

Chapter 12 Institution of Civic Free Enterprise

§ 1. Social Contracting and Free Enterprise

The earlier chapters of this treatise have dealt with real contexts within which the institution of any system of free enterprise operates. In general, an enterprise is any undertaking actualized by an individual for reasons grounded in duties to himself or Duties to himself reciprocally with others to whom he has bound himself by Obligation. An economic enterprise is an enterprise carried out for the purpose of obtaining a revenue income of economic wealth assets. An Enterprise is the common Object of all the individual instantiations of personal enterprises carried out by a group of people associated with each other in a united Community. An economic Enterprise is an Enterprise in which obtaining revenue income of economic wealth assets is a common purpose for the entrepreneurs in the Enterprise Community.

Social contracting is a necessary element for distinguishing between enterprise in general and a system of enterprises constituting a *free* enterprise system. Otherwise actions such as robbery or human trafficking could claim the title of free enterprises because they involve *natural liberties* exercised by the robber, the trafficker, *etc.* The adjective "free" in free enterprise refers to the willing confinement of people's enterprise activities to exercises of *civil* liberties. Because the concept of civil liberty is an empty concept in the absence of a social contract, all distinctions between free enterprise and arbitrary licentious action *presume* social contracts are in effect in free enterprise. The contracts define actual membership in a civil Community and in a Society.

Free enterprise is enterprise or Enterprise conducted within a civil Community and in binding relationships of social contracting in that Community. *Civic* free enterprise is free enterprise in which the enterprising agent or agents demand and accept protections and civil rights from the Community and in exchange commit to social Obligations and reciprocal Duties of citizenship they pledge to that Community. *Uncivic* free enterprise is free enterprise in which the enterprising agent or agents demand and accept protections and civil rights from the Community but either refuse to pledge commitment to reciprocal social Obligations and Duties of citizenship under the social contract of the Community *or* violate the terms of the social contract by acts of commission (whereby they violate the social contract) or by acts of omission (whereby they fail to fulfill civic Duties the social contract requires that they pledge themselves to perform).

Because economic enterprises and Enterprises are carried out within a parent Society while, at the same time, all industrial conglomerates are mini-Societies, this raises more issues because a social contract binding a mini-Society as a mini-Community is typically not precisely the same social contract binding it to the parent Society in which that mini-Society is embedded. Within a typical mini-Society its members have congruent common interests which are not necessarily interests held in common by all members of the parent Society. These mini-Society common interests are determining factors in uniting that mini-Society as a mini-Community and, at the same time, for distinguishing that mini-Society as a special part of the parent Society. From this consideration it follows that *civic* free enterprise in an industrial conglomerate necessarily involves not one but two social contracts. There is the *external* social contract which binds all of its members commonly in the parent Society, and there is an *internal* social contract which binds the members of a civic free enterprise conglomerate together in their shared mini-Community. Free enterprise in general always involves the external contract because the conglomerate is held to be answerable to the parent Society for its actions. *Civic* free enterprise adds the internal contract because every member of an Enterprise is held to be answerable to *its* body politic for his actions or inactions. The internal contract is one of the distinguishing features by which a distinction between a civic and an uncivic Enterprise is made. A civic Enterprise is constituted as an American Republic, and within any American Republic *rulership* is a deontological crime.

The Republican nature of Enterprises under civic free enterprise necessitates many changes to the organization and management of Enterprises in comparison to the uncivic industrial conglomerates that presently dominate commerce in the United States and other countries. The remainder of this treatise discusses general principles of these changes and why they are necessitated. Civic free enterprise banishes rulership from civic Enterprises and replaces it by a concept of the sovereignty of its member stakeholders. However, this does not mean that it is governed as a democracy and it does not mean there is no organized system of authority within it.

Not every industrial association is a mini-Community. Merely sharing a common descriptive label for personal enterprise activities – for example, "mine workers" – is insufficient for identifying a mini-Community. Furthermore, an aggregate association of individuals is not made a mini-Community merely by having some contracting document. A social contract is not a mere legal document but, rather, it is a social compact both *pledged* and actually *committed to* by all members of the association. It subsists in *demonstrated citizenship actions, mores, and folkways*.

It is not a trivial matter for an observer to empirically determine whether or not some defined aggregate of people does or does not form a mini-Community. Where actual Community exists its members form an organized being¹ through mutual cooperations and supports of one another. As a result of this organic unity, a Community exhibits peculiar properties not found in unbound associations. For example, their mini-Community can be expected to exhibit *natural* growth or decay processes in, *e.g.*, population size or economic earnings, whereas an unbound association will not exhibit natural growth or decay. Natural growth and natural decay processes are processes that follow a specific and well-defined mathematical pattern with observable and specific characteristics and quantifiable standards for judging whether or not those patterns hold.

Chapter 11 of Wells (2013) provides examples of analyses by which it was determined that some specific populations grouped by occupation formed mini-Communities while others did not. The material presented there demonstrates a scientific methodology; as social-natural sciences are further developed it is to be expected that additional scientific methods will also be discovered, developed and refined. Among the empirical findings presented there, one key finding is this: Mini-Communities constantly form and disintegrate over time in a commercial environment. A state of mini-Community is not a permanent condition. Every mini-Community faces Toynbee challenges² that not only threaten to arrest Progress for its members but also threaten the maintenance of Order within the mini-Community and thereby threaten its *Existenz*.

It is possible to employ practical and objectively valid methods by which a social-natural scientist can determine the presence or absence of a state of civil mini-Community in a defined aggregate of people. Analysis and evaluation of the civil conditions of associational aggregates is a key part of social-natural sociology and social-natural economics. It is also an essential part of social-natural political science because whether or not a nation's system of government is serving the body politic with competency and fidelity is indicated by the state of general welfare prevailing in its Society. The same is true of the governance of any industrial conglomerate. The management of an industrial conglomerate and its governance are inseparably linked and for this reason management theory and political science theory are likewise inseparably linked in the organization theory of an industrial conglomerate. A state of *general* welfare in a Community is contradicted when its constituent mini-Communities are disintegrating without compensating formations of new civil mini-Communities which check the development of social granulation.

So it is that institution of civic free enterprise and social contracting are inseparably bound up with each other. No person can know safety and security in his personal enterprise if the Society

¹ Refer to the glossary for the real-explanation of the term 'organized being'.

² Refer to the glossary for the real-explanation of the term 'Toynbee challenge'.

around him is undergoing breakdown and disintegration. Free enterprise itself cannot endure in a state-of-nature environment. Watson verbalized an important truth when he said, "What we must always remember is that countries and systems exist for the benefit of their people" [Watson (1963), pg. 94]. We must, therefore, undertake a more specific examination of how commercial, managerial, and governmental practices promote or hinder institution of civic free enterprise by means of their effects on internal and external social contracting.

§ 2. Passions for Distinction

Any theory of the organization, governance, and management of an Enterprise must begin by facing a primary empirical fact of human nature: the inclination human beings develop for *passions for distinction*. As a *passion* (an habitual sensuous purpose a person has made into a maxim in his manifold of rules), a passion for distinction has relationships with self-love, self-regard, Self-respect, self-respect (*Achtung*), self-conceit, and self-contempt³. Accordingly, a passion for distinction can have either positive or negative connotations. As maxims in a person's manifold of rules, passions for distinction are important and non-negligible determiners for many expressions of behaviors. John Adams had this to say in regard to passions for distinction:

A desire to be observed, considered, esteemed, praised, beloved, and admired by his fellows is one of the earliest, as well as keenest dispositions discovered in the heart of man. If any one should doubt the existence of this propensity, let him go and attentively observe the journeymen and apprentices in the first workshop, or the oarsmen in a cockboat, a family or a neighborhood, the inhabitants of a house or the crew of a ship, a school or a college, a city or a village, a savage or civilized people, a hospital or a church, the bar or the exchange, a camp or a court. Wherever men, women, or children are to be found, whether they be old or young, rich or poor, high or low, wise or foolish, ignorant or learned, every individual is seen to be strongly actuated by a desire to be seen, heard, talked of, approved and respected, by the people about him and within his knowledge. . . .

A regard to the sentiments of mankind concerning him, and to their dispositions towards him, every man feels within himself; and if he has reflected and tried experiments, he has found that no exertion of his reason, no effort of his will, can wholly divest him of it. In proportion to our affection for the notice of others is our aversion to their neglect; the stronger the desire of the esteem of the public, the more powerful the aversion to their disapprobation; the more exalted the wish for admiration, the more invincible the abhorrence of contempt. Every man not only desires the consideration of others, but he frequently compares himself with others, his friends or his enemies, and in proportion as he exults when he perceives that he has more of it than they, he feels a keener affliction when he sees that one or more of them are more respected than himself.

This passion, while it is simply a desire to excel another by fair industry in search of truth and the practice of virtue, is properly called *Emulation*. When it aims at power, as a means of distinction, it is *Ambition*. When it is in a situation to suggest the sentiments of fear and apprehension that another, who is now inferior, will become superior, it is denominated *Jealousy*. When it is in a state of mortification at the superiority of another and desires to bring him down to our level, it is properly called *Envy*. When it deceives a man into false professions of esteem or admiration, or into a false opinion of his own importance in the judgment of the world, it is *Vanity*. These observations alone would be sufficient to show that this propensity, in all its branches, is a principal source of the virtues and vices, the happiness and misery of human life; and the history of mankind is little more than a simple narration of its operations and effects. [Adams (1790), pp. 339-340]

Who of us has not heard a young child exclaim, "Mommy! Daddy! Look at me! Watch!" The

³ Refer to the glossary for the explanations of these terms.

passion for distinction is exhibited very early in life. Because these manifestations appear so early in life, it follows that the practical maxims in the manifold of rules responsible for its appearances are part of the earliest constructs of practical appetite. For this very reason, maxims of the passion for distinction are incorporated into the very fabric of individuals' personal and private moral codes⁴. This alone is a sufficient reason for designers of Enterprise institutions to give the passion for distinction close attention when they practice their art.

