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Club Hierarchy, Social Metering and Context Instruction: Governance Structures in Response to Varying Self-command Capital.

SIEGWART M. LINDENBERG¹

A major function of management is to set schedules and monitor accomplishments so as to prevent procrastination (George A. Akerlof, *Procrastination and Obedience*, 1991, p. 7).

The family is the most likely place for the individual to learn (or not learn) the rules and norms necessary to overcome the self-control problems (Richard H. Thaler and H. M. Shefrin, *An Economic Theory of Self-control*, 1981, p. 401).

Introduction

The field of organization studies has produced a prominent focal point of analysis: governance structures. Wherever parties enter into a contract, a governance structure is part of the arrangement and the question is: why and how do these governance structures differ?

In the last decade, one could also observe quite another development: work on organizational culture,² on the management of meaning,³ on the quality of working life.⁴ This emphasis on culture and meaning is accompanied by a related effort: the pin pricked into heroic leadership, pointing to the importance of little things routinely done. "It is probably true that the conspicuous differences around the world in the quality of bureaucratic performance are due primarily to variance in the competence of the ordinary clerk,

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²See Deal and Kennedy (1982).

³See Bouwen (1993).

⁴See Hofmaier (1993).

bureaucrat, and lower manager, and to the effectiveness of routine procedures for dealing with problems at a local level" (March, 1986, p. 23).

The most general link between these heirs of the human relations approach and transaction cost economics (which centers on governance structures) can be forged from the role culture plays for the production of trust and trust for the reduction of transactions costs. This point is a variant of the human relations tradition which calls into question the efficiency of purely bureaucratic organization. In 1970 Brewer summarized cumulating sociological evidence that, quite contrary to what one might expect on the basis of Weber's theory of bureaucratization, there are many organizations in which the style of supervision is in the direction of less strict hierarchical control and less impersonality. This contrary trend held only for some, not for all organization. Why? Brewer (1970) stated two conditions: first, the more complex an organization, and second, the more dangerous or unusual the tasks that are carried out in otherwise isolated units, the more de-bureaucratization. He explained these links by the autonomy that employees need for the execution of complex or dangerous and unusual tasks. Years later, economists sharpened theory on this point by identifying metering problems (Alchian and Demsetz, 1972) and asset specificity (Williamson, 1985) as the major conditions leading to nonbureaucratic supervision. In addition, "style of supervision" was replaced by "governance structure" of the employment relation, with wages removed from individual bargaining, and special grievance/arbitration and internal promotion schemes (Williamson, 1975, 1985).⁵

This was certainly an advance, and yet, in the whole process, the emphasis was more on measures (like hostage exchange) that reduce the need for trust than on an analysis of how trust operates in the governance of incomplete contracts (see Lindenberg, 1990a). Recent theoretical elaborations by Lindenberg (1988), Casson (1991), Raub and Weesie (1991), Coleman (1990, 1993) and others⁶ have changed this emphasis. The new theories of trust all recognize the increasing importance of *autonomy* even in labor relations and the ways of building or reinforcing trust as a barrier against the exploitation of that autonomy. The most advanced theoretical problem here is how to create or mobilize a

trust relation strategically without getting all the negative effects of such a relation for doing business (such as mutual obligations that greatly restrict the goals of the business relationship). One can expect more progress along this line of work. However, once this line of research is set out, the following step has to be set: even if the governance structure succeeds in motivating people not to exploit the autonomy given to them, they may not be able to deliver. *Their ability to control themselves may be too weak to make them even approximately a perfect agent of the principal.*

Let me take a simple but realistic example to illustrate this kind of situation. You discover on your desk the confirmed order of a customer that should have been handled a week ago for delivery yesterday. Since you know that an angry customer is more likely to go to the competition than a disappointed but understanding one, you decide that you should call and tell him that there has been an unfortunate mixup and that, alas, the order will be delayed for a week. Because you feel uneasy and embarrassed making this call, you don't make it right away but decide to ring him up later in the day. In the afternoon you feel you are too busy to make the call now and you decide to call the next morning. The next day the cycle repeats itself, until a few days later, the furious customer calls you. What he has to say confirms all your anticipations of what he would say if you did not inform him early on. You lost him as a customer. There is really no surprise involved and you agree that not making such a call was certainly not worth losing the customer. Still, you did it. It is not that you did not care. To the contrary, forgetting his order was very embarrassing to you which made it so painful to call in the first place. What you did not have was the ability to counteract the effect of the uneasiness making the call, which led to the repeated postponement. You knew full well that you should call and you would have reprimanded any employee of yours if he had not called simply because he felt uneasy making the call. In fact, you could not command yourself. Then, of course, there are millions of others who also lack this ability to various degrees. It is a very well recognized phenomenon (see, for example, Ainslie, 1986). In order to bring out the fact that this ability to command oneself is a resource in the contractual relationship, I call it *self-command capital*.

The current conceptualization of the employment relation more or less assumes self-command problems away. Organization is brought about by an explicit or implicit contract which Simon (1951) in a by now classic article called "the employment relation". He assumed that people are indifferent with regard to a class of their own actions. This allows a person to sell the right to somebody to

⁵Damage potential in general (with or without asset specificity) was identified as a condition for weak solidarity norms governing the employment relation by Lindenberg (1988).

