

RESEARCH ARTICLE

# A needs theory of governance: taking transaction cost theory back to humanistic economics and self-actualisation

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(Received 26 December 2022; revised 20 December 2023; accepted 20 December 2023)

## Abstract

In this paper we seek to integrate human needs and self-actualisation into the design of organisational governance. We problematise the assumptions that guide established justifications for governance, thus providing an opportunity for this type of theoretical approach. Drawing on Maslow's human psychology, we consider the potentially regressive features of the prescriptions of transaction cost theory (TCT), particularly the new institutionalist approach, and suggest inclusiveness as a mode of coordination that firms may wish to pursue to enhance self-actualisation. The main value added of this contribution is to highlight the need to discern among modes of governance design, using criteria of welfare maximisation by enabling opportunities for self-actualisation within the firm, different from the TCT focus on internal efficiency.

**Keywords:** humanistic economics; inclusive governance; Maslow; self-actualisation; transaction cost economics

## Introduction

While there are extensive theoretical analyses and empirical evidence on the relationship between organisational processes and self-actualisation (notably in the seminal studies on humanistic management and organisational behaviour by Argyris, 1964; Davis, 1946; Leavitt, 1964; Mayo, 1933, 1945; McGregor, 1960; Schein, 1965; Viteles, 1953), less has been done to explore the relationship between firm governance and self-actualisation. This is perhaps not surprising, since governance literature was not designed to account for the interaction between the governance of production and satisfaction of human needs. Here in particular, we address – for their import in the field – transaction cost theory (TCT). The model proposed in TCT has been defended as a paradigm of efficiency in business ethics and as the foundation of contemporary governance studies, but it is silent on the governance mechanisms most conducive to the self-actualisation of the actors involved (Heath, 2009). Although the critical reassessment of self-actualisation, especially in relation to the work of Maslow (1943, 1968), was reintroduced in economic thinking by Lutz and Lux (1979) and is re-emerging in management (Fish, 2019; Melé, 2003; Pirson and Lawrence, 2010), further work is needed to account for the complex interconnections between governance mechanisms, human needs, and self-actualisation (Vidaver-Cohen, 1998).

We draw on the seminal work of Lutz and Lux (1979, 1988) on humanistic economics, which highlights the need to reshape the paradigm of economic research to encompass not only superficial needs, but the needs of the person considered as a whole. We hence bridge literature on firm governance and organisational psychology. Although efficiency considerations remain in the background, what we

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suggest is a reframing of the question of organisational governance. Instead of asking what governance can do for efficiency, let us ask what governance can do for people's self-actualisation (including investors, but not limited to this category), since it is generally recognised – in organisational psychology – that human beings strive for self-actualisation and that, ultimately, individuals are better off and more productive if they can self-determine their actions rather than those actions being determined by others (Deci and Ryan, 1985; Knight and Haslam, 2010; Maslow, 1968, 1998; McGregor, 1960). On the other hand, self-actualisation is placed in context, so that the self-actualisation of some cannot, from a shared wellbeing perspective, extract from others – in particular from the weakest stakeholders – or impinge on the sustainability of the activities (Sacchetti, 2023b). This moral criterion is applied, for example, by the organisations of the so-called social economy, which place explicit social aims at the heart of their production activities and can be encouraged (for instance in some institutional systems such as France and Italy) to adopt governance forms that include workers, users, and volunteers (Galera and Borzaga, 2011).

The main theoretical contribution to TCT, in the wake of the seminal work by Williamson (1973, 1975), describes organisational governance as focusing on internal efficiency when property rights are allocated to the shareholder. It distinguishes between administrative control and market exchange based on incomplete contracts, given the nature of transactions, asset specificity, bounded rationality, information asymmetry, and uncertainty. Rather, our take on governance builds on contributions that contrast the traditional shareholder welfare maximising view, by which the maximisation of shareholder value overlaps with welfare optimisation at collective level (see Sacconi, 1991 for a critical analysis). Business ethics scholars (see Blair, 1995; Blair and Stout, 1999; Sacchetti and Borzaga, 2021a, Sacchetti and Sugden, 2009; Sacconi, 2007) argue that this perspective neglects the interests of other stakeholders who can significantly influence and be influenced by the firm's activities.

Moving to process-related contributions i.e., to human resource management studies for example, employee self-actualisation includes job variety, engagement, fairness, social support in the workplace, relational quality, autonomy, and the opportunity to exercise one's judgment and creativity (Amabile, 1983; Amabile *et al.*, 1996; De Jonge and Dormann, 2003; Sacchetti and Tortia, 2013; Schaufeli, 2005; Van Dick and Haslam, 2012). Hence, we suggest that organisational goals, rules, and routines should also be designed to account for individual goals in terms of self-actualisation. In turn, a better match between governance and the fulfilment needs is expected to improve well-being and motivations (as well as performance).

Our argument proceeds as follows. We first challenge the idea of limiting governance analysis to issues of (transaction) cost minimisation and conceptually extend the potential of the analysis to incorporate needs theory and self-actualisation from human psychology. Following this, we discuss the basic assumptions of TCT and then introduce our needs theory of governance, advancing new assumptions and propositions that build on Maslow's seminal work (Maslow, 1943, 1968), as well as on its more recent applications (Deci and Ryan, 2000a, 2000b). We then consider governance for self-actualisation, placing emphasis on inclusion and cooperation. We discuss our proposal with respect to two major themes in TCT, those of firm boundaries and bounded rationality. Conclusions emphasise the implications of a need theory of governance for organisations and research – they suggest, under uncertainty and risk, to align firm incentives to positive behavioural assumptions, as well as the potential of inclusive governance design, deliberative and cooperative practices (as opposed to fierce competition) to increase knowledge sharing, learning, and use of creativity. This could also reduce the risk of defection and opportunism that, if repeated, would cause cooperation to retreat, activate control and punishment mechanisms and hence regressive forces.

