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SHOWING A STRONG FRONT: CORPORATE SOCIAL REPORTING AND THE 'BUSINESS CASE' IN BRITAIN, 1914-1919

Abstract: It is generally asserted that corporate social reporting (CSR) is a phenomenon of the late 20th century. The present paper contests this view by looking at the ways in which British companies reacted to the challenges they faced during the First World War, when they were exposed to charges of profiteering, as well as to industrial unrest and high taxation. The paper considers the use of the speeches made by chairmen at annual general meetings to refute these charges and defend themselves. It considers the relevance of these findings for contemporary social reporting, and suggests that investigation of the history of CSR is likely to show further examples of its use by companies to put forward "the business case".

INTRODUCTION

A wide array of modes of corporate reporting is currently deployed by large companies worldwide in a variety of media – in newspapers, and magazines, in dedicated reports, on the Web, on video. They run the spectrum from heavily regulated disclosures in the form of audited financial statements to what has been described as "advocacy advertising"[1] [Sethi, 1977; Milne, 2002; Milne and Patten, 2002]. Somewhere in between fall a variety of reports on corporate social responsibility, envi-

[1] Milne [2002, p. 374] defines this as "a deliberate attempt on the part of the corporation to present a point of view about a major public issue".

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ronmental performance, contribution to employee well-being and so on, containing varying proportions of quantified, audited statements, narrative, diagrams and pictures. Like the financial reports, they are addressed to shareholders and to the public and intended to convey information about the company's performance and prospects, but, unlike the financial reports, they are voluntary and their content is not regulated.

The present paper examines an episode in the history of corporate reporting – the extent and nature of the voluntary disclosures made by limited companies in Great Britain during the First World War and the beginning of readjustment immediately after the war. They are, it is suggested here, of some interest for what they have to say about the relationship between limited companies, their shareholders and society at large in that period, and also about the role then and now of corporate social reporting. The evidence offered here is potentially part of a continuing history of corporate reporting, and one of the intentions of the paper is to encourage further research to track the extent to which companies – in Britain and elsewhere – made disclosures of this kind both prior to and after the episode outlined here.

The paper begins by outlining the role of the annual general meeting (AGM) in the period under review, and the issues which were of particular importance to limited companies during the First World War. It goes on to review the treatment of these issues in the speeches made by company chairmen and senior directors at wartime AGMs, and considers the relationship between this form of communication and the role and content of what is now known as corporate social reporting.

CORPORATE REPORTING – THE ROLE OF THE AGM

Britain in the mid-19th century has been described by Cottrell [1980, p. 41] as having "the most permissive commercial law in Europe", and the Companies Acts of 1900 and 1907 did little to impose restrictions. The amount of accounting disclosure required in the early 20th century was minimal. Companies had to produce an audited balance sheet, but the publication of a profit and loss account (which did not have to be audited) was not a requirement until the Companies Act of 1929, so the figures for sales and operating profit need not have been, and generally were not, disclosed. To make the year's position even more opaque, companies had discretion over the amount of depreciation they charged, which tended to vary in response to the amount of profit they wanted to abate rather than the wear and tear on assets, and they could also hide substantial amounts of profit in provisions, e.g. for taxation, which melted into an undifferentiated figure for current liabilities on the balance sheet. Apart from the dividends that were paid out, there was little hard information about the year's financial performance, and the fact that the current year's dividends could be paid out of the preceding years' profits did not increase the clarity of the picture.[2]

There were complaints about this situation – from shareholders and from Members of Parliament – from the late 19th century onwards. One important counter from supporters of the permissive status quo was to remind critics that limited companies in Britain were required to hold an annual general meeting. At the AGM, which all voting shareholders could attend, the directors were required to make a statement about the company's financial performance, obtain the shareholders' approval of the dividend and the appointment of directors and auditors, and answer questions about their stewardship of the company's assets. The limited company, it was frequently argued, was the product of a contract between directors and shareholders; if shareholders were unhappy or curious, the AGM was the forum in which they could exercise their rights as individuals to the information and explanations which they needed. It was therefore a key element of corporate governance, the place where the deficiencies of the financial statements could be made good. Britain did not need accounting disclosure to be legally mandated, it was claimed, as shareholders had remedies – they could sack the directors or sell their shares – if they were not happy with the information they could obtain at the AGM.

The AGM attracted press coverage on a greater scale than do comparable events today. They were reported at length in local newspapers; for instance the Sheffield *Daily Independent* devoted half or three quarters of a broadsheet page to the AGMs of large local companies such as Hadfields, John Brown or Vickers. Often they were covered in national papers as well, and in weekly journals – for instance companies could and did pay

[2] It is of course still possible for a British company to pay dividends out of previous years' reserves – but the requirement to produce a detailed analysis of reserve movements means that it is now possible for the reader of the accounts to be aware that this has happened. If reserve movements are not charted, dividends are the only indication of profitability available, and may not be a safe guide to current profits.

to have their AGM reported in *The Economist*. *The Times* reported AGMs more or less daily. They were of interest because of their potential to disclose information about the company which could not be deduced from the financial statements themselves – a major part of the company's attempt to present itself to the world.

