

SPANNING THE GAP: THE THEORETICAL PRINCIPLES THAT  
CONNECT STAKEHOLDER POLICIES TO BUSINESS PERFORMANCE

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## Abstract:

If the word “stakeholder” were a person, it would just be coming into its prime. Born in 1963, it has accumulated experience in influential positions, and ought to be prepared for some serious responsibility. But what exactly does it offer, and is it ready?

This paper tries to show that the stakeholder concept is ready. In the first half, it explains three principles that form the heart of the idea: commitment, co-operation and rich information. Rich information, in particular, is given a new role in interpreting stakeholder theory. The second half of the paper focuses on a practical issue: methods for encouraging co-operation. For fifty years, organizational psychologists at the (UK) Tavistock Institute and the (US) National Training Laboratories have developed methods for changing relations in the workplace. The principles underlying their work are shown to be very close to the principles underlying the stakeholder approach. This means that the stakeholder approach has foundations in an important body of practical scientific experimentation.

Lastly, by explaining the principles underlying the idea of stakeholding, this paper fills a gap which has previously prevented the identification of a convincing causal connection between stakeholder policies and business performance.

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# **SPANNING THE GAP: THE THEORETICAL PRINCIPLES THAT CONNECT STAKEHOLDER POLICIES TO BUSINESS PERFORMANCE**

## **Stakeholder Theory: History and Principles**

The word “stakeholder” was first used in its economic sense by staff writer Marion Doscher, in discussions at the Stanford Research Institute’s Long Range Planning Service.<sup>1</sup> The idea was applied in a report on planning circulated in 1963 to a group of business subscribers.<sup>2</sup> The original report spoke of creative judgement, intuitive reasoning, and involvement from people in all a business’s relationships. Since 1963, however, the concept has been contorted and remoulded, for discussions of rights, of law, of responsibilities and of management. It has had enormous influence, on businesses, on politicians and on academics, who have found it a powerful and potentially radical idea. From an expression used in a discussion in a small Californian think-tank to a shaper of government and business policy, this idea has come a long way and achieved much. Such powerful influence merits investigation.

Put simply, a company’s stakeholders are those on whom the company has unfair non-contractual effects. If we wish to be absolutely precise in defining a ‘stakeholder approach’, and particularly if we wish to avoid including competitors, extortionists and one-off customers as stakeholders, we should say:

A company’s stakeholders are those on whom it has non-contractual effects for which, in principle, society would prefer that contracts were drawn.<sup>3</sup>

A stakeholder approach in business means regarding stakeholders as people with their own values and aims, with whom the company tries to interact for mutual benefit.

There is a noticeable difference between these definitions. Whereas the *definition* of stakeholders was expressed in terms of contract, the *approach* to stakeholders is expressed in terms of principles governing behaviour: instrumental contracts versus absolute principles. The distinct step from instrumentality to principle is an important theme in the argument below.

Possibly the single most famous use of the word “stakeholder” occurred in January 1996 when Tony Blair made it the focus of a speech he gave in Singapore, while leader of the UK opposition. Coming at most 16 months before a general election, this was widely seen as an attempt to formulate a philosophy, a distinct approach to government which could make a Labour government electable in the UK for the first time in 18 years. Putting aside the political context, however, the speech was a fascinating concentration of the economic issues of the day. Blair spoke of investment in people, quality in high value added products, and of generating relationships of trust:

“We need to build a relationship of trust not just within a firm but within society. By trust, I mean the recognition of a mutual purpose for which we work together and in which we all benefit. It is a ‘Stakeholder Economy’ in which opportunity is available to all, advancement is through merit and from which no group or class is set apart or excluded.”<sup>4</sup>

In this short passage, the key issue is already present. Is stakeholding to be a calculative choice, which society opts for because ‘we all benefit’? Or is it a moral commitment, to behave towards people in a way which opens opportunities to them ‘from which no group or class is set apart or excluded?’ This issue is a recurrent one for stakeholder theories, as it is for other important socio-economic theories, such as those concerning trust. Why is it that we step from a contractual definition, to a moral approach? Is it necessary to make this step from instrumentality to principle? If stakeholders are simply those who are affected by the company, why is any special attitude required?

Oliver Williamson has argued that “trust” only operates in a few “very special” personal relations. In business, trust is simply a matter of calculation: no special attitude is required.<sup>5</sup> Businesses, so far as they can, act according to their calculative self-interest, including consideration for others’ incentives and their own reputations. ‘Trust’ is only the expectation by others that this self-interest will continue to guide the business’s actions. Yet some theorists of trust have argued that there is something else- that trust is an approach, a moral commitment, relevant to businesses as well as to personal relationships.<sup>6</sup>

If the rational approach is right, firms should have a single way to behave. They should treat stakeholders calculatively. They should focus on one clear final goal: to make profit for their shareholders. Yet, by contrast, the proponents of a “stakeholder” approach repeat their assertion that calculativeness misses the point. For them, ‘stakeholding’ means a moral commitment, treating people as ends-in-themselves.

To lay my cards on the table, I think the proponents of stakeholding are right. There is more to the idea of stakeholding – and to the idea of trust – than the calculative economic approach has appreciated. The purpose of the paper is to set out exactly what the “more” is. For the economic challenge to stakeholder ideas is both fair and inescapable. We cannot escape the challenge to define stakeholding in terms consistent with traditional economic theory, and to explain how stakeholding offers net economic gains. Thus, if arguing for a stakeholder approach, we must:

1. Identify how policies based on stakeholding and trust generate gains.
2. Confront the calculative economic argument in its own terms, explaining clearly to economists, accountants, businesspeople and bureaucrats why, and under what conditions, arguments for

stakeholding and trust make sense.

First, then, what is the argument against stakeholding? The argument against is that a “stakeholder approach” is mere confusion. Running a corporation “in the interests of its stakeholders” simply invites trouble. It would never be clear which group should have priority. In the classic argument,<sup>7</sup> multiple objectives would be no objectives, as it is logically impossible to maximise in more than one direction at the same time. The accountability of management would be lost.

