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► **To cite this version:**

Florian Navarro. Cooperative games with types, outside options, and the egalitarian value. Mathematical Social Sciences, 2025, <10.1016/j.mathsocsci.2025.01.003>. <hal-04324424v5>

HAL Id: hal-04324424

<https://univ-angers.hal.science/hal-04324424v5>

Submitted on 23 Jan 2025

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Journal Pre-proof

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PII: S0165-4896(25)00011-3

DOI: <https://doi.org/10.1016/j.mathsocsci.2025.01.003>

Reference: MATSOC 2402

To appear in: *Mathematical Social Sciences*

Received date: 22 April 2024

Revised date: 8 January 2025

Accepted date: 15 January 2025



Please cite this article as: F. Navarro, Cooperative games with types, outside options, and the egalitarian value. *Mathematical Social Sciences* (2025), doi: <https://doi.org/10.1016/j.mathsocsci.2025.01.003>.

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Cooperative games with types, outside options, and the egalitarian value¹

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Abstract

This article introduces a new axiom of sub-game order preservation for TU-games as well as a model of cooperative games with types. The axiom, alongside efficiency, characterizes the egalitarian value. The model addresses situations where players of different types are needed. Each player has a specific type and coalitions are feasible only if it contains at most one player of each type. We use the new characterization of the egalitarian value for TU-games to obtain the following result in our class of problems: the egalitarian value is the only sharing rule that ensures that each player of the most productive group is better off joining this most productive group. We characterize the egalitarian value without fairness requirement and show that, for this new class of problems, egalitarianism can provide some form of incentives towards optimal cooperation.

Keywords: Cooperative game theory, Shapley value, equal division, egalitarian value, type structure, incentives

1. Introduction

In the present article we develop a model of cooperative games in which we need players of different types. Several players are of the same type, but a player can only be of a single type. The type structure restricts the feasibility

¹I would like to thank Sylvain Béal who was always available to provide insightful feedbacks and comments at various stages of this paper. I also thank Stéphane Gonzalez for seeing some merits in the original draft, which gave me the confidence to pursue this idea.

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of coalitions: a coalition is feasible if it contains at most one player of each type. This means we have situations in which the grand coalition cannot form. Such a situation can arise when members of an organization have to form a subgroup to tackle a specific project (see Example 3). Several groups having to choose a representative to participate in a committee can also be a situation covered by our model. The problem raised by our model is thus different than the usual problem of cooperative games (sharing the worth of the grand coalition).

A solution ϕ to this model consists of two mechanisms: a function μ that selects a group of players specifying, for each type, a single player of this type, and a sharing rule ψ that shares the worth produced by the group amongst its members. We are interested in a solution that fosters the emergence of the most productive group with all types. To this end, we propose an axiom of *optimality* (the solution selects the best group) on μ and an axiom of *no outside options* (no member of the selected group can be better off in another group) that apply to the solution ϕ . Together, these axioms impose requirements on the solution ψ that is applied to the allocation problem for the chosen group. We introduce an axiom of *sub-game order preservation* for the sharing rule ψ . This axiom states that no member of a population can be worse off by choosing to associate with a group of a given size with which they have the best synergy. We show that requiring the axiom of *no outside option* on ϕ for all μ that satisfy *optimality* is equivalent to requiring *sub-game order preservation* on ψ . As an intermediary result, we offer a characterization of the egalitarian value (which shares the total worth equally between all players) that relies on the *sub-game order preservation* axiom alongside the standard axiom of *efficiency*. As such we characterize the egalitarian principle without any fairness criteria.

Formally, our model is related to the Aumann-Drèze model (Aumann and Dreze, 1974) as it also involves coalition structures. In a coalition structure, players are part of pre-existing groups that can not communicate with each other. This structure has an effect on the worth of coalitions and alter the characteristic function of the underlying transferable utility game (TU-game). Owen (1977) also relies on coalition structures (called a-priori unions) although

they directly affect the payoff of the players. In the present article we take yet another direction: this structure restricts the formation of coalitions and therefore their feasibility.

More generally, this paper joins a line of works which enrich the standard model of cooperative game theory by considering new structures of cooperation. A large part of this research focuses on structures that restrict cooperation by modelling either asymmetries in communication, or hierarchical constraints. In two papers, Myerson modeled communication by respectively a graph (1977) and an hyper-graph (1980). Both represent a restriction of communication between players. Various solution concepts have been proposed for such games. We can cite for instance the Position-value (Meessen, 1988), the Average-Tree Value (Herings et al., 2008), the Mean value (Hamiache, 2004), the F-value (Hamiache, 1999), the Hamiache-Navarro value (Hamiache and Navarro, 2019) and numerous variations of the Myerson value³. Additionally, different forms of hierarchical constraints have been explored by Gilles et al. (1992), Faigle and Kern (1992) and more recently by Béal et al. (2021). The distinction between the framework of Aumann and Dreze (1974), Owen (1977) and ours can similarly be made for, respectively, the framework of Gilles et al. (1992), Béal et al. (2021) and Faigle and Kern (1992). Béal et al. (2021) offer a deeper discussion on how the same mathematical model (in their case, of hierarchical constraint) can affect the underlying game in different ways. In this sense, our work is in line with this trend of research.

Another approach to types, or more precisely differently skilled players, has been proposed by Bachrach et al. (2013) with coalitional skill games (CSG). However, in a CSG framework, certain players can perform certain tasks and the worth of a coalition depends on the nature or number of tasks that can be performed by the coalition. The model is thus similar to the standard model of cooperative game theory but restricts itself to a certain type of characteristic

³For instance two efficient extensions of the Myerson value were proposed by Hamiache (2012) and Béal et al. (2015). Examples of variations on the theme can be found by Gómez et al. (2003) and González-Arangüena et al. (2003).

functions defined by the players' "skills". Therefore, to the best of our knowledge few models have been proposed to enrich the individual characteristics of the players.

Our model tackles issues not addressed by existing research and contributes to the economic theory literature on several levels. For the standard model of TU-games, we provide a new characterization of the egalitarian value. In addition, we use a formal framework of coalition structure to develop a novel class of unexplored problems as of yet. Within this class, we investigate the effect of sharing rules on the spontaneous emergence of coalitions, making it somewhat endogenous to the model. We give a solution for these problems and show that, for this class of problems, egalitarianism can provide an incentive whereas approaches based on the evaluation of marginal contributions can be detrimental for cooperation.