⁶See also Mitchell and Zaidi (1990).

tell him which of these actions he should perform: "If the orders transmitted to him by the organization remain within these limits of acceptance, [the employee] will permit his behavior to be guided by them" (Simon, 1957, p. 116). Thus under certain conditions, I will permit my actions to be guided by the order of others. Williamson also sees the employment contract this way (Williamson, 1985, p. 249). Coleman (1990) goes one step further. Like Simon, he assumes that individuals control their action, but in order to trade this control, I first must have the *right* to control my own actions. The right may not exist at all, or somebody else may hold it (as in slavery). In such cases, the right cannot be traded. Both for Simon and for Coleman, the theory of organization depends on the ability to sell the right to control one's actions. The underlying assumption is that I do control my own actions, so that I can credibly sell this control. What does this require about my own functioning? Is it reasonable to assume that I am so much in control of my own actions that I can decide whether or not to "permit" my actions to be guided by other people's orders, as Simon assumes? According to Elias's famous thesis on the process of civilization, man's control over his own action increases exactly with increasing organization (see Elias, 1982). Thus Elias would concur with Simon and Coleman that at least for "modern" society, one should not worry much about the ability to sell the right to the control of one's actions. Yet, there are also compelling reasons to assume that while Elias was right until much of the nineteenth century, he only looked at centralization of power and did not really analyze the effects of *prosperity* on self command. Could there possibly be generational changes in the ability to control one's own actions? If there are these changes, they would have important consequences for the kinds of governance structures organization have to devise. What kind of structures?

In the following, I will address these questions. I will first describe how self-command capital might be most fruitfully conceptualized. The important result here will be that due to framing, small things can have large consequences, so that "atmospheric" aspects of governance structures can acquire great importance. Then I will deal with the major source of variations in the level of self-command capital: the household. Here, prosperity depresses the incentive for socialization directed at the formation of self-command capital. Finally, I will analyze some of the forms that governance structures take in response to lack of self-command capital. Basically, they consist of three marked deviations from traditional hierarchies: hierarchies that do not issue commands but priorities and deadlines for tasks (club hierarchies); forms of access that enhance *informal*

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(social) metering of performance, and instruction in order to induce clarity, consensus and commitment with regard to the purpose of activities and plans. For all three, the production of meaning is a necessary ingredient.

Self-Command Capital

Conditions have not been optimal to get the problem of self-command into any prominent place on the agenda of institutional analysis. Ainslie (1986, p. 139) observed that "philosophers and psychologists since Plato have described competing principles of decision-making, usually a lower, impulsive principle and a higher, rational principle . . . but the relationship between these principles has been elusive." Let us call this relationship between conflicting principles of decision-making within the same person, the *problem of self-command*. In the socio-economic sciences, the problem seemed more or less solved long ago. In economics, enlightened self-interest moved into place as the ruler of passions (cf. Hirschman, 1977). In sociology, morality, acquired during socialization, was seen as the conqueror of impulses (Parsons, 1937). While these respective solutions underwent considerable refinement,⁷ they did not generate genuine puzzles. Each discipline, in its own way had reason to put this problem on the back burner and thus institutional analysis was not affected by it. Why?

In sociology, institutional analysis depended on the given solution to the problem of self-command. Rules are internalized through socialization; in this way, they govern behavior which, in turn, is automatically coordinated with all other players and thus institutionalized. Fluctuations in this social governance of behavior had to come from one of two sources: either incomplete socialization or conflicting rules (cf. Merton, 1957). As a consequence, what had to be explained was not conformity but deviance and thus conformity to rules was trivialized.

In economics, conformity to rules was systematically divorced from the self-command problem because conformity is a matter of a rational response to given constraints. Lack of conformity is due to a lack of interest alignment (see Lazear, 1981). In this

⁷In economics, the problem was eventually flattened into a matter of individual time preference related to interest rates and incorporated into the general trend of formalization in neo-classical economics (see Fisher, 1930; Fishburn and Rubinstein, 1982). In sociology, the role of morality governing impulse has been vastly elaborated and incorporated into the general trend of categorization in structural-functionalist sociology (see Parsons, 1951).

view, the problem of self-command is altogether misconceived in the sense that it stems from an old-fashioned and misguided difference between passions (or impulses) and interests. There is no such difference. Rather, we are dealing with preferences, one of which is a time-related preference for goods available now rather than later. This preference is by and large rational because if I receive money now, it will bear interest and if I receive the same amount later, I will miss out on this interest. The research puzzle then boils down to the question: what is the rate of the time discount? Is it really anywhere related to the interest rate? (see Holcomb and Nelson, 1992). The general trend in this discussion is thus to incorporate apparent self-command problems into the standard analysis and to show that there is really no such problem.

In recent years, there has been one shift away from these trivializing tendencies. It is part of a larger development of convergence in the socio-economic sciences (see Lindenberg, 1990b). While in economics constraints are usually taken as given, a whole new vista opens up if one assumes that individuals also *choose* constraints. Books appeared on multiple selves (Elster, 1986), and in 1990 Buchanan observed that “the *economics of self control* has reached the status of a respectable, if minor, research problem” (Buchanan, 1990, p. 3). Many examples for the constraint seeking behavior come to mind. For instance, in Holland, university teachers receive a certain amount of money from the university for their health insurance. Early in the year, they have to decide when they would like to receive this money, in May or in December. Because of other administrative reasons, the paycheck in December is for most teachers lower than for the other months in the year, and receiving the health insurance money in December would render the December paycheck similar to the ones of all other months. Most teachers decide to receive their health insurance money in December, voluntarily forgoing the interest from May to December. On the other hand, they also cannot spend that money before December and as a consequence won't have to face the possibility of a month with strongly reduced income. In fact, they choose their own constraint. March (1986, p. 26) says similar things about managers:

Many managers engage in activities designed to manage their own preferences. These activities make little sense from the point of view of a conception of action that assumes administrators know what they want and will want Ordinary human actors sense that they might come to want something they should not, or that they might make unwise or inappropriate choices under the influence of fleeting but powerful, desires if they do not control the development of preferences or buffer action from preferences.

