THE COGNITIVE SIDE OF GOVERNANCE

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ABSTRACT

In this chapter, governance in organizations is seen primarily as the governance of motivation of employees. It is argued that motivation is steered by cognitive frames (goal driven definitions of the situation), so that governance in organizations should focus mainly on the establishment and maintenance of frames. The chapter discusses how this may be done and how this cognitive approach to governance can be seen as an integration of transaction cost economics and the organizational behavior approach.

INTRODUCTION

The term "governance" in organization studies is usually applied to contractual relations in and between organizations. Transaction cost economics has strongly influenced our understanding of governance in this sense. "Good cooperation" is seen as a transaction with low transaction costs. The relevant *independent* variables are factors that potentially affect transaction costs (such as asset specificity and uncertainty) and/or boost concern over contractual performance (such as volume of the transaction, lack of alternative partners, and lack of past experience with the particular partner), and/or influence sanctions against breach (such as recourse to courts, reputation, networks). The *dependent* variables are amount and kind

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of measures taken by the parties to reduce transaction costs (such as extra care in finding a contractual partner, kind of contract, extra clauses in the contract, specific hostages, and, inside organizations, such "private orderings" as internal labor markets, etc.). This approach has been applied both to transactions between and within organizations.

The inside of organizations is also studied by a different approach, one concerned with performance rather than with contracts: the organizational behavior approach. Good "cooperation" in this approach is understood in terms of satisfaction of the various parties in organizations. The major dependent variable is performance of employees. The *independent variables* are factors that influence performance (such as perceptual distortions, wrong attitudes, leadership style, role pressure, miscommunication, group conflict, lack of fairness). Of particular importance is the use of research on performance for devising means to increase performance (such as adapting reward and evaluation schemes; improving decision making, ways of communication, and leadership style; redesigning work and the division of labor).

The advantage of the transaction costs approach is its theoretical unity and high tractability.[1] A few assumptions go a long way. Its disadvantage is that many aspects presumably important inside organizations are not considered. The converse applies to the organizational behavior approach. It is very rich in the aspects that are being considered but it is theoretically eclectic and not well tractable. Given the complementarity of advantages and disadvantages, it is not surprising that there have been efforts to combine or link the approaches in some way. For example, Baron and Kreps wrote a book on "Strategic Human Resources" (1999). They observed that

> we initially expected that 'the Economic way of thinking' and the 'Organizational Behavior way of thinking' would be substitutes for one another . . . We've found instead that the disciplines are complementary; each helps to fill in holes left open by the other, thereby sharpening and clarifying what the other has to say (Baron & Kreps, 1999, p. vii).

Indeed, the book is remarkable in the mix of economic, sociological, and social-psychological aspects. Economics offers the general framework, and sociology and social psychology fill in the questions on how expectations are formed and how goodwill is created. One problem with this approach is that the "model of man" of the general framework and of the theories for expectations and goodwill are not only different, they are often contrary in their assumptions. For example, the basic framework is transaction cost economics with the assumption that people are opportunistic and pursue their self-interest with guile whereas goodwill is supposedly a matter of intrinsic motivation. Thus, there is an important combination of aspects but they do not fit together in the microfoundations.[2]

Rousseau attempted such an integration with her concept of "psychological contract" (Rousseau, 1995). This concept draws attention to the subjective side of contracts, to unwritten agreements and expectations and this is a strong point of her approach. However, it still offers no theory for the integration of the economic and the organizational behavior approaches. Clearly, there is room for a healthy difference in vision between economists and sociologists, leading to different caveats. Still an integration of the microfoundations is desirable, not just for the theoretical purist. Without it, ad hoc reasoning or simply stonewalling must help out anytime the two approaches would come to different conclusions. For example, from an economic point of view, one would recommend monetary incentives to motivate people. From a social psychological point of view, economic incentives are seen as decreasing intrinsic motivation. Instead, one would recommend job enrichment schemes and increased participation in decision making. The way Baron and Kreps deal with this problem is illustrative. They admit that economic and social-psychological theories could come to different conclusions, but that they will deal with these issues in a later chapter (1999, p. 195). In the later chapter (1999, p. 268) they reiterate that pay-for-performance schemes can dull intrinsic motivation. But instead of saying how this should be resolved, they refer to the earlier chapter in which intrinsic motivation was introduced. In short, the issue is not dealt with.

In addition, the empirical evidence itself is "rich" enough to support vastly different and incompatible theories. For example, long ago, the human relations school pointed to an interaction between the model of man held by management and the productivity of the employees. If employees are considered as calculating, untrustworthy and shirking they will behave that way. If they are seen as honest, responsible and motivated, they will behave much better (see McGregor, 1960). This point has recently been reiterated by researchers who point to the importance of intrinsic motivation (for example, Osterloh & Frey, 2000). The model of man used in management practices is said to create a self-fulfilling prophecy. If you expect people to shirk, you will thwart their intrinsic motivation. Yet, whereas it may be true that people respond to the way they are expected to be, there is no denying that they also respond to opportunities to shirk, cut corners, and breach agreements even if they were thought to be non-calculating, honest, and motivated. For example, in the Netherlands, faculty has a certain amount of vacation days per year. If vacation days are not used this year, they can be saved for later years. There is an honors system. Faculty report themselves each year how many vacation days they have used. A recent study of the use of vacation days in the University of Groningen revealed that faculty who work more often at home do take up far fewer of their vacation days each year than faculty who work more often in their office. This is hardly a coincidence. The most likely interpretation of this finding is that many days in which faculty members "work at home" are in fact used as unreported vacation days. Consistent with this interpretation is the fact that the faculty members who report using fewer of their vacation days are, on average, not more productive than the rest. For principal-agent theorists, this evidence would come as no surprise. Still, even if close supervision of the use of vacation days could be realized at low cost, would it increase or further decrease productivity?

Seemingly, the empirical evidence allows both the human relations and the principal agent (and transaction cost) approach to claim that they have been right all along. If people do respond to how they are expected to be but also respond to opportunities they get, then it is important to look much more closely at how motivation can be managed. This is what governance is all about. Simply collating variables from different disciplines will tell us nothing about how they interact to form the patterns we observe. How then can motivation be managed? The remainder of this paper presents an integrated approach to answer this question, based on the central place of cognitive processes for motivation.

JOINT PRODUCTION AND THE LINK BETWEEN MOTIVATION AND COGNITION

The most important premise of our cognitive approach to the study of governance is that cooperation in groups and organizations is first and foremost contributing to *joint production*, rather than "exchange" (as seen from the point of view of transaction cost economics) or "performance" (as seen by the organizational behavior approach). There are two very important hypotheses of this approach. The first hypothesis is that *governance of joint production is to a large degree the management of motivation for adaptive behavior*.[3] Setting the stage for joint production entails decisions on division of labor and rules of coordination. Of course this coordination is necessary. However, given the genuine incompleteness of contracts in complex organizations, tasks can only be incompletely specified. The view that coordination sets out the interlinking tasks and governance sees to it that people do what is expected fails when tasks cannot be well specified. In such situations with a great deal of tacit knowledge (see Osterloh & Frey, 2000) and need for adaptation,[4] the most problematic ingredient that makes joint production work, is that each individual is motivated to use his/her intelligent effort *adaptively* to advance the joint production. This entails two kinds of behavior that are often merged in real life situations. First, joint production is adaptively advanced if members to the joint production act in such a way that, given the circumstances, their action instrumentally advances the common goal. Second, joint production is adaptively advanced if members behave in such a way that they contribute to the motivation of other members of the group to adaptively advance the joint production. Together, these two kinds of actions can be called solidarity (see Lindenberg, 1998). The motivation to behave in a solidary way, if present, tends to decay unless special care is taken to keep it up (see Andreoni, 1988). Thus, the governance of joint production is predicted to be to a large degree the management of motivation. It follows that a person, motivated to behave solidarily, will become part of the lateral governance of the organization by behaving in such a way that other members' motivation for solidary behavior is maintained or increased.