In section 2 of this paper we introduce the canonical model of cooperative games with transferable utility and present the axiom of *sub-game order preservation* as well as a weaker variant. We build a new characterization of the egalitarian value and study how this characterization holds when weakening the *sub-game order preservation* axiom. In section 3 we present our new model of games with types and we propose axioms for a desirable solution to this new type of problems as well as present our main results. We conclude in section 4.

2. TU-games, egalitarian value and sub-game order preservation

Let U be a non-empty and infinite set of players. A coalition is a non-empty and finite subset of U . A coalitional game with transferable utility (also called a cooperative TU-game) is a pair (N, v) where N is a coalition and v is a function satisfying $v : 2^N \rightarrow \mathbb{R}$ and $v(\emptyset) = 0$. We denote by Γ the set of these games. Given a coalition $S \subseteq N$ we write $s = |S|$ to denote its cardinality. For any $S \subsetneq N$ we will write $(S, v|_S)$ the sub-game restricted to coalition S with $v|_S(T) = v(T)$, $\forall T \subseteq S$. A player $i \in N$ is a null player in the game (N, v) if

$v(S \cup \{i\}) = v(S)$ for all $S \subseteq N \setminus \{i\}$. A player $i \in N$ is a nullifying player in the game (N, v) if $v(S) = 0$, for all $S \subseteq N$ such that $i \in S$. Two players $i, j \in N$ are equals in the game (N, v) if $v(S \cup \{i\}) = v(S \cup \{j\})$ for all $S \subseteq N \setminus \{i, j\}$. A permutation π on N assigns a position $\pi(i) \in \{1, \dots, n\}$ to each player $i \in N$.

A TU-game v is said to be a convex game if it satisfies $v(S \cup \{i\}) - v(S) \leq v(T \cup \{i\}) - v(T)$ for all $i \in N$ and all $S \subseteq T \subseteq N \setminus \{i\}$. Convex games have been shown by Shapley (1971) to have a non-empty core⁴.

A sharing rule on Γ is a function ψ which associates with each game $(N, v) \in \Gamma$ a vector $\psi(N, v) \in \mathbb{R}^N$. The Shapley value, first presented by Shapley (1953), rewards players based on their marginal contributions, weighted by all the possible orders of entry of players in coalitions. We denote this sharing rule by Sh and define it as

$$Sh_i(N, v) = \sum_{\substack{S \subseteq N \\ i \in S}} \frac{(s-1)!(n-s)!}{n!} [v(S) - v(S \setminus \{i\})], \forall i \in N.$$

The Egalitarian value divides equally the worth of coalition N between all players. We denote this sharing rule EG and define it as

$$EG_i(N, v) = \frac{v(N)}{n}, \forall i \in N.$$

We introduce the following classical axioms for sharing rules over TU-games.

Efficiency. For each game $(N, v) \in \Gamma$ it holds that $\sum_{i \in N} \psi_i(N, v) = v(N)$.

Linearity. For each pair of games $(N, v), (N, w) \in \Gamma$ and each real number $\alpha \in \mathbb{R}$, it holds that $\psi(N, v + \alpha w) = \psi(N, v) + \alpha \psi(N, w)$.

Null player. For each game $(N, v) \in \Gamma$ and each null player $i \in N$, it holds that $\psi_i(N, v) = 0$.

Nullifying player. For each game $(N, v) \in \Gamma$ and each nullifying player $i \in N$, it holds that $\psi_i(N, v) = 0$.

Equal treatment of equals. For each game $(N, v) \in \Gamma$ and each pair of players $i, j \in N$ who are equals in (N, v) , it holds that $\psi_i(N, v) = \psi_j(N, v)$.

⁴Quoting Shapley (1971), "the core of [a TU-game] is the set of feasible outcomes that cannot be improved upon by any coalition of players".

Anonymity. For each game (N, v) and each permutation π on N we have $\psi_i(N, v) = \psi_{\pi(i)}(N, \pi v)$, for all $i \in N$, with $\pi v(S) = v(\cup_{i \in S} \pi(i))$, for all $S \subseteq N$.

As shown by [Shapley \(1953\)](#), the Shapley value is the unique sharing rule satisfying efficiency, linearity, null player and equal treatment of equals. The egalitarian value has been shown by [van den Brink \(2007\)](#) to be the unique sharing rule satisfying efficiency, linearity, nullifying player and the equal treatment of equals.

[Thomson \(1983\)](#) introduced the axiom of population monotonicity in the context of fair division. This axiom states that when facing a given problem of fair division, no player should be better off by having to share with more players. [Chun \(1986\)](#) and later [Chun and Park \(2012\)](#) expanded on this idea and proposed a similar axiom for, respectively, fair division problems and allocation problems in cooperative games. This weaker variant states that when a population is joined by newcomers, all members of the original population are either all better off or all worse off.

We introduce a new axiom of *sub-game order preservation* that have some conceptual relation to the axioms of population monotonicity introduced by [Thomson \(1983\)](#), [Chun \(1986\)](#) and [Chun and Park \(2012\)](#). Let us consider a given population P offered with the choice of cooperating with two different groups of the same size. Our axiom states that no member of population P can be worse off if the population chooses the group with whom it has the best synergy. In the context of cooperative games, given two coalition of players whose intersection is non-empty, we ask that no member of the intersection is rewarded less when joining the coalition with the better worth. Formally⁵,

Sub-game order preservation. For each game (N, v) with $n \geq 3$ and each pair of coalitions $S, T \subseteq N$ with $s = t$, $S \cap T \neq \emptyset$ if $v(S) \geq v(T)$ it holds that $\psi_i(S, v|_S) \geq \psi_i(T, v|_T)$, $\forall i \in S \cap T$.

⁵ P corresponds to $S \cap T$ in the definition of sub-game order preservation

We also give an alternative interpretation for this axiom. If a subgroup P of S decides to replace the other members of S by a set of outsiders of the same size, then the members of P should not be worse off if the newly formed coalition T is at least as productive as the original coalition S . Note that this axiom puts no requirement on any payoffs in the game (N, v) . Moreover, for the two sub-games considered, it says nothing about the payoffs of players not belonging to the intersection of S and T . As a result, this axiom does not appear that strong.

The axiom of *sub-game order preservation* is also quite different from the axiom of *grand coalition monotonicity* used by [Casajus and Huettner \(2014\)](#) to characterize the egalitarian value. Grand coalition monotonicity compares the same population involved in two different games, whereas we compare two different populations.

