The self in relation to the management and governance of corporations

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ABSTRACT

How we understand corporations including their management and governance has been determined to a significant extent by economics. By self-definition economics is the study of the allocation of scarce resources. That definition formats the rational maximiser as an adequate version of the self. The firm is then treated as a rational maximiser. This gives us the 'black box', having no essential innards that need concern us beyond maximising with a production function. The inadequacy of this perspective arises from its origin in allocation without consideration of reproduction. Work to examine that black box has been both productive and prolific. This has however obscured that for the firm to be treated as black box it needed the prior treatment of the self as black box. The social necessities of the self for which learning and morality were crucial were rendered in allocation as interesting residuals. This allocative self then reasserted itself when neoclassical thought opened up the firm. How we might engage with organisational purpose, issues of intrinsic motivation and sense of what is right were rendered by economic theory as essentially inauthentic commitments awaiting a chance for defection. As Fama and Jensen put it we deal with 'opportunistic agents' and so organisations were reformulated on this basis in a cascade of incentive/deterrent contracts by which the intrinsic purpose of the corporation was wiped out. A reasonable alternative to this would treat the organisation seriously but it is also necessary to question the neoclassical foundation. To fulfil our commitment to the latter we put forward a competence view of human agency founded on Adam Smith's theory of sympathy and employing Aristotle's conception of excellence in practice. From that ground the problems of governance and participation look very different.

We learn from the start that economics presents itself as a neutral discipline, one that studies the means of reaching ends not the determination of those ends. Economics studies the problem

peculiar to it, that of scarcity, and so also then presents techniques for the study of the allocation of scarce resources. To what those resources are allocated is another matter, a matter of our preferences. On this basis economics can claim neutrality and so by implication can deny any role in the forming of human conduct. Whatever that conduct is we study it in as much as it deals with or inhabits the problem of scarcity, but not otherwise. We may establish our ends as victims of advertising, or as members of a religion or as persons who grew up at this place at this time; to these points economics is indifferent except in as much as, whatever type we may be, we are in the business of maximising.

This perspective may be valid if the limits of its scope are recognised. If they are not recognised however we find a problem in understanding how we get from the self to the social and this has implications for the understanding of organisations both in terms of how people participate but also how and why they may exist at all. This allocative viewpoint was captured in Lionel Robbins *Nature and significance of economic science*. What went missing in his account was an understanding of the perspective of the classical economists. It was not the naïvety of a youthful science that made Adam Smith and David Ricardo's concerns wider than allocation. Rather their interest in the establishment of a system of liberty and accumulation to the benefit of all had them both placing the market within a wider system of reproduction. Investigating the conditions in which free activity might produce order led Smith to a question as to how people come by moral conduct. The competences required of the self were richer than within a frame of allocation. Smith argued for sympathy as enabling the moral judgement necessary for action in a system of liberty. In Ricardo we find an argument for democracy as central not just to accumulation but then to a properly functioning social order. Despite the subsequent efforts of such as Alfred Marshall and John Maynard Keynes, reproduction was squeezed out of the picture in the development of economic thought. Allocation became the dominant focus of economics and this confirmed the rational maximiser as the adequate self. The social was posed as standing apart to the detriment of an understanding of organisations such as the firm. From the self understood as rational maximiser it is a small step to understanding the firm in such a way. Both self and firm become black boxes in the frame of allocation. With the separation of ownership and control and this allocative self, as the adequate self, we have the conditions for understanding the corporation in terms of the principal-agent problem.

That there is a problem in such an approach is now fairly widely recognised. There is for example a considerable literature critical of the idea of shareholder value that follows from it.

There also serious studies into the nature of the firm and organisation that rely on alternative approaches. In the work of Nelson and Winter (*An Evolutionary Theory of Economic Change* 1982) the distinction allocation and reproduction registers at a level of method as a distinction between formal and appreciative theory. This takes us from orthodox modelling to the appreciation of a the more complex reality. Such a methodological approach loses the qualitative distinction that distinguishes the classical economists. The frame of allocation is not examined in itself. Nelson and Winter do with some effect examine issues of reproduction, as also does a similar move in critical realism that takes us from closed to open systems (Lawson, T *Economics and Reality* 1997). We argue that greater clarity is gained when explicit that in moving from simple to complex we have crossed a line between allocation and reproduction with different competence requirements.

