Evolutionary Political Economy and the Role of Organisations

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"A mythical visitor from Mars, not having been apprised of the centrality of markets and contracts, might find the new institutional economics rather astonishing. Suppose that it … approaches the Earth from space, equipped with a telescope that reveals social structures. The firms reveal themselves, say, as solid green areas with faint interior contours marking out divisions and departments. Market transactions show as red lines connecting firms, forming a network in the spaces between them. … Organizations would be the dominant feature of the landscape. A message sent back home, describing the scene, would speak of 'large green areas interconnected by red lines.' It would not likely speak of 'a network of red lines connecting green spots.'"

(Herbert A. Simon 1991, 27)

Introduction

Compared to the vast amount of existing organisations and their role in everyday life, their presence in theory is rather small. In economics, their neglect in mainstream theory has led to the emergence of a special sub-branch to deal with this defect: the theory of the firm. Despite the considerable presence of firms in some early developments of evolutionary economic theorizing,[1] nowadays "the role of firms in most of evolutionary economics is not fundamentally different from the role of firms in standard neoclassical economics – they are part of the explanans, not of the explanandum" (Foss 2001, 325). So again, the evolutionary explanation of the emergence and development of firms is treated separately by their own branch of an evolutionary theory of the firm (cf. Cohendet/Llerena 1998; Rathe/Witt 1999; Foss 2001; Rahmeyer 2004; Hölzl 2005).

Also in the field of political economy, the dominating neoclassical paradigm of Public Choice has been challenged by an evolutionary approach. But here again, organisations like parties, international organisations, interest groups or administrative agencies are neglected or mentioned as examples for political actors like politicians. Often, a rather abstract "unique decision-maker" is assumed in order to more easily concentrate on the state-market-relationship on a more aggregate level (cf. Wegner 2003, 49; Stolper 1991). Thereby a possible difference between individual and collective actors is systematically neglected.

This paper seeks to analyze the evolutionary process of politics with regard to the different level of actors and the question, how individual perceptions and actions translate into the ultimate form of collective action: the rule-setting for a whole society. The focus will be on the special role of political parties as those coalitions of individuals with the right to compete

[1] Nelson/Winter (1982) being one of the most prominent examples.

for the power to enact the formal institutions of a society. The paper is structured according to three slightly modified questions, which are also pursued in the theory of the firm (Rathe/Witt 1999, 4 f.):

- What guides the creation of a political party?
- What are the paths of the internal development of parties?
- How do parties co-evolve with their environment?

But before that, a brief sketch of approaches to evolutionary policy making should be given to put the role of organisations into the context of the political process.

Basic elements of an evolutionary approach to politics

Maybe quite naturally, when economists with their specialised knowledge in the analysis of markets and competition turn their focus to the political sphere, they approach this subject of interest with concepts familiar to them. Consequently, they are looking for suppliers (political actors) of goods or services according to a certain demand (voters, market participants). Because of fundamental differences between markets and the political sphere, this simple transfer of concepts might be misleading (cf. Wohlgemuth 2002, 223; 2003, 104). Although stating this existing difference, Wohlgemuth for example directly compares democracy to market competition, which leads him to the result that „compared to market competition, democratic selection processes are poorly equipped to discover individual opinions and satisfy individual preferences according to their diversity, intensity and variability, and they provide much less opportunities and remuneration for co-operative efforts of the actors involved." (Wohlgemuth 2003, 107). Accepting the application of supply and demand to the political sphere for now, a major problem of such a comparison might be grounded in the unclear employment of what is regarded as 'the product' of political supply. What is it that the selection forces of political competition should be working upon?

On a very abstract level one can speak of "problem-solutions" (Wohlgemuth 2002, 224), institutions (Stolper 1991), "legal paradigms" and concrete legal rules (Eckardt 2004), or knowledge about values, goals and facts (Witt 2003). Wohlgemuth (2003) speaks of "opinions and conjectural problem-solutions" (p. 99), "political leaders" (p. 104), a "bundle of political goods and services" and "bundles of promises as incorporated in parties and candidates" (p. 105). His rather negative judgement about democracy, mentioned above, is based on the monopolistic character of representative democracy. On the one hand, this

means that after stating the individual preference in a vote, the voters supporting the loosing candidates are forced to 'consume' politicians contrary to their preferences. On the other hand, there is also no parallel testing of political alternatives, reducing the potential to generate and learn about new and better problem-solutions.[2] While this is apparent concerning parties and candidates (the Schumpeterian notion of democracy as competition for leadership), it is not obvious why there shouldn't be a continuous struggle among rivalling political opinions (Hayek's view of democracy as a process of forming opinions) on the 'marketplace of ideas' (Okruch 2003, 82).[3] It is argued, however, that these ideas represent no valuable element of political learning, as they do not generate feedback from their application in an actual experiment (Wohlgemuth 2002, 237).