This argument was made in debates over social responsibility before the word ‘stakeholder’ was applied to business,<sup>8</sup> immediately afterwards by Igor Ansoff (1965), and has been repeated by many others, notably by Argenti (1989) and Sternberg (1994). Ansoff’s criticism was that:

‘While... “responsibilities” and “objectives” are not synonymous, they have been made one in a “stakeholder theory” of objectives. This theory maintains that the objectives of the firm should be derived balancing the conflicting aims of the various “stakeholders” in the firm: managers, workers, stockholders, suppliers, vendors.’<sup>9</sup>

Elaine Sternberg continued the attack:

‘stakeholder theory discards the objective basis for evaluating business action... it provides no guidance at all as to how competing interests are to be ranked or reconciled. And it consequently provides no effective standard against which business can be judged.’<sup>10</sup>

And an extreme expression of the view was given by Al Dunlap, then CEO of Scott Paper:

‘The most ridiculous word you hear in boardrooms these days is

‘stakeholders.’ A stakeholder is anyone with a stake in the company’s well-being. That includes its employees, suppliers, the communities in which it operates and so on. The current theory is that a CEO has to take all these people into account when making decisions. Stakeholders! Whenever I hear that word, I ask ‘How much did they pay for their stake? Stakeholders don’t pay a penny for their stake. Shareholders do.’<sup>11</sup>

In answer to this, we can identify at least three distinct economic routes by which a stakeholder approach can generate gains for businesses. These are:

1. A descriptive use of stakeholding: the idea that the word ‘stakeholder’ can act as a reminder to managers who might otherwise forget to give sufficient attention to an important constituency.
2. An ‘implicit contracts’ argument for regulation: if companies exploit implicit contracts with their employees, they may (by publicity) inhibit others’ abilities to use implicit contracts. Costly explicit contracting might be imposed on the whole of society by one company’s decision to break implicit contracts. Regulation supporting institutions that encourage implicit contracting could therefore help to defend a public good.
3. An innovative/ co-operative use of stakeholding: the idea that net benefits might be available because a stakeholder approach somehow leads to greater co-operation between people at work, especially in situations requiring innovation.

Whilst the first two could give reasons for changes in company policy, and government regulatory policy respectively, they can be understood relatively straightforwardly by existing economic theory. It is the third one that is emphasised by stakeholder advocates, and that offers the really interesting theoretical difference. Its key elements are:

1. An emphasis on innovation, and the potential for encouraging it.
2. Uncalculativeness.
3. Rich information.

## **1. Innovation**

First, we should ask whether theorists of stakeholder relations *really* place a special emphasis on innovation as a source of gains. From their statements, it is clear that they do:

‘The centre of gravity in business success is already shifting from the exploitation of a company’s physical assets to the realisation of the creativity and learning potential of all the people with whom it has contact - not just its employees.’<sup>12</sup>

‘Successful companies see their employees as a resource not just of production but often as a source of creative innovation.’<sup>13</sup>

‘For a learning firm, improvement is always possible and ideas for improvement can come from everyone, including consumers, workers, suppliers, staff and managers. As a social process, innovation involves the interaction of people engaged in functionally distinct activities. It demands persistent and comprehensive re-examination of productive practices.’...  
‘Creating production knowledge by problem solving involves more than the flow of information: information is already existing knowledge; problem solving is the creation of knowledge. The latter is the secret weapon of the entrepreneurial firm.’<sup>14</sup>

‘People are the key to success; and this is truer than ever in an age where information technology is putting an ever greater premium on skills and knowledge as the only basis on which firms can



compete in global markets. In this new environment, developing long-term committed employment relationships based on mutual respect and trust is the soundest base on which to build a competitive company.’<sup>15</sup>

‘Company characteristics more difficult to appraise include the skills, creativity, judgement, and attitudes of its personnel. Since these intangibles restrict or enlarge the choice of corporate purpose, ways must be found to reflect their influence....’

*Flexibility.* It is difficult but nevertheless essential to measure the firm’s ability and willingness to change. The analysis should indicate the *extent* to which the firm’s existing skills, physical plant, and marketing channels can be adapted to uses other than their current ones. A similar appraisal must be made concerning the skills, knowledge, judgement, and attitudes of the company’s personnel.’<sup>16</sup>

References to building backgrounds of trust, and to attitudes towards stakeholders have permeated the literature over the last 35 years. But they are not just wishful thinking. From the beginning they have been grounded in the knowledge of developments in organisational psychology and management sciences. Some stakeholder writers had first-hand experience of innovative organisational change methods, which were already widely applied by 1963. The origins of these practical methods are described in the second half of this paper.

## **2. Uncalculativeness**

Stakeholder theories place a special emphasis on uncalculativeness in relationships. Edward Freeman argued:

‘It is essential that these stakeholders not be viewed as constraints, subject to which a manager can maximise some objective function... Rather the dominant management metaphor

must be negotiation.’<sup>17</sup>

Will Hutton argued:

‘The same values should inform all our dealings...’ and ‘Moral principles are universal or they are not moral.’<sup>18</sup>

John Kay noted with approval that Sony’s founding prospectus stated: ‘... we shall eliminate untoward profit-seeking,’ and that drug company Merck’s founder had said:

‘We try never to forget that medicine is for the people. It is not for profits. The profits follow, and if we have remembered that, they have never failed to appear.’<sup>19</sup>

It is hard to speak to a proponent of stakeholding without hearing them say that they feel uncomfortable with the idea that profits for shareholders are the sole aim of the business. But this leaves out the reason why. Why is it that behaving uncalculatively makes business sense? What John Kay says on the matter is this:

‘...instrumental behaviour towards employees or customers is ultimately, and often quickly, distinguishable from similar actions motivated by genuine concern.’<sup>20</sup>

In other words, something communicates instrumentality to stakeholders. Something carries the information. And this brings us on to the third key element of an economic theory of stakeholding: rich information.

### **3. Rich Information**

In John Kay’s quote, it is not quite clear how instrumental behaviour is to be distinguished from apparently similar actions which are motivated by genuine concern. How do we spot the difference? The

answer is in the details - in the *rich information* which passes during interpersonal interaction, and which is not picked up in a description of incentive structures.

