



Dialogue

“Family firms bind people together by the really fundamental elements of being human.”

Family business expert **Nigel Nicholson** speaks with Quaker Capitalism historian **Deborah Cadbury** on the importance of values and ethics in corporate life.

In an era of cascading financial scandals, it's not only topical but refreshing to hear two corporate ethicists discuss the importance of old-time values in a modern workplace. Deborah Cadbury has been widely praised for her recent history of the Cadbury chocolate family and its emphasis on what she calls Quaker Capitalism. While she's more skeptical of how well such progressive business values can be incorporated in today's globalized world, Nigel Nicholson, one of the leading experts on family businesses, is more confident that strong values and ethics can be instilled in both private and public companies.

Nigel Nicholson: Deborah, after so many books on such diverse topics as the Seven Wonders of the Industrial World and the Lost King of France, how did you decide to delve into your own family's history?

Deborah Cadbury: As a more distant family member, I didn't grow up in the business, per se. But I'll never forget the first time I visited the family's chocolate factory in Bournville as a youngster. It looked like an ordinary factory from the outside, but when we opened the door, I couldn't believe what I saw. There was chocolate everywhere. There were conveyor belts with rivers of chocolate flying across my head. It made a big impression. There was something so delightfully other-worldly about the religious values that inspired the business in the nineteenth century that I wanted to delve more deeply for my book. For generations, family members were passionate about applying Quaker values in business. They had an emotional attachment to it, much like the "emotional ownership" that you've written about. I find that concept fascinating, and very relevant to what I've written about.

Nicholson: Well, emotional ownership is about the state of mind of a person that involves elements of being attached to something – that you are actually part of something, and of something that has to do with your identity. In other words, it is part of you, and you are part of it, so yes, it most certainly does seem to apply in this instance. Today it is an old-fashioned concept, but it was very common in the nineteenth century.

Cadbury: I wonder if what you had with the Cadburys and the Quakers was even more than emotional ownership, because actually it was an entire social system. What amazed me as a historian was just what a huge movement this was, as the Industrial Revolution was

taking off. The Quakers had a whole set of rules about how they operated that facilitated business affairs. There was a higher purpose and everyone could see it was for the good, so everyone could buy into it. I strongly suspect that that very much facilitated what you have termed 'emotional ownership.'

Nicholson: It is that you can create and sustain a sense of community that recognizes more than just the material interests of the people who are part of it. It binds people together with a sense of a greater good. There is something rather special about family firms because they bind people together by the really fundamental elements of being human. The boundaries between work and non-work are less rigid, there is a sense of permanence in contract, and that the firm is not just a bundle of assets but something that is a part of the family's blood line or part of the family's existence – something to be passed on from generation to generation.

Cadbury: And in the Quaker case, those connections were even more strongly emphasized because as non-conformists, they were denied positions in society. They could not work in the army or the Civil Service, run for Parliament or teach at university. There was a real need to make their businesses work.

Nicholson: I think the outsider experience explains a lot of entrepreneurship. A lot of entrepreneurs are outsiders. That is why they are motivated to get entry to a society, and how they build.

Cadbury: When I started to delve into the history, I went into the Quaker archives and discovered that the people who were really instrumental in turning the business around – Richard and George Cadbury, the second generation, who had inherited a loss-making chocolate works in 1861 – had kept a scrap book, keeping an account of everything that was going on. I thought 'oh great – the scrapbook is finally going to reveal the magic ingredient that turned a struggling chocolate company into what became by the end of their lives the largest chocolate company in the world.' And to my amazement, the whole book was filled with how to apply Quaker values in the Birmingham community. It was absolutely clear that for Richard and George, making a lot of wealth was not really driving them. What was really driving them was how to apply Quaker values in the community.

Nicholson: Was it guileless, or was there a suspicion of self-interest in keeping the workforce happy?

Cadbury: They really believed. And you have to imagine a business culture where this wasn't just the Cadburys.



“You have to ask yourself ‘what are people’s goals in business?’”

There were many Quaker business leaders who believed that ‘your own soul lived or perished according to its use of the gift of life.’ That was the guiding principle. Amongst the rules on plainness, truthfulness, love and war, etc., were rules on conducting trade. The Quakers were effectively evolving a code of business ethics, which set out very clearly defined rules like “You don’t contract extravagant debts”.

Nicholson: The Quakers would do business with a handshake because they shared a set of values.

Cadbury: Yes, that’s why I felt that this set of guiding principles was so important, and deserved a name in its own right. That’s why I came up with “Quaker Capitalism”. It’s important to realize just how very successful it was. And it wasn’t just the Cadburys; this was replicated across a large number of businesses.

