

Entrepreneurship and pure altruism – reconciling the irreconcilable? Evidence from a New Zealand mail order firm

Abstract

This paper examines the existence of altruism in the formation of a firm and argues that altruism can coexist with the most demanding form of capitalism: Schumpeterian creative destruction. Moreover, pure altruism is seen to be a precursor to the accumulation of capital, not an event ex post. Such a notion suggests a re-examination of views of altruistic behaviour wherein altruism is reduced purely to variant forms of self-interest and reciprocity.

Keywords: entrepreneurship, altruism, creative destruction, philanthropy, mail order, Robert Laidlaw

Introduction

In recent years, scholars have called for business historians to make stronger connections between business history research, with its rich case-based narrative, and broader theoretical debates—a call to both refine and advance theory.¹ Indeed, there is wide scope for this, not only in respect of mainstream debates, such as the Chandlerian thesis, but also within economic theory, for as

¹ See for example, Geoffrey Jones in “Company History and Business History in the 1990s,” *Business Records and Business History: Essays in celebration of the 50th Anniversary of the Danish National Business Archives*, Denmark: Erhvervsarkivet, (1998), 11-12

Church and Godley recently suggested, business history research offers the kind of insight into the workings of entrepreneurs and firms that is typically absent from other forms of economic enquiry.²

In response to these calls, in this article I seek to extend the theoretical debate for pure altruism within the workings of the competitive, capitalist system. This is not a typical connection for altruistic behaviour and in doing so I offer a counter argument to those, such as Khalil, who suggest that such an act is not congruent with capital accumulation. Moreover, instead of using hypothetical examples and reasoning to put a case, I turn to business history inquiry. Precisely because of the level of detail provided by this type of research, further refinement on broad theoretical notions is possible.

This article is constructed in three parts. In part one I offer a brief survey of the economic debates on altruism, suggesting that for the most part, the present theoretical standpoint supports the view that altruism, while beneficial, cannot exist in a pure form in the workings of a capitalist economic system. In the second part of this article, based on extensive investigation of firm and family archives, I offer evidence from the experience of New Zealand mail order entrepreneur, Robert Laidlaw, in support of altruistic behaviour. Here, I argue, pure altruism cannot only be seen in the actions of this entrepreneur, but more importantly, is observed in the early stages of firm development and innovation—a period which Mintzberg would identify as the entrepreneurial phase of the firm,³ or as Schumpeter would describe it—in the throes of creative

² Roy Church and Andrew Godley, “The Emergence of Modern Marketing: International Dimensions,” *Business History*, 45:1 (2003): 1-5.

³ See for example, H. Mintzberg, and J.A. Waters, “Tracking Strategy in an Entrepreneurial Firm,” *Academy of Management Journal*, 25:3 (1982): 465-499.

destruction. This is significant, as existing notions of paternalism, while they can account for altruistic behaviour from positions of significant wealth or capital, do not offer an explanation for altruistic behaviour in the early stages of firm formation, and here this article makes a contribution.

While there are limitations to this argument, for example, only a single case study is presented here, this alone does not negate the potential theoretical benefits. This case extends the present literature by suggesting an alternative pathway to economic expansion by a firm, outside the traditional economic aim of individualistic capital accumulation. Overall, I argue that though altruism can be convincingly reduced to self-interest and reciprocity on the basis of hypothetical theorising, empirical historical evidence from the experience of a single firm and entrepreneur, suggests a refinement of this absolutist approach to the role and place of altruism in the capitalist system and society.

Literature Review

Altruism, as we readily recognise it, is concerned with selfless acts of benevolence toward others.⁴ It is often seen in exchanges of public goods: donors to a relief fund in the wake of national disaster, bequests and gifts to the Salvation Army, Tear Fund, and the like—the anonymity of the giver a testament to the altruism of his or her actions. More privately, altruism emerges in inter-family and intergenerational transfers of wealth—bequests, gifts, inheritances. Here, parents transfer purchasing power to children with the

⁴ See, for example, T. Nagel, *The Possibility of Altruism*, (Oxford, 1970); J.R. Ozinga, *Altruism*, (Westport, Connecticut, 1999).

expectation that some positive benefit will accrue to the children (or the children's future offspring), that the parents themselves did not enjoy.⁵

Within economics, there are several lines of thought as regards altruistic behaviour. One line of inquiry concerns the nature of altruism itself. Here the debate is one of inclusiveness; whether or not intergenerational transfers of wealth can be construed as altruistic behaviour, or whether, instead, altruism is simply charity.⁶ As there is more support for this more inclusive categorisation, for the purposes of this article, I take the former definition as read: that altruism involves both charity and intergenerational transfers of wealth.⁷

A second line of inquiry concerns the debate regarding "pure altruism" versus "impure altruism." Simply put, whether or not self interest mitigates altruistic expressions in an economic system to the extent that altruism can only be seen in isolated cases of social action by non-economic actors.⁸ The research question often left answered, is not if altruistic behaviour has any positive benefits (for it clearly has), but rather, whether or not altruism can exist in a "pure form" in a capitalist economic system, and here this article seeks to make a contribution.

⁵ Mordecai Kurz, "Capital Accumulation and the Characteristics of Private Inter-generational Transfers," *Economica*, 51 (1984): 1-22

⁶ See for example, E.L. Khalil, "What is Altruism?," *Journal of Economic Psychology*, 25 (2004): 97-123. See also reply by Catherine Walker, "A Charitable view of Altruism: Commentary on "What is Altruism?" by Elias Khalil," *Journal of Economic Psychology*, 25 (2004): 129-134.

⁷ Wealth habitually goes from older to younger in Western society, not the reverse. See R. Lee and T. Miller, "Population Age Structure, Intergenerational Transfer and Wealth," *Journal of Human Resources*, 29:4 (1994): 1027-1063; H. Kaplan, "Evolutionary and Wealth Flows Theories of Fertility," *Population Development Review*, 20:4 (1994): 753-791.