The present paper examines the role of the AGM during the First World War, a period when British companies were exposed to a series of problems and criticisms that were largely new to them. In Cronin's words, "the impact of the war upon workers, employers and the state was extremely contradictory" [Cronin, 1991, p. 67]. This contradiction set up tensions which were expressed in many ways by the parties involved – for instance by strike action, political campaigning, and legislation. The following sections of this paper outline some of these tensions as they affected businesses, before looking at their expression via the AGM.

THE ISSUES FOR BUSINESS, 1914-1919

E.M.H. Lloyd, who worked in the Ministry of Food during the war, said that there were two phrases that were repeated "many hundreds of times" by his colleagues: "Every private interest must be subordinated to the successful prosecution of the war" and "There must be as little interference as possible with the normal channels of trade" [Lloyd, 1924, p. 259]. There is a tension between the two slogans, which is apparent in the issues that preoccupied companies during the war.

The same dichotomy is more forcefully suggested by two cartoons which appeared in the issue of *Punch* dated 5 April 1916. A full-page cartoon [p. 233] depicted a bleak hillside with a gallows, the noose swinging in stormy wind. The caption read "FOR TRAITORS" and below "A WARNING TO PROMOTERS OF STRIKES IN WAR-TIME". On p. 235, a half-page cartoon showed a slightly shabby middle-class man and woman on a London street, peering at a large chauffeur-driven car with an elegantly-dressed couple in the back. The caption read:

> "*She* 'Good gracious! The Brown-Smiths!! I thought they were so poor'.
>
> *He* 'Yes. But, you see, he's been supplying the Government with shells for quite a fortnight!'"

The conflict between private interests – of workers, employers and shareholders – and the interest of the government engaged feelings at various levels. There was a desire on all sides to be seen as serving the national interest and a readily-deployed sense of public indignation if any of the parties involved appeared to be putting its own welfare first. But there was also a strong sense among those contributing to the war effort that national service should not be used as an excuse for exploitation. The present paper will explore one aspect of this conflict – the need for limited companies to report wartime profitability whilst avoiding the stigma of exploitation, and the use of reporting at the AGM in reconciling the two objectives.

Some wartime AGMs did not address this issue – the directors briefly announced the dividend, presided over the votes, and then adjourned for lunch or tea. Shareholders often had little or nothing to say beyond approving the dividend and the reappointment of the directors. But newspaper and journal reports show that there were also numerous AGMs which were, if not a forum for debate, at least a platform for the directors to express their views and make their case on a wide range of topics. The following section of the paper identifies the main areas of controversy in wartime, before the nature of the corporate response to them is discussed.

Four issues appear to have been of particular concern for business during the War. These were the impact of government controls, the altered basis of taxation of profits, the relationship between employers and labor, and the negative public perception of business behavior, summarized in the charge of "profiteering" that was leveled for much of the War. Cronin [1991, p. 68] identifies "a decisive reorientation in the relationship between businesses and the state", and the more important elements of this reorientation are now described.

Government Intervention: One of the major changes brought about by the war was the advancing tide – albeit unevenly advancing – of government intervention and regulation. In 1915 there were 27 government committees dealing with issues of trade, industry and finance, by 1918 there were 107 [Hewins Archive, 95/2/2 and 95/2/15]. In munitions, the government directed 3.4 million workers, either directly or in controlled privately–owned establishments. The coal mines were virtually nationalized after 1917. The government set both prices and wages. By the end of the war it had "direct charge of shipping, railways and canal transport: it purchased about 90% of the imports and marketed over 80% of the food consumed at home" [Pollard, 1983, p. 22]. All these changes happened piecemeal, in response to perceived needs, rather than as part of a grand strategy by the British government, but they were unprecedented in the way they interfered with the autonomy of limited companies.

Taxation: Prior to the war, there had been no tax on businesses, as distinct from taxation of the individuals owning them. Limited companies acted as "holding agents" [Daunton, 1996, p. 898], deducting income tax from dividends, but were not in themselves "taxable entities" [ibid]. The British government's response to the costs of war had two major effects on taxation. The level of income tax exemption was reduced in 1915/16, leading to a massive increase in the number of taxpayers – from 1.2 million in 1913/14 to 3.5 million in 1918/19 [Daunton, 1996, p. 88]. Secondly, in 1915, Excess Profit Duty (EPD) was introduced. This was a "hybrid" [Hicks et al., 1941, p. 7] in that businesses could elect to be taxed either on the return on capital employed in excess of a statutory rate (six per cent for companies) or on the excess of wartime profits over the average peacetime profit for the three years preceding the war [Daunton, 2002, p. 56]. The rate of EPD rose in stages from 50 per cent when it was introduced to 80 per cent in January 1917 [Hicks et al., 1941, p. 78].

