

Chapter 11 Stereotyping and Interests

§ 1. The Natural Function of Stereotyping

Stereotypes and interests have been brought up in the previous two chapters as factors with crucial implications for the institution and operation of industrial conglomerates and Enterprises. What are some of these implications?

Stereotyping, special interests, and common interests are three ideas closely connected with one another in contexts of socio-political and socio-economic phenomena. Indeed, if it were not for stereotyping a person would have *personal* interests but it would not be a practical possibility for him to form ideas of *common* interests he shares with all other members of his Society or of *special* interests he shares with a relatively fewer number of other people belonging to his same mini-Societies embedded in their overall Society.

Interest is anticipation of a satisfaction (or dissatisfaction) combined with a representation of the *Existenz* of some object of desire. All actions are actions taken in the particular and a person's determinations to take specific actions are conditioned by his interests. An interest grounded in a person's satisfaction of Duties or Obligations is said to be a *deontologically valid* interest. An interest is said to be *frustrated* when actual events contradict realizing the anticipated satisfaction (or thwart prevention of the anticipated dissatisfaction). Frustration of an interest provokes a disturbance to equilibrium in the person whose interest has been frustrated.

An interest of a person A and an interest of a person B are said to be *congruent interests* if and only if a satisfaction of interest by either person does not necessarily prevent the satisfaction of interest by the other person. A *mini-Community interest* is the set of all pairs of congruent interests held by every pair of persons belonging to the same mini-Community. A *special interest* is a mini-Community interest that is not shared in common by another mini-Community. A *common interest* is a set of congruent mini-Community interests shared by two or more mini-Communities.

Now, no individual ever *knows* what the actual interests of other people are even if he *thinks* others' interests are the same as his or that there is some object-of-interest by which both he and the others can simultaneously satisfy their own personal interests¹. The ideas of congruent, special, and common interests are ideas of supersensible objects, i.e., objects beyond the horizon of possible human experience. Therefore they are ideas of *noumena*, and for this reason they are mathematical concepts and never concepts of experience. The possibility of conceptualizing them is grounded nowhere else than in the imaginative power of stereotyping. All human cooperation depends on stereotyping, i.e., on the ability to make abstract models of other people. That is what a stereotype is: a mathematical model applied to other people and constructed via inferences of analogy². Making a stereotype is a satisficing act often necessary for the possibility of achieving a state of equilibrium in many circumstances. It is a root factor in childish egocentrism and an act

¹ Such an object-of-interest is often called a "common cause." When making such an object-of-interest actual requires some great struggle and the overcoming of significant adversities by a group of people, that object-of-interest is frequently called "The Cause." Achieving independence from Great Britain was such a "Cause" for the Patriots. Preservation of the Union was "The Cause" for the North in the American Civil War of 1861-65, whereas independence for the Southern Confederacy was "The Cause" for the seceding Southern states in the minds of most of Confederate soldiers and civilians. Protection of slavery was a special object-of-interest for some but not all the people in the Confederacy. Hence it was 'a Cause' but not "The Cause" for the South. Likewise, abolition of slavery was 'a Cause' for some but not all Northerners, and so was not "The Cause" for the North.

² Refer to the glossary for the technical explanation of what an inference of analogy is.

that no human being ever ceases to perform. Adults merely learn through experience to be more discriminating than four-year-olds are in their making of stereotypes.

Stereotyping has some ill effects in a Society. It is a necessary condition for bigotry and institutionalized bigotry in a Society. Its provocation is an effective tool of propaganda. It underlies many historical cases of persecution as well as many of history's most appalling cases of organized mass murder. Stereotyping is indeed one of the most dangerous of human abilities. But at the same time, this ability also has many crucial benefits. Community and even Society are impossible without it because cooperation and trust depend on it. The ability for human beings to carry out interpersonal communication transactions depends on it. A strong case can be argued that even the development of language is grounded in this ability because all human natural languages appear to be products of experience made possible by stereotypic concepts children conceptualize prior to exhibition of language ability in the first and second years of life. When one stops to think about it, the phenomenon of human language is a marvel. Chomsky wrote,

The central fact to which any significant linguistic theory must address itself is this: a mature speaker can produce a new sentence of his language on the appropriate occasion, and other speakers can understand it immediately, though it is equally new to them. Most of our linguistic experience, both as speakers and hearers, is with new sentences; once we have mastered a language, the class of sentences with which we can operate fluently and without difficulty or hesitation is so vast that for all practical purposes . . . we may regard it as infinite. Normal mastery of a language involves not only the ability to understand immediately an indefinite number of entirely new sentences, but also the ability to identify deviant sentences and, on occasion, to impose an interpretation on them. It is evident that rote recall is a factor of minute importance in ordinary use of language [Chomsky (1964), pp. 7-8].

Stereotyping plays an essential role in semantic representing. Therefore it is both futile and foolish to try to abolish it either by law or by moral proscription. Rather, we must understand what stereotyping does, how it does it, and how to make scientific use of this understanding. Like all mental abilities, one comes to recognize and understand stereotyping by examining its manifestations in social-nature. Industrial conglomerates are always mini-Societies embedded within some larger socio-political Society, and so what is true of stereotyping for a Society-in-general is likewise true of it in every industrial conglomerate.

§ 2. Bonding, Anti-bonding, Granulation, and Stereotyping

The specific stereotype models an individual forms and uses in semantic representing are always conditioned by **contexts**³ that are combined with his stereotype concepts. Key among these are contexts I call 'social-chemistry' relationships. These include a person's tenets and maxims that constitute obligation relationships he holds to exist between himself and that great abstraction we call a Society. Contexts of tenets and maxims underlie phenomena of social granulation within any Society in which people and their mini-societies are embedded.

The concept of social-chemistry as a mathematical modeling method for social-natural phenomena was introduced in Wells (2012), chap. 9, § 4-5. The use of social-chemistry models is suggested by analogy with the physical-natural science of chemistry and its concepts of molecules and chemical bonding and antibonding. Figure 1 depicts what a social-chemistry model of a two-person interaction looks like. This model is an *external* perspective but it is related to the *internal* perspective depicted by a Weaver's model, *e.g.* the two-person Weaver's model presented in chapter 10 and re-presented below in figure 2.

³ A context is a sphere of concepts combined in judgment delimiting the applicable real scope of a concept.

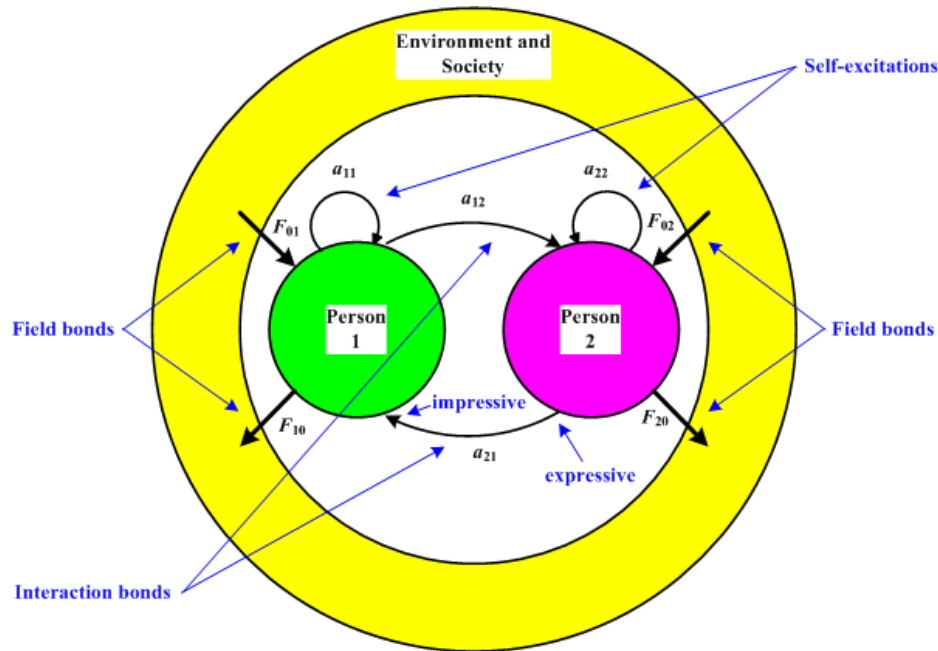


Figure 1: Social-chemistry of two-person interactions within an environment and common Society. The two interacting persons constitute a simple social Molecule influenced by field effects from their external environment and situation within an overall common Society in which both are embedded. Arrows in the figure represent interactions regarded as social-chemical bonds. An externalized operationalization is called an expressive action. Its effect on the other person is called an impressive action. Each person also effects changes in his manifold of concepts and manifold of rules and so is said to undergo a self-excitation effect. The social-chemical bonds (both interaction and field bonds) are comprised of two basic types of factors called bonding factors and antibonding factors. These are factors in semantic representing that promote cooperation or competition, respectively, in the persons' interactions with each other or in the interactions of either person with the embedding Society. Each person in the model is regarded as a social atom.