Rich information can be defined as information conveyed by tiny details: tone of voice, use of metaphor, allocation of time, body language. These are the threads of behaviour which, together, communicate to us the underlying attitudes and character of the people we meet. We can assimilate rich information because – as evolved human beings – we have benefited in our past whenever we could decode social situations accurately, and have tended to suffer when we could not. Recent developments in psychology and medicine, partly based on technical advances such as increasingly detailed brain scanning, have shown that the human brain has a modular construction and a modular function. Conscious awareness of all details of one's environment is not always necessary for information to be received and for action to take place. Indeed, conscious awareness may be a less efficient means for the brain to use.<sup>21</sup>

One of the first applications of these ideas in economics is the work of Robert Frank. In his book Passions within Reason, Frank described how information travelled in co-operative situations. Micro-signals were passed between people in every moment of social interaction. The traces of past signals, internally in brain structures, and externally in skin and muscle changes, meant that people carried their previous behaviour with them, both in their face, and in their underlying character. The lack of complete conscious control of these signals meant that people gave out information without knowing they gave it out; received information without realising that they received it, and learned, altering their behaviour, without realising that they had done so.

In experiments, Frank showed that people could identify those with whom it was worth playing one-off prisoners' dilemma games.

Defectors tended to be detected in advance. And working on the basis of their assessment of others, people could alter their strategies, cooperating more often with those they thought were likely co-operators. He argued that people effectively communicated their character, and could not help doing so:

‘The motive [for leaving a tip in a far-off restaurant] is not to avoid the possibility of being caught, but to maintain and strengthen the predisposition to behave honestly. My failure to tip in the distant city will make it difficult to sustain the emotions that motivate me to behave honestly on other occasions. *It is this change in my emotional make-up, not my failure to tip itself, that other people may apprehend.*’<sup>22</sup>

Rich information, which reveals a calculative approach to co-operative situations, gives a reason why genuine, committed stakeholder approaches make business sense. It does not mean that they make sense in every industry, but in those industries where co-operative, creative innovations are important, we would expect companies with stakeholder principles to be successful. The innovations that these companies generate can be large enough to outweigh the ‘committee cost’ of balancing diverse objectives.

Micro-signals plus selection in favour of profitable behaviour give evolutionary reasons why *sincere* commitment can survive in situations of co-operative innovation.<sup>23</sup> ‘Calculative commitment’ might appear more profitable, but when micro-signals allow the communication of sincerity, calculativeness about commitment risks being communicated, and destroying the vital spirit of co-operation in the other.

Stakeholder theorists have always emphasised the role of personal behaviour in successful applications of stakeholder policies. Once one becomes sensitive to the role played by details of personal behaviour, many fashionable techniques suddenly become economically

transparent: from ‘walking the walk, not just talking the talk,’ to the consequences of office design, and management by walking around. From the many possible references of this kind, only one is given here. It is from an important, but relatively undervalued source. Although he did not use the word ‘stakeholder,’ William Lyon Mackenzie King, Minister of Labour and then Prime Minister of Canada, was one of the first to identify specific constituencies around businesses. His work was a source of ideas for influential post-war writers on industrial justice in the UK.<sup>24</sup>

King identified four parties - Capital, Management, the Community and Labor - to whom the business might have responsibility. He argued for responsible business, drawing on his experience campaigning for fair wages and against industrial poisoning in phosphorus factories. This could be understood as a ‘minimum constraints’ approach, but King also argued for a *process*: for business (and international relations) to be based in an understanding of people, through direct contact:

‘Industrial and international relations, being essentially human relations, have their origin in personal contacts... Nor does vast organization make any difference, save to emphasize the significance of the personal equation.... In establishing confidence, for that is all that the elimination of fear, distrust, and antagonism amounts to, too great emphasis cannot be placed on personal character. It is singular how men who see this so clearly in domestic relations lose sight of it so often elsewhere.’<sup>25</sup>

King had worked for J. D. Rockefeller Jr. as an advisor and conciliator in U. S. labour disputes during the first world war. He wrote, therefore, drawing on considerable experience:

‘I believe I can say that, without exception, every dispute and controversy of which I have had intimate knowledge has owed its origin, and the difficulties pertaining to its settlement, not so

much to the economic questions involved as to this “certain blindness in human beings” to matters of real significance to other lives, and an unwillingness to approach an issue with any attempt at appreciation of the fundamental sameness of feelings and aspirations in all human beings.’<sup>26</sup>

‘Since all industrial relations are necessarily interwoven with community activities, it follows that the personal contacts of which industry is required to take account are well-nigh innumerable. Obviously the attitude of the parties toward each other is everything when it comes to a matter of the adjustment of relations between them. Co-ordination of function as regards the several factors is a small problem compared with the interminable adjustments in the relations of individuals on the satisfactoriness of which all co-operation necessarily depends.’<sup>27</sup>

King’s comments on personal relations are characteristic of work in the stakeholder debate. An emphasis on the *way* that policies are carried out is an indication of the importance attached to the role of rich information (even if without explicit theorising).

Taking the three theoretical points above together, then, we can see that the stakeholder debate includes underlying elements that differ fundamentally from neo-classical models:

- Innovation: and practical methods for generating it in co-operative situations.
- Uncalculative commitment
- Rich information

These theoretical points are devastating to neo-classical economic arguments that stakeholding is just a management technique that ought to be reducible to calculation. Similarly, they give clear reasons

against Oliver Williamson's argument that trust could be reduced to an intendedly rational optimising approach. Making the case general, what we have here appear to be genuine *economic* reasons which are relevant to any situation where people's responsibility, innovation and creativity are important.<sup>28</sup>

What of the content of a stakeholder approach? The principles described above, like the definition of stakeholders at the beginning, are analytical categories. Thinking in analytical categories, in terms of the parts, can stop us from working well with the wholes. In practice, the categories need to be supplemented by management techniques: the definitions of stakeholders need an applicable stakeholder approach. The analysis in terms of underlying ingredients is useful, but only for those occasions when we wish to stand back and understand why the recipes work.

The recipes for good management of relations with stakeholders are derived from many sources: amongst them, a long and honourable tradition of fair employment, worker participation, environmental campaigning, and worker and consumer co-operatives. All of these have informed the stakeholder management approach. One source of management techniques, however, deserves special mention, for its historical interest and its particularly close connections to the stakeholder debate. This is the work on self-organising groups done by the Tavistock Institute, London, and the National Training Laboratories of Bethel, Maine.