By the time a person reaches adulthood, the process of socialization he experiences as a child typically has a strong moderating effect on his maxims in regard to the passion for distinction. It is, however, an error to suppose socialization ever eradicates it. These maxims are built into the very foundations of people's manifolds of rules. While they can be and often are accommodated by experience, they are never unmade. Various religions attempt to teach humility (which is at the practical level a structure of maxims for moderating passions for distinction); such teachings have diverse degrees of effectiveness dependent upon the learner's other experiences. Many families likewise make attempting to moderate their children's passions for distinction a part of their moral upbringing (again with various degrees of effectiveness). For the institution of civic free enterprise, the issue at hand is not eradication of passions for distinction – because that is a practical impossibility – but, rather, the taming of its effects and the channeling of the passion in directions that benefit the Enterprise Community. This issue pertains immediately to the design of systems of Enterprise governance and management and to the selection of those officers and agents who are to fill offices in these systems. Such offices are vested with expectations of authority.

Unmoderated and unchanneled, passions for distinction can and often do have seriously debilitating effects on industrial conglomerates. *Rulership* is one of these debilitating effects. A **ruler** is a leader whose leader actions are premised on tenets of a rulership relationship between himself and the follower, and who is at liberty to unilaterally take actions the follower judges to be detrimental to his own welfare and counter to his own purposes. *Rulership* is the relationship between a ruler and one or more followers in which Self-determination of behavior by a follower is grounded in Duties-to-himself conditioned by precepts of self-protection from possible actions the ruler is at liberty to take unilaterally. The follower is said to be *subjugated* by the ruler. Ambitions to be a ruler are nothing else than socially perverse passions for distinction.

No person chooses to accept being subjugated by another for reasons other than because of maxims of prudence and obligation-to-self in regard to his situation. With only one exception, imposition of rulership is for this reason an action that neither promotes civil Community nor the development of maxims of mutual obligation. The exception occurs under *temporary* conditions of emergency circumstances when (i) the swiftest possible action is necessary for dealing with the emergent situation; and (ii) the person designated to *temporarily* act as a ruler is so designated through an expectation for authority vested in his office by his civil Community as part of their social contract. *Only* then do people accept rulership temporarily *for the common good*. One of the oldest examples of this motive in Western tradition is provided by the Old Testament in its account of how the Hebrews reacted to their military defeats at the hands of the Philistines:

But the people refused to listen to the voice of Samuel; and they said, "No! But we will have a king over us, that we also may be like all the nations, and that our king may govern us and go out before us and fight our battles." [1st Samuel 8: 19-20]

If we take this at its word, it appears the Hebrews' demand for Samuel to appoint a king over

⁴ It is important to bear in mind that a person's moral code is his system of practical rules by which he judges right vs. wrong and good vs. evil in all matters of his personal experience. His rules of obligation and his concepts of duties and Duties all derive from it. The passion for distinction is an important factor in organization and management theory because it immediately affects civil Community in all associations.

them was mere mimesis. The Philistines had been routing them, the Ark of the Covenant had been captured, the Hebrews were confronted with the most dire of emergencies and they could come up with nothing better than to copy the ways of their enemies. It was a satisficing decision and they soon got their wish, in the person of King Saul, despite Samuel's misgivings about the whole idea:

He said, "These will be the ways of the king who will reign over you: he will take your sons and appoint them to his chariots and to be his horsemen, and to run before his chariots; and he will appoint for himself commanders of thousands and commanders of fifties; and some to plow his ground and to reap his harvest, and to make his implements of war and the equipment of his chariots. He will take your daughters to be perfumers and cooks and bakers. He will take the best of your fields and vineyards and olive orchards and give them to his servants. He will take the tenth of your grain and of your vineyards and give it to his officers and to his servants. He will take your menservants and maidservants, and the best of your cattle and your asses and put them to his work. He will take the tenth of your flocks, and you shall be his slaves." [1st Samuel 8: 10-17]

It was a job description not all that dissimilar to the way some CEOs seem to regard their jobs.

There are many examples where a *just* imposition of rulership is exhibited. The most familiar one is found in the armed forces and is grounded in the peculiar service they provide for the nation. In the United States it is also carefully regulated by checks and balances under the maxim of civilian control of the armed forces. In all armies a carefully prescribed and ongoing rulership structure in peacetime is justified by the extraordinary circumstances an army must overcome in wartime if it is to fulfill its Duty to its country. Dyer wrote,

Armies exist ultimately to fight battles – the most complex, fast moving, and essentially unpredictable collective enterprises (not to mention the most dangerous and confusing) that large numbers of human beings engage in – and that purpose conditions almost everything about them. It guarantees them their high position in the list of priorities in every government (for historically the outcome of those battles has mattered greatly to the armies and their owners). It also explains why they are so different from other human organizations, and so similar from one country to another. [Dyer (1985), pp. 132-133]

He further notes,

Combat at every level is an environment that requires officers to make decisions on inadequate information, in a hurry, and under great stress, and then inflicts the death penalty on many of those who make the wrong decision – and on some of those who have decided correctly as well. . . .

Military officers, to be successful in combat, need a very high tolerance for uncertainty. This may seem one of the attributes least likely to be present in the armed forces, with their identical uniforms and rigid system of ranks, their bureaucratic standardizations . . . and their apparently generalized intolerance for deviations from the norm of any sort. Yet in fact these are two sides of the same coin.

It is not necessary for Acme Carpet Sales or the Department of Motor Vehicles to regiment their employees and rigidly routinize every aspect of their work, for they operate in an essentially secure and predictable environment. The mail will be delivered each morning, the sales representatives will not be ambushed and killed on the way to their afternoon appointments, and the secretarial pool will not be driven to mass panic and flight by mortar rounds landing in the parking lot. Armies in peacetime look preposterously over-organized, but peace is not their real working environment.

In battle, however, the apparent lunacies of orders given and acknowledged in standard

forms, of rank formalized to an extent almost unknown elsewhere, of training that ensures that every officer will report his observations of enemy movements in *this* format rather than some other, when there seems no particular virtue in doing it one way rather than another, all find their justification by bringing some predictability and order to an essentially chaotic situation. [*ibid.*, pp. 134, 136]

The *essentially* highly chaotic conditions peculiarly characteristic of battles does not prevail in ordinary commercial operations. It is true that emergent situations that must be swiftly dealt with do occasionally arise in them, but when they do they are *extraordinary*, not ordinary situations. For example, when I was a factory manager we shipped \$1 million in finished goods every day. From time to time, however, some problem would arise that necessitated shutting down our production line until that problem was fixed. We called problems of this sort "line stoppers." When the production line was stopped it cost us a little over \$11 *every second* that the line was stopped. I think you can appreciate why we regarded line stoppers as emergencies. Our staff of production engineers existed *primarily* so that we could respond swiftly to line stoppers. In between line stoppers, they carried out other routine work, most of which could not be justified by a return on investment analysis. During line stoppers they were the best investment anyone could ever make. In a way more literal than figurative, the production engineers constituted our equivalent of an army because they protected *everyone's* income revenue.

When there was a line stopper in progress, our normal management routines were suspended and it fell *to the office* I held to assume rulership powers until the problem was fixed, the line was restarted, and normal operations were reestablished. The moment this was accomplished, my authority to act as a ruler ended and my usual powers of authority as a manager, and their limitations, resumed. In point of fact, my office was one of only a very few in our company that even *had* any expectation for authority to temporarily exercise rulership. Not even our general manager or the company's CEO had this expectation for authority vested in *his* office. In our company, the power to rule was denied to them by our company's internal social contract.

The Roman Republic instituted a system of government that was in some ways similar to this. It was governed jointly by the Senate of Rome, two consuls, and ten tribunes of the plebs using a carefully crafted system of checks and balances under ordinary circumstances. However, on rare occasions of emergency, their system also allowed for the temporary appointment of a supreme ruler called the *dictator*. Durant described this special office:

The Romans recognized that in times of national chaos or peril their liberties and privileges, and all the checks and balances that they had created for their own protection, might impede the rapid and united action needed to save the state. In such cases the Senate could declare an emergency, and then either consul could name a dictator. In every instance but one the dictators came from the upper classes; but it must be said that the aristocracy rarely abused the possibilities of this office. The dictator received almost complete authority over all persons and property, but he could not use public funds without the Senate's consent, and his term was limited to six months or a year. All dictators but two obeyed these restrictions, honoring the story of how Cincinnatus, called from the plow to save the state (456 B.C.), returned to his farm as soon as the task was done. When this precedent was violated by Sulla and Caesar, the Republic passed back into the monarchy out of which it had come. [Durant (1944), pp. 30-31]

The point I wish to stress here is that rulership is compatible with Republican governance if and only if it is a temporary state governed by careful checks and balances and only used in the event of some emergency requiring rapid and united actions. In all other instances, it is antisocial and contradictory to Republican governance. Nonetheless, there has never seemed to be any shortage of individuals who aspire to become rulers. These individuals are almost always moved

to do so by passions of distinction falling into Adams' category that he called Ambition.