The second hypothesis is that *managing motivation is inextricably linked to managing cognitive processes*. A theory of governance must thus prominently deal with the cognitions and how they can be managed. What are the links between motivation and cognition? One link is the "definition of the situation." Durkheim already claimed that ambiguous or contradictory information leads to lack of motivation (Durkheim, 1964, p. 96ff.) This was also experimentally shown by Raven and Rietsema (1957). If a situation is ambiguous, an individual will not be highly motivated to act in any particular direction (except, maybe, to improve the clarity of the situation). But then, in most cases there are many possible ways in which a situation can be defined. What the individual will be motivated to do depends heavily on which of these various possible definitions of the situation (or "frames") is actually realized (see Lindenberg, 2001a). Thus, if we simply assume a structured situation (as we ordinarily would when using microeconomic theory or the theory of subjectively expected utility), we brush away the question by what processes the situation became so well-structured and why it is this rather than another definition of the situation that obtains.

A second link between motivation and cognition, related to the previous one, is the competition between goals in an action situation. Goals are intimately linked to the mobilization of energy (motivation), but often an individual has conflicting goals. Take an individual who is about to conduct business with a supplier who also happens to be a member of the local business community. What is the main goal for the transaction? To make as much profit as possible out of this particular transaction? To consider the long-term profit potential of transactions with this particular partner? To deal collegially with the business partner? To retaliate for a nasty remark the other had made during yesterday's Rotary Club meeting? The particular goal the individual focuses on will mobilize motivation for different kinds of action. The standard assumption that the person wants to maximize utility presupposes ordered preferences and thus simply brushes away the possibility that goals can be in conflict and ignores the fact that there is no superordinate goal and appropriate numeraire to make all subgoals compatible. It also ignores that the weight of various aspects depends on the goals that are pursued at the moment (see Gollwitzer & Moskowitz, 1996; Kruglanski, 1996). Thus, the various goals cannot be simply pressed into a utility or objective function.[5] From a cognitive point of view, conflicting goals imply a conflict for cognitive resources, that is, for access to attention, knowledge, memory, and processing capabilities. Certain goals will win this competition (more or less) and others will lose it (more or less), with important consequences for cognitive processing and motivation. The combination of the first and second points implies that the less clear the victory of one goal, the more likely that the goal conflict will lead to some form of half-hearted motivation to act in a particular way.

A third link of motivation to cognition is that an individual's cognitions are influenced by the behavior of others (see Fiske & Taylor, 1991). Cognitions of interacting individuals are interdependent and, as a consequence (due to point one and two above), so is their motivation to act in a certain way. For example, the definition of the situation (the frame) by one person will be affected by signals given off by the behavior of other persons in that situation, behavior that is in turn affected by cognitions the others have. Mismatches in frames can lead to great problems in the motivation to cooperate. For example, if A gives advice to B (defining the situation as one in which he can help) and if B interprets A's advice as the attempt to increase his status by showing that he knows things better than B, then B's reaction will be defensive or aggressive towards A, not just lowering A's willingness to help but also the probability that A even perceives B's need for help. Thus, the management of motivation entails the need to coordinate cognitions.[6]

Even though there is no room to present the theory of framing in any detail, a few essential points should be mentioned (see Lindenberg, 2001a for more detail). The basic mechanism of the cognitive approach to governance consists of a number of interrelated processes. *People's perception of a situation is selective*. When we say that a person has a certain *frame* we mean that, compared to another frame, this person thinks of certain things more readily, is more sensitive to certain kinds of information, perceives certain alternatives more readily than others, and assigns different weights to certain aspects.[7] To focus on certain aspects also means that *other aspects are cognitively pushed into the background*. This process is governed by *goals* in the sense that in the competition between goals in a situation one wins out and dominates the foreground as well as the major cognitive processes while the other goals are pushed into the background. From there, they can only influence the frame indirectly via the strength (or "salience") of the frame. Compatible goals increase and incompatible goals decrease the strength of the frame. For example, when the frame is linked to the goal "to help a person in need" then the goal "to guard one's resources" is in the background and the value of money is less than if the position of these goals were reversed. Nonetheless, money spent by helping a person in need is incompatible with the background goal, so that the more is being spent, the more the background goal decreases the salience of the frame. Lowering salience means that second and third best alternatives have an increasing probability of being chosen. *The lower the salience of a frame, the more likely that the frames switch*. In our example, the background goal will become the frame and the formerly dominant goals will be pushed into the background.

COGNITIVE ASPECTS THAT ARE PARTICULARLY RELEVANT FOR THE MANAGEMENT OF MOTIVATION

One important consequence of the framing approach is that it draws our attention to phenomena and to aspects of governance that are vital to the analysis of the problems and the instruments of governance and yet have not been adequately considered by either transaction cost theory or organizational behavior approaches. First, there is the phenomenon of motivational *decay*, as mentioned above. This phenomenon makes it imperial that motivation in organizations and groups is managed. Second, there is myopia. Even though myopia has been studied extensively by psychologists and social scientists, it has not played an important role in the study of governance so far. Third, once the relation of goals to framing and the relation of framing to behavior are recognized, the *analysis of goals* becomes important for the study of governance. If we manage goals, we manage framing and thereby motivation and behavior.[8] I will briefly deal with all three points in somewhat more detail, but, for reasons that will become apparent, I will discuss decay of motivation last.

Myopia. There is considerable empirical evidence for the point that human beings are forward-looking, that is, they anticipate consequences and generate expectations about the future, but they are not farsighted, which means that they cannot look far into the future and in fact often do not even look as far as they might, given the information they have (see, for example, Loewenstein & Elster, 1992; Loewenstein & Thaler, 1989). In fact people are generally quite myopic, the more so the more "hedonic" the situational stimuli. It is quite misleading to see myopia as either "just" a kind of (rational or hyperbolic) form of discounting or as a form of limited information processing ability, even though both phenomena do exist. In both ways of looking at myopia, the most important aspects of myopia for contracting are ignored.[9] These aspects have to do with cognitive processes that allow short-term temptation against long-term self-interest. They are more easily captured in terms of framing effects (see Gattig, 2002). In the competition among goals in an action situation, goals related to short-term (hedonic) aspects (such as "to feel good/better") are likely to win out because they are directly tied to emotions. For example, a manager who decides to give in to a golden opportunity with a third party (even though it means that he cannot honor his contractual agreements with his current business partner) does not necessarily weigh the advantages of the golden opportunity against the breach of contract with his business partner. Rather, the aspects connected to the golden opportunity make a short-term goal very salient and thereby mobilize a frame in which the attention is focused on these short-term aspects. Knowledge and memory chunks related to these aspects become cognitively more accessible. The long-term aspects in the situation are pushed into the background from where they may still lower the salience of the (hedonic) frame but without appearing in any rational weighing of short-term versus long-term aspects in the situation. As a consequence, the alternatives are selected and ordered according to the short-term goal. From this, a number of interesting conclusions can be drawn. First, myopia is not primarily a matter of information; it is rather a matter of the situational selection of aspects. Second, in order to prevent the intrusion of myopia into long-term plans, a person must have ways to stabilize the current frame against a frame switch. We will discuss below how this is likely to happen and what social processes are involved. But it can already be gleaned from the exposition so far that for any kind of behavior, but especially for contractual behavior, frame stabilization is an important aspect of governance.