Labor Relations: Business agreement to the principle of EPD was expressed in March 1915, during the Treasury Conference, which was attended by government, trades union and employer representatives. Lloyd George called for "an understanding with regard to the limitation of profits" and "an understanding of course that the works will be completely under the control of the State" [*History of the Ministry of Munitions* Vol. II, 1922, p. 83]. In return, "the other side of the bargain" [ibid.] was agreement by the trades unions that there would be no strikes and that trades union working practice restrictions would be removed during the war. The "bargain" was part of the Treasury Agreement of 1915 that resulted from the Conference, but it was soon reinforced in legislation – the 1915 Munitions of War Act. This ratified the Treasury Agreement, and also required the acceptance by employees of dilution (opening skilled work to unskilled men, women and boys) and of restrictions on overtime.

Reactions to Change: A number of commentators have regarded the "bargain" of 1915 as a victory for employers, such that

Askwith, the government's chief industrial negotiator, saw the danger of its "appearing as the mouthpiece of the employers" [quoted in Middlemas, 1979, p. 73]. The President of the Board of Trade, Runciman, described the employers in March 1915 as "not at all in a bad humour" [Wigley, 1976, p. 101]. The reason for their alleged good mood was what Middlemas [1979, p. 73] calls the government's "curiously business-oriented sensitivity on the question of profits". The terms given to them were "generous" [Wigley, 1976, p. 101]; the choice of tax base meant that companies making a low profit immediately before the war could choose to be taxed on the excess return on capital employed rather than on the increased profit. Meanwhile, the trades unions faced restrictions that "pleased no one" [Wigley, 1976, p. 101].

Certainly labor relations reflected workers' unhappiness. They were limited in their ability to take industrial action, and to move from one job to another. Dilution created conflicts between skilled and unskilled workers, and employers and managers had acquired new powers. A series of major strikes reflected this dissatisfaction – among others these took place in South Wales and on Clydeside in 1915, in Sheffield and again on Clydeside in 1916 and countrywide among engineering workers in 1917. But there were other reasons for discontent. One, as noted above, was the extension of income tax to working men who had never previously fallen within its scope. The other was more prevalent and therefore more significant: "The inflation of food and other basic commodity prices (especially coal) was the cause of a much more intense and widespread feeling of working-class 'unfairness'" [Waites, 1987, p. 223].

According to the Ministry of Food, prices of principal foods in July 1918 were more than twice their July 1914 level [*Times,* 25 November 1918]. The Commissioners charged with investigating industrial unrest in North-East England concluded that "food prices are the most general cause of unrest", but they noted that the sense of "actual hardship" was combined with "the belief that prices are enhanced not only by scarcity but also by profiteering" [quotation from their report in *The Times*, 1 August 1917]. This wider concern – indignation about profiteering- will be reviewed in the following section of the paper.

Profiteering: The belief that businesses were using shortages and government demand to fix abnormally high prices was not confined to those who suffered hardship because food was dear. Nor was the accusation levied solely against food manufacturers and vendors. The accusers and their targets were far more widespread.

Searle [1987, pp. 289-298] discusses the extent to which the attack on profiteering was taken up by a variety of political persuasions. Socialists, of course, saw it as an inevitable by-product of capitalism. For traditionalist Tories, it represented the decline of the aristocracy and the rise of a plutocracy – "the hard-faced men who look as though they had done very well out of the war" [Masterson, n.d., p. 140]. Liberals saw profiteers as the enemy of the middle-class (like the shabby couple in the *Punch* cartoon quoted above) and for right-wing Radicals, they were traitors "playing the game of the Hun" [Searle, 1987, p. 293].[3]

The notion of profiteering was, therefore, one that drew attention and hostility on all sides; the issue that gave more scope for debate was that of its identification in business practice. This has attracted the attention of a number of historians. Studies of business performance generally [Boswell and Johns, 1982], of shipping profits [Arnold, 1991; Napier, 1991; Arnold, 1997] and of armaments profits [Arnold, 1998] have made it clear that by no means all businesses made unfair profits. Certainly shipping companies, for instance, did in some cases make large profits, but the effect of wartime business was "highly variable" [Arnold, 1991, p. 339] and must be set off against high levels of commercial risk because of the danger of losing vessels [ibid., p. 351; Napier, 1991, p. 330]. In addition, inflation had a major effect; after adjusting for inflation, the profits of armaments firms were in fact lower between 1915 and 1919 than from 1910 to 1914, "an early and poorly acknowledged example of money illusion" [Arnold, 1998, p. 314]. In a wide-ranging survey, Boswell and Johns find that business behavior covered the spectrum from blatant profiteering [Boswell and Johns, 1982, pp. 428, 431] to efforts to save the government's money [op.cit., p. 432].

There was, however, evidence that persuaded the contemporary public that profiteering was going on. Overall, ordinary dividends showed an increase.

[3] As an illustration of Searle's contention, see for instance *The Times* of 15 June 1917 which reported both an attack by the National Transport Workers' Federation on "the unwillingness of shipping interests to make a fair deal", and also the claim of a committee of Unionist MPs to have "unmistakable evidence" of profiteering "on the part of big firms as well as small".