A Competence Approach

The need for a new paradigm is recognised within critical study of the corporation. Colin Mayer in *Firm Commitment* deplores current orthodoxies on the corporation, 'We are witnessing a downward spiral of the pursuit of larger private benefits in the presence of progressively more restrictive and ineffective public policies. We should call a halt to this failed experiment in political economy and look elsewhere for alternative approaches to the management of 21st century commercial affairs" (Mayer, Colin *Firm Commitment* 2013 p. 253) Our argument is that the 'failed political economy' arises from a failure to recognise the proper limits of the allocative view. The competences adequate for allocation are transferred, without notice, to investigation of wider issues of reproduction, so establishing an unwitting ethical stance. This stance is unavoidable given a supposed separation of self, as natural, from the social that follows from the allocative self. That self becomes the template for a narrow view of the corporation. Mayer must, in arguing for an ethical corporation, share with the reader the possible strangeness of such an aim. The corporation is after all simply a maximiser facing constraints. Mayer's comment on the problems of private benefits and public policies summarizes the problems consequent on such an understanding. The problem of corruption here is not at the level of corporations falling below standards but rather in our understanding of the standards themselves. It is at this more fundamental level that Mayer is arguing for change. What is required, as Colin Mayer puts it, is a 'paradigm shift'. Such a shift requires a confrontation with the current underlying theory worked out in economics.

The alternative offered here provides a framework for the examination of orthodoxy. It rests on these elements i) sympathy as the key competence for a moral agent ii) recognition of the significance of the dual nature of the commodity, being exchange and use value, as the ground in which different judgements of conduct are possible iii) excellence in practice as the discipline arising from confrontation with the use value side of the commodity.

In *The Theory of Moral Sentiments* Adam Smith examined the self's competence for moral conduct. We take up the key competence identified in that work sympathy as central to the moral self. We carry through arguments made in *A History of Homo Economicus* (Wilson and Dixon 2012) and elsewhere ('Political economy and the social disciplines: the modern life of Das Adam Smith Problem', *Cambridge Journal of Economics* Dixon and Wilson 2014). Through sympathy, a sense of organic connection or fellow feeling, we are able to grasp our action in terms of the feelings of others in regard to it. We act then in an expectational world, or weak moral field (Dixon and Wilson 2014). Our action is inherently interactive. We are set up to do the right thing, as best as we can determine what that is, facing confirmation or possible disappointment. Learning is intrinsic. We have as Smith puts the matter, a man within the breast, an impartial spectator that enables us to shape our actions according to a third party, objective, perspective. This third party perspective is internal, yet outward looking. This objectivity carried with us makes self-interested activity possible. Caution is necessary; we should not read this self-interest back onto the rational maximiser.

We look to do the right thing within a space where interpretation is objectively possible. That space is the commodity with the poles of exchange and use. These are two attractors for interpreting conduct and also for understanding the firm. The two poles of the commodity entail different disciplines that we need to be aware of in understanding the firm. Economic thought, taking up allocation, has tended to emphasise exchange to the detriment of use. This has had consequences in how use has been understood and so also how it has been managed. We take up Aristotle's conception of excellence in practice to highlight the discipline appropriate to use. These three elements of morally competent self, the dual nature of the commodity and excellence in practice combine to give us a competence approach to economic conduct. The competence approach is properly a matter of the sympathetic agent but without the latter two elements we are not addressing the scope within which the normal economic viewpoint has a hold and within which an alternative makes sense. The scope of the commodity allows us to position the economics view. At the exchange side we can isolate allocation while

at the use side we can address reproduction. This also allows us to see how the commodity space shapes modern culture

The enduring *Das Adam Smith Problem*

Lionel Robbins in setting out the nature of economic science outlined its scope. Its subject matter was general, 'Scarcity of means to satisfy ends of varying importance is almost an ubiquitous condition of human behaviour.' (*Nature and Significance of Economic Science* p.15). This ubiquity however could be taken to imply the ubiquity of rational maximising. This imposes a structure onto our consideration of social issues. Social situations or cultures are seen as having underlying them this universal rational maximising. This sets up a problem of translation between the individual (maximising) and the social (norms, practices etc..). We can see this in Robbins's own advice concerning our treatment of agents who find themselves in any number of social connections but for Robbins, ' . .it is clear that the phenomena of the exchange economy itself can only be explained by going behind such relationships and invoking the operation of those laws of choice which are best seen when contemplating the behaviour of the *isolated* individual.' (our emphasis *Nature and Significance of Economic Science* p.20) The methodology carries with it a substantive content. It configures an understanding of the self, abstracted as isolated, that imposes a problem of how we get from this self to a discrete social.