The analysis of goals. In order to know what frames govern human behavior, we have to know the goals that human beings pursue. Of course human beings have many goals and it is almost impossible to come up with a limiting list. However, in all likelihood, the human goals are hierarchically ordered so that if we look high in the hierarchy, we can come up with a small number of goals that govern many lower-level goals. What kind of hierarchy and what kind of goals? Space does not permit a full exposition of a theory of goals (for a fuller exposition of this theory, see Lindenberg, 2001a). However, a number of important points can briefly be summarized. First, people are actively involved in shaping their lives. This implies that it is more useful to see them as producers than as consumers. Their productive efforts are directed towards the realization of certain *substantive goals*. Here the assumption is that they care especially for physical well-being – in terms of feeling comfortable and getting stimulation – and for social well-being – in terms of achieving status, getting confirmation from others on one's opinions and actions, and giving and getting affection (see Ormel et al., 1999). It is also useful to make explicit what it is that people want to achieve with any particular substantive goal, what is their *operational goal*? Is it maximization of some overall utility; is it satisficing, or still something else? The assumption most compatible with human beings as producers and with much social psychological evidence is that they are mostly concerned with the improvement of their position (either their position right now or their position some time in the future). Technically speaking, the assumption of an "improvement" goal is for many situations identical to the assumption of maximization of utility. However, it is also different in important respects. It draws attention to the fact that people judge the value of something relative to some point of reference and that for many goods this point keeps shifting toward the status quo. Human beings actively search for ways to improve their position and this includes efforts to change their constraints over time rather than just choose from within the set of alternatives. Search behavior and resourcefulness are both important aspects of improvement.

The combination of substantive and operational goals yields a few very high-level and cognitively very powerful goals. First of all, there are the goals to improve physical and social well-being directly (i.e. right now). For example, a person may want to increase his comfort right now by getting rid of a feeling of hunger. Improvement in physical and social well-being is registered by emotions, that is, by a change in the way people feel. It is oriented towards the short-term and its power derives from its direct link to emotions. For easy reference, I call the frame that is related to this goal an *hedonic frame*.

People can also be oriented towards the improvement of their resources. For example, they may invest in education in order to get better earnings in the future. The effect on physical and/or social well-being is mostly indirect because for most resources it is true that not their growth itself but their subsequent use and/or public display creates improvement in physical and social well-being.[10] The frame that is related to this goal can be called *gain frame* for ease of communication. The orientation of a gain frame is towards the long(er) term, and, in comparison to a hedonic frame, the tie to emotions is much weaker (or absent).

There is a third major goal that takes some extra explanation. It is the goal "to act appropriately." Seemingly it has nothing to do with improvement. However, the relation to improvement is only veiled. There is a general regulatory interest that individuals conform to norms even when nobody is watching. For this very reason, there is a universal tendency to mistrust people who seem to conform to norms in order to get social approval or to avoid disapproval. If people are not in some sense "intrinsically" interested in conforming to the norms, they cannot be trusted to withstand the temptation to deviate when nobody is watching. For this very reason, it is likely that parents teach their children early on that they should behave appropriately for its own sake and that parents reward their children richly with social approval for showing a genuine sense of obligation and richly sanction children with disapproval for showing a purely instrumental attitude towards norm conformity (see Kochanska et al., 2000). In this way, the goal "to act appropriately" becomes a major source of social well-being and, at the same time, its relation to the improvement of social well-being is cognitively and socially veiled (i.e. it is in the cognitive background). The frame that this goal is related to can be called a *normative frame*.

In the literature, one finds other researchers deal empirically with the distinction between "orientations" that are quite supportive of the theory of master frames. However, rarely do we find all three in the same research. This probably is due to the fact that gain orientation in one research tradition is identified with a "long-term" or investment orientation (as against a short-term, hedonic or consumption orientation) whereas in another research tradition, gain orientation is contrasted with a normative orientation. Thus, we find research on "hedonic versus utilitarian orientation" (Dhar & Wertenbroch, 2000; Gattig, 2002; Mano & Oliver, 1993). We also find research on normative versus gain orientations. For one, research shows that action is actually guided by overriding goals and that one simply cannot presume that the overriding goal will always be "gain." For example, De Dreu and Boles (1998) found that individuals with a "social value orientation" (comparable to a normative frame) chose significantly more frequently "appropriateness" as their guiding goal for negotiation whereas individuals with a competitive value orientation (comparable to a gain frame) chose significantly more often "effectiveness" as their guiding goal for negotiation. Carnevale and Lawler (1986) also found that goal to act cooperatively and the goal to act competitively activate very different patterns of attitudes, expectations and behavioral repertoires. Ligthart (1995) directly tested normative and gain frames against each other and found that they predictably lead to different actions in bargaining. Clark has set up a long-running research program around the distinction "communal versus exchange orientation" (see Clark, 1981; Williamson & Clark, 1989 for an overview of this program). She finds clear differences between these orientations that parallel the normative and gain frames. Research done by the organizational consulting firm "Motivaction" has lead to a differentiation between four types of orientation toward work that are linked to goals: "traditional" (conform to a general expectation that one ought to work), "postmodern" (make use of the opportunity to contribute to a collective good), "modern" (earn as much money as you can), and "hedonic" (take it easy).[11] The first two types of orientation can be identified as being normative frames (with different sets of norms), the "modern" type is closely related to a gain frame and the fourth type is clearly related to a hedonic frame. There are good reasons to assume that people have stable traits that would make one of these orientations more likely than another. However, from a governance point of view, stable traits would restrict us to selection processes, whereas framing would allow in addition to select the direct governance of frames and thereby of behavior. In the literature we clearly find that even though there are stable differences between people, framing effects do override these differences to a considerable degree (see Gattig, 2002; Ligthart, 1995). This issue also came up in Clark's research program. For example, she was very surprised to find that the Communal Orientation Scale and the Exchange Orientation Scale seem to be uncorrelated (Williamson & Clark, 1989, p. 97). From a framing theory point of view one would not expect that people are either one or the other but one would investigate the conditions under which people change frames and how these conditions can be influenced.

WHAT KINDS OF FRAMES SHOULD BE MAINTAINED FOR ADAPTIVE MOTIVATION IN JOINT PRODUCTION?

How can motivation for adaptive behavior in joint production be managed? We now have all the tools in place to answer this question. The question boils down to what kind of frames would have to be present for this kind of motivation. Once we know this, the question then is: how precarious are these frames and how can they be stabilized? Before we start answering these questions, it is important to have a brief look at the relative strengths of the master frames.

A priori, a frame can be assumed to be the stronger (i.e. the more salient) the more directly it is tied to emotions and to the improvement of the conditions of self. Thus, unless there are additional stabilizers, a hedonic frame (being high on emotions and direct concerning improvement) is likely to displace gain and normative frames; a gain frame (being low on emotions but direct concerning improvement) likely to displace a normative frame (which is low on emotions and indirect concerning improvement). For this reason, governance would have to create special stabilizers in order to guard a gain or a normative frame against the intrusion of a hedonic frame. Because a normative frame is a priori the weakest, its stabilization against displacement by the other two frames is likely to necessitate the most governance effort. How vulnerable a normative frame can be is illustrated by the empirical finding by Frey and Götte (1999) that financial rewards *reduce* the work effort of volunteers. In terms of framing, this finding can be interpreted as a situation with a normative frame (for example with the goal to help or to contribute to the common good) that is being displaced by a gain frame (with the goal to earn money) the moment financial compensation is offered. In a gain frame, the hours worked are influenced by the amount of pay and because the pay for volunteer work is generally not very high, the average work effort is likely to decrease when financial incentives are introduced to boost volunteer work.