⁸ See for example, Theodore C. Bergstrom, 'Economics in a Family Way', *Journal of Economic Literature*, 34 (1996): 1903-1934; see also, Robert Frank, "Beyond Self-Interest," *Challenge*, March/April (1989): 4-13;

Constructive outcomes from altruistic behaviour can be seen readily. Transfers of intergenerational wealth from parents to children allow offspring to benefit from educational opportunities that the parents may not have experienced. In such examples, it can be argued that if self interest had been the parent's motive they would have sought private consumption instead. Rather, invoking patience and altruism, parents pass wealth on to their children in the hope that the dynasty might benefit.

Falk and Stark have suggested that such an act can be seen empirically and theoretically to have positive economic consequences.⁹ They argue that a dynasty whose members carry altruistic and patience traits will outlast a dynasty that carries the impatience and self-interest traits. In the former, the concern is for the consumption by the dynasty; in the latter, the concern is for consumption by the individual. Becker argues a similar case suggesting that the head of a family might take an action directly affecting present consumption where the value of consumption in the long term (or overall utility) for the family is greater.¹⁰ So, for instance, the head of a family might sacrifice present consumption in order to educate their children (or themselves) with the expectation that in the longer term the overall family utility and income benefits will increase. Doubts about the purity of such altruism would dissipate, for example, if the head of the family made decisions in the knowledge that due to

⁹ See for example, Ita Falk and Oded Stark, "Dynasties and Destiny: On the Roles of Altruism and Impatience in the Evolution of Consumption and Bequests," *Economica*, 68 (2001): 505-518. Falk and Stark argue that a dynasty whose members carry altruistic and patience traits will outlast a dynasty that carries the impatience and self-interest traits. In the former, the concern is for the consumption of the dynasty, in the latter, the concern is for the consumption of the individual.

¹⁰ See Gary S. Becker, "A Theory of Social Interactions," *Journal of Political Economy*, 82:6 (1974): 1077-1079.

age, sickness, or other factors, he may not personally benefit from the sacrifice of present consumption, but the family would over the longer term.

In the management of family firms, altruism has also emerged apparent with economic ramifications. Schulze, Lubatkin, and Dino, for example, suggest that altruistic behaviour within the family firm can invoke a duty of care between parent and child in the employment relationship, reduce agency costs, and engender loyalty and commitment.¹¹

However, Khalil suggests that much of what we might term altruistic behaviour can be reduced to self interest.¹² Altruistic behaviour motivated by potential future benefit (egoistic behaviour), is inherently un-altruistic as it is in the long-term self-serving. Similarly, where the benefit involved may not be monetary or tangible, but of a more elusive personal utility derived from altruistic acts themselves, Khalil suggests that these too are basically un-altruistic because of the inherent self-interest—one acts altruistically primarily because of what one can get, not because of what one can give. Countering these claims, researchers such as Sober and Wilson, and Frank offer what has been termed the ‘altercentric’ perspective, where the giver is imbued with a pro-social trait.¹³ This suggests that the giver shares resources as he is imbued with a

¹¹ See W.S. Schulze, Michael H. Lubatkin, and Richard N. Dino, “Toward a Theory of Agency and Altruism in Family Firms,” *Journal of Business Venturing*, 18 (2003): 473-490.

¹² Khalil takes a strict view of altruism and equates it with charity. Instead of offering a definition of altruism himself, he, like others, suggests when it is observable: ‘Altruism can be witnessed at small-scale “gift” sharing in small villages in the developing world to institutionalized charity organizations, associated with community groups, in modern societies.’ E.L. Khalil, “What is Altruism?,” p.98.

¹³ See for example, E. Sober ‘Organism, individuals, and units of selection. In A.I. Tauber (ed.), *Organism and the origins of self*, (Dordrecht, Netherlands, 1991): 275-296; D.S. Wilson, “The Group Selection Controversy: History and Current Status,” *Annual Review of Ecology and*

moral imperative to do so—a moral gene.¹⁴ Khalil rebuts these arguments suggesting that the authors confuse honesty and altruism. However, while Khalil dismisses Frank’s suggestion of longer-term benefits of altruistic acts on the basis of opportunism, he does not deal so decisively with the initial point. The morally obliged actor, whether genetically inclined or not, appears to scrape through without the blight of self interest, and may perform, for whatever reason, “pure altruism”¹⁵ Brekke, Kverndokk, and Nyborg offer novel evidence for this in their paper on the influence of the Norwegian custom of *dugnad*, considering voluntary contributions to public good.¹⁶ Here, consumers preferred thinking themselves as socially responsible and behaviour was influenced by what was regarded as morally right, aside from economic implications.

Overall, as Nagel suggests, intent seems the clearest determiner in the matter of altruism.¹⁷ The fireman, who rushes in to a burning house to save a trapped child, acts out of duty.¹⁸ His act in the context may seem selfless, but for him, such actions define his economic and social function—it is his job. Where is altruism in such an act for surely it is located at some point? For this fireman,

Systematics, 14 (1983): 159-188; R.H. Frank, *Passions within Reason: The Strategic Role of the Emotions*, (New York, 1988).

¹⁴ See W.D. Hamilton, “The Genetical Evolution of Social Behaviour I,II.” *Journal of Theoretical Biology*, 7 (1964): 1-52.

¹⁵ Frey is also influential on this point. See B.S. Frey, *Not just for the Money, An Economic Theory of Personal Motivation* (Cheltenham, 1997).

¹⁶ See for example, Brekke’s paper on the influence of the Norwegian custom of *dugnad* on voluntary contributions to public good. Consumers preferred thinking themselves as socially responsible and behaviour was influenced by what was seen to be morally right, aside from economic implications. See Kjell Arne Brekke, Snorre Kverndokk, and Karine Nyborg, “An Economic Model of Moral Motivation,” *Journal of Public Economics*, 87 (2003): 1967-1983.

¹⁷ Nagel, *Possibility of Altruism*, (Oxford, 1970).

¹⁸ Khalil also uses the fireman example to delineate between duty and altruism. See “What is Altruism,” pp.117-118.

altruism may be found in his original career decision. While there will be many reasons people decide to join the fire service, one might assume that in some cases, the motivation may have been purely altruistic—to render a service to fellow human beings, perhaps even with the corresponding sacrifice of some other calling or opportunity. In this sense, the fireman’s one-shot heroic actions become duty; the career choice, altruistic.