The problem of individual and social is formative of modern culture. The problem is identified as the modern life of *Das Adam Smith Problem* (Dixon and Wilson 2014). It has been supposed that Adam Smith wrote two incompatible books the one dealing with other regarding sentiments (TMS) the next dealing with the operation of self-interest alone (Montes for summary) This was not simply a literary conundrum; the underlying issue was such that any apparent solution to DASP would have important ramifications. Social thought as a whole has been founded on the distinction of self and social that makes DASP possible and problematic. Emile Durkheim took for granted that political economy was necessarily founded on an atomistic self and hence presented, as Durkheim saw it, a Hobbes problem, in modern guise, as to how one moved from there to the social. Durkheim's proposal was a disciplinary division of labour between political economy (self) and sociology (social). Durkheim set out a path,

followed by others, in which acceptance of the terms of DASP lead to disciplinary innovations. Such innovations, however, reproduce the initial problem in different forms. We can summarise some of these without examining them in detail. The characteristic response lies in **(a)** the divide between economics and sociology in which we have one side taking the individualist starting point and the other, as Durkheim said, starting from a treatment of the social fact. This reproduces the ground in accepting the division between the disciplines on the basis of self and social. Another response lies in **(b)** acceptance of a divide between economics and moral or ethical systems. This might be economics and religion, for example, but could be any ethical system seeking to outline values for the individual. Self-interest is such that it must be modified or shaped by the correct ethical/religious system. This correctness might reach all sorts of inspired heights. Again, the essential ground is not questioned, rather it is supposed. Another approach is to look for **(c)** prosocial motives by which a better inclined individual may generate tolerable social situations (see Camerer's misinterpretation of sympathy). In keeping to motives this again reproduces the ground, with self-interest posed now against prosocial motives, without resolution between them. A modern variation of the latter is to look to meta or social preferences (Sen and Bowles/Gintis). Another reaction to the problem is to consider **(d)** methodological issues so, for example, methodological individualism versus methodological collectivism. The ground is reproduced in the form of different decisions as starting point of analysis, where these starting points are given by the initial structure. The in/adequacy of the individualist view depends on how one judges the rational maximiser as starting point. Another approach, following on from the latter, is to take **(e)** the macro level of the economy as a distinct study that cannot be investigated as an aggregate of individual decisions. The macro is taken as needing its own level of analysis, leaving us though with an ongoing microfoundation issue. We may also question the reality of the starting point in terms of our concern for welfare so here we look at **(f)** capabilities and consider whether the individual is able to meet the various commitments that they have as actual people rather than simply maximisers. This shifts the welfare ground from maximising with a constraint to the real social problem of achieving moral standards. That latter approach leaves open however a range of situations in which the rational maximiser still operates, so still appears to be valid. Again then the nature of the agent is posed in terms of modifications that leave the essential starting point untouched. This is also the case where, in examining **(g)** institutions, we leap, so to speak, over the question of the individual in order to get on with our investigations of the reality of institutions. This is the alternative to the logic of the economic individualist case by

which the existence of the organisation is under question an issue that provokes Coase's investigation of why the firm exists at all.

We have not identified these various innovations to complete some exhaustive taxonomy rather we identify different responses of the type 'blind man and the elephant' that need not be exclusive of each other but illustrate different orientations to the problem. The common factor is a default self - the rational maximiser as persisting reality underlying the various proposals. We can claim, as many do, that the individual is social but until it is clear how that individual is social we have statements of belief not of facts and we do not, in so asserting, counter the orthodox starting point. There may be disciplinary innovations and they can be productive of much understanding but in their nature they reproduce the ground from which they spring.

An allocative science and its scope

Lionel Robbins was aware of the potential problem arising from abstraction. He objected to the criticism that he had, through abstraction, presented a vision that effectively excluded moral standards. He was clear that economists needed such standards, indeed, the economist 'who is only an economist and who does not happen to be a genius at his subject … is a pretty poor fish'. (Robbins p.ix) He also wanted to put right another misunderstanding. In considering economic behaviour the aim was not to suggest a '*kind* of behaviour' but rather a 'particular *aspect* of behaviour' (our emphasis Robbins p.17) By implication, 'kind' suggests behaviour that stands apart in its own right. His own understanding of the positioning of morality in relation to economics appears to endorse what he objected to, economic conduct as a kind of behaviour. Today, it is as a kind of behaviour that economic conduct is understood. The presumption of a kind of behaviour, grasped as natural, underlies our various examples above.

Once apart, in our examining of it, we may indeed find interesting anomalies such as imperfections in rationality or continuing residuals from some evolutionary past but it remains the reference point. Our abstraction from complexity to allocation, for which the rational maximiser is adequate, forms the conception of a pre-social self. That allocative self then becomes the default understanding of self-interest. As default it takes on the role of morally realistic underpinning for whatever analysis we might have in mind. Any social situation

becomes susceptible to analysis in terms of the rational maximiser. This shapes an ethical structure in which our expectations of others are formed.

The moral appears but is positioned as a possible element of the utility function. Morality provides content for a process of maximising and is part of a sphere of choice. This gives interrelated but distinguishable problems. The first is that morality considered in relation to maximising has no necessary common ground. Morality may be held by many but held differently by each. Alasdair MacIntyre who identifies this condition as emotivism, in which choice is to the fore, considers it as characteristic of modern morality, indeed as contradicting morality. He has a point in relation to modern economics. This problem, presented as a state of nature, underlies Thomas Hobbes's *Leviathan* where the solution is the absolute, common, power. In Hobbes's state of nature we may be individually enlightened, differently moral, or we may not, but we are maximising. That supposes a relation of self and commitment in which, rather, we deal not with commitment but with convenience. What we hold to depends on our continuing interest, our case. It makes no difference that this might, so to speak, be a strongly held convenience. Morality founded on self-interest, as Hume argued, is not morality.

