

**QUAKERS & BUSINESS GROUP**  
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The Kay Review Team  
Department for Business, Innovation and Skills  
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Dear Sirs,

**The Kay Review of UK Equity Markets and Long-Term Decision  
Making: Call for Evidence**

We are members of the Religious Society of Friends, more usually referred to as Quakers. We are active in, or recently retired from, the business community and are active members of the Quakers and Business Group, a registered charity recognised by Quakers in Britain, and today's voice and network for the Quaker business community. We wish to contribute our personal views on this vital subject. We advocate a set of values and give examples of how they have been embedded in Quaker businesses over the years. We believe that if these values were to be embraced more widely today, many of the problems which the Kay Review is to address would diminish, and we would see institutional investors encouraging their wider adoption.

We believe that our views are relevant since, in the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries, Quaker businesses were very successful and their success owed in large part to people being willing to trust them. These businesses included still well known names such as Cadbury and Rowntree in confectionery and Barclays and Lloyds banks. We think certain aspects of the way those early Quakers approached and conducted business are very relevant today when considering how to make capital markets more stable and more valuable to society.

For the avoidance of any doubt, we are strong believers in the importance of business. We also believe that business needs to support society and communities rather than the other way around. Most businesses, particularly the smaller ones, which are more closely connected with the communities they serve, do this. Some larger businesses seem to have lost this connection and have effectively become predators on communities. Changes are needed.

**A brief introduction to the Quakers and their contribution to enterprise**  
Quakers started as a religious movement in the mid 17th century during the Civil War. At first the movement was persecuted and many of its early members spent time in prison. They rejected external authority and tradition as a spiritual guidance; they rejected the hierarchy and ritual of the Anglican

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Church. They were and remain egalitarian and do not have professional clergy - each Quaker finds her or his own way to the Spirit. They were also open to members of other religions: Jews, Muslims etc.

Their religious meetings became their means of organization. Meetings connected with other meetings and a dynamic loosely-coupled network developed. In meetings they avoided trappings of formal control - agendas, texts, prepared statements, verbal formulations of any kind. Meetings began in silence and continued until someone felt "moved to speak". The two greatest sins were to speak if not moved and not to speak if moved.

This may seem inefficient but the Quakers were interested in surfacing deeply held concerns. The silence and absence of structure together with shared values and mutual trust supplied an environment in which this could happen. Resultant action was based on analysis of the reality, deeply held convictions, unity of emergent view and a clear, focused concern for the issue under consideration.

Quakers in the 17th century were excluded by Parliament from the professions, from public posts and from universities. Their religious views of course meant they would not want to join the armed forces. They believed in the importance of work and turned to business and commerce. The Quakers emerged as the most talented group of entrepreneurs of the Industrial Revolution. They dominated the iron and (later) steel, and many other emerging industries. Their egalitarianism and trustworthiness allowed them to found the financial services industry. Both Barclays and Lloyds began their lives as Quaker institutions. Quaker firms came to dominate transatlantic trade through their "trans-Atlantic Community" - the Boston Tea Party was "held" aboard two Quaker ships. A significant number of other UK businesses have Quaker roots, including: ICI, British Steel, Frys, Rowntrees, Clarks, Huntley & Palmer, Price Waterhouse and J. Walter Thompson. In the US also they were active in iron and steel (Lukens and Bethlehem) as well as retail (Macys) plus a host of other businesses.

Quakers lived their religion in their work. They used the same meeting format when holding business meetings so that items of strong concern could be discussed deeply and dispassionately. Quakers were grilled on their trading practices by their peers. Over time Quaker meetings became known for regulating the ethical behaviour of their members: conversely, membership of the meeting became a guarantee of ethical business practice. Consumers chose Quaker-owned stores, banks etc. because they could rely on the quality, prices and the integrity of the owners.