Such hypothetical situations, devoid of visible economics, appear straightforward. However, the problem becomes more pressing, as this article has suggested, once money in its various guises is introduced into the example. Defining, even recognising, altruistic behaviour becomes fraught.

Reciprocity, for example, effectively removes disinterest from the altruistic actor. The entrepreneur, capitalist, or benefactor who gives to a receiver with some expectation of future gain, is creating a relationship based on reciprocity. As Becker suggests, the motive of the ‘altruistic’ giver may be the expectation that in the event of disaster or catastrophe, those previously enriched by the givers ‘altruistic’ acts, would come to his aid in time of need.¹⁹ In short, the giving acts as a form of insurance policy. Intent in such cases is clearly not altruistic. The latent expectation of action by the giver mitigates altruism. Such a relationship is at worst, a collection of uncalled debts.

Expectation might also be based on utility, not money. Such a situation might arise where the giver takes delight in giving itself as an act, or of seeing the benefits of the giving—what Andreoni describes as the “warm glow”.²⁰ In the act of giving, the giver is motivated by the “warm glow” they receive,

¹⁹ Becker, “A Theory of Social Interactions,” p.1076.

²⁰ J. Andreoni, “Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence,” *Journal of Political Economy*, 97:6 (1989): 1147-1458.

perhaps in the form of adulation, esteem, or internally generated feelings of satisfaction. All of these result in heightened utility on the part of the giver, regardless who the recipient might be. Here, self-interest again mitigates the possibility of true altruism. The giver is more intent on extracting greater utility for themselves than they are concerned for the utility of the recipient. Intent, though elusive in measurement, is seemingly the strongest determiner of altruistic actions versus those taken in self-interest.

What then of the paternalistic actions of an employer toward his employees? Can these be accorded with altruism? The principal/agent relationship is one at the same time contractual, legal, and economic, with expectations of behaviour and reward on both sides. The employee expects a recompense for the labour or skill exerted; the employer expects an amount of work congruent with the reward given. It is a relationship of overt and expected reciprocity. The selfless act could only be one where no reward was expected, or no work in return was expected. Typically, it is easier to distinguish such acts from the side of the employer as they tend to be more visible. One might put in this category the acts of nineteenth-century paternalists, such as William Lever, Joseph Rowntree, John Cadbury, and George Palmer who instigated such activities as schools for their employees, free health care, light and pleasant workspaces, model villages, and employee co-partnership.²¹ But the question here is whether or not such acts, over and above the wage for labour, were truly altruistic, or just some other form of self-interest?

²¹ For a survey of these entrepreneurs see I.C. Bradley, *Enlightened Entrepreneurs*, (London, 1987).

Paternalism like this in relation to altruism is decidedly obscure.²² Philanthropic acts, whether by a founder-entrepreneur or managed organisation, toward employees may in the first instance appear altruistic, but may in the end lead back to some commercial benefit which at once negates the apparent initial disinterest. It is no mistake, for example, that contemporary commercial sponsorship of sporting codes by corporate organisations gravitates toward the higher-profile events and fixtures. As a result, football benefits handsomely from corporate gift-giving; and where hockey struggles, darts languishes. Advertising revenue, market size, public exposure—the deciding factors in corporate gift-giving tend not to be rooted in disinterest.

The same analysis might be applied to other selfless acts by organisations over and above the contractual wage—employee welfare programmes, free medical care, employee superannuation schemes, child care facilities, Quality of Working Life (QWL) programmes—research suggests that such initiatives result in more satisfied workers, but the action is not one-way on the part of the employer.²³ Benefits to the organisation include decreased absenteeism, greater employee loyalty, increased morale, lower staff turnover, and higher productivity—all without necessarily paying the employees additional wages.

Strategically, and in the longer term, such apparent “altruistic” acts by economic organisations can be reduced to nothing more than sound business

²² See, for example, L.W. Fry, G.D. Keim, and R.E. Meiners, “Corporate Contributions: Altruistic or for profit?,” *Academy of Management Journal*, 25 (1982): 94-106.

²³ See for example, David A. Nadler, Edward E. Lawler, III, “Quality of Work Life: Perspectives and Directions,” *Organizational Dynamics*, 11:3 (1983): .20-31; Harry C. Katz, Thomas A. Kochan, and Kenneth R. Gobeille, “Industrial Relations Performance, Economic Performance, and QWL Programs: An Interplant Analysis,” *Industrial and Labour Relations Review*, 37:1 (1983): 3-17; see also, F. Herzberg, “One More Time: How do you Motivate Employees?” *Harvard Business Review*, **ISSUE** (1968): 53-62.

practice aimed at improving efficiency in the workplace. While the caring professions appear more fertile ground, can one say in any true sense that altruism resides in capitalism? For if even the apparent selfless gestures of enlightened entrepreneurs and “caring corporates” can be reduced to sound management practices with an economic benefit for the firm, then self-interest is actually good for business. Pure altruism emerges as an economically counter-productive act.

Such a view is congruent with modern economic theory. Wallerstein succinctly argues that the accumulation of capital is the fundamental governing law of the capitalist system.²⁴ As a result, to give away one’s capital is to behave counter to the laws of capitalism, as well as the embedded social processes that reward and support its functioning. Over time, these processes surrounding exchange, production, marketing, finance, governance, have of course become more entrenched, more powerful, and more effective. The result, is that the rewards for capitalistic endeavours, either in organisational or entrepreneurial sense, return to the individual and the corporation. Acting out of financial self-interest (in accord with market forces), results in the efficient working of the capitalist system; the individual or the corporation receives due reward for its efficient use of scarce resources: the accumulation of capital.

The most pressing example of this kind of behaviour must surely be entrepreneurial activity. Using innovation—the successful adoption in the market of some new process, practice, product, or firm—the astute entrepreneur is able to forge an entry into the market at the expense of competitors. What

²⁴ Wallerstein suggests that ‘. . . the endless accumulation of capital has been the economic objective or “law” that has governed or prevailed in fundamental economic activity.’ Immanuel Wallerstein, *Historical Capitalism*, (London, 1983), 18.

Schumpeter termed “creative destruction.”²⁵ It is, as he suggested, the characteristic behaviour of the capitalist system and one of the generative means by which economic development is realised.