We now provide two examples to illustrate that the Shapley value violates sub-game order preservation.

Example 1. We consider the game (N, v) with $N = \{1, 2, 3, 4\}$ and v such that $v(S) = 0$ for all singletons and

S	12	13	14	23	24	34	123	124	134	234	1234
$v(S)$	1	2	1	1	1.5	1	4	3	4	3	6

Observe that (N, v) is convex. We focus on the two coalitions $S = \{1, 2, 3\}$ and $T = \{1, 2, 4\}$. We might want to provide an incentive for players 1 and 2 to join with player 3 instead of player 4. However, the Shapley value of the

corresponding sub-games are

Sh_i	$v_{\{1,2,3\}}$	$v_{\{1,2,4\}}$
1	1.5	$\frac{10}{12}$
2	1	$\frac{13}{12}$
3	1.5	-
4	-	$\frac{13}{12}$
$\sum_{i \in N} Sh_i$	4	3

Player 1 would prefer to join with 3 and player 2 would prefer to join with 4. The Shapley value therefore does not satisfy sub-game order preservation, even for convex games.

■

This second example shows that the Shapley value can even "reverse the order" in the sub-games.

Example 2. We consider the game (N, v) with $N = \{1, 2, 3, 4\}$, v such that

S	1	2	3	4	12	13	14	23	24	34	123	124	134	234	1234
$v(S)$	0.5	0	0.5	0	1	1.2	0.5	1	0	0.5	2	1	1.2	1	2

Observe that this game is also convex. We focus on the four coalitions of size 2. The Shapley value of the corresponding sub-games are

Sh_i	$v_{\{1,2\}}$	$v_{\{1,3\}}$	$v_{\{2,4\}}$	$v_{\{3,4\}}$
1	0.75	0.6	-	-
2	0.25	-	0	-
3	-	0.6	-	0.5
4	-	-	0	0
\sum	1	1.2	0	0.5

In this example, player 1 and player 2 both have incentives to form $\{1, 2\}$ which has a worth lower than $\{1, 3\}$.

We first introduce a lemma used to prove our main theorem. ■

Lemma 1 *If a sharing rule ψ on Γ satisfies **efficiency** and **sub-game order preservation** then it satisfies **equal treatment of equals**.*

Proof. We consider a game (N, v) such that two players $i, j \in N$ are equals in v . Let $P \subset U \setminus N$ with $p = n - 1$. We build a larger game (N^+, w) such that $N^+ = N \cup P$. We denote $N_i = P \cup \{i\}$ and $N_j = P \cup \{j\}$. We take w such that

- $w(S) = v(S)$ for all $S \subseteq N$,
- $w(N_i) = w(N_j) = w(N) = v(N)$,

Since U is infinite, such a construction is always possible.

We consider coalition N and we will prove that $\psi_i(N, w|_N) = \psi_j(N, w|_N)$. Since the worths of coalitions N_i , N_j and N are equal, we use *sub-game order preservation* in both directions and obtain the following useful conditions on ψ :

$$\begin{aligned} \psi_p(N_i, w|_{N_i}) &= \psi_p(N_j, w|_{N_j}), \quad \forall p \in P = N_i \cap N_j, \\ \psi_i(N_i, w|_{N_i}) &= \psi_i(N, w|_N), \\ \psi_j(N_j, w|_{N_j}) &= \psi_j(N, w|_N). \end{aligned} \tag{1}$$

By *efficiency* we have the following condition on ψ :

$$\sum_{k \in N_i} \psi_k(N_i, w|_{N_i}) = w(N_i) = w(N_j) = \sum_{k \in N_j} \psi_k(N_j, w|_{N_j}).$$

Therefore we obtain that

$$\begin{aligned} w(N_i) &= w(N_j) \\ \Leftrightarrow \sum_{k \in N_i} \psi_k(N_i, w|_{N_i}) &= \sum_{k \in N_j} \psi_k(N_j, w|_{N_j}) \\ \Leftrightarrow \sum_{p \in P} \psi_p(N_j, w|_{N_j}) + \psi_i(N_i, w|_{N_i}) &= \sum_{p \in P} \psi_p(N_j, w|_{N_j}) + \psi_j(N_j, w|_{N_j}) \\ \Leftrightarrow \psi_i(N_i, w|_{N_i}) &= \psi_j(N_j, w|_{N_j}) \\ \Leftrightarrow \psi_i(N, w|_N) &= \psi_j(N, w|_N). \end{aligned}$$

The first equivalence comes from *efficiency*, and the third and last equivalence come from conditions in (1). We therefore obtain that $\psi_i(N, w_{|N}) = \psi_j(N, w_{|N})$ which, by definition of w , is equivalent to $\psi_i(N, v) = \psi_j(N, v)$. \square

Theorem 1

The sharing rule ψ on Γ satisfies efficiency and sub-game order preservation if and only if $\psi = EG$.

Proof. We know that *EG* satisfies *efficiency*. It is trivial that it satisfies *sub-game order preservation*. Let us prove that, for any game $(N, v) \in \Gamma$, if a sharing rule ψ satisfies *efficiency* and *sub-game order preservation* then it is the egalitarian value.

Let us consider a game (N, v) and a player $i \in N$. We can build a game (N_i, w_i) with N_i such that

$$\begin{aligned} N &\subsetneq N_i, \\ \exists T \subsetneq N_i \text{ with } N \cap T &= \{i\} \text{ and } n = t. \end{aligned}$$

We also put the following conditions on w_i :

$$\begin{aligned} w_i(P) &= v(P), \quad \forall P \subseteq N \\ w_i(T) &= v(N), \\ w_i(P) &= v(\{i\}), \quad \forall P \subsetneq T. \end{aligned}$$

Such a construction is always possible since U is infinite. By definition we have $(w_i)_{|N}(S) = v(S)$ for all $S \subseteq N$ hence $\psi_i(N, (w_i)_{|N}) = \psi_i(N, v)$. Using *efficiency* and Lemma 1 we have

$$\psi_i(T, (w_i)_{|T}) = \frac{(w_i)_{|T}(T)}{t} = \frac{v(N)}{n}$$

since all players $j \in T$ are equals in $(w_i)_{|T}$. As we have $N, T \subseteq N_i$, $n = t$ and

$w_i(T) = w_i(N)$ using sub-game order preservation we obtain that

$$\psi_i(T, (w_i)_{|_T}) \geq \psi_i(N, (w_i)_{|_N}) \text{ and } \psi_i(N, (w_i)_{|_N}) \geq \psi_i(T, (w_i)_{|_T}),$$

which means that

$$\psi_i(N, (w_i)_{|_N}) = \psi_i(T, (w_i)_{|_T}) = \frac{v(N)}{n} = \psi_i(N, v).$$

Since U is an infinite set it is possible to build a game (N_i, w_i) that satisfies our above conditions for every $i \in N$. Hence we have that $\psi_i(N, v) = \frac{v(N)}{n}$, $\forall i \in N$, which concludes our proof. \square

We now prove that our axioms are logically independent.

