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Changing the World One Step at a Time by Example: Building on the New Lanark Legacy

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A robust alternative "model" is presented that demonstrates how Owen's vision of the New Lanark utopia was transformed into reality. New Lanark housed a profitable cotton mill owned by investor-owners led by Robert Owen. It was profitable whilst Owen treated employees and families with dignity in the context of his times in nineteenth century Scotland. Owen adhered to an ethical imperative that he understood would pay for itself through increasing labour productivity. I articulate the conditions under which utopia can be operationalised in the real world with privately owned business. This modelling contravenes the contemporary economic worldview where "utopia" is an impossibility since it invariably increases average cost. Employee co-operatives can have the same effect, but they remain few and far between. New Lanark exemplifies that dominant investor-owned firms can be both ethical and profitable. This can be achieved if investors who have a strong preference for being ethical understand that being ethical can be profitable. Hence, the importance of investors and potential co-operators understanding that being ethical, which is costly, is consistent with a competitive and profitable firm. Without this understanding building an ethical firm is an unrealisable utopia.

Introduction

Critical to driving socio-economic change is providing real life examples of how doing things differently in the world of work can be effective and efficient. The next step is to operationalise this difference in the real world. One needs to demonstrate visibly that what some refer to as "utopia" is viable in the real world. One also requires a robust "model" to demonstrate that utopia can be transformed into reality and under what circumstances. And this model must be known and be seen to be credible to those who can affect change in the real world. Simply speaking about fairness in work and in the treatment of customers is not enough. Rhetoric is not a sufficient condition for socio-economic transformation.

This article recognises that Robert Owen's New Lanark was a large and well-developed cotton mill and company town in nineteenth-century Scotland, which experimented with new ways of engaging workers and their families. Aspects of this experiment incorporated elements of a consumer co-operative, but it was not co-operative since the store was not member-controlled. Rather, it was company-owned, charging workers and their families prices approaching cost, not taking advantage of its monopoly position in the town. Quite atypical for a mill owner at the time, Owen was a well-meaning, empathetic and paternalistic employer who believed that treating workers with dignity was consistent with the economic or financial sustainability of a capitalist corporation.

Owen was interested in making a profit. He was not anti-capitalist whilst having an ownership and management role in New Lanark. He believed that earning profits and being competitive was consistent with treating one's employees with dignity. Being empathetic and sympathetic with one's employees and their families was consistent with profitability and competitiveness. And, Owen treated his employees quite well compared with other mill owners while turning a profit in his competitive mill.

This perspective on managing a firm was not aligned with the world view of mill owners and investors more generally. Being empathetic and sympathetic to employees and their families was not regarded as being consistent with profitability. However, being managed in accordance with Owen's "utopian" approaches, over the 1814-1824 period, earned New Lanark a profit of £192,915 (an estimate based on a letter from J. Wright to Owen in 1853 in Chatterji, 2014, p. 8) equivalent to approximately £27 million in 2023. Another estimate suggests a profit of £80,000 or over £11 million in 2023 currency (Hartley-O'Dwyer, 2022). Both estimates support the view that New Lanark was quite profitable, despite not abiding by narrow profit maximising principles.

Owen was not the only paternalistic industrialist in nineteenth-century Britain. There were others who spent funds on their employees, by providing welfare benefits including affordable housing and educational opportunities. Their firms were profitable and competitive. Examples of such paternalistic employers include George Cadbury and his family (Bournville, near Birmingham), William Armstrong (Newcastle), Joseph Rowntree and his family, Titus Salt (Saltaire, near Bradford), and the Lever Brothers (Port Sunlight, near Liverpool). Unlike Owen, they never developed a philosophy of member-owned organisations or co-operatives, nor agitated for such organisational forms. For such activities Owen has achieved international renown, especially amongst co-operators (Harrison, 2010; Husted, 2015; Parker, 2014). Also, unlike other contemporary paternalistic industrialists, Owen developed an understanding of the firm wherein treating employees and their families decently increased employee productivity. This informed many of his initiatives in New Lanark as an investor, owner, and manager. Owen's managerial approach in New Lanark was not about wealth redistribution to improve employee wellbeing (a more philanthropic approach), rather it was about improving employee wellbeing that was self-financed by increasing worker productivity.