### Bridging the fields

Maslow's idea of the self-actualising human being overlaps with wellbeing, an idea that goes beyond the focus on bettering the self and is understood as comprising others and selfless needs (Greene and Burke, 2007; Hill, 1989; Maslow, 1971). Maslow divided needs in three layers, from basic material

needs, through social needs at an intermediate level, up to the highest moral (or psychological) needs for self-actualisation. Relatedly, industrial democracy and happiness economists have associated well-being with membership rights under cooperation (Birchall, 2012; Ellermann, 1990-[2021]), as well as with the use of reciprocity and the production of 'relational goods' (Bruni, 2014; Gui and Stanca, 2010; Nussbaum, 1986), them too emphasising the cooperative element of well-being and the otherness of self-actualisation.

Differently, the TCT argument ties in with specific assumptions about human behaviour, and emphasises especially its negative side (Poppo and Zhou, 2014). It refers in particular to those minimal boundary conditions that, when not met, generate a substantial degree of inefficiency and loss of resources in terms of transaction costs, undermining the firm's ability to achieve its goals. Consistently, TCT has focused on those governance and contractual mechanisms that align individual behaviour and organisational goals (Prendergast, 1999) – as well as on the reduction of uncertainty and complexity. In our understanding, while it is true that governance may have the function of protecting specific investments against the danger of opportunistic behaviour (even if economic actors need not be opportunistic by nature or show any inclination towards opportunism), governance may also have the function of facilitating the achievement of self-fulfilment. This affects different, but no less important dimensions of the organisation's work and its dynamic efficiency – for example the strengthening of intrinsic motivation, the support given to creativity in production, the enhancement of well-being.

To clarify, Table 1 summarises the components of TCT, and then compares them with our suggested theory. A common behavioural assumption in TCT is that individuals are self-regarding and subject to bounded rationality (Table 1, row 2), even (though not necessarily) at the expense of others (Zeitlin, 1974). Following this assumption (Table 1, row 1), TCT has emphasised the ability of governance models to achieve internal efficiency (Table 1, row 3) in the presence of 'goal inconsistency and performance ambiguity' (see also Coase 1937; Ouchi 1980: 129; Williamson 1973). In a context defined by uncertainty, limited rationality, and asset specificity – analysis tends to focus on control, that is on the alignment between individual goals and organisational performance, assuming that individuals respond to (monetary) rewards and punishments (Table 1, row 4) (Hart, 1993; Sacconi, 1991; Williamson, 1975). This approach framed the current economic conception of the allocation of property rights (Hansmann, 1996). In organised transactions, ownership is concentrated within the patrons who bear most of the ownership and bargaining costs arising from the risks associated with information asymmetry and asset specificity, which also include incurring the greatest risks of opportunism from other stakeholders (Table 1, row 9).

The overall goal of hierarchical control is to ensure that, in the presence of uncertainty and information asymmetries, those with property rights – the owners of capital – get the highest possible return on their investments – ownership being the best safeguard against the self-interest of noncontrolling stakeholders coalescing to obtain higher rents from contractual interaction with owners (Table 1, row 6).

Akerlof (1970) highlights two consequences of asymmetric information: moral hazard and adverse selection. In light of these considerations, theories that emphasise the risk of opportunistic behaviour advocate the creation of governance structures geared towards establishing simplified and comprehensive contracts, such as standardised labour contracts that reduce and make more flexible and interchangeable the tasks and operations that workers must perform (Bartling *et al.*, 2013). The Taylorist doctrine of task simplification and repetitiveness is a clear classic example of this solution (Table 1, row 4). Such structures use the exclusive direction by one stakeholder (Table 1, row 9) through authority, specific incentives and monitoring, thus increasing control costs for the organisation, rather than playing teams or divisions against each other using competitive pressures, while activating (and here we start introducing insights from Maslow's theory) regressive forces for individuals (Table 1, row 10).

TCT assumptions are consistent with some early theories of organisational psychology (e.g., reinforcement theory), according to which contingencies (rewards and punishments) determine

