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The
John W. McCormack
Institute of
Public Affairs

2 January 1991

[redacted]

Sir Adrian Cadbury
Cadbury Schweppes
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Dear Sir Adrian:

Thank you again for so kindly participating in my research for the article on the ethics of corporate ownership. I found your comments and observations to be particularly prescient and pungent. The topic is certainly a broad one -- but can benefit from informed conversation and debate, which, in turn, can stimulate more thoughtful action.

Along these lines, I would love to give consideration to some vehicle for congregating crucial players. In the spirit of provoking dialogue, a gathering or colloquium makes enormous sense. I shall float the concept around and see if there are any takers. Would you be interested in participating?

Here is the citation I referred to in our conversation:

> Joseph L. Bower, "The Managerial Estate," in John R. Meyer and James M. Gustafson, eds., *The U.S. Business Corporation: An Institution in Transition* (Cambridge, Mass.: Ballinger, 1988) 162-163.

I look forward to future communication.

With every good wish,

Marcy Murninghan

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Senior Associate

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THE TIMES

POINTMENTS

THURSDAY OCTOBER 11 1990

As good as the staff you train

City firms must invest in improving skills of employees to come out of the recession fit to face global competition, Michel Syrett says

If a recession achieves nothing else, it will demonstrate whether employers have absorbed the principles of effective human resource management.

Good practice in staff recruitment and development emerged from the mess UK employers left behind them after the last recession. Investment in training was cut to the bone in the late Seventies. Few organisations looked beyond the need to cut costs in order to analyse what skills they would need in the next boom. Industries were unprepared for the swiftness of the commercial recovery in the mid-Eighties and the result was an undignified scramble for the élite core of workers with skills.

Leading employers could survive the latest recession by cutting costs, only to go to the wall during the next recovery because they failed to invest in building up the right workforce, when competitors abroad have taken a longer view.

The City is a prime example. Outside the top insurance, accountancy and banking firms, few employers gave systematic training a second thought during the lean years of the 1980/81 recession. The Big Bang and the steady internationalisation of financial markets required professional and technical staff that only a minority of City firms had any experience in recruiting. Of the 51,000 jobs created in the City between 1984 and 1987, 32,000 were poached from industry and the public sector.

The consequences of using this short-term strategy in the Nineties are spelt out in a report published last month by the Industrial Society and the London Human Resource Group, an independent association of senior professionals from 16 City institutions.

The report's author, Mr Amin Rajan, predicts the failure by City employers to train people in sufficient numbers could cost London its status as a leading international financial centre.

"Financial centres throughout Europe are developing expertise in many of the areas in which the UK claims dominance," he says. "The Dutch are concentrating on insurance, the French in investment banking, the Germans in corporate banking. The City's leading status is being attacked from all sides and it is only the continuing excellence of its professional workers that will enable it to stand its ground."

The report suggests that many City firms have failed to adopt a long-term philosophy. "The current approach taken by many City firms is ad hoc at best and seemingly irrelevant at most," Mr Rajan argues.

"The City desperately requires a new approach that promotes continuous learning. As always, there are exceptions. Big merchant banks, for example, are making headway, but I'm not so sure about the big clearing banks, accountancy houses and legal firms.

"Because they have been doing well in the recent past, they feel they are under no immediate threat but, unless they tackle their future skill needs, the City may well go the same way as many manufacturing industries in the past two decades which failed to read new market signals."

Other members of the London Human Resource Group share Mr Rajan's concern. Rhiannon Chapman, the group's chairman, says: "Very little systematic analysis has been done in organisations about how they use people.

"Most firms are not looking more creatively at how they can develop different kinds of people, not only to meet their current needs but also the newer roles that will emerge from the company's corporate strategies. Many people in the Square Mile still see good human resource management as a matter of putting people on seats."

A survey of almost 6,000 organisations across Europe, published earlier this year by Price Waterhouse and Cranfield School of Management, suggests that human resource strategies are often undermined by poor practice and a failure to carry out personnel policies consistently.

Training specialists are already reporting a downturn in the resources devoted by employers to training. Some UK employers seem to be on the verge of making the same mistake as their Seventies forebears.

Personnel can retreat into its traditional recessionary role of making jobs and people redundant. A more creative task would be to encourage chief executives to look beyond the downturn and maintain investment in skills.

Human resource managers must relate personnel issues more closely to business strategy for business leaders. Geoff Tucker, personnel director of Legal & General, says: "Once business decision-makers realise the importance of good staff development, their attitudes change. Firms with little tradition of good human resource practice will probably be the first to cut back in training, but there are many more enlightened employers than in previous recessions. We have made great strides."

● Capital People, *by Amin Rajan with Lynda Rajan and Penny van Eupen, is published by Industrial Society Press, £34.95. An international conference on the report is at the Queen Elizabeth II Conference Centre, Westminster, London on December 7. Further information: Touchstone Exhibition and Conferences, Clifton House, 83-89 Uxbridge Road, London W5 5TA (081-840 3888).*

~~b) Communicate both ways e.g. S Africa.~~

1) Groundrules.

a) USA/Europe or International ?

i.e. moral/ethical standards absolute or those held by community concerned.
i.e. whose society.

2). a). Openness.

This is kind of co. we are & how we behave

i.e. Fin. Control co. will act differently from Strategic Planning Co.

b) Meet all legal requirements.

Meet them in spirit as well as letter. } e.g. reporting potential hazards
Meet professional standards. } regulⁿ minimum applies to pass.
Meet legitimate expectns of all those ~~with~~ whom do business

Hold proper balance between present/future

Act as good corporate citizen in countries in which operate.

c). Strongest bus. arguments for high stds.

- reputation is impt.
- attract good people

But overriding issue is timescale, when measuring success.