TABLE 1

Ordinary Dividends of British Companies

July-June	Average Ordinary Dividend Rate (%)
08/09	6.3
09/10	6.8
10/11	8.0
11/12	8.7
12/13	9.7
13/14	10.4
14/15	9.1
15/16	10.4
16/17	10.2
17/18	10.5
18/19	11.0

Source: *The Economist*, July 1919 [quoted in Waites, 1987, p. 100].

These figures were an average which took account of some drops in profitability (e.g. trams, gas supply), but it was the rise in the average that could be used to support the claim that wartime emergencies were being used to boost profits. And, more specifically, there were individual companies that were demonstrably making vastly increased profits. Spillers and Bakers, the flour millers, increased their profits from £89,000 in 1913 to £368,000 in 1915. This was reported in Parliament and led to angry protests:

> Mr. T Healy (Cork, NE, Nat.) – What we want to know is how long this gang will be allowed to sweat the faces of the poor whilst the common people are giving their blood for the country. (Cheers)
>
> Mr. Crooks (Woolwich, Lab.) – When are the Government Departments going to cease apologizing for robbery? [*Times*, 30 April 1915].

Shipping profits attracted similar indignation. They were taken at face value, ignoring the reservations suggested above by Arnold and Napier. *The Economist* commented that "No business has done better out of the war" [6 November 1915] and Asquith called the behavior of shipping contractors "disgusting" [Masterson, n.d., p. 143].

Claims of profiteering persisted throughout the war for a number of reasons. There was indeed evidence that some businesses were making unfair profits in their dealings with the government and/or the public, as noted by Boswell and Johns. Searle, however, comments that profiteering was not discussed "within a strictly economic frame of reference". It was perceived that "something was happening which 'offended public opinion or damaged civilian morale'" [1987, p. 287, quoting Boswell and Johns]. The combination of high prices, large dividends and scandals such as Spillers created public sensitivity about business profits in general. There was an anxiety that businesses were transgressing moral limits and the public wanted political intervention.

The result of the changes outlined above – in the relationship of businesses with government, with workers and with the public at large – was that companies needed to renegotiate and redefine their position. They could not count on social acceptance; they needed to make the case for the way they carried on their business. In addition, despite the claims noted above that businessmen were largely happy with the settlement outlined by the Treasury Agreement; it can be argued that not all the wartime changes were satisfactory for them. Indeed, it will be suggested below that many businessmen felt increasing concern that their position was deteriorating, and that they needed to ward off threats to their present security and future survival. The following section of the paper outlines the corporate response to wartime change, as it was expressed via the AGM.

CORPORATE RESPONSE

Companies found themselves in a significantly changed environment. Despite the claims quoted earlier that they had been favorably treated, they were exposed to government intervention and public criticism. Labor problems, although not as severe as in the years immediately before the war, were still a threat.[4] The "widespread belief that businessmen were profiting tremendously during the war and that government intervention consistently favoured the interests of employers" [Cronin, 1991, p. 69] meant that companies needed to protect their public image and their interests. This section of the paper reviews the disclosures made at AGMs in pursuit of this aim.

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[4] Employers' inability to undertake wage bargaining could entail government-imposed settlements in case of a dispute, and shop-stewards' committees had a growing influence in organising and representing workers [Middlemas, 1979, p. 113].

More companies published their AGM reports than before – between 1914 and 1919 the numbers who paid to have their reports published in *The Economist* increased from fewer than 400 to well over 500.[5] They used the platform provided by the AGM to make voluntary disclosures in a variety of ways – partly defensively, to protect and enhance their own image, but also polemically, to attack their critics and those who seemed to be threatening their position.

Contribution to the War Effort: The most popular defensive tactic of companies was to enumerate the direct contributions they were making to the war, in terms of the men who had left them to join the army and the levels of casualties. By May 1915, the Royal Mail Steam Packet Company (RMSP) reported that it had more than 1,000 men in the forces [*Times*, 13 May 1915]. Shell had 300 and announced to cheers at the 1915 AGM that it had opened a rifle range in the head office basement "to give some practice to those who have been unable to go to the front" [*Times*, 23 June 1915]. The Chairman of Spillers read out the names of the employees who had died on active service. His use of this tactic was rather sardonically noted by *The Economist:* "Directors set forth the number of employees already killed, wounded or missing, as if the patriotism of their servants were a set-off to the abnormal profits they are making out of 'war bread'" [1 May 1915, p. 851]. Many firms could also point out the support they were giving to wives and families, for instance by topping up ex-employees' army pay to the level of standard wages.[6]

Profiteering and EPD: The main area where companies felt the need to defend themselves was the accusation of profiteering. There were various strategies for countering this, and all were deployed. One approach was selflessly to welcome EPD as a necessary sacrifice in the national interest. Lord Inchcape, the Chairman of P&O, declared in December 1915 that "no sacrifice

[5] Stock Exchange restrictions on new issues in wartime make it likely that the majority of these additional reports were placed by existing, rather than by new, companies.