In this intensive start-up stage of capitalist endeavour when the demands on capital, especially personal capital for the self-funded entrepreneur, are heightened, one would not expect to find altruistic behaviour. At first glance such behaviour, unless tied to obvious self-interest, would appear counter-intuitive to business development and the successful expansion of the firm. Or is it? The New Zealand mail order merchant, Robert Laidlaw, permits an opportunity to examine these questions. Laidlaw’s behaviour as an entrepreneur demonstrated the effective execution of service and process innovation, concurrently, with what was arguably pure altruism. Such a case is not generalisable to theory; nevertheless, it can speak to existing generalisations and models. The following section—based on extensive archival research in company and private family archives—gives a brief outline of the development of Laidlaw’s business, Laidlaw Leeds, before examining some of the ways in which altruism was evident in his business practice.

Robert Laidlaw and the development of Laidlaw Leeds

In 1886, the Laidlaw family emigrated from Scotland to Dunedin in the South Island of New Zealand. Robert Laidlaw, the eldest son in the family, was a year old. His father, Robert Laidlaw snr., (the son of a Scottish knitting mill entrepreneur), had travelled to the colony without significant capital, but with

²⁵ Joseph Schumpeter, *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process*, (London, 1964), 132.

the hope of a more prosperous future away from the constraints of inheritance strategies that would see him working for his elder brother. Initially, he established a small hosiery business; in 1896 he commenced a hardware store in partnership with a fellow Scot, Presbyterian John Gray.²⁶

In 1901, Robert Laidlaw left school and commenced work in his father's hardware firm, Laidlaw and Gray. Receiving no privilege as the founder's son, he worked 54 hours per week, first as cash boy, then as salesman. Three years later, his father sold his share of the business to his partner, John Gray, leaving on an extended tour of England and Europe. Robert Laidlaw chose to remain in New Zealand and was promoted to senior wholesale traveller. After three years service, in 1907, he left the firm altogether and moved to Auckland, where the Laidlaw family had now settled. By this time, Laidlaw had decided to open his own mail order firm: a decision he made earlier that year after reading a Montgomery Ward mail order catalogue.²⁷

In Auckland, Laidlaw continued working as a travelling hardware salesman, this time for the Queen St firm of Wingate & Co. While touring country districts, he discussed the possibility of a mail order firm with farmers and the rural population. Receiving positive feedback, he resigned his position at the end of 1908 and commenced work on his first mail order catalogue. This process took a further eight months, during which time Laidlaw visited wholesalers, importers, and manufacturers in Auckland's port district, agreeing terms, and drafting the first catalogue. When completed, it was 118 pages long

²⁶ Ian Hunter, *Robert Laidlaw: Man for our Time* (Auckland, 1999), pp.9-10, 24.

²⁷ Farmers Trading Company. (1930). *Optimist 21st Birthday Souvenir*, Auckland: Farmers Trading Company, pp.1-4; the early years of Laidlaw's life are also covered in the opening chapters of Malcolm Kay, *Inside story of Farmers': The first complete record of the marvellous growth of Laidlaw Leeds and The Farmers' Trading Co. Ltd.* (Auckland, 1954).

containing over 2000 items—beds, bicycles, hardware, lace, drapery, crockery, paint stoves, and furniture. Laidlaw also arranged to have a house brand of tea packaged under the brand name “Rival”.²⁸

Aided by his brother, Laidlaw compiled lists of potential customers (several thousand names), from rural districts surrounding Auckland. These prospects were mailed letters prior to the opening of the firm, inviting them to apply for a catalogue—if they would agree to use it. Fortunately, enough replied positively that Laidlaw was able to send out 2500 catalogues. His business, named Laidlaw Leeds, opened 1 October 1909. Trade in the first month amounted to £380.²⁹ Laidlaw visited Auckland warehouses daily to purchase goods as he received orders. By January the following year, monthly sales in the firm were nearly £1000 and as a result Laidlaw was forced to move to larger premises and commence holding stock. By September 1910, sales had increased further to over £3000 per month and Laidlaw had to move again to larger premises: a four-storey warehouse. For the first year of trading, Laidlaw showed a net profit of almost £1000 on sales of £16,862.³⁰ In addition, there were now 122 employees in the firm and 14,000 copies of the second catalogue were printed to meet market demand.

In the second catalogue Laidlaw moved to add further innovations in his marketing, introducing the Laidlaw Leeds Cooperative Workers League—a reward scheme for customers who induced others to do business with the mail-

²⁸ Laidlaw Leeds Mail Order Catalogue No. 1, 1910, September 1909, Auckland, Laidlaw Family Private Archives, Auckland, N.Z., [hereafter LFP Archives] unboxed.

²⁹ Robertson, G.D. (1964) *Adventure in Merchandising: a financial and merchandising history of the Farmers' Trading Company Limited for the period 1909-1939*, Unpublished Thesis, Auckland: University of Auckland.

³⁰ Laidlaw Leeds Cash Analysis Book, 1920, Auckland, LFR Archives, unboxed.

order firm. By affixing stickers to their orders and those of their friends, customers were eligible for prizes allocated every two months. A sizeable prize pool was offered: £900 of musical instruments, bicycles, silverware, saddles and jewellery. An annual prize of £150 was also offered.³¹

The market responded enthusiastically; sales in the first month of the competition tripled. By the end of the second year of trade, Laidlaw's firm had a turnover of £95,749 with a net profit of approximately £6000.³² To manage the expansion in trade, Laidlaw departmentalised his organisation along functional and product lines. Family management remained strong in the firm. Laidlaw assumed the general manager role, while his brothers, Arthur Laidlaw and Jack Laidlaw, managed the drapery and despatch departments respectively. By the time of the third catalogue, Laidlaw had increased his range of items to over 5500, with 28,000 copies of the catalogue distributed to customers.³³

The accelerated expansion of the firm continued like this prior to the First World War. During the latter part of 1913, Laidlaw constructed a six-storey purpose-built mail order warehouse within close proximity of the ports, the central post office, and railway station. In the new building he made notable improvements to aid efficiency and staff welfare: he constructed a staff dining room supplying meals at cost, encouraged social clubs within the firm (not unlike other Auckland firms at the time) and purposely designed the building to maximise natural light. Labour saving devices were also installed so as to increase staff efficiency and office mechanisation: dictaphones, comptometers,

³¹ Laidlaw Leeds Mail Order Catalogue No. 2, 1911, September 1910, Auckland: Laidlaw Leeds, LFP Archives, unboxed.