A major contribution of this article is presenting a model showing why and how Owen's narrative on treating employees well, with dignity, is operational in the real world. I also model why his approach to managing a firm need not dominate the market even if it is profitable and cost competitive. Finally, I model why the positive outcomes achieved in Owen's investor-owned company town is achievable by either co-operatives or investor-owned firms. A robust mental model (Altman, 2023; North & Denzau, 1994)[1], that helps explain the viability of the Owen-type firm is critically important for firm decision-makers to understand why treating employees and consumers well is a viable, sustainable option in a competitive market. Owen's worldview and praxis have implications for modern investor-owned corporations and for member-owned organisations.

New Lanark: An Experiment in an Investor-Owned Firm

It is important to recognise that New Lanark was not a co-operative. It was a privately owned company town, incorporated one of the largest cotton mills in the United Kingdom and the largest in Scotland. Robert Owen represented the Adam Smith (1776/1975) ideal type of empathetic and sympathetic capitalist. But he was not a co-operator as owner of the New Lanark mill. He was not interested in sharing ownership with his employees. He was not interested in profit sharing. There is no evidence that Owen was even interested in providing a significant voice to his employees in the running of the mill and of New Lanark. In New Lanark, workers' and their families' wellbeing were at the discretion of its paternalistic/humanistic owner — Robert Owen. In this sense, Owen was the typical investor of the nineteenth century and even of today, except for his dramatically different views on how profits can be generated and, relatedly, how workers and their families should be treated (British Library, 2022; New Lanark Trust, n.d.; Owen, 1993a, 1993b). It is important to recognise that Owen's view on employee ownership and co-operatives, more generally, evolved over time in favour of the co-operative model, where organisations are largely member owned (Donnachie & Hewitt, 1993; Owen, 1813/1991; Siméon 2017; Williams, 2020). But New Lanark, itself, remained an investor-owned firm (and town) under Owen's leadership.

New Lanark demonstrates what can be done to improve the wellbeing of workers and their families even within the parameters of a privately-owned organisation. New Lanark speaks directly to different types of capitalism, to different ways of operating an investor-owned firm. The low wage regime was not the only path to take. Choices could and can be made by investors and owners and managers. Profit-oriented employers could choose to treat their employees with dignity. This speaks directly against much of conventional economics wherein treating workers well and their families (in a company town environment) would be costly, reducing profits and potentially undermining the competitiveness of the firm, inevitably resulting in bankruptcy. There is a belief in a trade-off between treating employees well and profitability and competitiveness that is deeply embedded in conventional economic theory and is eloquently and clearly articulated by Milton Freidman (1970) in his classic and oft-quoted article *New York Times Magazine* article.

New Lanark also provides lessons for co-operative organisations. New Lanark raises the question of whether co-operatives have advantages over firms owned and managed by individuals imbued with Adam Smith's moral sentiments. I argue that that they do, under certain circumstances. Much depends on the extent to which co-operative principles (Altman, 2009b, 2020a; International Cooperative Alliance, 2018) are operationalised in managing the co-operative; the extent to which employees' (member-owners) preferences are dominant in the co-operative's decision-making; the knowledge base of members to manage a firm effectively (specifically a co-operative organisation); and the demand for employee-owned firms by workers.

An important visible outcome of the New Lanark initiative was its financial viability despite not conforming with conventional (overbearing, negative) management practices. Minimising the wellbeing of workers and their families to maximise profits and minimise costs was the common and consensus approach to remain competitive and economically viable. The mental model adopted and adhered to even by capitalists sympathetic to their employees was that to be competitive required adopting a low wage approach to managing the firm. For store outlets, such as grocery and clothing stores, the same mental model was adopted with the addition that prices needed to be set relatively high (given market forces) for the firm to be economically viable.