### **The Tavistock Institute**

The Tavistock Institute for Medical Psychology, founded in 1920, treated and sought to understand the social, medical and psychological problems of soldiers returning after the first world war. Its work continued up to the beginning of the second world war, as links were gradually developed with London University. In 1941, a group of Tavistock psychologists was asked to assist the British armed forces

in analysing and retraining soldiers who had developed neurotic disabilities.

Working with army generals, these psychiatrists developed an entirely new role. They were consulted on organisational problems for which the army had no traditional solution. They investigated the problems, developed pilot models of solutions, which they handed over to the army, assisting in their application and dissemination.<sup>29</sup> The work done with the army was pioneering in that researchers went to speak to ordinary men in the units, they asked units to participate in the analysis and treatment process, and they tried, wherever possible, to withdraw themselves so that the ‘patients’ would be responsible for retraining.<sup>30</sup>

After the war, with the help of a grant from the Rockefeller Institute, the Tavistock recreated itself as a clinic specialising in out-patient psychiatry, and in 1947 incorporated the Institute of Human Relations ‘for the study of wider social problems not accepted as in the area of mental health.’<sup>31</sup>

The Tavistock researchers’ methods were shaped especially by Wilfred Bion’s and Harold Bridger’s social therapy experiments with neurotically disabled soldiers in the ‘Training Wing’ at the Northfield Military Hospital.<sup>32</sup> Social therapy required patients to organise their activities for themselves, implicitly requiring them to study and come to a common understanding of their group’s own internal tensions, and to evaluate the methods that were used to treat them:

‘Lost tools in the handicraft section, defective cinema apparatus, permission to use the local swimming baths, the finding of a football pitch, all these matters came back to the same thing, the manipulation and harmonization of personal relationships. As a result almost immediately these big meetings as well as the small ones spontaneously became a study of the intra-group tensions...’<sup>33</sup>



Medical staff had to be taught how to avoid prescribing solutions and instead to respond to patients' initiatives. The hospital club offered time and space which patients themselves chose how to fill. In this self-organising environment, independent professional support remained available. Within six weeks, 'Bion had succeeded dramatically in getting the large majority of the men in the [Training Wing] to re-engage with the soldier's role and to return to military duties.'<sup>34</sup>

The experiments suggested that large benefits could be obtained by the renunciation of power by the medical experts and the sharing of responsibility.<sup>35</sup> It also taught researchers that high-level support was imperative, if the re-organisation of one part was not to impose unmanageable stresses on the rest of the system. Wilfred Bion's 1942 therapeutic community in the Training Wing at Northfield was abandoned after only six weeks. Alerted by the management of the rest of the hospital, the Directorate of Army Psychiatry paid an unannounced midnight visit. It found the hospital cinema hall strewn with newspapers and condoms, and was so appalled at the apparent loss of discipline that it immediately called a halt to the experiment.

Despite this setback, the experiment was resumed two years later, and it was clear that the lessons from Northfield I and II<sup>36</sup> would have more general application:

'Things did not happen at once. Growth was "horticultural." The activity patterns across the hospital were more tree-like, with branches in all directions, than representing any tidy curriculum or program. Even when a rich array of societal endeavors became established, many would fall into decline, be abandoned or wrecked and then rebuilt, depending on the population and the different needs or states or illness. There was never any chance to say, "Now we have arrived!" In this sense the therapeutic community became far healthier than many business organizations. The individuals comprising the former might be

sick, mad or bad; those of the latter might be sane and physically healthy; but institutions are not the same as the sum of the individuals comprising them. We were continually learning and relearning this at Northfield....

Without giving a blow-by-blow account it is difficult to convey the tremendous energy and directive ability that can be generated when it becomes possible to find a transitional setting through which insights from therapy can be allied with social purpose and satisfaction. One of the most critical boundaries crossed was when the ebb and flow of social change led towards serious patient/community efforts on the part of those “recovering.” They began to share responsibility for those entering the admission ward and to care for those who might benefit from the empathy and experience of those who had been through it...<sup>37</sup>

The wider application was emphasised again in Bridger’s conclusion:

‘Northfield showed that an unusually facilitating environment can lead to unusual maturation in adults. Approaches and methods first learned in a specialized psychiatric setting may be adapted to bring into being degrees of commitment and levels of performance unreachable by conventional bureaucratic organizations in industry and other social sectors. The individual can grow through the life-enhancing experiences now provided which he himself, by his own participation, has helped to bring into existence. Most people doing organizational change projects, which have become such a vast enterprise since World War II, have little knowledge of where, how or under what circumstances the seminal work was done.’<sup>38</sup>

Personal healing of individual soldiers and their desire to make some reparation to society were found to allow social healing. Bridger emphasised the connection between participation and creativity:

‘Northfield II also created a democratic society. This showed that there was a link between participation and the release of creative forces. This link suggests also that democratic and reparative processes are connected at a deep psychological level. They mutually reinforce each other. These connections are still little appreciated and need to be taken into account in institution-building for the future.’<sup>39</sup>

Finally, integration with the existing institutional structure would always confront organisations’ need to impose control:

‘Despite their promise, the war and immediate post-war developments of therapeutic communities reached a limit unexpected by their pioneers. They pose a persisting threat to authoritarian institutions and the prevailing bureaucratic culture. The resistances encountered by Bion and Rickman in one hospital-as-a-whole, though worked through in Northfield II, reappeared in society-as-a-whole. In the course of the 40 years that have elapsed since these experiments manifested that there was a new way, only small progress has been made towards establishing a more democratic and reparative social order.’<sup>40</sup>

The Tavistock’s work on group therapy spread into British and European industry in the years to 1970. The Tavistock studied advanced technology industries, long-wall coal mining<sup>41</sup> and industrial companies, most famously at the Glacier Metal Company.<sup>42</sup> Tavistock researchers investigated labour turnover, absence and sickness,<sup>43</sup> and the markets for confectionary, alcohol and tobacco. Unilever approached the Institute for help in training its senior managers, and eventually appointed the Tavistock’s Tommy Wilson to act as its worldwide strategic advisor. The Calico Mills in India undertook a 25 year programme of self-organisation in their looms. Research projects were carried out at close quarters, and sometimes could not be published for reasons of confidentiality. The Tavistock always treated research as a two-way relation, offering: ‘opportunities

for organisational and personal learning, both for the client and for itself.’<sup>44</sup>

The Tavistock’s aim were not just psychological inquiry. It saw itself as being ‘concerned with improving... the important practical affairs of man.’<sup>45</sup> This implied both offering training activities and continuing to develop the techniques for researching and understanding businesses. As staff moved around the world, this commitment led to many connected research groups being set up.