The idea that people choose their own constraints is very appealing because it brings seemingly irrational behavior back into the fold of rationality. People who opt for delayed payment, do not act irrationally by foregoing the interest voluntarily; rather, they forego the interest as payment for the discipline they receive by the delay. Yet, this picture is misleading. People often do *not* choose or create the constraints necessary for their functioning with minimal regret. In our other example above, a person procrastinated about an important telephone call because he felt uncomfortable making it. He did not manage to create the constraints necessary to *make* him call. While all or most people may be playing self-control games, they are not all equally successful in achieving their goal. What are we to make of this? Can there be ways in which the governance structure can minimize this difference among people or do people simply differ in the degree to which they can act rationally? In that case, not governance structures but selection procedures should solve the problem, although such an assumption of unequal rationality puts considerable strain on any kind of rational choice approach.

Framing and Self-command

Most individuals make decisions at least some of the time that are seriously flawed *in their own eyes* (as well as in the eyes of relevant others). Some of these can be attributed to faulty judgment, as when you trusted somebody whom (with hindsight) you should not have trusted. But many of these decisions have been taken against one's own better judgment.⁸ These are problems of self-command. The existence of such problems violates the standard assumption of rational, forward-looking utility maximizing behavior.

Schelling has observed that “tuning in and tuning out perceptual and cognitive and affective characteristics is like choosing which ‘individual’ will occupy this body . . .” (Schelling, 1984, pp. 95f.). Akerlof has similarly suggested recently that procrastination and other wrong decisions are “due to unwarranted salience of some cost or benefit relative to others” (Akerlof, 1991, p. 3). Yet for both, the possibility that salience changes is introduced side-by-side

⁸I would like to avoid the vexing question whether the individual would have to be aware of this mismatch between judgment and decision and if so what this awareness would have to look like. Maybe the best way to circumvent this problem is to stipulate that there is a self-command problem if the individual *can be made aware* of a mismatch between his or her own judgment and the decision (if need be by a trained psychologist).

with the standard model that does not accommodate these changes in salience. Clearly, a theory is needed that integrates possibilities of changing salience with rational choice.

I would like to suggest that recent developments in the theory of framing can help us here.⁹ Framing means in this context the structuring of an action situation by *one* particular goal. This is the salient goal and at first blush it is similar to a single maximand in the standard analysis. However, contrary to the standard analysis, the salience can vary, and that has direct behavioral effects. If the salience of a goal decreases, the probability with which the (subjectively) "best" alternative is chosen will drop below unity and the choice probabilities for the second best and subsequent alternatives will increase. It is the influence of other, non-salient goals that make the salience vary. Those that are compatible with the salient goal will increase the salience, and those that are incompatible will decrease it.

An important consequence of framing is that the effect of changes in constraints on behavior is much larger if the constraints pertain to the salient goal than if they pertain to the non-salient goals in the background. For example, if getting things cheap is the salient goal then information on the price of a good will have a larger impact on behavior than when quality is the salient goal (and vice-versa). In this way, it is possible that for example the goal of avoiding social embarrassment (losing social approval) can indeed have an unwarranted salience. When this goal is salient, the influence of incompatible goals (such as to inform the customer) is only indirect and thus muzzled.¹⁰

When the weighted utility difference between my alternatives is not large and/or the salience is low, the choice probability approaches non-discrimination (i.e., 0.5 in the two alternative case). The closer the choice probability approaches non-discrimination, the more likely that there will be a *frame switch*, i.e., a new salient

⁹See Lindenberg (1989).

¹⁰Expressed algebraically, this framing model looks as follows:

$$P_i = \beta(g_i - U_0) + 1/n \quad (1)$$

where:

P_i = probability of choosing the i th alternative, ($i=1,2,\dots,n$); β = situational salience of the maximand g ; g_i = the sum of the utilities of outcomes of the i th alternative, each weighted by the appropriate event probability, ($i=1,2,\dots,n$); $U_0 = (1/n) * \sum G_i (i=1,2,\dots,n)$, i.e., the average expected utility over all alternatives.

The situational salience is a function of situational background aspects (x_i):

$$\beta = f(x_1, x_2, \dots, x_n) \quad (2)$$

goal will replace the old (it will be the goal from the background that discriminates best between alternatives). Such a frame switch also means that the weight of constraints changes: those pertaining to the new frame influence behavior more than before whereas the "old" frame, now in the background, will influence behavior less than before. In addition, the alternatives or their order may have changed. The top alternative under the old frame may now be on the bottom and vice-versa.

One may usefully distinguish three related but analytically distinct self-command problems: procrastination, impatience and addiction. In all three cases, framing effects play a prominent role. Let me take them up in order.

Procrastination. We procrastinate if we keep postponing something of which we are convinced that it should be done. In our example above, an employer kept postponing making a telephone call to one of his customers because he felt uncomfortable relaying the bad news. In terms of framing, this kind of behavior can be explained as follows. The customer has to be called. But does he have to be called right now? It is important to notice that my alternatives are *not*: to call now versus to call later, because that would imply that if I decided against calling now I did choose the alternative calling later. Instead, my set of alternatives is: to call or not to call now. In fact, I have *not* bound myself at all, I just postponed the decision. There is no direct intertemporal decision being made. The salient goal is to inform the customer and that means that the alternative to call is superior to the alternative not to call. But how salient is this goal? The fact that it is possible to call the customer at a later time without great expected loss in outcome allows a related goal in the background to have considerable influence: inform the customer at another time. This background goal lowers the urgency and thereby the salience of the goal "informing the customer." The salience is also lowered by a still stronger goal in the background, viz. to avoid exposing myself to an embarrassing situation. Both influences on the salience add up and are now so strong that my choice probability of "calling now" approaches 0.5 thus inviting a *frame switch*.