[6] For other examples of this theme, see, among others, Sutherland Steamship Co [*Times*, 6 May 1915], Shell [*Times*, 23 June 1915], Barclay Perkins [*Times*, 13 July 1915], Workington Iron and Steel [*Times*, 8 August 1915], Dorman Long [*Times*, 13 April 1916], Furness Withy [*Times*, 31 July 1916 and 26 October 1918], and Elder Dempster [*Times*, 25 May 1917].

is too great to secure that victory without which life would be intolerable" [*Times*, 9 December 1915]. He slightly spoiled the effect by noting in the next paragraph that "it is not in the interests of the country to withdraw large sums from earning taxable revenue". Company chairmen had to tread a fine line if they were to make the case against handing over large amounts of revenue without appearing to be unpatriotically greedy.

One way of doing this was to agree that they had indeed made large profits, but that these were not from the war.[7] Furness Withy, the shipping company, asserted that their profit came not from food freight to Britain, but from foreign trade and luxury goods [*Economist*, 1917, p. 173]. Another approach was to admit that one's company was making profits from the war, but to point out that other companies were making more Armstrong Whitworth observed in 1918 that "as patriotic taxpayers we did not complain, but we cannot help noticing that other industries have . . . made and distributed profits which compare very favourably with the results we have been able to show" [*Economist*, 1918, p. 375]. John Brown (whose 1915 dividend was 50% higher than its 50-year average) had a two-part defense: firstly, they had to make hay while the sun shone. Their Chairman, Lord Aberconway, pointed out in 1915 that after the war "it might be years before any of the armament firms got an order". Besides, it was unfair to pick on them. He pointed to the Army contractors for "flour, meat, clothing, boots, tinned provisions, jam, fodder . . . etc . . . Why, those firms would be making far larger relative profits than armament firms, and when the war was over, far from being cast out into the streets they would go on making money" [*Times*, 30 June 1915].

As noted above, a number of researchers have questioned the extent of profiteering, in view of the risk incurred by certain companies and the impact of inflation, as well as the efforts that some made to restrict their profits. Their findings do not deny that profiteering took place, but encourage the thought that at least some companies might have supported their defense by publishing detailed financial reports. This they did not do. Some did not produce accounts for a number of years on the ground of confidentiality, for instance Vickers between 1915 and 1918 [*Times*, 9 October 1918], or delays in settling government ac-

[7] See Humber Ltd and Castner-Kellner Alkali Ltd [both *Times*, 25 November 1915], Harrison and Crosfield [*Economist*, 1917, pp. 669-671] and Dunlop Rubber Ltd [*Economist*, 1917, p. 107] for a similar contention.

counts – Armstrong Whitworth in 1916 and 1917 [*Times*, 19 September 1918].[8]

Many others offered the amount of detail – i.e. scanty – which was required by the 1907 Companies Act. P&O, one of the shipping companies with hugely increased profits, cut back its disclosure. It reduced its financial statements from 13 pages pre-war to nine in 1915, and its profit and loss account was "simplified to a point at which figures cease to have much significance" [*Economist*, 1915, p. 928]. By 1917, the journal was severely critical: P&O's profit and loss account information had been "suppressed" in a way that was "a serious abuse of the confidence of shareholders and . . . a bad example to be set by a respectable company" [*Economist*, 1917, p. 912]. Lord Inchcape told the P&O shareholders he had no intention of "publishing your private affairs to the world" when rival shipping companies in neutral countries "who have been coining money during the war" could steal a march by reading them [*Times*, 5 December 1915]. The Cairn shipping line simply declined to give any indication of its profits [*Times*, 12 September 1918]. Spillers, who quadrupled their profits in the flour business, made a similar excuse to P&O's in 1915 [*Times*, 3 May 1915]. Whatever strategy British companies adopted to counter accusations of unfair trading, they did not intend to go into detail about their results. They preferred to treat profit and loss data as confidential and adopt other strategies to ward off press and political criticism.

The other measure adopted by companies in the face of criticism and intervention was to go on the offensive, and put forward their own agenda as well as react to that of government and other commentators. This counter-attack took a number of forms, and was directed against both taxation and other forms of government intervention. P&O were not alone in pointing to the foreign threat. The point was often made that competitors in Germany or in neutral companies were either taxed at a lower rate or not at all on profits. EPD would damage the chances of British firms after the war by leaving them worse off than their rivals. Shipping companies advanced this argument repeatedly,[9] but industrialists also invoked the postwar German menace; the

[8] United Alkali Co Ltd was also delayed [*Economist*, 1917, p. 707], and Curtis and Henry were unable to produce their 1916 accounts until after their 1917 ones because of similar problems [*Times*, 26 April 1918].

[9] Among them Orient [*Times*, 22 December 1915 and 30 January 1918], King Line [*Times*, 29 March 1916], Mitre [*Times*, 12 December 1917], Anchor Line [*Economist*, 1917, pp. 127-128], and Lamport and Holt [*Times*, 12 April 1918].

