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Quaker Capitalism: lessons for today?

It is simply quite extraordinary how many of our household names had Quaker origins. Even more startling is the historic Quaker influence in the financial services sector. I read an article over the weekend on the proposed take-over of Friends Life by Aviva; topical for today, the disappointment was only that there was no mention at all of the origins. Perhaps if greater attention had been paid to the stewardship of the historic Quaker values in the period following the 2007 financial crisis, we might have been better served. That stewardship of values is especially important for those of us who hold a healthy scepticism concerning the ability of government regulation to effectively regulate – as Andrew Bailey, Deputy Governor of the Bank of England has said, the major consequence of an increase in regulation is an increase in the number of regulators.

What all this says to me is that we need to ask what were the principles that drove the Quaker vision and how might we apply those principles today?

History warns us to be wary of reading back modern presuppositions. Things are not always as they seem. Many Quakers became very wealthy. Most social legislation in the nineteenth century came from the Tories. Everyone had theological opinions; today, of course, we don’t do God. The Quakers had a wide vision, but a culture so narrow that they were often isolationist. We must allow these characters to speak for themselves.

I have four reasons why the Quakers were successful (by the way, they were not universally successful) and what lessons we can learn today.

* Understanding that culture shapes purpose and identity
* A willingness to talk and act morally
* The central role of the family business
* Understanding the wider responsibilities of business and capital

All of this underpinned by an assumption that did drive the original Quaker businesses; that wealth creation itself was a moral responsibility. That is why Quakers were at the heart of technological advance as well as business expansion. However, they also understood that moral responsibility did not end with the creation of wealth. Today, the *use* of wealth is alone seen as the moral question, not its *creation*, nor the profits implied. We need to reconnect the two.

*Understanding that culture shapes purpose and identity*

Professor Leslie Hannah described the Gracechurch Street Friends Meeting as the world’s best credit reference agency!

Entrepreneurs do not flourish alone. That might seem a rather strange thing to say because rugged individualism, risk-taking and even, one might say, a degree of eccentricity mark out the entrepreneur. The quality of entrepreneurship depends upon the quality of business culture – a healthy, strong, even moral culture will lead to healthy, strong and even moral entrepreneurs, manufacturers and bankers. A strong culture is built upon trust, confidence, integrity and quality. It was the strength of the Quaker’s cultural identity which marked out the foundation for business success. Now these essentially moral values also had direct implications for business success; transaction costs were reduced, the quality of information and price signalling improved, reputation and goodwill enhanced.

Where did this culture come from and how was it expressed?

The Quakers came from the growing middle classes, artisans and merchants but they faced considerable civic disadvantage, rather in the same way as Jewish people and Roman Catholics have done so historically. These disadvantages included exclusion from all forms of civic office and from the Universities, not corrected until 1828. However, because of their strength within the growing ranks of independent merchants, a brilliant mind excluded from the university was likely to turn to business and apply that intellectual endeavour to the business enterprise. That is the main reason why Quakers were at the heart of technological advance; creative, excellent minds applying science in business, whether to iron foundries or recipes for chocolate.

However, there were other reasons behind the strength of Quaker culture. The Quakers were not especially strong numerically, but they were distinctive and closely bound together. As a result they not only developed a very strong cultural identity but also an equally effective network through which business and trade could be conducted and developed.

‘Quaker homes could be a forum for discussing mutual commercial interests, where business advice was proffered and accepted, where deals were struck and opportunities pursued.’ (Professor James Walvin)

So, Quaker networks meant trade routes; Quaker networks meant business contacts; Quaker networks meant trade confidence and trust. So when the Quaker Pease family, promoters of the Stockton and Darlington Railway, realised that the capital needed for such an infrastructure project was beyond what the promoters could raise themselves, they turned to the Quaker banking network, ‘the bankers of the cousinhood,’ not least the Gurneys of Norwich. The Gurneys were related to the Peases by marriage and knew that they could have trust and confidence in their investment.

Some points to note. First, the strength of Quaker culture and identity cut both ways. As a small, distinctive and, indeed, declining group, reputation mattered. That is why apprenticeships were so important; values and culture was passed on. However, a failed business, one that didn’t meet its debts, was anathema, not least due to the reputational damage; the usual consequence was expulsion. Second, the demands of the culture often did not keep pace with business success. The hold of the Quaker culture often loosened on the successful business person as time went on, for example, in matters of the ‘dress code.’ Third, success was not guaranteed; even the successor to the Gurney bank, Overend Gurney collapsed spectacularly in 1866.

Some scholars argue that the whole Quaker success can be explained by the strength of the culture and of the networks. However, that is to detach the culture from the values that essentially formed that culture – to which we now turn.

*A willingness to talk and act morally*

‘…their refusal to separate business activities from the principles and disciplines which regulated their religious life, gave them a stability and soundness of practice that was unusual in their day.’ (Arthur Raistrick)

You cannot separate business life and personal ethics. And of course, neither can be separated from the business culture.