The Hedonic Frame: Not a Likely Candidate for Useful Governance

Let us take a hedonic frame as the point of departure and the point towards which motivational decay will lead when governance fails. When individuals in the organization are in a hedonic frame, this means that they are oriented towards the short-term; they seek out opportunities to improve their physical and social well-being *directly*. For example, they may enjoy their task which to them is stimulating, not very tiring, and a source of self-pride and positive feedback from supervisors and colleagues. This looks like a good things and indeed sometimes it is seen as ideal for "intrinsic motivation" (see Deci & Ryan, 1985). However, because enjoyment-based intrinsic task motivation is linked to a hedonic frame, its sustainability is likely to be weak (see Lindenberg, 2001b). The reason is that people in a hedonic frame are also very sensitive to moods and tend to focus on the enjoyable aspects of the task, avoiding the unenjoyable ones. This has negative cumulative consequences for the alignment of tasks and enjoyment, which work against a constant flow of self-pride and positive feedback from others. When that happens, employees will attempt to improve the way they feel by any means at their disposal in the work context. They seek stimulation (say, by surfing the internet, gossiping about others, walking about in the halls), and cater to their comfort (say, by frequently going to get a cup of coffee, worry about draughts from open windows, keep shifting work-related but tiring or anxiety provoking activities to a time in the near future). For their social well-being, they may seek out status-enhancing encounters with inferiors; exchange mutual pats on the back with colleagues for behavioral confirmation; and, for a bit of affection, help a friend down the hall to deal with his marriage problems, or complain about the management of "them" to people from whom they hope to get sympathy. From the point of view of a hedonic frame, work-related requirements are seen as so many opportunities or barriers to direct improvement of physical and social well-being. Close monitoring combined with frequent feedback in the form of social (dis)approval will increase the willingness to do what is expected. Yet, it does not help to create a motivation for intelligent behavior that is adaptive with regard to the (organizationally) intended results of joint production, let alone encouraging for the motivation of others to behave solidarily. Instead, it follows from the logic of framing that in a hedonic frame, the most salient aspects of joint production will be its externalities on the physical and social well-being of the employee him- or herself. If people make noise, or are in a bad mood, they ruin comfort and social well-being for others and are seen as inconsidered with regard to this interdependence. Conversely, people in a good mood and sociable spirit will be seen as laudable contributors to the overall atmosphere. A hedonic frame is thus not very useful for achieving adaptive behavior in joint production and yet it is likely to be the dominant frame when governance fails. This does not mean that enjoyment is unimportant. To the contrary, enjoyment can be a very important factor as a background goal that increases the salience of a gain or a normative frame. I will come back to this point. If adaptive behavior in joint production is deemed desirable (as it is likely to be), then governance has to be able to stabilize other frames than hedonic ones. Which other frames?

Governing by Gain Frames: Possibilities and Limitations

The obvious candidate for a useful frame is a *gain frame*. Employees in such a frame will act adaptively to the degree that they believe they can improve their resources. This makes them particularly sensitive to incentive instruments. It has been an important contribution of transaction cost economics to drive home the point that people in a gain frame will be strategically opportunistic, that is, they will use guile and anything they can get away with.[12] They try to get as much out of a transaction as they can, put as little as possible into it, and no alternative is left unconsidered simply because it might be against the rules or unethical. Following the principal-agent theory, transaction cost economics has also found the solution to the problem of strategic opportunism: interest alignment via credible commitments. For organizations, this means that the way to steer the motivation of employees is to align their interests with the interests of the organization, say, by credible commitments to positive and negative conditional incentives, such as pay increases, bonuses, stock options, growing scope of influence, and career advancement opportunities, as well as negative sanctions, all conditional upon performance.

However, gain frames cannot be the whole answer. There are too many problems left that potentially disturb the interest alignment and thereby the governance of motivation. One problem is the measurement of performance. To the degree that performance is difficult to measure, conditional rewards and punishments become problematic. Behavior then is likely to shift towards the best measurable components of the task, which is the opposite of adaptive behavior in joint production (Meyer, 1994). Without good measurement, rewards and punishments also seem subject to arbitrariness, which is likely to undermine the credibleness of the company's commitments (Mühlau, 2000). When contracts are very incomplete, essential elements of tasks cannot be put into the contract and can thus not be made subject to contingent rewards. As a consequence, noncontingent boosts of employee motivation are necessary (see Osterloh & Frey, 2000).

There is a number of other problems that are widely known but they cannot be adequately described (let alone analyzed) without considering cognitive effects on motivation. For example, arbitrariness does not just undermine the credibleness of the company's commitments, it also creates feelings of unfairness that make people, even at their own peril, reduce intelligent effort favorable to the employer (see Folger, 1998; Folger et al., 1978; Kim & Mauborgne, 1998; Moorman, 1991). In transaction cost economics, people are by default assumed always to be in a gain frame. The very concept of "fairness" does not fit into this frame in which self-interest is pursued with guile and in which ethical standards have no effect on behavior. Emotional reactions to rule infractions and unfairness do not fit into such a frame. They belong to a hedonic frame and presuppose effects of ethical standards on behavior. Even more serious is the problem (already mentioned in the beginning of this paper) that people's behavior is seemingly not unaffected by how they are seen by others. If the governance structure is based on the assumption that employees pursue self-interest with guile, intrinsic motivation is likely to be "crowded out" (see Osterloh & Frey, 2000). Thus, making people very sensitive to incentive instruments makes them less obligated to their tasks and to organizational goals and derive less enjoyment from them because they focus only on contingent rewards and punishments. This "crowding out" effect is very likely an effect of framing (see Lindenberg, 2001b).

A third problem is the overwhelming evidence that people are often myopic (see above), and thus also are myopically opportunistic. This severely limits the workings of interest alignment. Myopic opportunism is most likely in a hedonic frame because the time horizon in such a frame is very short. However, a gain frame is no guarantee against myopic opportunism because, unless it is strongly stabilized, it can easily be displaced by an hedonic frame. The mechanism of displacement involves the motivational power of loss (see Kahneman et al., 1991). If people in a gain frame perceive a "golden" opportunity for a quick and sizable gain they are likely pursue it. If, however, pursuit of this opportunity is barred because it goes against a standing agreement or promise, then the very idea of having to miss out on such an opportunity creates a strong feeling of loss. Unless the gain frame is very strong, it will give way to a hedonic frame in which the goal "to feel better" is dominant. In this case, "to feel better" means avoidance of the feeling of loss and the most likely action that can achieve this is to take advantage of the golden opportunity. Thus, even a gain frame is no shield against myopic opportunism, that is, against pursuing short-term advantages even if there is a good objective chance that the aligned long-term interests are in jeopardy as a consequence. Newspapers frequently report cases in which against their long-term interest people are tempted to steal from the company; to gamble with company money; to relax the strictness of their control task, say in approving a loan for another member of the country club; to be bribed for relatively small amounts; to fail to pass on bad news in order to avoid embarrassment; to cut corners on set procedures; to pursue a golden opportunity that goes against long-term agreements, etc.