Nicholson: I think it is a step change to say that if we can build communities of trust, it actually takes a lot of the cost out of business. Currently, if you look around the world, there are countries and economies being ruined by corruption. This code is actually a code of lowest costs of doing business.

Cadbury: I thought it was very interesting to see how the Quakers would come together to collaborate on certain

issues, even though it was very clear that Cadbury, Fry, and Rowntree were definitely rivals in a competition to create the nicest chocolate bar. Nonetheless...

Nicholson: ... They still shared their apprentices.

Cadbury: Exactly. And they also shared their ideas. But more than that, when they were faced with an issue that was bigger than any individual company, for example, the discovery of slavery in the plantations in São Tomé where they were buying their beans, they teamed up to organize a boycott. This led to the development of the entire cocoa business in Ghana, free from the Portuguese slave owners. If you apply that today, that would be a bit like Kraft, Hershey, and Mars getting together and saying ‘we are going to solve the problem of child trafficking on the Ivory Coast.’ There are definitely companies today that aspire to these values, and they try to do what they can. But I feel there was a world of difference with the Quaker firms of the nineteenth century.

Nicholson: To some extent, as they were lowering the cost of doing business, they were also engaged in a primitive form of social services to make good the deficiencies of the state. It was an enlightened self-interest, helping to secure for themselves healthy and committed workforces. We now live in an age where that kind of paternalism is no longer necessary, and yet, there are family firms that I deal with that have a strong paternalistic ethos. They take care of their people, embracing them, as it were, as part of a wider family. They care about their health, and don’t let people just come and go according to the price of labor. I think a lot of those principles are really intrinsic to this communitarian set of values that drives family firms.

Cadbury: The whole method of building business in Quaker Capitalism was built around the idea that the workforce was as important as the employer, and that you tried to benefit whole community – right from the start, when they were barely profitable, and they were trying to work out how to apply Quaker values. Richard and George undertook practices that appeared counterintuitive. For example, when the orders were slack they took the staff on outings to improve their health.

Nicholson: Somebody once said that profit is like health: The more of it you have, the better, and you wouldn’t want to be without it. But it is not the reason that you are alive. You have to ask yourself ‘what are people’s goals in business?’ It is very interesting, because I work a lot with bankers. If you ask them today if they only exist for shareholder value, they say ‘no, that doesn’t work.’

Shareholder value is an ephemeral ratio, and it evaporates. The shift in focus for the new world of banking is going from bottom lines to the top line, the top line being who are the customers, who are the people you are serving, what are their interests? And if they don't have a coherent vision about how they are going to add value in the world as an industry, then they don't really have a reason for existence. Of course these banks want to make money. But they no longer believe that this is the only index of their worth out there. They have to distinguish themselves in the marketplace, because the profit you make reflects the value you add.

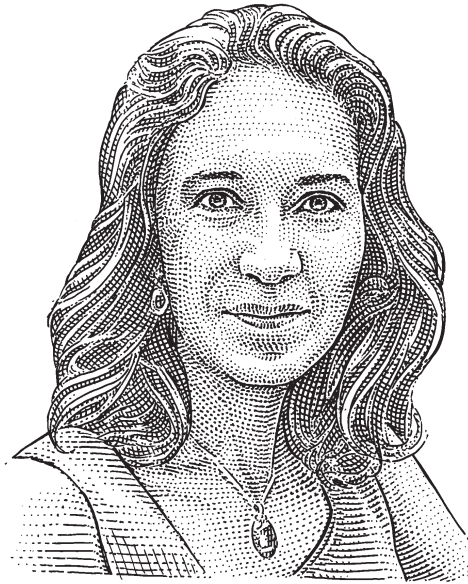
Cadbury: But I do think that size is working against some of the things that you are talking about. When you have such fragmentation in businesses – as you have with some of these huge conglomerates, where you have got the management rank in Chicago, and factories all over the world – it is much, much harder. With Cadbury – where you saw the management on a daily basis, and where you were directly involved in what was going on – that sense of buying into a common purpose, that sense of easy access to the business leaders who were a visible presence on site, made a big difference.

Nicholson: My concept of adding value is really about just that – values. What every person needs in employment is some sense that they are a part of something bigger. I don't believe you have to be a family firm to cultivate that feeling. I don't believe you have to be a nationally owned firm to cultivate that. You need to be a well-run firm; you need to be a firm that is run by enlightened principals that have a value base. And that is not exclusive to any domain. You don't have to be religious, you don't have to be a family firm – you just have to have some people who are at the head of the enterprise that have a vision of some kind that realizes everybody in that enterprise is contributing to the value of the business.