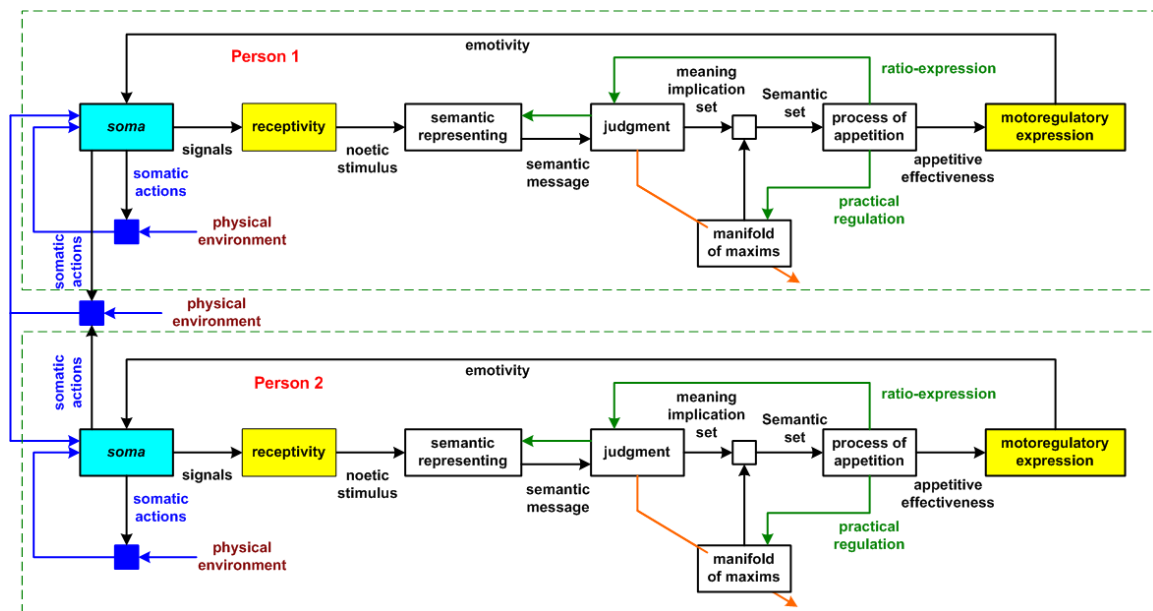


Figure 2: Two-person Weaver's model of interpersonal interaction. The Weaver's model focuses on the *internal* acts of the interacting persons. In contrast, the social-chemistry model of figure 1 assumes the *external* perspective of an observer observing such interactions.

The quantitative mathematical schema for figure 1 is a generalization of a method introduced by Grossberg. It is called an "embedding field" model [Grossberg (1969; 1971)]. Grossberg introduced the concept of embedding fields as a generalization of 1960s neural network research. This is still the primary research field where embedding field concepts are routinely used, but the concept of embedding fields Grossberg introduced has a scope of tremendously wider applicable range in modeling social-natural phenomena than even Grossberg himself seems to have realized at the time he introduced the concept. The concept is applied by the way one models interaction and field bonds by means of mathematical functionals⁴.

An interaction bond is a functional describing the effect an action expressed by one person has on another person during a social interaction. A field bond is a functional describing the effect of an environment on a person or the effect a person has on his environment. Making a quantitative model such as that of figure 1 consists of deducing functionals for interactions by approximating or postulating them from internal aspects that a Weaver's model of the social atoms implies. To put this in other words, embedding field models are produced by a *synthesis* of the external perspective described by figure 1 and the internal perspective described by figure 2. Industrial and managerial psychologists seem to grasp this idea intuitively even though they stop short of completing mathematical descriptions of embedding field functionals and leave their models at a qualitative rather than quantitative level of description. (Examples of what I'm talking about here can be found in numerous managerial psychology textbooks. Leavitt (1972) is one such book).

When using the social-chemistry analogy to physical-natural chemistry, one must not forget a crucial mathematical difference between social atoms and the dead-matter atoms of chemistry. Dead-matter atoms are relatively stable objects (their physical properties do not change other than for differences made by ionization or isotope) and in most cases one can approximate that atoms of a particular kind (*e.g.*, oxygen) are identical. People (social atoms), on the other hand, are intensively and contextually changeable. They make on-going accommodations in their manifolds of concepts and their manifolds of rules, and these accommodations can and do significantly alter semantic representing and action expression (figure 2). As a practical matter at our present state of knowledge, this makes a necessity of having to *approximate* people's behaviors through the use of such empirical tools as the D-PIPOS circumplex model discussed in chapter 10. This approximation is a form of *scientific* stereotyping based on empirical knowledge gleaned from research and grounded in Critical metaphysics. Herein lies one of the more immediate connections between the topic of this chapter and that of chapter 10. The practical necessitation for stereotyping imposes upon social-natural scientists professional expectations for cautionary ethical considerations. Maccoby remarked,

A word about typing people: The very mention of types embarrasses those with simplistic democratic and egalitarian values who want to believe that everyone is at once different from and equal to everyone else. Although we should all recognize that we share the same human rights, consciously or unconsciously, no one can avoid the cognitive necessity of typing people. We commonly classify people stereotypically according to differences in age (young, middle-aged, old), sex (male and female), and race (black, white, etc.).

Types based on a single trait are from a naturalistic point of view misleading and from a moral point of view dangerous. Any single trait may have a different meaning according to a total syndrome of psychological traits. For example, high IQ in a manipulator is different from the intelligence of a wise and responsible person. Typing according to a single trait also lends itself to moralism, which thrives on simple dichotomies which can be labeled

⁴ A *functional* is a function having a domain that is a set of functions and a range belonging to another set of functions. A mathematical *function* is a rule defining a set of ordered pairs (x, y) with x belonging to a domain X and y belonging to a codomain Y such that there is a many-to-one correspondence between the members of X and the members of Y .

good and bad. Correspondingly, moralists tend to reduce complex alternatives to dichotomies or one dimensional continua which can be treated as good (high score) vs. bad (low score).

Bureaucracies tend to type people to fit requirements of their hierarchies; teachers type students as bright, average, or retarded; police type criminals and law abiders; psychiatrists type normals, neurotics, and psychotics. Factory managers typically type workers and managers into categories of hardworking, lazy, incompetent, responsible, irresponsible, etc. – all according to how well they serve the organization. . . .

A true social character type cannot be labeled simply as good or bad. It describes a syndrome of traits that are adaptive to the requirements of physical and psychic survival. . . . From a social point of view, by distinguishing types according to their own strivings and values, we are trying to develop knowledge that increases compassion, respect for differences but also understanding of what we like and dislike in ourselves and others and why. Such knowledge also illuminates the relationship between work, family life, and the formation of character. [Maccoby (1976), pp. 35-36]

Neglecting Maccoby's caution can easily mislead a scientist into producing a cartoon caricature rather than an objectively sound model of the social atoms upon whom his research is centered.

With this caution in mind, let us look at one of the major phenomena that produces many of the challenges that confront people in an industrial conglomerate. This phenomenon is called *granulated socialization*. Figure 3 illustrates the idea of granulated association.

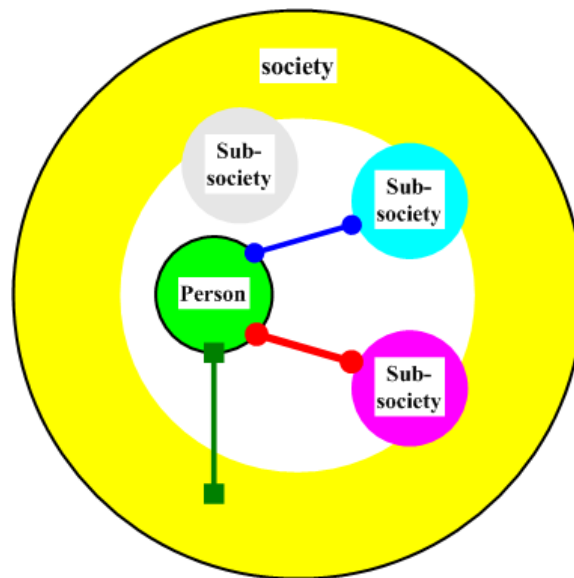


Figure 3: Granulated association within a society as viewed by a specific person. The sub-societies indicated in this figure are comprised of subsets of people the person includes in or who affect his personal society. The lines depicting the person's connection with these sub-societies represent how the person regards himself as bonded with these sub-societies by tenets and maxims in his manifold of rules and his manifold of concepts. The blue line denotes bonding relationships involving at least some real people within the sub-society; the red line denotes antibonding relationships involving at least some real people within the sub-society. The green connection denotes a bonding relationship the person establishes with an abstract entity (his personal society); here the person bonds himself to a stereotype rather than to real people. The figure also depicts a sub-society with which the person has formed no bonding relationships at all. Note that this figure brings out an interesting paradox in how the person regards his social relationships. All members of the sub-societies are members of the overall society (to which he binds himself) but some real individuals within the sub-societies he regards as people to whom he is not bonded or is antibonded.

All human associations have their roots in the personal societies individuals define for themselves. A personal society is the mathematical object of a concept formed by an individual which: (1) is suitable for one or more of his purposes; (2) has for its principal quantities appearances of individuals; (3) has no ontological significance whatsoever; and (4) in its logical essence is a concept of relationships and associations. The circle denoted "Person" in figure 3 depicts an individual whose personal society is being described in the figure. The overall personal society for this individual is labeled "society." However, Person also makes a number of logical divisions in his society by classifying parts of it into subsets labeled "sub-societies" in the figure. Although some real people in his society are usually classified by Person as belonging to more than one sub-society, the bonding associations depicted in figure 3 are relationships Person holds to exist between himself and the *abstract persons* (stereotypes) labeled sub-societies in the figure.

For example, Person's overall society might be what he calls "Americans" if Person is a legal citizen of the United States and harbors feelings of "patriotism" for his country. If Person is a member of a labor union, the sub-society he regards himself in a bonding relationship with (the blue line in the figure) might consist of all his "union brothers and sisters." If the company he works for is having labor disputes, the sub-society he regards himself in an antibonding relationship with (red line) might consist of "management." Suppose Person regards himself as a citizen of America and therefore as being in some way or ways bonded with all Americans. *Nonetheless*, there are probably a great many possible sub-societies defined by occupation (realtors, mailmen, bankers, high school pupils . . . the list of possibilities is vast) *with which he holds no particular bonding relationship to their members*. This is depicted by the gray sub-society in figure 3 and Person is said to be in an *unbonded* relationship with those he associates with this sub-society. (Clearly this is a simplified example because there are many other ways each individual logically divides and classifies his stereotypes). Religious affiliation (or lack thereof), geographic affiliations ("my town" vs. other towns), political affiliations (republican party, democratic party, independents, etc.), family affiliations ("my family" vs. "not-my-family") and many other contexts all constitute possible *contexts of affiliations* by which people can and do draw logical distinctions within their personal societies. How any person regards his personal society in its details depends on specific contexts within which he understands his divers associations.