But this was not the mental model adopted by Robert Owen. The particularly negative approach to workers, embodied in economic theory (a particular mental model), still serves to inform decision-makers, even those sympathetic to the challenges faced by many workers and their families. Being nice was and is still regarded as venturing on the path to financial ruin, therefore being inconsistent with improving the wellbeing of investors, employees, and consumers (Altman, 2020b). This mental model is challenged below through the prism of an Owen-type ethical firm.

Owen's Approach to Firm Management

Robert Owen was interested in operating a profitable and competitive business which he owned (along with partners). He was very much a capitalist. He was interested in making a good profit. New Lanark was part of a capitalist endeavour — a company town with a cotton mill, retail, and educational facilities, as well as housing. But Robert Owen's mental model of capitalist production differed from that of his contemporaries, and even that of most twentieth-century owners, investors, and managers. Robert Owen believed that being empathetic and sympathetic to his employees was good for business. His positive treatment of workers and their families had an economic foundation. This served to improve worker productivity. It was good for business (see, for example, British Library, 2022). He also believed that this was the right thing to do. But Owen would not have acted on his ethical predilections if he did not believe that it made economic sense.

New Lanark was a privately owned company town with multiple moving parts. The cotton mill was one component. And the cotton mill produced an end-product which was cotton cloth, yarn, and related products. But Owen regarded the company store, housing, family values, and educational attainment (with its emphasis on vocational training) as part and parcel of the process of production. Also, how the children and child labour were treated and addressed was believed ultimately to impact on labour productivity and, therefore, on New Lanark's bottom line. All these variables contributed to the productivity of the cotton mill. This represents a type of vertically integrated firm. The various components of the company town contributed to the productivity of the mill by improving the wellbeing of New Lanark's employees' families. Treating workers and their families with dignity in Owen's vertically integrated firm contributed to New Lanark's competitive advantage. A fundamental principle implicit in Robert Owen's mental model was that treating employees well leads to a more productive firm.

An Alternative Mental Model

Prior research demonstrates that treating workers and their families well, even in an investor-owned firm, tends to generate increased productivity. This offsets the cost of treating people with decency and dignity (Altman, 1996, 2000, 2002, 2005, 2009b, 2020b). For the same reason employee-owned firms can do well even in competitive markets since increased productivity in such a firm can offset the costs of employees improving their wellbeing (Altman, 2014, 2015, 2020a; see also Ben-Ner & Jones 1995; Birchall, 2011; Bonin et al.,1993). Overall, being a Robert Owen type of employer with an ethical consumer store and other such services provided to employees, should not drive the firm into bankruptcy.

The modelling framework presented here helps to explain why and how a more "humane", more ethical firm, such as New Lanark, remained economically viable, even though prevailing and current mental models deem that this should not be the case. Owen faced serious opposition from investors who feared that Owen's "utopian" ideas would lead to their financial ruin (Estabrook, 1923; Gorb, 1951). This was a rational reaction given the mental model dominant at the time and which still dominates the decision-making landscape today. The ethical firm need not be a co-operative (New Lanark' cotton mill being an example of an investor-owned firm). But a co-operative, I argue, can provide more robustness and continuity to the ethical firm, when adhering to co-operative governance principles.

Modelling New Lanark

Behavioural economics, especially behavioural theories of the firm, and x-efficiency theory of the firm more specifically, provides considerable insight into the success of New Lanark's more ethical, more humane firm (Cyert & March, 1992; Penrose, 1959/1995). In the original version of x-efficiency theory (pioneered by Leibenstein 1966, 1979; see also Frantz, 1988), how hard and smart owners, management, and employees work, is not fixed. Rather it is a variable input into the determinants of firm productivity. Hence effort input, which captures the extent to which members of the firm work hard and smart (quality of effort input) is variable; one of the firm's factors of production. In conventional economics effort inputs are fixed, often at some optimal level. Therefore, in x-efficiency theory effort is one determinant of firm output and firm productivity. In conventional economics, it is not.

