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**THE ORGANIZATION OF PRODUCTION AND ITS PUBLICS:  
MENTAL PROXIMITY, MARKETS AND HIERARCHIES**

Forthcoming on *Review of Social Economy*

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## **ABSTRACT**

The paper introduces *mental proximity* as an ideal-type criterion for assessing the organization of production, and positions it as a benchmark alongside markets and hierarchies in a three dimensional space. Following a Deweyan approach, the criterion is focused on democratic deliberation espoused by necessary values: the rejection of controlling influences; positive freedom; inclusion on equal terms; informed participation; the desire to reach a consensus; sympathy; mutual respect; reciprocity; continuous learning. We also identify a *community network* as a complex of people who seek to relate to each other in accord with mental proximity, and discuss influences on their search.

## **JEL CLASSIFICATION**

D20, L10, L23, R30

## **KEY WORDS**

Proximity, Markets, Hierarchies, Public Interests, Democratic Deliberation

## 1. INTRODUCTION: ANALYTICAL FOUNDATIONS

Rooting its analysis in an appreciation of the literature on markets and hierarchies, this paper uses a Deweyan perspective to present and discuss a public interest criterion for assessing the organization of production.

Coordination within production systems and organizations was addressed in literature contrasting market with centrally planned economies (Hayek, 1944). Planning was also central in the work which originated debate around the nature of firms, Coase (1937) explicitly building his argument on two lines of thought: micro-economic planning (or, in more modern terminology, strategic decision-making) and transaction costs. As Cowling and Sugden (1998) observe, the first has received much less attention than the second.

The essence of Coase's argument is that firm hierarchy substitutes market transactions as a coordination mechanism under particular circumstances and then, once activities have been internalized within the organization, strategic activities are centrally planned by a restricted group of decision-makers. In other words, the firm is an exclusively governed planning unit (governance here referring to the power to make strategic decisions; see also Zeitlin (1974) and Branston *et al* (2006a)). In reality, observed market economies (despite their being perceived as alternatives to centrally planned economies) are populated by actors whose nature is essentially based on a centralized and hierarchical strategic planning of activities (Cowling and Sugden 1998) in a mechanistic way (Burns and Stalker, 1961). See also Galbraith's (2004) reflections on the market system, power and corporations.

A foundation for analyzing the market aspects of economies has been the well-known spectrum of possible structures based on two contrasting settings: perfect competition and monopoly. Whilst perfect competition has been

recognized as an ideal constructed to maximize a hypothetical system's efficiency (Debreu, 1959; Arrow and Hahn, 1971), other structures have been typically assessed on the basis of their distance from that situation (Bain, 1956), the other extreme – monopoly – reflecting what is essentially a centrally planned industrial sector (whether the planner be a 'public' or 'private' actor). Related to this approach but coming at the problem from a reverse perspective, some literature perceives monopoly as the benchmark and thus focuses on the distance of other structures from that end of the spectrum – 'the degree of monopoly' (Cowling, 1982).

Perfect competition is the only market structure in which power is assumed to be absent. In others, competition has been understood in terms of interaction, interdependence and, above all, the exertion of firms' market power, argued to impact on consumer welfare and the system's efficiency (Harberger, 1954; Cowling and Mueller, 1978). Having emphasized that the modern corporation is governed by a subset of those with an interest in its activities, however, we would also follow Branston *et al* (2006a) and others in arguing that market power is more completely understood by considering the interests of people more generally.

This is a view said to have characterized early US approaches to antitrust policy, for example. According to Friedman (2002: 55), the Sherman Act (1890) "was directed at economic *power*"; its roots lay in the perception that "top businesses were big - huge - gigantic; and their tentacles spread over the whole country. It was not just a question of economic efficiency, or higher prices for consumers; it was also the sense of threat, the danger to small business people, to the little shop on the corner. The trust crisis was a culture crisis as much as it was a crisis in prices and business." In other words, "one of the historical

foundations on which antitrust policy rested” was “fear of huge, overwhelming conglomerates, whose power was an evil in itself, a threat to American values” (57).<sup>1</sup>

Such analysis can also be conceptualized in terms of ‘strategic failure’ in the coordination of production (Cowling and Sugden, 1999; Branston *et al*, 2006a). The idea is that firms and imperfect markets are subject to the power of concentrated interests – those actors who are at the centre of the hierarchical planning units that are the firms which wield power in markets. Such actors can be assumed (as is standard in much of economics) to make strategic decisions (and therefore implement the sort of direction) that best suits their own concerns. As a consequence, the coordination of production may fail to meet the interests of people more generally. Most especially, it may fail to meet the interests of those publics which are significantly concerned with the corporate planning of activities.

Following Dewey (1927) and more recently Young (2002), public interests are identified through multiple sets of actors who are significantly affected by specific strategic decisions. If the consequences of an act - for example, of making a strategic decision - are essentially confined to the persons directly engaged in it, the decision is private. Otherwise, Dewey (1927) argues, it “acquires a public capacity” (244), the public being those not directly engaged in a decision but for whom it has “serious and enduring consequences” (328). That is to say, following Young (2002), those for whom the decision implies a significant condition on options for action. Accordingly, a public is an entity to be identified and redefined each time strategic decisions of different kinds are put forward. It is with this in mind that Dewey (1927) writes of publics rather than of one, all-embracing public; a particular private act might call into (actual or potential) being multiple

interests.