**Table 1.** Needs theory of governance and transaction cost theory (TCT)

Components	Needs theory of governance (NTG)	Transaction cost theory (TCT)
1. Units	<ul style="list-style-type: none"> <li>Individuals/Organisations.</li> <li>Interconnectedness between the inner (individual) and outer (organisational) dimension is expressed prevalently by means of cooperation, trust relations, reciprocal behaviours and mutual benefit, ultimately aiming at the definition of shared organisational aims, needs satisfaction and self-actualisation.</li> </ul>	<ul style="list-style-type: none"> <li>Organisations/individuals.</li> <li>Interconnectedness between the inner and outer is expressed in terms of competition-based incentives and governance rules based on control, ultimately aiming at the pursuit of exclusive organisational aims, such as individual gain, risk reduction and cost efficiency.</li> </ul>
2. Individual needs and behavioural assumptions	<ul style="list-style-type: none"> <li>Multiple, layered and evolving, related to self-interest and other-regarding preferences (e.g. material, social, and moral needs).</li> <li>Individuals are subject to bounded rationality.</li> <li>Individuals are trustworthy and well-meant and cooperate to move towards common objectives and self-actualisation. Trust as dominant behavioural predisposition, not an exceptional outcome.</li> <li>Opportunism is not central. Treated as the exception to the rule of trustworthiness. Must be proved factually.</li> </ul>	<ul style="list-style-type: none"> <li>Monetary, and related to self-interest.</li> <li>Individuals are subject to bounded rationality.</li> <li>There is a risk that individuals will behave opportunistically if they can. Behavioural hazards are the rule against which the governance structure must build appropriate barriers that risk triggering regressive behaviours and increase control costs.</li> </ul>
3. Main thesis	<ul style="list-style-type: none"> <li>Self-actualisation is an outcome of governance.</li> <li>Efficiency as by-product of needs fulfilment.</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency is an outcome of governance.</li> <li>Needs fulfilment as byproduct of production efficiency.</li> </ul>
4. Rules and incentives	<ul style="list-style-type: none"> <li>Prevalence of rules that enable self-actualising forces (inclusive governance bodies, participation and deliberation among cooperators).</li> <li>Shared, self-defined.</li> <li>Individuals respond to incentives (reward and punishment) and to participatory constraints (e.g. involvement in decision-making).</li> <li>Rewards and punishments are used albeit trust reduces their use. Lower control costs than in exclusive governance forms. Potentially higher costs of participation (e.g. lengthier decision-making processes)</li> </ul>	<ul style="list-style-type: none"> <li>Prevalence of rules that activate regressive forces (exclusive governance bodies, constrain and control among potential defectors).</li> <li>Externally determined (dictated on the individual).</li> <li>Individuals respond to incentives (reward and punishment). Rewards and punishment are used to compensate for contract incompleteness and low trust expectations.</li> <li>Standardisation of contract, interchangeability and flexibility to increase efficiency and control over agents.</li> </ul>
5. Independent variable	<ul style="list-style-type: none"> <li>Inclusivity of governance.</li> </ul>	<ul style="list-style-type: none"> <li>Exclusivity of governance.</li> </ul>

*(Continued)*

Table 1. (Continued.)

Components	Needs theory of governance (NTG)	Transaction cost theory (TCT)
6. Moderating variable	<ul style="list-style-type: none"> <li>Effective behaviour, behavioural norms, relational quality.</li> </ul>	<ul style="list-style-type: none"> <li>Effective behaviour is not important (behavioural attitudes are assumed <i>a priori</i>).</li> </ul>
7. Dependent variable	<ul style="list-style-type: none"> <li>Self-actualisation of people.</li> <li>Economic sustainability (instrumental).</li> </ul>	<ul style="list-style-type: none"> <li>Transaction costs, cost minimisation.</li> </ul>
8. Organisational objective(s)	<ul style="list-style-type: none"> <li>Organisational objectives include self-actualisation, consistent with economic sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>Organisational objectives are mainly focused on minimisation of transaction costs/ maximisation of monetary rewards and production efficiency.</li> </ul>
9. Access to decision-making (strategic control) and empowerment	<ul style="list-style-type: none"> <li>Control rights can be extended beyond investors, inclusive processes of decision-making.</li> <li>Empowerment is important, endogenous, self-actualising.</li> </ul>	<ul style="list-style-type: none"> <li>Empowerment is not important, or not to be trusted.</li> <li>Access is concentrated in a restricted group of decision-makers.</li> <li>Exclusive governance, undersupply of participatory processes.</li> </ul>
10. Prevalent coordination method	<ul style="list-style-type: none"> <li>Cooperation among trustworthy actors, deliberative practice.</li> <li>Mutual benefit among co-interested and co-motivated economic actors.</li> </ul>	<ul style="list-style-type: none"> <li>Authority, control and incentives based on competition.</li> </ul>

people's behaviour (Skinner, 1969; Thorndike, 1911), and in part also with goal setting and task motivation theory, understanding incentives (and sanctions) as tools directed at satisfying self-enrichment goals (Locke and Latham, 2002). Such theories have found application at the organisational level in the form of pay-for-performance schemes, piecework rates, and profit sharing (Prendergast, 1999; Van den Broeck *et al.*, 2016).

At this point, perhaps it is not superfluous to point out that established assumptions in TCT are always inclined to identify the motive of the theorised individual with the concrete experience of an individual human being, as if the real human being is the cause and pre-condition of the existence of the theorised individual motive. As psychology has pointed out, however, the empirical, that is, the real human being, is a complex reality, an expression of a set of facts, including motives and needs, that cannot be formulated more precisely (Hillman, 1992, citing K.G. Jung), which implies that the idea of the individual theorised in the TCT is by no means a copy of the empirical human individual. The effectiveness of studies of human behaviour within organisations is questionable as long as sufficient recognition is not given to the main psychological dimensions of individual behaviour, the complexity and subjectivity of her/his vision, motivations, and ability to satisfy the bundle of needs leading to self-actualisation. The issue of assumptions on human behaviour is not raised in the review that Ménard and Shirley (2014) present on transaction cost economics, while it is mentioned in Hodgson (2014), who notices that Williamson does not consider opportunism as ubiquitous but, at the same time, does not provide an alternative explanation of human motives.

However, most of what has been written about TCT does not reveal much to a grown-up human being seeking fulfilment. As noted, the literature is concerned with cost efficiency under uncertainty, and the organisational imperative to simplify the environment and change individual behaviours that may hinder the achievement of economic and financial targets. If the focus were on individuals seeking to maximise some utility function rather than self-actualisation, the prescriptions of TCT would be

valid only if the multiplicity of human needs could be translated into instances of income, status, authority and wealth. Full consideration of self-actualisation, however, requires the inclusion of relational and psychological needs.