What will be the new frame? It will be the strongest contrary goal in the background, in our case the goal to avoid an embarrassing situation. This frame switch creates a completely new action situation: it leads to a *reversal of alternatives*, so that the superior alternative is "not to call now." Every time I consider again calling the customer, the process is repeated with the same outcome: not now. The cycle will be broken if and when the background goal

of "inform the customer at another time" is weakened or even vanishes due to the strong expectation that further postponement will lead to considerable imminent loss. When this happens, the urgency (salience) of "informing the customer" will greatly increase and thus the frame switch to "avoid an embarrassing situation" will not take place. In sum, *a procrastinator allows his salient goal to be displaced by an alternative-reversing goal he himself considers to be "minor" by comparison.* In this new frame, information on the embarrassing aspects of the situation will become very prominent, while information on the situation with the customer will recede into the background.

Impatience. When I am willing to forego a larger reward in the future in favor of a smaller reward now, then I am impatient. This is different from procrastination because when I am impatient I do not postpone a decision but choose the "objectively" less attractive alternative. I later reprimand myself for having done so. Except for this element of regret, impatience is identical to what economists mean by time preference. Here we do have an intertemporal choice. How are we to explain impatience in terms of framing?

Assume that my salient goal is to make as much money as I can. If I am now confronted with the choice of say \$10 or \$20, it is clear that \$20 is the superior alternative. However, if somebody informs me that I have to wait a week for the \$20 while I can have the \$10 right now, what will happen? It is interesting to note that ever since time preference was incorporated into the theory of interest in economics (with Böhm-Bawerk and subsequently Fisher), an *ad hoc* framing theory had been bootlegged into micro-economic analysis: the idea that, as Schumpeter (1954, pp. 928f) put it, "most people do not experience future enjoyments with the same pungent sense of reality as they experience present ones." Here "pungent sense of reality" refers to the things I can do with the good in question and things that may accompany its use. In short, it refers to an influence of goals in the *background* although micro economic analysis does not (yet) recognize explicitly a difference between foreground (salient) and background goals. In any case, the standard time preference assumption really boils down to the idea that *in any intertemporal choice, the influence of background goals is uneven:* for the proximate reward, my imagination of what I can do with them or what goes along with them is more vivid than for the distant rewards. But since these "proximate" goals are incompatible with the present frame, they drag down its salience. For example, the goal of "making as much money as I can" will

become less salient by the fact that if I go for as much money as I can, I cannot realize any of the proximate goals. The distant goals are in this respect too vague to compensate this decrease in salience. As a consequence, the probability that \$20 will be chosen goes down and the probability that \$10 will be chosen goes up. The larger the intertemporal difference between the rewards, *ceteris paribus*, the stronger the relative influence of background goals pertaining to the proximate reward.

The situation can be more extreme. The more the choice probability for the top alternative (\$20) approaches 0.5, the more likely that a frame switch will occur. This can happen if the difference in reward between the alternatives is small and/or if the salience is very low (for example because the wait is very long). The new frame will be a goal connected to the proximate (lower) reward,¹¹ for example buying lunch for a friend in half an hour. Note that *the new goal reverses the order of alternatives.* The \$10 will now be chosen with a probability larger than 0.5, phenomenologically indicating strong impatience.¹²

Phenomenologically, this effect expresses itself as impatience if the decision maker identifies myopia as the basis for his decision. It should be distinguished from a situation in which the researcher has misspecified the utility function by having left out an important proximate reward.

Addiction. Most people get hooked on something, be that a person, a kind of situation, a kind of activity, food or drugs. Of course, the degree to which they get hooked varies greatly and only the most severe cases will be clinically identified as addiction. From a

¹¹It will be the goal that discriminates best between the alternatives.

¹²This framing interpretation of intertemporal choice is quite compatible with the seemingly paradox results of the careful study of Holcomb and Nelson (1992). People seem to have a hyperbolic discount rate, and still they seemed not to react to front-end delays (i.e., having the proximate reward moved backward in time while keeping the interval to the distant reward constant). In the interpretation offered here one would expect results that *appear* to point to a hyperbolic discount rate: given constant interest rates, an increase in the length of time to the future payment will also increase the absolute difference between payoffs. When the interest rate is very high (as in Holcomb and Nelson's case: 1.5% or 3% per day), this increase in difference well outpaces the decrease in salience due to the concreteness effect. In addition, discounting should be disentangled in terms of the goals involved because reaction or non-reaction to front-end delays depends on the question how these delays influence the goals. When there are not many concrete plans (in a laboratory situation), it may well be that the asymmetry in concreteness is similar with different front-end delays.