Solutions to these problems have often been offered on an ad hoc basis, without any consideration of cognitive effects on motivation. For example, it has been observed that wages do not just have an effect as contingent rewards but, if they are high enough, also as gifts of the employer. They thereby create obligations in the employee to do his/her best (Akerlof, 1982; Baron & Kreps, 1999, p. 109ff.) The creation of obligations (by gifts or any other way) is not covered by the assumption of self-interest pursuit with guile. Such an effect cannot simply be added to the workings of a gain frame.

Governing by Normative Frames: Possibilities and Limitations

As we have just seen, a gain frame does offer some advantages through the possibility of interest alignment but it leaves many problems unsolved and it creates some serious problems of its own. Would governance by normative frames be a better answer? Let us have a closer look.

Maybe the most elaborate suggestion in this direction comes from the "new institutionalism" mainly developed by March and Olsen (1989, 1995). For reasons of space, I will take their approach as representative of kindred approaches in this direction. March and Olsen contrast what they call "the exchange perspective" of rational choice (roughly what we have just called a gain frame) with an institutional perspective in which

> human action [is] driven less by anticipation of its uncertain consequences and preferences for them than by a logic of appropriateness reflected in a structure of rules and conceptions of identities (March & Olsen, 1995, p. 28).

Even though they work out the theory of governance mainly for democracies as political systems, many of their conclusions hold equally well for organizations for which adaptive behavior in joint production is important. The authors see the "logic of appropriateness" as a cognitive process of the definition of the situation and of selective matching "the obligations of an identity to a situation" (March & Olsen, 1995, p. 38). This comes quite close to what has been called a normative frame in this paper. Institutionalized rules (covering duties, rights, routines, roles, informal obligations, and standard operating procedures) define acts as appropriate or inappropriate. "Individuals come to define themselves in terms of their identities and to accept the rules of appropriate behavior associated with those identities. They seek the competencies required to fulfill their identities." Governance in March and Olsen's view thus has two main leverages: the creation and maintenance of identities and of the capabilities that are needed to act appropriately (such as rights, endowments, knowledge, skills).

There are clear advantages to this view, compared to the "gain frame" view, in terms of instruments of governance. For one, the problem of strategic and myopic opportunism seems less serious than in the other two master frames. In a normative frame, improvement as a goal is "veiled" (see above) and thus does not play an important direct role in goal pursuit. To do the right thing (appropriateness) is a matter of matching rules and behavior, not of improvement. Thus opportunities to improve one's feelings or resources are not as easily perceived as in the other two master frames and that may reduce the susceptibility to opportunism. Second, we get rather concrete directions on what to do in order to create a normative frame. According to March and Olsen, clear identities have to be forged and individuals who assume these identities have to be endowed with the necessary resources to act appropriately. One of the major instruments to motivate people to use the logic of appropriateness is *accountability*. To make people accountable is to make them more careful in the definition of the situation and more sensitive to social pressure and to standards of appropriate behavior associated with their roles. Another major instrument is adaptiveness through *experiential learning*. For this to happen, accountability must be linked to accounts from which one can learn (for example, what went wrong and why) and which will be remembered, necessitating investing in records and intelligent retrieval. In addition, the information must be enriched by the experience from other organizations, necessitating network formation (March & Olsen, 1995, p. 233ff.). All in all, March and Olsen offer a variety of very concrete governance instruments that, at the face of it, are theoretically tied to a normative frame.

Yet, there are also serious problems with this approach. The most important one is that March and Olsen are too short on the elaboration of the cognitive side of governance. Although the logic of appropriateness is described as if it were a frame, no other frames are elaborated, and therefore there is no serious treatment of the precariousness of this normative frame. To what degree is it threatened by what they call "self-interested exchange" or by an hedonic orientation? What is needed to stabilize a normative frame against the onslaught of a hedonic or a gain frame? Because March and Olsen have no conception of precariousness of a frame, they cannot systematically analyze what stabilizes frames. When one looks at governance from a cognitive point of view, governance is first and foremost the stabilization of certain frames. By admitting only a normative frame, March and Olsen cannot but believe that it is all a matter of rules. As a consequence, they even believe that self-interested behavior can best be captured as part of the logic of appropriateness:

> Self-interested calculation can be seen as simply [sic!] one of the many systems of rules that may be socially legitimized under certain circumstances (March & Olsen, 1995, p. 29).

Here we get dangerously close to role theory of the traditional sociological kind for which human beings are a *tabula rasa*, shaped by socialization and the given set of institutions.[13] Governance is then just a matter of defining the right roles. March and Olsen clearly don't want to go this route. They claim that "Any treatment of governance must include substantial elements of an exchange perspective to be plausible" (1995, p. 25). However, they simple drift into this *tabula rasa* scenario by not taking cognitive processes seriously enough.

Another important problem of considering only a normative frame is that there is no analysis of the negative sides of behavior that is mainly driven by the wish to act appropriately. Assume that the frame is stable, that is, not subject to being pushed aside by a hedonic or a gain frame. Then, unless special care is taken, behavior in day-to-day interactions is likely to be strongly oriented toward the avoidance of social disapproval (since disapproval is the living proof that one did not act appropriately). This will lead to optimal results only if the norms of all relevant players are perfectly aligned with reaching optimal results and if all relevant players are in a stable normative frame. This however is unlikely. For one, it is very difficult to keep stable normative frames for all players. Second, the alignment of norms with results is not easily maintained because in daily interaction, others react mostly to infractions of the norms rather than to causal links to results. For example, a person who obviously free rides and lets the others do the work is not judged by how much he lowers the likelihood that the joint product will be finished in time. Rather, he will be disapproved of by the fact that he seemingly shifts the entire burden to the others (a breach of solidarity). Third, in daily interaction, the terms of accountability and experiential learning, two important governance instruments for March and Olsen, are then also likely to focus on conformity to norms rather than to instrumental action as such. For example, after the fact, a team leader may be criticized for having covered up wrongdoings of members of his team. Yet, in terms of the logic of appropriateness in daily interactions, the cover up is appropriate. Experiential learning will focus mainly on ways to avoid disapproval. What people find socially appropriate in daily interaction cannot be easily pushed around by changing the formal rules (see also Nee, 1998).

GOVERNANCE BY DYNAMIC INTERDEPENDENCE OF FRAMES

Clearly, governance should focus on avoiding widespread hedonic frames in the organization. However, as we have seen, this does not mean that governance should focus on gain frames or on normative frames. What then? The answer takes a few steps to build. The first step is that we need both gain and normative frames to keep each other in check. The second step rests on the fact that important stabilizers of frames are salience enhancing background goals. We thus need the right background goals to stabilize frames. The third step is based on the realization that frames are mostly stabilized in interaction with others and thus governance must be centrally concerned with creating the right conditions for frame stabilizing social interaction. Lets look at each step in more detail.

In the rough distinctions between major frames, we recognized only three frames, one of which we dismissed as being harmful for adaptive joint production. Neither of the other two would do by itself. But maybe there are possibilities to combine the advantages and reduce the disadvantages of both by combining them in a dynamic way. Among the most important advantages of a gain frame are (a) that it is clearly linked to an improvement goal and to individual initiative; (b) that behavior emanating from it is sensitive to (material and status) incentives; and (c) that, by proper interest alignment, its orientation can be linked to organizational results. Among the most important disadvantages of a gain frame are (a) that it is wide open to strategic opportunism when interests are not well aligned and that it is quite vulnerable to myopic opportunism even if interests are aligned; (b) that it is easily displaced by a hedonic frame if individuals experience loss (especially, but not exclusively, due to agreements against breach even in case of golden opportunities and due to frustrated expectations, such as unfairness); (c) that it tends to crowd out enjoyment and obligation as sources of motivation; and (d) that it needs good measurability of performance. Among the most important advantages of a normative frame are (a) that it effectively deals with myopic opportunism by making obligations an important source of motivation; (b) that it makes individuals sensitive to rules and rule following; and (c) that its requirements for the measurability of performance are relatively low. Among the most important disadvantages of a normative frame are (a) that performance is not directly linked to improvement and individual initiative; (b) that it tends not to be result-oriented; and (c) that it is difficult to stabilize against being displaced by a gain or hedonic frame. How can we maximize the advantages and minimize the disadvantages of both?