A clear distinction between actors, levels and the objects of interest seems necessary, as well as the question of how all of these elements are connected. On the content-side, politics may consist of very general and broad world views, ideologies and basic beliefs which form first opinions or hypotheses concerning concrete topics. From these opinions operational proposals for a policy may be formed, which can be worked out into detailed regulations consisting of single legal or administrative rules. How ideas translate into concrete policy measures that are finally enacted as effective law is connected to different selection processes. First, there are the effective formal rules. Because these apply to all inhabitants of a jurisdiction, there is indeed a political monopolist selecting among alternative rules. When the monopolistic power of the ruler is challenged, the constituent has to select among different potential successors. While the decision is formally between parties or candidates, it is actually influenced by the bundle of regulatory ideas and promises the candidates stand for. Voters will favour candidates whose programmes correspond best to their personal political opinions and their individual world view. Thus, on a very basic level there is also a selection among alternative ideologies or beliefs that guide individual (voting) behaviour.

Summarising this, one could state that political actors produce collective problem solutions by generating alternative ideas based on broad world views and transform them into concrete policies, which finally get implemented. On each level of this transformation process different

[2] This only holds true within a given jurisdiction. Taking inter-jurisdictional competition into account increases the range of comparable political problem-solutions at one point of time.

[3] Indeed, at some points Wohlgemuth (2003) states that "a major field in which the evolutionary potential of the democratic method can be shown relates to the concept of democracy as a process that helps create, change and discover political opinions, mostly in their 'cognitive' dimension (that is the hypothetical knowledge which guides the actions of citizens and politicians)" (p. 116) and that political opinion polls to continuously evaluate the change of political preferences are just like market research (p. 108 f.).

selection mechanisms operate.[4] Voters select the political actors and political actors select among alternative rules, so obviously this selection depends on decisions of these actors. The question why organisations are among these actors and how their internal mechanisms – as opposed to individual decision-making – affect the political process should be analysed in more detail below.

The creation of political parties

The basic behavioural assumptions of cognitive-evolutionary problem-solving

A sound analysis should start with stating the basic assumptions – in this case the assumed model of human behaviour. The arguments of this paper are grounded in a cognitive-evolutionary approach, which should first be introduced briefly.

Human behaviour can be interpreted as problem-solving, which is guided by the motivation to increase individual utility.[5] The focal point of every action is the brain, which processes incoming environmental information and directs the individual activity. The structure of the mind can be interpreted in terms of different kinds of rules (Mantzavinos 2001, 24-26). Rules of *categorization* interpret the signals coming from the sensory perception organs and try to assign them to certain categories, which have been learned by the individual until that point. Thus it is possible to recognize objects, feelings or events and to trigger appropriate action. The relevant behaviour in a certain situation is determined by rules of causation, or *condition-action rules*. For each considered course of action, they state an expected result. For choosing one out of several possible alternatives, the different consequences attributed to each solution have to be valuated. Therefore rules need to be applied that assign a *value* to actually perceived or expected states, according to their expected influence on utility.

The stimulus for action is the perceiving of a personal feeling or a certain state of the environment that is judged as a problem. Learning takes place through conducting a specific action to solve that problem and afterwards perceiving and evaluating the consequences. Successful solutions will be reapplied, if a problem occurs, that is perceived similar to the

[4] For a similar multi-stage process with different „filters“ that guide the forthcoming of a political problem solution see Slembeck (2003); similar also Witt (2003, 82).

[5] Mantzavinos (2001, 10-15). For the following arguments see especially Mantzavinos (2001, chap. I); Denzau/North (1994); Budzinski (2003).

former situation. When a certain rule is successfully applied to a frequently occurring problem again and again, this rule is strengthened. For common problems, this can lead to the automatic application of rules without any prior reflection. These rules are called *routines* and can safe a tremendous amount of cognitive capacity (Mantzavinos 2001, 29).

Mental models are sets of rules, which are built to address a specific situation. They guide the perception and order the available knowledge relevant for solving the problem. This can mean that for a problem that is perceived as new, comparisons are made to similar problems and rules are applied that proved successful in a different setting (*heuristics*). It also allows for the *creative* imagination of completely new solutions or the adoption of externally available rules (*learning from others*). Mental models are flexible in so far, as they are predictions about expected results in dealing with a problem. They can either be changed or reinforced according to environmental feedback. As with single rules of action, the repeated confirmation of a successful mental model can lead to its stabilization. Such unconscious, "crystallized" mental models, or *belief systems*, may turn out quite resistant to changes (Mantzavinos/North/Shariq 2003, 4).

Usually the success of an individual action also depends on the actions of others. Because every individual has experienced a unique history of successfully and unsuccessfully approached problem situations, all individual mental models differ (Denzau/North 1994, 14; Witt 2000, 745). Additionally, the possibility of creative problem solving exists, which leads to the application of completely new solutions to a problem. Therefore social interaction is shaped by structural uncertainty about the behaviour of others. Nevertheless, through repeated interaction, communication and the experience of similar problem situations between individuals, *shared mental models* emerge that give rise to a common interpretation of reality and to stable behavioural patterns among the members of a group. One kind of shared mental models reflects the knowledge about successful human interaction itself. They incorporate the rules which have been learned about peaceful social coordination. These rules can emerge unconsciously as informal institutions, when individuals gradually adapt their behaviour through repeated interaction, but they can also be designed deliberately in a political process of collective choice (Denzau/North 1994; Mantzavinos 2001, chapters 5 and 6).