Cadbury: But when managers know perfectly well that they have to deliver shareholder value or they are out, how can they also wear this second hat? Managers today are much more constrained.

Nicholson: Of course when you are answerable to shareholders, you are more constrained because the balance sheet has to be accounted for – and quite rightly, too. I think it is the virtuous cycle. I see where the firms do good for others in order to help themselves. They do good by doing well, and do well by doing good.

Cadbury: I wonder whether, in the same way that the Quakers were the precursors of all those wonderful early twentieth century liberal reforms that brought in the



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national minimum wage, and many other labor reforms, what is needed – and this is looking far to the future and being very idealistic – is a set of global rules. Because businesses are so global now, it is just too easy for the leaders and management in some top public corporation to say ‘here is our one percent of corporate social responsibility.’ But if there were to be a set of global rules – and I don't know how this will be implemented – then things like the ratio between the highest and the lowest wage across a given sector, fairness in the way resources are used, and things like that could genuinely be addressed. And I just wonder whether you feel we could ever arrive at a situation where this could be done?

Nicholson: We are now in a globalized economic world, and I think we can have principles and standards. I think setting standards is one of the tools you can use to try to stop exploitation.

Cadbury: I think it is quite interesting how you get the right person in the right positions in the family firm. Because there could be so many competing interests, and as you were speaking, I was thinking of the last generation of Frys. Because Frys, of course, was the first large British chocolate enterprise in Bristol, and fantastically inventive. They were the first to use steam technology in

the process of manufacture. It was such a novelty, and talked about all over the country. But after several generations it fell to someone called Joseph Storrs Fry II to run the company. He thought he could rest on his laurels and devoted his time to biblical scholarship. Of course, during his period of ownership the business lost its competitive edge.

Nicholson: At the second generation, you have the problem about what are the roles of siblings, how will they collaborate, and who is going to lead the company? Once you get to a cousin consortium stage, you have the issue of how you get the cousins to work together instead of dividing into different branches, and how you are going to enforce that collaboration. Once you get beyond that, it is a multi-generational family firm, and what forms of governance do you need to have to make sure that the shareholders of the family shareholder group are brought together. A family constitution could specify how the next generation is introduced to the business.

Cadbury: Well, the Cadburys I thought were very fortunate in that being in chocolate in the late nineteenth century was a little bit like being in mobile phones in the 1990s. That meant for those three generations you are talking about – the father, sons, and cousins – the business was just growing exponentially. I got no sense at all of conflict, and the family members that didn't want

to go into the business didn't go. But there were plenty of jobs for those that did. Even by my father's generation, it was possible for those who had an interest in the business to express that interest, and then it was just up to whether or not they had the ability.

Nicholson: A lot of family firms have within their various agreements and constitutions well-developed systems for making sure that people can cross the threshold – and helping and equipping them once they do. I believe in what is called 'family capital.' To have a family member in the firm adds value. It is a symbol of a family's commitment.

Cadbury: How could a good stewardship and generosity of spirit be introduced into business culture today, apart from the sort of inspirational leaders we've talked about?

Nicholson: It is only if you try to turn your firm into a machine that you lose this spirit. The hierarchy models where men slug it out for a position in a very competitive pecking order, where only the strongest will survive – that doesn't create loyalty, and creates as many losers as it does winners. It destroys value as much as it creates it. Rather, what we need are collaborative models – more 'female models' you might say – that are flatter and more team-based. There are some very excellent and enlightened firms out there succeeding at this. I see them all the time in business.

RESUMÉ

Deborah Cadbury



Acclaimed journalist and historian Deborah Cadbury is the author of seven books, including most recently *Chocolate Wars: The 150-Year Rivalry Between the World's Greatest Chocolate Makers*. A distant relative of the Quaker family that ruled the world of chocolate with a potent form of ethical capitalism, Cadbury is also well-known for her book *The Lost King of France: Revolution, Revenge and the Search for Louis XVII*, which tells the tragic story of Marie Antoinette's favorite son. She has been making documentaries for the BBC for more than twenty years and has received many awards for her work, including an Emmy.

RESUMÉ

Nigel Nicholson



Nigel Nicholson is a well-known evolutionary theorist and professor at the London Business School, who specializes in Organizational Behavior. He is the co-author of *Family Wars*, a biography of family firms that took a turn for the worst. Nonetheless, he remains an advocate of family businesses and hopes that people will learn from the errors of those profiled in his book. His studies of leadership, culture and emotional ownership in family firms show there are many concrete steps firms of all kinds can take to increase the commitment, well-being and cooperation of their employees, owners and managers.