Still, self-actualisation does not eliminate needs that can be met through monetary rewards and recourse to organised authority. It suggests, in fact, that individuals can achieve self-actualisation if they can also rely on a decent income that enables them to meet their needs for food, shelter, and living in a safe, rewarding, and fulfilling environment. These, in turn, can facilitate relational life as well as allow for building capacities for the full expression of one's own potential. In turn, these responses can be made possible by the existence of organised authority, that is, layers of governance that define rights, rules and their enforcement based on identified needs.

## A needs theory of governance and TCT

### *Maslow and self-actualisation*

In addition to biological and basic needs (those associated with survival, shelter, and reproduction), as mentioned, Maslow (1943, 1965) includes social and psychological needs, more specifically: the need for dignity and self-esteem, recognition, belonging and, finally, self-actualisation (which Maslow illustrates as the ability to express one's genuine creativity). One of the reasons why we refer to Maslow's theory, despite criticism,<sup>1</sup> is that we are more interested in the nature of needs than in their ordering. Ultimately, what needs theory suggests is that, in addition to innate biological needs, self-actualisation occurs through the interaction between the individual and her or his environment (Fish, 2019). Recently, evidence produced by contemporary interpretations of needs theory (particularly self-determination theory) has suggested that, within organisations, the needs for autonomy (having an internal locus of determination), competence (effectively mastering relevant skills) and relatedness (closeness and relationship with others) play a role in supporting people's intrinsic motivations and psychological well-being. The work of Deci and Ryan (2000a, 2000b), in particular, builds on Maslow's needs theory, arguing that individuals are oriented to grow as persons through learning and respectful integration of their intrinsic motives and experiences with those of others. These ideas are embraced by high-involvement work systems for instance (Song *et al.*, 2020) and team performance studies (Anderson *et al.*, 2014; Wallace *et al.*, Smith, 2016).

These thoughts have implications for the organisation of economic activities, since organisations are one of the main contexts (along with family, friendship, and community) in which people form their values, character, and concretise their life experience. Clearly organisations or, as we shall argue, inclusive organisations, are not the only contextual settings where individuals mature their needs and strive to satisfy them. We do not delve here into further considerations on what shapes behaviours, norms and values, or on the interaction among institutional levels. These interactions have long been studied by sociologists as well as institutional economists, and their work can inform further reflections on their self-actualising implications. Still, the criticism that we move to TCT is that by focusing on the possibility of defection by some, the humanistic approach has been lost, together with the view that self-actualisation not only generates firm performance but also higher levels of welfare collectively.

Different from TCT, Veblen (1898) laid the psychological foundations of human behaviour in 'the instinct for workmanship', where he argued that natural selection favours humans who engage with such instinct (Cordes, 2005), since it 'occupies the interest with practical expedients, ways and means, devices and contrivances of efficiency and economy, proficiency, creative work and technological mastery of facts' (1898: 33). Institutional contexts can be more or less favourable to the

<sup>1</sup>Maslow's theory has been criticised because it considers needs aligned in a hierarchical continuum, fixed and predetermined, without cultural differentiation or historical contextualisation (Max-Neef, 1987; Hofstede, 1980), or because evidence is too sparse (Wahba and Bridwell, 1976).

emergence of such instinct, creativity, novelty and hence, from a Maslowian perspective, self-actualisation, but also the pursuit of efficiency from an organisational perspective.

More recent empirical evidence shows a clear connection between creativity, as a characteristic of self-actualised people, and stronger self-actualisation needs (Hennessey and Amabile, 2010; Sternberg and Lubart, 1996). Amabile (1983), in particular, emphasises that creativity thrives when individuals are intrinsically motivated, have a sense of autonomy, and are provided with a supportive environment. Like Maslow, she argues that when individuals engage in creative tasks that align with their personal strengths and intrinsic motives, they are more likely to experience a state of ‘flow’, characterised by intense focus, creativity and satisfaction. Consequently, organisations that prioritise opportunities for creative expression can contribute to both self-actualisation and individual wellbeing (Sacchetti and Tortia, 2013).

What forces, then, drive the process towards self-actualisation? In his notes collected under the title ‘Eupsychian Management’, Maslow relates self-actualisation to low levels of anxiety and fear. He writes that ‘anything that increases fear or anxiety tips the dynamic balance between regression and growth back towards regression and away from growth’ (Maslow, 1998: 6). Similarly, for Maslow, regressive forces include elements that fundamentally dissipate trust and cooperation among individuals, particularly scarcity (which prevents the satisfaction of basic needs, for example, when working conditions are geared towards layoffs, workload is persistently excessive or not equally distributed, or when support for health care and pensions is reduced, cf. Pfeffer, 2007), anti-synergistic rules, being classified as replaceable components (of a production process), lack of communication, authoritarianism, suspicion, dishonesty, and denial of objective facts. Similarly, regressive forces operate in organisations where rewards are low and preclude a decent standard of living, where dishonest behaviour is not prevented or punished, where organisational solutions reflect low levels of trust in individuals, their intelligence and competence, and where there is a tendency to focus on authority as the predominant method of implementing management decisions.