Uncivic free enterprise endures in large part because most industrial conglomerates choose to institute systems of rulership in the governance and management of the business. The rulership form most often encountered in industrial conglomerates is called *Taylorism*⁵. Taylorism is an incompetent system of management based on three premises set out by Frederick Taylor [Taylor (1911)]: (i) labor processes are to be de-coupled from the skills of the laborers; (ii) all possible planning, analysis, and decision-making is to be centralized, performed by specialists, and imposed on the task-performers; and (iii) management should prescribe and control exactly how, when, and how fast tasks must be performed.

Taylorism shares many of the same features found in Plato's *Politeía*. It presumes direct control of laborers by their managers is required to ensure that labor power bought is turned into labor performance. It urges managers to find ways to impose on their workers what they should do, in what way they should do it, within which limits and at what pace work is to be performed, and to evaluate their work performance and apply sanctions. Taylorism destroys the vitality of the organization's leadership dynamic and institutionalizes a caste system of pyramidal rulership in a hierarchy. It imposes monarchy/oligarchy governance within which no social contract is possible and the work environment becomes one of moderated state-of-nature relationships. Taylorism is the most often encountered institution of management in medium-to-large publicly-traded corporations and is the principal cause of these entities' mediocre financial performance or outright failure. Centralization of power, overspecialization of job functions, and a low regard for employees ("human resources") are three of its most visible and detrimental empirical features.

It has been known since the 1930s – on the basis of industrial psychology research – that Taylorism is a failed management theory. Even so, it has successfully resisted attempts to abolish it for nearly a century and it has shown a tendency to re-emerge, often under a different label, even when a rare government agency or commercial conglomerate has managed to temporarily do away with it. Its tendency to re-emerge would be difficult to understand if it were not for two things: (i) passions for distinction; and (ii) simpleminded mimesis that stems from the human nature of satisficing decision-making. There are a great many people who think Taylorism is both the obvious and the only way to structure management and governance. This is a way of thinking that recalls the Hebrews' demand for a king. Piaget calls this sort of false necessitation a *pseudo-necessity* and shows that it arises from lack of ability to conceive possibilities other than trivial modifications of ones already learned from peculiar prior examples [Piaget (1983)].

The phenomenon of rulership is just one class of examples of how unmoderated and unchanneled passions for distinction, especially ambition, cause harmful effects in mini-Societies, including industrial conglomerates. However, Adams' other classes – jealousy, envy, vanity – are also causes of harmful effects that hinder or destroy cooperation, produce antibonding relationships, and granulate associations. It is therefore an essential part of institution design to find ways and means to moderate and channel passions for distinction and build these checks and balances into the mores and folkways of the company's very *culture*. As Peters & Waterman found,

Without exception, the dominance and coherence of culture proved to be an essential quality of the excellent companies. Moreover, the stronger the culture and the more it was directed toward the marketplace, the less need there was for policy manuals, organization charts, or detailed procedures and rules. In these companies, people way down the line know what they are supposed to do in most situations because the handful of guiding values is crystal clear. [Peters & Waterman (1982), pp. 75-76]

⁵ Taylorism is frequently mislabeled "scientific management" although it is nothing of the sort. It is also frequently called "best management practices" but this is an utterly false characterization.

§ 3. Interests-based Organization

Passions for distinction are one source of people's special interests but they are not the only source. In regard to an individual's economic enterprise activities, most of his special interests conducive to civil Community and reciprocal Duties develop out of affective perceptions of self-regard (*Selbstsucht*) and self-respect (*Achtung*) as well as, to some extent, avoidance of feelings of self-contempt. Self-regard and self-contempt are affective perceptions connected to appetites for self-love (determination of a choice on the subjective ground of happiness). Their stimulus effects therefore pertain to practical rules of appetite which stand under practical imperatives and tenets of obligation-to-self. In contrast, self-respect is the representation of a value prejudicial to self-love in the determination of appetitive power and for this reason is closely connected with ideas of reciprocal Duties and orientations of the motivational dynamic which favor and promote acting in contexts of mutual Obligations.

As affective perceptions, feelings of self-regard and of self-contempt are polar opposites. Both are aesthetically apodictic, *i.e.*, each carries the Modality of a feeling of subjective certainty and necessity. The aesthetically apodictic *momentum* of this Modality is what connects the feeling with concepts of Duty-to-self and rules of obligation-to-self. Self-regard is a feeling of *Lust*⁶ and pertains to action determinations seeking to make the *Existenz* of some object of Desire actual. Self-contempt is a feeling of *Unlust* and pertains to action determinations seeking to prevent some object from becoming actual or, if that object is already actual, seeking to negate its actuality. The passion for Emulation⁷ of which Adams wrote is an example of a maxim of self-regard. Praise for a job well done often provides satisfaction for an interest of self-regard (provided the person does not doubt the sincerity of those who praised him and thinks he merits the praise). A reprimand often provides dissatisfaction that provokes a feeling of self-contempt (provided the person does not think the reprimand is unmerited)⁸. Praise and reprimand are two classes of leader's actions by which a leader can influence the leadership dynamic in ways that improve performance in an Enterprise. However, there are important distinctions between praise *vs.* flattery and reprimand *vs.* threat. Flattery – that is, false praise – is a species of sycophancy and can stimulate formation of antibonding or non-bonding relationships. Proper reprimand is always directed at some action performance or non-performance, not at a person, and seeks to stimulate behavioral modifications that improve the welfare of the Enterprise. A threat, on the other hand, is an attempt at coercion, is directed at the person, and carries a high likelihood of provoking antibonding relationships that are harmful to the welfare of the Enterprise. A threat is the act of a ruler, not of a civic leader.

⁶ pronounced "loost." This German word has no English equivalent. It does *not* mean the same thing as the English word "lust." Refer to the glossary for the technical explanations of *Lust* and *Unlust*.

⁷ Emulation is a passion for striving to equal or excel in something that others do. The word comes from the Latin verb *aemulor*, to imitate another person and possibly try to do better than he does.

⁸ It is important to carefully distinguish between these feelings and self-conceit (*Eigendunkel*), *i.e.*, judgmentation that transforms feelings of self-love and self-respect into attitudes and habits expressed in actions that convey appearances of arrogance and unwarranted pretensions to merit. Expressions of self-conceit tend to provoke antibonding relationships with others. A person who is in an authority figure position would be wise to keep himself from being deceived by sycophancy because false flattering by sycophants tends to bias a person toward developing maxims of self-conceit. For this reason, sycophancy must be regarded as uncivic behavior because it can be a threat to civil Community in an Enterprise. It is a misfortunate empirical fact that some authority figures – including corporate CEOs, university presidents, and elected officials – not only tolerate sycophancy but sometimes appear to encourage it. The widespread contempt many people express for "yes men" is well merited. Townsend wrote, "With any encouragement some people in your company will spend full time getting the chief executive decorated by foreign governments. Or putting his picture in the papers, getting him made man-of-the-year by the American Pizza Association, or press-released by that new adventure in egomania, the American Academy of Achievement. A good chief executive will knock off all this nonsense." [Townsend (1970), pg. 39]

Self-respect (*Achtung*) is the representation of a value prejudicial to self-love in the determination of appetitive power and is the most important stimulator of practical constructions of tenets of mutual obligations and concepts of reciprocal Duties. As an affective perception prejudicial to self-love, *consciousness* of self-respect has only a negative criterion; this is to say that one can only become conscious of *lack* of self-respect. Consciousness of self-respect is related to feelings of *Unlust*. The root cause of self-respect is the regulation of pure practical Reason in striving for practical perfection of the structure of a person's manifold of practical rules. This causative basis means that maxims of self-respect are or stand immediately under practical imperatives in a person's manifold of rules pertaining to obligations-to-self in regard to his person.

A leader must therefore be extremely careful about enacting leader's actions that provoke self-respect. You *want* people to develop maxims of mutual obligation and reciprocal Duty, all of which are ultimately grounded in obligation-to-self and Duty-to-self. But *no one* can *impose* any obligation on another person, and attempting to do so is likely to provoke effects that are opposite to what is intended. A person cannot be scolded into developing maxims of mutual obligation and reciprocal Duty; if you try that you will likely create an enemy and your leader's action will fail. Rather, your leader's actions must be, for lack of a better word, seductive. What I mean by this is that the action must be aimed at stimulating the positive aspects of Emulation. Demonstrations of corporate loyalty to the individual and of respect for his individuality and capabilities are two of the most effective tactics for accomplishing this. Watson wrote,

IBM has more than 125,000 employees [in 1963]. A substantial number of them, many of whom I could pick out by name, are highly individualistic men and women. They value their social and intellectual freedom, and I question whether they would surrender it at any price. Admittedly, they may like their jobs and the security and salaries that go along with them. But I know of few who would not put on their hats and slam the door if they felt the organization had intruded so heavily on them that they no longer owned themselves. [Watson (1963), pp. 25-26]

Taylorite managers not only fail to demonstrate these things but, through their actions, effect the polar opposite of demonstration of loyalty to the individual and respect for him as a person. They do this not because of inherent flaws in their own characters but because of the inherent nature of institutionalized Taylorism. This is a principal reason why Taylorism is an incompetent system of management and destroys the very organization management is tasked with the Duty of nurturing. Taylorism has a built-in institutionalized contempt for people and built-in indifference to its so-called "human resources." At the same time, Taylorites consistently deny this is what they are doing – an act of such colossal ignorance that it can stagger one's imagination. Taylorism can and does shred a company's internal social contract and disintegrate it into a state-of-nature environment moderated only by whatever external social contract binds its parent Society. And it does both of these with breathtaking speed. Under the best of circumstances the result is wasted capital; under worse circumstances it results in the failure of the industrial conglomerate and its disappearance through either outright bankruptcy or acquisition. Taylorism is business leprosy. In most acquisitions, a company ingests leprous matter into its own body politic. Watson wrote,

Of the top twenty-five industrial corporations in the United States in 1900, only two remain in that select company today. One retains its original identity; the other is a merger of seven corporations on that original list. Two of those twenty-five have failed. Three others merged and dropped behind. The remaining twelve have all continued in business, but each has fallen substantially in its standing. . . .