Chairman of British Westinghouse asserted that "there had been no more enthusiastic advocates (of the war) than the heads of the great German industries and financial establishments" [*Economist*, 1917, p. 748]. Bradford Dyers [*Economist*, 1917, pp. 440-444] made similar points. This was closely allied to the argument that EPD was liable to damage post-war prospects because it prevented the accumulation of reserves – as claimed for instance by Pearson and Knowles [*Times*, 1 October 1915], Spillers and Bakers [*Times*, 8 May 1916], and RMSP [*Times*, 7 June 1917]. Implicit in these arguments was the assertion that wartime profits were not "excess" – they were a fair reward for productivity and the government should not handicap industry by appropriating them.

EPD was also invoked in connection with two other challenging issues – labor relations and government control of business – and these are discussed below.

Labor Relations: Companies made frequent reference to the relationship between employers and workers. This was often positive; chairmen stressed the excellent attitude of employees and the good spirit prevailing in the factory. There were also confident appeals for further co-operation. The Chairman of John Knight Ltd called for labor and capital to work "hand in hand" [*Times,* 23 February 1918], and the Chairman of Crossley Bros Ltd stressed that "we must all pull together" [*Times,* 28 February 1918].[10] Linked to this was an emphasis on the benefits conferred on the employees. Lord Aberconway pointed out in 1919 that over the last ten years the Tredegar Iron and Coal Company Ltd had paid £10 million in wages and £700,000 in dividends [*Economist*, 1919, p. 64]. In the same year Lord Lever enumerated the welfare provision for Lever Bros employees – housing, bank accounts, a six-hour working day and so on [*Economist*, 1919, p. 529]. "Industrial peace" was achieved, on this basis, by the efforts of management.

But a number of chairmen went on to make a contrast between the improvement in workers' conditions and the reduction in profits caused by EPD – for instance Charles Allen of Ebbw Vale Steel Iron and Coal remarked that "while opportunities for making profits are strictly limited, there appears to be no boundary to that golden, rosy horizon of advancement of

[10] See also e.g. Shell [*Times,* 23 June 1915], Dennis Bros Ltd [*Times*, 23 November 1915], Thomas Wallis [*Times*, 28 February 1918], among others.

wages for the men" [*Times*, 30 June 1916]. Similar contrasts were drawn at Bolckow Vaughan [*Times*, 30 September 1915] – "of these prices the wage-earners are getting a larger proportion than they have ever done before"– and by the Tredegar Iron and Coal Company Ltd [*Times*, 1 July 1916 and 2 July 1917]. As the war continued, criticism of labor became more severe, particularly in the coal industry. The Chairman of Pease & Partners said in 1919 that he did not think that the miners had been "playing the game since the mines were controlled by the government" [*Economist*, 1919 p. 1095]. In the same year, the Chairman of Ebbw Vale lamented that the attitude of labor "grows worse day by day" and thought that, unless labor leaders learned "a soberer, clearer and saner view", Bolshevism would take industry "down into the nethermost pit" [*Economist*, 1919, pp. 152-153]. According to Aberconway at the Sheepbridge AGM, "a microbe of unrest and extravagance" had infected the British people [*Economist*, 1919, p. 511].

Business and Government: Company chairmen, as noted above, stressed their willingness to co-operate in the national effort, by paying EPD (despite the problems it created), and promoting industrial peace (despite the demands made by labor). But they frequently referred to the difficulties they faced in working with government – which were attributed to the lack of government understanding of industry and commerce. Senior businessmen held many government posts during the war. "The Ministry of Munitions was from first to last a business-man organisation" [Lloyd George, quoted by Searle, 1987, p. 275]; more than 90 company directors and managers were employed there. The cabinet included a swathe of "businessmen-cum-ministers" [Searle, 1987, p. 276], and, at local level, the District Armaments Committees overseeing production were primarily made up of businessmen [Cronin, 1991, p. 68].

Despite this influx the problem was often argued to be the refusal of the British government to pay attention to the needs of British industry. The Chairman of the Sheffield steelmakers Hadfields Ltd pointed out in 1916 that "there was not a single representative of technical business men in the government", whereas "the head of Krupps had for ten years reported every fortnight to the head of the German Empire as to the progress of his work at Essen" [*Sheffield Daily Independent*, 25 March 1916]. The same point was taken up by the Chairman of Workington Iron and Steel who contrasted the "pampered and petted" status of Krupps with the treatment of British iron and steel manufacturers. [*Times*, 2 September 1916]. There was a continuing strand of criticism of what was called the "hydra-headed system of bureaucracy" [Chairman of the Salt Union, *Economist*, 1917, p. 558] which impeded business efficiency, and of inappropriate government appointments – e.g. "Lord Rhondda knows all about coal so he is placed at the head of the Food Control. Sir Eric Geddes knows all about railways therefore he is placed in command of naval affairs" [Chairman of Lennards, *Economist*, 1919, p. 191]. Dudley Docker, the Chairman of Metropolitan Carriage, Wagon and Finance appealed in 1916 "For Heaven's sake, let us see to it that in matters we <u>do</u> know something about, our industries, our financial institutions and so forth, we keep the politicians at a respectful distance" [Davenport-Hines, 1984, p. 109].[11]