Figure 3 depicts four bonding associations (to his society, a bonding relationship, an anti-bonding relationship, and an unbonded relationship) in order to bring out a curious paradox in the way individuals come to view their various stereotyped social relationships. In figure 3, Person holds himself to be antibonded with one of the sub-societies *despite the fact that all the people in that sub-society are also people in his overall society, to which he regards himself as being bonded*. Thus in one particular context he holds himself as being bonded to people with whom in another context he regards himself as being in an antibonding relationship. This is the paradox.

All understanding is understanding-in-context because of the way the manifold of concepts is constructed and employed in the process of determining judgment [Wells (2009), chap. 5]. It is a fundamental aspect of human nature and this aspect goes down to the very root of how human beings construct Objects out of the data of experience. The Critical acroam I refer to here can be called "the acroam of real things": ***no object is real (to a human being) unless that object is represented in a concept and that concept has been combined with other concepts that provide it a context***. For example, "the ghost of Hamlet's father" is *real as a character in Shakespeare's play* but it is *unreal as a supernatural entity who haunts castles in Denmark*. **Every thing is real in some contexts, unreal in some other contexts, and non-real in still other contexts** (because its concept is not-combined with the other concepts that establish those non-real contexts).

Stereotypes are combinations of contexts that, taken together, define an abstract person – a thing that is likened in some ways to real people but which is not a sensible object of Nature. All stereotypes as entities are merely mathematical entities that can be presented in real terms only by

examples, *e.g.*, "Barack Obama is a democrat; George Bush is a republican; Lenin was a Bolshevik," *etc.* Because a stereotype is only a mathematical entity, it is, as William James once put it, "as fictitious as the Jack of Spades."

Every person's personal society is such a mathematical entity. What, then, does that tell us about the Object Critical theory calls a Society? A Society is an Object understood as a higher concept of divers individuals' concepts of society retaining what is contained in common among these divers concepts and manifested by a mathematical field construct. In other words, a Society is a mathematical entity that in human understanding is even more remote from actual people than concepts of individual societies are. The concept of a Society is a scientific construct that is employed in theoretical social-natural sciences. One of the things Societies and societies have in common is that, as mathematical entities, their concepts always involve ideas of bonding, anti-bonding and non-bonding associations in the social-chemistry of their makeups.

Stereotypes are abstract persons, by which I mean that the person-like entity a stereotype represents has no real human being as its object. Stereotypes are constructed from concepts an individual forms from two bases in experience. The first and, for most people, most important basis is his actual interpersonal experience with real people and concepts of his association (or non-association) with these real individuals. Three types of person-to-person associational relationships are depicted in figure 4. The first and most common one is the non-bonding association depicted in figure 4A. A brief encounter with a stranger is one example of a situation where a person forms neither bonding nor antibonding maxims in regard to the other person. They interact over a limited period of time, their actions are governed by practical maxims standing under obligations-to-self, and after the conclusion of their interaction it is not unusual for them to go their separate ways and perhaps never see each other again. This association type is also representative of state-of-nature relationships. To the extent that Person 1 remembers his encounter with Person 2, he makes Person 2 an object of experience but he enters into no mini-Community or personal social relationships with Person 2.

Figure 4B depicts a bonding association. Here Person 1 and Person 2 each form maxims of interpersonal relationships with each other. Each is given entry into the other's personal society in ways that promote cooperations and some degree of mutual support for one another. While cooperation is possible in figure 4A, the element of mutual support is missing from that type of association. Bonding associations such as figure 4B form the basis of civil associations.

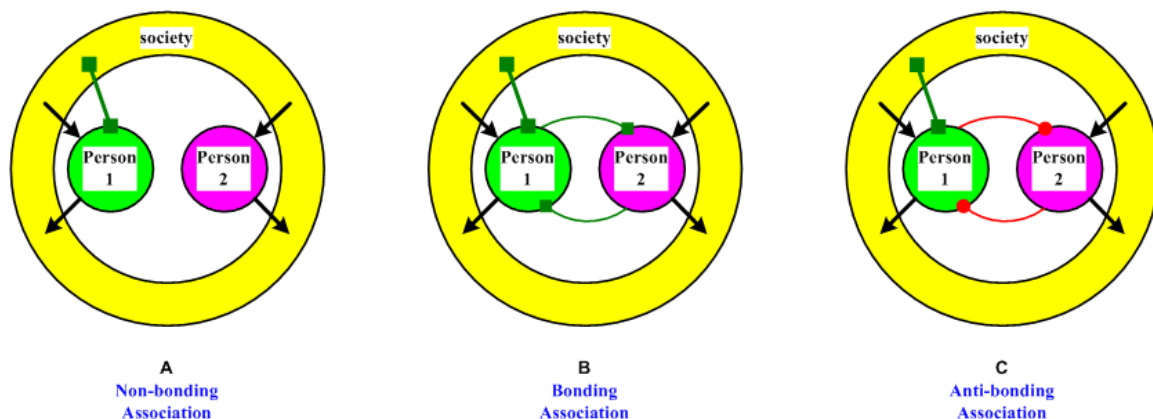


Figure 4: Three types of person to person associations. Black arrows denote observable expressed actions by which the persons affect or are affected by Person 1's personal society. The colored connection lines denote unobservable tenets and maxims involved in messaging and semantic representing that lead to constitution of concepts of bonding and/or antibonding relationships. The society depicted in these figures is the personal society of Person 1. Green = bonding relationship. Red = antibonding relationship.

In almost all cases, the bonding association is not established by a single interpersonal transaction event. Rather, it almost always requires the two persons to engage in multiple interpersonal transactions through which they establish increased scopes of knowledge about each other. By the satisfactions each experiences in these interactions they gradually establish some degree of mutual trust and friendly (or, at least, non-hostile) rapport with each other.

Figure 4C depicts an antibonding association. Like the bonding association, this form of association often requires multiple interpersonal transactions to establish, although it is also the case that just a single transaction might establish it. Put in more everyday language, it is easier to make enemies than it is to make friends. Suppose you and I are both Americans. Ideally one would hope that this commonality we share would be enough for us to establish bonding relationships with each other. Alas, however, our citizenship in the same country is by itself no guarantee that you will like me or that I will like you. One person might be more willing to "give the other guy a chance" than the other person (and, if so, it is because he has formed practical maxims governing this willingness). But even when this is the case, it often does not seem to require very much of a disappointment of expectations to steer a developing relationship toward an antibonding association even if neither person intended for it to be this sort of relationship.

Actual events gainsaying anticipation constitute disturbances to an individual's equilibrium. One frequent way in which even young children deal with situations of this sort is to stereotype the other person as a "bad guy." Rapport and friendship require significant effort on the parts of both persons to establish because these relationships require construction not only of specific concepts of the relationship but typically may also require construction of new practical rules of obligation. As I mentioned earlier in this treatise, the older one gets the more conservative one naturally becomes about making accommodations to the manifold of rules.

Most people, it seems, develop maxims of mistrustfulness at an early age. One sees symptoms of this in very young children who, in the presence of an adult who is a stranger to them, will take shelter behind or cling to the leg of a parent when an adult stranger looks at them. People often say the child is "shy," but shyness is a form of mistrust, either in others or in one's self confidence in his own ability to deal with a social situation. Of course, children also develop maxims of trustfulness and with many children these maxims can even come to dominate those of mistrustfulness. This is especially the case when a child has had no previous traumatic experiences with others. The point I wish to make here is that antibonding associations involve type- α compensation behavior (the same kind of compensation that promotes ignorance) [Piaget (1975), pp. 55-60]. This type of compensation behavior is often the most expeditious means of satisficing by which disturbances to equilibrium can be negated in the motivational dynamic. All human beings are satisficers and therefore it is to be expected that antibonding associations are more quickly and easily established than are bonding associations.

Finally in connection with figure 4, mention must be made of an asymmetric association form in which one of the two people establishes maxims of bonding association with the other but the other person establishes either maxims of antibonding or non-bonding association. One example of this occurs in scams or confidence games wherein one person's intentions toward the other are in some way predatory. This is an association in a state-of-nature relationship with the special peculiarity that either Person 2 is attempting to dupe Person 1 or else Person 1 is simply ignoring Person 2's operationalizations by which Person 2's evoking message is one rebuffing Person 1's friendly overtures. Change the green connection running from Person 2 to Person 1 in figure 4B to a red connection and you have a diagram of this antisymmetric form of association.

The second experiential basis of stereotyping can properly be called *vicarious* experience. What I mean by this is the formation of tenets and maxims a person forms by means of such venues as hearing or reading stories, watching television shows, and other things of this sort.

Creative fiction is written around fictional characters but for a work of creative fiction to be accepted by its target audience, the characters depicted in it must be in some way relatable by the person reading, seeing or hearing the story. To use a metaphor, it must "carry you with it." It might be a fantasy (e.g., *Little Red Riding Hood*), but it must provide enough simile or metaphor for a person to "relate to it." I think it likely there isn't an American child who has not formed concepts of "good guys and bad guys" before he starts kindergarten from hearing stories, watching TV, etc. The "wolf in sheep's clothing" idiom from the New Testament [Matthew 7: 15] is used in one form or another in so many children's stories and fables it might be called a prototype for childish "bad guy" concepts. The Little Red Hen in the children's story by that name is an image of "Mommy." The characters Major, Snowball, and Napoleon in Orwell's *Animal Farm* are images of Marx, Trotsky, and Stalin, respectively. The character August Rush in the movie by that name is an image of Dickens' *Oliver Twist*. Similarly, its Arthur and Wizard characters are images of Dickens' Artful Dodger and Fagin characters, respectively.