To avoid strategic failure and maintain consistency with the analysis of Dewey and Young on publics, it has been previously suggested that one obvious possibility is to search for policies that would include publics affected by strategic decisions in the process of making those decisions (Branston *et al*, 2006a; 2006b). This would contrast with the current focus of industrial and, more broadly, economic policy, which is essentially concerned with reacting towards the 'occasional' failures of markets to reach efficient outcomes (Pitelis, 1994) and based essentially on a 'free market' approach (Oughton, 1997).

A crucial implication of this approach would be the necessity to reinterpret and reevaluate the coordination of production from the perspective of how various (actual and potential) organizational forms interact with publics in coordinating production activities. One aspect of that is the necessity for a suitable public interest criterion, provision of which is the objective of this paper.<sup>2</sup>

The idea of public interests as an assessment criterion follows from, for example, Long (1990). He sees a public interest as an evolving consensus amongst a set of people – a public – regarding the actions of private parties. For him, it is the standard agreed upon by that public and against which those actions can be reasonably assessed: “by arriving at some consensus, a moving one, we agree on what is important both for policy and research and the latter becomes a more purposive, disciplined, cooperative endeavor as opposed to a matter of fad, fashion, and funding. For public administration and political science, the appropriate standard of evaluation would appear to be the public interest” (170-171). Branston *et al* (2006a) also advocate it as an appropriate standard for assessing the activities of corporations and, indeed, for much of economics.

Building on such arguments, this paper suggests *mental proximity* as an ideal-type criterion for assessing the organization of production:<sup>3</sup> its focus is on each person involved in the organization of production seeking compatibility (proximity) with the interests of publics; it follows a Deweyan approach and therefore embraces democratic deliberation espoused by key values.<sup>4</sup>

That logic is explained in Sections 2 and 3 of the paper. Section 2 explores the significance of deliberation, leading into a discussion - in Section 3 - of specified values as an integral aspect of deliberative processes. In Section 4 we draw the discussion together by stating the mental proximity criterion. We also propose that it be placed alongside markets and hierarchies in specifying a three dimensional space for analyzing the organization of production. The paper then turns, in Section 5, to a discussion of movement towards mental proximity in practice. At this point we introduce the term 'community network', meaning a complex of people who are seeking to relate to each other in accord with mental proximity. Section 6 concludes the paper with some preliminary thoughts on how the criterion might be made operational.

## **2. THE INTERESTS OF PUBLICS AND DELIBERATION**

The paper's especial focus is economic relationships characterized by the presence of power (see, for example, Sacchetti and Sugden (2003), referring to the relevance of economic power in shaping the outcomes of sub-contracting agreements). Within the realm of market economies we are therefore explicitly disregarding structures where power is assumed to be absent, namely perfect competition.

Our perspective views the organization of production as a manifestation of the procedural criterion chosen by economic actors to govern their relationships.

This choice has implications for the distribution of power, and is itself dependent on an initial distribution of power. The stress on actors' choices, and the concomitant rejection of determinism, is in line with Penrose (1952). Criticizing the relevance of biological analogies in explaining the development of firms, she concludes (818): "our knowledge of why men do what they do is very imperfect, but there is considerable evidence that consciously formulated human values do affect men's actions, that many decisions are reached after a conscious consideration of alternatives, and that men have a wide range of genuine choices."

It follows from this perspective that an understanding of organizations relies on an appreciation of the range of governance choices that might be available, an issue widely discussed in recent literature (*inter alia*, Cowling and Sugden 1998, 1999).

This point can be illustrated from a consideration of inter-firm networks, for example from distinguishing two polar extremes in network governance, one characterized by a form of exclusion, the other by inclusion (Sacchetti and Sugden, 2003). First, a 'network of direction' is a system to plan activities according to the select objectives of an exclusive set of people in a core (of) firm(s), with or without the agreement of others. This restricted group determines the network's strategy. Second, and in stark contrast, a 'network of mutual dependence' is characterized by the absence of hierarchy and, therefore, of concentrated strategic decision-making. Rather, strategies are defined consistently with the interests shared by all the actors; there is a process of coordination amongst partners that is diffused, allowing and encouraging each and every person involved in the network to contribute to its governance.

The choice between the two extremes, of direction and mutual dependence, has also been applied to other organizational forms (such as public universities (Sugden, 2004), healthcare providers (Branston *et al* 2006b) and the United Nations (Cowling *et al*, 2006)). Moreover, it carries significant consequences. Consider, for example, the commitment of an inter-firm network to creating and using knowledge. Whereas a network of mutual dependence would have an interest in creating shared bodies of knowledge that enable each actor to participate in joint production activities on equal terms, a network of direction is of its essence rooted in unequal relations and would have no positive concern with such knowledge; in fact, the exclusive interests determining its strategy might prefer such knowledge to remain hidden.