I believe the real difference between success and failure in a corporation can very often be traced to the question of how well the organization brings out the great energies and talents of its people. What does it do to help these people find common cause with each

other? How does it keep them pointed in the right direction despite the many rivalries and differences which may exist among them? And how can it sustain this common cause and sense of direction through the many changes which take place from one generation to another? [Watson (1963), pp. 3-4]

Taylorism does not and cannot accomplish any of these things.

Interests vital to an Enterprise arise from entrepreneurs' feelings of self-regard, self-respect, and self-contempt. For this reason, institution design of Enterprises must make it part of its *téchné* to structure the organization in such a way that the organization takes into account these interests, both common and special. To do so requires the designer to give consideration to general social-natural characteristics of the affectivity of self-respect, self-regard, and self-contempt. I think it is likely obvious to you that this undertaking will never succeed in discovering every interest of every entrepreneur, but this does not mean it cannot account for general properties of practical imperatives and tenets, the constructions of which are stimulated and fed by self-respect, self-regard, and self-contempt. People everywhere are more the same than they are different in terms of these factors. To account for them is to put into practice principles of industrial and managerial psychology firmly grounded in Critical principles of *homo noumenal* human nature. Institution design so guided organizes an Enterprise in a manner that can properly be called ***interests-based organization***.

Interests are empirically developed out of a person's experience, and experiences depend on prevailing social conditions during a person's lifetime. For this reason, interests that are widely held tend to change over time and to evolve as people's social expectations and corresponding concepts of Duties-to-self do. There are often particular conditions or circumstances that might have existed for a long time and which people do not like but are willing to put up with because they do not recognize any possibility that these conditions could be changed. One finds exhibition of such an attitude of presumption when someone dismisses a complaint with the phrase, "but that's just the way it is." The attitude is connected with a presupposition that there is something making the condition or circumstance eternal. It might be regarded as a law of nature ("death and taxes") or it might be that people recognize the condition could be altered but do not think altering it is possible because of some sort of social inertia.

For example, most Americans today regard the existence of political parties – and, especially, the so-called two-party system – in these terms. The attitude is backed up by propaganda extolling alleged virtues of a two-party system, *e.g.*, Barone (2001). In point of fact, the two-party system is nothing but a convention, is not the only one possible [Barone (2001)], and has never been proven or demonstrated to be the best convention possible. But most Americans today have never heard of any other possibilities and many are not even aware that the system as we know it was invented in the 1820s. It has been antisocially granulating our Republic ever since.

Another example – and this one is beginning to be questioned – is the convention of a forty-hour workweek and eight-hour workday. Today most Americans take this convention for granted and are not aware that the prevailing convention from the second half of the 19th century until well into the 20th was a twelve-hour workday and six-day workweek. Often they are not aware that the present eight-hour workday and forty-hour workweek resulted from the efforts of labor unions and was opposed by corporate managers and employer partnering capitalists accustomed to workplace conditions that prevailed in the so-called "Gilded Age" of *circa* 1870 to 1900. When I was a boy, the prevailing convention where I lived was an eight-hour workday and a six-day workweek. There is certainly nothing about the present convention endowing it with any permanent character. A number of empirical indications suggest the present convention is under pressure to change once more, and that a few years from now a new convention will gradually become established.

It is an uncomplicated empirical fact that institution designers of industrial conglomerates have historically not taken account of widely-held entrepreneur interests. Neither have business schools (with the result that they do not prepare students to deal with them). Rather, managers have been confronted on-the-job with problems arising from this neglect and have been forced to respond to the challenges these present with *ad hoc* satisficing solutions and pseudo-solutions.

Enlightened design of Enterprises must take into account both those widely held current interests pertinent to people's Duties-to-self and the fact that any empirical list of such interests pertinent to collective enterprises will change over time as a Society changes. In our present era, a listing of these interests will include the following:

- entrepreneurial pride of craftsmanship;
- expectation for recognition of the individual's talents;
- Desire for having one's opinions valued by others;
- personal safety and security in the workplace;
- personal security from the effects of casualties;
- adequate profit from income revenue earned by means of the entrepreneur's employment in the Enterprise^{9,10};
- domestic tranquility in the workplace;
- justice and fairness in the workplace;
- freedom from corporate hindrances to civil liberties outside the workplace;
- comradery, collegiality, and teamwork in the workplace;
- Progress in the individual's overall *Personfähigkeit*;
- pride in having one's work help to make a contribution to the Enterprise or to its parent Society;
- overall pride in the Enterprise.

Not every entrepreneur in the Enterprise will share all of these interests with other members, and there are certainly other special interests I have not included in this list. But enough people in an Enterprise will tend to hold these interests that prudent institution designs must take supporting them all into account. These are all interests pertinent to social-chemistry binding in an Enterprise mini-Society and to the promotion of productive cooperations among its members.

I have known some managers who dismiss some or all of the interests in this list as "touchy-feely stuff" and are averse to having to deal with them. But every Enterprise is composed of its entrepreneurs – the social atoms of Enterprise – and the competent practice of management requires these interests be proactively taken into account. I say more about this in various places

⁹ Recall that a capitalist-proprietor's income revenue consists of two parts: (i) capitalist's equity; and (ii) wages for his non-capitalist enterprising activities. This list of interests pertains to *all* the members of an Enterprise.

¹⁰ The principle of adequate profit does not imply wage-equality for all entrepreneurs in an Enterprise. The principle of fairness carries an implication that fair wage distribution from the Enterprise's profit earnings take into account actual *value added* by the particular economic services particular entrepreneurs provide to the Enterprise mini-Community within the structure of its division of labor. A skilled production operator, for example, most likely provides more value to an Enterprise's operations than does a new trainee or a young summer intern. However, there can be exceptions. I once had a sixteen-year-old high school student intern for one summer in my laboratory. It turned out this young man was so highly creative and his work so industrious that his tangible contributions to our research program that summer exceeded those of his ten regular co-workers (all college undergraduate and graduate students) combined. When I was working in industry as the manager of a team of engineers, the value added by some of them exceeded the value added by my own work – and, yes, these skilled individual contributors were paid more than I was; and rightly so.

later in this treatise.

§ 4. Interests-based Management

Management is the entirety of activities aimed at stimulating the leadership dynamic and then guiding and shaping the courses of all subsequent actions such that these actions accomplish the aims and meet the purpose of the managed Enterprise [Wells (2010), chaps. 8-9]. This is the real-explanation in terms of what *purpose* an industrial conglomerate's corps of authority figures known as "managers" exists to fulfill. Being made a manager isn't a reward for past accomplishments. It's a job like any other with its own peculiar craftsmanship, aims, and methods. If somebody promotes you to manager of the shoe department, you aren't being knighted. You're being hired. If somebody promotes you to President and CEO, you aren't being crowned. You're just one employee out of many and you're one of the hired help wage laborers in the conglomerate. If what you really want is to be a king then hire a private army, go conquer Somalia, and stay there. America doesn't need or want you. We kicked out the king a long time ago.

Real management differs from traditional views taken for granted by most people and taught in business schools and management courses. Its real-explanation is a *practical* explanation, not a speculative explanation based on analogies to military command structures or the church hierarchy of medieval Europe prior to the Reformation. It is not a statement of how managers actually behave in Taylorite organizations but, rather, is an explanation of the real socio-economic *function* of any management system. As I explain below, how poorly or excellently this function is performed through a specific management system depends to a great degree on how it uses and accommodates to the divers special interests of the entrepreneur members.

A management system is an organized attempt to influence how people behave in an industrial conglomerate. Douglas McGregor was one of the earliest 20th century theorists to recognize that the *essence* of managing subsists in influence, not rulership. He wrote,

The success of any form of social influence or control depends ultimately upon altering the ability of others to achieve their goals or satisfy their needs. . . . Unless I perceive that you can somehow affect my ability to satisfy my needs, you cannot influence my behavior. [McGregor (1960), pg. 26]

I think it is prudent to point out a couple of things pertinent to the objective validity of this statement. First, when McGregor uses the word "perceive" here, his statement has general objective validity only if we take "perception" to mean more than if he had said, "Unless I *think* that you can somehow affect my ability" &etc. Perception is representation with consciousness. It includes affective as well as objective perceptions. Consciousness of a "feeling" or an intuition is often sufficient for a leader's action to have an effect on a follower's behavior. Indeed, perception at this level underlies the greater majority of routine leader-follower interactions. This is almost to say the art of effective managing subsists to a great degree in a gentle touch on the shoulder.