When Russell Ackoff<sup>46</sup> visited the UK on sabbatical leave from California, he worked with the Tavistock to set up the Institute for Operational Research in London. Other offshoots appeared in India,<sup>47</sup> Australia,<sup>48</sup> Canada, Holland, Switzerland, and in several parts of the UK.<sup>49</sup> In Norway, the Tavistock helped to create the Work Research Institute in 1962, which led in turn to the creation to the famous Swedish experiments in industrial democracy.<sup>50</sup> In the U.S., the group theories of Kurt Lewin had already strongly influenced Tavistock research.<sup>51</sup> A concrete connection between his research group and the Tavistock was established with the founding of the jointly published journal *Human Relations* in 1947. The Tavistock’s other U.S. offshoots included the Wright Institute, California,<sup>52</sup> the A.K. Rice Institute,<sup>53</sup> the Centre for the Quality of Working Life,<sup>54</sup> and a new department for the Social Sciences at the Wharton School, University of Pennsylvania.<sup>55</sup> The Wharton Center for Applied Research, which later absorbed one of two research groups set up by Trist, was the location for leading research on stakeholder policies when run by Freeman and Emshoff in the 1970s.<sup>56</sup>

Yet at least equal in importance to the Tavistock were the National Training Laboratories. Their precursor, the ‘National Training Laboratory in Group Development,’ grew out of an experimental summer workshop held in Bethel, Maine in 1946.<sup>57</sup> The workshop aimed at developing effective local leaders for implementing the terms of the new Fair Employment Practices Act.<sup>58</sup> The principal methods

used were group discussion supplemented by role-playing, with participants in three small groups of ten. Proceedings were observed by researchers from the Research Centre for Group Dynamics, who were interested in studying the transfer of behaviour from a workshop situation to the normal working environment.

The researchers held review meetings at the end of each day, and an unexpected development took place. At first a few, then more and more of the participants came to the review meetings. As they joined in the discussion of their own behaviour, participants began to report that they derived important understandings of their behaviour in groups. The training staff, led by Kurt Lewin, realised that ‘a potentially powerful medium and process of re-education had been, somewhat inadvertently, hit upon:’

‘Group members, if they were confronted more or less objectively with data concerning their own behavior and its effects, and if they came to participate nondefensively in thinking about these data, might achieve highly meaningful learnings about themselves, about the responses of others to them, and about group behavior and group development in general.’<sup>59</sup>

The summer school was repeated the following year,<sup>60</sup> offering ‘Practice and skills of group leadership, of training in human relations, and of inducing social change...’<sup>61</sup> It changed its name to the T (Training) Group in 1949, as more staff were taken on.<sup>62</sup> Former participants began setting up their own training projects, and the National Training Laboratory eventually responded by offering special courses for the development of trainers in 1955.

The reasons that the researchers and trainers gave for their work were these:

‘...The development of the physical sciences and related technology thrusts upon all of us problems of individual and

group relations of progressive complexity. The acceleration in number and complexity of such relational problems to be solved is increasingly disproportionate to our relatively slow advance in understanding and controlling the dynamics of individual and group behavior... Effective membership in modern society demands participation by all citizens in a large and increasing number of interacting groups. If group functioning is to be productive and intelligent, members and leaders need to understand the dynamics of effective group thinking and action and to... [become] masters of the skills of effective member and leader functioning... Until we acquire experimentally grounded knowledge of the leader and member skills required for productive group thinking and action and of the methods which are effective for training group personnel in these skills, we fail to release and develop the intelligence and productivity latent in our organized life.'

The developers of the T-group examined their own motivation for their work, and set it down in writing. They saw themselves as having moral obligations: concerns for Science, Democracy and 'The Values of the Helping Relationship.'<sup>63</sup>

A 'Concern for Science' meant that a '*full range of facts*' had to be considered, including 'human facts:' 'about feelings, motivations, personal and collective potentialities for growth, contribution potentials of persons and subgroups.' It also demanded '*objectivity towards data,*' which implied the need for each to be aware that their own opinions could be biased or particular, and thus the need to accept a plurality of views. For the same reasons, '*socially developed and debated methods*' were necessary. There would be an emphasis on openness about method, and encouragement of debate.

A 'Concern for Democracy' meant a '*commitment to develop participative skills in society.*' Especially in the context of very large industrial groups, conscious efforts would be needed to develop the

human skills necessary for participation. A ‘Concern for the Values of the Helping Relationship’ meant ‘*developing the role and consulting skills of the change agent,*’ who was ‘an agent committed to help others in improving their abilities to cope with change and conflict.’<sup>64</sup>

Finally, the NTL researchers argued that practical decision makers frequently did not have at their disposal the full range of facts (including ‘human facts’) and that they focused over-strongly on static description and classification, to the detriment of ideas of dynamic change in social groups.<sup>65</sup>

The National Training Laboratories’ T-groups proved enormously influential studies of how individuals confronted change. Psychiatrists and psychologists had a strong influence via the growing network of professional trainers and the study of organizational life quickly became linked to the laboratory movement. On-site studies were supplemented as students joined laboratory research staff, and increasingly, research was informed by company managers who came to the laboratories for training.