For Leibenstein (1966), the preferences of management determine their effort input conditional upon their firm remaining competitive and yielding an acceptable rate of return to the owners of the firm. It is assumed that management's effort preferences determine the productivity of the firm. Leibenstein argues that management has a strong preference for leisure which is realised when their firm is protected from market forces. When effort levels fall, average costs increase, which is why firms require "protection" when management decides to actualise their preferences towards more leisure. He argues that this is a more realistic scenario, wherein firms are not typically embedded in a perfectively competitive environment and firm owners and managers can get away with being economically inefficient, relatively high average cost producers.

In a more nuanced approach to x-efficiency theory (Altman, 1996, 2000, 2002, 2005, 2009a, 2020b), effort input per unit of labour input is a function of a number of factors, inclusive of how well employees are treated and what the preferences of management and owners might be with regards to their own level of effort input (see also Leibenstein, 1982; Tomer, 1987). Here issues of fairness, equity, empathy, and sympathy come into play, to determine the extent of effort inputs. Also of importance is the power relationship between firm members, such as between workers, management, and owners, especially when preferences differ significantly across firm members. In addition, in this model much depends on the decision-making structure and process within the firm. One would expect effort outcomes to differ between firms that are investor owned and those that are member owned, such as a co-operative, where workers tend to work harder and smarter to generate higher levels of productivity, which would directly benefit themselves and their families. X-inefficiency exists when output and productivity are less than they would be if effort inputs are somehow maximised, given the traditional inputs (factor inputs) in hand, such as labour (inclusive of the quality of labour), capital, land, and technology. One would expect large variations in firm productivity given large variations in effort input.

Owen implicitly assumed that effort is a variable input. In other words, how hard and smart employees work depends on circumstance inclusive of the employees' environment outside the factory. The latter is not given due consideration in x-efficiency theory. Owen's mental model is most consistent with a more holistic rendering of x-efficiency theory as expressed in Altman (1996, 2000, 2002, 2005, 2009a, 2020b). It is not all about managerial preferences for leisure. In Owen's approach to the firm, owners can determine how a firm is managed in terms of their preferences for how workers and their families should be treated. And, for Owen, this would involve choosing a path where workers and their families are treated with dignity, which requires providing much better working and living conditions than prevailed throughout most of the United Kingdom in the nineteenth century. His contemporaries adhered to a mental model suggesting that owners had little or no choice on how to manage their firms. Any deviation from the conventional norm was simply *Utopian*. This worldview was dominant then, and still dominates contemporary thinking about how competitive firms should be managed.

In the conventional economics model, which is not substantively different from what most of Owen's contemporaries and thought leaders adhered to, improving working conditions and worker benefits must increase the production cost per unit of output (average cost) and lower profit. Being nice comes at a price. Hence, Owen was regarded as naïve and utopian threatening the sustainability of firms that adopted his approach.

In the conventional mental model the firm cannot compensate for the increased cost of having a more humane and ethical workplace and community (company town), such as New Lanark. The logic of the conventional wisdom is illustrated in the below equation where average cost (AC) equals cost per unit of input (w) divided by labour productivity (Q/L) which is output divided by labour input. For simplicity, there is one factor input. More realistically, if there are more factor inputs such as land and capital, this only reinforces the arguments made below (Blaug, 1961, discusses the importance of the size of capital in nineteenth century Lancashire textile mills).

$$AC = \frac{w}{\left(\frac{Q}{L}\right)}$$

When w increases (a more humane firm) average cost goes up. A 10 per cent increase in w yields a 10 per cent increase in average cost — it is nice to be nice, but it is not economically sustainable. Owen assumed that productivity would increase by treating employees with dignity. Moreover, treating the worker's family with dignity serves to increase productivity further. For example, if w increases by 10 per cent and productivity increases by 10 per cent then there is no increase in average cost. But if labour represents 50 per cent of total costs, then the same 10 per cent increase in wages requires only a 5 per cent increase in productivity to keep the average cost from rising (50 per cent of 10 per cent). And if labour represents 40 per cent of total cost, then wages would only have to increase by 4 per cent (40 per cent of 10 per cent). This economic model, with effort discretion, articulates how being nice need not come at an increased average cost to the firm. This model opens the door to different possible outcomes if one wishes to structure a more humane and ethical firm. Economic disaster is not the inevitable outcome, as predicted by the conventional economic wisdom.