³² Laidlaw Leeds Cash Analysis Book, 1920, Auckland, LFR Archives, unboxed.

³³ Hunter, *Robert Laidlaw*, pp.65-66.

electric elevators for grocery produce, automatic weighing machines, and steam cleaners.³⁴

In 1918, Laidlaw sold his business in a reverse takeover of the Farmers Union Trading Company, a smaller farmers' cooperative. Laidlaw assumed the general manager's role over the combined businesses, himself the largest shareholder with 70 percent of the paid up capital of the firm.³⁵ The new firm was called the Farmers Trading Company. The year following the takeover, Laidlaw commenced an expansion programme purchasing 19 country stores, countering a merger of nine farmers' cooperatives. In the 1920s, with annual sales of around £1 million the firm continued its expansion throughout the North Island, and Laidlaw with a move toward backward integration, opened a boot factory, furniture factory, and saddle manufacturing plant. By 1930, the firm had 45 branch stores, around 1000 employees, and an annual turnover of £1.4m.³⁶ Laidlaw stood down as general manager of the firm during the Second World War, though he retained a financial interest.³⁷ When he died in 1971, the Farmers Trading Company was New Zealand's largest department store chain.³⁸ At present, though no longer in family control, the Farmers Trading Company

³⁴ Laidlaw Leeds Mail Order Catalogue No. 4, 1913, October 1912, Auckland: Laidlaw Leeds, p.3, LFP Archives, unboxed.

³⁵ See Gordon Robertson, Address given in 1970s entitled, Company History 1909-1929, Farmers Trading Company Archive, Auckland Institute and Museum Library, Auckland, N.Z., MS 1707 (88/116); Hunter, *Robert Laidlaw*, pp.119-131.

³⁶ G.D. Robertson, *Adventure in Merchandising: a financial and merchandising history of the Farmers' Trading Company Limited for the period 1909-1939*, Unpublished Thesis, Auckland: University of Auckland, 1964.

³⁷ See Laidlaw's general introduction to this in the opening chapters of Robert Laidlaw, *The Story of "The Reason Why"*. (Auckland, 1969).

³⁸ Hunter, *Robert Laidlaw*, p.316.

continues as a department store operation with 64 stores throughout New Zealand.

Economic context

There are strong economic explanations for Laidlaw's success. In the early years of the new century, the New Zealand economy experienced an export-led economic recovery. Between 1887 and 1930 there were only four years when the colony experienced a negative balance of trade. Commencing in 1882, the processing of primary products for export markets— frozen meat, cheese, and butter—developed significantly.³⁹ Capital accumulated rapidly in these new industries, as more producers entered and production expanded.⁴⁰ However, while farm communities themselves benefited from increased spending power, prices remained high as rural communities remained isolated from larger markets. In a bid to counter high input prices, farmers formed supplier cooperatives but with only limited success and market penetration. Largely, the local store owner, offering goods on credit to farmers, remained a central figure in the New Zealand rural economy.⁴¹

Rudimentary transportation and communication infrastructure meant that rural communities were isolated from larger populations and worked as their own micro-markets. This peculiarity of New Zealand's economic development supported an excessive duplication of small manufacturers and retailers which

³⁹ See G.R. Hawke, *The Making of New Zealand: An Economic History*, (Cambridge, 1985); J.B. Condliffe, *New Zealand in the Making: A Survey of Economic and Social Development*, (London, 1930).

⁴⁰ See David Yerex, *Empire of the Dairy Farmers*, (Petone, 1989).

⁴¹ D.A. Hamer, "Towns in Nineteenth-Century New Zealand," *New Zealand Journal of History*, 13:1 (1979):5-24.

was progressively eroded with merger and acquisition waves from the 1920s onwards.⁴² The increasing popularity of road transportation and the more effective utilisation of the New Zealand rail network following the completion of the main trunk line in 1908 between Auckland and Wellington (extended to Whangarei in 1925 and the Bay of Plenty in 1928), assisted this change. Coastal shipping services remained an important part of the transportation infrastructure.⁴³ Furthermore, New Zealand's population continued to increase: from 1,002,679 in 1910 to 1,207,835 by 1920.

Given these forces, Laidlaw's venture into mail order merchandise, offering rural communities a wider range of product than customers would have enjoyed at local outlets and at a more competitive price, was well timed. Using the relatively efficient postal service, combining carriage by cart, train, or boat, he was well-placed to gain first mover advantage and offer the existing competition significant challenge.

Furthermore, from his previous experience in the sale and wholesale of hardware and general merchandise Laidlaw knew which items were the fastest moving stock items in a country store: these he used as loss leaders to attract custom. An aggressive marketing push was designed around the sale of tea, watches, sewing machines, work wear, baking powder, luggage trunks, and writing paper at prices sometimes one third of his competition.⁴⁴

⁴² See for example, S.R.H. Jones and D.R. Paul, "Concentration and Regulation in the New Zealand Brewing Industry, 1850-1970," *Australian Economic History Review*, 31:2 (1991): 66-93.

⁴³ See Ville, Simon, "The Coastal Trade of New Zealand Prior to World War One," *New Zealand Journal of History*, 27:1 (1993): 75-89.

⁴⁴ Laidlaw Leeds Mail Order Catalogue No. 1, 1910, September 1909, Auckland, pp.10-28, LFP Archives, unboxed.