At first, for developing its own trainers, the NTL relied on an informal apprenticeship system. The process was formalised in 1955, and the NTL’s ideas began to spread rapidly. It was paid by US and European organisations to train 26 social scientists and educators from 7 Western European nations as human relations trainers. From 1960 onwards, it began to offer professional human relations training in auxiliary training laboratories around the United States.<sup>66</sup>

Occupationally homogenous T-groups were developed for American Red Cross workers (1955); industrial managers (1956); Protestant religious workers (1956); Puerto Rican government workers (1956); voluntary organization leaders (1957); teachers and educational administrators (1959); college students and faculty members (1960); and community development leaders (1960). Various industrial concerns, including Esso-Humble and the Aluminium Company of

Canada, also sought company-specific training. Amongst others, Warren Bennis, who figured in a Tavistock organised conference in 1964, and spoke at a Tomorrow's Company Centre seminar in 1998, published studies of T-group work in 1956, 1957 and 1961<sup>67</sup>.

## Connections

There were strong links between the NTL and the Tavistock. Tavistock researchers had been impressed by Kurt Lewin's work on group dynamics,<sup>68</sup> and by his idea that the only way to understand an organization was to change it.<sup>69</sup> The Tavistock's work was a fusion of the traditions of Bion's work with leaderless groups, and Lewin's experiments on group climates and group decision making.<sup>70, 71</sup>

While the Tavistock was influenced by Lewin, the influence also ran the other way. According to Bennis, Wilfred Bion's concept of the dimensions of groups was used by T-group researchers from at least 1954,<sup>72</sup> and depending on the particular style of the trainer, 'a therapy group of Dr. Bion's at Tavistock, in London, might not differ very much from a T-group at Bethel.'<sup>73</sup> The similarity of interests and methods led Kurt Lewin's original group, the Research Center for Group Dynamics, then at Bethel, Maine, and the Tavistock Institute jointly to create the international journal Human Relations, in 1947. This journal recently celebrated its 50th anniversary.

Joint conferences were held in 1949, on group behaviour at Gerrards Cross, near London and in 1964, on operational research and the social sciences at Cambridge.<sup>74</sup> The Cambridge conference brought together major figures from operations research and the behavioural sciences in the United States,<sup>75</sup> and industrialists and academics from the UK.<sup>76</sup> It was particularly important because it set out the methods of 'planned change' - effectively management consultancy - at a time when this industry was still in its infancy.<sup>77</sup> It recorded researchers' explanations of the fundamental reasons for their approach, and how it differed from the emergent mathematical science of operations



research.<sup>78</sup>

Planned change involved a number of key elements. First, it used a different type of information from that used in ‘operational research,’ and used different methods (surveys, personal interaction) to collect it. Second, the quality of the consultant’s relationship with the client was vitally important, especially to generate the confidence needed during implementation. Third, there were significant modelling effects between the client and the consultant.<sup>79</sup> Cyril Sofer noted that the expertise and methodological help that he offered were outweighed by the ‘*manner* in which my colleagues and I defined and reconceptualized the problems’<sup>80</sup>

In case study work, Tavistock researchers drew heavily on sociological and psychological traditions. They reported situations in great detail, stating, for example, the exact words used, and commenting on the atmosphere in a negotiating situation:

‘The divisional manager complained:

“You’re suggesting that there are two sides to the table. I feel that we’re all in this together.”

“There *are* two sides to the table, and I don’t want the supervisors poking their noses into the Shop Committee’s business.”

“I don’t think we can go on if you’re going to use language like that.”

“I don’t care whether you object to my language or not. I’m going to be blunt; this is the way I feel about the matter.”

The atmosphere was charged....’

As well as reporting in an impressive level and amount of detail, the

researchers committed themselves to understanding the world from others' viewpoints - a basic principle of the stakeholder approach. Isabel Menzies Lyth noted that as a consultant to a hospital, she would affect clients through a whole range of information that she communicated: 'Who does one eat with in the canteen, and why? Does one mix socially with the lowest level workers?...'

Harold Bridger, leading the second experiments at the Northfield military hospital, reported that on his arrival he decided to observe the hospital in operation, meeting everyone in their own departmental environments. 'At this early stage, I could not know how they all hung together, but it was important to experience the confusion of a newcomer, and gain some sense of what the whole place was about.'<sup>81</sup>

The reasoning lying behind the Tavistock and the National Training Laboratories' work was similar and each closely relates to the stakeholder approach. First, both organisations saw the client in a special relationship - inspired by the values of the helping relationship, in the NTL case; and for the Tavistock Institute, inspired by the aim of offering democratic, participative and creative energies. Second, each offered practical methods, derived from the work on self-organising groups, which could generate value through innovation and adaptability. Third, the full range of information had to be included to understand a situation. Commitment, co-operation and rich information.

### **NTL and Tavistock work appearing in the literature:**

Subsequent writers on stakeholding could not help but be influenced by this work.<sup>82</sup> In stakeholder texts, Hasselhoff (1976), Hall (1972) and Freeman (1984) all cited Emery and Trist's work. Russell Ackoff published several books dealing with stakeholding, including two on management.<sup>83</sup> Rhenman's 1968 book 'Industrial Democracy and Industrial Management,' once thought to be the origin of the term 'stakeholder,'<sup>84</sup> was published by Tavistock Publications in London.

T-group work generated a mass of academic and business applications, influencing the debate through such notable figures as Chris Argyris and Warren Bennis.

A strange blind spot is present, however, in the economic literature. Most economists seem to be unaware of the Tavistock's work. This can be checked by looking at the citations of key socio-psychological articles, such as Emery and Trist, 1965, 'The Causal Texture of Organizational Environments.'<sup>85</sup> This methodological article set out the thinking underlying the socio-psychological approach. Between 1981 and 1997, it had been cited 381 times, in a total of 169 different journals. By comparison, a key economic article – Friedrich Hayek's classic 1945 AER article 'The Use of Knowledge in Society' was cited 352 times over the same period, according to the BIDS database. The number of citations, of course, is only one indication of the influence of academic work. It is also striking that the Tavistock piece is cited widely in the management and applied psychology literature, and almost never in economics, as table 1 shows.