All works of fiction are fantasies but with those of quality the demarcation between fantasy and actuality is thin and easily traversed by its audience. It is this quality of creative fiction that makes concepts of vicarious experience expedient substitutes for actual experiences a person lacks when facing new circumstances and situations. I think it likely is obvious enough that all fictional characters are already stereotypes and empower development of additional stereotype expositions (e.g., Napoleon↔Stalin, Wizard↔Fagin, Little Red Hen↔Mommy, etc.). In her advice to aspiring writers, Ziegler wrote,

The character in a story has these three things – a physical body, an inner consciousness, and a time and place. As a human being he has them *in total*. In total, however, he is no more than a case history for a sociologist or a psychologist or a historian. And this is where the artistry of the writer makes its entrance. This is the pleasure and the fun of the writer – to select from these three elements and to create from the person's chaotic world some meaningful unity. From the person's physical attributes, inner life, and external life, he must select those characteristics that contribute to a story and illuminate a theme. [Ziegler (1968), pg. 60]

The meaningful unity of which Ziegler speaks is the basis of understanding by means of vicarious experience. Art imitates life and then life imitates art.

The fact that the nature of a society is a mathematical nature is what gives rise to paradoxes of thinking such as I have tried to illustrate in the earlier examples. It is why it is possible for any particular person to hold himself to be in some sort of bonding association with another person *in some contexts* yet also to hold himself to be in some sort of antibonding association with that same person *in other contexts*. It is this in the nature of social bonding that makes granulation of societies and Societies possible. It follows from this that if the members of any association wish to *preserve* their association, their institutions must take into account the sources of bonding and antibonding associations. The former constitute social forces that hold their Society together while the latter constitute social forces that tear it apart. It is here where we find *interests* in the role of fundamental factors in bonding and antibonding associations.

§ 3. Interests I: Internal Aspects

Interest, again, is anticipation of a satisfaction or dissatisfaction combined with a representation of the *Existenz* of some object of desire. Two people are said to have congruent interests if and only if a satisfaction of interest by one of them does not necessarily prevent the satisfaction of interest by the other. Most interests of most people are congruent most of the time because for any person the vast majority of other people are strangers to him with whom he never interacts and whose actions have neither immediate nor mediate effects on him and his activities.

Only a relatively smaller set of pairs of interests held by diverse people are such that actions by one person have a frustration effect on another person in regard to satisfying his own interests. However, these pairs of possibly incongruent interests are those which are of primary significance in commercial associations. Perhaps the most immediate and obvious situation in which possibly incongruent interests can arise is found in the most elementary transaction in economics, namely, the commercial transaction between a buyer and a seller. Suppose I have something to sell that you wish to buy. I would tend to feel that the more I can get from you in exchange for it, the more satisfying the trade will be. You, presumably, would tend to feel that the less you have to give for it, the more satisfying the trade will be. I have an interest in selling it for as high a price as I can get, you have an interest in buying it for the lowest price you can get. Potentially, then, our individual interests could clearly be incongruent with each other.

But it is equally clear that commercial exchanges happen all the time and so a mere *possibility* of incongruent interests in no way implicates any *necessity* for the interests to be incongruent. An anticipation of satisfaction is an affective representation, not an objective one. It is an error to equate an interest with any *object-of-interest*. An object-of-interest is merely an instantiation *in concreto* of a means of satisfying an interest; it is not the interest *per se*. There are almost always many different conditions or circumstances by which two people can transact with each other so that both individuals satisfy their separate interests by means of the same transaction.

For example, a few years ago I owned a thirty-year-old pickup truck I wanted to sell. The truck needed some engine repair work to get it running again and I had neither the time nor the inclination to get it fixed. I had decided that if I could get \$300 for it, that would be enough to satisfy me. If I could get the buyer to tow it away, that would be even better. I'd been intending to place an ad in the newspaper but hadn't gotten around to doing that when one day a man driving by my house happened to see the truck parked in my garage. He was a hobbyist of sorts who had a liking for trucks of that make and enjoyed fixing them up and getting them to run, so he stopped and asked me if I'd be interested in selling it to him. I said I would. He asked, "How much do you want for it?" I replied, "Make me an offer." I was expecting we'd dicker over the price a bit, but his first offer was for \$500. I immediately said, "Sold." We closed the deal on the spot, both of us quite happy with it, and he came by again a couple hours later and towed the truck away.

The point of this story is that sellers generally do not seek "as high a price as possible" and buyers generally do not seek "as low a price as possible." They each seek a price each finds satisfactory. People are *satisficing* problem solvers and decision makers, and it is this satisficing nature of human behavior that makes commerce work. I don't know how much the man would have been willing to pay for my truck, although my guess is it was likely to be more than \$500. Obviously he did not know I was willing to sell it for \$300. All that mattered to either of us is that for \$500 he got the truck and I got rid of it. I thought it was a good deal and, obviously, so did he.

There are many people who would say both of us were naïve traders and that a more "optimum" transaction not only could have but should have been negotiated. Optimization, however, is a process by which an object (in the case of this example, the object is a transaction) is perfected by minimizing the intensive magnitude of the difference between some *measure* of perfection in comparison with some *standard* of perfection. Until one determines what a standard of perfection is to be, it is meaningless to speak of an "optimum" transaction. This determination is always determined according to *subjective* criteria of what is to constitute "perfection" in any given case. Business school professors who speak of "optimum" price-setting do so assuming a particular hypothesis of microeconomic theory; namely, "profit maximization." This is only one possible criterion and it is a *mathematical* criterion at that. In practice, markup conventions govern most business transactions in the United States⁵. When was the last time you dickered

⁵ In many other countries conventions are different and dickering over price is a social convention.

over the price of a can of peaches at the supermarket or a watermelon at a roadside produce stand? Retail businesses often negotiate price and markup guidelines with their suppliers.

In point of fact, many seemingly-solid theories of "optimality" in economics, engineering, and other fields are presented as something they are not – namely, *universally* optimum in the context of real world situations and circumstances. "Profit maximization" is one such theory. The 1950s was the golden age of mathematical systems theory in engineering, and the design of "optimum systems" was a much discussed subject. Many of the conclusions and methods drawn up at that time are still deeply embedded in engineering systems theory today. But this is, in most ways, a mathematical illusion. Lofti Zadeh, the father of modern "fuzzy systems theory," wrote in 1958,

Today we tend, perhaps, to make a fetish of optimality. If a system is not "best" in one sense or another we do not feel satisfied. Indeed, we are apt to place too much confidence in a system that is, in effect, optimal by definition. [Zadeh (1958)]

My point here is that "optimality" is a strictly mathematical concept that always and only finds its connection to the real world through *subjective* judgments of *interests*. When optimization criteria are expressed mathematically, what one has is the expression of a *definition* of an object-of-interest suitable for a purpose of *someone* in some specific *context*, nothing more and nothing less. That is what Zadeh meant by "optimal by definition." It is an epistemological blunder to assign *any* ontological significance to "optimality," much less reify the term. It turned out Zadeh was right even though it took the engineering community three decades to concede that he was right. Such is the danger of mistaking "mathematical reality" for reality-in-sensible-Nature. When you tell me a criterion of optimality, what you are telling me is something about *your interests*. They might or might not be *my* interests. Economists would do well to bear this more in mind and guard against allowing their practices to presume an empty mathematical Platonism.

Interests that bring the most to bear on the institution of civic free enterprise are anticipations of satisfactions or dissatisfaction involving practical maxims that stand under obligations. Most of these obligations are obligations-to-self. A key challenge for institution of civic free enterprise is the challenge of getting people to establish, from this basis, derivative mutual obligations and concepts of reciprocal Duties. Furthermore, it is a challenge that has to be met in the face of natural human tendencies to understand situations and circumstances by means of stereotypes.

Common interests are the basis of Communities and stable Societies. A common interest is a set of congruent mini-Community interests shared by two or more mini-Communities. It is an oft observable empirical fact that as a population increases in number, its people have fewer common interests. Specific mini-Communities within any Society tend to have special interests peculiar to their mini-Community. A special interest is a set of congruent mini-Community interests not shared in common by another mini-Community. The phenomenon of mini-Community is perhaps the greatest challenge that faces any Society and its Institutes. Generally, the number of special interests found in any Society is much larger than the number of common interests binding that Society together. This pertains as much to industrial conglomerates as it does to political nations. Conflicts of special interests lead to conflicts within the organization. Because these conflicts often touch upon divers *moral* imperatives its members have constructed as part of individual moral codes the members have each individually constructed, conflicts of special interests can easily become internecine, provoking formations of factions and Toynbee proletariats within the organization whose conflicts ultimately lead to tearing apart the organization itself. When this happens, stereotyping usually worsens the internecine character of internal conflicts and competitions among factions. It follows that one of the principal purposes to be met by institution design is the purpose of instituting a system of Institute governance capable of guiding an organization's leadership dynamic in a direction whereby contradiction-of-interests is transformed into merely *contrary* but nonetheless *congruent* special interests.

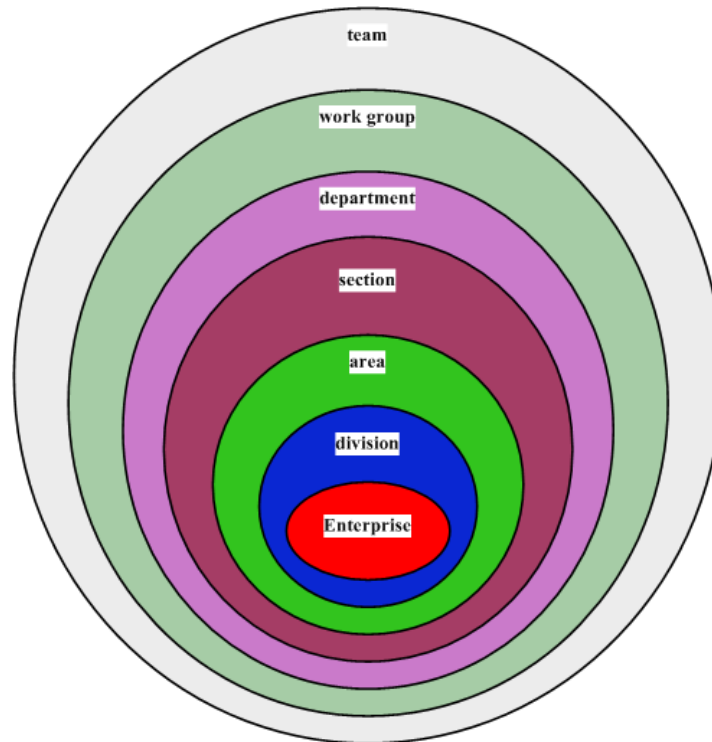


Figure 5: Overlapping common interests in an industrial conglomerate as a function of its constituent sub-organizations. The labels in the figure are fairly popular labels used in the lexicon of corporate description. The sizes of the different areas qualitatively indicate relative numbers of specific interests. Thus, the set of common interests for an Enterprise is much smaller than the sets of interests held by its divers teams.