The second point involves what McGregor meant by "control." Many people habitually equate the idea of management "control" with some rulership relationship. The word "authoritarian" as it is habitually used in discussions of "leadership" is used in this context. The Merriam-Webster dictionary lists three usages of the word "control":

1. to direct the behavior of (a person or animal); to cause (a person or animal) to do what you want.
2. to have power over (something).
3. to direct the actions or function (of something); to cause (something) to act or function in a certain way.

There are fundamental errors in these definitions when management or organization theorists use the word "control" in contexts of management or organization theory. The most serious of these is the notion that any manager or leader can "cause" someone else *to do any specific thing*. The only thing a manager or any leader can do is stimulate or provoke the other person's process of judgmentation. The actual determination of what that person *does* is a determination that he and he alone makes. The idea that a manager "causes" what people do *specifically* is a myth. A leader can "cause" a person to do *something* because he can stimulate the cycle of judgmentation. But he has no "control" over what that person *actually does* in reaction to this stimulation. If you are a manager and you think you are "in control" of your people then I'm sorry to have to tell you that you're living in a fantasy land. The only person you are "in control of" is yourself. If you have a strong conviction that you are "in control," my suggestion would be that you take a look at your own passion for distinction. I'd make a small wager you'll find the source of your error there.

What a manager or a leader not only *can* do but is *expected* to do by *his subordinates and by his managerial superiors* is fulfill the expectations for authority vested in his office by means of purposively *stimulating, orienting, and guiding* his followers and their leadership dynamic interactions. By "purposive" I mean the leader's action is expressed in order to achieve some intended purpose.

McGregor did not crisply define or offer to explain what he meant by "control." He seems to have taken it for granted his readers would understand what he meant – which is something of an irony when one considers how he put a considerable effort into trying to alert his readers to "tune your ear to listen for assumptions about human behavior" [McGregor (1960), pg. 9]. McGregor's real meaning of the word "control" can be found by analyzing how *he* used it in his book. What this analysis concludes is that by "control" he really meant "stimulate, orient, and guide" others. If you will permit me to use SOG as an acronym for this phrase and to substitute it where he said "control," McGregor was correct to say,

We can improve our ability to [SOG] only if we recognize that [to SOG] consists in selective [accommodation¹¹] to human nature rather than in attempting to make human nature conform to our wishes. If our attempts to [SOG] are unsuccessful, the cause generally lies in our choice of inappropriate means. [McGregor (1960), pg. 14]

The issue and challenge for institution of an effective and competent system of management subsists in finding ways to institute a system that promotes rather than hinders a manager's ability to SOG others successfully. McGregor's thesis consists almost entirely of trying to formulate a sound theory for doing so. A great deal of what he says is consistent with *homo noumenal* human nature or, at the least, is not-inconsistent with it. His famous Theory Y was a radical reformation of the assumptions and presuppositions of traditional management and organization theories. It was highly influential in the 1960s and '70s, although later researchers appear to have misfocused their efforts on the parts of his book presenting tactical hypotheses and they seem to have mistaken these hypotheses for fundamental principles. Peters & Waterman later noted,

Whereas the rational model¹² was a pure top-down play, the social model, as produced by McGregor's misguided disciples, became a pure bottom-up play, an attempt to start

¹¹ McGregor actually used the word 'adaptation' here. However, from the way he uses this word it is clear that what he actually meant was what the Critical theory calls 'accommodation'. His statement above means a leader must change his own behavioral expressions to accommodate other people's processes of semantic representing during interpersonal transactions. Habitually assuming that another person always understands what you say or do in the same way that you understand it is adult egocentrism in action.

¹² By 'the rational model' Peters & Waterman are referring to McGregor's Theory X and especially its most perverse form, Taylorism.

revolutions via the training department. McGregor had feared that all along and said, "The assumptions of Theory Y do not deny the appropriateness of authority, but they do deny that it is appropriate for all purposes and under all circumstances." [Peters & Waterman (1982), pg. 96]

It is also unfortunately true that McGregor, and almost everyone else, mistook and misused the term 'authority' in the traditional miscontext of "sanctioned power to coerce" rather than in its epistemologically correct real-explanation¹³. This did result in some weak hinges built into the structure of Theory Y. I do not judge him or others harshly for this error; it is extremely difficult to break longstanding habits of thinking and even more difficult to alter "the way one looks at the world" (one's personal metaphysic). Yet it is necessary to do both if the art of management is to be grounded solidly in human nature and give rise to an empirical social-natural science.

Although the habit of mistaking authority for power to coerce is widespread, it is not a universal misunderstanding. There are some managers and even some Enterprises who do not confound the two terms. Among the cases I have studied, the best example was provided by the Hewlett-Packard Company during the 20th century. At HP the power to coerce was denied to managers and supervisors. This did not mean they could not explain and lay out specific *goals* for the teams they managed; indeed, doing this was a major expectation of the offices they held and successfully meeting this expectation was a major factor in whether or not a manager or supervisor remained in office. The company had clear social contract guidelines which, among other things, made it explicit that he had the power to set the work goals of his team based upon higher goals of the larger part of the company in which that team was embedded. The company also had a its own *justice system* aimed at hindering a manager's or supervisor's power to coerce. I discuss this later in this treatise when it takes up the topic of the justice system in an Enterprise. Here I will say that this justice system operated to maintain the company's social contract. I will also say that compliance with the company's social contract was expected of all employees and a condition of employment. This system developed and evolved as the company did. Dave Packard had an anecdote he liked to use to illustrate that managers were not empowered to coerce. It went

We were also learning [in the early days of the company] which of our people had management potential, although we sometimes learned the hard way. Once we promoted a man, a good worker, to be the manager of our machine shop. A few days later he came to see me. He said he was having a tough time managing and wanted me to come out to the shop and tell his people that he was their boss. "If I have to do that," I said, "you don't deserve to be their boss." [Packard (1995), pg. 129]

The anecdote ends there and I do not know if that employee remained a manager or not. I can tell you that if he did not he would have been reassigned to a non-managerial position and would not have been fired. This is because the management system at HP was designed to regard this incident as one of a *mistake by management* (Packard himself in this case), not a failure of an employee. It was possible to get fired at HP, but such instances were, by design, very rare. I will say more about this later when the justice system of an Enterprise is discussed. I can also tell you that it was not especially unusual for a person to *choose* to move into and out of manager roles. There was no company stigma associated with doing so. I did it myself a few times.

The principle of non-coercion coupled with the maxim of regarding work performance issues as arising out of the *management* system is also part of McGregor's Theory Y concept. He wrote,

Above all, the assumptions of Theory Y point up the fact that the limits on human collab-

¹³ Authority is possession of the *Kraft* of causing something to become greater, to increase, to be strengthened, or to be reinforced in some way.

oration in the organizational setting are not limits of human nature but of management's ingenuity in discovering how to realize the potential represented by its human resources. Theory X offers management an easy rationalization for ineffective organizational performance: It is due to the nature of the human resources with which we must work. Theory Y, on the other hand, places the problem squarely in the lap of management. If employees are lazy, indifferent, unwilling to take responsibility, intransigent, uncreative, uncooperative, Theory Y implies that the causes lie in management's methods of organization and [SOG]. [McGregor (1960), pg. 66]

It is correct to say that this presumption of *systematic* causes of work performance issues is a close relative of the most important maxim of the U.S. court system, namely, the presumption of innocence. It is certainly true that some people perpetrate crimes in the U.S. But the maxim is designed to safeguard the civil rights of citizens and exercise reasonable caution in assigning culpability for criminal actions. The presumption that the cause of a work performance issue lies in the system of management has a similar role to fill. It is a key pillar in an Enterprise's justice system, and ***an industrial conglomerate cannot be an Enterprise if it has no justice system.***

People can be influenced only when the person attempting to do the influencing does so in ways pertinent to one or more of their interests. As might be implied by the partial list of frequent interests given above, the majority of actual interests an individual holds are intangibles and can not be measured in terms of dollars or financial benefits. Many of them connect to passions for distinction. Others pertain to other personal needs. A ***need*** (*Bedürfnis*) is *anything subjectively necessary for satisfaction of some end or purpose*. Every interest is an anticipation of a satisfaction or dissatisfaction, and therefore every need corresponds to some interest – either one that anticipates a satisfaction and stimulates actions aimed at making its object actual, or one that anticipates a dissatisfaction and stimulates actions aimed at either negating an actual object or preventing a possible but non-actual object from becoming actual.

A criticism that can be made of the majority of psychology-of-management theories is that they hypothesize needs but do not go deeper and explore the interests which ground and condition people's needs. For example, McGregor adhered to Maslow's then-new hierarchy-of-needs theory (chapter 3). The shortcoming in this and other similar approaches to stereotyping entrepreneurs in regard to their objects-of-motivation is that ***human beings act to satisfy interests, not needs.*** Indeed, most of the time people are not cognizant of need-objects; they are conscious of interests and not necessarily conscious of them in communicable objective form. Not unlike Justice Potter Stewart's famous opinion¹⁴, in which he said he could not define pornography "but I know it when I see it," in most cases people cannot objectively define their needs but recognize them *only after they are met*. Even in the fewer number of cases in which a need is objectively describable, it is not a *need* which provokes actions; it is an *interest* which is the causal factor of an action.