To illustrate more specifically, consider the recent argument that Italian industrial districts have been moving towards a model in which technology transfers from a lead firm to its suppliers. This move has been welcomed because the leader can stimulate district-wide modernization (Lazerson and Lorenzoni 1999; Brioschi *et al* 2002). In contrast, we are more cautious in our appraisal. It might be expected that there is variation in the motivation and interests of apparent leader and supplier firms to activate and nurture such a process. Benefit to the district might not result from moving towards a leader model - a network of direction - because it implies a concentration of power and corresponding restraints. The more the creation and use of knowledge depends upon an exclusive interest whose role and therefore objective is to determine network strategy, the better placed is that interest to succeed in its objective. However, were it to do so, nothing in the model would require the decision-making leader to (continue to) take account of the wider, public interests (Sacchetti, 2004).

This last point is especially revealing. It suggests a correspondence between, on the one hand, a governance spectrum that spans from direction to mutual dependence and, on the other hand, the degree to which an organizational form accounts for the interests of publics. Indeed, this is a conclusion that follows from Branston *et al* (2006a; 2006b), arguing: the essential failure of an act governed by direction is the ignoring of the interests of publics, whereas the central challenge in seeking governance based on mutual dependence is the ensuring of strategic choices that reflect the shared concerns of publics with the consequences of private acts.

The proposition that direction, and indeed the use of markets, essentially ignores the interests of publics rests on the impossibility of knowing those interests without the appropriate *deliberative* processes by which they can be determined. Consider, for example, Debreu (1959) and Arrow and Hahn (1971) on attaining Pareto optimal outcomes when all actors pursue private interests (and also Smith (1776) on the ‘invisible hand’). It might be contended that, if all publics have Pareto efficiency as their ultimate objective, this could be met by actors actually pursuing their private interests under conditions of perfect competition. Moreover, in the realities of imperfect competition it is often (implicitly) argued that the public interest is served through public policies correcting market failures – consider, for example, the ‘public interest theory of regulation’ (critically reviewed by Hantke-Domas 2003). However, the stark contrast with our perspective is the argument that public interests are both unknown and unknowable in the absence of their being determined by inclusive democratic processes (Sugden and Wilson, 2002; Branston *et al* 2006a, 2006b; also Buchanan (1954:64) on democracy as “government through discussion”).

This concern with democracy is founded on Dewey's (1927) analysis of what it would mean to seek compatibility with public interests. He stresses democratic deliberation, a conceptualization of deliberation that is quite distinct from that seen elsewhere in the literature. In particular, contrast Adaman and Devine (2001) on negotiation as a criterion for assessing the macro-economic organization of production. Although they define planning through negotiation as participatory and deliberative, it contrasts starkly to deliberation in the Deweyan democratic sense. Negotiated planning is seen as an alternative to market coordination, and indeed might be reasonably argued to be the only possible coordination mechanism if coordination must take place through different 'interest groups', each with their pre-defined set of preferences.<sup>5</sup> Differently, however, we would argue that deliberation is a journey of exploration and discovery about preferences.<sup>6</sup>

Focusing especially on the state and political democracy, Dewey (*ibid*: 365) identifies "*the problem of the public*" as "the essential need" for "the improvement of the methods and conditions of debate, discussion and persuasion." The essence of meeting this need he summarizes through a special emphasis on community and communication, a view resonating with contributions on the competence-based view of the knowledge economy,<sup>7</sup> and a view which can be interpreted as a comment on the exercise of voice (Hirschman, 1970)). Specifically, he suggests that people must "develop through the give-and-take of communication an effective sense of being an individually distinctive member of a community; one who understands and appreciates its beliefs, desires and methods, and who contributes to a further conversion of organic powers into human resources and values" (332).

A clear implication is that the deliberative process at the heart of Dewey's concern with the interests of publics entails a shaping of preferences and values. In line with our earlier reference to Penrose (1952), it also entails a choosing of those values. It is these factors which provide the basic explanation for why public interests are both unknown and unknowable in the absence of their being determined by an inclusive, deliberative processes. Following Branston *et al* (2006b: 304-305), whilst we might conjecture what public interests are, and in doing so be informed by appropriately rigorous scientific research, the outcome of a deliberatively democratic process "cannot be second-guessed with certainty... The envisaged democracy would have people engaged in discussion and debate to clarify and shape their preferences. It would feature public reason giving, mutual respect and accountability across all included people... In short, an integral aspect of the process would be a dynamic formation of preferences, taking account of advances in understanding and awareness. The implication is that those preferences are not absolute; not set in stone for researchers or others to unearth and identify as a generally applicable rule. They could only emerge and evolve through the democratic process itself."

This again shows the distance between our analysis and that offered by mainstream industrial economics. As we have seen, the latter deals specifically with economic power: it uses a context of profit maximizing firms and is grounded in a market failure approach, typically viewing economic power in terms of its impact on economic efficiency. However, both profit maximization and economic efficiency represent objectives that may or may not be in the interests of publics. By concentrating on merely those concerns mainstream industrial economics is constraining analysis and understanding.