In any industrial conglomerate capable of enduring and achieving Progress over a prolonged duration of time, there must be some overlap of common interests upon which its organization can be built. In general, the number of such common interests **decreases** as the population size of the conglomerate **increases**. This overlap of common interests is illustrated by figure 5. In figure 5, the area of the various overlaps qualitatively indicates relative numbers of congruent common interests that exist within the conglomerate at that level of organization.

One of the things essential to the success of any organization is that there be some core set of interests common to *everyone* at *every* level of organization and department. This is a *principle*, not an idealistic platitude. Continuity in expectations of authority throughout a conglomerate depends on it. It is an essential aliment of leadership dynamics in a company. An organization is dependent upon the productive cooperations of its members, and without a core set of common interests, recognized and understood by all the members, there is no basis in human nature for its members to accommodate their duties-to-self in such a way that cooperations come to be held as *sustained and enlightened* self-interests. Here we have a principle implicit in politics, commerce and economics. Mill wrote,

One of the strongest hindrances to improvement, up to a rather advanced stage, is an inveterate spirit of locality. Portions of mankind, in many other respects capable of and prepared for freedom, may be unqualified for amalgamating into even the smallest nation. Not only may jealousies and antipathies repel them from one another and bar all possibility of voluntary union, but they may not yet have acquired any of the **feelings or habits** which would make the union real, supposing it to be nominally accomplished. [Mill (1861), pg. 45] [The emphasis of "feelings and habits" is added by your author to call attention to the fact that reflective judgment and habitual behaviors are essential factors here.]

On the side of economics, Adam Smith wrote,

[Man] has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence alone. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind proposes to do this. 'Give me that which I want and you shall have this which you want' is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. [Smith (1776), pg. 17]

Under special conditions and short-lived circumstances, many things can be accomplished without enduring common interests. You and the clerk at Macy's need not be bonded in friendship in order to transact a shoe sale; your individual special interests are enough for this. But *enduring* success for any industrial conglomerate *cannot* be accomplished without core common interests.

To come down a bit from lofty generalizations and touch upon some specifics concerning *sources* of interests, let it be noted that common interests are at once abstract but also very personal. Monetary interests are *qualitatively* a part of this, but not a *dominant* part of it. David Packard, co-founder of the Hewlett-Packard Company, wrote,

Another requirement [for an organization to maximize its efficiency and success] is that a high degree of enthusiasm should be encouraged at all levels; in particular, the people in high management positions must not only be enthusiastic themselves, they must be able to engender enthusiasm among their associates. There can be no place for half-hearted interest or half-hearted effort.

From the beginning, Bill Hewlett and I have had a strong belief in people. We believe people *want* to do a good job and that it is important for them to enjoy their work at Hewlett-Packard. We try to make it possible for our people to feel a real sense of accomplishment in their work.

Closely coupled with this is our strong belief that individuals be treated with consideration and respect and that their achievements be recognized. . . . Each person in our company is important. In the highly technical fields in which we operate, little details often make the difference between a quality product and one that isn't as good. So what we've tried to do is engender among all our people the attitude that it is each individual's business to do the best job he or she can. . . .

The way an organization is structured affects individual motivation and performance. There are military-type organizations in which the person at the top issues an order and it is passed down the line until the person at the bottom does as he or she is told without question or reason. This is precisely the type of organization we at HP did not want . . . and do not want. We feel our objectives can best be achieved by people who understand and support them and who are allowed the flexibility in working toward common goals in ways that they help determine are best for their operation and their organization. [Packard (1995), pp. 126-128]

I think the times we live in necessitate making a couple of remarks about Packard's statements that "people *want* to do a good job" and "each person in our company is important" because both phrases are used today as empty propaganda clichés in many companies. Where they are so used the usage is on par with a politician who ends every speech with "and God bless America"; the sincerity of the speaker can be doubted.

The proposition that "people want to do a good job" was introduced into management theory

by McGregor and his famous "Theory Y" model of industrial psychology [McGregor (1960)]. Stating the proposition in such absolute terms as it usually is by Packard and others tends to hide an important subtlety: *it is the person doing the work who determines what "doing a good job" means to him*. When understood this way, the proposition is quite true. The determination of this judgment is, however, subjective and regulated in the same satisficing manner as everything else is in the motivational dynamic. Because the person's assessment is subjective, other people – *e.g.* that person's boss – might see things differently. Packard, of course, knew this. Of that I have no reasonable doubt⁶. When he speaks of management "making it possible for people to feel a real sense of accomplishment in their work," he is both obliquely acknowledging the viewpoint issue and offering a maxim of management, *viz.*, managers are to be held to an expectation that their leaders' actions must lead people to come to a common agreement about what it is that constitutes "doing a good job." All management actions at HP – or, at least, those of managers who others held to be "doing a good job" – were enacted from a presumption that people wanted to do a good job and that good management subsists in part in getting everyone to agree on what it is that constitutes "doing a good job." This presumption was as important to management at HP as the presumption of innocence is in the American legal system and it served a similar purpose.

As for his statement that "each person in our company is important," I think every ex-HP employee who knew Dave Packard would agree with me when I say Dave really meant what he said. There are numerous anecdotes told about him that support this [*c.f.* Malone (2007)] and, for myself, my own direct experiences leave me in no doubt about it at all. Therefore, while both of Packard's statements quoted above sound like common clichés often encountered today, in Packard's case they are not clichés and are to be taken as honest expressions earnestly meant.

In figure 5 the core set is the set of common interests at the Enterprise level. So long as this common interest set is present at every level of the organization, it does not matter if at any level there are also sets of interests special to the members at that level *provided these special interests do not contradict special interests elsewhere in the company*. It is a vital part of the task of an organization's management system to ensure that contradictory special interests that might arise are transformed into sets of congruent interests at each level and within each sub-organization. *Special interests cannot be suppressed*; trying to do so only drives them underground. They can only be *transformed* by means of appropriate leaders' actions. Failure to do so creates *factions* within the organization. Once factions take hold (which is to say the organization becomes granulated into them), their contradictory special interests can and will lead to internecine competitive *conflicts* within the organization. This is true for all human associations, be they economic-commercial associations, political associations or associations of any other kind. James Madison wrote,

By a faction I understand a number of citizens, whether amounting to a majority or a minority of the whole, who are united and actuated by some common impulse of passion or of interest adverse to the rights of other citizens, or to the permanent and aggregate interests of the community. . . . As long as the reason of man continues to be fallible, and he is at liberty to exercise it, different opinions will be formed. As long as the connections subsist between his reason and his self-love, his opinions and his passions will have a reciprocal influence on each other; and the former will be objects to which the latter will attach themselves. The diversity in the faculties of men, from which the rights of property originate, is not less an insuperable obstacle to a uniformity of interests. The protection of these faculties is the first object of government. From the protection of different and

⁶ Your author worked for the Hewlett-Packard Company from 1975 until 1993 and knew Dave Packard and Bill Hewlett before they retired. I don't base my appraisals about them on any sort of mind reading but rather on the bases of my direct experiences with interacting with them and on others' reports of their own direct experiences with them. HP embodied "the human side of Enterprise" long before McGregor's book.

unequal faculties of acquiring property the possession of different degrees and kinds of property immediately results; and from the influence of these on the sentiments and views of the respective proprietors ensues a division of society into different interests and parties.

The latent causes of faction are thus sown in the nature of man; and we see them everywhere brought into different degrees of activity according to the circumstances of civil society. A zeal for different opinions concerning religion, concerning government, and many other points, as well as of speculation as of practice; an attachment to different leaders ambitiously contending for preeminence and power; or to persons of other descriptions whose fortunes have been interesting to the human passions have, in turn, divided mankind into parties, inflamed them with mutual animosity, and rendered them much more disposed to vex and oppress each other, than to cooperate for their common good. So strong is this propensity of mankind, to fall into mutual animosities, that where no substantial occasion presents itself, the most frivolous and fanciful distinctions have been sufficient to kindle their unfriendly passions and excite their most violent conflicts. [Hamilton *et al.* (1787-8), no. 10, pp. 52-54]

Not-infrequently one hears numerous spokesmen for matters of business or politics speak today of "the principles that made America great." You might have noticed, though, that these spokesmen never clearly say what these principles are⁷. The Madison quote above *is* a statement of one of these founding principles of the Republic – a statement of social-natural science written by one of history's most eminent social-natural scientists.

Any system of management that fails in the task of guiding its organization's leadership dynamic in such a way that conflicting special interests are transformed into congruent special interests can properly be termed an *incompetent* system of management. The reason it can be properly judged this way is because the management system fails to satisfy the basic expectation of authority that underlies the justification for having a system of managerial governance in the first place. No person is ever hired to be a CEO as a reward for past deeds. That's what a gold watch and a retirement pension is for. Every position in a well-managed company is created for a sound business purpose serving the common interests or it should not be created at all.

The existence of legitimate special interests (legitimized by human nature) and the pervasive effects of stereotyping on people's understandings and behaviors combine to pose challenges that must be successfully met if an industrial conglomerate is to prosper and endure as an Enterprise. These challenges have deep implications for the organization of a company and its system of management. Among them are:

- issues of decentralization vs. centralization;
- issues of organizational heterarchy vs. organizational hierarchy;
- proper vs. improper use of hierarchy;
- goals-based management vs. Taylorism; and
- heterarchy vs. Taylorism in the management of an Enterprise.

Each of these is discussed in the following pages of this treatise.