Remember that a frame switch comes about when the salience of the frame is too low. One way this can happen is that background goals are increasingly violated by the behavior that is generated by the foreground goal (i.e. the frame). This allows a dynamic relationship between frames such that if behavior in a frame violated important goals in the background, the frame is likely to switch, only to be replaced again when, in turn, behavior in the new frame violates important background goals. Such a dynamic interdependence can be achieved between gain and normative concern. When a person is in a gain frame and there is normative concern for the relationship with others, then, as the pursuit of gain puts a burden on the ongoing relationships, the salience of the gain frame will decrease, making it likely that the gain frame will be displaced by a normative frame. For example, an employer is under pressure to lower costs of production and, bit by bit, increases the workload of certain employees. As he does so, normative concerns for the relationship with the employees in the background become stronger, lowering the strength of the gain frame, possibly to such a degree that it will be replaced by a normative frame, in which the concerns for acting appropriately within the relationships with his employees come to inhabit center stage. The concerns for gain are pushed into the background. While he is in this frame, his actions are focused on doing what is "right" for his employees. He will show concern for their plight, maybe make some special effort to spot problem cases, hire temporarily some extra help to mitigate the worst problems, and promise to take employee concerns well into consideration when taking on orders and making commitments for delivery deadlines. As he does so, he reduces his flexibility, he pays for extra help, he loses time for other tasks by being concerned with the employees, and the goal of gain pursuit, in the background, increasingly comes under pressure, lowering the strength of the normative frame, and likely effecting a switch back to a gain frame, restarting the cycle, but from a different status quo (one in which expenses have been incurred, reassurances given and promises made). Observe that the process is not one of maximizing a complex function with both gain and relational elements, even though, in hindsight, the frame switch episodes may be experienced as simultaneous concerns for gain and for the relationship with employees. The difference between maximizing one function for both concerns and dynamic frame interdependence is that in the first case, we assume that there are no cognitive processes, such as myopic opportunism, that interfere with such a maximization exercise. There are such processes, and they necessitate special governance instruments. Thus, we do not gain anything by assuming, for simplicity's sake, that the employer maximizes a complex function. Rather, by doing so, we lose sight of the most important instruments needed for effective governance of adaptive behavior in joint production. For the following, we thus try to answer the question how such a dynamic frame interdependence can be achieved and maintained.[14]

In order to be potential background goals, gain and normative concerns must both be important goals in the organization. There are various ways in which gain and normative concern may become important in an organization. The central point here is that for the dynamic interdependence between the two, one should not be made important in such a way that it jeopardizes the importance of the other. For example, an internal labor market, with strong status distinctions between ranks coupled with large differences in power and compensation is an excellent instrument for making gain an important goal in the organization. However, if one does that, many hurdles for normative frames may arise. For one, in the absence of good performance measures, arbitrariness is likely to undercut any attempt to make normative concerns important. Rather, feelings of being treated unfairly will make hedonic frames prominent. Second, even if good performance measurement is possible, the normative concern for relationships will very likely be dwarfed by the salience of gain, no matter how incompatible the gain is with normative concerns. Conversely, take a flat organization with a strong ideological foundation (which helps to define appropriateness for most situations); a leader who requires accountability; and high exit costs. In such a "sect-like" organization, normative frames are likely to be so strong that it will be virtually impossible simultaneously to encourage gain frames for interaction among the members and to encourage a normative frame towards individuals outside the organization.

The dynamic frame interdependence should thus make possible what I have elsewhere called "weak solidarity" (Lindenberg, 1998). In weak solidarity, the norms that belong to the "normative concern" are tied to a much more limited sacrifice that can be legitimately expected from the individual than in strong solidarity. In that sense, weak solidarity is indeed a weakened version of strong solidarity. However, the *norms* that belong to weak solidarity are not just weaker versions of the norms of strong solidarity because the latter are not compatible with gain. Norms of weak solidarity stress the importance of the individuals or the transacting dyad (as opposed to the importance of the group in strong solidarity). As distributional norm, weak solidarity has equity (as opposed to equality in strong solidarity). As with strong solidarity, authority in weakly solidarity groups must be legitimized and maintained in terms of the contribution to the common goal. If this is the case, status differences are likely to develop on this basis (see Ridgeway & Walker, 1995). Because of the equity principle, status differences (which are based on difference in contribution) are likely to be accompanied by different remuneration.[15]

Alignment by Mutual Commitment: The Role of Task Enjoyment, Improvement, and Quality of Relations

In order to get gain and normative frames to coexist dynamically, it is important to make gain and normative concern strong enough to be frames (i.e. to be focal goals) but weak enough to be displaced by the other when incompatibility is more than minor. Observe that it is not just a matter of making the frames weak enough to be displaced, but weak enough to yield to the other frame rather than to a hedonic frame. The guiding idea about how to do it is actually quite simple. The organization must convey convincingly that it is all about *joint production* (rather than workers versus capital, leaders versus followers, superiors versus subordinates). Since Durkheim, sociologists have known how this jointness can be achieved. It happens through rituals and symbols of jointness (including emblems, joint excursions, festivities, etc.) and to an important degree through ingroup/outgroup measures of fostering norms of solidarity and thus of relational concern within the ingroup (see Lindenberg, 1998). For example, an organization may encourage three kinds of comparisons to other organizations in the industry. One with regard to "inferior" organizations, one with regard to competitive organizations, and one with regard to exemplary organizations (past or present) that should be emulated. In a fractal design, similar but less dramatized comparisons may be encouraged among divisions and subdivisions inside the organization. This is a very powerful tool, but it generates high relational expectations.

If an organization creates relational concerns through governance measures that emphasize jointness of the entire organization and within all its parts, it is most important that the relational concern clearly shows up in commitments of the strongest partner to each and all of the other partners, especially the individual employee and the (sub)division he or she belongs to. In order to keep the gain frames tied to instrumentally adaptive behavior towards the realization of organizational goals (i.e. in order to reduce strategic opportunism), the organization must align the gain interests of the employees with the organizational goals, as has been elaborated by Williamson (1985). However, it was one of the major points of this paper that this alignment alone will not do. There are too many threats against solidary behavior left even when interests are aligned. The dangers lurk in low measurability of performance, in motivational decay, and in myopic opportunism. Thus, in addition to interest alignment, the organization has to show *commitment to the individual employee*, in terms of task enjoyment, in terms of individual improvement, and in terms of quality of its relation with the employee and of the relations between employees. In return, the organization can legitimately expect commitment of the employee to the goals of the organization and to the quality of relations within it. For this, the employee can be held *accountable* without negative relational consequences. Employees who are approached with such commitments by the organization will not see its intrinsic motivation crowded out. They are clearly not approached as strategic actors and are unlikely to respond as strategic actors. If successful, we have a fundamental alignment of frames between employees and the organization. Interest alignment must thus not be seen as something separate, as a strategic move of the organization but as part and parcel of the relational interest of the organization in the employee. This overall *alignment by mutual commitment* to adaptively advance a common goal can be made more likely by structural arrangements (see below) but it will have to be gained and regained through deeds that signal continued commitment.[16] Most governance tools can be interpreted as instrumental towards the achievement of this fundamental alignment. For example, schemes to share in the positive results of the organization (for example through stock options) cannot always be applied (due to the kind of organization, the measurability of the performance etc.). But where it can be applied, it is a good instrument to combine commitment to individual improvement and to relational quality. Here, the lessons from transaction cost economics (interest alignment through credible commitments), from the organizational behavior approaches (with emphasis on fostering commitment) are actually combined in a theoretically fairly coherent way.