Entrepreneurs as trigger for a collective problem-solution episode

In order to initiate the introduction of a new problem-solution, there has to be a problem first. These problems do not exist as objective facts – they have to be perceived and interpreted by

individuals. This happens, when a cognitive dissonance exists between the perceived state of the world and the mental model of the individual. This will lead the individual to search for new solutions to overcome the perceived discrepancy (Slembeck 2003, 142 ff.).[6]

To constitute a societal problem, which requires collective action to be overcome, the problem perception has to be shared by a sufficient amount of citizens. "Problems have to be brought forward to the collective level. The first step toward collective action is to spread the problem view and find economic and political support among those who share the view" (Slembeck 2003, 144). In an evolutionary perspective these problem views are not given – an entrepreneur coming up with a new perception can actively influence the mental models of others and try to persuade them of his concept. Because mental models to a large amount consist of tacit knowledge and deeply engrained unconscious beliefs, this cannot be done by simple provision of information. Instead, the entrepreneur has to engage in "cognitive leadership" (Witt 2000) which means the facilitation of social learning processes.

> "First, as the inauguration of a firm organization is a genuinely entrepreneurial act, the question calls for clarifying the role of the entrepreneur in the context of the theory of the firm. Second, in creating a firm organization, knowledge, expectations, and beliefs of the staff hired have to be concerted to such extent that the entrepreneur can indeed attain the goals pursued by setting up the organization. This is by no means a trivial task as it requires to generate socially shared cognitive and motivational commonalities among the members of the firm organization…" (Rathe/Witt 1999, 4 f.)

Because the learning of the tacit components of the new mental model requires direct interaction, which allows for learning by imitation, the entrepreneur might establish an organisation that provides the context for these learning processes (Witt 2000; see also Wohlgemuth (2002, 235 f.) for a similar remark on "opinion-leadership"). Close supporters who share the 'vision' of the entrepreneur may spread his ideas even further, to people with no direct contact to the leader himself – a prerequisite in large, anonymous societies, where not everyone affected by rules is able to directly interact with each other.[7] Organisations therefore serve as fundamental intermediary instruments for the spreading and the generation of broader acceptance of new ideas. Without the shared context of an organisation, in large

[6] For individuals and their perceptions serving as „triggers" for organizational learning cf. Argyris/Schön (1996, 11); Nonaka/Takeuchi (1997, 86); Klimecki/Lassleben (1999).

[7] Cf. Mantzavinos/North/Shariq (2003) who point out to the importance of the emergence of formal institutions for economic progress by enabling transactions between anonymous agents.

societies the entrepreneurs would lack the possibility to gain the necessary deep understanding of a critical mass of supporters.[8]

Organisations and the division of knowledge

In the evolutionary theory of the firm, the coordination and development of new knowledge is a central point of concern (Cohendet/Llerena 1998, 2; Rahmeyer 2004, 212). Organisations emerge to foster the deeper separation and specialisation of knowledge. Taking the limited cognitive capabilities of human beings with regard to the complexity, ambiguity and diversity of social problems into account, one can hardly imagine one single political entrepreneur having superior solutions to all problems at hand. Specializing in one field of problems – e.g. environmental concerns – may allow gaining more expertise in that area, which may lead to the ability to develop better solutions (cf. Simon 1991, 37). Although, in most existing political systems the opportunities to directly vote for single specialist politicians is rather limited. For voters this would mean to build an opinion on many different specialists, leading to very high demands towards the cognitive capacities of the voters. Indeed, to increase their own specialised competences in a certain (non-political) field, voters might delegate this judgment to people they trust. In a representative democracy these are the delegates in the parliament facing the same problem of judging complex policy proposals and controlling specialised administrative staff. Because all delegates are responsible for all acts of parliament, they have an incentive to cooperate with other delegates, so that each one of them specialises in a certain field whereas following the judgment of the colleagues when it comes to other topics.[9]

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[8] In contrast to this (and his own remark on opinion leadership of political entrepreneurs), Wohlgemuth (2002, 238) sees parties as „barriers to entry of political innovators", because „the 'woman with the new idea' cannot start producing new policies until she has convinced her party members to adopt a new programme or initiative and then convince a majority of voters to elect her (her pary) to office". The alternative implied by this would be a free access to the political market, where everyone with a new idea can directly submit this for approval. Without prior attempts to persuade people (in a party or elsewhere) the new idea can only get realised, when instantly a majority of the constituency supports this idea. As Hayek mentioned, to a given point in time, the majority opinion might not be the best available. Indeed, new ideas are necessarily the ideas of a minority, challenging the status quo. Whether an idea is superior or not is found out in a long process, through gaining support in the competition of different opinions (Hayek 1991, 134). Because active individual involvement is required for building these opinions, mass media cannot serve as a substitute, "as it only allows a passive reception of information" (Bohnet/Frey 1994, 345).