In the modern economic framework morals may have their place; the difficulty is the nature of this place. Lionel Robbins, outlining economic science, argued that a moral viewpoint was crucial to the economist's formation. This did not alter the nature of economic analysis. Morality takes its place alongside advertising, life experiences or our neighbour's recommendations as possible sources for the content of the utility function. This is content to be maximised. Morality, once branded, is not necessary in itself even if, with Robbins, it s recommended. This conclusion was already implicit in the initial abstraction to an underlying scarcity from which is projected a self stranded from any context in which morality could be meaningful.

Scope and interaction

Arising from allocation is the atomistic agent, the single actor. So the story goes, once the economics of action, our Crusoe moment, is sorted we can then move onto to interaction. (Arrow, K) That is to say, in what we call the one-man argument, we move from operators to

cooperators supposing as we do so that the operator, that default self, is a plausible vision of the agent that we now want to involve in wider activities. This is evident in Walras, '[i]f there were only one man in the world he would be master of all things. [But] since this is not the case, [and] as long as every man in the world is just as much a person as everyone else, [with] each equally responsible for the pursuit of his ends and for the fulfilment of his destiny, all these ends and aims have to be mutually *co-ordinated*' (Walras 1954, p. 62; his italics). So, the starting point as 'master' supposes one who has no dealings with others so having no need of any competences relevant to such dealing. We suppose the coming together of such creatures in a way that their respective ordinating must be brought in line one with another. We are then presented, via Walras's auctioneer, with a system of general equilibrium into which the agent has passed without further consideration of her competencies. The deed is done. We are moved from modelling to a naturalised view of the self that then reappears in interaction. That perspective in which market processes must do the work of bringing together our actors leads us to seek the completion of the market where some product is required to meet unmet needs, for example in dealing with externalities, future goods or the mess of organization. We look for a cascade of contracts, of incentives and deterrents extending markets and running down through organizations. Further competences of the actor are not called for where the provision of products and the design of contracts seems to fulfil the requirements of effective co-ordination. There are attempts to pose alternatives, for example in terms of some need to recognise the social, but economics has been resilient. The starting point in the rational maximiser and the frame of allocation are seen as the conditions for an expansive project into other social disciplines (Lazear, E 2000).

We are dragged, inevitably if we do not position allocation, back to rational maximising. This has not been a new story. This is a foundational issue in social thought. The economic self appeared at the start of philosophical thinking with the sophists. Plato's dialogues are addressed to the sophist arguments. Plato addresses the nature of justice, in Hobbes we confront a state of nature from where we desire peace, or in Rawls, in a tweaking of Hobbes, we start from an original position to consider justice behind the veil. In each case we must generate something from isolated individuals. No wonder we are in trouble. We are dealing with issues close to the heart of economics. If we pass by contract or some other means from nature to peace or to justice we take with us still, like travellers around the world, that self we started with. The problem becomes fractal, I may keep to this contract but in what way if in the

letter I can break its spirit? Or if, past the veil, I find myself advantaged cannot I avoid my commitments through observance to regulations? And may I not choose compliance over performance when faced by the specification of tasks? This fractal world appears because the default self comes with us everywhere and we move from the Hobbes Problem to the Hobbes.Hobbes Problem or Hobbes^{n}.

That the rational maximiser is the default self is clear when we consider the attempt at a general theory of interaction developed in games theory or examined in experimental economics. The opening hypothesis is the rational maximiser. When, for these games, rational maximisers are brought together there is a sleight of hand since, somehow, they are brought together. This precedes, and is already out of the scope of, rationality. It was something like this point that Thomas Schelling was making in highlighting the conventions by which any kind of maximising, indeed any action, at all might be possible. These may be simple conventions such as which side of the road we drive or the more complex conventions that make up language and morality. To study rationality alone we must just take all this for granted. If we consider the competences required of a self the matter looks different again for, Hobbes's point, rationality is deficient in these matters, matters crucial to reproduction. We may sense the damage done when our abstraction (to allocation) is naturalised.

Conventions pose a problem for games theory since its explanatory ambitions are thwarted when vital outcomes are grounds for the game in the first place. To deal with this we could look at repeated games. Here we turn to Kenneth Binmore. He approaches the Hobbes problem with an evolutionary perspective. He considers players in the game of life in which a moral orientation offers evolutionary advantage because of the gains, in repeated games, from cooperation. There is a problem as to how coordination can reach this point. This is a variant of the prisoner's dilemma game. His playing of it illustrates two interesting issues. Binmore assumes perfectly rational players. These are Turing machines. Their problem lies in coming to the perfectly rational action. They are caught in an anticipatory loop that if you do *a* because I do *b* then I know this but you know I know so you anticipate my response *c* with *d* except I know you'll anticipate and so it continues. The Turing machines whirr on without resolution. Rationality cannot be scaled up from supposed action to interaction. Rationality alone is incapable. To carry off his evolutionary model Binmore endows each machine with its own imperfection, designated by a number. Once known to each, action becomes possible.