The task of a manager would be hopeless indeed if it required him to psychoanalyze every person in every situation. The impossibility of this is a very strong and pragmatic reason theories of management attempt to find empirical principles to guide a manager's thinking. Theory Y, for example, is based on six principles listed below. As you read them, what you should recognize is that they are in fact speculative *maxims* intended to guide a manager's thinking. The principles of Theory Y are:

1. *The expenditure of physical and mental effort in work is as natural as play or rest.* The average human being does not inherently dislike work. Depending on controllable conditions, work may be a source of satisfaction (and will be voluntarily performed) or a source of punishment (and will be avoided if possible).

¹⁴ *Jacobellis v. Ohio*, 1964.

2. *External control and the threat of punishments are not the only means for bringing about effort toward organizational objectives. Man will exercise self-direction and self-control in the service of objectives to which he is committed.*
3. *Commitment to objectives is a function of the rewards associated with their achievement.* The most significant of such rewards, e.g., the satisfaction of ego and self-actualization needs, can be direct products of effort directed toward organizational objectives.
4. *The average human being learns, under proper conditions, not only to accept but to seek responsibility.* Avoidance of responsibility, lack of ambition, and emphasis on security are generally consequences of experience, not inherent human characteristics.
5. *The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.*
6. *Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.* [McGregor (1960), pp. 65-66]

All six of these maxims are not-inconsistent with the Critical theory of *homo noumenal* human nature so far as they go¹⁵. However, the practical ability to use them depends on correctly understanding some important concepts that are only vaguely expressed in them. In what, for instance, does a "reward" subsist? How can one assess, let alone measure, "intellectual potentiality"? Does a person strive to achieve *objectives* or does he instead strive to meet *goals*? How does a goal differ from an objective? What educating experiences produce a relatively high degree of the capacity named in Principle 5? What sort of management system promotes this capacity and what sort hinders it? These and other questions like them lie at the next deeper level of a Critical theory of management. Exploring this level requires a grounding in interests.

McGregor did recognize the hypothetical character of his principles. He wrote:

The assumptions of Theory Y are not finally validated. Nevertheless, they are far more consistent with existing knowledge in the social sciences than are the assumptions of Theory X. They will undoubtedly be refined, elaborated, modified as further research accumulates, but they are unlikely to be completely contradicted.

On the surface, these assumptions may not seem particularly difficult to accept. Carrying their implications into practice, however, is not easy. They challenge a number of deeply ingrained managerial habits of thought and action. [*ibid.*, pg. 67]

Today, more than half a century later, they have not been significantly altered and have not been contradicted, although I think it prudent to note that this has much more to do with lack of basic research than anything else. You can't find a hole in a theory if you do not look for it. Practice of psychology research, especially in the U.S., has earned for itself something of a reputation for *not* following up on "mini-theories" in pursuit of better knowledge of causative underpinnings. It is a sort of habitual dilettante behavior for which practitioners can justifiably be criticized. I think it is also important, and illuminating, to point out that this behavior can be primarily blamed on the

¹⁵ These maxims are all empirical. For that reason, making them not-inconsistent with Critical theory is the best that can be done for them insofar as their objective validity is concerned. Being not-inconsistent is not the same thing as being-consistent. An idea can be not-inconsistent with experiment but still turn out to eventually be found incorrect (inconsistent with experiment) by a discovery of new facts. The distinction between being not-inconsistent and being-consistent is perhaps a subtle one, but it comes directly from the primitive functions of understanding in human nature [Wells (2009), chap. 5], specifically the categories of Quality. Failure to draw this distinction is an error in thinking which leads to paradoxes, *i.e.*, what Kant called "antinomies of pure Reason" [Kant (1787) B: 531-535].

management institution of university administrations, research funding agents, and professional societies. It is, in other words, an example of a case where performance shortcomings are brought about by *systematic* hindrances caused by management system institutions that discourage basic research seeking causative underpinnings. The hindrance lies in *causing practitioners to develop interests in not pursuing* such research. Funding agencies tend to not fund such research, professional journals tend to not publish such papers, and university administrators tend to evaluate professors by counting the number of their publications – what is popularly known as the "publish or perish" maxim of academia. The research *management* system hinders *doing* research.

All of these characteristics of the *ad hoc* and multi-headed management system governing the American research communities can be traced back, as McGregor pointed out, to unexamined presuppositions characteristic of a Theory X institution of management. McGregor wrote,

Behind every managerial decision or action are assumptions about human nature and human behavior. A few of these are remarkably pervasive. They are implicit in most of the literature of organization and in much current managerial policy and practice. [*ibid.*, pg. 45]

These remarkably pervasive assumptions constitute the underlying maxims of what McGregor called Theory X. They are:

1. *The average human being has an inherent dislike of work and will avoid it if he can.*
2. *Because of this human characteristic of dislike of work, most people must be coerced, controlled, directed, threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives.*
3. *The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition, wants security above all.* [*ibid.*, pp. 45-46]

He remarked that "the principles of organization which comprise the bulk of the literature of management *could only have been derived from assumptions such as those of Theory X*" [*ibid.*, pg. 46].

All three of these assumptions are specifically emblazoned on page after page of Taylor's book [Taylor (1911)] and constituted the original foundations upon which most of the now-habitual management practices of Theory X industrial conglomerates were originally built. Taylor himself did not invent them; they were already engrained in the thinking of many managers by 1911. Taylor merely accepted them as fact and then used them to erect more formal erroneous managerial maxims. In the pages of *Scientific Management* you will find the following assertions:

This loafing or soldiering proceeds from two causes. First, from the natural instinct and tendency of men to take it easy, which may be called natural soldiering. Second, from more intricate second thought and reasoning caused by their relations with other men, which may be called systematic soldiering. [Taylor (1911), pg. 5];

The natural laziness of men is serious, but by far the greatest evil from which both workmen and employers are suffering is the systematic soldiering which is almost universal under all the ordinary schemes of management and which results from a careful study on the part of the workmen of what will promote their best interests. [*ibid.*, pg. 6];

The writer asserts as a general principle . . . that in almost all of the mechanic arts the science which underlies each act of the workman is so great and amounts to so much that the workman who is best suited to actually doing the work is incapable of fully understanding this science without the guidance and help of those who are working with him or over him, either through lack of education or through insufficient mental capacity . . . The

body of this paper will make it clear that, to work according to scientific laws, the management must take over and perform much of the work which is now left to the men; almost every act of the workman should be preceded by one or more preparatory acts of the management which enable him to do his work better and quicker than he otherwise could. [*ibid.*, pg. 9];

Now one of the very first requirements for a man who is fit to handle pig iron as a regular occupation [is] that he shall be so stupid and so phlegmatic that he more nearly resembles in his mental make-up the ox than any other type. [*ibid.*, pg. 25];

It is only through standardization of methods, enforced adoption of the best implements and working conditions, and enforced cooperation that this faster work can be assured. And the duty of enforcing the adoption of standards and of enforcing this cooperation rests with the management alone. . . . All of those who, after proper teaching, either will not or cannot work with the new methods and at the higher speed must be discharged by management. [*ibid.*, pg. 36]

Tell a typical Taylorite manager he bases his managerial practices on Theory X assumptions and you will likely provoke vehement protests and denials. These will not be dishonest, either. Theory X practices are founded upon habitual, unquestioned, and unexamined maxims and habits, and *these* maxims and habits are the ones which were originally formulated on the basis of the Theory X assumptions. We find them as far back as Vicar Joseph Townsend's *Dissertation on the Poor Laws* in 1786 [Polanyi (1944), pp. 116-124]. In the rush to "educate managers" explanations of the *origins* of traditional practices are left out of the textbooks and lectures so the lecturer can "get straight to" the practices themselves. Indeed, I am skeptical that today's textbook authors and teachers themselves know where the practices they teach come from or how they developed when they were new practices. You cannot teach what you do not know, and once an institution of education is smashed and broken the damage lasts for generations. Why else do you think the most recent European Dark Age dragged on for seven centuries?¹⁶

My point in bringing up the education issue here is merely this. The tendencies of the adult egocentrism that *all* of us carry as residual traces of childish egocentrism incline a person to not habitually examine what presuppositions he is implicitly using while reasoning through a problem or an issue. Indeed, making an examination of presuppositions means taking longer to close the cycle of judgmentation and come to a reequilibration after whatever disturbance perturbed initiation of that cycle. The process of practical Reason is an *impatient* process; it seeks to close the cycle of judgmentation loop and reestablish equilibrium by the most expeditious means it can find. It is an affectively cold and cognitively dark process, feeling no feelings and knowing no empirical objects. Practical Reason has only one aim: equilibrium. What education, training, and experience do for a human being is to introduce *concepts* into the cycle of judgmentation that make the satisfaction of equilibrium depend on more cognitive factors and, thereby, cause that process to come under more conditions. In this way, one's reasoning powers are made more mature, one's practical maxims are made to be more refined, and one's judgmentation settles on more robust forms of reequilibration (type- β and type- γ compensations). Specifically, education and training promote the individual's development of conceptual *maxims of thinking* that broaden the scope of his reasoning process. Without this constructed maturation of thinking and reasoning an individual invariably falls back on type- α compensations (ignorance) and consequently comes to non-robust equilibriums that are tenuous and easily disturbed.

¹⁶ Today historians prefer to eschew using the term "Dark Ages" because supposedly "this fails to recognize the accomplishments of that period." Hogwash. The term "dark age" doesn't mean *people* were stupid or inept or unable to accomplish anything. It means their social environment was so granulated into anti-bonded mini-Societies that Order and Progress broke down compared to other periods and, consequently, there were lopsidedly more state-of-nature enormities compared to other periods in history.