Here are some of the injunctions on trade issued between 1675-1793 by the Quaker Yearly Meeting:

* Do not trade beyond your means (warning against over-trading)
* Keep your word in all things (honesty and prudence)
* Do not delay payment of just debts (taking extended credit terms)
* Be cautious about indebtedness (warning against over-leverage)
* Keep clear and accurate accounts (transparency and accountability)
* Don’t involve yourself in a business you do not understand (corporate governance)

So, moral codes have some implications for *behaviour.* These timeless principles are as central to our response to today’s business challenges as those of 250 years ago.

However, it goes further than simply doing what is right according to whatever is the relevant moral code. Perhaps even more important than moral *behaviour*, was that the spiritual discipline of the Quakers formed moral *character.* In the Quaker many of the important characteristics of the entrepreneurial character came to the fore; integrity, trust, determination, patience and creativity. This character was both radical and conservative at the same time; radical in creativity and determination; conservative in moral integrity and personal discipline. So the frugality and simplicity of the Quaker character encouraged the patient wait for economic return in entrepreneurial activity; the precise opposite of the greed that seems so much at the forefront today. Perhaps that is because the development of moral character and discipline has become so detached from business.

*The central role of the family business*

To appreciate the central role of the family business in this early Quaker development we need to understand two things:

* The issue of ownership and responsibility
* The business as an extension of the family: a ‘moral community’

The fact that the introduction of limited liability in 1856 was a matter of controversy at the time, and indeed, of particular debate amongst the more committed sort of Christians has been somewhat lost in the mists of time. Of course, as we will see during the course of today, debate still rages about how best to reflect the relationship of ownership and control. The separation was largely to do with growth and the raising of capital; however, the greater the separation the less responsibility, or the risk, that the owners themselves exercise for the very shareholder value which they seek to maximise.

The introduction of limited liability – whereby an investor benefits to the maximum of any increase in the value of the company, but their share in any losses is limited to the value, not of the losses themselves, but their investment – generated an intense debate because it was argued to be morally wrong. The debate was in fact deeply theological. The Christians of the day, Quaker or otherwise, viewed humanity as accountable to God. That accountability extended into the business arena. The argument was, that by the limitation of the liability of the investor, the individual was able to avoid responsibility for their actions and would thereby be encouraged to take irresponsible decisions which they would not take if their own wealth were on the line.

So the Quaker response was, by and large, to develop the family business, whether Cadburys, Frys, Rowntree, Crosfield and so on. The Quaker viewed the family business as an extension of the family itself. So, personal involvement in the decision-making, sharing in the risks and rewards, proper provision for the workforce, the building of model villages, works meetings, outings and societies and so on. And the family business allowed also for succession within the family and the transmission of the family’s values and culture. The firm was, what Bill Pollard, has described as ‘a moral community.’

All good stuff. Except every significant Quaker company eventually became a limited liability company and the succession of each generation tended to dilute the Quaker influence.

Now, in my own view the economy is best served by a diversity of ownership models, but there is a serious case for the encouragement and incentivisation of family businesses. Not least because the family business perhaps also best exemplifies my final point.

*Understanding the wider responsibilities of business and capital*

Since I qualified as a Chartered Accountant in 1982, auditors’ reports have got longer and longer in order to say less and less. I feel much the same about corporate social responsibility reports. It is not that I think it wrong but rather that CSR becomes an excuse for avoiding a truly holistic business. Perhaps this is another reason why family businesses are so important. Generally speaking a family business and a local business will understand, in a way that needs no CSR report, the responsibilities of the firm to its community, to its built and social environment, to its employees, investors and owners; indeed to society.

I return to my point from earlier that business, wealth, community and society have become separated and compartmentalised. The age of model villages and of workers singing hymns in the morning at the factory may be over (though I do wonder if those on the trading floors stood together to sing, ‘take my silver and my gold, not a mite would I withhold, take my intellect and use, every power as thou shalt choose,’ they might at least be reminded of their stewardship and accountability). The point, however, is that business leaders share responsibility for the stewardship of both value and values.

A culture of giving, rather than greed, of partnerships in the community between businesses and schools and so on, and indeed of new forms of social enterprise to achieve social good, all lie at the heart of a holistic vision for business and society. I have written and lectured widely on the nineteenth century reformer the Earl of Shaftesbury. At the heart of his vision was the application of business skills for social good in the voluntary sector. So he founded schools with apprenticeships and industrial training attached, saving schemes, and the building of houses for capitalist return, but not an unlimited one. Michael Quicke of CCLA Investment Management said to me that what he found most fascinating was that none of these ideas we see today, credit unions, apprenticeship schemes, social enterprises are in essence new. The fact that we don’t know that is an illustration of how far the compartmentalisation of business from other aspects of life has gone.

Let me conclude. This is what we learn from the Quakers.

* Understanding that culture shapes purpose and identity
* A willingness to talk and act morally
* The central role of the family business
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And we learn also that this can only be done in the context of a free economy where wealth creation is celebrated rather than despised, where the limits of government are recognised to be as significant as its regulatory role, but that can only be achieved with a sense of ethical responsibility, disciplined moral behaviour and character and a recognition that capital and its economic return carry responsibilities as well as rewards.