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# MANAGERISM

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## What is the Purpose of Business Ethics

The first industrial revolution and business philanthropy

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Why has social justice become a management issue? After corporate social responsibility and corporate values, management boards have turned their attention to equality, inclusion and diversity. What would the pioneering entrepreneurs of the industrial revolution think of this re-imagining of business ethics and moral management? What happened to the pursuit of maximum profit and shareholder value?

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### THE EARLY INDUSTRIAL ENTREPRENEURS AND BUSINESS MORALITY

During the industrial revolution, the UK had a succession of remarkable thinkers, reformers and philanthropists, who responded to the disrupting social impact of industrialization and urbanization. In fact, several of the early industrial entrepreneurs were themselves reformers and philanthropists. They not only continuously improved their business operations, they also improved the working and living conditions of their employees. Many also helped to build a new civil society. As entrepreneurs, they took a creative and pragmatic approach to societal problems. They attempted to resolve the conflict of interests between their business enterprise and society.

#### Resolving the conflicting interests of the market economy and society

The new industries and the economic market were mostly unregulated and the competition was fierce. Many factory owners argued they had no option but to extract as much ‘value’ as possible from their workforce and the natural environment (an attitude still extant in the USA and elsewhere). However, others adopted a business attitude that embraced *business ethics*.

In eighteenth and nineteenth century Britain, the personal philosophy of most people, especially the educated citizens, was essentially Christian. Manufacturing entrepreneurs who took their religious beliefs and moral principles seriously, as many did, were faced by the contradictory demands of 'market forces' and their moral conscience. Today, partly due to the growing demands by public opinion and social media for social justice, corporate executives are faced with a similar dilemma:

Should corporate executives **maximize profits for shareholders**

or

Should corporate executives **maximize benefits for stakeholders**

The answer to this dilemma depends upon the purpose of the business. To say that the only purpose of a business is to make a profit is not necessarily true.<sup>1,2</sup> In fact, a business enterprise has many purposes. Peter Drucker, the renowned management thinker, explained that business enterprises can only exist within a societal context, "*Business enterprises are organs of society. They do not exist for their own sake, but to fulfil a special social purpose and to satisfy a specific need of a society, a community, or individuals.*"<sup>3</sup> That this fact needed explaining then, and still does today in some circles, is a clear sign of how abstractly detached from the real world some management teachers and business executives are.

### **What did the manufacturing entrepreneurs of the industrial revolution think**

The industrial revolution, which began in Britain in the eighteenth and nineteenth centuries, transformed society from the traditional to modern. Industrial entrepreneurs were the driving force of that revolution (1750-1850). At the same time, they could see the divisive effect on communities of industrialization, urbanization and early globalization. Many had an educated political awareness and a social conscience. In the absence of other actors, several of these industrial pioneers took direct action to alleviate the negative effects of industrialization<sup>4</sup>. In other words, they practiced *business ethics* long before it first appeared on an MBA syllabus or a corporate board agenda.

Although the factory owners who were philanthropic were a minority, they were a notable and significant minority. The thinking and behavior of these *business philanthropists* was strongly influenced by their philosophical and religious beliefs. They believed that their personal business behavior should reflect their personal moral principles – whether humanist or Christian. They were convinced that to behave morally was their religious and civil duty.

## **THE INDUSTRIAL REVOLUTION AND THE MARKETISATION OF SOCIETY**

Industrialization, urbanization and the competitive market economy led to the *marketization* of human relations and the community, in other words, it was the economization of the non-economic. The traditional social context of human relations was undermined and a great transformation of society began. This was the first step toward not just a *market economy*, which already existed, but toward a *market society*. Marketization resulted in personal, communal and societal problems. Marketization was the cause of mass migration, economic insecurity, poverty, alienation, dangerous working conditions and unhealthy living conditions.

New factories each employed hundreds of workers, who had to live within walking distance. Consequently, these factories were soon surrounded by clusters of houses and so-called manufacturing towns which were populated by immigrant workers. This societal transformation was unplanned and unregulated with disastrous personal and social consequences.