Binmore's thought experiment allows a repetition of games and so also, because of the advantage over time of co-operation, the evolution of morality as a predisposition to co-operation. We want to go along with Binmore but he reproduces an enduring problem of economic thought. The supposed starting point for his evolutionary process is the rational maximiser. So while he must build in some imperfection the basic default remains rational maximising. What isn't explained is how we come to start from this rational maximiser. Having started there evolution plays the leviathanic role. As with Hobbes, the underlying presupposition, a state of nature, is not questioned. This is not evolutionary theory since rational maximising conforms to no known pre-social condition. To speak of rational maximising is already to speak of some kind of social self. If we are to interrogate some self that in some way duplicates the gene then we have lost our way in a thicket of metaphors. The gene is no more selfish or maximising than a stone holding down papers on a desk. What the gene is, is a replicator. It is characteristic of our culture to take the rational maximiser as a default reality. From that point we proceed on to a form of supposed moral realism. Binmore's apparent evolutionary approach unfortunately endorses the default self, the pre-social.

Within evolutionary theory the default sets up veneer theory (de Waal, Frans). Below any social arrangement lies nature 'red in tooth and claw'. The default has no more status here than in social theory. Richard Dawkins refers to the 'gangster' gene (see Midgeley) but this is careless talk. The gene has zero moral status. To suppose a gangster gene is to suppose that a gene has inclination or intention. It has no such thing. However fit, it is not a rational maximiser. It replicates and may take on a random variation fitting it better.. That the default reaches even into evolutionary theory illustrates the hold that economic thinking has within our culture.

The default of rationality as basic competence carries the accompanying default, even when not expressed, of the human as morally incompetent. Binmore, amongst others, knows this can't be right but finds himself locked into the default starting point. That default affects our understanding in practical matters closer to home. Once we conceive of a self outside social context or concrete practice we also have in mind a self whose relationship to social arrangements is not genuine. We deal then, taking another step, with a congenital defector. Social forms, whether observed moral conduct, organisations, specific practices, situations of trust now appear not just as fragile but as inauthentic. There appears to be a naturally grounded world below them, hence veneer theory. There also appears then, for those with the necessary fortitude for the moral realism this implies, to be no alternative but to fit conduct to this ethical

structure. We come to believe in a kind of behaviour that shapes conduct both in presenting a realistic, if not a preferred, vision as well as in understanding the nature of supervision and regulation of others. We come to understand ourselves and our institutions in this way.

There is a methodological slippage when we lose track of the context and purpose of our initial abstraction. We seek to move from basic assumption to the social but our abstraction has already given the starting point as presocial. It is then difficult to distinguish clearly between *kind* and *aspect* of behaviour. This slippage is insufficient to account for the tenacity of the default self. We deal with a context that in its nature leads us to a particular kind of (mis)understanding. Our mistakes are possible. The problem is grounded in the commodity. To grasp this we will turn to the confrontation of Classical Greek philosophy with money.

The basis of money must lie in its acceptance not just in the act of exchange but in some expected exchange yet to occur, for otherwise we would not accept it. We could say that it is as a store of value in which this power lies. This misses the point that it depends on acceptance, so a wider area of trust. Money is not simply a lump of metal, say, but has some sign by which its value is declared. It might be better to say, prior to value, that money is a store of trust. The sign on money shows its sociality and that this sociality is carried with it. In my carrying it, or in trade for it, I am free of traditional community strictures. We can deal, whomever you, or indeed I, might be. This raises issues about the relation of self and the social. The problem is presented by the sophists who, developing skills of persuasion, will use their knowledge for such cases as will pay. Plato poses much of his work as a dialogue with the sophists and a counter to their interpretation of doing for money. We see this throughout Plato's work for example, *Sophist*, *Georgias* and the *Republic*. The sophist, says Plato, argues for money. The consequence is that right is a matter of persuasion and so what is right is separate from a traditional position. What is right falls somewhere between us, to be determined. In the republic the implication of this is worked through by the sophists. We find that justice is the interest of the stronger party or justice is to conform to what we must do when observed but what we are inclined to when not observed. This gives us also the distinction in sophist thought of natural and conventional and with it the witness whose presence determines when and to what we must conform. In that natural lies a self-interest distinct from conventions. So with the circulation of money there is a circulation of people that enables the sense of a natural apart from conventions. The sophist Antiphon draws out the consequence of this, 'The way to /gain maximum advantage for yourself from justice, then, is to treat the laws as important when other