A scientist is not a more skillful practitioner of his science than, say, a plumber because he is "smarter"; he is a more skillful practitioner because he has special maxims for thinking about scientific problems he has developed through training and experience. For the very same reason, a plumber is more skillful at the practice of *his* craft than, say, a physicist. A plumber develops special interests in plumbing problems which his training and experience allow him to satisfy. A physicist develops special interests in physics problems that *his* training and experience allow *him* to satisfy. It isn't a matter of who is "smarter." Indeed, the concept of "smarter" is such a vague concept and so loaded with unexamined presuppositions and prejudices that the word has almost no practical meanings that do not merely serve people's passions for distinction. Within *scientific* contexts of human nature, to say Person A is "smarter" than Person B is nothing more than to say that, within some specific practical context, Person A demonstrates greater scope in his capacity of intellectual *Personfähigkeit* than Person B demonstrates in those same contexts. The capacity of intellectual *Personfähigkeit* refers to a person's intelligence, but *intelligence* is the capacity for adaptation of mental structures. This capacity subsists in practical as well as conceptual maxims of reasoning and thinking that a person develops through the experience and activities of his own personal process of educational self-development [Wells (2012), chap. 7, pp. 199-203]. A typical plumber is "smarter" at plumbing (practices plumbing more skillfully) than a typical physicist is; a typical farmer is "smarter" at agriculture than a typical engineer is; a typical small business proprietor-capitalist is "smarter" at operating a business than a typical Fortune 500 corporate CEO is (see chapter 8, pp. 225-226, and figure 8.2). No matter how good *you* are at whatever it is you do, in another craft there is always someone "smarter" than you in the context of that craft.

There are logical consequences for designers of management systems implicit in the points I have just raised. One of them pertains to what might be the most preposterous widespread myth one finds among American corporate managers. It is the myth that people (so-called "human resources") are freely interchangeable, *i.e.*, that you can "plug" any person into any assignment and expect that assignment to be unaffected by who gets "plugged into" it. I don't know precisely where or when this myth got going; I've seen it almost everywhere I've looked in corporate management cases over the past couple of decades; the myth is less prevalent in those of four to five decades ago. Today's myth bears some similarity to one of Taylor's maxims but it differs by omission from Taylor's maxim. What I mean by this is Taylor recognized that *training* empowers individuals to competently perform special tasks; the modern myth ignores the importance of training. Taylor made special training what he called the "second duty of management":

They [managers] scientifically select and then train, teach and develop the workman [Taylor (1911), pg. 14].

Taylor's training maxim, I will hasten to add, was accompanied by so many Theory X presuppositions that his maxims for *how* to train someone and *who* should instruct him were, not to put too fine a point on it, educationally ghastly. But he did at least *reintroduce* the idea of task/job training – an idea that had lain dormant from the time the apprenticeship system in America had collapsed after the Economy Revolution of 1750-1800. These pedagogically unsound aspects of Taylor's idea of *how* to train workers gave rise to the accurate critique of Taylorism as a system under which management prescribes and controls exactly how, when, and how fast tasks must be performed. Indeed, Taylor *did* prescribe this as a principle of so-called "scientific" management:

Perhaps the most prominent single element in modern scientific management is the task idea. The work of every workman is fully planned out by the management at least one day in advance, and each man receives in most cases complete written instructions, describing in detail the task which he is to accomplish as well as the means to be used in doing the work. . . . This task specifies not only what is to be done but how it is to be done and the exact time allowed for doing it. [Taylor (1911), pg. 15]

If a manager at Hewlett-Packard during the years I worked there had tried this, people from the personnel department would have, figuratively speaking, stormed his office armed with machetes, slashing at everything that moved. And it would have been an act of *justice* administered.

Early Taylorism more or less presumed no one would do anything well if left to himself. The modern myth more or less presumes anyone can do everything well and if a person does not then it must be because of laziness, ineptness, ignorance, or stupidity. One common speculation offered for the failure of Taylorism in the 1920s and '30s is that it placed too much burden on managers. The myth offers one convenient excuse to ignore the idea that a manager has to know *something* about what he manages if he is to do so competently. This latter myth – that a manager can successfully manage even if he is ignorant of the nature of the work he oversees – is just the "anyone will do" myth applied to the job of manager. Dave Packard wrote,

Some say good managers can manage anything; they can manage well without really knowing what they are trying to manage. It's the management skill that counts. . . . I don't see how managers can even understand what standards to observe, what performance to require, and how to measure results unless they understand in some detail the specific nature of the work they are trying to supervise. We have held closely to this philosophy at HP and I hope will continue to do so. [Packard (1995), pp. 154-155]

What Theory X and Theory Y have in common is that neither of them contain any reference to factors pertaining to special interests of the entrepreneur-members of the industrial conglomerate. Whether a person's craft is salesmanship, bookkeeping, operating a milling machine, engineering, managing, or anything else, it isn't so much the mechanics of craftsmanship that matters in the managing of an Enterprise; what matters are the special interests of the craftsmen because leadership of the organization hinges on an ability to grow common interests out of the milieu of special interests. Indeed, the rulers of most industrial conglomerates try to dictate to the ruled what these common interests must be without regard for what the special interests of the members are. McGregor wrote,

Someone once said fish discover water last. The "psychological environment" of industrial management – like water for fish – is so much a part of organizational life that we are unaware of it. Certain characteristics of our society, and of organizational life within it, are so completely established, so pervasive, that we cannot conceive of their being otherwise. As a result, a great many policies and practices and decisions and relationships could only be – it seems – what they are.

Among these pervasive characteristics of organizational life in the United States today is a managerial attitude (stemming from Theory X) toward membership in the industrial organization. It is assumed almost without question that the organizational requirements take precedence over the needs of individual members. Basically, the employment agreement is that in return for the rewards which are offered, the individual will accept external direction and control. The very idea of integration and self-control is foreign to our way of thinking about the employment relationship. The tendency, therefore, is either to reject it out of hand (as socialistic, or anarchistic, or inconsistent with human nature) or to twist it unconsciously until it fits existing conceptions. [McGregor (1960), pp. 68-69]

McGregor called his idea for organizing a Theory Y company "integration." This is fine so far as it goes, but examined more closely it is found to beg the question. Integrate how? By what means of governance? He does, of course, present many specific speculations regarding these questions. But he still conceptualizes these things within an assumed framework of hierarchical management, but one in which individual entrepreneurs are to be given a little more liberty of action and a little stronger voice in decision making. He does not address the questions of governance and corporate citizenship in his "integration" idea. He does say,

The concept of integration and self-control carries the implication that the organization will be more effective in achieving its economic objectives if adjustments are made, in significant ways, to the needs and goals of its members. [*ibid.*, pg. 69]

Can "adjustments" convert a monarchy/oligarchy form of governance to Republican governance? The answer is brief: *No*. His prescription in effect calls for *first* setting the organizational and managerial *structure* and *then* making it accommodate "the needs and goals of its members." But, as Toynbee pointed out,

One source of disharmony between the institutions of which a society is composed is the introduction of new social forces – aptitudes or emotions or ideas – which the existing set of institutions was not originally designed to carry. . . . Ideally, no doubt, the introduction of new dynamic forces ought to be accompanied by a reconstruction of the whole existing set of institutions, and in any actually growing society a constant readjustment of the more flagrant anachronisms is continually going on. But *vis inertiae* tends at all times to keep most parts of the social structure as they are, in spite of their increasing incongruity with new social forces constantly coming into action. In this situation the new forces are apt to operate in two diametrically opposite ways simultaneously. On the one hand they perform their creative work either through new institutions that they have established for themselves or through old institutions that they have adapted to their purpose; and in pouring themselves into these harmonious channels they promote the welfare of society. At the same time they also enter, indiscriminately, into any institution which happens to lie in their path – as some powerful head of steam which had forced its way into an engine-house might rush into the works of any old engine that happened to be installed there.

In such an event, one or other of two alternative disasters is apt to occur. Either the pressure of the new head of steam blows the old engine to pieces, or else the old engine somehow manages to hold together and proceeds to operate in a new manner that is likely to be both alarming and destructive. [Toynbee (1946), pp. 279-280]

One of the presuppositions built into Theory Y is the supposition that what Toynbee called "new social forces" do not happen. It recognizes new economic and commercial circumstances do arise, and it attempts through the "integration" idea to allow for (not accommodate to) individual "needs and goals of its members" (which it also tends to regard as static rather than dynamically time-varying). What it does not do is design *into the structure of management and governance* of the organization a faculty for making adaptations *to these structures*. Thus, for all its good and beneficial contributions, Theory Y leaves out the Enlightenment principle of flexible organization *at the roots* of its systematic theoretical treatment.

All adaptive systems must have something able to regulate its adaptation operations. Member interests are what this something subsists in for an Enterprise. The question is: What structural institution of management and governance can *by design* accommodate an Enterprise in response to a great diversity of individual and largely unpredictable entrepreneur interests *in such a way* these special interests can themselves be accommodated by those same individual entrepreneurs, form *congruent* interests and then, going further, promote syntheses of congruent special interests that produce those *common* interests upon which every mini-Society depends for its growth and continued *Existenz*?