Having noted that, however, the questioning of objectives is far from new and is in fact common. Consider, *inter alia*, Cyert and March (1963), Berle and Means (1932), Freeman (1984), Penrose (1959) and Williamson (1985). Indeed, such a variety of analysis suggests that, in order to understand the organization of production, a step back is perhaps needed, to include in the analysis the motivations that lie behind choices. On the profit-maximization objective, for instance, Penrose (1952: 808) criticized an apparent need to identify ‘general laws’ as essentially an attempt to position economic understanding on the grounds set up by (aspects of) other sciences, such as biology, as if firms need to be equipped with a specific genetic code in order to remove choice, reduce uncertainty and determine outcomes: “the characteristic use of biological analogies in economics is to suggest explanations of events that do not depend upon conscious willed decisions of human beings.” In contrast, recapturing pluralism in motivations changes the way in which we might address planning, or strategic decision-making, in production. In particular, provided that we consider motivation as a variable, the coordination of production implies interaction amongst actors whose motivations and objectives may, or may not be, similar.<sup>8</sup>

### **3. DELIBERATION AND KEY VALUES**

Associated with these arguments about plurality, we also recognize that, if a complex of people were to seek compatibility with the interests of publics through an embrace of Deweyan deliberation, the endogenous espousal of certain values would be essential.<sup>9</sup> In the language of Ben-Ner and Putterman (1998: 7), people would need to have similar process-regarding preferences, values that “concern the manner in which the individual in question and others behave, including the ways in which they attain outcomes of interest.”<sup>10</sup>

Our analysis thus far clearly indicates the necessity for a rejection of controlling influences (therefore of elitism and collusion) and the nurturing of each person's (positive) freedom to act and express themselves. Consistent with this, inclusion of all those affected publics would undoubtedly be an objective, and moreover this inclusion must be on equal terms (Young, 2002); without that proviso the more favored could become a powerful elite, although even with it the possibility remains of some actors being more powerful because of their peculiar talents.

Further, the requisite 'participation' could not be of merely any form. In general participation need not ensure deliberation and it can be unequal, yet deliberative democracy requires that people have equal access to the deliberative process. This access must also be informed, otherwise it lacks substance. Under the rule of deliberative democracy (Habermas 1996; Held 1999; Fishkin 1997; Young 2002), discussion is based on rational arguments which flourish around a common matter of interest. Choices are based on discussion and willingness to achieve a consensus, rather than on conflict: "often [reasonable people] ...will not reach agreement...and they need to have procedures for reaching decisions and registering dissent in the absence of agreement. Reasonable people understand that dissent often produces insight, and that decisions and agreements should in principle be open to new challenge. While actually reaching consensus is ...not a requirement of deliberative reason, participants in discussion must be *aiming* to reach agreement to enter the discussion at all" (Young 2002:24).

We would also emphasize that certain behaviors are excluded by the fact that the rules of deliberative democracy do not match the preferences of individuals acting on the basis of instrumental rationality, insofar as this privileges self-interested people maximizing their individual utility *despite*

others.<sup>11</sup> These individuals would not be chosen by people who prioritize relations based on democratic, deliberative interaction, because such behavior would violate the fundamental need for shared engagement in a mutual development process grounded in sympathy, respect and reciprocity.<sup>12</sup>

By sympathy we refer to the ability of a person to identify with another person, to feel with the other. Smith (1759:5) writes: “in every passion of which the mind of man is susceptible, the emotions of the bystander always correspond to what, by bringing the case home to himself, he imagines should be the sentiments of the sufferer ... Sympathy ... may ... be made use to denote our fellow-feeling with any passion whatever.” He argues that sympathy is necessary for communication; otherwise people “become intolerable to one another” (22).

As Bruni and Zamagni (2004) note, this implies that in Smith’s earlier theory (and unlike in *The Wealth of Nations*; Smith, 1776) people are looked at for what they are (relational realities) rather than for what they do (being led either by egoistic or altruistic motivations). In drawing upon Smith’s earlier approach we are therefore explicitly returning analysis to a stress on relational realities. The concern is with a potential (which is not to say a necessary actuality) for those relations to be *per se* fundamental, not merely instrumental: people engage with each other not because that engagement yields satisfaction or utility, which indeed it might, but because such engagement is part of the essence of those people; it is part of what they perceive themselves to be, of what defines them as those people.<sup>13</sup> Such an approach implies neither egoism nor altruism, which are essentially focused on ‘us and them’ perceptions, but rather suggests engagement in mutual development that respects differences across individual people and publics.

What precisely is meant and required by the sorts of engagement necessary for a Deweyan deliberative process are issues that people would need to learn about, were they to pursue such a prospect in reality (an issue to which we return in Section 5). What we would especially stress now, however, is that actually being in such a process would necessarily require continuous learning. One basic reason for this is that seeking compatibility with public interests in the organization of production is not merely a matter for exclusive interests or elites; rather, in an organization which serves the interests of all publics, it is an issue in practice for everyone who makes up those publics, including continuously emerging generations. A second (and related) reason is that, in a dynamic economy there is constant change in circumstances, conditions, opportunities, preferences and values involving and affecting actual and potential publics. These changes need to be learned of; thought about so that they might be shaped, responded to and accommodated.