What has been dealt with so far in this chapter pertains mainly to effects internal to industrial corporate dynamics. Equally important are the roles of interests and stereotyping in relationship

⁷ Most of these expressions of business or political spokesmen are in fact expressions of propaganda. By not telling you which principles they seem to be referring to, they hope you will mistake the proposition they are trying to sell you for one of America's founding principles. I do not doubt that in some cases these spokesmen are sincere in their belief; the American institution of public civics education is broken enough to make this sort of ignorance possible [Wells (2013)]. In other cases, the propaganda intends to deceive.

to interactions between an industrial conglomerate and its non-member stakeholders, between it and its business competitors, non-stakeholder information-supplier business entities (*e.g.* news media organizations, stock and bond analysts, brokers and brokerages, credit raters, *etc.*), and between it and the body politic of its parent Society. Let this be the segue into the next section.

§ 4. Interests II: External Aspects

By external interest aspects I mean aspects involving persons or corporate persons who are not members of an industrial conglomerate's association but who nonetheless have special interests pertaining to that industrial conglomerate. These people and commercial entities can be broadly classified into: (i) non-member stakeholders; (ii) business competitors; (iii) non-stakeholder business non-competitors who have or develop interests in using an industrial conglomerate as an aliment for their own commercial purposes; and (iv) the political association at large (body politic) of the parent Society in which the industrial conglomerate is embedded (table I).

Examples of the third class of interested external parties include print and broadcast news media, investment advisors and analysts, brokers and brokerages, and credit reporting agencies. These can all be regarded as suppliers of information (and, sometimes, misinformation) whose interests in the industrial conglomerate lie in using its mere existence as an aliment for the economic goods or services they sell. Interest holders in this classification roughly correspond, more or less, to what are sometimes called the "fourth estate" and "fifth estate" of a Society, a pair of vague abstract entities whose chief commonality is that they are non-governmental and non-religious associations. It is not uncommon for an industrial conglomerate to find itself having to react in some way to their actions. For example, if a newspaper prints a headline, ACME CO. POLLUTES LOCAL GROUNDWATER, ACME usually finds itself unwillingly embroiled in a public relations controversy with political and commercial consequences for its business operations.

Table I
Stakeholders in an industrial conglomerate

stakeholder mini-Society	member of the association?
proprietor capitalists (if any)	YES
non-proprietor shareholder capitalist entrepreneurs (if any)	YES
entrepreneurs in its Labor group	YES
creditors and lessors (includes retirees)	NO
suppliers	NO
customers	NO
government(s) of parent Society or Societies	NO

Non-stakeholders with interests: (i) business competitors; (ii) body politic of Society; (iii) business non-competitors (*e.g.*, information suppliers)

Stereotyping phenomena are typically different for external interest aspects than for internal interest aspects. For internal aspects there are mini-Community and mini-Society challenges arising from members of an industrial conglomerate making stereotypes *of other members*. These challenges can and do tend to lead to granulation of the industrial conglomerate and pose threats to its continuing *Existenz* if its management system cannot or does not meet the challenges.

For external aspects, the challenges arise from: (i) *non-members* making stereotypes of the industrial conglomerate as an overall abstract corporate entity; and (ii) *its members* making stereotypes of non-members subsumed within divers abstract mini-Societies. In contrast to the internal stereotyping aspect, external stereotyping tends to granulate *the parent Society* in which the industrial conglomerate is embedded. Under conditions of uncivic free enterprise, this granulating has a tendency to produce or promote state-of-nature relationships within the parent Society, which in turn pose threats to the continuing *Existenz* of that parent Society if that parent Society's government cannot or does not meet these challenges.

Stereotypes of industrial conglomerates are primarily models individuals construct of what can be called a "corporate personality" of the conglomerate being modeled. The objective validity of the idea of corporate personality was presented in theoretical detail in Wells (2014), chapters 4-5. This theory was there applied to the institution of public education but the theory is broader than this one application and applies to economics and to industrial conglomerates. Regardless of whether or not an association is an actual mini-Community (and therefore can validly be said to *have* any corporate personality at all), people will tend to stereotype it *as if* it did. A non-Community of this sort is called a *ghost Community*.

If the external entity does not actually have a definable corporate personality (because it is too thoroughly granulated into special interest mini-Communities), stereotyping it will often result in a stereotype that can be likened to a D-PIPOS model of a neurotic or even a psychotic person. This is because that association's observed behaviors will tend to exhibit manifestations that in a human being would likely be diagnosed as indicative of a dissociative identity disorder (formerly called a multiple personality disorder) [American Psychiatric Association (2000), pp. 526-529]. In this case, a stereotyper is likely to stereotype its association in terms of different and distinct mini-Community associations. For example, you might have a generally favorable opinion of your local Barnes & Noble book store (because of your personal interactions with people who work there) and, at the same time, have a generally negative and unfavorable opinion about that company's on-line book ordering and customer service operation. If so, it is not unlikely that you might regard your local book store as "good guys" but Barnes & Noble company *overall* in unflattering terms. Contrariwise, if your on-line experiences with Barnes & Noble have been generally positive but a sales clerk at the local store has been rude to you or you have had some unsatisfactory experiences at the local store, you might reverse your "good guy-bad guy" stereotypes accordingly. Either way, you are in effect stereotyping that company in terms of multiple corporate personalities.

It is also true that some individuals develop maxims of judgment such that after one or a few unsatisfying experiences with, say, the local book store, they judge the *entire* company negatively without discriminating between the local store and the on-line outlet. If this is the case then the stereotyper does not discriminate multiple corporate personalities in Barnes & Noble and, as the saying goes, paints all its people and operations with the same brush. Fair? No. Frequent? Yes.

Stereotypes are products of *subjective* judgments based on particular incidents. The hypothetical examples I have just given point to a challenge social-natural scientists must deal with; namely: Is it possible to formulate stereotypes of corporate personality *objectively* and, if so, how does one go about doing this? I'd be kidding you if I tried to tell you that reliable methods and techniques have already been developed for doing this. Indeed, I'd be misleading you if I left you

with the idea that any present consensus about even the *possibility* of accomplishing this exists. Social-natural science is still in its infancy and there is much still to be done. Perhaps it is obvious enough that your author holds it *is* possible to stereotype objectively. Would I be writing this treatise if I thought otherwise? I cannot claim to give a final methodology but I can offer a starting point. The starting point begins with the idea of common corporate interests.

The concept of corporate personality is a mathematical concept posited by analogy to concepts of human personality. The basis of corporate personality models lies in the customs, mores and folkways exhibited in the practices of the members of a corporate mini-Community [Wells (2014), chap. 4, pg. 88]. Now, in any Society the customs, mores and folkways practiced by its members reflect the normal common interests held by a dominant majority of its people. By "normal" common interests I mean those interests held widely enough by its people to establish causative bases for the constitution of those norms of behavior which are rules in their Society's normative structure⁸.

All commercial business entities can be reasonably assumed to have one interest in common. This is the *profit interest*. Profit in general is the income revenue in excess of costs received by an entrepreneur through his economic enterprise activity. Each entrepreneur engaged in an industrial conglomerate has his private profit interest, and those entrepreneurs who comprise its capitalist and management members generally recognize that if *any* members are to profit from their work then their association *overall* must realize a profit income because all individual profits come from the association's general pool of profits⁹.

It is not necessarily the case that *maximizing* profit is an interest for an industrial conglomerate although, *ceteris paribus*, most people prefer to earn more profit rather than less. However, typically all else is *not* equal, people are satisficing decision makers, and "adequate" rather than "maximum" profit is the goal they set. For example, at the old Hewlett-Packard Company the company's profit objective was stated as, "We should attempt to achieve the maximum possible profit *consistent with our other objectives*." This is not "profit maximization" in the traditional connotation used by economists. That term implies that someone endeavors to carry out some sort of *optimization* activity and I know of no examples whatsoever of any company ever attempting to carry out any sort of global profit optimization activity. Rather, profit *improvement* activities are the norm (*e.g.* tactics such as so-called "Just in Time" inventory management). This is not the same thing as "profit maximization." Many so-called "investment advisors" and "financial advisors" regale their clients with sophisticated looking schemes for "maximizing" their returns on investment, and if you wish to lose money over the long haul then go ahead and try them.

There has been a long-running debate among economists over whether "profit maximization" or "satisficing" is the more accurate hypothesis to make. Lipsey & Steiner wrote,

Organization theorists have criticized the profit-maximizing model and suggested an alternative that they call *satisficing*. Professor Herbert Simon says, "We must expect the

⁸ Refer to the glossary for the technical explanations of the terms 'rule', 'norm' and 'normative structure'.

⁹ In the U.S. it is not usual for a wage laborer's compensation to be called his 'profit'. Nonetheless, revenue he receives over and above the costs he incurs in order to work at his job is his personal profit. Wage laborers do incur expenses they would not otherwise incur if they were not employed at their particular jobs. For example, if you work in the downtown area of a city and have to drive a car to get to work, you might incur parking costs. If you travel via commuter train to and from work, you incur the cost of train tickets. Your company might require you to pay part of the cost of any mandatory company insurance benefits. Some wage laborers are required to purchase and wear some sort of company uniform or provide their own hand tools. Not every wage laborer incurs personal costs to work at his job and, for those who do not, their entire wage revenue – minus taxes – is their profit. But many, perhaps most, wage laborers do incur costs to be subtracted from their wage revenue. What remains is their personal profit.

firm's goal to be not maximizing profits but attaining a certain level or rate of profit, holding a certain share of the market or a certain level of sales." According to this theory, firms will strive very hard to achieve certain *minimum* (or "target") levels of profits, but, having achieved them, they will not strive aggressively to improve their position further. This means that the firm could come to rest in a large number of situations rather than in only one unique situation (the profit-maximizing one). In the language of economic theory, we say that equilibrium is not unique.