Quakers believed in being open and transparent when dealing with each other and others. They advertised their prices – a practice regarded at the time by some other businesses as unfair or uncompetitive. Quakers were the first traders to use fixed prices and may thus have helped create the concept of market price - for ethical rather economic reasons. The Quaker meeting probably contributed to the origin of the UK approach to corporate governance. Anyone with an interest in governance and familiar with the Quakers will recognise a common philosophy between the 1992 Cadbury Report and writings by or about Quakers, including the book of *Quaker Faith and Practice* which contains advice and

counsel, and encourages self-questioning and hearing others in humility and love.

Quakers do not have a creed but share the belief that there is 'that of God in everyone', sometimes expressed as 'the inner light is in everyone'. Our task is to seek it in ourselves and answer to it in all those we meet. This love based approach to life underpins our conviction of pacifism, because to kill a person is to kill a piece of God. It also is why we try to see and seek to bring out the good in people: to look for positive rather than negative intentions. It is why we believe that everyone has equal worth regardless of background. The Cadbury Report appears to us to share this philosophy in the sense that there is in it an expectation that people will want to do the right thing: what is needed, therefore, is to create the conditions in which people will tend to do so. It was believed by the Report's writers, and still is by most people, that this approach is more effective in improving governance practice than would formal regulation.

### **The relevance of Quaker values and business methods to free enterprise and equity markets today**

It is now widely accepted that the financial crisis was, in part at least, a result of incentive systems which misaligned corporate and individual objectives, and so helped create malign behaviour and practices. The belief in efficient markets and the focus on shareholder value created a culture in which considering the needs of stakeholders other than investors was unimportant. This, combined with a misperception of directors' and institutional investors' fiduciary obligations, created a short term focus by boards and investors, which favoured no one but senior executives and their advisers. Such favour was sometimes as short lived as the tenure of the executives. Nearly everyone else was a loser. Some however lost more than most and retail investors were perhaps the worst off, because they only got what was left after all the intermediaries in the investment chain had claimed their share.

We agree with those who believe that getting people's values right is vital to reforming free enterprise and its markets. We do not think that attempts to do this so far have worked. The reforms of the Walker Review to the UK corporate governance and stakeholder codes have not been based on values, and in practice have been ineffective in changing behaviour. This is primarily because the reformers seem to have ignored the fact that humans respond to incentives but can be irrational. People tend to follow advice, policies and procedures and comply with regulations when they want to, or if they feel that they must. Otherwise they tend to ignore, misinterpret or bend them to their own advantage.

Five related Quaker values contributed to the success of Quaker businesses, such as Cadbury, Rowntrees, Darby Iron & Steel and others, and are equally relevant today. The days of the large Quaker enterprise are past but Quakers currently involved in business still seek to practice these values. They are:

- Respect for the Individual
- Taking the spirit of the meeting
- Desire to find a better way
- Regard for education

- Concern for the community

The remarks below are based on a speech given some years ago by Sir Adrian Cadbury.

### **Respect for the Individual**

As noted, this stems from the belief that God or the inner light is in everyone. It means Quaker businesses are run with regard to employees and customers rather than only owners. Wages, working hours and conditions are based in equity rather than the least employers can get away with. Quakers also believe in self discipline, and set an example for time keeping and hard work. Quakers who are also employees are treated by Quaker employers as equals outside work and in Quaker meetings.

Women have equal rights. Quaker firms are willing to trust others, which means they too are trusted. Such trust is good for business – it means junior employees can have more responsibility. Customers and suppliers are keen to do business, and it makes for a continually pleasant and successful working environment.

### **Taking the spirit of the meeting**

Respect for the individual also means that in a meeting everyone's views are taken into account in arriving at decisions, rather than being based on a hierarchy. Quakers prefer not to vote in meetings but instead to reach a conclusion with which all can agree in the spirit of the meeting. The meeting seeks to solve the issue before it, and not to create a consensus based on the view of the most powerful one present. Below the Board in Cadbury Brothers Limited, there were various committees which each had a wide membership. This meant that decisions were taken in the light of the views of many, so they were soundly based and carried a firm commitment to their implementation. A disadvantage was that the meetings took time but the time spent was justified by employees feeling that their views mattered and so felt involved. It also meant that decisions once made were implemented speedily and well.