framing point of view, addiction is a situation in which changing circumstances fail to lower the salience of your present frame as much as you expect them to do. For example, you know that spending too much money in the casino will create great problems for yourself and others and you know that the amount you spend should be sensitive to the magnitude of problems created by spending it. Yet you find that the magnitude of problems fails to lower your salience of gambling. The stability of salience is similar to the inelasticity of demand in the standard analysis. But there may be inelastic demand without regret, for example demand associated with "rational addiction" (Becker and Murphy, 1988). Some people feel so strongly about their hobby that their demand may be quite inelastic with regard to price and other aspects. But they do not necessarily feel that what they do is a mismatch between their decisions and their judgment. People generally know that their present consumption can influence their future demand and they know that once they are addicted, they wish they weren't. The question of non-rational addiction is then: why do they get hooked? How is "non-rational" addiction possible? Let us assume that one of the goals of a person (not yet addicted) is the enjoyment that comes with the consumption of a particular substance or with a particular activity. Let us also assume the person believes that he can get addicted to this enjoyment. The anticipated negative consequences of this possible addiction are not worth the enjoyment to him. When the enjoyment is the salient goal, the negative consequences (in the background) should then lower the salience sufficiently to produce a frame switch. Addiction can only come about if this frame switch consistently fails to occur. Why could it fail to occur? There is a parallel with procrastination. The intertemporal aspect in this situation is not choice but the ability to postpone. The decision is: should I or should I not take this substance? With procrastination, the possibility to postpone the decision lowered the salience and effected a frame switch. Here, the converse is the case. I do not anticipate grave consequences taking the substance one more time. Thus, I can to postpone the decision until next time. This greatly *enhances* the salience of the present frame by neutralizing the effect of negative consequences. No frame switch will occur. The next time, however, the salience has increased somewhat through the onset of addiction, and that makes a frame switch even less likely. Step by step, I get into a situation in which the frame becomes more and more stable and thus increasingly less sensitive to changing circumstances. Again, this explanation of addiction through "gradualism" is not new but it is a framing explanation that had previously been bootlegged into the

standard analysis without adapting this analysis to framing effects (by introducing explicitly foreground and background goals).¹³

What constitutes self-command capital with regard to these three forms of problems? As mentioned above, the traditional sociological view, strongly influenced by Durkheim and Freud, was that during child rearing, a personality structure would develop through identification and internalization of norms and values. As a result, a socialized individual has an internal command structure (composed of ego and super ego) that would allow the person to adequately select and perform social roles. By contrast, the view taken here, supported by the recent developments in the study of self control (Schelling, 1984; Ainslie, 1986) is that self-command is a skill in dealing with potential procrastination, impatience and addiction situations. Since these situations are largely governed by framing effects, the skill in question is largely a skill to influence one's own framing. Being attentive to framing effects means that you try to manipulate *small* things in order to prevent (or create, as the case may be) large effects. For example, a person knows that chocolate has bad effects on his skin and general health. Yet, he also knows that the very sight of chocolate makes the wish to eat it so dominant that all other goals are pushed into the background, none of them strong enough to effect a frame switch. The skill here is to manipulate one's surrounding in such a way that one will not be confronted with the sight of chocolate. This does not just mean not buying it. It also means avoiding gatherings where chocolate is offered, informing friends not to bring chocolate as a gift, etc. Similarly, a person may have developed a skill to imagine future benefits or costs so vividly that he can counteract the reality effect of immediate benefits or rewards. In this way, he can increase the salience of an objectively attractive intertemporal choice, or prevent the salience-decreasing effect of the possibility to postpone a decision. Public commitment to a course of action will also increase the salience of that course of action. Similarly, a person develops skills in avoiding some and seeking other activity sequences on the basis of their framing consequences by formulating private rules about them. For instance, "Each day something needs doing most of all. Never begin the day by postponing what needs doing most of all." This rule summarizes the experience that if you postpone even what needs doing most of all, the possibility to postpone will greatly increase in salience for all other decisions as well.

¹³See, for example, Akerlof's (1991) explanation of addiction.

The skill to deal with your own procrastination, impatience and addiction situations is self-command capital. It applies to role performance just as much as to novel situations and it is a skill with many facets rather than an inner commander that directs you to conform to expectations. Why would training in this skill differ in social strata and over time? Here the household plays a crucial role and it is to this aspect that we turn next.

The Household

Sharing groups and changes in the home. Self-command capital is built up in the home through socialization. This does not happen without cost. In order to achieve a successful socialization with self-command capital, the parents have to be (a) consistent in their handling of rules and agreements, and (b) they have to be supportive of the child so that it will not develop a strategy of avoiding them (see Rollins and Thomas, 1979). This is a delicate balance between strictness and supportiveness and it is very restricting for the parents. For example, the mother cannot delay bedtime because there is a movie on television she wants to see. Similarly, when the child has transgressed the rule by not saying it would go to a friend's house, the parent has to deal with it even if nobody was inconvenienced by this transgression. When the child did something that really upsets the parents they have to restrain their reaction in order to show that they remain basically supportive. Why would some parents make this kind of effort day in and day out? The answer I would like to give has been worked out in some detail elsewhere. I will summarize it here.¹⁴

There must be a reason if parents are willing to put in the effort of self-command training: negative externalities of the child's behavior on the parents attributable to lack self-command capital of the child. There are two related kinds of such negative externalities. First, there are those that stem from sharing a home. Second, there are those that stem from the reaction of other people. Let me briefly take up both in order.

Sharing creates positive and negative externalities on the sharing partners. The more the same group of people share in their daily lives, the more they have to come up with rules and norms that emphasize the importance of sharing and that mitigate the negative externalities that come with it. At the same time, their interest in

¹⁴See Lindenberg (1986, 1991).