The Hewlett-Packard Company in the 20th century was a model Theory Y company. Its overall institutional structure of management and governance was based on decentralized and quasi-independent operating divisions governed according to the principles of what was called The HP Way [Packard (1995)]. However, even this company organization did not fully take into account the non-static nature of Toynbee's "social forces" which arise from evolving personal special interests. As commercial business conditions gradually changed over time, the company's later

generations of managers tried to respond to them in traditional ways – and the company over time retreated into the comforting pseudo-security of Theory X principles. The breakdown and disintegration of Hewlett-Packard came in the first decade of the 21st century, and when it came it came with breathtaking speed – an empirical indication that the company was falling from within *before* external factors finally pushed it over the edge of the abyss. Today, according to the latest business news, what was once a united Enterprise has disintegrated into seven different entities, three of which disappeared into other companies. Although the name "Hewlett Packard" continues to be used, the fact is the Hewlett-Packard Company no longer exists. It did not change; it self-destructed. Even the ongoing survival of those four remaining entity fragments is dubious.

The key structural flaw in Hewlett-Packard (and in the majority of industrial conglomerates) was that, despite its Theory Y principles, its governance was organized as a hierarchy. Because of this, the potential for monarchy/oligarchy governance was latent in its organizational design. The manager wage-laborers at every level in every hierarchical conglomerate have their own special interests, the pursuit of which no hierarchical form of organization can moderate because a hierarchical organization lacks the necessary checks and balances, based on entrepreneur interests, for ensuring this. Rather, hierarchy promotes the development of what Toynbee called *dominant minorities*:

We have seen, in fact, that when, in the history of any society, a creative minority degenerates into a dominant minority which attempts to retain by force a position it has ceased to merit, this change in the character of the ruling element provokes, on the other side, the secession of a proletariat which no longer admires and imitates its rulers and revolts against its servitude. [Toynbee (1946), pg. 246]

There is an answer to this and it is one capable from the outset of building interest-based management and governance into its very structure. It is called *heterarchical* structuring, and the remaining chapters of this treatise are largely devoted to explaining it. But before beginning this treatment, it is prudent to describe some symptoms of an infection of an organization's body politic by Theory X presuppositions and that most perverse corporate social disease: Taylorism.

§ 5. The Symptoms of Taylorism

Taylorism produces a number of peculiar manifestations in managers' behaviors that appear more frequently the higher one ascends the managerial pyramid. Peters & Waterman used ironic stereotyping to illustrate the more internecine of these manifestations:

The old rationality¹⁷ is, in our opinion, a direct descendent of Frederick Taylor's school of scientific management and has ceased to be a useful discipline. Judging from the actions of managers who seem to operate under this paradigm, some of the shared beliefs include:

- Big is better because you can always get economies of scale. When in doubt, consolidate things; eliminate overlap, duplication, and waste. Incidentally, as you get big, make sure everything is carefully and formally coordinated.
- Analyze everything. We've learned that we can avoid big dumb decisions through good market research, discounted cash-flow analysis, and good budgeting. If a little is good then more must be better, so apply things like discounted cash flows to risky

¹⁷ By "the old rationality" Peters & Waterman mean management systems that place a sort of blind and Platonic faith in complex analysis procedures divorced from often-intangible causative factors, especially human factors. As they put it, "What we are against is wrong-headed analysis, analysis that is too complex to be useful and too unwieldy to be flexible, analysis that strives to be precise (especially at the wrong time) about the inherently unknowable" [Peters & Waterman (1982), pg. 31].

investments like research and development. Use budgeting as a model for long-range planning. Make forecasts. Set hard numerical targets on the basis of those forecasts. Produce fat planning volumes whose main content is numbers. (Incidentally, forget the fact that most long-range forecasts are bound to be wrong the day they are made. Forget that the course of invention is, by definition, unpredictable.)

- Get rid of the disturbers of the peace – i.e., fanatical champions. After all, we've got a plan. We want one new product development activity to produce the needed breakthrough, and we'll put 500 engineers on it if necessary, because we've got a better idea.
- The manager's job is decision-making. Make the right calls. Make the tough calls. Balance the portfolio. Buy into the attractive industries. Implementation, or execution, is of secondary importance. Replace the whole management team if you have to to get implementation right.
- Control everything. A manager's job is to keep things tidy and under control. Specify the organization structure in great detail. Write long job descriptions. Develop complicated matrix organizations to ensure that every possible contingency is accounted for. Issue orders. Make black and white decisions. Treat people as factors of production.
- Get the incentives right and productivity will follow. If we give people big, straightforward monetary incentives to do right and work smart, the productivity problem will go away. Over-reward the top performers. Weed out the 30 to 40 percent dead wood who don't want to work.
- Inspect to control quality. Quality is like everything else; order it done. Triple the quality control department if necessary (forget that the QC force per unit of production in Japanese auto companies is just a third the size of ours). Have it report to the president. We'll show them (i.e., workers) that we mean business.
- A business is a business is a business. If you can read the financial statements, you can manage anything. The people, the products, and the services are simply those resources you have to align to get good financial results.
- Top executives are smarter than the market. Carefully manage the cosmetics of the income statement and balance sheet and you will look good to outsiders. Above all, don't let quarterly earnings stop growing.
- It's all over if we stop growing. When we run out of opportunities in our industry, buy into industries we don't understand. At least then we can keep growing.

Much as the conventional business rationality seems to drive the engine of business today, it simply does not explain most of what makes the excellent companies work. [Peters & Waterman (1982), pp. 42-44]

These ten bullet points are characterizations drawn from observed behaviors of managers of large corporations. They illustrate a mixing of Theory X suppositions, a discernable influence of the passion for distinction (e.g., "top executives are smarter than the market"), distrust and disrespect for people, and utterly baseless excuses for choosing to remain ignorant of the details of operating a company ("a business is a business is a business"). This last is a satisficing (type- α compensation) behavior. They also vividly illustrate uncivic pretensions to rulership ("control everything"; "the manager's job is decision making") and acceptance of state-of-nature relationships between managers and their underlings. The "bigger is better" maxim is an old, ungrounded, and false supposition dating back from before Plato. Growth for the sake of growth is the philosophy of a cancer cell. As Peters & Waterman note, these attitudes, assumptions, and their consequent behaviors fail to explain why or how *excellent* companies work. Why does it not? Peters & Waterman posit seven factors [*ibid.*, pp. 44-52]. These are:

1. The numerative, analytical component has an in-built conservative bias. Cost reduction becomes priority number one and revenue enhancement takes a back seat.
2. The exclusively analytic approach run wild leads to an abstract, heartless philosophy.
3. To be narrowly rational is often to be negative.
4. Today's version of rationality does not value experimentation and abhors mistakes.
5. Anti-experimentation leads us inevitably to overcomplexity and inflexibility.
6. The rationalist approach does not celebrate informality.
7. The rational model causes us to denigrate the importance of values.

I leave it to you to read their detailed explanations of these seven factors. The arguments are quite thoughtful but not brief and including them here in this treatise takes us too far afield from the points I wish to stress right now.

The Theory X assumptions and inherent Taylorism which produces traditional management structures is a prescription for corporate feudalism. Indeed, what they produce is nothing else but *anti-capitalism*. Socially, they are also *Un-American*. Peters & Waterman use irony to stereotype Taylorite managers, especially "top" managers, as unimaginative robots who rigidly adhere to a pre-programmed algorithm of slogans. Their rhetoric somewhat resembles a famous work of irony, viz., Jonathan Swift's *A Modest Proposal* – a satirical 1729 essay in which he pretended to propose poverty in Ireland be solved by the Irish selling their children as food for rich gentlemen and ladies. Figuratively speaking, Taylorism likewise consumes every company who tolerates it.

Adopting a less rhetorical tone, Peters & Waterman provide the following more objective statement of the impact Theory X presuppositions and Taylorite management systems have on an industrial conglomerate. In it they are quoting H. Edward Wrapp, a widely respected business professor from the University of Chicago's Graduate School of Business:

The system is producing a horde of managers with demonstrable talents, but talents that are not in the mainstream of the enterprise. Professional managers are willing to study, analyze, and define the problem. They are steeped in specialization, standardization, efficiency, productivity, and quantification. They are highly rational and analytical. They insist on objective goals. . . . The tragedy is that these talents mask real deficiencies in overall management capabilities. These talented performers run for cover when grubby operating decisions must be made and often fail miserably when they are charged with earning a profit, getting things done, and moving an organization forward. [*ibid.*, pg. 36]

Centralization of power and decision-making, hierarchical structure of command and control, standardization, specialization, reliance upon so-called "rubrics and metrics" as magical measures of organizational performance, lofty sounding but empty "vision and values" statements, so-called "strategic plans" that have the life expectancy of a mayfly, tactical inflexibility, and rigid insistence on employee performance evaluations and rankings are all symptoms of Theory X management systems, especially the dominant one: Taylorism. Another symptom is rigid practice of so-called "management by objectives" *as that practice was defined* by Odiorne (1965). Indeed, Odiorne's book is a temple to Taylorism and a managerial *Malleus Maleficarum* [Kramer & Sprenger (1486)].

Aside from eventual breakdown and failure of the industrial conglomerate this system is trying to manage, Taylorism has another effect. It produces uncivic free enterprise. It is not only a bane to the company that uses it; it is a bane to the nation which tolerates it. The alternative to the wasting socio-economic diseases of Taylorism and uncivic free enterprise is the subject of the rest of this treatise.

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