### **Desire to find a better way**

Quakers are ready to challenge accepted ideas and methods and therefore became good innovators. This, together with respecting others' ideas and views, contributed to their success, as for example when they revolutionised the iron industry. Abraham Darby III, a Quaker, developed a method of producing malleable pig iron in a blast furnace fuelled by coke rather than charcoal. This was a major step forward in the production of iron as a raw material for the Industrial Revolution. He also financed the construction of the first iron bridge, which spans the Severn near what is now the town of Ironbridge.

Quakers believe in living simply, do not like waste and see value for money and efficient use of resources as moral imperatives. This also encourages innovation. They also understand the need to be competitive and are aware of the need to balance the need for competitiveness with the interests of their employees. A failed business cannot employ anyone – unless it is state guaranteed. Equally, a business which fails its local community cannot be truly said to be a worthwhile enterprise.

It is not always obvious why people trust others, however Quaker businesses have a reputation for honesty and plain speaking and for being good employers, which seems to have helped. Quakers also viewed bankruptcy as a reason to ask someone to leave their Society, but every effort is made to help the business person and the business in question to avoid such failure.

### **Regard for education**

Quakers' regard for education stemmed from their need for self reliance, from the time when there was prejudice against them, and from their concern that individuals should make the most of their talents.

Quakers believed it is a national waste for children to leave school early without some means of continuing their learning. By today's standards it might seem paternalistic but they also wanted unskilled workers who had monotonous or depressing work to have a wider and deeper view of life. In the early 1900s Cadbury Brothers arranged opportunities for staff to study music, art, handicrafts, science, literature, political economy and social philosophy. Quakers tend to believe that an employer who cares and sets clear directions and purposes for their caring will tend to earn respect.

### **Concern for the Community**

Respect for the individual also meant a concern for the community. Most Quaker businessmen and women were also involved in social work. Some Quaker businesses built new towns for their staff to live and work in. Cadbury's built Bournville which is now a sought after leafy part of the enlarged city of Birmingham. The factory also moved to Bournville and the firm managed to combine making its business more efficient and improve the well being of employees. Bournville aimed to be a social community and so from the start only a proportion of those who lived there worked for the company.

**In summary**, Quaker businessmen are happy to create wealth and distribute it fairly, in the terms of the times, to all involved. They see doing so as a moral duty. They also wanted to spend the surplus they create well, and to use it for the good of society.

### **The relevance to this review**

The values discussed above might seem a little strange in business life today. It is clear that other values have driven most businesses for the last few years: authority, self interest, making money, shareholder value, all powerful celebrity CEOs, conformity, political correctness: these are almost complete opposites of Quaker values.

Indeed, the power of very short term investors to determine the fate of a company in a hostile takeover battle represents a powerful antithesis of what Quakers regard as the right purposes of business.

### **In conclusion**

Most people would rather see a better balance. Many people in business, including CEOs and Chairmen, also want this to happen as do many who work in financial services. It needs Government and other leaders in society to start this - another step towards creating David Cameron's 'Big Society' perhaps?

We earnestly ask the Review Team to consider what can be done to improve values actually practiced in business, so as to create visibly for business a stronger moral compass, that it may more truly add value to society as well as to its owners. We believe that, without addressing values, any other business reforms which are proposed are unlikely to prove effective in practice. Moreover, we are concerned that many in society now have a profound distrust of big business. This is unfortunate, and we think can best be remedied by improving business values, and their practice, in the ways we suggest. . We shall be delighted to discuss our ideas further with you.

Yours faithfully



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**Quaker Signatories to this Q&B members' letter to the Kay Review**

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