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the other's conformity to these rules and norms is also higher. For example, a family in which the children have one joint bedroom and there is one living room to be used by everybody, many negative externalities can be generated unless everyone sticks to the rules by keeping the rooms picked up, controlling the noise they generate, refraining from certain activities at certain times, etc. Similarly with bathroom and kitchen use, sharing the television set, etc. Under such circumstances the parents have an incentive to train their children in following rules and norms and to make sure that they can do it on their own without much control and nagging.¹⁵

When a child is outside the house and behaves badly, it may reflect on the parents. They did not socialize the child properly and thus they meet social disapproval. This does not hold only for the child's public behavior but also for such important decisions that indicate the child's self-command capital. For example, if the child chooses an "easy" occupation or an "easy" partner signifying in fact downward intergenerational mobility, the child seemingly did not choose with an eye to the long-term consequences but was lured by short-term advantages. For this reason, the child's behavior outside the house may also have negative externalities on the parents, motivating the parents well in advance to put effort into building up a stock of self-command capital in the child.

Now let the income of the family rise steadily. What will happen? The economic solution to negative externalities will become more attractive than the socialization solution. The amount of sharing in the family will go down because the extra income will be put into extra bed rooms, bath rooms, television sets, cars, etc. With the extra facilities, the amount of negative externalities will decrease and with it the incentive to put in the effort into self-command training. A nice description of this effect has recently been given by Linda Weltner about mothers and their children's rooms:

The boy's room looks as if somebody had just thrown a lighted stick of dynamite into it. Or the girl's bedroom looks like the inside of a laundry basket. The bed resembles the bottom of a hamster cage, the floor of the closet is matted with unmatched shoes, there is a wet towel on the hardwood floor The bedside table sports a week's worth of rotting banana peel, sour milk, and dry crusts of pizza Mother initiates the first skirmish. "How can you stand it?" she asks in her most neutral voice. "Stand what?" the child replies, truly puzzled "If it bothers you so much," she says, bristling, "I'll keep my door shut."

¹⁵There is likely to be a lower bound to this relationship. For example, when there is only one room for the family, children may play outside, thus reducing the externalities without the parents' effort in socialization.

Next, Weltner describes the parent's ambivalent reaction:

Everymom gathers ammunition for the impending confrontation. She fortifies her case with reasons why youngsters should keep their bedrooms clean: because children, as part of a family, must learn to meet community standards . . . because cleaning one's room is a way to learn responsibility . . . Or she prepares to accept defeat gracefully. She reviews the reasons children have a right to control their own environment . . . All of a sudden, everymom sees the battlefield on which she stands from a great distance . . .

And, talking to everymom, Weltner asks: "*Did you whisper, like me, 'I surrender'?*" (Weltner, 1988, pp. 168f). Ask yourself whether your grandmother would have answered: yes.

Simic and Custred (1982, p. 169) observed that "even such venerable ideas as parents' responsibility for the behavior of their children have recently come into question . . .". This fits the consequences that can be expected of the household transformation. When every family around you is in a similar situation of low internal incentives for self-command training, there is little incentive left for the parents to blame each other for their children's lack of self-command. The externalities of children's public behavior on parent will not vanish but they will be strongly reduced, adding to the effect of diminishing externalities in the household. The result is an increasing output of youth who have not been socialized into functioning in hierarchies and into creating large areas of "indifference" for superiors to be filled in. The less the difference in income and security between different strata the stronger this effect for all strata. The same argument explains why at first increasing prosperity in a society will have the opposite effect. At first, some families manage to rise in status due to the generational cumulation of income and education. For them, the public behavior of children (including occupational and partner choice) will have strong externalities on the possibilities of holding on to or improving on the newly acquired status. Later, as more and more families come into this position, and status progress due to generational cumulation slows, the costs of self-command training begin to outweigh the benefits of influencing the public behavior of one's children. Thus, Elias theory of increasing self-control training with increasing civilization only picks up the first part of the impact of prosperity, not the second.

Governance Structures and Self-Command Capital

How can a governance structure do something about self-command problems? Of course, the simplest solution is always to design jobs that require as little self-command as possible. If

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there is little discretion, there is little occasion for self-command. Also where it is possible to monitor output but pay is unrelated to output, people may ask for performance related pay in order to help them solve their self-command problem. Yet, this option will not hold for most jobs where autonomy is granted. More importantly, as technology changes toward further integration and flexibility, the ratio of the jobs with discretion increases as well¹⁶. Ironically, this happens just when the ratio of people with a high amount of self-command capital is declining. For these reasons, governance structures will adapt to accommodate rather than eliminate self-command problems.

The classical view of hierarchy is that "each office has a clearly defined sphere of competence in the legal sense" and the office holder "is subject to strict and systematic discipline and control in the conduct of the office" (Weber, 1978, pp. 220f). There are, of course, less extreme views, but by and large, a hierarchy is seen as a layered command structure. Such a structure is based on the presumption of intention-controlled obedience. If you don't do what I say, it is because you don't want to do what I say. Once we admit self-command problems into the hierarchy, intention-controlled obedience becomes questionable. In that case, people are apt to cover up their own "lapses" and fail to allow for such lapses of their subordinates. The larger the self-command problems of the employees, the less a hierarchy can resemble a command structure. Giving up hierarchy in favor of a peer group is one option but it is subject to severe size and homogeneity limitations (see Williamson, 1975, pp. 41ff). What other solution is there? What instruments are available to influence framing effects appropriately? Let us remember that drastic solutions, like close supervision and harsh punishment, are not only expensive, they are also counter-productive for positions with enough autonomy to make lack of self-command capital a problem in the first place. Governance structures are arrangements for managing *relational labor*, with special emphasis on facilitating *ex post* adaptations and on the correspondence of deeds and compensations through internal organization. But for the solution of self-command problems, it is essential that additional instruments are at hand whenever there is a considerable degree of autonomy to be given to the employee. For Williamson, autonomy is given when there is high asset specificity

¹⁶See, for example, Wood (1989). Weiler (1990) points to similar developments and believes that the law will soon adapt to these developments.