[9] In this way, a collective of political entrepreneurs producing a complex political programme can be seen in analogy to a firm, where the coordination of individual knowledge is essential. „What is central to a productive organizational performance is coordination; what is central to coordination is that individual members, *knowing their jobs*, correctly *interpret* and respond to the *messages* they receive. The interpretations that members give to messages are the mechanism that picks out … a collection of individual

The reliance on the judgmental skills of co-delegates requires trust and a common set of shared basic assumptions.[10] A delegate, still responsible to his electorate, will only support the opinion of a colleague, if he can expect that he would himself have come to a similar opinion, if he had specialised in that subject matter. This presupposes the existence of a shared mental model with the same problem categories, values, theories and more abstract rules guiding the mental processes of reasoning.[11] These mental models, or ideologies, are actively shaped in organisations like parties. Slembeck (2003, 131-133) lists several functions that ideologies might serve for a group: (1) They provide meaning and value in order to explain and rationalize reality, (2) they focus perception and direct analysis and interpretation in a biased way, (3) they provide a mental framework that promotes social cohesion and group identity, and (4) ideologies serve as a system of social control through building behavioural standards and routines that help to deal with conflicts as well as to legitimize power.

Additional, ideology serves certain purposes in the political process. Not only might the integration of diverse knowledge be enhanced. A group following a certain ideology might serve as an information cue that gives orientation in the possibly huge amount of alternative ideas, actors and interests. Apart from that, ideologies may enhance credible commitments by politicians, known to follow a certain ideology, and therefore making the behaviour between elections more predictable (Slembeck 2003, 131 f.).

Organisations and the politician-voter gap

So far the concepts of ideology, shared mental models and knowledge have remained on a rather abstract level. How do they interrelate and what do they consist of? Following Vanberg and Buchanan (1989), the choice of rules according to constitutional preferences includes interests and theories.

> "A person's constitutional theories are about matters of fact. They are his predictions (embodying assumptions and beliefs) about what the factual outcomes of alternative rules will be. … His constitutional interests, on the other hand, are his own, subjective *evaluations*

member performances that actually constitute a productive performance for the organization as a whole." Nelson/Winter (1982, 104, italics by the author). See also Cohendet/Llerena (1998, 13).

[10] As Loasby (1999, 101) notes on the topic of authority and trust for the co-ordination of knowledge in firms: "Credible messages are vital for the efficient functioning of a business; they allow people to focus on the performance of specific activities, and on the improvement of that performance".

[11] „[I]deologies allow the formation of groups of actors that share interests and beliefs. Without the possibility to commit to some ideology it would be difficult for isolated political actors to bring together their resources and find political support" (Slembeck 2003, 131).

of expected outcomes, evaluations to which attributes like true or false, correct or incorrect can not be meaningfully applied" (Vanberg/Buchanan 1989, 52, original italics).[12]

Moving from the perspective on direct democracy of Vanberg and Buchanan to the descriptive analysis of political choice in representative democracies, a separate analysis of mental models of voters and politicians becomes necessary. While the interest component of *voters* remains the same (the evaluated outcomes of implemented rules), the subject of the theories is now composed of the future performance of the parties. This might include the reflection upon the "working properties of alternative rules and rule-systems" (Vanberg/Buchanan 1989, 51) contained in the parties' programmes as well as the credibility of the candidates. With regard to the uncertainty about the possible emergence of new problems – for which by definition no solution can be proposed in the party programme – a surrogate for anticipating the future reaction of the candidates might be their value system. Politicians, who share the same values as voters, are expected to arrive at judgments that would also find the voters' consent.

Politicians choosing between alternative rules not only evaluate the predicted personal benefit, resulting directly from the policy.[13] In their role as social problem-solvers, the institutions of the political system (should) connect the personal utility of politicians with finding and implementing solutions to social problems. From the point of view of legitimacy, political actors need to take the results *for the people* of a political measure into account (output-legitimation), as well as the acceptance of the measure *by the people* (input-legitimation) (cf. Okruch 2003, 78-82). The crucial difference between these two lies in the condition-action rules. Citizens delegate to politicians to enable them to specialise in knowledge about the working properties of rules, to find rules that yield better outcomes with regard to *citizen's* interests. Complexity of social and environmental systems as well as ambiguity of the future makes the consequences of single policies uncertain. Trying to anticipate what will happen if a political measure is implemented requires an understanding of the underlying cause-and-effect chains of the system. Citizens don't accept the delegation of

[12] This view is compatible with that of ideology consisting of "regulatory beliefs", which can be separated into positive and normative beliefs (Slembeck 2003, 130) as well as with the cognitive-rule approach, pursued in this paper, building on condition-action rules and valuation rules. From the latter perspective the importance of rules for categorization might be added, as they guide the perception and classification of signals to certain categories.

[13] In some cases there even is no direct result affecting the politican's utility, e.g. in decisions concerning social social security systems in which politicians are not member.

their decision, when the agent doesn't decide according to their interests – they delegate in order to utilize superior knowledge about which effects will be evoked by rules.