people are present, but when there is nobody else with you to value the demands of nature.' (Waterfield pp 264-5) This reasoning poses a problem of defining or understanding what is. In particular it takes us necessarily to the consideration of the nature of truth and that includes, pertinent to our interest in the relation of self and social, the nature of justice. In the *Republic* we get a development away from the position of the stronger party to an inquiry into the nature of justice and the task of and so proper end of the ruler. We need then ultimately to be asking what is. We illustrate this through Plato's question, in addressing these issues, as to what it is the doctor does when not for money. So we can identify that the doctor has a specific end and so also a possibility of doing this well that is in the nature of the activity and its end rather than in money. Aristotle poses the same problem relating this explicitly though to recognition of the dual nature of the commodity, in being both use and exchange value. This clarifies the ground on which a self-interest without context seems possible. Money presents a possible disconnection from use and so from concrete practice. It is a point that Plato has the sophists make, see Callicles in *Georgias*, that each of us should simply go for what we want and so forget this philosophy advocated by Plato. Indeed, Callicles erupts with frustration at Socrates's constant harping on about the different parts of a division of labour, those parts in which we may be reminded of specificity and ends. This is not what Callicles wants to hear.

The commodity space provides scope for interpretation in which emphasis may fall on one side or the other. It allows for an economics of allocation in which maximizing predominates. It also allows a focus on the production of specific goods requiring specific activities with their own disciplines. In one reading, we see this in the sophists, those intrinsic interests, or concerns, appear as surfaces over an underlying reality of self-interest. Organisational purpose and involvement in it become instead nothing more than a veneer seen through by the moral realist. This frames motivation in terms of control and incentive**.** We see the homogenised conduct of an exchange, allocation related, self-interest. The scene is set for the reshaping of organisational, financial and regulatory worlds as we assume conduct to conform to this ethical structure.

Allocation and the nature of the firm

We can follow through the logic of allocation to see what it does to the understanding of the firm and so its management and governance. Ronald H. Coase frames the issue of the 'Nature of the Firm' within allocation. He asks how we might choose between different options of

allocation, on one side the price mechanism, on the other planning/direction. This gives the purpose of the paper 'to bridge what appears to be a gap in economic theory between the assumption (made for some purposes) that resources are allocated by means of the price mechanism and the assumption (made for other purposes) that this allocation is dependent on the entrepreneur-co-ordinator. We have to explain the basis on which, in practice, this choice between alternatives is effected.' (Coase, R.H. p. 389 'The Nature of the Firm' *Economica* November 1937 pp.386-405) That gap is significant, for once in the frame of allocation, we must come to ask why there should be a firm at all, 'Our task is to attempt to discover why a firm emerges at all in a specialised exchange economy.'(p. 390) Such a question arises because in looking at allocation we have already assumed that the unit is a maximising individual. Such an individual may in fact plan and have foresight but does so in their own sphere within the operation of a market system that itself is not planned. Why would we then scale up from such an individual to some social organisation? We must also understand the limits that our frame gives us in finding an answer for it must have some 'realism' and also be 'tractable' for economic theory. Following Coase, we are drawn to consider an answer subject to two concepts of allocation the 'idea of the margin' and 'that of substitution' (p. 386) We are taken then to the reason it is 'profitable to establish a firm' because of the cost of 'concluding a separate contract for each exchange transaction' (p.391) Within this firm, the contract has the factor, for remuneration, agreeing 'to obey the directions of an entrepreneur *within certain limits*.' (p. 391). So two forms of discipline appear within allocation, that of exchange and that of control. Cost at the margin determines the limit of the firm falling between these two options.

Within the commodity space allocation, falls on the side of exchange rather than use. That may not in itself be a problem as long as we are aware of the limits of our inquiry. Use does intrude on Coase's account but is not fully recognised as such. It appears i) in dealing with time and uncertainty and ii) in dealing with geography. However, since use is not recognised explicitly nor are the disciplines associated with use addressed by Coase; we deal with them indirectly through allocation.

In Coase it is the uncertainty between different periods that exercises us and in response to which a longer term contract might be preferred. We have a 'risk attitude' and a 'difficulty of forecasting' related to the issue of specifying what 'the other contracting party is expected to do' . There is then, at the end of this line of reasoning, something to do. The problem is not knowing exactly what that thing might be, come the moment. This presentation is similar in

kind to the modern debate about incomplete contracts (Oliver Hart). The ongoing contract enables flexibility in specifying what needs to be done in respect to different time periods. This avoids the cost of renewing short term contracts and so, 'A firm is likely therefore to emerge in those cases where a very short term contract would be unsatisfactory. It is obviously of more importance in the case of services - labour -than it is in the case of buying commodities.' (Coase p.392) The assumptions here are that time stops us knowing, that once we know we can specify and once specified we have compliance. Knowing then appears, in principle, unproblematic in itself, we just need to get to t_2. Once at t_2 specification and compliance arrive together. This is not an adequate portrayal of knowledge.