Dropping efficiency

Consider the sharing rule $f^1(N, v) = \alpha EG(N, v)$ with $\alpha \neq 1$. It obviously satisfies *sub-game order preservation* but not *efficiency*.

Dropping sub-game order preservation

Consider the Shapley value. It satisfies efficiency. Example 1 shows it does not satisfy sub-game order preservation.

Next, we consider a weaker variant of sub-game order preservation. The axiom of *sub-game order preservation* is build on the following idea of coalitional stability: a coalition can only form if each player consents to its formation. This conception is in line with the model 1 of stability presented in [Hart and Kurz \(1983\)](#). Additionally, this conception can also be interpreted as a requirement for a deviation. Therefore, coalitional stability can be thought as the inability for players to form another coalition than the one they are currently in. This gives us ground on which we define a weaker version of sub-game order preservation :

Weak sub-game order preservation. For each game $(N, v) \in \Gamma$ with $n \geq 3$ and each pair of coalitions $S, T \subseteq N$ with $s = t$, $S \cap T \neq \emptyset$, if $v(S) \geq v(T)$ it

holds that $\exists i \in S \cap T$ such that $\psi_i(S, v_{|_S}) \geq \psi_i(T, v_{|_T})$.

The reasoning behind this axiom is the following: assume that coalition S is formed. Players in P could choose to break off from S and form T . However for this to be possible it would require that all players in P agree to do so. Hence, if we want the coalition with the highest worth to be maintained, we need only one player to oppose the deviation. To sum up, whereas *sub-game order preservation* asks *all* players in P to be better off when joining a group with which they have a higher synergy, *weak sub-game order preservation* only requires that *some* players in P are better off.

Below we show that Lemma 1 does hold with this weaker version of sub-game order preservation.

Lemma 2 *If a sharing rule ψ on Γ satisfies efficiency and weak sub-game order preservation then it satisfies equal treatment of equals.*

Proof. In order to prove that *efficiency* and *weak sub-game order preservation* implies *equal treatment of equals* we will show that if a sharing rule ψ violates *equal treatment of equals* then it does not satisfy *efficiency* and *weak sub-game order preservation* together.

Let us consider a sharing rule ψ and let us assume that it violates *equal treatment of equals* but satisfies both *efficiency* and *weak sub-game order preservation*. We will show this leads to a contradiction. If ψ does not satisfy *equal treatment of equals*, then there exists a game (N, v) such that, for some equal players i, j in (N, v) , $\psi_i(N, v) \neq \psi_j(N, v)$. Let us consider such a game. We will note $g(N)$ the set of players in N which are equals to i and j (including themselves). By *efficiency*, if ψ was to satisfy *equal treatment of equals* we would have

$$\psi_i(N, v) = \frac{v(N) - \sum_{j \in N \setminus g(N)} \psi_j(N, v)}{|g(N)|}, \quad \forall i \in g(N).$$

Since we assume *equal treatment of equals* is not satisfied this implies that there exists some $i \in g(N)$ such that

$$\psi_i(N, v) = \frac{v(N) - \sum_{j \in N \setminus g(N)} \psi_j(N, v)}{|g(N)|} + \epsilon_i^N.$$

We denote the set of these players by $g^+(N)$. Similarly there must exist some $i \in g(N)$ such that

$$\psi_i(N, v) = \frac{v(N) - \sum_{j \in N \setminus g(N)} \psi_j(N, v)}{|g(N)|} - \epsilon_i^N.$$

We denote the set of these players by $g^-(N)$. By *efficiency* we must have

$\sum_{i \in g^+(N) \cup g^-(N)} \epsilon_i^N = 0$. In order for ψ to violate *equal treatment of equals* we must also have that $g^+(N) \neq \emptyset$ and $g^-(N) \neq \emptyset$ as well as $\epsilon_i^N > 0$ for all $i \in g^+(N) \cup g^-(N)$.

Let us now consider a larger game (N^+, w) with $N \subsetneq N^+$ and such that there exists a $T \subsetneq N^+$ with $N \cap T = \{i\}$, $i \in g^-(N)$. Therefore there exists a bijection $\pi : N \rightarrow T$ with $\pi(i) = i$. We build w such that

- $w(P) = v(P)$ for all $P \subseteq N$,
- $w(\cup_{j \in P} \pi(j)) = v(P)$, for all $P \subseteq N$.

We can deduce the following from these conditions. First we know that $w(T) = w(N)$. Second, we know that there are as many players equal to i in T as there is in N , i.e. $|g(N)| = |g(T)|$. Finally, since ψ does not satisfy *equal treatment of equals*, it also violates *anonymity*. In turn this means it violates the following requirement: for each game (N, v) and each bijection $\pi : N \rightarrow T$, $\psi_i(N, v) = \psi_{\pi(i)}(T, \pi v)$, $\forall i \in N$ ⁶. Since ψ violates this requirement on (N, v) , we can conclude that there exists a set T and a bijection $\pi : N \rightarrow T$ such that

⁶Observe that if π is a bijection of N on itself this requirement coincides with *anonymity*. It follows that if *anonymity* is not satisfied, this requirement is not satisfied either.

$\exists j \in N$ for which $\psi_j(N, v) \neq \psi_{\pi(j)}(T, \pi v)$. Hence we can write that

$$\psi_{\pi(j)}(T, w|_T) = \psi_j(N, w|_N) + \lambda_j, \quad \forall j \in N,$$

with $\lambda_j \in \mathbb{R}$, $\sum_{j \in N} \lambda_j = 0$. We necessarily have that there exists some $j \in N$ for which $\lambda_j \neq 0$. And thus, by *efficiency*, there must be at least two players j for which $\lambda_j \neq 0$. In addition, note that the determination of the λ_j must depend on the players' labels. Therefore, for any given set T , there are multiple bijections π such that ψ violates the above requirement.