To sustain such vigorous pricing, Laidlaw instituted numerous efficiency measures: he practised systemisation, used card index systems to monitor customer accounts and stock levels, undertook ratio analysis of his account books, measured work outputs, and benchmarked against leading overseas mail order houses, such as Montgomery Ward and Sears Roebuck.⁴⁵ Laidlaw's profit was routinely around 6 percent of sales; working expenses were approximately 14% of total sales—all of which he monitored on a monthly basis.⁴⁶ Staff training and management training Laidlaw stressed. By correspondence he put his executives through A.F. Sheldon's management training course in America, subsidising the cost of the course to other interested staff.⁴⁷

Laidlaw and altruism

Laidlaw's expressions of altruism toward his staff occurred in several directions. He opened staff dining rooms while the firm was less than five-years-old providing subsidised meals to staff.⁴⁸ In addition, he promoted social activities regularly in the firm including picnics to islands in Auckland's harbour, musical evenings, sports days, team competitions against other Auckland business houses, debating teams, a marching team, an athletic club and a girls' social club. In what we consider today as aspects of the Quality of Working Life movement (QWL), Laidlaw explicitly designed work areas to be

⁴⁵ Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, February 1912, Auckland, pp.4-11, LFP Archives, unboxed; also see Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, April 1912, Auckland, pp.5-7, LFP Archives, unboxed

⁴⁶ Laidlaw Leeds Cash Analysis Book, 1920, Auckland, LFR Archives, unboxed.

⁴⁷ Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, May 1912, Auckland, p.7, LFP Archives, unboxed.

⁴⁸ Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, May 1914, Auckland, LFP Archives, unboxed.

airy and well-lit by natural light.⁴⁹ The inspiration behind such efforts was not his alone. Since 1905 he had been a regular subscriber to *System: The Magazine of Business*, later to *Efficiency Magazine*, *Casson's Magazine* and *The Business Philosopher*. Early issues of *System* carried features on the innovations present at industrial installations such as Port Sunlight and Bourneville; the kinds of activities that Laidlaw undertook in the manner of staff welfare work, and later employee co-partnership, were replications of what occurred in these plants.

To further benefit staff, Laidlaw established a trust in memory of his brothers who had been killed in the First World War. The trust made final payments on mortgages for staff, met interest payments and expenses for employees who were facing financial difficulty, paid for houses to be painted, and assisted with the installation of hot water systems. An additional scheme he instituted in 1927 by gifting 5000 shares in the Farmers Trading Company, the dividends and principal of which were used to assist members of head office staff. In addition, an overdraft of £4000 was taken against the shares. From these funds, each girl leaving the firm's employ received a gift of £5, and every married man on the birth of a child was given a £5 maternity allowance. Laidlaw was particularly keen to see his staff as property owners and money could be advanced from the 1927 scheme toward placing a deposit on a home (up to £100) or to aid staff to construct their own home. A help to low-income workers, money was lent with or without security and at an interest rate no higher than six percent.⁵⁰

⁴⁹ Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, April 1914, Auckland, p.1-2, LFP Archives, unboxed.

⁵⁰ Letter from Robert Laidlaw to the Board of Directors, Farmers Trading Company, 17 October 1927.

When a firm is still under the control of the founder-entrepreneur, or while an organisation is at an evolutionary stage in its development, the leader's ability to influence culture is particularly manifest.⁵¹ Laidlaw displayed a confident, outgoing personality and his influence on business practices and policies in the firm, both spoken and unspoken was significant. For example, prior to the commencement of his business enterprise Laidlaw had drafted much of his company policy in accordance with his own predilection and learning. This included the organisation structure and management systems of the firm as well as form letters to meet various contingencies, assisted by letter writing books he purchased from America. Consequently, the subsequent actions of his employees and development of the firm took place largely with a predetermined philosophy.

Laidlaw articulated much of this philosophy to prospective customers in his first catalogue—this before he had any staff. Using an informative and amicable dialogue, Laidlaw presented a clear rationale for the policies of the firm and its style of business, attempting to engender a level of trust among people who had never heard of his firm before, nor who had dealt with a system of mail-order purchase. Offering a money back guarantee went some way to affecting this end, further reinforcement was given in his stated intentions as to the nature of the business he was creating:

We have set out to build the greatest DIRECT SUPPLY MAIL ORDER BUSINESS in the Southern Hemisphere. You need not fear unfair competition, no trickery or misrepresentation will be used; our policy, 'Stern,

⁵¹ See for example: Edgar H. Schein,, "Organizational Culture," *American Psychologist*, 45:2 (1990): 109-119; Charles Handy, *Understanding Organisations*, (London, 1993); Larry Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review*, 50:4 (1972): 37-47.

old-fashioned, unfailing honesty,' will govern all our business transactions. We will win by giving men and women in your district quality goods at prices far below what they can get at your store.⁵²

Interestingly, there were soon tangible results from Laidlaw's actions. The rural community, known for its suspicion toward city interests, responded enthusiastically to Laidlaw's personal approach. By October 1912, he had received over 2300 letters from customers complementing his pricing, products, and packaging, publishing three pages of them in the October 1912 catalogue.⁵³ To further challenge his critics he offered a cash prize of £1000 if anyone could prove any of the letters false.

In 1911, two years after the founding of his company, Laidlaw published the first issue of his company magazine *The Optimist*. Sixteen pages long, Laidlaw acted as editor on each edition until March 1929. The magazine was a further measure to reinforce the kind of company culture that Laidlaw wanted to create; he used it for staff communication, but primarily to convey his thoughts on business, character, life, and society. Much of its content was as its title, optimistic and motivational in content and language with editorial, poems, quotations, and biographical sketches of business and political figures, such as Abraham Lincoln, John Wanamaker, Selfridge, Thomas Edison, Marshall Field, Westinghouse, and J.C. Penny.

Laidlaw also used the magazine to also transmit to the staff aspects of his Protestant religious beliefs, in particular, those aspects related to business practice. Making the most of opportunity when it presented itself was one

⁵² Laidlaw Leeds Mail Order Catalogue No. 1, 1910, September 1909, Auckland, p.4, LFP Archives, unboxed.

⁵³ Laidlaw Leeds Mail Order Catalogue No. 4, 1913, September 1912, Auckland, LFP Archives, unboxed.

example; something that Laidlaw emphasised on many occasions. Such mini-sermons could be read two ways: exhortations to pursue opportunity and warnings against the perils of slothfulness and laxity.