Contrary to the conventional economics of the time, this alternative model approximates what occurred in New Lanark because of Owen's approach to managing the mill and the company town. One example is Owen reducing hours worked per day, which should increase average costs unless wages are reduced in a compensatory manner. But Owen did not reduce wages, yet there is no evidence that average costs went up — the New Lanark mill remained competitive and profitable. What occurred is that productivity increased to compensate for any possible increase in average cost. For Owen this was because workers responded positively to being treated better (New Lanark trust, n.d.). This is an example of reciprocity and what Akerlof (1984) refers to as gift exchange — you treat us well and we will reciprocate and if you treat us poorly, we will retaliate (work less hard and well).

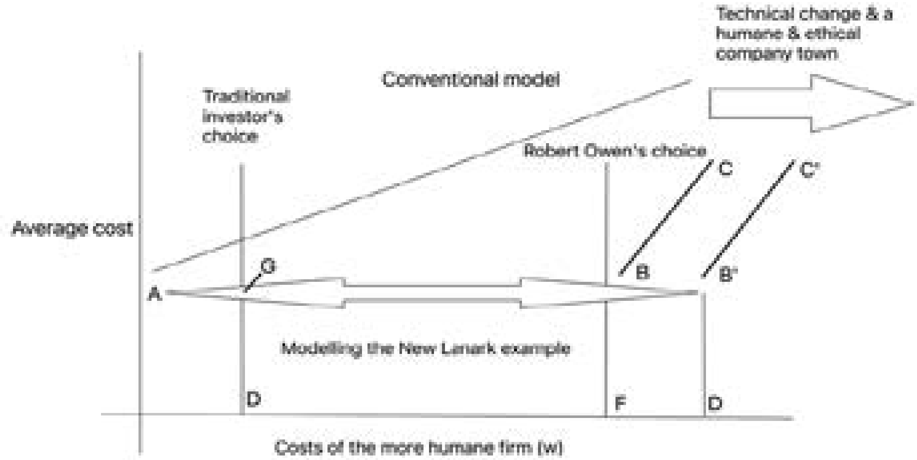
In our holistic model of the company town, labour productivity would also be expected to increase as housing, education, and family conditions also improved. These are all forms of "human capital" investment which pay for themselves through increasing productivity. In this case, the investment in employees and their families pays off in terms of higher productivity, helping to cover the increased investment by the firm in their employees *and* their families. This reinforces the x-efficiency effect discussed above.

The traditional company town exploits its monopolistic power to drive down immediate costs by charging workers and their families higher prices in the company store, providing substandard housing, charging exorbitantly high interest rates for credit, and minimising the education of workers and family members. Owen exploited his monopolistic power to enhance the wellbeing of his employees and their families because he saw this as a vehicle to enhance the productivity of his employees and because this was consistent with his preference to treat his employees and their families with dignity. This ethical worldview was informed by Owen's belief that this approach to the company town would be cost effective and not negatively affect his mill's competitive position and profitability. This narrative takes us well beyond any conventional or non-conventional theory of the firm. Here, the ownership of the town by a benevolent investor-owner strengthens the means by which productivity can be enhanced which, in turn, allows for improving the wellbeing of workers and their families. Instead of being an instrument of economic and social exploitation, the monopolistic company town serves the interests of workers and their families, whilst enhancing the psychological wellbeing (or utility) of Robert Owen. Both in reality and in theoretical terms, the company town can either serve to exploit workers and their families or enhance their wellbeing, reinforcing the x-efficiency effect discussed above.