It was the ‘80s when Leibenstein (1987) discussed “the inefficiencies of hierarchies” due to the fact that hierarchy dilutes motivations. He introduced the human element, arguing that effort is not only the result of incentives but of “complex social and historical factors” (Khalil, 1989: 300). Empirical support has been found by Zaheer and Venkatraman (1995) on the role of trust and relational governance. Ivancevich and Donnelly (1975) had already indicated that non-hierarchical organisations lead to higher levels of satisfaction with respect to self-actualisation and autonomy, as well as lower anxiety, while Bunderson *et al.* (2016) show a negative relation between hierarchy and satisfaction, or between conflict and performance. Greene and Burke (2007), referring to Maslow’s being-values, identify managerial implications pointing at the need for less controlling structures.

Building on theory and results, Figure 1 illustrates Maslow’s reading of the human management problem and defines our research question: to what extent do governance solutions contribute to the promotion of self-actualisation?

To address this question, we first formulate a set of hypotheses about individuals. We compare these assumptions with TCT in Table 1.

Assumption A: People have multiple and coexisting biological, relational, and psychological needs.

Assumption B: People are in general trustworthy and prefer competence and efficiency to slackness and inefficiency. Opportunism is to be treated as a hazard and an exception, not as a systemic behavioural outcome.

Assumption C: People care about others besides themselves. Good-quality and fair relations are central in determining individual and collective well-being.

Assumption D: People prefer to be respected and valued rather than to be mistreated or used interchangeably.

Assumption E: People prefer to be included and empowered (with others) to being excluded.

Taking all this into consideration, should we not accentuate the positive – people’s goodwill and capabilities – in our assumptions about human behaviour? Maslow answers that we should do so as long as accentuating the positive works to move towards self-actualisation, while enabling firm efficiency.

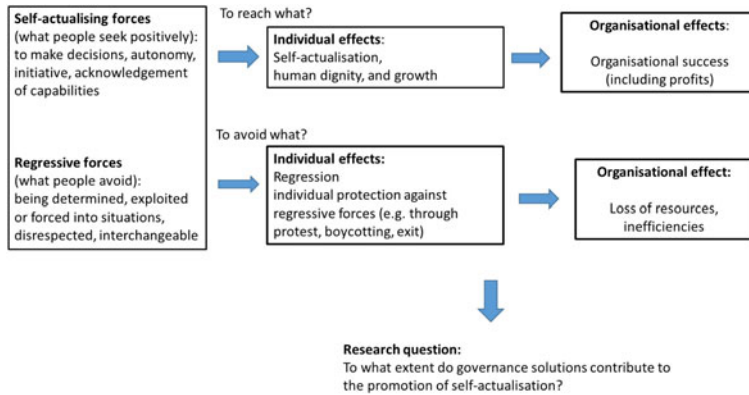


Figure 1. Maslow on management and paper's research question.

### Organisational efficiency and self-actualisation

Along with the findings of critical industrial organisation and lean production studies, Marglin (1974), Loasby (2001), and Sacchetti (2023a) suggest that greater involvement in decisions and diffused understanding of the production process (as opposed to the overspecialisation and fragmentation of standardised production) support empowerment, the capacity to understand and influence production decisions, critical thinking, knowing what and how, and use of creativeness. This shifts the locus of control of one's own action closer to the person.

It is perhaps worth clarifying that the individual quality to be emphasised, in our view, is not one of 'docility', (as in Cyert and March, 1963; March and Simon, 1958), which entails people who can be manageable and taught (Simon *et al.*, 1992). Although these qualities can be useful in certain contexts, here we prefer to refer to the Veblenian person driven by her/his 'instinct of workmanship' and by Dewey's 'critical intelligence' (Dewey, 1927), though not yet in terms of contesting and challenging a priori all that the management says. Rather, in line with Sacchetti and Sugden (2009) we have in mind people who are able to listen and argue based on reason and argument, aiming at using their creativeness and reducing costs not only for the controlling stakeholder, but also for others (Sacchetti and Borzaga, 2021a). The step towards greater perception of competence, autonomy, relatedness and, hence, self-actualisation is short. The deliberative and communicative attitude, which sinks its roots in Dewey's critical intelligence, can enhance adaptation and innovation within the organisation if there are good reasons for all participants to do so.

However, contrasts between internal efficiency and self-fulfilment may occur in specific cases. Williamson had referred to this problem in his 1967 work on 'The economics of discretionary behaviour', when discussing of managers' 'pet projects'. More generally, if we consider that each stakeholder with a voice in strategic decision-making can have a 'pet project', while supposedly improving her/his fulfilment, may not create value for other stakeholders (see Earl and Potts, 2013, for an application to the creative industries). An illustration comes from academia. The academician uses her or his judgement to select what s/he thinks is best to teach to the students and, in so doing, integrates her fulfilment with inclusive, other-regarding elements. At the same time – if there is no coordination – this attitude may jeopardise the ability of subsequent colleagues (adopting a more conventional approach) to build on the students' previous learning for their teaching. Using a self-actualising approach, the challenge is to create a balance that is on the whole enabling, keeping into account the variety of coexisting needs and individual drivers.

In his 1970 'Corporate control and business behaviour', Williamson introduces the guiding lines of modern managerialism. The importance of maximising internal efficiency by developing standardised routines, while at the same time placing managerial action under the checks of internal competition between the firm divisions, is reflected in the workings of the M-form organisation (multi-divisional



form). Foss and Weber (2016) suggest that through their incentives, hierarchies prioritise competition, and individuals will tend to compare themselves with other individuals in general or with members from another group (depending on whether the hierarchical structure takes a unitary, multidivisional or project-matrix structure), thus activating different social comparison biases and judgement mistakes (hence reinforcing bounded rationality).