As discussed above, task enjoyment as a background goal is quite different from creating the atmosphere of “work as a fun place,” since the latter caters directly to a hedonic frame with all the problems that entails. Also, the commitment to individual improvement is quite different from offering an internal labor market with a structure of positions for which individuals may compete (internal tournament). Tournaments signal lack of commitment of the organization to employees who lose in the competition and they reduce relational concerns among employees. Conversely, the commitment to relational quality is quite different from making rules and rule following behavior the central focus of governance. Emphasis on rules may foster normative frames, but it can be quite incompatible with relational concerns. In general, there are a number of management tools available that are likely to achieve commitment to individual improvement and relations, and to task enjoyment in the background (see Lindenberg, 1993, 2001b). What are they?

To begin with, the hierarchy in the organization may not be a status command structure. Strong emphasis on rank is incompatible with task enjoyment for the lower-ranked members and with relational concerns for all involved. One way to avoid the negative aspects of rank is to have flat organizations. But in larger and more complex organizations, this cannot always be done. Activities need to be coordinated. Then the solution is to legitimize hierarchy in terms of the various functions that have to be fulfilled and in terms of the necessary information, knowledge, and responsibilities that cumulate in certain functions and functionaries. A directive is then not the order of a superior (the famous “fiat” in transaction cost economics that reduces transaction costs because it is a command). Rather, a directive is the knowledge-based and responsibility-based wish of somebody higher up in the hierarchy. It is commitment to the same organizational goals that makes the receiver adopt this wish, not the fact that he or she, in return for payment, has traded the right to be told what to within a prearranged “zone of indifference” in which own intelligent effort is suspended. In fact, in functional hierarchies directives must be seen as setting goals and as “promulgating standards and rules of the road” (as Simon, 1997, p. 233 observed). A functional hierarchy still offers incentives for promotion. Higher positions carry more prestige and more pay. However, as regards relational concerns, the negative sides of a strong emphasis on status and on rank have been removed. In order to facilitate functional hierarchies, organizations must be sure that employees have a good understanding of the functions and the entire workings of the organization. This can be achieved for example by job rotation and/or by periodic instruction.

Not everybody can advance up the hierarchy. Disappointed expectations create the experience of loss which, in turn, strengthens hedonic frames and thus stronger influences of moods. The organizational commitment to individual improvement can thus only be loosely coupled to advancement up the hierarchy. Instead, the organization can offer a great number of alternative ways to improve. Seniority pay is one prominent solution. Other solutions include the creation of personal advancement schemes (without positional change), as in the Japanese merit evaluation (*satei*), and training for possible advancement outside the organization. Improvement may also take the form of reduction in tasks that are experienced as burdens (such as teaching load in some universities), or increase in flexibility. In sum, the more ways of improvement there are and the clearer the commitment of the organization to individual improvement, the fewer are the negative consequences of not being promoted to a higher position, and the greater the chance of a dynamic interdependence between a gain orientation and relational concerns as frames.

With regard to the commitment to relational quality, it is most important that the organization itself be committed and not just encourages good relations among its employees. Investigating the role of commitment to relational quality with data on Japanese and American companies, Mühlau (2000) found that it is indeed the commitment of the central organization to relational quality that makes the difference. High relational quality among peers in the absence of this central commitment does not create commitment to the organization.

The reciprocating commitment of employees to relational quality can be achieved by the organization through a number of instruments that can be gleaned from the literature on relations and on organizational commitment (see, for example, Mühlau, 2000 for a discussion of this literature). For reasons of space, I will simply list them. First of all, the organization must be perceived by employees as an organization that communicates clearly, honestly, and with respect for its employees in the way language is chosen. Second, the organization must be reliable, that is, it has to keep to agreed rules and promises. Third, the organization must be committed to standards of fairness and equity. Fourth, employees must feel that their participation in the organization is encouraged. Fifth, the employees must have the right to appeal decisions and to organize collectively if they so desire. Sixth, the more dependent the employee, the more the employee must have the feeling that the powerful organization is concerned about his or her well-being. For example, the more dependent the employee, the more the employer must ensure health and safety of the work practices and make sure that the employee is insured against important risks and provided with retirement schemes. Seventh, the employee is held accountable for his or her commitment to the goals of the organization and to relational quality. Failure to show commitment to these seven points will lead to a failure of the governance of motivation for adaptive joint production in the sense that the reciprocal commitment by employees will not be stable.

With regard to task enjoyment without a hedonic frame (i.e. enjoyment as an extra stabilizer of the dynamic interdependence of gain and normative frames), it can be said that it is likely that over time, enjoyable tasks will become less enjoyable due to decreasing stimulation, pride and praise, and increasing perception of the costly side of the activities. This means that the governance of motivation must also be directed at periodic realignment of the tasks and enjoyment, either through task rotation, task redesign, changing task sharing or new task evaluation. Such periodic realignment is important but it should not be accompanied by an official company standpoint that jobs should be enjoyable in order to create commitment by employees. As mentioned before, such an emphasis on enjoyment would displace both gain and normative frames by hedonic frames, to the detriment of task related motivation. Thus, there is a fine line between being concerned about the enjoyability of tasks and yet not making that a central issue, not even in advertising, such as "the best guarantee of quality is that our employees thoroughly enjoy what they are doing."

Relational Signals, Control, and Frame Stabilization

The fundamental alignment is aided by structural measures, such as the right to appeal and organize, but for most governance tools that have just been described, it is true that they will only be as stable as the frames that generate them. To the employee, it is by no means taken for granted that the organization will remain committed to individual improvement and to relational concerns. People are generally aware that these commitments must be generated by orientations (or what we call frames) that may or may not be stable. The "right" orientation in this sense signifies relative lack of strategic behavior. For this reason, employees will interpret the organization's actions *as relational signals*, as telltale signs of the "true" orientation (frame). For example, Mühlau (2000) found that an employee also looks at how the employer treats other employees in order to judge the organization's commitment to relational concerns. Strategic *as if* relational campaigns that actually only try to create the appearance of relational concern and concern for individual improvement, will not be effective for long and will ultimately cost the organization dearly in terms of lost reciprocal commitment of employees. This actually helps managers to take relational concerns seriously and thereby set up dynamic frame interdependence. One can say that the commitments to individual improvement and relational quality must be continuously signaled by the organization, including those cases where there is bad news. If reorganization is necessary, then it is even more necessary to communicate openly, show commitment to fairness etc. Once the right governance tools are set up, governance in the daily interactions in an organization is equal to the exchange of relational signals.