Lord Inchcape of P&O claimed in a letter to the *Times* [28 December 1918] that "no man of any account in business ever uttered a word of complaint about government control during hostilities". This seems to overlook an increasingly aggressive strain in the comments made on the government's control. The Chairman of Moor Line attacked "pretentious gentlemen who have no trace of commercial experience" [*Times*, 2 March 1917] and Robert Mond of Mond Nickel complained of suffering "immense difficulties . . . by reason of Government restriction" [*Times*, 27 September 1918]. As the war continued, and the tax rate went up, the declared attitude to EPD changed from acceptance to savage criticism. In 1918 it was "vicious in the extreme" [Inchcape, *Economist*, 1918, p. 814]; by 1919 Lord Lever was calling it "an assassin's blow" to industry and shipping [*Economist*, 1919, p. 529]. The Chairman of Peek Bros Winch, Ltd, a food retailer, described businessmen as "toads under the harrow" of the government, and food controls as "a crime against the public and especially the poor" [*Times*, 3 January 1918].

This kind of polemic, like the warnings of labor Bolshevism, suggests that at least some business leaders were no longer in the good humour they enjoyed after the 1915 Treasury Conference. If businesses could not find helpful support from the government, they needed to obtain it elsewhere, and the following sections of the paper consider some evidence for this search for support.

Representatives of the Shareholders: Part of the strategy for finding support was the corporate claim to being representative.

[11] See below for further details of Docker's contribution.

Repeatedly, chairmen stressed that they were looking after the interests of a large body of shareholders. In 1916, Lord Inchcape pointed out that P&O had 8,500 shareholders; ships, he said, were owned "not by a restricted class but by the people generally" [*Economist*, 1916, p. 1132]. The Fine Cotton Spinners Chairman quoted an average shareholding of £300 amongst its 30,000 shareholders; they represented "the hard-earned savings of really careful people". Mitre Shipping were "trustees for a vast body of shareholders" [*Economist*, 1918, p. 885]. In 1919, Mitchelson, Chairman of the mining company D. Davis, reminded the Sankey Commission that the "so-called coalowners" were in fact "many thousands of shareholders drawn from the entire community" [*Economist*, 1919, p. 452].[12] Limited companies were attempting to distance themselves from an elitist position – shareholding was open to "really careful people", not confined to the wealthy, and the company chairman could therefore speak to the government (and to refractory workers) in the interests of a large social group. It was also another means of countering the charge of profiteering – profits were earned, and dividends paid, for the common good.

Business Solidarity: As well as claims to representativeness, speeches at AGMs displayed solidarity within business: company chairmen spoke up in each other's defense. One aspect of this has already been discussed – the calls for government to take more account of business views and refrain from interference. Another reflection of solidarity was the expression of support for an organization founded during the war which became a major representative of British business, the Federation of British Industries (FBI), founded in 1916. The FBI was one of a number of employers' organizations set up during the war [Turner, 1984, pp. 39-49]; it had the advantage of being promoted by Dudley Docker, who was a leading businessman in the Midlands,[13] and supported by among others the chairmen of Vickers, Hadfields and Marconi. Docker used the 1917 AGM of Metropolitan Carriage, Wagon and Finance Co to stress the importance of the FBI – "the Federation will, and must, attract the attention of the Government when forming industrial regula-

[12] A point he also made at the company's AGM [*Times*, 13 March 1919].

[13] He was closely involved with Daimler and Birmingham Small Arms among others. Winston Churchill in 1918 invited his wife to accompany him to Birmingham to "see tanks and munitions workers . . . & Mr Dudley Docker" [Davenport-Hines, 1984, p. 93].

tion" [*Times*, 8 June 1917]. Similar themes were addressed at the AGMs of Birmingham Small Arms [*Times*, 10 August 1918], and Kynoch [*Times*, 18 October 1918]. Lord Inchcape told a businessmen's conference that "the mercantile community" must "show a strong front" to prevent the government from nationalizing "everything for all time" [*Times*, 10 May 1918].

Middlemas comments [1979, p. 112] that employers had "a growing awareness of the need to increase their political power in the second half of the war". Certainly the formation of the FBI appears to have been a political move. The FBI's attitude to the trades union movement "shifted from tentative co-operation to active aggression during 1917 and 1918" [Turner, 1984, p. 47], a transition that is echoed in the changing tone of AGM commentaries on labor relations. At the end of the war, the Conservative ministers of the Coalition government "could be heard consulting with the FBI on how to present more tactfully the bitter question of profiteering" [Middlemas, 1979, p. 131]. By 1919, the FBI was involved in setting up "an organisation for Anti-Bolshevik propaganda" which in 1920 was relaunched as National Propaganda, with a budget of £250,000 [Davenport-Hines, 1984, p. 130]. It pursued a course of attacking trade union militancy and the threat of nationalization, under the chairmanship of Lord Inchcape [Turner, 1984, p. 47; Middlemas, 1979, p. 132].