### **Entrepreneurs and civil society**

Factory owners were aware of the abysmal working and living conditions of their workers; the first industrial factory owners and supervisors lived close to their factories and workforces. Effective local government was still absent and the traditional authorities were ineffective. Therefore, it was a question of business ethics or common morality whether the new wealthy class, the mill owners, assumed any responsibility for the conditions prevailing in their factories and the new local communities. Some had a business ethos and social conscience. Some did unto others as they would have done unto themselves, while some did not. If the manufacturing entrepreneurs did not confront the problems of industrialization and urbanization, these were, apart from church pastoral care and individual acts of charity, left unsolved. Government regulation or intervention in ‘the market’ was largely absent until the mid-nineteenth century.

### **What was the predominant social outlook**

Until the 1850s, the dominant social outlook in England was paternalist. People still looked, mostly in vain, to local judges, parishes, churches and the land-owning aristocracy to order and regulate society. The Austro-Hungarian sociologist, Kurt Polanyi, described the situation as traditional communities being disrupted by the *marketization* of the whole of society. Faced with the extent of industrialization and urbanization, the traditional authorities had neither the power, ability or ideas to allay the multiple economic and social problems. The established order was overwhelmed by the rapidity and enormity of the great social transformation.

### **What were the motives for a business ethos**

The early factory owners had various motives for being philanthropic<sup>5</sup>: some were motivated by Christian morality and others by humanist ideas. In the eighteenth and nineteenth century, England was still predominantly a Christian society. Christian teaching, beliefs, ideas and attitudes were the standard against which ideal social behavior was judged. Although the industrial revolution was disrupting traditions and human relationships, still religious ideas and faith was being passed on from generation to generation. Christianity still provided a moral compass in a rapidly changing world.

A second motive had philosophical roots: utilitarianism, liberalism and humanitarian impulses.

A third motive was a fear of unrest, strikes, revolt, a dissatisfied working class and impoverished criminal class. As were the unpredictable consequences of public support for greater democracy.

## **THE PIETIST CONSCIENCE AND BUSINESS PHILANTHROPY**

Although religious attitudes were waning, the Christian faith was still strong in England. In the eighteenth century between 1750–1799 around 1,300 new pietist<sup>5</sup> chapels were opened (funded by their congregations). And in the nineteenth century, according to a UK government census of 1851, *one third* of English people attended church *at least once a day*. Half of those

churchgoers were non-conformist<sup>6</sup> (or pietist/evangelical) protestants. State education was not provided and most schools were run by church authorities, who emphasized religious and moral education. In this way, Church teaching had a formative role in shaping personal character and attitudes and, in some, a philanthropic outlook.

The pietist/evangelist churches in England practiced a form of experienced belief. Their approach was that of religion as a direct private discourse between mankind and God (not through the medium of rituals and priests); instead a practiced and lived Christianity, which demanded personal morality and community service. Good works are fundamental in Christianity, and pave the way to salvation. Charity was one way of saving your soul while helping those less fortunate. This is one explanation for the motivation of those business philanthropists and their business ethics.

Non-conformists had a reputation for hard work, temperance, frugality, and they aspired to upward mobility. On the other hand, non-conformists and Catholics were suppressed in England by the Anglican state-church establishment well into the mid-1800s. They were banned from universities and from all state-dependent careers: the judiciary, military officers, official positions in municipal and state government, and so on. One avenue remained for them to progress in life and that was by independently entering into business. That explains the high proportion of non-conformists who were independent business entrepreneurs. In 1827, a widely-read Unitarian magazine, the *Christian Monthly Repository*, wrote that "Throughout England a great part of the more active members of society, who have the most discourse with the people and have most influence over them, are Protestant Dissenters [of the free independent churches]. These are manufacturers, merchants and substantial tradesmen ..."