Since $N \cap T = \{i\}$ and $w(N) = w(T)$, *weak sub-game order preservation* requires that

$$\psi_i(N, w|_N) = \psi_i(T, w|_T).$$

Now, even though $i \in g^-(N)$, it is possible that $i \in g^-(T)$ or $i \in g^+(T)$. We focus on the latter. The previous equation becomes

$$\frac{w(N) - \sum_{j \in N \setminus g(N)} \psi_j(N, w|_N)}{|g(N)|} - \epsilon_i^N = \frac{w(T) - \sum_{j \in T \setminus g(T)} \psi_j(T, w|_T)}{|g(T)|} + \epsilon_i^T.$$

Since $w(N) = w(T)$ and $|g(N)| = |g(T)|$ we obtain

$$\frac{\sum_{j \in N \setminus g(N)} \psi_j(N, w|_N)}{|g(N)|} - \epsilon_i^N = -\frac{\sum_{j \in T \setminus g(T)} \psi_j(T, w|_T)}{|g(N)|} + \epsilon_i^T.$$

Rearranging,

$$\sum_{j \in T \setminus g(T)} \psi_j(T, w|_T) - \sum_{j \in N \setminus g(N)} \psi_j(N, w|_N) = (\epsilon_i^T + \epsilon_i^N)|g(N)|.$$

Since $(\epsilon_i^T + \epsilon_i^N)|g(N)| > 0$ we obtain that

$$\sum_{j \in T \setminus g(T)} \psi_j(T, w|_T) > \sum_{j \in N \setminus g(N)} \psi_j(N, w|_N).$$

From efficiency we have

$$\begin{aligned}
 w(T) - \sum_{j \in g(T)} \psi_j(T, w|_T) &> w(N) - \sum_{j \in g(N)} \psi_j(N, w|_N) \\
 \Leftrightarrow - \sum_{j \in g(T) \setminus \{i\}} \psi_j(T, w|_T) - \psi_i(T, w|_T) &> - \sum_{j \in g(N) \setminus \{i\}} \psi_j(N, w|_N) - \psi_i(N, w|_N), \\
 \Leftrightarrow \psi_i(N, w|_N) - \psi_i(T, w|_T) &> \sum_{j \in g(T) \setminus \{i\}} \psi_j(T, w|_T) - \sum_{j \in g(N) \setminus \{i\}} \psi_j(N, w|_N)
 \end{aligned}$$

Since $\psi_{\pi(j)}(T, w|_T) = \psi_j(N, w|_N) + \lambda_j$, $\forall j \in N$, and $j \in g(N)$ if and only if $\pi(j) \in g(T)$ we have

$$\psi_i(N, w|_N) - \psi_i(T, w|_T) > \sum_{j \in g(N) \setminus \{i\}} \lambda_j.$$

Since U is an infinite set, we can choose the $k \in N^+ \setminus N$ and π such that, for all $\sum_{j \in g(N) \setminus \{i\}} \lambda_j \geq 0$, and obtain

$$\psi_i(N, w|_N) - \psi_i(T, w|_T) > 0$$

which contradicts *weak sub-game order preservation*. □

We now show that Theorem 1 remains true even if we replace *sub-game order preservation* with *weak sub-game order preservation*.

Theorem 2

A sharing rule ψ on Γ satisfies **efficiency** and **weak sub-game order preservation** if and only if $\psi = EG$.

Proof. In the proof of Theorem 1 we used a construction where $S \cap T$ is a singleton. Therefore the proof for this theorem is identical except we use the Lemma 2 where Lemma 1 was previously used. □

Note that the two axioms are independent : Sh satisfies *efficiency* but not *weak sub-game order preservation* as shown in Example 2 and f^1 satisfies *weak sub-game order preservation* but not *efficiency*.

3. Games with types

Now, we introduce a new model of cooperative games in which players are of a given type.

Consider an entity (a firm for instance) is setting up a project that asks for specific types of players. It potentially has several players (candidates, employees, other firms) of each type. Each player is of a given type but several players are of the same type. Once the team is put together, the players who are part of the team will work on the project which implies working all together as well as in subgroups and alone.

Formally, we consider k types with $1 < k < n$. Each player $i \in N$ is of only one type and we denote by $K_\alpha \subsetneq N$ the set of players of type $\alpha \in \{1, \dots, k\}$. We write $K = \{K_1, K_2, \dots, K_k\}$ to denote the set of those sets. We denote by K^i the set of players of the same type as player i . Letting $\mathcal{P}(N)$ denote the partitions of the player set N , the set $K \in \mathcal{P}(N)$ can be understood as a coalition structure as introduced by [Aumann and Dreze \(1974\)](#). We have

$$\bigcup_{1 \leq \alpha \leq k} K_\alpha = N \text{ and } K_{\alpha_1} \cap K_{\alpha_2} = \emptyset \text{ for any } \alpha_1, \alpha_2 \in \{1, \dots, k\} \text{ and } \alpha_1 \neq \alpha_2.$$

A *full coalition* is a coalition where each type is present. We denote by $F = \prod_{1 \leq \alpha \leq k} K_\alpha$ the set of full coalitions, defined by the cartesian products of the sets that partition players into types. Therefore, the size of each full coalition is k . We also denote $F^i = \{F' \in F \mid i \in F'\}$ the set of full coalitions to which player i belongs. We assume that sub-coalitions of full coalitions are still feasible⁷ but that coalitions with excess players are not. Hence the set of feasible coalitions $\mathcal{F}_{N,K}$ is the union of the subsets of full coalitions.

We consider that a value is produced from the cooperation of players. This production is modelled by a characteristic function v defined over 2^N . Hence,

⁷A feasible coalition is a coalition that can be formed by players. The solutions we propose only consider feasible coalitions.

we define a game with types as a triplet (N, v, K) with $N \subseteq U$, $(N, v) \in \Gamma$ and $K \in \mathcal{P}(N)$. We denote the set of those games by Γ_{type} . Note that if K partitions players into singletons, (N, v, K) coincides with (N, v) .

We provide here an example of a game with types.