Although theoretically separable, the problem lies in the difficulty to practically disentangle the two concepts (Vanberg/Buchanan 1989, 59; Witt 2003, 88). Citizens cannot be sure whether a certain policy is chosen because it tends to result in better outcomes from the citizens' point of view, or because it just serves the personal interests of politicians. Because of the possibly resulting scepticism of voters, politicians cannot just search for better political instruments, they also have to acquire knowledge about the mental models of the citizens. Additionally, trying to make policy in the realm of social systems leads to an interesting circle: as the underlying cause-and-effect chains of a social system depend on the actions of human beings, the result of a political measure hinges on the reactions of the rule-takers.[14] These reactions are influenced by the mental models with their implicit regulatory beliefs, containing the lay knowledge, which has been the reason to delegate collective decisions to specialised politicians. A government unwilling to loose legitimation by the citizens therefore either has to take the lay regulatory beliefs of "real people" into account – thereby limiting it's own potential to utilize possibly superior theoretical knowledge – or to engage in changing the lay mental models "until their behavior fits the theory" (Slembeck 2003, 136-140). Once again, organisations may serve as the facilitators of this knowledge conversion, by bridging the gap between specialised knowledge of condition-action rules and local knowledge of interests and lay regulatory beliefs. The party can therefore be seen as the mechanism for transmitting citizens' feedback to leading politicians or for the latter to facilitate cognitive leadership in order to change the lay regulatory beliefs.

The political party as feedback mechanism

Although in the common understanding the essence of democracy might rest in the citizen expressing his opinion through voting, this is just one part of the picture. Systems competition already added the voting with one's feet as a possibility to express one's preferences about the institutional framework of a jurisdiction. However, the voice mechanism is often just seen as casting formal votes when an election period of several years ended (in representative democracies) or every now and then in a referendum (in direct democracies). The occasions for 'voice' are therefore seen as rather limited – with a little advantage for direct democratic

[14] In an evolutionary perspective, because of the creativity of agents, the reaction to a rule is uncertain and agents are capable to invent new behaviour to circumvent the intention of the regulator. Cf. Wegner (2003); Okruch (2003, 77); Witt (2003, 84).

elements (cf. Bohnet/Frey 1994; Wohlgemuth 2002). Even though the positive incentive of plebiscites for citizens to engage in opinion formation as well as the positive affect of initiatives on the variety of alternatives should not be neglected here,[15] the rather negative judgment of representative democracies changes, when additional elements are taken into consideration. The freedoms of opinion, assembly, thought, and speech (including the freedom of association) allow citizens at any time to form and express opinions concerning political problems. This does not only mean the possibility to spell out discontent with a policy measure at demonstrations, through the media or by forming protest organisations or parties. The policy of governments that are formed on the basis of a party can be influenced by the discourse going on in that party. Government members who depend on the support of the party members for their future political career will be keen not to loose support. Taking political parties into account enhances the feedback mechanisms towards the monopolistic government. The organisation allows for additional voice (through organisational routines, which will be elaborated upon later) and exit (by resigning from it, which leads to losses in membership fees and a lack of support in future election campaigns).[16] Party members working at the grass-root level directly feel citizens' discontent with a political project in their everyday life. Either because of sharing these objections due to the personal ideology or by anticipating future electoral losses, local politicians can build an inner-party opposition towards the policy of their 'own' government. The end of the German chancellor Schröder in 2005 may serve as an extreme example. Because of strong rejection of the government's reform agenda a new "electoral alternative" emerged, also attracting former supporters of Schröder's party, the SPD. Seeing an emerging political competitor and loosing party members gave additional support to internal critiques, being uncomfortable with the governmental agenda anyway. Finally, the chancellor himself set the way for early elections, claiming he had lost the support of his party.

To summarize the first part of this paper, the role of political parties can be seen as binding mechanism between voters and politicians. In a bottom-up point of view, it induces the party leaders to consider lay regulatory beliefs and can work as a sanction mechanism, when the programme gets increasingly detached from the voters' preferences. From a top-down

[15] For a detailed discussion of these effects of direct democracy with various examples from Switzerland see Bohnet/Frey (1994).

[16] The vulnerability of parties with a lack of active members was shown in Germany. In several cities the number of members of the party of free democrats (FDP) is so tiny that it has become target of attempts to „capture" it. In order to change the educational policy of the FDP, in Berlin as many students applied for membership than the party already had members („project absolute majority – PAM"). Cf. Dittberner (2000).

perspective, the party may assist the leaders to spread understanding and acceptance of new problem-views and proposed solutions. Consequently, apart from public discourse, the quality of the work of a government depends to a large extent on processes taking place within the governing party. These internal processes should now be examined in more detail.

The internal development of political parties

Hypothetical Competition

It is important to note, that knowledge and mental model do not only contain knowledge about facts. To a large extent they are conjectural and contain hypothetical if-then assumptions about problems, cause-effect chains and values (Mantzavinos 2001, 26 f.; Witt 2003, 80 f.). As has been mentioned earlier, politicians build their hypotheses with regard to (1) the effects a political measure will actually yield (which may be dependent on the cognitive abilities of the rule takers) and (2) the acceptance of the measure by voters and supporters, which is partly grounded in lay regulatory beliefs.