Given this almost complete exclusion of an important socio-psychological work, it is hardly surprising that economists found the arguments in the stakeholding debate unfamiliar. Socio-psychology - if it appeared at all on the conceptual map - was somewhere 'over there' - beyond such areas as industrial relations.<sup>86</sup> The intellectual separation between disciplines was such that a leading industrial relations researcher, Alan Fox mentioned Trist's work only in a footnote:

'...there are many other studies of organizational change which, while not offering data of the particular kinds necessary for use as illustrative material here, nevertheless contain much that speaks directly to our theme.'<sup>87</sup>

The reason Fox gave for excluding the Tavistock's work was the *kind* of data the Tavistock offered, which is illuminating. The economists'

preference for evidence to come from large-scale statistical studies is understandable. When economic phenomena can be expressed in a general statistical form, comparisons can be made across different industries, different countries and over time. There is no inherent harm, and much good, in having one academic discipline specialising in this kind of data. Specialisation allows division of labour, and generates both greater output and higher quality.

The only danger is that testable hypotheses regarding the allocation of resources - to particular kinds of training, for example - might not appear in economics, the subject which would otherwise seem to be their natural intellectual home. When a linked range of such testable hypotheses are used in other subjects, but not in economics, (as in this case, with a mass of experiments offering evidence of the effects of changing to self-organisation in groups) there is a danger that economists will misjudge the usefulness of such experiments. If asked, they would tend to deny the experiments' relevance for policy.

In the case of the stakeholder approach, it certainly seems possible that this is what has happened. Because of the demonstrated separation between the disciplines of management science and economics, economists have generally been unaware of important experiments in self-organising groups. This meant that they were not in a position to judge fairly. The stakeholder approach was backed by a huge amount of evidence - some patchy, but a substantial amount of respectable scientific worth - from outside the normal economic literature. Similarly, underlying the stakeholder approach were principles - co-operation, commitment and rich information - which did not sit easily with the conventional working assumptions of economics.

In conclusion, this paper has drawn attention to the separation between academic disciplines; it has reported on the original experiments which generated a literature on organisational change; and it has exposed the principles underlying stakeholder ideas. By

doing so, it has bridged a gap which until now has existed in the theory of stakeholding. Rich information performs an important function in the chain of causation, linking uncalculative commitment to changes in group performance, in co-operative situations. It is hoped that the demonstration of this theoretical link will help to end a long and unwarranted misunderstanding between stakeholder theorists and economists.

## Notes

1. Royce, 1998a, 1998b.
2. Stewart, Allen, and Cavender, 1963
3. This definition is drawn to exclude those whose only relation with the company is to affect it, (the classic examples of pure terrorists or extortionists). It also excludes relations *fully* expressed by contracts, and competitors affected in the normal course of fair competition.
4. Blair, 1996.
5. Williamson, 1993.
6. Lyons, and Mehta, 1997. Deakin, and Wilkinson, 1995.
7. Michael Jensen and Oliver Williamson reasserted this argument, which has become an article of faith, in 1998.
8. In 1960, Friedrich Hayek wrote: ‘I cannot better sum up what I have been trying to say than by quoting a brief statement in which my colleague Professor Milton Friedman expressed the chief contention two years ago:  
  
“If anything is certain to destroy our free society, to undermine its very foundations, it would be a wide-spread acceptance by management of social responsibilities in some sense other than to make as much money as possible. This is a fundamentally subversive doctrine.”’ [Hayek, 1960: 117; Friedman, 1958]
9. Ansoff, 1965: 39.
10. Sternberg, 1994: 51.

11. Dunlap, 1996. (Cited by Kay, 1997: 429)
12. Royal Society for Arts, Manufactures and Commerce, 1995.
12. Darling, 1997: 18.
14. Best, 1990: 13 and 13n.
15. Williamson, J., 1997: 163
16. Stewart, Allen and Cavender, 1963: 7, italics in original.
17. Freeman, 1984: 241.
18. Hutton, 1997: 103 and 107.
19. Kay, 1998: 17.
20. Kay, 1998: 19.
21. See Frank, 1988; Baron-Cohen, 1995; Cole, 1998: 43-52, and much of the work of Oliver Sacks.
22. Frank, 1988: 18-19. Italics in the original.
23. For corporations, the micro-signals that people read are in the tiny details of organisational as well as personal behaviour. Inconsistencies in company policies are quickly detected and mentally filed for later reference.
24. Goyder, 1951: 20. See also Courtauld, 1949. George Goyder's work can be seen in books published from the 1950s to the 1990s. Some of his ideas (e.g., the social audit) have been advocated by the Centre for Tomorrow's Company, which was created by Mark Goyder. See Goyder, M., 1998.

25. King, 1918: 169-170.
26. King, 1918: 14; [p. 7 in the abridged edition of 1935]
27. King, 1918: 142; [1935: 80]
28. The argument is worth making both for analytical purposes - for clarifying the explanation - and for prescriptive purposes. Whether intendedly or not, the neo-classical argument *is understood as a prescription*. It appears to say that, in business, it is sensible and right to pursue calculatively one's own self-interest. The argument here is that in certain important situations in both business and private life, the pursuit of self-interest is self-defeating.
29. Dicks, 1970.
30. See Bridger, 1990: 68-87
31. Trist, and Murray, eds., 1990: 5
32. Wilfred Bion first suggested 'using all the relationships and activities of a residential psychiatric center to aid the therapeutic task,' in 1940, in a paper to John Rickman, then at the Wharncliffe neurosis centre of the wartime Emergency Medical Service. This paper became known as the Wharncliffe Memorandum, and is reported on in Bion, and Rickman, 1943. [See Bridger, 1990: 68]
33. Bridger, 1990: 71
34. Bridger, 1990: 73
35. Bridger, 1990: 73 and 85



36. The second round of experiments ('Northfield II') were carried out by Harold Bridger in 1944/45.
37. Bridger, 1990: 78-79
38. Bridger, 1990: 86. Bridger's view is echoed in Foulkes (1946) and Main (1946), who were respectively psychiatrist and social therapist at the hospital, and were both aware of the wider implications of the work.
39. Bridger, 1990: 86
40. Bridger, 1990: 86-87
41. Trist, Higgin, Murray, Pollock, 1963.
42. Jaques, 1951.
43. E.g., Hill, and Trist, 1955.
44. Trist and Murray, 1990: 14-15
45. Emery's suggestion, adopted by the Council of the Tavistock Institute. Trist and Murray, 1990: 17
46. Ackoff was a leading U.S. authority on operations research.
47. The BM Institute, concerned with family psychiatry and community mental health, was set up in Ahmedabad.
48. The Centre for Continuing Education was set up at the Australian National University, in 1969.
49. See Trist and Murray, 1990.