3) State must regulate, but expensive & inefficient & must not hamper creativity/initiative/enterprise

∴ better co's are self-regulated - less the state burden.

Co's looking for continuing relnship with community sees advize in involving itself in community i.e. Compacts.

4) Communication - co's must assert their beliefs & investors must judge but to do this they must have dialogue. S Africa

Must probe reasons that it their resp.

Then what is their posn. ~~only~~ concerned ~~with results~~ if so what results for them or specific objective i.e. green investment trust.

Fin. results + no harm
" " + positive outcome.

Openness & statement of purpose + guidelines.

Responsibility involves follow up & dialogue not dialogue S.A.

Pollution / environment.

Honour legislation. Establish laws where appropriate.

Lead must come from top.

Beneficial owners / institutions. must look after
make own decisions / financial interests of clients.

Sound products, invest in future, invest in people, spirit of law.

Family firm. Owners vs punters.

Share in company as an organisation ∴ community involvement.

Look on co's money as your own.

Mayor diffce. 18th C. factory.
20th C. Corporation

Goals / objectives of co relate to community. Common good

Corporate Covenant reciprocal.

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21 December 1990

Sir Adrian Cadbury
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Dear Sir Adrian:

Thank you for agreeing to take the time to be interviewed in connection with the "ethics of corporate ownership" piece I am working on for the *Harvard Business Review*. I am asking everyone the following questions:

- In addition to financial standards, *what moral and ethical standards do you believe corporations should maintain* to function successfully in society?
- Given these standards, *what is their connection to public life?* In other words, what are the *civic implications* of these corporate moral and ethical considerations?
- In your view, *what are the most potent methods for influencing corporate practice* whereby institutional investors assert their beliefs about corporate behavior and civic virtue?
- In your view, *what are the most effective methods for knowing and acting upon institutional investors' public moral value and ethical concerns?*
- Please design a scenario or hypothetical case example that illustrates your responses to these questions.

I realize that some questions may be easier to answer than others -- please just give it your best shot. I look forward to interviewing you on 2 January 1991 at 3:30 p.m.,

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your time. If that is a problem, please call me at (617) 547 7479 or 287 6800. In the meantime, thank you again -- and have a Happy New Year.

With every good wish,

Marcy Murninghan

Marcy Murninghan
Senior Associate

economic and moral values into forms of ownership being created within some of the so-called emerging demócracies.

Taken together, these propositions -- if properly treated -- would be enough for a longer manuscript or even a book. That is a goal down the road. For the moment, I will be looking at the implications for corporations of powerful owner-generated tactics which are aimed at increasing compliance with certain public moral and ethical standards. These tactics, particularly as carried out by institutional investors, have the potential for greatly influencing corporate decisionmakers -- who constitute a prime audience of *HBR* readers.

Underlying these propositions is the fact that we now live in a world wherein most corporations are owned by major institutional investors. Many of these investors have a legitimate stake in quality of life issues as well as positive rates of return. In particular, public and private pension funds exist to provide their beneficiaries with the opportunity for a decent standard of living. Defining what this means includes qualitative elements -- such as the requirements for a decent, good society -- and is not merely a question of actuarial tables and cash flow requirements.

Put another way, the quality of life is not very positive if, in addition to receiving a check every month, one is suffocating because of air pollution or is a victim of an increasingly illiterate society.

Pension funds represent a terrific example of the need to develop social responsibility standards because the defined benefit aspect of their make-up provides a concrete measure for performance: One can achieve financial targets while also aiming for public moral value standards. South Africa aside (at least in this country), this is territory that continues to evolve.

Given the fact that pension funds represent such a sizable portion of the total investor universe -- as well as roughly one-half of all institutional investors -- one could argue persuasively that the long-term interest of pension funds are tied the long-term interests of American society. Further, one could maintain that other institutional investors -- such as colleges and universities, foundations and charitable organizations, trade unions, and religious groups -- have a similar stake in the future. While they may lack the clean financial targets possessed by certain pension funds, the notion of "a good society" is central to their institutional missions. In other words, a similar case could be made for the legitimacy of public moral value or ethical premises that accompany the commercial premises of indirect -- that is, stock -- ownership.

Given this framework I and your interest and writings with respect to the issues

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23 November 1990

Sir Adrian Cadbury
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27 NOV 1990

Dear Sir Adrian:

Robert Monks told me of your possible interest in being interviewed by telephone in connection with an article on the ethics of corporate ownership I am writing for the *Harvard Business Review* and asked me to get in touch with you. This letter provides some background with respect to the piece and is a request, if you are agreeable, to schedule a time.

For the past several years I have worked on a number of projects in the area of values and economic decision-making. This summer I was asked to write an article for *HBR* on the topic of the ethics of corporate ownership. (I used to work for the current editor, Rosabeth Moss Kanter.) As part of my research, I am interviewing a select group of individuals, including you, if your schedule permits.

In this piece, which, among other things, will draw upon several kinds of work in the ethical investing arena, I will attempt to develop the following propositions:

- *Equity ownership carries with it certain responsibilities.*
- *These ownership responsibilities are grounded in certain economic and moral values.*
- *These economic and moral values serve as standards by which owners can assess a corporation's internal and external behavior.*
- *More efficient mechanisms and strategies for the owner-generated realization of economic and moral values need to be developed.*
- *We are likely to witness -- and have much to learn from -- the integration of*

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treated, I would like to interview you by telephone, asking a series of questions about ethical responsibilities of ownership. The structured interviews take about one hour and are taped -- I am asking everyone the same series of questions.

I will try to reach you in the near future to see if you are agreeable and, if so, will schedule a suitable time -- ideally for me, before the holidays. I look forward to speaking with you.

With every good wish,

Marcy Murninghan
Senior Associate