The decline of the Quakers in the world of business: the role of corporate ethics and the law

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Abstract

The twenty-first century has witnessed a number of corporate scandals and private-sector take-overs that have called into question the shareholder-focused economy and corporate ethics. By way of contrast, this paper focuses on the Quakers as an example of a form of (largely) 'responsible' business practice. Quaker businesses had a significant impact on commerce and trade over a 200 year period, sowing the seeds of the industrial revolution. The Quakers were known for their honest and honourable business practices, their enlightened approach to employee welfare, their concern for wider society, and their willingness to innovate. Today, most of these 'Quaker' businesses are no longer either owned or controlled by Quakers, and have almost invariably adopted the conventional shareholder model of corporate governance. In the context of the UK, we trace their demise to the introduction of limited liability and innovations in corporate law in the mid-nineteenth century. These changes provided the legal basis for the Quaker family firms to incorporate, which many of them did in the late nineteenth century. We then describe how the unique Quaker ethos was inexorably decanted out of these companies during the twentieth century as the Quakers slowly lost both ownership and control of their businesses. In other words, we argue that in the context of business ethics, corporate law matters too.

Short paper

Though small in number, Quakers had a significant impact producing a remarkable and disproportionate number of businesspeople, scientists, thinkers, and campaigners for justice, peace and human rights (Furtado, 2013). The British industrial system of the eighteenth and nineteenth centuries was based on family-owned businesses, an extraordinary number of which were Quaker owned including many of the largest and most technologically advanced. Quaker businesses were highly innovative and their ongoing commercial success was typically based on the development of new technologies and processes, drawing on the latest scientific thinking; many of the leading botanists and chemists during the eighteenth century were Quakers (Raistrick, 1950/1968). They were also innovative with respect to the management and social aspects of their businesses and were the first—or among the first—to adopt a wide range of business initiatives as catalogued in Windsor's (1980) study of Quakers in business.

Yet, they have been largely ignored in the management literature and in the history of management thought, which typically—and importantly—locates the discipline's origins in the mid to late–19th century. In the full paper we will provide evidence for this claim; here we make three important points. First, the mid to late-19th century was well over a century after most of the Quaker businesses had been founded, and so it is more than odd that this point in history is set as the start of 'management'. Second, this was precisely the point when many of the Quaker businesses were incorporating, which we see as the decisive change that marked the beginning of the end of the distinctive form of 'Quaker' governance, ushering in an era of capitalism based on limited liability and externalities. Third, the dominant history of management is centred on the US and US businesses.

An intriguing part of the Quaker story is how and why they lost their preeminent position in business during the twentieth century when most of the companies passed out of Quaker ownership and control. Today, the most famous of these—such as Cadbury and Barclays—are now only Quaker by historical association. In our narrative, we draw on Perrow's (2005) critique of efficiency theories such as Chandler who argued that particular organisational forms arose when it was efficient for them to do so. By contrast, Perrow's argument is that the new corporations were born out of dominant legal, political and economic power. In the Quaker story, the most significant events were the profound innovations in corporate law that occurred in the mid-19th century: the Limited Liability Act of 1855, the Joint Stock Companies Act of 1856, and the Companies Act of 1862. These Acts underpinned the legal revolution at the centre of business practice in the UK and the US that occurred in the latter part of the nineteenth century. In particular, they enabled the creation of the limited liability corporation, which meant that once companies had the legal right to limit their liabilities, their wider responsibility to communities becomes much more opaque. By the end of the 19th century many of the big Quaker businesses had converted from partnerships to this corporate form: Reckitt's in 1888, Crosfield's in 1896, Rowntree's in 1897 and Cadbury in 1899. Each event was a milestone in the life of the business.

There are several reasons why the Quaker businesses (and other family partnerships of the time) choose to incorporate. First, growing the business required significant levels of capital, which could now be obtained by incorporating and issuing preference shares and debentures. This constituted a sea-change for the Quakers since debt was anathema to them. Incorporation also created a new legal entity and it was this legal person, rather than the individual Quakers, who took on the debt, though it is not clear how comfortable the Quakers were about this subtlety. Second, distributing company ownership—especially to the next generation and to some non-family senior managers—was more easily effected through a shareholding rather than a partnership structure. Third, the willingness of the Quaker companies to embrace the new corporate form was consistent with their enthusiasm for innovations—whether these be technological, organizational, managerial or new forms of governance and corporate ownership—and with their readiness to do what they perceived to be for the greater good, even if this was not in their own self-interest.