This necessity for continuous learning is something that we would relate to the more general arguments about learning in economic systems and organizations. In particular, the analysis of ‘the knowledge-based economy’ by the likes of Amin and Cohendet (2000) convincingly places knowledge at the centre of modern production activity (and thereby leads to the conclusion that, if ‘proximity’ is necessary for the organization of production, geography is relevant but not its essence<sup>14</sup>). Most especially, the theory stresses that the creation and use of knowledge requires commitment and co-ordination.<sup>15</sup> Examining what this might entail, Amin and Cohendet (2000:97) suggest the importance of “commonly shared bodies of knowledge – sets of facts, notions, ‘models of the world’, rules and procedures which are – at least partly – known to all the members of the organization involved in a given interaction” (see also the likes of Teece (1996:205)

on innovation and “the informal structure of the organization”). This last point reminds us that modern organizations are made up of people whose relations are critical, not least because knowledge creation and use is in significant part a cognitive phenomenon generated through people’s interaction and socialization. There are also implications for the conditions integral to a Deweyan deliberative process: the people who make up the publics with interests in the organization of production would need their own bodies of knowledge on the meaning and requirements of compatibility with public interests, as well as on the ways to identify publics.

#### **4. MENTAL PROXIMITY, MARKETS AND HIERARCHIES**

Drawing our analysis thus far together, we are now in a position to state mental proximity as an ideal-type criterion for assessing the organization of production. Compatibility with the interests of publics has been argued to be a valid basis for assessing organization, and people’s pursuit of that compatibility suggested to depend on deliberation espoused by crucial values. Put simply, therefore, we define mental proximity as existing when each person involved in the organization of production seeks compatibility with the interests of publics, doing so through jointly embracing democratic deliberation espoused by its necessary values. Stated more completely:

*There is mental proximity amongst a complex of people in the organization of production when they each seek compatibility with the interests of publics through jointly embracing the procedural rule of democratic deliberation based on its necessary values, including: the rejection of controlling influences; positive freedom; inclusion on equal terms; informed participation; the desire to reach a consensus; sympathy; mutual respect; reciprocity; continuous learning*

Mental proximity can be regarded as an ideal-type benchmark towards which real situations can be assessed and policy both designed and implemented. In the context defined by mental proximity, power is not absent, but the idea is that it is not used or abused to impose decisions and other actions despite the motivations and preferences of the interested publics. In this sense, the analysis highlights a distinction between two extreme and opposite means for organizing production: mental proximity and hierarchy. However, mental proximity can be consistent with a number of market structures, provided that they do not imply the values and coordination mechanisms characteristic of hierarchical settings.

Accordingly, our perspective suggests that means for organizing production do not merely span markets and hierarchies. Rather, they position themselves within three dimensions: the imperfectly competitive market, mental proximity and hierarchy. (Following Hirschman (1970), this prospect echoes aspects of a focus on a mix of ‘voice’ (associated with democracy, hence mental proximity) and ‘exit’ (associated with markets and hierarchies).<sup>16</sup>)

The three dimensions offer different criteria for assessing the organization of production. Coordination mechanisms are closer to mental proximity the more

they rely on each interested person seeking compatibility with the interests of publics through democratic deliberation based on its necessary values.

Conversely, they approach hierarchy the more coordination is based on direction, concentration of strategic decision-making power and centralized control. As for the market dimension, perfect markets are ignored because they assume the absence of power (whilst our approach considers power as integral to economies). Moreover, the market dimension as a distinct criterion reflects the possibility that, in the extreme, production relations which are occasional, based on arm's length prices and instrumental rationality (and which stress exit), may be characterized by neither mental proximity nor hierarchy.

## **5. MOVING TOWARDS MENTAL PROXIMITY**

Having presented the analytical foundations for mental proximity, we now consider movements towards that benchmark. The supposition is that a complex of people who are seeking to relate to each other in accord with mental proximity share common values and rules of behavior, to which extent they are clearly in some sense both a 'community' and a 'network', but we distance ourselves from the former term because it is used in the literature in varied ways, some of which are anathema to the ideal that is mental proximity. Hence, as a label for those seeking relations in accord with mental proximity, we prefer the term *community network*.

Part of the drawback with the term 'community' is that its meaning can be consistent with hierarchical relationships, which evidently the ideal of mental proximity is not,<sup>17</sup> but a particular problem is that 'community' tends to imply a focus on group specificity and affinity, removing ontological differences across subjects and relying instead on a common interpretation of self, with common

objectives, language, interpretation of reality and practices (Young 1990).

Consistent with Dewey (1927) and Young (1990), mental proximity recognizes the specificity, wishes, needs and affiliations of people and publics; its focus in a specific context is on a certain sort of network of distinct peoples and publics, across which there are shared values and rules.

A further difficulty with the word 'community' is that, especially with respect to the meaning attached to it in spatial terms, it implies borders, hence exclusion. This is often associated with a localism in which different people (such as minorities) can be rejected on the basis of, for instance, the will of the local community to preserve cultural identity; this might be a way of perpetuating the inequality and oppression of those who are excluded (Young 1990). Such rejection is contrary to the essence of mental proximity as defined herein; according to the benchmark, all people value the inclusion of each public affected by their acts, and all seek to embrace every such public that also behaves in accord with democratic deliberation and its necessary values.

This is not to deny that the presence of mental proximity would imply some form of exclusion. Indeed, Goodin (1966 as cited in Young 2002) maintains that where there is inclusion there must be exclusion, and therefore that inclusion pertains only to systems that reiterate exclusion. With this in mind, we would distinguish two types of publics, those 'inside' and those 'outside' a community network. 'Outside publics' are sets of people who are affected by decisions in the network and to that extent are publics, but they are not within it, either because there is insufficient awareness that they exist as publics, or because they abide by values and rules that differ to those consistent with mental proximity. Dewey (1927) implies that the former is likely to be a significant problem; publics are often unaware of their own existence.