Searching for a ’good’ political solution for a problem according to the first criterion implies knowledge about the system in focus. For example, looking for a measure to prevent global warming, fight unemployment or increase the innovativeness of a domestic industry requires an idea about how the climate system, the labour market or the competition in the respective industry works. When proposing to implement a certain policy, politicians build a hypothesis about the expected outcome, which depends on the reaction of the system. This generates demand for scientific expertise and specialised knowledge. Problems of high complexity with many interconnected factors as well as social systems containing creative agents lead to ambiguity of the theoretical knowledge. Therefore proponents of competing hypotheses have to convince people of the likeliness of their assumptions. As Mantzavinos (2001) points out, the faculty of imagination is a genuine human capability. Individuals are able to visually create the hypothetical future situation and the abstract and often invisible properties of the system in focus. They can imagine and mentally evaluate certain potential states of the world, building a judgment on the basis of their prior experiences. They have learned how different objects have reacted in similar situations in the past and so have generated a ‘knowing how’ certain things work. The relevant knowledge about the working properties of policy-proposals therefore is in parts implicit. This also shows the limits of

debating and imagination. As the judgment of theoretical arguments is based on some prior experience, from time to time an idea really has to be realised.[17]

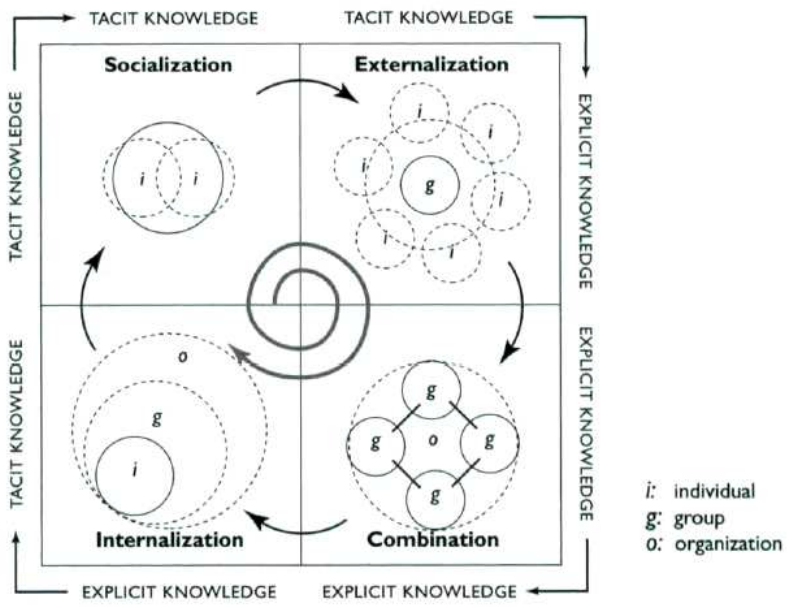
Whereas leading politicians (assisted by specialised administrative staff and scientific advisors) have the resources to substantially increase their theoretical knowledge about possible effects of a policy, voters and 'ordinary' party members usually have to solely rely on their intuitive judgment based on personal experience. This is not necessarily a 'defect', leading to irrational judgments (cf. Dane/Pratt 2007). Through the idiosyncratic experiences a valuable know-how about local specialties can be obtained. The formal rules enacted at the political centre can – due to different informal institutions – yield locally diverging outcomes (cf. Okruch 2003). A party with a hierarchical structure and different local sub-divisions will therefore usually build certain decision-making routines that provide arenas for party members from different levels and regions to meet and engage in the "concerted meshing of individual's images of their activity in the context of their collective interaction" (Argyris/Schön 1996, 15). At these occasions, party leaders can learn about member's opinions about policy ideas as well as providing information about the (expected) properties of their proposals.

The organisational process of knowledge generation

A useful framework for analysing the process of knowledge conversion was developed by Nonaka and colleagues (Nonaka 1994; Nonaka/Takeuchi 1997; Nonaka/Konno 1998). According to the distinction between explicit and implicit knowledge, four mechanisms of knowledge conversion can be described, which can also be interpreted as the different settings, in which shared mental models evolve and are altered: socialization, externalization, combination and internalization. This spiral of knowledge is depicted in figure 2. The organisation – in this case the party – provides the context which stimulates these learning processes and provides the arena for discussing the ideas.

Figure 2: Modes of Knowledge Creation

[17] As Ryle (2000) already mentioned, the practical knowledge of knowing how precedes the theorizing about it. Okruch (2003) consequently pleas for a decentralised experimentalism in policy-making.



Source: Nonaka/Konno (1998, 43).

Assuming that the entrepreneurs founding an organisation have a clear initial conception of a future state of the world they would like to reach, the first task is to found supporters to reach the critical mass to be able to realise the vision. This means communicating the idea again and again and to engage in discussions, in which the concept may be challenged. These challenges constitute new problems to the debater, who has to search for a new argument to support the concept, or to adjust the concept, when the objection was regarded as valuable. This may enrich the concept over time, increasing its complexity. Stating arguments that are repeatedly successful in convincing outsiders might lead to routinisation of those arguments. From that time on they are automatically applied, when a certain stimulus (e.g. an objection encountered before) triggers them (*internalization*). These unconscious rules become part of the basic assumptions, which are taken for granted. Engaging in discussions frequently and through direct interaction speeds up this process of building a shared mental model that in large parts consists of tacit knowledge.