If we are engaged in exchange then there is specialisation and a development of knowledge specific to a domain (Hopper and Hopper). Specific skills and implicit knowledge are attached to specific production. Such knowledge involves not just expertise but also knowledge that may not be written down, that comes from experience including how to deal with others within the use domain. What is important about this knowledge is that it comes into play in the formation and completion of the process in hand. This is knowledge we are acting on. Within expertise there is knowledge that comes visible in that act. There are, then, things that we cannot be told to do, that have their meaning from the doing of them. In regard to these modern management is the art of dessication.

The process may be subject to the discipline of exchange, the necessity of sale, but in its actual production is subject to its own disciplines. In this part of the commodity space the competences required are different than simply that of rationality in maximising. There is something going on, an end in view that can be done well or indeed excellently. With Plato and Aristotle, we asked, about the doctor, whether there was something going on with the doctor distinct from the act of making money. This question arises in the commodity space and once we have clarified it we are set up for the the idea of excellence in practice. There is an element that needs to be better specified. There is an end in view and there is a product or service sold that we want to achieve that end. The doctor cannot deliver that end as such but rather in Plato's words must have 'mastery of the body'. In Coase's terms, there is a problem in specifying. If we are to specify health as what we want achieved then we leave everything up to the doctor; we haven't specified, cannot order, what they do in 'mastery of the body'. If we do specify what they do then we ask for compliance at the expense of performance in relation to the end.

No amount of recurrence of t_2 is going to solve this problem of knowledge. Rather, this is a problem we want since it supposes that our expertise in whatever field should be matched by yours in another field. We understand now that allocation and so exchange and Coases's cousin of this, control, are not at all the only disciplines involved. Once we open up the possibility of this added discipline we also open up the need for some other self.

When we consider governance/management/personnel economics we must consider what is governed. We cannot understand one without the other. Theories informing practice have their starting point in assumptions about the subject, so the nature of the self. Sumantra Ghosal identified the cause of 'Bad Management' as lying in the negative treatment of human motivation on the basis of the assumption of the rational maximiser.

How we might engage with organisational purpose, issues of intrinsic motivation and sense of what is right have been rendered by economic theory as essentially inauthentic commitments, awaiting defection. As Fama and Jensen put it, we deal with 'opportunistic agents'. Organisations were reformulated on this basis in a cascade of incentive/deterrent contracts by which the intrinsic discipline of the corporation was wiped out. A reasonable alternative to this would treat the organisation and its internal disciplines seriously. That is not an innocent undertaking for to do this, such is the culture, we must clarify the problems and limit of the neoclassical perspective. We present the neoclassical view as an interpretation within the commodity space and that this space also offers us ground for a competence view of human agency with Aristotle's conception of excellence in practice.

Use and exchange value underlie a series of contrasts that structure our culture. There is that distinction between wealth and claims on wealth, also community and individual, quality and quantity, limited and unlimited, heterogeneity and homogeneity, specific and universal. These contrasts mark out a space within which a number of potentials arise. They are not simple, so, for example, community and individual could be control and freedom, imposition and moral or recognition and insecurity. On the exchange side there is some kind of escape that we might view, depending on the situation, as good or bad. It may be opportunity, it may be irresponsibility, it may be despair. We need now to take this to ground to grasp how economic theory can shape conduct within that structure given by the commodity.

The commodity and the corporation: ownership and control

We are concerned with two elements. The first is the separation of ownership and control the second a depletion in understanding of the agent. These elements are interrelated . How we interpret the separation of ownership and control has been shaped by the work of Berle and Means and especially as this work was taken up in the 1970s and onwards by the Chicago school economists [see Stout, L article for references]. We focus first on J.M Keynes's views so that we can illustrate the rattle room for interpretation within the commodity. The formation of joint stock companies with limited liability enabled the separation of ownership and control. This allowed a change in the relation of use and exchange. 'With the separation between ownership and management which prevails today and with the development of organised capital markets, a new factor of great importance has entered in, which sometimes facilitates investment but sometimes adds greatly to the instability of the system' (JMK 1937 150-1). 'Investments which are "fixed" for the community are thus made "liquid" for the individual.' The pair fixed and liquid is another layer over use and exchange. We see that element of escape at its core. Liquidity encourages investment because we know we can exit. Indeed, more generally, this is central to the development of the division of labour since I may specialise in making things I don't want only under the prospect of being able to escape from my commitment to them. Of course then I am under a compulsion to sell, but having done so I hold a claim on other production, I am liquid. This possibility may also allow a marketization that can crowd out a relation to use. The possibility of escape enables a change in how the corporation is run. The sole owner had to know the business or get out; the modern investor is not committed to any investment but is free to construct a portfolio. One set of risks can be played against another. The portfolio can change according to the latest news so too the valuation of the underlying investments. The result is that, 'certain classes of investment are governed by the average expectation of those who deal on the Stock Exchange as revealed in the price of shares, rather than by the genuine expectations of the professional entrepreneur' (JMK 151). The tendency to portfolio capitalism implies ownership 'by persons who do not manage and have *no special knowledge of the circumstances, either actual or prospective, of the business in question' and so 'the element of real knowledge . . . has seriously declined*' (153 our emphasis added).