The free independent churches were the majority denominations in the North and Midlands of England, which were the centers of industrialization. Consequently, many of the industrial entrepreneurs and merchants were also active members of free churches.

Their social and political attitudes were not conservative, they did not yearn for a traditional past, instead they were passionate about building a new and better society. In the words of a famous poem and church hymn of 1804, they aspired to build a new "Jerusalem in England's green and pleasant land". Although the land of England in which they lived was covered by black factory smoke.

The beliefs and moral principles of these industrial entrepreneurs also inspired their attitude to business and a special *business ethos*. They considered themselves not profit-seekers, but Christians with a moral duty, and their business not a profit-making entity separate from community and society, but an integral part thereof. In other words, their personal philosophy and business ethos was not one of pure selfish individualism; instead it embraced respect and consideration for others. Historians call their moral attitude the *non-conformist conscience*. As pragmatic entrepreneurs they believed that a social conscience required social action. However this philanthropic attitude was not restricted to Protestant non-conformists and neither was pietism. In the Anglican church there was a strong pietist movement which gave birth to Methodism. All Christian churches were pastorally active, but the solution to the dichotomy between economy and society still grew. The gap described by Polanyi was not narrowing, it was still widening.

## THE BUSINESS PHILANTHROPISTS AND BUSINESS ETHICS

Much of their philanthropy was related to the business they owned and controlled: they made improvements to working conditions. This can be described as *business ethics*. But many also directed efforts to others aspects of the lives of their employees and local communities. This can be described as *corporate social responsibility* (a contribution to societal goals) including the building and funding of housing, hostels, day schools, Sunday schools, churches, hospitals, libraries, and so on. This improved the situation of their employees and the local community. In this way, it was a select group of industrial entrepreneurs who made a significant contribution to the creation of a civil society in the manufacturing towns of England.

The following entrepreneurial philanthropists are representative of many:

### **James Walton (1803–1883) Anglican**

In 1857, Walton built a new factory near Manchester, which manufactured machinery for the textile industries of Britain and overseas. The Haughton Dale Mills, as the factory was known, was described by the Manchester Guardian as "the largest establishment of the kind in the world". In 1875, Walton began construction of an Anglican church in Haughton Dale. In 1885, he built a large school to promote the education and well-being of his workforce with a day school and Sunday school for their children.

### **William Lever (1851–1925) Congregational**

Lever founded Lever Brothers (later Unilever corporation) and built up a very successful manufacturing business. He distributed some of the profits from this family enterprise as a social benefit. In 1887, Lever found a new greenfield site to expand his soap-making business. Lever Brothers bought 56 acres (23 ha) of land and called it *Port Sunlight*, named after his soap brand. And next to the works he built a village to house his employees. Lever personally supervised the planning of the village. Between 1899 and 1914, about 800 houses were built as modern homes for 3,500 workers and their families. This garden village had allotments and public buildings including an art gallery, a hospital, schools, a concert hall, open air swimming pool, church, and a temperance (no alcohol) inn. Lever introduced welfare schemes and provided for the education and entertainment of his workforce, and encouraged recreation as well as organizations which promoted art, literature, science and music. He claimed Port Sunlight was an exercise in profit sharing, but rather than share profits directly, he invested them in the village. He said, "It would not do you much good if you send it [shared profit] down your throats in the form of bottles of whisky, bags of sweets, or fat geese at Christmas. On the other hand, if you leave the money with me, I shall use it to provide for you everything that makes life pleasant – nice houses, comfortable homes, and healthy recreation." The socio-historical significance of Port Sunlight lies in its combination of model industrial housing and a garden suburb. Each block of houses was designed by a different architect and each house is unique. *William Lever's funeral was attended by 30,000 people.*