(i.e., for the governance structures he calls obligational market and relational team). Lindenberg (1988) suggested to use "damage potential" as the more general condition for autonomy since causes other than asset specificity can create the dependence of management on intelligent effort from the employee (see also Goldberg, 1984). Be that as it may, given a high degree of autonomy of employees the most important of these instruments are:

1. Club hierarchy
2. Social metering
3. Instruction

Club Hierarchy

While the basis for hierarchy is command ("fiat", as Williamson calls it), the problem is that for many jobs considerable discretion has to be granted to the employee and, due to self-command problems, that it is not just a matter of incentive alignment what the employee will do with the autonomy. Given that self-command problems are widespread by now, personnel selection will not be the right answer except with regard to extreme cases (say addiction to gambling or alcohol). While Ford Motor Company still checked on the family situation of its employees in 1913, it abandoned this practice soon after and it has not been used since. The really bad cases can be detected ahead of time and the run of the mill kind of cases are too numerous to try to spot. This of course does not preclude the wisdom of moving to countries where prosperity is high enough to create stability and sharing in the household but not so high that self-command training in the family has already declined. But slowly, we are also running out of those countries. Thus, we will find more and more adaptations to the governance structure in order to deal with self-command problems.

From our framing analysis of self-command problems we know (i) that the possibility to postpone a decision is the major culprit for both procrastination and addiction; and (ii) even a small increase in the definitiveness of deadlines will have an effect. Thus we need hierarchy that prevents postponement. Where it grants autonomy, this hierarchy does not command or issue fiats but *it clearly establishes priorities and it constantly sets deadlines for things that must get done* (no matter how great the discretion about how it got done). Thus, against the idea that hierarchy should be abolished or strongly reduced in order to establish trust which in turn solves all agency problems, it is suggested here that we need a hierarchy exactly where there are trust relations. Only, the hierarchy we need does not command but it generates tasks, it orders these

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tasks and it times these tasks. It would like to call this kind of task generating structure *club hierarchy* because "club" conveys the style in which people interact with each other, also vertically. Confrontational bargaining blocks are incompatible with such a hierarchy because the legitimacy of the hierarchy itself is couched in functional terms rather than property rights terms (and this will be emphasized by the next two forms of social metering and context instruction). It is thus unlikely that strong union involvement will be found where club hierarchies govern.

Social Metering

One source of self-command problems is a situation in which somebody's performance is not closely monitored so that there is little response to lapses in self-command. There is an extensive discussion in the literature about measurement or "metering" problems of performance, leading to specific forms of governance (see Williamson, 1985). However, there is considerable confusion on this point. One meaning of "metering" is technological separability of performance for the purpose of compensation (Alchian and Demsetz, 1972). Team tasks create nonseparability and thus a decoupling of pay and performance. Another meaning of "metering" is hierarchical control as opposed to autonomy. Whether or not metering is technically possible, it is assumed to lower trust and thus increases transaction costs (see Williamson, 1975, pp. 55f). Conversely, absence of control with the right kind of compensation creates the willingness to perform well. "The worker begins to shirk as soon as it is perceived that the firm does not trust him or her" (Drago and Perlman, 1989, p. 47).

Thus, if the task is nonseparable, we have to trust the worker for technical reasons, but we better trust him or her anyway, even if the metering is technically possible, given we compensate them "fairly". In human resource management circles this view has sometimes led to a direct revival of the old human relations standpoint on this: give workers more responsibility, trust them more and you will increase efficiency. We know from various field experiments on this basis that this standpoint cannot be maintained as it stands (see, for example, Van Hoof and Huiskamp, 1989). It is also known that among the highly educated almost nobody likes a "direct" style of supervision but that for many, the ideal situation is not a "laissez faire" style but a "participatory" style of supervision, as Miller (1967) has shown. In a participatory style, there is a joint discussion before a decision is taken.

These findings fit the point of view developed in this paper. First of all, the likelihood of lack of self-command capital alerts us to the possibility that people do not work better if left alone, trusted, and fairly paid. To the contrary, such a situation may be rife with procrastination and other error-producing framing effects. Secondly, we would not identify metering solely with the measurement of performance for the purpose of compensation or with status-reducing control. Rather, we would look out for metering for the purpose of helping with self-command problems. There are many ways of metering that are neither a basis for payment nor degrading. For example, if we judge the quality of a secretary by the number of letters she types and pay her accordingly, this will interfere with her willingness to answer the telephone, clean up the office, etc. If we count the number of keys she touches on the computer each day, this would be degrading. However, each task she performs can informally be rated by those for whom she performs them. Whether she writes a letter for you, or arranges a meeting, or makes a telephone call, etc., in principle there can be an evaluating feedback on all of these tasks.

What is needed in order to produce performance observation and informal evaluative feedback is an *open communication structure* among all who are affected by each other's performance. Observe that we are not talking about a system of mutual spying and telling. Since we are dealing with framing effects, all we need are relatively small effects to counteract the salience of the (initially) equally small but consequential "deviant" goal. Where people are motivated to initiate talk because of the externalities exerted by their interaction partner, and where it is easy to chat and find out how things are going, where casual contact is normal, where teasing about work related matters is accepted, we get much performance observation and feedback, a combination which I would like to call *social metering*. Observe that social metering is not a style of supervision. It is a context for the *ex post* execution of contracts with considerable emphasis on *lateral* control.