Example 3 (*Team project*)

Consider the following situation: a business trusts one of its managers to take on a new project that needs two other specialists. She is given freedom to choose other employees of the necessary types. The other employees are free to reject the proposition. Once the project is done, the team will get a bonus proportional to the estimated value of the work produced. This raises the problem of finding a sharing rule for this bonus that gives the manager the incentives to put together the team that produce the most valuable work, and for the potential teammates to accept. Formally we have $N = \{1, 2, 3, 4, 5\}$ and $K = \{\{1\}, \{2, 3\}, \{4, 5\}\}$. The full coalitions are $F = \{\{1, 2, 4\}, \{1, 2, 5\}, \{1, 3, 4\}, \{1, 3, 5\}\}$. The set of feasible coalition is given by

$$\mathcal{F}_{N,K} = \{\{1\}, \{2\}, \{3\}, \{4\}, \{5\}, \{1, 2\}, \{1, 3\}, \{1, 4\}, \{1, 5\}, \{2, 4\}, \{2, 5\}, \{3, 4\}, \{3, 5\}, \{1, 2, 4\}, \{1, 2, 5\}, \{1, 3, 4\}, \{1, 3, 5\}\}.$$

Imagine that 2 has poor synergy with both 4 and 5 while 3 has a really good synergy with 5 (only amplified under 1 management) but can't stand working with 4. However, as a manager, 1 is able to be at its best when bridging the divide between 4 and 3. The following worths for the feasible coalitions express this situation. The worths express the value of intermediary works as well as the end product. We have $v(\{i\}) = 0$ for all $i \in N$ and ⁸

S	12	13	14	15	24	25	34	35	124	125	134	135
$v(S)$	0.5	0	1	1	0.5	0.75	0	2	2	2	3	4

⁸Note that v is defined for any $S \subseteq N$. We only focus here on the feasible coalitions so as not to take up too much space.

This example illustrates three issues that naturally arise in this model: the formation of one of the full coalitions, the allocation of its worth, and the influence of this allocation on the stability of the formation process of the selected full coalition. To address these issues, we define a solution on Γ_{type} as a pair $\phi = (\mu, \psi)$. The function μ is a mechanism that selects for each $(N, v, K) \in \Gamma_{type}$ one of its full coalitions $\mu(N, v, K)$. The function ψ is a sharing rule on Γ . For a given game with types $(N, v, K) \in \Gamma_{type}$ a solution is $\phi(N, v, K) = (\mu(N, v, K), \psi(\mu(N, v, K), v_{|\mu(N, v, K)}))$. Such a solution is therefore two-dimensional. We shall then put requirements on both dimensions separately as well as a requirement on their interaction. ■

One desirable and reasonable requirement for a mechanism μ would be that it selects an optimal full coalition. A full coalition $F' \in F$ is optimal if and only if $v(F') = \max_{F'' \in F} v(F'')$. We let $F_{opt} = \{F' \in F \mid v(F') = \max_{F'' \in F} v(F'')\}$ be the set of optimal full coalitions. Hence, we require that the mechanism μ selects a coalition that is optimal.⁹ This gives us a first axiom:

Optimality. For every games with types $(N, v, K) \in \Gamma_{type}$ it holds that $\mu(N, v, K) \in F_{opt}$.

Next we put a requirement on the sharing rule ψ on Γ . We require that ψ satisfies the standard axiom of *efficiency* (as defined in section 2). Observe that even though we consider a model of games with types, ψ is a sharing rule for TU-games. Hence it is sufficient to require that ψ is efficient in order to ensure that the worth of the full coalition is completely allocated amongst its players.

Finally, we introduce an axiom which concerns the interaction between μ and ψ . When choosing a solution $\phi = (\mu, \psi)$, can we make sure that the coalition $\mu(N, v, K)$ is stable? That is to say, can we make sure that no players in

⁹Note that there can be multiple optimal full coalitions. We only ask that μ selects one of these. Hence it is possible that μ is not anonymous with respect to full coalitions.

$\mu(N, v, K)$ would be better off joining other players ? We consider the payoff a player can obtain with another coalition as a player's outside options. Hence the following question : does the solution $\phi = (\mu, \psi)$ is such that no player that belongs to $\mu(N, v, K)$ has better outside options ?¹⁰ Formally:

No outside options. For every game with types $(N, v, K) \in \Gamma_{type}$ it holds that $\phi = (\mu, \psi)$ is such that $\psi_i(\mu(N, v, K), v_{|\mu(N, v, K)}) \geq \psi_i(F', v_{|F'})$, $\forall F' \in F^i$, $\forall i \in \mu(N, v, K)$.

Remark. From Example 1 and 3 it is easy to see that if ψ is chosen to be the Shapley value then ϕ does not satisfy *no outside options*.

The axiom of *no outside options* is defined for a solution ϕ defined on Γ_{type} which itself is entirely composed of a solution ψ defined on Γ and of a coalition selector μ . Hence the requirement that is put on ϕ by the axiom of *no outside options* necessarily interacts with the requirement put on μ by *optimality* and the requirement put on ψ by *efficiency*. The next two results explore how these three axioms interact. In particular, the next proposition explores how, when requiring *optimality*, the *no outside options* axiom can be "translated" to a specific requirement on ψ .

Proposition 1

Let ψ be a sharing rule on Γ . The following are equivalent:

- for any **optimal** μ , the solution $\phi = (\mu, \psi)$ on Γ_{type} satisfies **no outside options**;
- ψ satisfies **sub-game order preservation**.

Proof. We first prove that if μ satisfies *optimality* and ψ satisfies *sub-game order preservation* then ϕ satisfies *no outside options*.

¹⁰The concept of outside options considered here is in line with the one used by Casajus (2009) in the context of communication graph games.

Let us consider a solution $\phi = (\mu, \psi)$. If μ satisfies *optimality* then $\mu(N, v, K) \in F_{opt}$ which implies that $v(\mu(N, v, K)) \geq v(F')$ for all $F' \in F$. By definition we have that $|\mu(N, v, K)| = |F'|$, for all $F' \in F$. Using *sub-game order preservation* we know then that $\psi_i(\mu(N, v, K), v_{|\mu(N, v, K)}) \geq \psi_i(F', v_{|F'})$ for all F' such that $\mu(N, v, K) \cap F' \neq \emptyset$, $\forall i \in \mu(N, v, K) \cap F'$. By definition, if $i \in \mu(N, v, K) \cap F'$ then $F' \in F^i$. Hence $\psi_i(\mu(N, v, K), v_{|\mu(N, v, K)}) \geq \psi_i(F', v_{|F'})$ for all $F' \in F^i$, for all $i \in \mu(N, v, K)$. This coincides with the requirement for *no outside options*.

We now prove that if ϕ satisfies *no outside options* for any μ that satisfies *optimality* then ψ satisfies *sub-game order preservation*.