However, the terms of mental proximity require that a community network is necessarily open to the inclusion of currently outside publics, if they are identified and if they embrace the values and rules of mental proximity. Further, this openness is not merely passive. Under mental proximity people would *seek* compatibility with the interests of publics using the procedural rules of deliberation based upon certain key values; this incorporates *actively* seeking compatibility.

Amongst the other elements that might preoccupy community networks, one has already been indicated by the earlier discussion (in Section 3) of the essential values core to mental proximity: people would need to learn about what precisely is meant and required by the sorts of engagement necessary for a Deweyan deliberative process. The significance of this is suggested by the fact that our analysis up to now reveals effective deliberation to entail complex issues, yet there is little obvious evidence that such matters have either figured prominently in economic debate, or been especially widespread in people's realities. More specifically, our earlier discussion also implies the need for a community network to emerge and nurture appropriate relations through the creation and development of commonly shared bodies of knowledge.

How it might do this, and how the body of knowledge might in turn emerge and develop through the community network, are bound up with the network's accommodation and nurturing of an appropriate mix of what Granovetter (1983) identifies as 'weak' and 'strong' ties (hence, according to Burt (1992), with its treatment of 'structural holes'). For Granovetter (1983: 202), "individuals with few weak ties will be deprived of information from distant parts of the social system and will be confined to the provincial news and views of their close friends"; they will therefore be "insulated from the latest ideas." Moreover such a mix would

impact more widely on a search for relations in accord with mental proximity. For example, Granovetter (1983) argues that it affects communication and openness, a network's capacity to grow rather than stagnate into a clique.<sup>18</sup>

We also hypothesize that the interaction in a community network can be at a geographical distance, but not constantly: typically, people need occasional face-to-face meetings that provide experiences they can draw upon over time, when interacting at spatial distance (for example, virtually). Without some face-to-face contact development of the form and depth of relations that would be required under mental proximity would be likely unattainable, and it would be near impossible to exchange tacit knowledge (on which see Adaman and Devine 2001).<sup>19</sup> However, there appears no reason why perpetual geographical proximity would be necessary.

We further suggest that movement towards mental proximity would be typically grounded in the initial, rational intuition of people about others, as well as the strengthening of relationships over time.<sup>20</sup> The process would be grounded in self-selection, and the strengthening would be in part because the initial intuition would be reinforced through the matching of experienced outcomes and opening expectations. It would also be through a deliberate nurturing of the relations, as people learn and adapt through a deliberative process.

The intuition refers to how people might relate to each other, to how they might communicate and therefore develop their relations. Values and rules that regulate communication have communication as an outcome, but communication is also required *ex-ante*, in order to define the values and rules in a suitable way. Therefore, in seeking relations in accord with mental proximity the intuitive perceptions of people would provide some form of code of conduct on how they initially relate and how their relations might grow, it being necessary for such

initial values and rules to be implicit and shared even before values and rules can be discussed and made explicit.

The potential for relations to strengthen would be influenced by various factors, including the role of concepts: for example, people interested in notions of 'participation' and 'democracy' might be keener to behave in ways that imply the search for mental proximity. Also influential might be declared organizational objectives: for instance, an organization's website might signal certain values and rules of behavior over others.

Moreover, any initial intuition would be followed at some point by consolidation through the explicit realization and specification of particular values and rules. Such codification would derive from the practical experience of people operating within a given context. This phase would need to be characterized by open participation in free deliberation so as to yield agreements through rational arguments, in line with the very essence of mental proximity. It would be based on the pre-existing, tacit agreement to act according to values and rules of deliberation and concern for the interests of publics. Furthermore, explicit attention to understanding and appreciating the necessary values and rules would be a recurring theme: tacit agreement followed by a period of codification; after which, further contemplation, deliberation, feedback and review; followed by a refining of the codification; and so on. In parallel, the process of codifying might create a specific terminology and new conceptualizations (not least, explicit awareness of the notion of 'mental proximity' itself), and this in turn might affect the understanding and functioning of the relations amongst actors.

Exploring this further, the principle of 'absorptive capacity' (Cohen and Levinthal 1989; Cohendet and Meyer-Krahmer 2001) leads us to hypothesize that

actors cannot understand key values and rules if they are not already in some sense sympathetic with the concerns being addressed by certain language and concepts. Moreover, to make these values and rules explicit has the power of signaling the interests and governance of a set of people to the wider world, so that collaborative projects might be explored with external actors on the basis of some basic, explicit knowledge about the ways in which those people relate to each other and organize themselves. Hence, an effect of value and rule codification (institutional setting) could be increased accessibility. Once a vision, related language and concepts are made explicit, there could be better understanding, not only amongst those who initially participate in the development of values and rules, but also for others who might want to share those principles and participate in the on-going process.