From a model of technical change developed elsewhere (Altman, 2009a), one would expect that efforts to improve the wellbeing of workers and their families incentivise owners to invest in technical change to cover the costs of developing a more humane and ethical firm, a more humane cotton mill. One motivation for improving technology is either to increase profits or decrease average costs, or to maintain profits or average costs in the face of increasing costs to the firm. Once it is decided to have a more ethical firm, then the firm's management/owners must find ways to keep average cost from rising. In this modelling framework, there is a positive causal relationship between being ethical and technical change. Choosing to be ethical or more humane adds an additional and powerful incentive to develop and/or introduce new technology into the firm. One has what economists refer to as endogenous technical change. Its point of origin is located inside the firm. In conventional economic theories of the firm, technological change is largely exogenous. It is not modelled as being at least, in part, a function of the decision-making process of the firm, of management approaches, or of how workers are treated, good or bad, within the firm.[2] Being ethical can be a powerful causal determinant of technical change, all things remaining the same (see, Rosenberg, 1983 on internal factors impacting on the extent of technical change). By choosing to treat employees and their families with dignity (in the context of the times), Owen need not have contemplated the impact of this on technological change. But this model suggests that such ethical behaviour can be expected to induce technological change. This important theoretical possibility requires mentioning as it supplements the impact of ethical behaviour on the level of x-efficiency.

Some of the above points are illustrated in Figure 1 below. In the conventional economic model, like the one adhered to by most of Owen's contemporaries, making the firm more humane or more ethical increases average cost, shown by the upward sloping conventional model curve. This would be an economic disaster for mills having to compete on the market. Even well-meaning employers would baulk at becoming more humane if this causes their firm to go bust. I argue for a more accurate representation of reality, which also reflects Owen's worldview. This is given by the horizontal line segment AB. Making the firm more humane or ethical, which *does increase* immediate costs, need not increase average cost since the increase in costs is neutralised by the increasing productivity of the firm's employees and managers — the level of x-inefficiency is reduced. The more humane and ethical firm can, therefore, remain cost competitive than less humane and less ethical firms (most firms on the market) by being more productive. Alternatively, the less humane and less ethical firms need not be more competitive (reducing their average costs) than their more humane and ethical counterparts since they tend to be less productive. Therefore, being more humane and ethical need not provide firm owners with a material advantage, unless average costs fall. But for an investor, such as Owen, actualising a more empathetic and sympathetic perspective on employees and their families can be achieved with no economic harm to the firm. And, realising one's preferences to do good increases the level of wellbeing, utility, or happiness of the emphatic and sympathetic investor, even if this does not provide the firm with a competitive advantage in terms of price or costs. However, increasing one's wellbeing is a powerful motivator of behaviour.

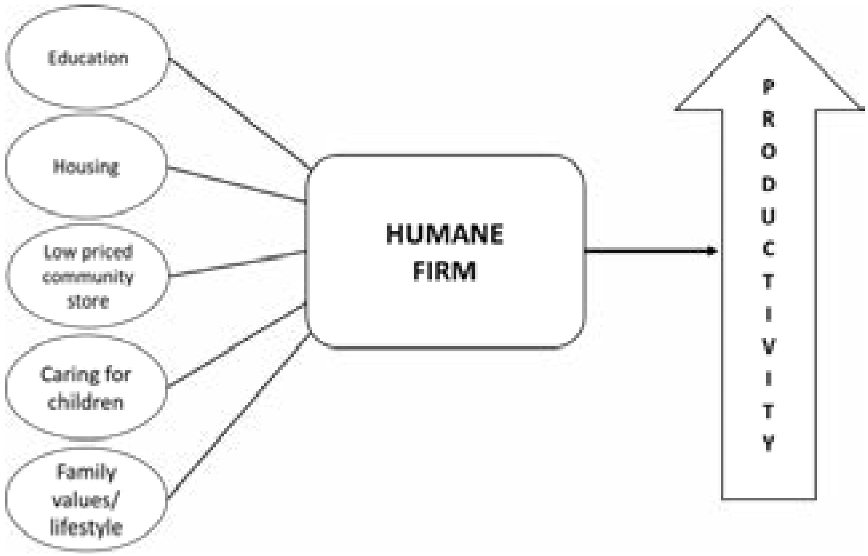
Figure 1: Why the humane firm need not increase average cost



The x-efficiency effect discussed above is reinforced by the possible impact that treating employees and their families better has on technical change. Here, technical change is induced by the higher immediate costs to the firm of behaving more humanely or ethically. Technical change helps, at a minimum, to neutralise the cost of being more humane or ethical. This is illustrated by a rightward shift of line segment BC to B'C'. In this scenario, this increases the extent to which the firm can behave humanely or ethically.