50. Trist and Thorsrud's (a visitor to the Tavistock) joint work led to the setting up of the Institute. Thorsrud ran the Industrial Democracy Project at the Work Research Institute from 1962 onwards. The project was successful in encouraging worker/management co-operation throughout Norwegian industry and beyond. In 1989, the Prime Minister of Norway, Gro Harlem Brundtland, commented: 'It was also with a touch of envy that we saw the Swedish Employers' Confederation promote a very rapid diffusion of 'our' new work organization concepts in Sweden.' [Brundtland, 1989] The Industrial Democracy Project was used as the basis for government initiatives on worker representation on boards (1987) and was influential in the development of the Norwegian oil industry. [Brundtland 1989; Qvale 1989; Thorsrud 1984].
51. Kurt Lewin inspired the work of the National Training Laboratories at Bethel, Maine and ran the Research Center for Group Dynamics at the University of Michigan. Trist and Murray comment: 'The intellectual inheritance from Lewin lies particularly in his insistence, from the late 1930s onwards on the importance of studying the gestalt properties of groups as a whole.' [Trist and Murray, eds., 1990: 170]
52. Wright Institute, Los Angeles, 'an independent non-profit, educational, training and service institution,' offering training in psychoanalytically oriented psychotherapy for patients and business. [<http://www.wila.org> email:wila@wila.org]
53. Set up in 1964 as a transatlantic version of the sensitivity training offered at the annual 'Leicester Conference'. It was renamed in 1969 after A. K. Rice's death.
54. Set up by Louis Davis and Eric Trist at UCLA in 1966. It was the first graduate socio-technical program at both master's and doctoral levels.

55. Jointly by Eric Trist and Russell Ackoff from 1969.
56. See e.g. Sturdivant and Ginter, 1977. Despite these links, the Tavistock is not often referred to. Freeman, 1984, for example, cites Emery and Trist's work, but does not mention the Tavistock Institute.
57. This section draws on Bradford, Gibb, and Benne, 1964.
58. The workshop was sponsored by the Connecticut Interracial Commission, the Connecticut Department of Employment and the MIT Research Centre for Group Dynamics.
59. Benne, 1964: 83.
60. Kurt Lewin, who had been 'much interested in the project,' had died in early 1947. Benne, Bradford and Lippitt took responsibility for developing a Basic Skills Training (BST) Group for a three week summer school in 1947
61. National Training Laboratories, 1948.
62. The new staff came principally from psychiatry and clinical psychology; the original staff's backgrounds had been in social psychology, sociology and education.
63. Faculty of the Training Laboratory in Group Development, 1947, cited in Bradford, Gibb and Benne, 1964: 4-5. The items below in italics were italicised by Bradford, Gibb and Benne.
64. Bradford, Gibb and Benne, 1964: 11.
65. The field of group dynamics, especially, was associated with Kurt Lewin.

66. Cited by Chris Argyris as the oldest and most reliable sources of T-group training. Argyris, 1962: 278n.
67. Whitman, Frank, Bach, Watson, Bennis, and others, 1956; Bennis, Burke, Cutter, Harrington, and Hoffman, 1957; Bennis, and Peabody, 1962.
68. Lewin, 1947.
69. Trist and Murray, 'Historical Overview,' in Trist and Murray, 1990.
70. Lewin, 1939.
71. Trist, 1993, in Trist and Murray, 1993: 42. Trist's view was supported by Fred Emery, 1989, who cited Lewin, Lippitt and White's work on the effects of differing styles of management (1939) as the first of five milestones in the development of participative democratic workplaces. The others he chose were the Tavistock experiments with autonomous groups from 1944 onwards; the Norwegian Industrial Democracy project in the late 1960s and early 1970s; the development of the search conference from the 1970s onwards; and the Swedish management, organization and participation program, which began in 1985.
72. Thelen, et al., 1954; Schultz, 1955; Mathis, 1955. According to Stock, 1964: 427, Mathis 'combined Bion's and Lewin's concepts of group operation.'
73. Bennis, 1964, in Bradford, Gibb and Benne, 1964: 273.
74. The International Conference on Operational Research and the Social Sciences was held at Gonville and Caius College, Cambridge, in September 1964. Papers from the conference

were published as: 'Operational Research and the Social Sciences,' (Lawrence, 1966).

75. Including Ackoff, Bennis, Churchman, Rapoport and Ratoosh.
76. Including Cook, Emery, Jessop, Lawrence, Trist.
77. Cook writes of organizations seeking help from 'a kind of 'change-agent.'" See also Sofer, 1961, and Beckhard, 1965.
78. Sofer, 1961; Bennis, 1966; Ratoosh, 1966.
79. Bandura, 1977, describes modelling (by one person of another's behaviour) as a primary means of social learning.
80. Sofer, 1961, cited in Bennis, 1966: 61
81. Bridger, 1990: 77
82. See, for example, Katz and Kahn, 1966, which was cited by Freeman when he explored 'the intellectual roots of the stakeholder concept.' Katz and Kahn in turn cite Tavistock work on longwall mining, in the Glacier Metal Company and the Calico Mills in their chapter 'Organizational Change.' They say: 'The Tavistock work deserves to be recognized... as the first purposeful and successful fusion of the therapeutic and organizational approaches.' [Katz and Kahn, 1966: 416.]
83. Ackoff, 1970; Ackoff, 1974.
84. R. Edward Freeman clarified this issue in 1984.
85. Emery and Trist, 1965, checked by citations in the BIDS Database for 1981 - 1997.

86. A history rooted (in the UK) in the traditions of collective bargaining and a Marxian analysis of fundamental conflict between labour and management.
87. Fox, 1974: 142 refers to Trist, Higgin, Murray and Pollock, 1963, and to McGregor, 1967, for this kind of evidence, thus excluding both organisational psychology and management science from the economic debate.

## **TABLES**

Table 1



Table 2

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