### **George Cadbury (1839–1922) Quaker**

In 1824, John Cadbury began selling tea, coffee and drinking chocolate in Birmingham. Much later in 1893, his son George Cadbury bought 120 acres (49 ha) of land in Bourneville close to a new factory where he also built a model village to alleviate the evils of cramped living conditions in the city. By 1900, the estate included 314 cottages and houses set on 330 acres (130 ha) of land. As the Cadbury family were Quakers there were no pubs in the estate. The aim was that one-tenth of the *Bourneville* estate should be "laid out and used as parks, recreation

grounds and open space." It subsequently became known as "the factory in a garden". George Cadbury had a new vision of the future. "Why should an industrial area be squalid and depressing?", he asked. At Bourneville workers lived in far better conditions than in the crowded slums of the city. George wanted to build a place full of green spaces, where industrial workers could thrive away from city pollution. He said, "No man ought to be condemned to live in a place where a rose cannot grow."

George Cadbury was a prime mover behind *The Birmingham Civic Society* in 1918. Cadbury donated the *Lickey Hills Country Park* to the people of Birmingham. George continued to purchase further land and set up the independent *Bourneville Village Trust* in 1900, gifting nearly 400 houses to it. During this time he continued to work to improve the employment conditions for his employees and sick pay and pensions were introduced. The Trust continues its work today, managing a mix of affordable rented and privately owned properties and community facilities.

### **Titus Salt (1803–1876) Congregational**

In 1833, Salt took over his father's business and within twenty years he was the largest employer in Bradford. In 1850, he built a factory extensive enough to consolidate his textile manufacturing in one place, but he "did not like to be a party to increasing that already overcrowded borough" and therefore he bought land three miles outside the city of Bradford. He built *Saltaire Mills* which opened in 1853 and included houses, bathhouses, a learning institute, hospital, charitable poor houses and churches, that all form the model village of *Saltaire*. In 1859, he built at his own expense the congregational church, which is now Saltaire United Reformed Church. He also donated land for a Methodist chapel in 1866–68. As a strict pietist, he forbade beer shops in Saltaire. Salt was deeply religious and believed that by creating an environment where people could lead healthy, virtuous, and godly lives, he was doing God's work. Titus Salt died in 1876 and was buried at Saltaire Congregational Church. It was estimated that *over 100,000 people lined the route of his funeral*.

### **Robert Owen (1771–1858) Baptist education, later Humanist**

A Welsh textile manufacturer, philanthropist and social reformer, Owen was one of the founders of utopian socialism and the cooperative movement. His efforts to improve factory working conditions for his workers and to promote experimental socialistic communities are legendary. In the early 1800s, he purchased a large textile mill at *New Lanark*, Scotland where he won his workers' confidence and continued to improve efficiency at the mill. This New Lanark community earned an international reputation. Owen's biggest success was in youth education and infant care. His relations with his workers remained excellent and operations at the mill were smooth, regular and profitable. However, some of Owen's company partners were more interested in profits than the welfare of employees or the model community. Owen found new investors, including the utilitarian liberal philosopher Jeremy Bentham and the Quaker William Allen, who were content to accept a £5,000 annual return on their capital. A non-wealth-extracting form of capital investment.

Owen was a pioneer in factory reform, the father of distributive cooperation, and the founder of nursery schools. His schemes for educating his workers included opening an *Institute for the Formation of Character* at New Lanark in 1818. This and other programs at New Lanark provided free education from infancy to adulthood. In addition, he zealously supported factory legislation such as the Cotton Mills and Factories Act of 1819, improvements in workers' rights and child labor laws, and free education for children.

This business model co-financed what today could be called a corporate social responsibility (CSR) policy. It was a successful practical example of *business ethics*. This policy would be impossible to implement in a contemporary capital corporation, where earning ever more profit for shareholders is the chosen means to progress humanity.

### **John Rylands (1801–1888) Congregational**

Rylands owned the largest textile manufacturing firm in the United Kingdom and was Manchester's first multi-millionaire. He eventually employed 15,000 people in 17 factories. Rylands was known as the Cotton King, because he made his money from textile mills. Stretford Public Hall was built by Rylands in 1878. He also established and maintained orphanages, homes for aged gentlewomen, a retirement home for church ministers, funded and built a Union Baptist chapel, as well as Stretford Town Hall, public baths, and a free public library in Stretford, Manchester, where he lived. The famous John Rylands Library was built and donated to Manchester by his wife.