The larger an organisation grows, the more difficult the cognitive leadership gets. It seems likely that people who already have an individual mental model similar to the concept of the party members will join very soon, as they feel naturally attracted by the idea and don't have to be persuaded for a long time. Through the interaction with the established party members the newcomers' mental models will further adapt to the party concept through shared experiences, observation and imitation (*socialization*). After reaching a size where all those naturally in favour of the concept have already joined, the further growth gets more difficult

as with greater divergence of peoples' original opinion, persuasion gets more difficult.[18] Either the party stagnates, encapsulates and sticks to their concept that provides a comfortable and closed system for explaining the world or the concepts gets increasingly challenged, which means to scratch the underlying tacit assumptions.[19] In the latter case, when potential new members with diverging mental models get involved in party discussions in order to get persuaded, they lack the same tacit understanding of the party's concept, which the old party member has. This may lead to disturbing reactions of the candidate, through 'untypical' behaviour, questions or arguments. When the routinised standard procedures for socialising the newcomer seize to be sufficient, the party member is induced to reflect on old unconscious assumptions and to make them explicit again (*externalization*).[20] In order to get to an agreement, arguments based on the reflected tacit knowledge are exchanged and possibly combined into new insights (*combination*).[21]

Obstacles to organisational learning

The learning through debating alternative hypotheses is limited. Certainly, a point will be reached where alternative propositions will claim opposing if-then conjectures that cannot be clarified by arguments. The actual implementation of a policy is needed to test the proposition

[18] In contrast, Witt (2003, 82) suggests a critical mass phenomenon, where persuasion gets easier, the more people already are convinced. This certainly is true at early stages, where a certain level of communication occasions has to be reached to get sufficient attention. Additionally an effect of group cohesion might work, which attracts people to belong to the group. Considering alternative competing ideas at a time, allowing to choose a group with a greater mental similarity, it is not clear why marginal persuasion costs should be ever decreasing. Therefore a u-shaped curve of marginal persuasion costs seems more likely.

[19] „Organizational knowledge and faiths are diffused to individuals through various forms of instruction, indoctrination, and exemplification. An organization socializes recruits to the languages, beliefs and practices that comprise the organizational code … Simultaneously, the organizational code is adapting to individual beliefs." March (1991, 74).

[20] It should be noted that the different forms of knowledge, like knowing that and knowing how, or explicit and tacit knowledge, are distinct and cannot change their form (Mantzavinos 2001). Instead of really transforming the knowledge, it is more a theorizing about the tacit components through reflection and thereby building additional theoretical knowledge about the knowing how. For example, Nonaka/Takeuchi (1997, 76) describe how an engineer learned (through socialization) how to knead dough and later on transformed this implicit knowledge into a bread-baking machine.

[21] This blending of explicit knowledge requires a skill Kogut and Zander (1992) label "combinative capability", which allows for taking advantage of capabilities, which so far have been unnoticed. Closely related to combination is the diffusion of explicit knowledge through the dissemination of external artefacts like documents, blueprints and technology. Because these, at least partially, contain of translations of implicit knowledge, the application of these external devices will differ in a context with different implicit knowledge. The explicit knowledge is re-translated according to the shared mental models prevailing in the new context. As a result, organizations are more likely to develop new knowledge in fields related to what they already do or know.

and generate the environmental feedback needed for evaluation of the measure. This learning from feedback is subject to some possible difficulties, which should now be addressed:[22]

a) Those members of the organisation working at an interface with the environment don't perceive relevant information or misclassify them. Because the perception is selective and guided by the existing mental model, very often just that information is recognized that supports the pre-existing opinion. Furthermore, positive developments are more often associated with one's own actions, whereas negative events are blamed on external factors. More than that, environmental feedback may be completely mistaken. For a policy to become effective, certain time-lags have to elapse, before the effects get visible (Stolper 1991, 203). Even then, it is often unclear, which effects have led to which development. A feedback may be associated with an action by which it wasn't caused, or a consequence is not attributed with the action it is rooted in. This "superstitious learning" may lead to effective rules being waived (due to negative effects from other sources) and unsuccessful rules (because another effect induces a positive development that is mistaken as success) are being routinised (March/Olsen 1976, 57 f.; Levitt/March 1988, 323-326).

b) The problem of "competency traps" arises. The longer a problem solution is executed, the better an organisation gets in applying the corresponding routines (learning curve). The more often a regulatory belief system is successfully applied, the deeper it gets engrained. Exploring new alternatives that might be better in the long run gets more and more difficult, also reducing the adaptability of the organisation to environmental changes (Levitt/March 1988, 322 f.; March 1991, 71-73).

c) Even if a party engages in organisational learning, the scope of new alternatives being explored may be limited. For the recombination of knowledge and especially for the integration of new or external knowledge, a "combinative capability" is required which also leads to new knowledge being tied to existing knowledge (local learning). "Switching to new capabilities is difficult, as neither the knowledge embedded in the current relationships and principles is well understood, nor the social fabric required to support the new learning known. It is the stability of these relationships that generates the characteristics of inertia in a firm's capabilities" (Kogut/Zander 1992, 396).