Let (N, v) be a TU-game. Our goal is to prove that, for any $S, T \subseteq N$ with $s = t$, $S \cap T \neq \emptyset$ and $v(S) \geq v(T)$, it holds that $\psi_i(S, v_{|S}) \geq \psi_i(T, v_{|T})$, $\forall i \in S \cap T$. To this end we show that there exists a game with types (N, w, K) such that $\mu(N, w, K) = S$ and $T \in F$. Let (N, w, K) be a game with types. We build w such that

- $w(R) = v(R)$, $\forall R \subseteq S$ and $\forall R \subseteq T$;
- $w(R) < v(S)$, $\forall R \subseteq N$, $r = s$, $R \neq S$, $R \neq T$.

Additionally we consider a partition K of N such that $k = s$. Assume that every $i \in S$ is in a different element of K and that every $j \in T$ is also in a different element of K . This ensures that S and T are full coalitions. The *no outside options* axiom imposes the following conditions:

$$\begin{cases} \psi_i(\mu(N, w, K), w_{|\mu(N, w, K)}) \geq \psi_i(F', w_{|F'}), & \forall F' \in F, F' \cap \mu(N, w, K) \neq \emptyset, \\ & \forall i \in F' \cap \mu(N, w, K). \end{cases}$$

We first assume that $v(S) > v(T)$. Using optimality on μ we obtain

$$\begin{aligned} &\Leftrightarrow \begin{cases} \psi_i(S, w_{|S}) \geq \psi_i(F', w_{|F'}), & \forall F' \in F, F' \cap S \neq \emptyset, \\ & \forall i \in F' \cap S. \end{cases} \\ &\Rightarrow \begin{cases} \psi_i(S, v_{|S}) \geq \psi_i(T, v_{|T}), & \forall i \in T \cap S. \end{cases} \end{aligned}$$

The last implication comes from the facts that $T \in F$, $w_{|S} = v_{|S}$ and $w_{|T} = v_{|T}$. This last condition coincides with the one for *sub-game order preservation*.

We now assume that $v(S) = v(T)$. We want the solution ϕ to satisfies no outside options for any possible μ that is optimal. If $v(S) = v(T)$ then, in the game (N, w, K) we have $F_{opt} = \{S, T\}$. Since an optimal coalition selector μ can choose either of these two coalitions, the conditions under which ϕ satisfies no outside option, for any μ that is optimal become :

$$\begin{aligned} & \Leftrightarrow \begin{cases} \psi_i(S, w_{|S}) \geq \psi_i(F', w_{|F'}), & \forall F' \in F, F' \cap S \neq \emptyset, \\ & \forall i \in F' \cap S; \\ \psi_i(S, w_{|S}) \leq \psi_i(F', w_{|F'}), & \forall F' \in F, F' \cap S \neq \emptyset, \\ & \forall i \in F' \cap S. \end{cases} \\ & \Rightarrow \left\{ \psi_i(S, v_{|S}) = \psi_i(T, v_{|T}), \quad \forall i \in T \cap S. \right. \end{aligned}$$

This condition coincides with the condition of sub-game order preservation. \square

Theorem 3

Let ψ be an **efficient** sharing rule on Γ . The following are equivalent:

- for any **optimal** μ , the solution $\phi = (\mu, \psi)$ on Γ_{type} satisfies **no outside options**;
- $\psi = EG$.

Proof. We first prove the “if part”. We consider a solution $\phi = (\mu, EG)$ with μ satisfying *optimality*. We know that EG satisfies *efficiency* and *sub-game order preservation*. From Proposition 1 we conclude that $\phi = (\mu, EG)$ satisfies *no outside options*.

Now the “only-if part”. We consider a solution $\phi = (\mu, \psi)$ with ψ satisfying *efficiency*. Since ϕ satisfies *no outside options* for any μ satisfying *optimality*, from Proposition 1 we know that ψ satisfies *sub-game order preservation*. We then use Theorem 1 to conclude that $\psi = EG$. \square

As we did in section 2 for *sub-game order preservation*, we can design a weaker variant of the *no outside options* axiom. This variant relies on the same conception of deviation and coalitional stability that we presented in section 2.

No outside options (weak). For every game with types $(N, v, K) \in \Gamma_{type}$, it holds that the solution $\phi(N, v, K) = (\mu, \psi)$ is such that $\exists i \in \mu(N, v, K) \cap F'$ such that

$$\psi_i(\mu(N, v, K), v_{|\mu(N, v, K)}) \geq \psi_i(F', v_{|F'}), \forall F' \in F.$$

An alternative coalition F' can form only if no member of $\mu(N, v, K) \cap F'$ object to its formation. We obtain a parallel result to Proposition 1.

Proposition 2

Let ψ be a sharing rule on Γ . The following are equivalent:

- for any **optimal** μ , the solution $\phi = (\mu, \psi)$ on Γ_{type} satisfies **no outside options (weak)**;
- ψ satisfies **weak sub-game order preservation**.

Proof. We first prove that if μ satisfies *optimality* and ψ satisfies *weak sub-game order preservation* then ϕ satisfies *no outside options (weak)*.

Let $\phi = (\mu, \psi)$ be a solution for games with types. Let $(N, v, K) \in \Gamma_{type}$ be such a game. Since μ satisfies *optimality* then $v(\mu(N, v, K)) \geq v(F')$ for all $F' \in F$. In particular we have $v(\mu(N, v, K)) \geq v(F')$ for all $F' \in F$ such that $F' \cap \mu(N, v, K) \neq \emptyset$. Since ψ satisfies *weak sub-game order preservation* we obtain that, $\forall F' \in F$ with $\mu(N, v, K) \cap F' \neq \emptyset$, $\exists i \in \mu(N, v, K) \cap F'$ such that

$$\psi_i(\mu(N, v, K), v_{|\mu(N, v, K)}) \geq \psi_i(F', v_{|F'}).$$

Which coincides with the *no outside options (weak)* axiom.

We now prove that if ϕ satisfies *no outside options (weak)* for any μ that satisfies *optimality* then ψ satisfies *weak sub-game order preservation*. Let (N, v) be a TU-game. It is sufficient to show that for any $S, T \subseteq N$ with $s = t$, $S \cap T \neq \emptyset$ and $v(S) \geq v(T)$ there exists a game with types (N, w, K) such that $\mu(N, w, K) = S$

and $T \in F$.