### **Joseph Whitworth (1803–1887) Congregational**

Whitworth was a notable engineer, inventor, and manufacturing entrepreneur. He developed the famous Whitworth standard, which was the world's first national standard for screw threads. The son of a Congregationalist minister, he founded *Whitworth Scholarships* which still exist today to provide funds for young engineers with academic and practical ability. Part of his bequest was used to establish the *Whitworth Art Gallery*, now part of the University of Manchester. He also built the Whitworth Institute, which contained two reading rooms, a billiard room, and a large swimming bath on the ground floor. Upstairs were two further reading rooms and a large hall capable of seating 200 people. His funeral was of the simplest and plainest character and many local people attended.

### **Henry Tate (1819–99) Unitarian**

Born near Manchester, Henry Tate was the son of a Unitarian minister. In 1859, he became a partner in a sugar refinery. By 1869, he controlled the company and renamed it as Henry Tate & Sons, which perhaps because of his business ethos, still exists as the successful Tate & Lyle plc. Henry Tate was a modest, rather retiring man, who twice refused a knighthood. Well known for his concern with workers' conditions, he built the *Tate Institute* opposite his Thames Refinery in London, with a bar and dance hall for the workers recreation. Tate rapidly became a millionaire and donated generously to charity. In 1889, he donated his collection of 65 contemporary paintings to the government, on the condition that they be displayed in a public gallery, and donated half of the construction cost. This became the National Gallery of British Art, nowadays known as *Tate Britain*, which was opened in 1897. Henry Tate made many donations, often anonymously and always discreetly. He supported several non-establishment causes. He donated £10,000 for the library of *Manchester College*, which had been founded in 1786 as an alternative university to provide religious non-conformists with higher education.

## **THE BUSINESS ETHOS OF PUBLIC COMPANIES (AFTER 1850)**

After the 1850s, public joint-stock limited-liability companies, previously non-existent, began to assume a more important role in the economy. A company owned by a large number of public shareholders found it easier to collect large sums of capital for investing in large factories for mass-production and thereby achieved greater economies of scale. They were also generally

assumed to be good for economic growth: although there is no empirical evidence. Recent literature in economic history argues that the corporation's role in long run economic development has been exaggerated.

Joint-stock companies whose shares were traded on stock exchanges attracted speculative shareholders. *The Times* of London reported that the London stock exchange was little more than a gambling den. Business philanthropy was of no concern to such so-called 'investors'. These companies were the first truly *capitalist corporations* made possible by state intervention when the government made changes to company laws. After 1850 the emergence of these public corporations also changed business attitudes. Business philanthropy was definitely not a priority of corporate managements.

The prevailing mindset of the middle class also changed at that time. Business became less about creating value and more about extracting value. And religious attitudes became less influential, while secular ideologies such as political economics, utilitarianism, liberalism and individualism gained influence. Social and moral values were gradually replaced by values as determined by market prices.

This transformation coincided with the emergence of modern capitalism in the form of the public corporation and the modern nation state. Business partnerships headed by *entrepreneurs* were replaced by public companies, more aptly named *capital corporations*, which were administered by corporate executives. The business philanthropist was being replaced by the business administrator.

## WHAT LESSONS CAN BE LEARNED FOR THE TWENTY FIRST CENTURY

The Industrial Revolution was more than a technical revolution. It was an economic and social revolution. Karl Polanyi called it *The Great Transformation* and the *marketization* of society. This was not just the transition to a *market economy*; it was the beginning of the transition to a *market society*. As Polanyi wrote, "No society, could, naturally, live for any length of time unless it possessed an economy of some sort, but previously to our time no economy has ever existed that, even in principle, was controlled by markets."