The satisficing theory is potentially an important alternative to the profit-maximizing theory. . . . To test the satisficing theory, one must specify the "targets" of the firm. This has not been done carefully enough to permit us to specify the precise areas of conflict between satisficing and profit-maximizing theory. Until we know precisely what predictions the two theories are in conflict with each other, we do not know to what extent the theories differ, and thus we cannot test them to see which is more consistent. [Lipsey & Steiner (1969), pp. 368-369]

My comments on this are: that before one really can have a "profit maximizing theory" one must first have some model purporting to be able to *precisely* predict empirically how much profit a firm will make; that no such models have actually been discovered (because of numerous approximations economists must make); and that selecting any one *approximate* model over another is itself an exercise in satisficing decision-making. As I quoted him earlier, Zadeh said, "we are apt to place too much confidence in a system that is, in effect, optimal *by definition*." From an epistemological perspective of social-natural science, the debate is over a moot point.

The profit interest can be assumed to be a common interest insofar as commercial entities are concerned. It cannot be so assumed for three other important categories: customers, government, and the body politic of the parent Society. Every business entity, whether it is an industrial conglomerate or a non-employer capitalist enterprise, finds itself situated in an economic macro-Molecule of commercial interrelationships. This is illustrated by figure 6. This macro-Molecule is

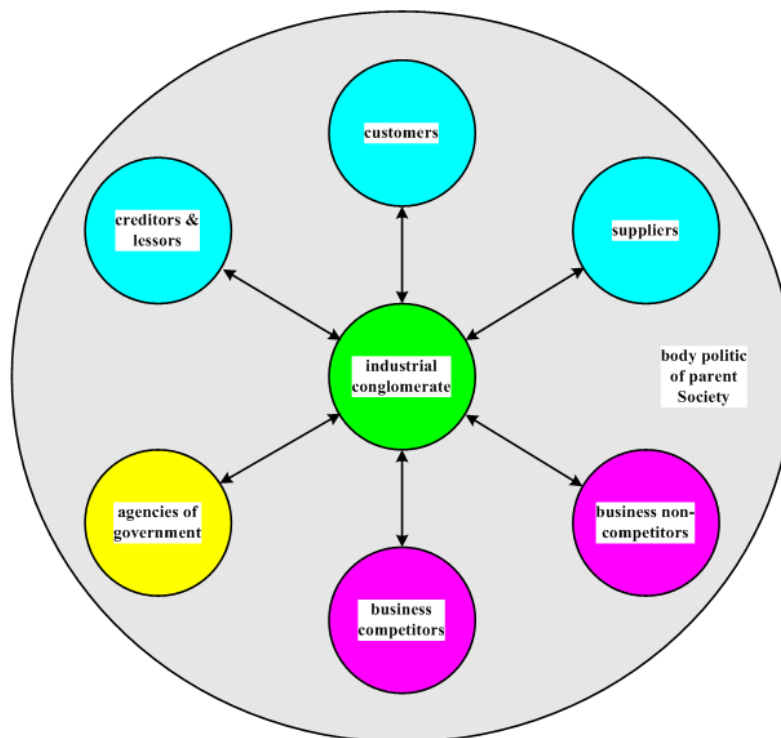


Figure 6: Economic macro-Molecule of an industrial conglomerate and its business interrelationships.

a general business environment context in which diverse external stakeholder and non-stakeholder interests operate. Relationships between an industrial conglomerate and six external categories of interested associations are more or less immediate in the sense that actions taken by these external mini-Societies and associations have immediate or nearly-immediate effects on the industrial conglomerate in the center of the figure and, likewise, its actions have effects on them that are immediate or near-immediate. This reciprocity of effects is indicated by the arrow connections in the figure. The body politic of the parent Society, on the other hand, is affected by and affects the industrial conglomerate much more remotely and as a socio-political-economic field effect. For example, Watson of IBM wrote,

Because they feel so vulnerable in the highly organized economic activity of today, most Americans insist that free enterprise so operate as to guarantee their right to such things as a job, a fair wage, humane working conditions, and old-age security. And when they feel that free enterprise comes into conflict with these wants, they line up solidly in defense of them. But this does not mean they have lost their faith in free enterprise. It simply means that they believe free enterprise must operate in a way that is reasonably compatible with these requirements. . . .

Self-reliance cannot always provide an answer to every need, especially in a society as big as ours where people can get caught up in forces over which they have little personal control. Thrift is a necessary virtue, but there are times when even thrift does not make it possible for the ordinary family to cope with extraordinary problems.

Programs which assist Americans by reducing the hazards of a free market system without damaging the system itself are necessary, I believe, to its survival. If large numbers of people are made to feel that they're entirely at the mercy of that system or that they will be abandoned every time it undergoes one of its periodic adjustments, they can be expected to have less enthusiasm for the system than it deserves. . . .

To be sure, the rights and guarantees that the average man believes in and insists upon may interfere, to some degree, with our ability to manage our enterprises with complete freedom of action. As a result, there are some businessmen who either ignore or deny these claims. They then justify their views by contending that if we were to recognize or grant them, the whole system of free enterprise would be endangered.

This, it would seem to me, amounts to an open invitation to exactly the kind of government intervention that businessmen are seeking to avoid. For if we businessmen insist that free enterprise permits us to be indifferent to those things on which people put high value, then the people will quite naturally assume that free enterprise has too much freedom. And since the people have voting power, they will move against free enterprise to curtail it in their own interests. They do this, however, not because they are opposed to free enterprise, but to obtain and, in some cases, protect the rights they believe themselves entitled to under a free enterprise system. . . .

What we must always remember is that countries and systems exist for the benefit of their people. If a system does not measure up to the growing expectations of those people, they will move to modify or change it. To keep faith in our business system and to help build our country, the best thing we can do is to make our system work so that everyone shares fairly in it. We won't build good citizenship and we won't build a strong country by holding people back. We will build by helping people to enlarge their goals and to achieve them. [Watson (1963), pp. 87-94]

I don't think it requires a great deal of imagination to appreciate how complex this commercial environment really is in ways that have non-negligible effects on an industrial conglomerate. One big issue with most microeconomic models and, so far as I can tell, all business schools and MBA degree programs is that they neither recognize nor teach learners about this complexity. What I am saying is that the models they typically present are entirely too simpleminded for the science.

Even in the cases in which stakeholder and non-stakeholder external mini-Communities have a profit interest, their profit interests are not the same as the profit interest of the industrial conglomerate in figure 6. They are interested in *their own* profits; they are not necessarily interested in the industrial conglomerate's profits. There are three possibilities this situation presents. The third, and simplest, is that the external mini-Community does not care if the conglomerate makes or does not make a profit. In social-chemistry terminology, they are unbonded with the industrial conglomerate insofar as profit interests are concerned. The industrial conglomerate and the external mini-Community entity are, metaphorically, merely ships that pass in the night. It is the other two cases that pertain to bonding and antibonding relationships in the parent Society.

First, it is possible an external entity might see their own profit interest as congruent with and perhaps even partially dependent upon that of the industrial conglomerate in figure 6, and from this conclude it is in their own interest that the industrial conglomerate satisfy *its* profit interest. From considerations like this come business working partnerships between independent firms to the benefit of each. For example, if a firm comes to recognize that a particular supplier provides them with high quality parts with a good record for timely delivery at reasonable prices, that firm might develop an interest recognizing that success and prosperity for *that* specific supplier translates into their own success and prosperity. They might then translate this *self*-interest into policies designed to benefit that supplier. For example, during the years I worked in the Hewlett-Packard Company, we put a considerable effort into developing our chain of suppliers. As part of this, we had a policy of not becoming too large a fraction of our suppliers' businesses because we did not want any unfortunate economic downturns in *our* business to threaten the economic viability of our suppliers. We wanted them to still be there for us when our business conditions improved. Furthermore, we did not necessarily buy from the lowest-priced supplier but, rather, from suppliers we thought we could always count on to help us succeed. On the whole, it was an enormously successful business policy but not-typical of how most corporations behave.

It is also true that this first case sometimes leads to the formation of cartels and tacit "understandings" that run afoul of the intent of antitrust laws¹⁰. This lies on the uncivic side of profit interests. Cartels and conspiracies in restraint of trade are possible implications of Grossberg's theorem of 'cooperation arising from competition' [Grossberg (1978; 1980)]. The use of annual "market mean" statistics on wages and salaries for the purpose of setting wage and salary scales is another example and one found practiced throughout nearly all industries. As Smith said, "Masters are always and everywhere in a sort of tacit but constant and uniform combination not to raise the wages of labor above their actual rate" [Smith (1776), pg. 59].

Second, it is possible that the managers and decision-makers of an external entity might think their own profit interest and that of the industrial conglomerate contradict each other. This is the sort of thinking one finds with people who have a "zero sum game" view of business. In such a case, these people tend to think the less profit the industrial conglomerate in figure 6 makes, the more successfully their own profit interest is served. Predatory lending practices fall into this category of viewpoint. Price wars are another manifestation, the usual thinking being that once enough competitors have been driven out the business, the greater the subsequent profits for the survivors will be. Curiously under-weighted in that kind of thinking is the concept that when you start a price war there is no guarantee *you* will be one of those survivors. You would be well-served to keep in mind something one of Czar Nicholas' officers said: "War spoils the armies."

Institutors of the organizational and managerial structures of any industrial conglomerate are

¹⁰ *Black's Law Dictionary* defines "antitrust law" as "the body of law designed to protect trade and commerce from restraints, monopolies, price-fixing, and price discrimination." In the United States the principal federal antitrust laws are the Sherman Act (15 USCA §§ 1-7) and the Clayton Act (15 USCA §§ 12-27) [Garner (2011)].

well advised to take into account the macro-Molecule model of figure 6. A key part of accounting for this is analysis of the special interests of the external entities depicted in it insofar as these special interests have or potentially could have effects on local and remote relationships between the industrial conglomerate and the other denizens of its commercial-social-political environment. Typically, of course, a planner does not know what another entity's special interests all might be. Furthermore, a posited possible special interest can be either a potential opportunity *or* a potential threat to the industrial conglomerate's interests. A prudent structure design for an Enterprise must be planned to *both* be able to benefit if a potential opportunity becomes actual and to be able to protect itself if a potential threat becomes an actual threat. That this is not an easy task is, I think, likely quite obvious to you. My own observations over the years have led me to conclude that external interest analysis is a necessary management function for an Enterprise. There were many occasions in my management career where such analysis proved to be vital to the well-being of the operations for which I was managerially responsible. There were also occasions where a lack of it proved to be a serious error on my part. All actions are actions taken in the particular, and this means that external interest analysis is principally a case-by-case analysis carried out within a general context, *viz.* the context of figure 6.