## **6. CONCLUDING REMARKS: MAKING MENTAL PROXIMITY OPERATIONAL**

The presence of mental proximity in practice has been considered by Bailey *et al* (2006). Drawing on an earlier conceptualization in Sacchetti and Sugden (2005), they suggest mental proximity as a benchmark for guiding the organizational form of academic research and learning, and they consider a case where it was pursued as an ideal. They conclude that the pursuit failed, partly because it emerged that the participating academics had diverse values, some of which appeared inconsistent with mental proximity. Additionally, there were acute tensions because the context for the particular organization was a university system characterized by hierarchies that could not be ignored, even if there was a will to do so. What is also especially noteworthy is that the catalyst for realizing the failure was a move from a period of tacit communication to one of knowledge codification. The latter process heightened and altered understanding

amongst the participant academics, and in turn this shaped the outcomes: values and rules became the object of intense scrutiny, fatal contradictions and differences emerging.

As for other instances in which there might be (aspects of) mental proximity in practice, one possibility to pursue would be a detailed consideration of earlier experiences in Italian industrial districts. In this regard, there are suggestions that what Giacomo Becattini had in mind in examining the characteristics of industrial atmosphere includes notions that are at least related to mental proximity (see, more generally, the collection in Becattini (2004)).<sup>21</sup> There are also many other cases that would repay detailed investigation, including the experiences of self-styled 'Mutoids', sets of people in various parts of the world who are engaged in creative arts and who appear to live by values and norms that suggest the presence of mental proximity (Sacchetti 2006).<sup>22</sup> More generally, we would propose study of social enterprises in various contexts.

These thoughts notwithstanding, however, the substantive process of making mental proximity operational for empirical investigation remains a subject for future research. By way of concluding comment in this paper, we simply suggest its implication that an assessment of the degree to which mental proximity is present in a given context would need to incorporate evaluations of the following elements (*inter alia*):

- The 'willingness' of people to do things together, as compared with their willingness to do things with other, most especially anonymous persons (Ben-Ner *et al*, 2006).
- The presence, form and impact of deliberation processes. Critical questions in this regard include:
  - What are the methods and conditions of debate and persuasion?

- How do people communicate with each other?
  - What is the frequency and content of face-to-face communications, as against communication from a geographical distance?
  - Is there evidence that deliberation is influenced by some more than others, and if so, what is the basis of that influence?
  - What is the extent to which people seek consensus in their activities, as against acting despite the wishes of others?
  - Do different people bring varied backgrounds (in terms of culture, habits, laws and rules) to the deliberative process?
- The interest in particular ideas and values, including as regards ‘participation’, ‘democracy’ and ‘freedom’; most especially, the extent to which such interests are shared.
  - Any apparently significant alterations in the relations between people and publics over time.
  - The existence, form and consequences of any attempts to codify values and rules.
  - The opportunities and processes for learning about the interests of others.
  - The degree to which people are aware of the interests of ‘inside publics’, and the degree of permeability to issues raised by ‘external publics’.

Mental proximity refers to an ideal, but by evaluating such elements it becomes a benchmark for assessing realities. Moreover, to recognize this is to raise the prospect of exploring mental proximity as a benchmark for the design and implementation of policy.

Cowling and Sugden (1998: 82-83) consider a challenge to the current power of large transnational corporations through the development of production networks that capture key elements of experience in Italian industrial districts,

and conclude: “the shifting of the boundaries between the domains of the major corporations and the industrial districts in favour of the latter ... would need to be done as a matter of purposive public policy rather than evolving naturally... [This] does not deny the social efficiency of the industrial district; rather it reflects a realistic assessment of the power of the major corporations.” There is a concern with the different sorts of relations that might characterise the organization of production; effectively, a focus on the possibility of shifting from the hierarchy of large corporations towards something closer to the ideal of mental proximity.

It likewise seems to us highly likely that the existence and development of organizational forms characterized by a high degree of mental proximity would necessitate the support of purposive public policies. A research challenge is to analyse what such policies might require, were policy makers to opt for their introduction.

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## **ENDNOTES**

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<sup>1</sup> Consider also Hantke-Domas (2003), positioning such arguments in the context of public interest as a foundation for decision-making in US political history.

<sup>2</sup> More widely, there is a need for changed views about the fundamentals of market economies, as well as about the meaning of competition. Provision of that analysis may well seem ambitious, undoubtedly raising a set of issues that go beyond the scope of one paper.

<sup>3</sup> We could also consider mental proximity in economic relations more generally, not simply as regards production, but that too goes beyond the scope of this one paper.

<sup>4</sup> Our use of the word 'proximity' follows from the criterion reflecting closeness of relations/linkages. Linkages in production were identified as significant by Richardson (1972), concentrating in particular on inter-firm relations, and in recent years these have been researched through measures of 'proximity'. However, that literature has tended to highlight restricted possibilities, focusing especially on spatial concentration and local dynamics (Boschma 2005a; Torre and Rallet 2005). Such approaches are in stark contrast to the mental proximity that we advocate, a point to which we return in subsequent asides.

<sup>5</sup> In fact, market economies are already strongly based on negotiating procedures at the government and firm levels, if 'stakeholder' analysis has validity (Kelly *et al*, 1997; Branston *et al*, 2006a).