The industrial revolution from 1750–1850 was immediately followed by yet another transition. The next transitional event was the *public corporation with limited liability* and thereby *modern capitalism*. After 1850, the detachment between the economy and the community was taken one step further.

***Business entrepreneurship*** has more to do with goods & services and business & customer markets, and less to do with stock markets and capital markets. The industrial revolution emerged well before public corporations and capital markets were formed by government statutes; in other words, before *the state invented the capital corporation*. In fact, some early industrial entrepreneurs were very wary of ***capitalism***.

In 1888, **Daniel Adamson**, a famous Manchester engineer, inventor and highly successful industrial entrepreneur, organized public funding (crowd funding) for the Manchester Ship Canal. Adamson advocated a different kind of public company as a form of community enterprise. He hoped to create a truly publicly owned Manchester Ship canal company. Those he least wanted on board were investor capitalists, stockholding speculators, merchant banks and



financial investors. Adamson called these capital investors of London, "... *the maggots of capitalism ...*"

Today many corporate managements still focus on wealth extraction to achieve maximum short-term profit. The financial crisis of 2007-2009 and the criminal behavior of many large corporations in recent years are proof enough that change must come.

## WHAT IS TO BE DONE?

The regional and community economy is the foundation upon which business with a human-centric and community-centric approach should be favored. The purpose of a business should focus on the stakeholders and not the shareholder. Property rights over corporations should be re-imagined to benefit the community rather than the individual. Small and mid-size enterprises and socially-motivated business should be advantaged over trans-national capital corporations.

This offers an opportunity to harmonize the dichotomy between the market and community. The unified national state (often functioning as a welfare state) makes repeated attempts to plaster over what are euphemistically called free-market *failures*. However, comparative analysis shows that such failures can be pre-empted. Social-market economies (the third way) already successfully exist in northern and central Europe: Germany, Switzerland, Austria, and the Nordics.

Enterprises should be purposed to also serve their employees, their suppliers and their community. The present form of business corporations and the behavior of corporate executives was shaped by the democratic institutions of society. Today public corporations can be re-shaped in exactly the same way.

**The purpose of business ethics is to relate a business enterprise to the community from whence it arose and without which it would not exist.**

*Derek J. Brocklehurst, December 2020*

## NOTES

- 1 The Friedman doctrine, also called *shareholder theory* or stockholder theory, is a normative theory of business ethics advanced by the economist Milton Friedman which argues that a firm's main responsibility is to its shareholders.
2. Jürgen Schremp, CEO of Daimler-Chrysler said, “For me one thing counts above all else: profit, profit, profit!”
3. Drucker P., *Management: Tasks, Responsibilities, Practices*, 1973, p. 39
4. The earliest factories were built in the later eighteenth century as the cotton industry expanded in north-west England around Manchester. Some factory owners imposed abominable conditions on their workforce. Much labor was provided by children below the age of ten. Many were orphans sent far away for factory employment by the Poor Law (social welfare) authorities. In 1800 around 20,000 children were employed in cotton mills. Twenty per cent of cotton industry workers were children under the age of thirteen. In some mills, children were forced to work over 15 hours a day for six days a week; they were starved, their growth was stunted, and they wore rags. Many were kept in bondage until adulthood.
5. Philanthropy differs from charity. Philanthropy aims to remove the long-term or systemic causes of social ills, whereas charity alleviates the short-term or immediate symptoms. There will have been mixed motives for philanthropy: some entrepreneurs had self-serving motives: paternalism to appease their workforce, to avoid social unrest and to avoid government regulation. Others were politically active, usually liberal, and supported political reforms and industry regulation. The entrepreneurs who are the focus of this opinion piece are the **true** entrepreneurial philanthropists, of which there were many. As business entrepreneurs they approached social problems with an entrepreneurial spirit.
6. *Pietism* is a form of personal faith in which deep devotion to Christ and strict morality were prominent.
7. *Non-conformist* was a name Anglicans gave to members of Protestant free churches who rejected the teachings of the Anglican state church.

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