Context Instruction

A key problem with impatience is that distant goals are too vague to balance the effect of proximate goals, so that a preference for the "objectively" inferior alternative is likely. In order to counteract this effect, it is very important to provide as much information as possible on the various aspects of the organization, especially the intended impacts over time. To this end, there are two means. First, *employees can be rotated for training purposes* throughout the organization,

especially to departments downstream from where they are supposed to end up. This will help considerably in making important distant goals more concrete. Second, the organization can provide much information on the purpose of various plans and activities. Vaill (1986) calls this *purposing*. He describes it as "continuous stream of action by an organization's formal leadership which have the effect of inducing clarity, consensus, and commitment regarding the organization's basic purposes" (ibid., p. 91). Observe that the importance here is not just being informed about what is going on but being informed about the purpose of what is going on. Management by objective and goal setting techniques form a subset of this activity. But they were suggested as separate instruments, unrelated to the self-command problem and thus also overrated in what they (as the only instruments) could do to improve productivity. In this context of the relational team, Williamson himself only mentions that the firm "will engage in considerable social conditioning to help assure that employees understand and are dedicated to the purpose of the firm [i.e., context instruction, S.L.], and employees will be provided with considerable job security" (Williamson, 1985, p. 247).

All three instruments support each other, but the strongest impact goes from last to first. Context instruction will furnish the basis on which effective social metering can take place, and effective social metering is needed to fine tune the task priorities and timings issued by the club hierarchy. Very importantly, good context instruction will allow the hierarchy to *legitimize deadlines and priorities functionally* rather than by authority.¹⁷ Legitimation by authority either takes back the autonomy granted before, or it will destroy vertical social metering because people will be careful not to divulge information that may betray their error. For this reason, the punishments for errors and mistakes dealt out by the club hierarchy should be mild. Strong punishment will ruin social metering and will thus increase self-command problems in addition to the possible damage done to trust.¹⁸

For all three instruments, *culture and the management of meaning* can play an important role. First of all, there are subtle codes that make a hierarchy that does not issue command work. People have

¹⁷It is interesting in this context to look at a recent study by Heisig (1989) who observed an increase in "responsible autonomy" among highly skilled white-collar workers embedded in structures that come close to my description of club hierarchy, social metering and instruction.

¹⁸Staw (1981) has also shown that a punitive approach to error can lead to an escalation of commitment to the wrong decision.

to be socialized into this kind of culture. Secondly, social metering is very much dependent on common codes and understandings because it only works if people do not misread the casual interaction as spying or control. Third, context instruction as to the purpose of activities and plans is virtually steeped in management of meaning. However, it should not stand alone without being pegged to the governance problems it is supposed to help solve.

Conclusion

Two important developments with regard to organizations have remained largely unconnected: the new institutionalism with its emphasis on governance structures on the one hand and human resource management with its emphasis on culture, management of meaning and procedure on the other. In this paper, it has been suggested that the current bridge between them, viz. work on the production of trust and its relation to lowering transaction costs and increasing autonomy, is not enough, although it is very important. A second bridge is needed that relates to problems created by lack of self-command capital. It is argued that due to prosperity induced changes in the household, parents' incentive for putting effort into self-command training of their children, has strongly decreased after its long period of increase in Western societies. For this reason, more and more young people enter organizations endowed with little self-command capital and thus not trained in functioning in a hierarchy where they accept commands in return for payment. Ironically, this happens at a time when, for other reasons, autonomy and trust relations are on the increase. Put together, these two tendencies render deficiencies in self-command capital particularly important with regard to productivity because it is exactly in fairly autonomous jobs that lack of self-command capital has the most damaging consequences unless it is compensated by adaptations to the governance structure.

A good part of the paper deals with the question how self-command problems can be squared with rational choice theory. It is suggested that recent developments in the theory of framing offer a good explanation of how self-command problems can occur although people act (situationally) rationally. Because of framing effects, small goals can acquire situationally disproportionate importance. This is possible because actions deemed important (but unpleasant) may nonetheless be postponed and because the instrumental link of future goals to their consequences is weaker than that link for present goals. What needs to be done therefore is to adapt the governance structure in such a way that postponement

becomes difficult and the consequences of future goals become more tangible. In special cases where output metering is possible but not implemented, people may ask for performance related pay in order to help them solve their self-command problem. But in most cases where autonomy is granted, this solution will not be available. There are three instruments that I could discern for achieving this: (i) A hierarchy that issues clear priorities and deadlines but not commands. This I call "club hierarchy" because of the relaxed style of vertical interaction. (ii) Massive mutual informal control by people who are tied by externalities. There is a strong emphasis on lateral control here. I call this "social metering". (iii) Each employee must be well informed about the purpose activities and plans of the subunit and the larger organization. This will render future consequences more concrete and it will aid considerably in steering the informal control; and it will allow functional legitimacy to deadlines and priorities rather than legitimacy by authority. There are mainly two ways of achieving this "context instruction": extensive rotating of employees during the training period and "purposing" by a continuous effort of the formal leadership to create clarity, consensus and commitment with regard to the purpose of activities and plans.

Attention to organizational culture and the management of meaning plays a role for all three instruments. The advantage of making the link to governance structure explicit is that we can guard against the unqualified generalizations so well known from the human relational approach. Yes, there should be de-hierarchization, but hierarchy should not go. In some sense, it should become even more visible as a setter of deadlines and priorities. Yes, people should trust each other, but they should also constantly find out about each other if they depend on what the other is doing. Yes, people should be informed about specific goals and plans, but more importantly, they should be informed about the purpose of goals and plans. All this, finally, takes place in conjunction with other features of the governance structure, regarding promotion, pay and conflict resolution.

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PART IV**Interorganizational
Perspectives**