Keynes's interpretation of ownership and control is reversed in Berle and Means and in subsequent work in the Chicago school of economics. The focus is on the exchange side. There is in an unknowing re-discovery of sophism, not just talk of the 'opportunistic agent' but also

advocacy of profit as against wider social ends. This interpretation leads to a change in the conduct of organisations. The change arises because interpretation of the agents in terms of allocative maximising required appropriate systems of control. The organization was conceived as a nexus of contracts in keeping with the maximising vision of the self. The message was that shareholders were confronted by managers as opportunistic agents. This suggested no intrinsic basis to the organisation. Understanding had shifted towards the exchange side and a stranded self-interest.

In a *New York Times* article 'The Social Responsibility of Business is to Increase its Profits' (Milton Friedman 1970 *New York Times* September) Milton Friedman criticised those businessmen who defended the corporations in terms of their 'social responsibilities' rather than just making profit. These were business people who were posing business as "promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are–or would be if they or anyone else took them seriously–preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades." (Friedman. M 1970) Friedman's stress on profit as against the responsibilities of business realises the practical consequences of the allocative perspective. The ultimate result is the spread of shareholder value as dominant form of corporate governance along with a confidence in contracts and products to achieve the required ends. The market is understood predominantly in terms of the exchange side of the commodity and so with a focus on money. From that perspective posing 'social responsibilities' for business does indeed seem outlandish. If we re-examine the use side this does not mean that some open wish list of responsibilities returns. Rather we can see a public interest lying in the use-value side of the commodity. This does not simply mean the commodity for that may be subject to adulteration from the exchange side. Rather we are concerned with the ultimate end of production that by appropriate technology and service can be achieved by the commodity. As we have argued the difference we have in mind is between a state that cannot be bought, health, and the product, health care, that might assist that state. This distinction can be found in all industries. In food the difference lies in that between nutrition and the commodity item. Within any firm this difference requires vigilance and the commitment of of the corporation (see Mayer 2014). There is an intrinsic requirement 'to do the right thing' that is internal to the firm. The relationship of end and end care puts quite

different requirements on the self than that of rational maximising. The routines, referred to by Nelson and Winter, are necessary to managing that relationship. These routines require ongoing cooperation and discussion for, in its nature, the relationship between end and end care cannot be settled. Specification of end care may undermine the end. Those involved in this relationship are inadequately described as stakeholders. Incomplete contracts become necessary not just because of the expertise involved but also because the ongoing relationship between end and end care cannot be settled. Indeed it is out of this relationship that innovation comes.

In *The Puritan Gift* (Hopper & Hopper, 2009) the movement to shareholder value is understood as the loss of domain knowledge for the management of companies by a certain kind of 'expert'. The company is then subject to external measurement. Judgement arising from specific knowledge is undermined as the exchange, measurement, side of the commodity comes to dominate. Specific knowledge declines in favour of homogeneous 'business'. The consequence has been a shift from investment in the company to the management of, contracted, stock options (Lazonick and O'Sulllivan 2000 Lazonick executive pay, also Smithers).

Conclusion

There are two distinct disciplines, on one side exchange representing general conditions of production for sale and on the other the discipline involved in the actual production and delivery of the use in terms of some end. The economic viewpoint has supported an idea of interest distinct from practice. It has favoured an external view of discipline from which either structures of governance and regulation or market products may proliferate. What must be achieved has to be specified in contract and subject to incentives and deterrents. Problems of knowledge are misaligned within time. They are propagated as some version of uncertainty, with incomplete contracts understood in terms of time periods and the problem from specification to compliance as a matter to be sorted at t_n. Specification is seen in terms of measurement, tending to compliance over performance.

Once we see knowledge as being central to the production of use we have a different problem of specification. Knowledge arises not just from expertise but from the exercise of that expertise in action. That relation between commodity, end care, and outcome, end, may be subject to constant reinterpretation by those who know. This is domain knowledge. Contra Friedman, the corporation has a wider responsibility than residual revenue. That responsibility is not a matter of adding decent social projects but arises directly from the relation of end care to end. We are not talking simply then about stakeholders but about responsibility and internal motivation concerning the relation between the product and its outcome. The problem of knowledge lies in the active participation of the agents in production.