Finally, a more humane and ethical firm embedded in a more humane and ethical company town can contribute to increasing labour productivity by positively affecting the wellbeing of workers and their families. This would be illustrated by further rightward shifts of line segment B'C'. The modelling perspective on the humane and ethical company town, incorporating Robert Owen's management principles operationalised in New Lanark, is illustrated in Figure 2. Here, education, improved housing, a low-priced community store providing quality products, caring for children (inclusive of limits to child labour, at a time when child labour was quite common), and family values and lifestyle (in part related to sobriety), contribute to the wellbeing and happiness of employees which, in turn, facilitates increasing productivity in the firm.

Figure 2: The humane company town and productivity



This modelling fits with Owen's understanding of how a more humane and ethical firm should behave and more so when embedded in a company town, such as New Lanark. The more humane and ethical firm and company town need not provide any competitive edge to the firm, however it can and would raise the economic wellbeing of employees and increase the utility or level of satisfaction of empathetic and sympathetic investors and managers. This represents a gain for society at large without causing economic harm to the humane and ethical firm and company town.

Co-operatives and New Lanark

This modelling of New Lanark has important and interesting implications for co-operatives. It suggests the possibility of having a relatively humane and ethical firm which is investor-owned, although this is not typically the case. This very same modelling narrative demonstrates why and how an employee-owned firm can be competitive. Employees would want to treat themselves and their families with dignity and respect which increases their co-operative firm's immediate cost of production. Members of a co-operative have inbuilt or "natural" preferences to improve their economic wellbeing. But these costs can be offset by increasing the firm's productivity through increasing the level of x-efficiency and the extent of technological change. For this reason, employee co-operatives that are vested in a competitive environment can be expected to be more productive than low wage-type investor-owned firms. For employee-owned firms to survive, there is no other choice but to be relatively more productive (Altman 2006, 2009a; Ben-Ner & Jones 1995). But a co-operative is not the only path that a humane and ethical firm can take. This important point is illustrated by Robert Owen's New Lanark experiment with its more humane and ethical approach to managing the firm and the company town by investors. This is of fundamental importance since employee-owned firms or worker co-operatives remain relatively small not only in the world economy in general, but also within the co-operative sector. They contribute no more than 2 per cent to the total output produced by co-operatives worldwide and possibly a somewhat larger percentage in terms of employment (International Cooperative Alliance, 2022).

In the modern world, we have examples of investor-owned but more democratic and ethical firms being competitive and prosperous (Altman, 2020a, 2020b; Blyton, 1984; Cascio, 2006a, 2006b; Fuller & Raman, 2023; Gordon, 1968; Relihan, 2018; Wolfers & Zilinsky, 2015). So, we know, empirically, that such firms are viable in contemporary competitive market economies. But this path will only be taken if investors prefer a more democratic and ethical firm since the low wage approach is also consistent with the firm's competitiveness and profitability. Moreover, empathetic, and sympathetic investors must also believe that a more humane and ethical firm can be economically viable. This cannot be the case if they believe in and adhere to the contemporary economic model wherein being more humane and ethical invariably increases average costs driving such firms to bankruptcy or, at best, results in these firms losing significant market share to investors who take the low-wage path to firm management. Therefore, the mental models of the firm which investors are aware of and understand is important to determining if they adopt more humane and ethical practices, even if they have a preference to do so (Altman, 2023). Preferences to do good will not be acted upon if the dominant mental model is that doing good is not economically sustainable. On the other hand, knowing that a more humane and ethical firm is economically viable is not a sufficient condition for investors to develop such a firm. They must also have a preference to do so. There is no evidence that such a dominant ethical imperative exists amongst investors and managers in either the private or public sector.