The same competitive pressures have promoted static efficiency (pursued by means of cost cutting strategies) rather than dynamic efficiency (which accentuates the capacity of less pressurised workers to 'enjoy' some space and time to think creatively and improve performance). They did so by prioritising the outsourcing of activities to external contractors, to minimise risks and the shortcomings of uncertainty for the prime contractor and in the interest of the residual claimants (Sacchetti and Sugden, 2003). A focus on the team or on the division survival became pressing, workers were concentrating on basic survival needs, while the intrinsic value of fulfilling production organisation solutions was finally lost. Williamson's concerns have been taken to an extreme with a focus on internal efficiency aspects of TCT and their implementation through make-or-buy decisions. As Lazonick (2015) explained, 'marketisation' and 'globalisation', together with buy-back strategies, have oriented firms towards cutting costs to maximise profits, as well as rewards to corporate executives. Those relying on labour income, rather than capital income, have been impoverished and those that were once considered 'good jobs' (blue- and white-collar occupations that required a high-school degree) have lost both in contractual conditions and competence, while being constantly put under threat by production rationalisation and delocalisation strategies. Looking at these outcomes it is difficult to see how this interpretation of efficiency can work for each and every person's self-actualisation.

### *Bounded rationality and self-actualisation*

In TCT, bounded rationality tends to be regarded as relevant mostly when associated with inefficient use of resources, and information retention leading to opportunism (Foss and Weber, 2016). The role of bounded cognition and uncertainty lead the parties to prefer cheaper incomplete solutions that can be adapted to emerging circumstances, to improbable and expensive contracts completed with plenty of clauses. However, as Leibenstein (1966) noticed, there are instances, which he calls X-inefficiency, in which inefficiency is not due to lack of information or cognition but to contract incompleteness, non-optimising behaviours and low effort – (for example, Brody (1996) discusses how nonprofit organisations can operate with a high degree of X-inefficiency in the absence of shareholders and financial market control). To the extent that incentives and controls counter regressive forces having to do with laziness, slack, and dishonesty, they can play a positive role.

Loasby (2001) clearly emphasised this possibility by referring – after Richardson (1953), Ryle (1949) and Knight (1921) – to the role of 'knowledge how' to take decisions under uncertainty, and 'knowledge that' for risky decisions. This argument is supported by findings in social network theory. In studying the patterns of connections and information flows between individuals in a social system, social network theory (Burt, 1992) offers elements in support of the view that ties that differ in strength, direction (one or two-ways ties) and nature (instrumental, expressive, or a mix) are associated with different access to information, belonging, and opportunities. The theory speaks to TCT since the trust and closeness of strong ties increases the quality of information. Relatedly, transactive memory system theory addresses the processing of information in systems that encompass the memory of heterogeneous individuals and their communication channels (Lee *et al.*, 2014). Scholars within this field point out that the division of labour or diversity of competencies among members who have access to each other in a team enables each individual to apply higher levels of critical knowledge, improving coordination and performance especially if transitive triads are in place, that is if a person in third position helps to identify who knows what (Lee *et al.*, 2014). According to this approach, this is the reason why firms may decide to include some stakeholders rather than others for example, finding connections with the competence-based view of firms (Teece *et al.*, 1997) and, in part, with stakeholder theory. At the same time, weak ties provide information from looser but more varied sources

that might not be available within an individual's immediate reference circle. In both cases, and depending on the density and direction of the transaction, cognitive bias is likely to be reduced and performance enhanced. On the other hand, social network findings are also relevant for self-actualisation, since strong ties can offer a sense of belonging and support and, having a bridging function, weak ties can provide a sense of novelty, access to opportunities and unexpected competences which impact on creativity and performance. Overall, performance may increase for those who keep a balance between homophilous and heterophilous ties (Diani and Sacchetti, 2023).

At the same time, however, we can hypothesise that incentives turn into regressive forces when their design does not reduce bounded rationality, for instance if hierarchy maximises control by means of competition (among individuals, or between divisions of the same firm). By playing actors one against the other, *de facto*, the designed incentives reduce cooperation, information sharing, and jeopardise relations, hence reducing self-actualisation. Lovrich (1989) argues that while trying to oppose bounded rationality 'hierarchy leads to organisational entropy, ineffective decision-making'. The same holds if individual performance is evaluated mainly in terms of performance under competition and uneven resource distribution, uncertainty of contextual conditions that are not under the person's control (such as disruptive innovation, a new regulatory framework, social conflict, or economic crisis), or again when incentives do not correspond to participants' actual values and motivations, goals are exogenous and the individual may fear not being able to meet them (Akerlof and Kranton, 2000). In these cases, given the hierarchical nature of needs, individuals will tend to focus on their basic threatened necessities. With a focus on extrinsic rewards, there will be a high risk of generating anxiety and loss of well-being, interest, and pleasure in the work being done, leading to lower quality of performance and service produced (as evidenced in the literature on the crowding out of intrinsic motivations by extrinsic and monetary rewards; see Deci 1975; Deci and Ryan 1985; Frey 1997).

An illustration comes again from academia where, because of incentives, researchers on probation may tend to maximise publications at the expense of research novelty, relational quality and fairness (jeopardised by competition) and meaningful work to attain a tenured position, hence secure income and the satisfaction of basic needs rather than higher order needs. Regression will occur if failure to perform under the current incentive system is viewed exclusively as the outcome of slack or opportunism, and sanctions are imposed without a critical appraisal of emerging contextual conditions or of their broad motivational and distributional effects. In general, therefore, the establishment of incentives that maximise control can generate misjudgment, besides self-fulfilling prophecies, anxiety and pull people away from self-actualisation.