Incorporation seemed to have the desired effect as the Quaker companies did succeed in growing, and many could retain Quaker ownership of the companies, at least initially, through complex capital structures that brought in capital without losing ownership. That said, the large scale of the new enterprises created a requirement for an authority structure and division of labour that was at odds with the Quakers' anti-authoritarian and egalitarian philosophy. As their businesses became larger, managers had to be recruited and these tended not to be Quakers, not least because the number of Quakers, as a percentage of the overall population, was declining. And as Quakers vacated the business boardrooms, the locus of power shifted to a new managerial elite, who were usually more concerned with organizational efficiency and had little truck with Quaker worries about welfare and social reform. For their part, the Quakers seemed resigned to cede power and authority to these new professional managers.

Up until changes in legislation that introduced incorporation and limited liability, Quaker companies were essentially family businesses or partnerships. But the limited liability form of ownership, combined with the joint stock company allowed the expansion of the company's capital base beyond family resources, and, eventually, family control. Limited liability also meant that companies had little social, political let alone theological requirement to serve the public interest unless it related to economic outcomes: with limited liability, good governance would be provided by economic growth and corporate development rather than being integral to business practice. Furthermore, limited liability meant that bankruptcy effectively became an externality for the firm (as did other social and environmental costs) and this was something which Quakers, with their concern for repaying debts and the associated stigma of going bankrupt, meant that it was difficult to reconcile the emerging forms of business with their values and beliefs.

What this foregrounds is the inseparability of the legal premise for business activity with corporate governance and corporate ethics. By implication, future discussion of the societal implications of financialisation would require understanding the fundamental role of legal foundations in determining how companies do—and don't do— their business. Remarkably, these legal foundations are largely ignored in the bulk of scholarly debate about management theory and practice, while the subject of corporate law has been increasingly marginalised within the typical business school curriculum.

One important question that emerges is what would an alternative form of corporate governance and structure, based on Quaker values and principles, look like? Of course, the problems faced by family businesses of the nineteenth century were perhaps not that different from today—for instance, how to get the best out of people, maintaining a focus on the long-run, and issues around the raising of capital to finance growth and expansion. While internal drivers such as the falling numbers of Quakers may have undermined Quaker networks, and rising prosperity weakened Quakers' attachment to the Religious Society of Friends, we have pointed to corporate law as a key determinant of the decline of Quaker businesses from the mid-nineteenth century. Yet, the publicly-quoted, shareholder-owned company model makes a return to the Quaker brand of responsible business impossible, as Sir Adrian Cadbury has acknowledged (foreword, King, 2014). However, while it is easy to dismiss Quaker enterprises as a historical peculiarity, the community was staggeringly successful—providing the veritable seed of the industrial revolution (Walvin, 1997). Scholars in the responsible business tradition have understood the need for many aspects of contemporary business and corporate law to change, particularly around fiscal policy, to further promote alternative forms of corporate governance. But what may be equally important is the education of, and willingness of contemporary entrepreneurs to enmesh responsible business practice in tune with Quaker values (or a more general spiritual concern) with available corporate structures. The question of how to select a corporate governance structure that enables either a faith-based, or secular, notion of responsibility in business is an intriguing, and largely underexplored, area that warrants further consideration.

In the final section, we highlight how new or marginalised corporate structures may enable the Quaker values of honesty, integrity, equality and truth, through increased engagement and succession, and ultimately ownership and control by employees in their corporate design. Efficiency considerations in the shareholder-focused economy normally warn that any sentimentality towards other forms of multiple stakeholder groups, such as customers, suppliers, employees, communities, and the like, create frictional costs that can overwhelm any business enterprise. In charting the decline of Quaker businesses, Wagner-Tsukamoto (2008:843) takes this position arguing that Quaker businesses and the Quaker ethic failed because "…institutional structures and mechanisms of the market economy were ignored". Despite lower transaction costs, Quaker businesses were ultimately faced with additional production costs forced upon them by their religious and spiritual beliefs that overwhelmed the productive system: "Ultimately, Quaker firms compromised and subordinated their ethical precepts to economic objectives". An alternative position, however, is that efficiency can also be achieved through more collaborative and relationship-orientated forms of governance, with an eye on profitability over the long-run, rather than short-run opportunism. Wagner-Tsukamoto (p. 843) notes that, "The principles of the Quaker ethics were only pursued if the costs of their implementation were covered by gains, e.g. a better treatment of employees, such as higher pay, yielded increases in productivity". Such gains, however, are often intangible in the short-run, despite being key drivers in the long-run, and are likely therefore to be 'invisible' to external shareholders in calculating 'value'.

The Quaker story reminds us that this 'new model' might contain elements that are either forgotten or belittled or both. Family firms, employee owned companies, charities, cooperatives and other 'novel' forms of corporate governance may very well provide the preferred corporate models of the future. The aim of this paper is not to provide an in-depth discussion of these different models of corporate governance, but rather to highlight that corporate law and the selection of appropriate corporate governance models is critical to our understanding of responsible business.

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