§ 5. External Interest Analysis

All external interest analyses are necessarily based on stereotype models of the organizations and people being analyzed. Although it is never trivial, at some level of abstraction it is not too especially difficult to analyze what people's or organizations' interests *likely* are within the context of a commercial environment and given their behaviors. However, bear in mind there is a big difference between what a person's interest *ought* to be and what it *actually* is. Mill wrote,

When we talk of the interest of a body of men, or even of an individual man, as a principle determining their actions, the question what would be considered their interest by an unprejudiced observer is one of the least important parts of the whole matter. As Coleridge observes, the man makes the motive, not the motive the man. What it is the man's interest to do or refrain from depends less on any outward circumstances than upon the sort of man he is. If you wish to know what is practically a man's interest, you must know the cast of his habitual feelings and thoughts. Everybody has two kinds of interests, interests which he cares for and interests which he does not care for¹¹. Everybody has selfish and unselfish interests, and a selfish man has cultivated the habit of caring for the former and not caring for the latter. Every man has present and distant interests, and the improvident man is he who cares for the present interests and does not care for the distant. It matters little that on any correct calculation the latter may be the more considerable if the habits of his mind lead him to fix his thoughts and wishes solely on the former. [Mill (1861), pg. 71]

Mill's remark can be used to emphasize the role of stereotyping in external interest analysis. To say, "to know what is practically a man's interest means knowing the cast of his habitual feelings and thoughts" more or less equates this task to mind reading. One can only make a best guess at it based on what the person has done in similar circumstances in the past, and to make such a guess is to make a *model* of how that person thinks and behaves – and this is stereotyping.

¹¹ An interest is an anticipation of a satisfaction or dissatisfaction combined with a representation of the *Existenz* of some object of desire. The epistemologically correct way to understand Mill's meaning here is this: *to care for* an interest means to take actions so as to attempt to make the anticipated object of desire actual; *to not care for* an interest means to take no action to attempt to make the anticipated object of desire actual. One can anticipate a satisfaction or dissatisfaction without actually doing anything to realize the fulfillment of a satisfaction or prevent the fulfillment of a dissatisfaction. It might seem like "not caring for an interest" is the same thing as "not really being interested" but such an equation is self-contradictory.

For decisions made on the basis of such a model to be reliable, the model itself must also be reliable. Obviously, the fewer the number of interactions with the person being modeled, the less reliable-in-detail the model must be.

This *stereotyping function* is best regarded as an extension of a well-known concept in business known as the *marketing function*. The extension comes from expanding the scope of the function from application only to customers to application to all the other external entities shown in figure 6. Corey provided some remarks about the marketing function that can be generalized more or less easily in order to understand the stereotyping function:

In speaking of the *marketing function*, I refer to a dimension of management for which the whole business must take responsibility. It is not the preserve of the sales or marketing *department* alone. Especially in industrial goods companies the work of all the basic business departments – R&D, engineering, manufacturing, procurement, finance, sales – must, of necessity, be integrated in serving the interests of the customer. . . . *Marketing, then, should be perceived as that function which relates the organization creatively and profitably to its customer environment* and which is shared by all managers. [Corey (1976), pp. xi-xii]

One does not typically speak of "serving the interests of the supplier" or any of the other non-customer entities in figure 6, but one can speak of *supporting* – or, at the least, not contradicting – their interests provided one has some level of understanding of what these interests might be. It is to gain this understanding to which interest analysis pertains.

For example, a corporate customer to whom an Enterprise sells its product as a component of the former's product design might have a highly developed fear of lawsuits that might stem from a failure of one of their products in the field. One possible manifestation of that fear could be an atypically intense concern over the reliability of the Enterprise's product. If so, responding to that company's insinuations relating to product reliability is really responding to something in the "corporate psyche" of that customer. If the Enterprise's responses are ones that satisfy this "customer psyche," whether directly or indirectly, that customer is more likely than not to come to have a great deal of trust and regard for the Enterprise and to develop a strong brand loyalty.

Are such situations commonplace in the commercial world? I can tell you that when I was a product development manager working in the OEM sector ("original equipment manufacturer"), I had to deal with a number of important customers whose interests included precisely this sort of thing. Indeed, one of our largest and most important new customers for the product my team was developing exhibited a concern for reliability so extreme that it almost bordered on paranoia. When we satisfied their interest, we became one of their most valued suppliers and benefited from this in ways that went beyond the particular product I was managing. When the European Union legislated what was known as "the ISO 9000 standard," their institution of this standard reflected this sort of interest. I was a factory manager at the time and ISO 9000 quickly became an important fact of life for us. Rather than introducing severe down-the-road problems for ourselves by resisting it, we turned it into a competitive advantage for our company by quickly embracing it and complying with it in both its spirit and its letter-of-the-law.

The external entities of figure 6 do not do things randomly or out of whim. Every behavior they exhibit reflects some corporate interest. Empirically it appears to be the case, more often than not, that they will not express to you what those underlying interests are. It appears to be most often the case that they will have settled on some idea of how to satisfy their interests and what *you* will be presented with are demands for what they *think* are solutions that will satisfy their interests. Sometimes these "solutions" will actually be only pseudo-solutions. If what they demand of you runs contrary to some self interest of your Enterprise, the most effective way to resolve this is not to argue about what they are demanding you do but to, rather, analyze and

understand what *interest* of theirs is the causative basis for why they are making the demands they are making, then come up with counterproposals that address their *interest*. Typically they will become more open to compromise solutions that serve *both* your and their interests.

There is no fundamental reason why interest analysis cannot be turned into a social-natural science. The situation today, though, is that it is not. Some managers do analyses of this sort on an *ad hoc* basis out of their own personal experience – usually without being conscious that this is what they are doing. Others don't do it at all – and this not-infrequently leads them into making stereotypes of the external entity that create rather than solve problems. However aesthetically pleasurable it might be to dismiss an external entity's concerns with a "those guys are crazy" indictment, at the end of the day that rarely feeds the bulldog. Usually it leads to "crazier" behaviors that then also have to be dealt with (provided it doesn't lead to outright rupturing of the relationship altogether). It perpetuates and amplifies the challenges instead of meeting them.

This is by way of saying that at present there are some interest analysis *craftsmen* – who are often unsung heroes within their own companies – but no interest analysis *scientists*. Here is an untapped opportunity for advancing the art of organization theory and helping to change it from an abstract and internally focused pseudo-theory into a practical organization science.

§ 6. References

- American Psychiatric Association (2000), *Diagnostic and Statistical Manual of Mental Disorders*, 4th ed., Text Revision *DSM-IV-TR*, Arlington, VA: the American Psychiatric Association.
- Chomsky, Noam (1964), *Current Issues in Linguistic Theory*, The Hague: Mouton & Co., 1975.
- Corey, E. Raymond (1976), *Industrial Marketing*, 2nd ed., Englewood Cliffs, NJ: Prentice-Hall.
- Garner, Bryan A. (2011), *Black's Law Dictionary*, 4th pocket edition, St. Paul, MN: Thomson Reuters.
- Grossberg, Stephen (1969), "Embedding fields: A theory of learning with physiological implications," *Journal of Mathematical Psychology*, **6**, 209-239.
- Grossberg, Stephen (1971), "Embedding fields: Underlying philosophy, mathematics, and applications to psychology, physiology, and anatomy," *Journal of Cybernetics*, vol. 1, pp. 28-50.
- Grossberg, Stephen (1978), "Competition, decision, and consensus," *Journal of Mathematical Analysis and Applications*, **66** (1978), 470-493.
- Grossberg, Stephen (1980), "Biological competition: Decision rules, pattern formation, and oscillations," *Proceedings of the National Academy of Science*, **77** (1980), 2338-2342.
- Hamilton, Alexander, James Madison and John Jay (1787-8), *The Federalist*, NY: Barnes & Nobel Classics, 2006.
- Leavitt, Harold J. (1972), *Managerial Psychology*, 3rd ed., Chicago, IL: The University of Chicago Press.
- Lipsey, Richard G. and Peter O. Steiner (1969), *Economics*, 2nd ed., NY: Harper & Row.
- Maccoby, Michael (1976), *The Gamesman*, NY: Simon & Schuster.
- Malone, Michael (2007), *Bill & Dave*, NY: Penguin Group (USA).
- McGregor, Douglas (1960), *The Human Side of Enterprise*, NY: McGraw-Hill.

- Mill, John Stuart (1861), *Representative Government*, Whitefish, MT: Kessinger Publications reprint. No date given.
- Packard, David (1995), *The HP Way: How Bill Hewlett and I Built Our Company*, NY: HarperCollins Publishers.
- Piaget, Jean (1975), *The Equilibration of Cognitive Structures*, Terrance Brown & Kishore Julian Thampty (trs.), Chicago, IL: The University of Chicago Press, 1985.
- Smith, Adam (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, NY: Everyman's Library, 1991.
- Watson, Thomas J., Jr. (1963), *A Business and Its Beliefs: The Ideas That Helped Build IBM*, NY, McGraw-Hill, 2003.
- Wells, Richard B. (2009), *The Principles of Mental Physics*, available free of charge from the author's web site.
- Wells, Richard B. (2012), *The Idea of the Social Contract*, available free of charge from the author's web site.
- Wells, Richard B. (2013), *Critique of the American Institution of Education*, vol. II of *The Idea of Public Education*, available free of charge from the author's web site.
- Wells, Richard B. (2014), *The Institution of Public Education*, vol. III of *The Idea of Public Education*, available free of charge from the author's web site.
- Zadeh, Lofti (1958), "What is optimal?" *IRE Transactions on Information Theory*, vol. 4, no. 1, 1958, pg. 3.
- Ziegler, Isabelle (1968), *Creative Writing*, NY: Barnes & Nobel, Inc.