There are situations when control has to be exercised. When things have gone wrong, supervisors or colleagues are likely to be negatively affected and develop a regulatory interest. The question is how this regulatory interest can be satisfied within the context of dynamic frame interdependence. The crucial point is: how can control be exercised in such a way as not to be a negative relational signal? If control does become a negative relational signal (as it might have to if previous attempts did not result in changed behavior), it is likely to create a spiral of deterioration that renders dynamic frame interdependence virtually impossible. Fear of strategic behavior of the employer will make it more likely that the employee at first will respond by being strategic him- or herself (in a gain frame). However, the experience of frustrated expectations is likely to lead to the experience of loss and thus to a hedonic frame. Relational concerns (in a normative frame) are then virtually beyond repair. This is clearly a failure of the whole set up. An organization that never began with relational concerns will not have this kind of mishaps but then it will also be stuck with a high level of strategic and myopic opportunism. So, what can be done to keep these kinds of failures to a minimum? The answer is again to be found in relational signaling itself. There are some positions in the organization that can exercise control without ambiguity of signal. Control has to be exercised by these positions. This has been shown by Lazega and by Wittek. Lazega's (2001, p. 201ff.) studies on collegiate control show that informal control only works if the act of control does not simultaneously signal possible strategic behavior in the guise of relational interest. And he shows that control tends to shift to those who can exercise it without ambiguous or negative relational signal. Wittek (1999) describes how a technological change (the addition of a large machine in a paper factory) created a breakdown in relational signaling due to ambiguity in control, and that after that tasks had been redesigned and both control and relational signaling were restored. In other words, in organizations, there are clear efforts to make relational signaling work and to avoid the negative spirals that occur when control is not well aligned with relational signals (see also Wittek in this volume). Governance is thoroughly interwoven with relational signaling because it is all about managing motivation through frames in this final analysis.

CONCLUSION

Governance in organizations has traditionally been associated with lowering transactions costs between contracting parties and arranging incentives in such a way that the employee works in the interest of the organization. From the point of view of organizational behavior approaches and human resource management, it became clear that what really matters in organizations is the management of motivation, especially in organizations in which employee's intelligent effort is required for adaptive behavior. It is not quite clear how the two approaches link up. They should link up because the workings of incentives are actually dealing with motivation. In the literature, the two approaches run side by side and at times, they are put together, each offering some important factors, but no common theory. The result is that many ad hoc arguments are used and many problems are covered up or ignored. Very likely, this state of affairs is due to the fact that both approaches pay too little attention to the cognitive aspects of governance and of motivation. If one has a serious look at the cognitive aspects, one discovers that governance is first and foremost governing cognitive processes that, in turn, are vital for motivation. The way individuals define ("frame") a situation is crucially important for what they consider and what they ignore. People influence each other's frames and on this basis, cognitive coordination is possible. Three basic frames were distinguished in this paper: hedonic, gain, and normative frames. A priori, the hedonic frame is stronger than the gain frame, which, in turn, is stronger than the normative frame. It was argued that governance would have to bring about that gain frames do not displace gain and normative frames. It was also argued that governance on the basis of either gain frames or normative frames is likely to run into very large trouble. The solution lies in the establishment of a dynamic frame interdependence between gain and normative frames. In such a situation, relational concerns keep the pursuit of gain in check and, conversely, the pursuit of gain keeps excesses of relational concerns in check. The basis for achieving such a dynamic interdependence is the organization's ability to convey convincingly that it is all about joint production (rather than labor versus capital, leaders versus followers, superiors versus subordinates). For this to work, the organization must show *commitment to the individual employee*, in terms of task enjoyment, in terms of individual improvement, and in terms of quality of its relation with the employee and of the relations between employees. The interest alignment through credible commitments, argued for by transaction cost economics, is an important part of this commitment to the individual employment and it is likely to work only if it is not interpreted as a strategic move by the organization to keep the employee from shirking or malversation. Interest alignment is then flanked by the legitimate expectation by organization that the employee is committed to the goals of the organization and to the quality of relations within it. It is this legitimate expectation that enables the organization to make the employee *accountable* for this commitment without negative relational consequences. This mutual commitment is quite resistant to problems of measurement of performance. However, because the frames on which the commitment rests are in principle precarious, the commitment has to be gained and regained in the daily interaction by relational signals. Governance in the day to day interactions in organizations is likely to be to a large degree seeing to it that the "right" relational signals are given and that control efforts are well in tune with these signals. The paper contains many very concrete suggestions on governance that come out of the closer consideration of the cognitive impact on motivation. Most of these could not have been made in any systematic way without giving the cognitive side of governance a prominent place.

NOTES

1. Tractability refers to the ease with which one can trace the consequences of making certain assumptions.
2. Because Baron and Kreps use game theory in their attempt to work out the interdependencies among actors more clearly, I will refer in this paper at times specifically to the difference between the cognitive approach presented here and the game theoretic approach.
3. This has been clearly seen by Frey and Osterloh (2000). However, they do not yet use the cognitive aspects of governance for their analyses.
4. According to the Oxford English Dictionary, "adaptive" means that one fits one's actions to changing circumstances, *guided by a purpose*.
5. In game theory, the question of possibly competing goals is side-stepped by assigning payoffs to particular event combinations, thereby seemingly concentrating on the combined *structure* of events and payoffs of the interactants, rather than their goals. No attention to goals seems necessary. However, in all applications to real life situations, goals will have to be made explicit to guide the assignment of payoffs.
6. Foss and Lorenzen (2001) also deal with issues of cognitive coordination albeit not from a framing point of view. Game theory assumes common knowledge and consistently aligned beliefs before the game starts. Neither the achievement of common knowledge nor the alignment of beliefs (and expectations) are part of the game itself. By this assumption, we are encouraged not to ask the question by what processes cognitive coordination is brought about and what processes work against cognitive coordination. What would a game look like that was cognitively uncoordinated (say one would see it as a Prisoner's Dilemma, the other as a Chicken Dilemma, see Boudon, 1981)? What social processes are at work to get cognitive (and thereby motivational) coordination established?
7. These effects need not be conscious or work via prior intention. For example, in a situation in which others speak highly of the value of achievement a person can get "primed" to focus on achievement without being aware of it (see Bargh, 1997).
8. Simon (1997) has made a related point when he drew our attention to the fact that governance is in part equal to influencing the premises of decisions.
9. Besides the fact that the explanation of myopia as discounting (say, related to the interest rate when money is concerned) does not hold up to empirical tests. Rational discounting (i.e., discounting related to the interest rate) does very badly in empirical tests and other discounting functions (such as hyperbolic) do better but still not very well (see Gattig, 2002). "Information impactedness," as Williamson (1985) calls his version of the boundedness of rationality, is a matter quite unrelated to individuals' neglect of long-term aspects they are well acquainted with.

10. Of course, there can be direct effects of, say, your efforts to increase your earnings status and comfort. Notice that we are not talking about effect of having money (even without spending it) but of improving one's earnings. For most resources this hedonic link to efforts of improvement is lacking.

11. Motivaction uses a "mentality model." These four types have recently been extracted from a larger set of "mentality styles" reported in Spangenberg et al. (2001).

12. Williamson states that people will make "calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson, 1985, p. 47).

13. Why role theory is not a good theory of action is by now subject of many publications (see, for example, Lindenberg, 1990).

14. Interestingly, March and Olsen also see the necessity for a balance between what they call "efficiency" and "adaptiveness" (1995, p. 213ff.). Only they cannot link this balance to frames because they admit only a normative frame.

15. This view of weak versus strong solidarity fits with Fiske's (1991) distinction between "equality matching" and "communal sharing" relationships. Observe, though, that authority relations can also be governed in terms of weak solidarity as observed above.

16. Rousseau (1995) speaks of a "psychological contract" in this regard. However, Rousseau sees such a contract leading to "scripted behavior," routine role fulfillment. This view completely misses out on the precariousness of the frames and, in consequence, it also misses out on the governance structures and patterns of interaction in organizations that deal with this precariousness.

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