Lack of success is not caused by a dearth of opportunities. Men grow their opportunities, but they fail to harvest the crop. Every day has its own particular kind of fruit of opportunity, which must be gathered on that day or never. Opportunity beckons ability. She stands with open arms. She offers prizes for effort and development. Train yourself—don't envy success. It comes with constructive work . . . The world has always been full of opportunities. It exists everywhere for those who, with hands, eyes, brains, and ears are seeking to render service that serves.⁵⁴

Laidlaw supported this kind of rhetoric with practical management action. In April 1912, with monthly sales of £16,000, he conducted the first mass meeting of the firm to discuss efficiency.⁵⁵ Further meetings were held to discuss the elimination of waste, expense reduction, and time and motion study. In addition, order processing time was measured, breakages recorded, and suggestion boxes used to encourage further improvements. While these measures had obvious benefits to his customers, Laidlaw also conceived of service as carrying with it an implicit duty of care. As a result, he ceased selling cigarettes when research from America pointed to harmful affects among school children, and deleted shoddy or unreliable goods from his product lines.

What do these things say for altruism? For while Laidlaw seems a beneficent and proactive employer, equally, a case may be argued for self-interest. It could be stated, and the empirical evidence so far would support it, that Laidlaw's brand of altruistic acts toward his staff, management, and the

⁵⁴ Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, February 1912, Auckland, p.11, LFP Archives, unboxed.

⁵⁵ Laidlaw Leeds Company Magazine – The Optimist, Laidlaw Leeds, April 1912, Auckland, pp.1-7, LFP Archives, unboxed.

public were a carefully-planned strategy by someone who was well-versed in human nature, religion, and the workings of the market. It could be argued that Laidlaw anticipated, and foresaw, the usefulness of a unifying company culture; that he undertook altruistic acts in the anticipation of an eventual economic benefit: that either in increased staff loyalty, morale, or efficiency, his investment in altruistic acts was in the end sure to deliver a reciprocal promise—his own wealth would be increased and his firm capitalise its first mover advantage in the marketplace. In short, Laidlaw demonstrated an enlightened form of self interest. The decision-making rationale of profit-maximisation for private gain, once again, though carefully disguised, emerges as the driver of the capitalist system and the basis for economic decision-making.

The case for altruism

It would be easy, if not reassuring, to side with such an argument if it were not for the presence of two confounding variables in the case of Robert Laidlaw, which suggest a reassessment of the place of pure altruism within the capitalist economic system. The first is the time at which Laidlaw undertook his altruistic acts. The second is what he did with his capital as he accumulated it.

In the manner of the first case, it is worth noting that the kinds of activities Laidlaw undertook under the auspices of welfare work were not unique to his company, nor was his Protestant motivations unique. What was noteworthy in Laidlaw's case, was that such activities were not carried out once he had attained a 'safe' level of wealth, in the fashion of Andrew Carnegie or Joseph Rank.⁵⁶ Such men were indeed generous in their gift giving (the first in the form of

⁵⁶ Michael Wakelin, *J. Arthur Rank: the man behind the gong*. (Oxford, 1996).

public libraries, the second in the form of public halls), but both did so out of their surplus capital during the latter part of their business careers. Their altruistic acts were out of surplus of capital, and thus could be construed as being undertaken, however charitable, at very low personal cost to the giver.

In Laidlaw's case, no such argument holds. Laidlaw's actions in respect of welfare work were instituted while the firm was less than five-years-old and while the strain on working capital heightened as he sought to allocate funds to expansion, develop stock holdings, expand his marketing influence, and service debt. That Laidlaw persisted at this time in the firm's development with altruistic activities reveals a deep-rooted intent toward altruistic endeavour by the entrepreneur. In short, the entrepreneur took decisions that were almost counter-intuitive. Either he had a substantial faith that such decisions, would at some point, produce an economic payoff (though the outcome of this was no means certain given the point in the firm's development at which he undertook them); or, he had an equally-sized faith in the moral goodness of altruistic behaviour and that this was not at odds with the capitalist system and the expansion of his firm. The evidence thus far suggests that the latter was the case.

The second confounding variable in the case of Robert Laidlaw concerns what he did with his capital as he accumulated it. Had Laidlaw profited from an over-arching strategy to extract efficiency gains from altruistic acts within the firm, he would have merely been exhibiting a disingenuous form of self-interest. The confounding variable is that he did not. Indeed, he undertook the direct opposite behaviour—he gave sizeable amounts of his capital away from the start of this endeavour.

Like other Protestant businessmen of the period, Laidlaw tithed ten percent of his income, primarily to the church. However, a strong non-conformist, Laidlaw went a step further and three years prior to the commencement of his mail order firm he entered into the following agreement with himself, noted in his diary on February 12, 1906:

Before money gets a grip of my heart, by the grace of God I enter into the following pledge with my Lord that: I will give 10 percent of all I earn up to £500 per annum. If the Lord blesses me with £1000 per annum, I will give 15 percent of all I earn. If the Lord blesses me with £1500 per annum, I will give 20 percent of all I earn. If the Lord blesses me with £2000 per annum, I will give 25 percent of all I earn. The Lord help me to keep this promise for Christ's sake, who gave all for me.⁵⁷

Laidlaw was not unique in this type of pledge, the entrepreneur and Protestant soapmaker William Colgate did similar. However, what is relevant in the case of Laidlaw is the time at which he did it. Laidlaw entered this agreement with himself while he was still a salaried-employee, and three years before he had planned or enacted his business venture. He began following the above proportions as his income increased, and at the conclusion of the first 12 months trading in his mail order firm (September 1910), revised his schedule, and began giving 50 percent of his income away.⁵⁸ Laidlaw continued this practice, increasing the proportions as his firm expanded. By the start of the

⁵⁷ Hunter, *Robert Laidlaw*, p.35

⁵⁸ See Hunter, *Robert Laidlaw*, p.57; also see introduction in Robert Laidlaw, *Story of "The Reason Why"*.