### *Governance and self-actualisation*

The challenge is to understand how economic coordination can bring back self-actualisation into production, or how governance can be designed considering the opportunity costs of administrative fiat over self-actualisation.

Firm governance is essentially about the structures and rules that define the strategic control of resources. More specifically, governance identifies who takes decisions about rules, strategies and goals and how to achieve them (Cowling and Sugden, 1998; Zeitlin, 1974). It establishes access criteria, i.e., who can benefit from the results of activities and under what conditions (Ostrom, 1990). It determines who monitors the consistency of objectives, strategies and results (Bobbio, 1995).

We define the boundaries of the firm on the grounds of the extent to which control rights are extended to stakeholders. We can hence differentiate between exclusive and inclusive governance solutions (Sacchetti and Borzaga, 2021a). These are two opposite ways to translate preferences on how decision-making power should be distributed in choices regarding the strategic direction of the firm (Sacchetti, 2015).

The main proposition and consequent predictions on how governance can contribute to human self-actualisation are:

Proposition: Self-actualisation is an outcome of governance and processes (mediated by actual behaviours and relations).

- (a) The choice of governance structures and processes reflect the ex-ante preferences of participants on access to decisions, surplus distribution and on who should bear eventual external costs (Sacchetti, 2015).
- (b) A focus on self-actualisation can influence the nature of contractual solutions under uncertainty, shifting the balance towards more open contracts (when this solution does not raise excessive external costs for one party) or shared control rights (Blair and Stout, 1999), and contingency planning rather than control for compliance (Mayer *et al.*, 2022).
- (c) Inclusive governance enhances human growth and self-actualisation by emphasising cooperative attitudes and using deliberative methods when high trust and low levels of opportunism are present. Some degree of authority and competitive pressure are enabling (Sacchetti, 2023a) when, in its absence, high levels of X-inefficiency and opportunism would emerge and other-regarding individuals would be damaged or exit from the organisation.
- (d) Exclusive governance is regressive when it stifles the higher-order needs of autonomy, competence, relatedness, creativeness and judgment, by using authority and excessive competitive pressures to counter unjustified assumptions of slack and opportunism.

#### *Inclusive governance, exclusive governance, and self-actualisation*

Contracts are not always the most efficient coordination solution. TCT has indicated that the controlling stakeholder is the one who would bear the greatest loss should coordination be left to the market mechanism (Hansmann, 1996). The problem with this approach, Sacchetti and Borzaga (2021a) notice, is that it assumes that – for the noncontrolling stakeholder – the contractual solution fails to a much lesser extent than it does for the controlling stakeholder. Following their analysis, a serious concern for self-actualisation implies, instead, that we opt for inclusive governance when the cost of exclusion in terms of unmet psychological needs is high for the noncontrolling stakeholder (i.e., the worker in our case) and inclusion in the controlling function would lower this cost more than it would increase internal governance costs. The inclusion of workers in the governance of the organisation, in our case, would entitle managers to act beyond the production of surplus for the investor.

Inclusive governance entails the right to access strategic decision-making bodies by multiple stakeholders or by the weakest stakeholder, with or without ownership (Sacchetti and Borzaga, 2021a). They partake in the framing of rules, issues, ideas and solutions using deliberative processes with the explicit aim of producing value for participants and for the collectivity overall (Sacchetti, 2015). Drawing from the seminal work of Dewey (1927), deliberation is defined as a process where participants aim at getting to a shared decision based on prosocial preferences and sense of the public interest, mutual voice and listening, reason and argument and reciprocal exchange of knowledge (Sacchetti and Sugden, 2009). The final outcome of deliberation is not known ex-ante and conflict is addressed in the process of communication rather than by exploiting power unbalances (see Habermas, 1993; Zürn, 2000). The control function of hierarchy is present but not central, while deep cooperation among participant stakeholders is (Sacchetti and Catturani, 2021b).

Differently, exclusive governance, in line with Cowling and Sugden (1998), attributes the right to control and appropriate surplus to one single stakeholder. Sacchetti and Borzaga (2021a) observe that, in this case, other stakeholders are either coordinated through an (incomplete) contractual relation or not considered by any form of transaction. As Blair and Stout (1999) notably argued, exclusive governance entitles managers to act in the interest of the controlling stakeholder even at the detriment of others.

Although multiple stakeholders can inflate governance costs, when inclusion is enhanced and participants cooperate, potential conflict due to heterogeneity and the associated risk of increasing ownership costs, can be mitigated. This may happen through various mechanisms. First, cooperation on the definition of fair norms ex-ante increases compliance. Likewise, inclusion in the definition of

aims and methods enhances the introjection of values and has been associated with greater effort. Second, the communication processes endorsed by deliberation create relational goods that contribute to make other people wellbeing relevant, increasing trust and reducing opportunism (Kolbjørnsrud, 2017). Trust emerges and fuels cooperative behaviour ex-ante when non-contractible elements of relationships are important (Fehr and Gächter, 2000; Sacconi, 2004; Van Slyke, 2009; Zand, 1972). In particular, the governance mechanism by which non-contractible elements, such as trust and concern for others, mitigate the incompleteness of contracts can include several complementary elements (Ostrom, 1990) – including mutual monitoring, which allows for self-regulation and peer control; some form of membership restriction that regulates inclusion in the community; an emphasis on values and the development of ad hoc norms that guide members' action and collaboration; and finally, a system of monetary and non-monetary incentives that regulates the production of economic and social value and the fair distribution of rewards.