Let (N, w, K) be a game with types. We build w such that

- $w(R) = v(R), \forall R \subseteq S$ and $\forall R \subseteq T$;
- $w(R) < v(S), \forall R \subseteq N, r = s, R \neq S, R \neq T$.

Additionally we consider a partition K of N such that $k = s$. Assume that every $i \in S$ is in a different element of K and that every $j \in T$ is also in a different element of K . This ensures that S and T are full coalitions. The *no outside options (weak)* axiom imposes the following condition:

$$\left\{ \begin{array}{l} \forall F' \in F, F' \cap \mu(N, w, K) \neq \emptyset, \exists i \in F' \cap \mu(N, w, K) \text{ such that :} \\ \psi_i(\mu(N, w, K), w|_{\mu(N, w, K)}) \geq \psi_i(F', w|_{F'}). \end{array} \right.$$

We first assume that $v(S) > v(T)$. Using *optimality* on μ we obtain

$$\begin{aligned} &\Leftrightarrow \left\{ \begin{array}{l} \forall F' \in F, F' \cap S \neq \emptyset, \exists i \in F' \cap S \text{ such that :} \\ \psi_i(S, w|_S) \geq \psi_i(F', w|_{F'}), \end{array} \right. \\ &\Rightarrow \left\{ \begin{array}{l} \exists i \in S \cap T \text{ such that } \psi_i(S, v|_S) \geq \psi_i(T, v|_T). \end{array} \right. \end{aligned}$$

The last implication comes from the facts that $T \in F, w|_S = v|_S$ and $w|_T = v|_T$. This last condition coincides with the one for *weak sub-game order preservation*.

We now assume that $v(S) = v(T)$. We want the solution ϕ to satisfies *weak no outside options* for any possible μ that is optimal. If $v(S) = v(T)$ then, in the game (N, w, K) we have $F_{opt} = \{S, T\}$. Since an optimal coalition selector μ can choose either of these two coalitions, the condition under which ϕ satisfies *no outside option (weak)*, for any μ that is optimal becomes :

$$\begin{aligned} &\Leftrightarrow \left\{ \begin{array}{l} \forall F' \in F, F' \cap S \neq \emptyset, \exists i \in F' \cap S \text{ such that :} \\ \psi_i(S, w|_S) \geq \psi_i(F', w|_{F'}), \\ \forall F' \in F, F' \cap S \neq \emptyset, \exists i \in F' \cap S \text{ such that :} \\ \psi_i(S, w|_S) \leq \psi_i(F', w|_{F'}). \end{array} \right. \\ &\Rightarrow \left\{ \begin{array}{l} \exists i \in S \cap T \text{ such that } \psi_i(S, w|_S) \geq \psi_i(T, w|_T), \\ \exists j \in S \cap T \text{ such that } \psi_j(S, w|_S) \leq \psi_j(T, w|_T). \end{array} \right. \end{aligned}$$

This condition coincides with the condition of *weak sub-game order preservation* when $v(S) = v(T)$. □

Theorem 4

Let ψ be an **efficient** sharing rule on Γ . The following are equivalent:

- for any **optimal** μ , the solution $\phi = (\mu, \psi)$ on Γ_{type} satisfies **no outside options (weak)**;
- $\psi = EG$.

Proof. We first prove the “if part”. We consider a solution $\phi = (\mu, EG)$ with μ satisfying *optimality*. We know that *EG* satisfies *efficiency* and *weak sub-game order preservation*. From Proposition 2 we conclude that $\phi = (\mu, EG)$ satisfies *no outside options (weak)*.

Now the “only-if part”. We consider a solution $\phi = (\mu, \psi)$ with ψ satisfying *efficiency*. Since ϕ satisfies *no outside options (weak)* for every μ satisfying *optimality*, from Proposition 2 we know that ψ satisfies *weak sub-game order preservation*. We then use Theorem 2 to conclude that $\psi = EG$. □

4. Concluding remarks

In this paper we developed a model of cooperative environments in which different types of players are needed. This model is built on the canonical model of cooperative TU-games. We showed that, assuming the universe of player is sufficiently large, an egalitarian approach when sharing the outcome of cooperation is the only efficient approach that always provides an incentive for the best coalition to form.

In our approach, the full domain of cooperative games is considered. Example 1 and 2 show that the solution $\phi = (\mu, Sh)$ does not satisfy no outside

options even for convex games. On specific classes of games, it would be interesting to determine whether other sharing rules than the egalitarian value are compatible with both the axioms of *sub-game order preservation* and *efficiency*.

In addition, it is well known that the payoff vector given by the egalitarian value often lies outside the core, even for convex games. Consequently, the selected full coalition can offer no outside options but not be stable in the sense of the core. As such our result could also be framed as an impossibility result: there is no solution $\phi = (\mu, \psi)$ with ϕ satisfying *no outside options* for every μ satisfying *optimality* such that $\psi(\mu(N, v, K), v_{|\mu(N, v, K)})$ lies in the core of $(\mu(N, v, K), v_{|\mu(N, v, K)})$. However, the fact that ψ might not be in the core can possibly be irrelevant if we consider situations where the cooperation is based on free association but, once established, is subject to binding agreements.

Furthermore, the result of Proposition 1 can help understand the pervasiveness of fixed remunerations in organizations, which is still a challenge for incentives theory to this day (Ménard, 2012). We can consider a firm as a game with types. The types are the position, the players are the employees and the characteristic function is the result of the production. A firm would want a solution ϕ that satisfies *no outside option* for every optimal μ . Proposition 1 shows that it is equivalent to having a sharing rule of the worth of production that satisfies *sub-game order preservation*. Consider a firm where employees are on a fixed wage determined by their position. For instance, accountants earn x , designers earn y and so on. This corresponds in our model to a solution where the payoff ψ_i of a player i is determined by its type, independently of the total worth produced. Such a solution would satisfy *sub-game order preservation*. Indeed, since every payoff is a fixed amount determined exogenously there are no differences depending on the sub-coalition considered. A player's payoff is always the same regardless of the worth produced. However it is not *efficient*. In a capitalist firm, the difference between the sum of the wages and the value produced is the residual surplus that goes to the owner of the firm's capital, as losses or profit. The capitalist firm, by virtue of not being *efficient*, can therefore satisfy *sub-game order preservation* while having differentiated wages.

We argue that one of the benefit of fixed remuneration could be *sub-game order preservation*.

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Revision highlights

“Manuscript number: MSS-D-24-00115”

- All minor comments have been incorporated or answered to.