As a result, a paradoxical situation may arise: To verify the hypotheses build on the basis of unconscious belief systems, a 'reality test' is necessary to generate environmental feedback.

[22] Or as Nelson (2003, 708) puts it: „While *ex-post* evaluation of a reform may be somewhat easier than ex-ante prediction of the effects of that reform, it is still very difficult."

Because the perception and interpretation of that feedback is guided by the prevailing mental model, a prior change (irrespective of feedback) of the belief system may be essential in order to draw the 'right' conclusions. Thus, the collective learning process itself is also partly hypothetical.

Interaction with the environment

Members of an organisation working at their boundary are especially important for organisational learning, as they can spot critical developments in the organisational environment and provide necessary external information. Through their interaction with outsiders these "boundary spanners" (Böhling 2001) build shared mental models with relevant stakeholder groups. Because they are not just socialised in the organisation, they are able to translate between the party and other societal actors (for example party members being also member in a union, a NGO or a research association). Compared with other types of organisations, a political party to a large part consists of 'ideological supporters' who don't work for the party full-time. This also increases the possibility of taking an external view on the organisation and thereby initiating meta-learning processes to overcome the learning barriers mentioned above.

As organisational learning is always prone to sticking in local learning paths, the interaction with other specialised organisations delivering certain services for a party might be necessary. Indeed, following Hayek (1991, 138 ff.) it is unlikely that political leaders, seeking to find and implement policies accepted by a majority of the people, come up with new and controversial ideas.[23] As Witt (2003, 82 f.) notes, political entrepreneurs just take up new ideas developed elsewhere. New ideas are developed within rather small groups and then diffused through communication networks like epistemic communities[24] that finally try to

[23] „Der Sozialphilosoph, der findet, daß seine Anschauungen sehr populär sind, hat allen Grund zu bezweifeln, daß er seine Pflichten erfüllt" Hayek (1991, 140).

[24] „An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area. Although an epistemic community may consist of professionals from a variety of disciplines and backgounds, they have (1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derieved from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity – that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and (4) a common policy enterprise – that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence" (Haas 1992, 3).

permeate their idea into the political decision-making process through approaching the various "veto points" (Haas 1992; Zito 2001).

Because of the influence of established organisational routines on the perception of environmental information, leading politicians may prefer 'sourcing out' some parts of the political production process to relying on their party alone. For example, this may lead to the founding of International Organisations for the 'objective' (in the sense of not determined by the parties' mode of thinking) provision of analyses, implementation or control of policies. As Nelson and Winter (1982, 97) have already mentioned, organisations that deal with change as their main task "do not fit neatly into the routine operation mold". So especially for the introduction of innovation the assistance of actors specialised in change may be fruitful. The OECD can be seen as an example. Out of its strategic drive, it is looking for undetected problems, develops the measures to illustrate them and spreads their problem view.[25]

Conclusion

Inspired by evolutionary theories of the firm, this paper followed the questions of how political parties come into being, what guides their internal development and their relations to the environment. Building on a cognitive-evolutionary model of individual problem solving, parties can be seen as instruments for the realisation of entrepreneurial visions. To get the support necessary for implementing a 'monopolistic' institutional arrangement, entrepreneurs have to convince a critical mass of supporters. The politician offering institutions – regarded as solutions to societal problems – requires a certain knowledge. On the one hand knowledge about the system in which he wants to induce changes and on the other hand about the acceptance of his work by his supporters and voters. Through specialisation this knowledge can be enhanced – presupposing an adequate coordinating mechanism. A party can serve this function as it provides contexts for building shared mental models, including common unconscious understanding of problems, values and cause-effect chains.

The way between one individual having an idea and an institution being shared by all members of a society is long. Parties deliver the infrastructure for the diffusion of ideas, enriching them on the way by discussions that may activate tacit knowledge that can be added to the idea. This probing of alternative hypotheses selects those ideas that are the most

[25] Dostal (2004) shows this leadership role with regard to the European Employment Strategy, which was largelly influenced by the OECD Jobs Study. A more recent example may be the framing of educational policy through the Programme for International Student Assessment (PISA).

convincing. This does not replace the necessity to learning from experience, but it has shown that also learning from ‘real’ environmental feedback is bound to the pre-existing mental models. Competition between alternative regulatory ideas as well as cooperation between actors with differing special capabilities may therefore increase the quality of implemented policies.

A ‘theory of the political party’ can therefore just be a small part of the puzzle and a starting point for a more general evolutionary theory of governance. For the solution of collective problems a variety of possible governance forms exist. These include the combination of different actors with their special knowledge (Metcalfe 2003, Nelson 2003). The task of politics from such a perspective is in arranging the arena of actors and in facilitating the collective learning processes. This requires further exploration into the learning processes in and between different kinds of organisations.

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