<sup>6</sup> Differently, however, we would argue that deliberation is a journey of exploration and discovery about preferences, a journey that can only be made if it is enabled by the mutual embrace of key values. We also maintain that because a search for mental proximity would occur through self-selecting community networks (as discussed later in the paper), deliberation must be brought

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back into the economic system from the bottom, rather than from the top, as negotiation implies. Moreover, it is certainly the case that, in general, ‘negotiation’ can be consistent with the pursuit of narrow self interest, at the expense of publics and through imposition on those publics. (See also the discussion of artistic activities and people’s capabilities to engage in democratic deliberation in Sacchetti and Sugden (2007).)

<sup>7</sup> Amin and Cohendet (2000:99) relate the “good circulation of knowledge within an organization” to “dialogue, discussion, experience-sharing”, and to “socializing activities”.

<sup>8</sup> This does not deny that, in such circumstances, (imperfect) market structures might influence the way activities are organized and governed within and across organizations. Issues of motivation, planning and power are likely to assume different forms and meanings across different market structures.

<sup>9</sup> Clearly, people might choose amongst various ways of interacting, were they aware of the options, including hierarchical relationships, market competition, conflict or anonymous interaction through the internet. Each of these ways would imply corresponding values.

<sup>10</sup> Process-regarding preferences influence – and are influenced by - institutional formation, and (following the distinction made by North (1990)) they are reflected (at the micro-level) in rules that embody specific economic relations (as compared to at the macro-level, which Boschma (2005b) identifies as the sphere of institutional proximity).

<sup>11</sup> Compare with deliberative democracy the model of democracy based on preference aggregation. According to Young (2002:20), in the latter “citizens never need to leave the private realm of their own interests and preferences to interact with others whose preferences differ.” This aggregative model of democracy is said to carry “a thin and individualistic form of rationality” (*ibid*).

<sup>12</sup> Reciprocity is defined by Kolm (1994) as “a series of bi-lateral transfers, *independent* from each other and, at the same time, interconnected. Independence implies that each transfer is voluntary, i.e. *free*; in other words, no transfer constitutes a pre-condition for the undertaking of another as there is *no external obligation* that acts on the mind of the subject. It is a logic that is neither conditional (as is the contract), nor unconditional (as is philanthropy), as if it is true that the performance of the other is not pre-conditional to mine, at the same time, without an answer from others I cannot reach my objective” (translated from Bruni and Zamagni 2004:166).

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<sup>13</sup> This is in stark contrast to most of modern economics. Since Adam Smith's later work and despite *The Theory of Moral Sentiments* (1759), political economy has been developed on the basis of instrumental relationships. In particular, what has counted is that individuals maximize their utility by acting rationally; for example, they share feelings so as to be 'happy', rather than being happy because they share feelings.

<sup>14</sup> Lundvall and Borrás (1997:14) argue that (unlike codified knowledge) tacit knowledge is not readily transferable; rather it is "rooted in specific organizations and locations." However, as recent contributions on communities of practice show (Breschi and Lissoni 2002), this dichotomy suffers from a static perspective on actors' location. People who mostly work from distant locations may sometimes work spatially together, thereby enhancing tacit knowing (Cohendet and Meyer-Krahmer 2001; Torre and Rallet 2005). To accept that the transfer of tacit knowledge might benefit from geographical proximity is not to accept that such proximity is immutable over time. Indeed, consider, for example, Zeller (2002) on inter-firm R&D teams.

<sup>15</sup> Whilst such literature has identified elements through which commitment could be realized and coordination implemented, it has not provided an in-depth consideration of how those elements might be governed. That calls for integration with the likes of Cowling and Sugden (1998), analysis of organization based on strategic choice.

<sup>16</sup> Related overlaps might also be suggested by Burt's (1992) analysis of the social structure of competition.

<sup>17</sup> Although there are common elements, such as the reference to shared values and meanings, our use of 'community' is essentially different from the one that can be found in Etzioni (1996, *inter alia*). In particular, the notion of community developed in sociology around the 'community of communities' debate is not comparable with community networks because: (a) community networks do not arise from the need to create social order; (b) they cannot be consistent with values supporting hierarchy and power concentration; (c) there may not be a shared common history amongst community network members; (d) members of community networks voluntarily chose to be part of the network as an expression of their own views, values and objectives rather than being included because of the faith of history or space; (e) there is not one pre-defined common good to be pursued, rather the interests of publics need to be defined endogenously (as we have previously explained).

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<sup>18</sup> Also interesting is Granovetter's (1983) discussion of Blau (1980) on strong and weak ties in hierarchy and democracy in practice.

<sup>19</sup> In discussing tacit knowledge and in response to criticism from Hodgson (1998), Adaman and Devine (2001:234) argue that this would be available for parties in a deliberative democracy to "draw upon to assess the available explicit knowledge .... In this deliberative process those participating discover one another's views and form judgments as to what might be possible, what they might be able to contribute, what they perceive as fair. In the course of discussion, the different tacit knowledges of the groups represented are drawn upon, views change and agreement on a common endeavor is promoted." We too would stress that *use* of tacit knowledge is crucial in a deliberative democracy.

<sup>20</sup> This intuition is not irrational: it explores possibilities, and represents an initial knowing tool generated by a reciprocal, sympathetic and creative impulse.

<sup>21</sup> We are grateful to Gabi Dei Ottati for raising this idea.

<sup>22</sup> We are grateful to Francesco Sacchetti for suggesting this possibility.

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