Second World War, he was giving away between 80 and 90 percent of his income, continuing to do so until he died in 1971.⁵⁹

One could offer several explanations for Laidlaw's behaviour in respect of altruism. For example, one could argue, in the same vein as Sober and Wilson, that Laidlaw was imbued with a moral gene.⁶⁰ This gene, in an evolutionary sense, enabled him to behave with a finely tuned pro-social trait. He was in this respect something of an outlier on the graph—predisposed by a moral gene toward such benevolent acts. He was not indicative of normative functioning. Such an argument may hold true. However, true or not, it does not dispose of the proposition being argued, instead, it supports it. For the moral gene argument assents with the suggestion that altruistic intent is based on factors other than self interest—in short, moral genes motivate economic decision-making, not self-interest. What this suggests is that capital accumulation is not the only rationale behind entrepreneurial decision-making within a capitalist system: non-economic factors can be also.

As one example of this, the case of Robert Laidlaw suggests an alternative pathway to capital accumulation wherein altruism and social action coexist without apparent tension within firm expansion. The result of this unique blend is an increase in public good, utility, social benefits to staff, and as well, wealth. While it is not disputed that the profit motive drives some entrepreneurs; clearly, it does not drive them all. Pure altruism, in the case of Robert Laidlaw, did not prove at odds with the development of the firm, rather it proved symbiotic.

⁵⁹ Hunter, *Robert Laidlaw*, p.282-283.

⁶⁰ E. Sober, Organism, individuals, and units of selection. In Tauber, A.I., (ed.), *Organism and the origins of self*, (Dordrecht, Netherlands, 1991), 275-296; D.S. Wilson, "The Group Selection Controversy: History and Current Status," *Annual Review of Ecology and Systematics*, 14 (1983): 159-188

One might raise the complaint that Laidlaw knew that this potentially positive business model—a cooperative business culture, incentives for staff, agreeable working environment, high service and efficiency standards, coupled with old-time religion—would produce economic success. His role was no more than that of a skilful conductor, orchestrating the economic actors for his own benefit. There are two difficulties with such an interpretation. Firstly, that aside from questions about duplicitous intent, the business model worked. The economic outcomes suggest that a blend of philanthropy and altruism, even from the outset of a firm, present a viable alternative pathway to capital accumulation where profit-maximisation in the making of short and medium-term decisions is not the governing criteria. And who would have the faith to make such counter-intuitive economic decisions when the long-term outcomes are not certain, just hoped for?

Secondly, any capital accumulated in the firm as a result of this business model, does not account for Laidlaw's behaviour in the giving of his personal capital, (which was the source of the firm's capital), when it was needed most—and that this decision to do so was determined three years before the firm came into existence. Here his actions support an argument for pure altruism.

The utility arguments of Becker also struggle to account for Laidlaw's beneficence.⁶¹ Here, self interest would suggest that Laidlaw was giving with the intent of increasing his own utility. Such an argument would seem to fit well with his increased proportionate giving as his wealth increased. In short, the more he earned the more he gave because he wanted to maximise his personal utility. Again, however, the facts of the case suggest alternative explanations are

⁶¹ Becker, "Theory of Social Interactions," pp.1077-1079

necessary. For the utility argument to hold, Laidlaw's giving to the public good would have to be seen and recognised in order for him to extract utility from praise or adulation. One could make a case that his giving within the firm increased his utility and adulation from staff and customers. However, his private giving, which was on a larger scale, was concealed from the public eye. If he had been motivated by a true desire to maximise his utility he would not have acted in this fashion. He would have given more to the area where he received the greater utility benefits. That it was not, leaves Laidlaw with Andreoni's residual "warm glow" for his efforts, which appears theoretically and empirically as a by-product of altruistic activity, rather than a motivator.⁶²

Conclusion

This article has argued a case for the existence of pure altruism within the workings of the capitalist system. Using business history research, I have examined the establishment years of the New Zealand mail order firm Laidlaw Leeds, headed by founder, Robert Laidlaw. I have suggested that Laidlaw exhibited altruistic actions both in respect of his practices toward his staff and their welfare, and in the use of his personal capital. While of themselves these practices are not novel or unique, what is instructive in the case presented here is that these activities occurred during the formative stages of firm development. Altruism was not an activity pursued by the entrepreneur *ex post facto*, but rather, *per secundum*.

⁶² See Khalil as to why warm glow is a by product of altruism and not a motivator. Khalil, "What is Altruism," p.102.

As a result, the business model pursued by Robert Laidlaw from the outset of his enterprise, suggests an alternative pathway for capital accumulation and firm development that warrants further examination. Clearly, decision-criteria other than profit-maximization can be used, even in the throes of entrepreneurial creative destruction, which will generate a positive economic outcome. These decision criteria, in the case of Robert Laidlaw, included altruistic actions.

Furthermore, pure altruism, in Laidlaw's case, is seen to be at work within a capitalist system. Self-interest, while it can explain the behaviour of some economic actors, clearly does not hold in all cases. Though further research is necessary, and additional cases will strengthen the arguments presented here, the entrepreneur Robert Laidlaw offers initial evidence for pure altruism. Economic rationale does not predict the behaviour of this entrepreneur, nor can economic explanations of altruism, such as those of Khalil, reliably reduce Laidlaw's behaviour to self-interest.

The case of Laidlaw demonstrates an entrepreneur, who even prior to the commencement of his enterprise, made a conscious decision toward capital-dispensing rather than capital accumulation as his 'golden rule.' Despite this, he still succeeded. While it is tempting to dismiss such "irrational behaviour," as a one-shot case, it still offers empirical evidence for the arguments of Bergstrom, Frank, and Werhane who all suggested a role for "moral sentiments" in the effective workings of the capitalist system.⁶³ For while neo-classical economics has widened our knowledge of markets and price, it fails to deliver that which it

⁶³ See Patricia H. Werhane, *Adam Smith and His Legacy for Modern Capitalism*, (New York, 1991). Werhane argues that Smith, 'does not set up a dichotomy between egoism and benevolence.' p.23. In this way, self-interest was not the overarching motive of the capitalist system. Both Theodore Bergstrom and Robert Frank also call for a re-examination of the moral sentiments within modern economics.

cannot—a rendering of economic development based on the sympathies of human behaviour and moral choice. Clearly, as trust plays a critical role in the mechanism of exchange and the capitalist system, other sentiments do also.⁶⁴ Pure altruism, it seems, demands a place among them.

⁶⁴ Mark Casson, *Entrepreneurship and Business Culture: Studies in the Economics of Trust*, (Aldershot, Hants, 1995).

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