Conclusion

The modelling of the firm presented in this article is consistent with what transpired in New Lanark under Owen's more humanistic approach to management. This modelling framework demonstrates that Owen's worldview was operational and viable and was, therefore, non-utopian. It also shows that his humanistic and more ethical approach to employees need not dominate the low wage approach since both can be economically viable. Moreover, firm owners, workers, and consumers as well as policy makers cannot choose the humanistic alternative to the low wage approach if they are not aware of the viability of this alternative. There are also those with power who prefer the low wage path for reasons of relative power and pride even if the high wage path is financially or economically viable and is *known* to be so. This is especially the case since focusing on driving wages down and fighting off efforts to improve working conditions can also be profitable.

Although the positive approach to workers and their families is shown to be a viable alternative to this low wage approach, only the sympathetic and empathetic investor, such as Robert Owen, would jump at the opportunity to develop a more humane and ethical firm given that there are immediate costs (investments) involved in transforming the firm. The investor would also have to challenge the prevailing wisdom or mental model on the implications of a humane and ethical firm for competitiveness and profitability. But for investors to engage in organisational change of this kind requires educational change, shifting the mental model away from the prevailing wisdom on the financial viability of the more humane and ethical firm. This shift can be psychologically costly since this involves breaking with the consensus view (Akerlof & Kranton, 2010). It is "cheaper" (lower cognitive costs) simply to follow the herd. For change to occur, this must be counterbalanced by the utility or satisfaction that empathetic and sympathetic investors garner from treating their employees and their families with dignity.

The low wage road to economic success still informs policy through the prism of much of contemporary economic theory. This partially relates to the prevalence of dominant economic and management mental models which are monopolised by the assumption that the low wage regime is the only viable one and a company town with its grocery and clothing stores and credit facilities, for example, should be dominated by a simplistic profit-first approach to doing business. This is partially a function of how students, managers, and owners are typically educated in business schools today. New Lanark is an important historical case study of how a humane and ethical approach to employees and their families generates an increase in the level of socio-economic wellbeing of the population at large, while being consistent with firms operating successfully even in a competitive environment. Here, utopia is not a pipe dream, it is utopia that is realisable in the here and now. The New Lanark experiment demonstrates that investor-owned firms need not be driven by narrow short-term concerns about profit maximisation to be financially viable. Humane and ethical investor-owned firms can prosper. But this approach relies on having sympathetic and empathetic investors who understand that humane and ethical firms are financially viable. The modelling presented above also suggests that when employees are empowered and investors are better informed about alternative forms of management, this can facilitate the development of more humane and ethical investor-owned firms. Employees can nudge employers and investors in the direction of more humane and ethical forms of firm governance, even while these firms remain investor-owned.

It is important to recognise that employee-owned firms or co-operatives can also be competitive whilst improving the material wellbeing of employees and their families. But employee-owned firms are not easily established and there is no strong evidence that such firms represent the overriding preferences of workers. However, as the New Lanark experiment demonstrates, there is also the investor-owned alternative (the humane and ethical firm) to firms relying on relatively poor labour standards to be competitive. Both the co-operative and the investor-owned variants of the humane and ethical firm must be understood through the prism of an alternative mental model of the firm, such as articulated above. Such a model helps explain why humane and ethical firms can be competitive and serve to influence the decisions of investors and management on more humane and ethical ways of doing business. Robert Owen exemplifies how embracing a different mental model, a different worldview, with sound management practices, can set a firm on an economically sustainable path that benefits employees and their families realising, for some, utopia in the real world.

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Notes

1 A mental model represents the way one understands and explains any particular phenomenon of interest. Such a model need not be consistent with how the world actually works. The latter would be a false mental. But this mental model can be revised though experience and education, ultimately affecting decisions and choices made.

2 Conventional economics has introduced models where investment in research and development form bases for endogenous technical change (Grossman & Helpman, 1994).

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