Cooperatives, for example, have embedded this principle in formal governance structures, where inclusion occurs through membership, control is democratic, members contribute to the capital of the cooperative and surplus is allocated to the cooperative reserves, to develop the cooperative, or to members as a proportion of their transactions with the cooperative. They also adhere to the principle of providing education and training to members so that their participation can be active (ICA principles). As Birchall (2012) pointed out, this type of governance is people-centred rather than money-centred. Of course, formal principles do not ensure that, factually, cooperatives organise to empower their members effectively, nor this type of empowerment occurs only in worker-owned enterprises. Still, worker cooperatives, in particular, have developed formal governance structures that allow – in principle – for self-management and for the alignment of individual contributions with worker wellbeing.

At a more operational level of governance, Japanese corporations, as described in Dore (2012) have been involved in choices regarding production design and technologies. Multidivisional structures, lean production techniques, and worker involvement contributed to the success of Japanese corporations in the last decades of the XXth century, helping them to adapt to changing market conditions, operate efficiently, and foster a collaborative and engaged workforce. Other large corporations in the Silicon Valley of the US are known for their innovative and employee-centred business models, including self-actualisation days, worker involvement, employee governance, and lean production principles. Catmull and Wallace (2014) build on Catmull's experience as Pixar's co-founder and explain how open discussion and critical thinking were placed at the core of static and dynamic efficiency – preventing the misuse of resources on the one hand, and encouraging the advancement of new ideas without fear of punishment on the other. Whether this ongoing brainstorming atmosphere is supporting self-actualisation, is mainly functional to competitiveness, or both, would depend also – building on our needs theory of governance – on the degree of worker self-determination, safety, and fairness of contractual conditions.

Arguably, lean production and Silicon Valley examples illustrate inclusive measures that affect organisational processes more than anything else. Our perspective complements empowering human resource strategies with structural changes towards inclusion in the governance of organisations, which would permit managers to comprise, in their fiduciary duty, the wellbeing of workers.

## Conclusion

The focus of this article has been on the idea that self-actualisation, encompassing self and other-regarding motives, requires a different theory of governance than that suggested by TCT. Our main proposition links the individual nature, governance and self-actualisation, introducing specific assumptions about their compatibility. The discussion has highlighted that inclusive and collectively efficient governance solutions, whether using control rights or contracts, can be expected to be applicable when there is a strong shared bottom line on the broad values and aims of the transaction, or a common objective that stakeholders agree to pursue for their mutual benefit and that then reinforces

with experience by creating organisational solutions or explicit contracts that can foster inclusion and cooperation over time. Through the tripartite scheme that connects a more trustworthy idea of the individual, self and other-regarding values, and governance choices that reflect such values (as in Sacchetti, 2015), organisations can become an important means for self-actualisation, while retaining economic efficiency.

A concern for self-actualisation and governance can be translated into cultural norms (values and principles) which guide and simplify organisational choices, behaviours, and decision-making processes based on people fulfilment and needs theory values. From a needs perspective, we do not see substantive contrasts between efficiency and self-actualisation, because self-actualised individuals are expected to behave in ways that favour the achievement of efficiency, and not primarily because of organisational norms of command and control, but mainly because of high degrees of involvement, relational quality, participation in decision-making, use of one's own creativity, intrinsic motives and enhanced well-being. When contrasts between efficiency and self-fulfilment occurs, it needs to be mediated by organisational rules, but cannot be taken as the general case. In fact, one would expect participation, involvement and well-being to lead to higher, not lower, efficiency in ordinary cases (Ostrom, 1990).

In this process, inclusive governance can overcome the possibility of opportunistic behaviour and other problems arising from bounded cognition, incomplete contracting, heterogeneity of members', and stakeholders' objectives. The relational context can support the preservation of cooperation and trust, reinforcing motivations. This context can support the achievement of self-actualisation more than command-and-control governance solutions. Managers who are knowledgeable of the characteristics of inclusive governance may promote social and psychological needs by including stakeholders who would suffer high costs if excluded, and foster deliberative processes that enhance relational quality, learning and greater participation in decisions at different levels. Designing work roles to facilitate self-actualisation is an alternative way of reducing transaction costs and generating performance than focusing excessively on detecting avoidance behaviour (Lutz and Lux, 1988; Veblen, 1898).

Researchers interested in the topic can find some interesting points for development considering that although self-actualisation has almost always been studied at the individual level, organisational designs driven by self-actualisation can be regarded as emergent organisational properties. In the framework of complexity theory, a natural order emerges from complexity when individuals can self-organise. Hence, emergent properties may consist of the creation of coordination mechanisms, e.g. inclusive governance structures and organisational processes, that are sustainable from a human perspective.

Another point for future research agendas needs to address the empirical relevance and generalisability of the propositions that we have identified. First, while we have evidence of what motivates individual activity, we know little about how motivation and behaviours evolve within organisations and how they impact self-actualisation. Second, the combination of organisational economics with psychology seems well placed to provide useful insights, especially for critical discussion of the importance of economic coordination and self-actualisation of individuals. Third, research could study self-actualisation through different models of governance from a comparative perspective, also in view of the apparent importance of learned behaviours at work and their transmission to other social spheres.

**Acknowledgements.** We are grateful to the Editors and Reviewers of the JIE for their suggestions and scholarly contribution, to Avner Ben-Ner, Carlo Borzaga, Jerry Hallier for commenting on very early versions, and to the participants in the ICA (International Cooperative Alliance) Global Research Conference 2017 at Stirling University, UK, where this paper was discussed. Usual disclaimers apply.

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