 2004; Defourny and Nyssens, 2010).¹² The establishment of social cooperatives, in particular, was facilitated by the legal framework provided by cooperative firms and then formally recognised by specific regulation. The first specific law on social enterprises appeared in Italy in 1991¹³, together with a supporting regional and national system composed of intermediate cooperative associations, academic research and education, professional training, and data collection. In 1994, Issan, an international research and policy network on cooperative and social enterprises later named Euricse, was created in collaboration with the cooperatives federation, the representative association for commerce and tourism and the Faculty of Economics at the University of Trento. Membership was later extended to ensure the development of the initiative and gain international visibility. The institutional recognition of cooperative models was strengthened further in 1997 when the Third Sector National Forum is officially instituted and recognized by the government as

¹⁰ Article 45 states: “The Republic recognises the social function of co-operation of a mutualistic, non-speculative nature. The law promotes and encourages co-operation through appropriate means and ensures its character and purposes through adequate controls...”

¹¹ Today, there are nearly 14,000 social cooperatives involving 350,000 workers, 35,000 volunteers and reaching 4.5 million users (ISTAT, 2008; Carini et al. 2012).

¹² Since the 1970s social enterprises grew at annual rates between 10 % and 20 % (Borzaga, 2004).

¹³ In the Trentino region, where cooperation has a longstanding tradition, national legislation was anticipated by a regional law in 1989.

representative of the sector's interests, and in 1999 when sectorial data started to be collected in periodic census by the national statistical institute, ISTAT. The emergence of a network of supporting institutions and initiatives seems to suggest that the development of cooperative governance and aims, coexisting with traditional ones, has been a viable but demanding challenge, which required – as institutional theories suggest – individual initiative together with a co-evolution of habits, legal framework, production structure, and supportive institutions (Nelson, 1994; Sacchetti, 2004).

The family nature of local capitalism and the prevalence of small and medium enterprises have also been argued to have left more space for the development of alternative business forms if compared to systems dominated by large equity-based corporations, such as the UK (Zamagni, 2006). Here, in the late 1970s, a neo-liberal approach to policy and economic choices, paired by the economic weaknesses, strategic mistakes, and experience of member opportunism in collectively-managed organisations brought to the privatisations and demutualisation of most of the existing building societies as well as of other mutuals (Birchall, 2001).¹⁴

Demutualisation and internal governance problems, clearly illustrate movements from the expression, at least in principle, of inclusive social preferences towards the membership (as in cells 1 and 2), to conventional business forms (as in cells 3 and 4). More generally, transitions to exclusive social preferences are favoured by strategic choices that are not aligned with the underpinning principles reflected in cooperative governance settings or with the pursuit of long-term member benefits. Demutualisation is in fact more likely to occur in the presence of mismanagement, or when the management injects the aims and practices of conventional

¹⁴ Differently from the UK, in some countries demutualisation is not an option. If it were, as the UK case shows, opportunistic behaviors of members or managers would be incentivised. In fact, because cooperatives accumulate indivisible reserves over time, selling an established cooperative permits members to appropriate all the value accumulated by previous members, placing the continuity of cooperative firms in jeopardy.

profit-maximising firms into cooperatives. For example, aggressive growth strategies commonly decrease competitiveness and lower the morale of members, who can disengage from the idea of shared ownership and responsibility.

7. Conclusions and implications

The persistence of strategic failure, i.e. the misalignment between the interests of restricted groups and those of publics and society at large, has provided socio-economic relevance to our study. We have argued that a reduction of strategic failure can occur by reinstating enquiry and inclusion in production governance and processes. This would require cooperation rather than mere coordination, as in terms of shared access to decision-making and use of deliberation. These dispositions, at least in principle, are likely to be present in the governance settings of self-managed organisations (but also, to a more limited extent, in conventional firms, albeit confined to specific responsible practices).

More generally the rules that define governance and strategic decision-making processes mark the type of decision-makers' pre-commitment to inclusive deliberative processes and enquiry. Some arrangements will acknowledge a variety of interests into the initial constitutional process, such as organisations with multi-stakeholder governance; others will focus on some interests in particular. Our taxonomy identifies and classifies production organisations with respect to their potential to generate strategic failure or, in other words, by the degree of exclusion of publics and social good from decision-making.

We have argued that the evolution of the means and aims of production from exclusion to inclusion or viceversa occurs through the interaction between decision-makers' dispositions and contextual, historical conditions. In our examples, individual history and experience have had a clear role in shaping preferences towards inclusion, even against the prevailing culture.

The implementation of particular social dispositions is, however, not only a matter of personal intention but also of historical circumstances and institutional framework. In particular, inclusive governance choices are more likely to spread when policy provides adequate incentives or when an enabling legal framework is designed. In line with institutional explanations, variations can only be understood as co-variations, when change occurs at different levels, involving individual dispositions and habits of thought, economic organisations and their governance structures, production systems and supporting institutional frameworks.

The role of policy and regulation, therefore, is not understood as constraining, but in fact as enabling particular types of behaviours and impacts which would otherwise be marginalised because of an institutional vacuum (Sacchetti and Tortia, 2010). Policy may not, and probably should not, try to change habits directly. Rather it may change it indirectly “by modifying conditions, by an intelligent selecting and weighting of the objects which engage attention and which influence the fulfilment of desires” (Dewey, 1922, p. 26). In these respects, the challenge for the decision-makers at firm and policy level appears to be one of endowing individuals and their organisations with a variety of tools, including those that promote engagement in deliberative cooperative processes, so that the knowledge of contexts, courses of action, and effects is improved and used to critically assess production aims and means. In line with Offe (2011), this requires that decision-making power is shared across social actors, deliberately acting to reduce strategic failure.

As part of its potential, the social preference framework can be used to assess the degree of inclusion of publics and wider social values into economic decisions. It may represent also a viable explanatory model to assess the impacts of policy action, in terms of variations across governance categories. The inclusive/exclusive nature of production systems can be related with other socio-economic development measures to test what type of production systems are

associated with higher levels of individual wellbeing (Erdal, 2011; Wilkinson and Prickett, 2010). Beyond private firms, 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 and social interests. For example, the framework can help clarify aspects of social preferences as reflected in the analysis of the aims and outcomes of industrial policy (Cowling and Tomlinson, 2011; Chang, 1997), social policy,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).

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