The attitudes and agenda of the FBI incorporated many of the issues raised in wartime and summarized above. The support it received[14] suggests that these issues were matters of general concern for businessmen, rather than the preoccupation of a small number of politically active company chairmen, an issue which will be discussed in more detail later in this paper.

Shareholders and the AGM: Before moving on to a discussion of these findings, it is relevant to say something about the other element of the AGM, which was the contribution made by shareholders**.** This was often limited, because shareholders' contribution to AGMs was normally to vote unanimously in favor of the acceptance of the accounts. There were occasionally shareholder objections; for instance Lipton's results in 1915, which were very poor, were the subject of lengthy discussion. The Vickers accounts of 1915, which were delayed by wartime conditions, gave rise to a few questions about poorly-performing bonds and

[14] 80 companies had joined the FBI within a month of its formation, rising to over 400 within a year [Davenport-Hines, 1984, p. 114].

about directors' commission, but also to congratulations from a satisfied shareholder [*Times*, 28 April 1915]. At the 1918 meeting of Dennis Bros Ltd [*Times*, 2 December 1918] there were a number of comments from a shareholder, but all were complimentary about the company's conservative accounting policies and the moderation of directors' salaries. In the same year, at the Dublin Steam Packet Co meeting, shareholders asked questions which were effectively compliments – "we have listened with great pleasure to the interesting account you have given us" [*Times*, 20 November 1918].

The AGM did not operate as a forum for discussion or public criticism of directors' achievements: what the directors said was a performance that was more or less entirely planned in advance as an expression of what they considered important. The coverage of issues such as labor relations and profiteering was not, therefore, a response to demand from shareholders; the audience being addressed included not only those present but also those who would subsequently read newspaper or journal reports of the AGM.

DISCUSSION

The preceding section of the paper has identified a number of issues which were frequently addressed at AGMs during and immediately after the Great War. These concerned the relationship between limited companies and the government, their employees, their foreign competitors, their shareholders and the public at large. Some of the discussions of these issues (in particular to do with the treatment of their employees on active service or in the workplace) were quantified; others were statements of principle. The tone varied from expressions of support and solidarity to severe criticism (of government and of employees), and comments became increasingly negative towards the end of the war. Examples were found in many industrial and service sectors, with some concentration by particular sectors on particular topics; EPD was markedly prominent in the shipping industry and labor relations in coalmining companies. There was also considerable overlap between the themes addressed by company chairmen and those taken up by the FBI on behalf of British industry in general. This section of the paper will consider the relationship between these findings and corporate social reporting as it is practiced, and discuss their contribution to current research on the factors encouraging companies to make social disclosures.

The History of Corporate Social Reporting: Sethi wrote [1995, p. 18] "The notion of corporate social responsibility . . . came into vogue almost 25 years ago [and] it almost simultaneously became an issue of general public concern. Its notoriety coincided with the rise of social activism in the United States". His statement represents an important element of much academic commentary on corporate social responsibility (CSR) – the belief that CSR came into being late in the 20th century, and that its adoption by companies was intrinsically linked with the development of changed social expectations about the performance of industry. The birth of CSR is often associated with the increasing importance of the stakeholder concept in corporate governance – the identification of groups whose interests the "business corporation can and should serve" [Preston and Sapienza, 1990 p. 361]. Their paper identifies the use of the concept in business and academic writing as early as 1943, and its "formal introduction" into management writing is placed in 1958, when Dill identified the four major sectors of the "task environment" as customers, suppliers, competitors and regulatory groups. [Preston and Sapienza, 1990, pp. 361-362]. The term, as opposed to the concept, was apparently first introduced in 1963 at the Stanford Research Institute, "to generalize the notion of stockholder as the only group to whom management need be responsive" [Sternberg, quoting Freeman, 1997, p. 3].

The notion that CSR developed in the wake of the stakeholder concept, coupled with new social demands on business that developed in and after the 1960s, underpins much contemporary writing about CSR. It is notable that many surveys endorse Sethi by covering the last 30-40 years of the 20th century as comprising the history of CSR For instance, Tinker et al begin their review [1991] in the mid-1960s,[15] and Mathews [1997] traces the study of CSR from 1970 onwards.[16] Gray [2002], in a recent review of the academic literature from the mid-1970s onwards, describes social accounting as "typically thought of as an activity (and a possibility) of emerging interest from about the mid- to late 1960s".

Gray qualifies this characterization by admitting that social accounting can be traced back to the beginning of the 20th century, and indeed that "it seems inevitable that the wider one

[15] Though they admit [1991, p. 31] that the critique of accounting may have had earlier roots.

[16] Similar comments are made by, for instance, Post and Andrews [in Preston, 1982, p. 1]; Patten [1992, p. 471] and Roberts [1992, p. 596].

draws the definition of social accounting, the wider the accounts it incorporates and the more ubiquitous and the deeper-rooted in history it becomes" [Gray, 2002]. He concedes that "there is much work to be done by social accountants on such issues" [ibid.]. There have been studies which look at CSR before the 1960s – e.g. Hogner [1982], Guthrie and Parker [1989], Adams and Harte [1998], and Unerman, [2000] – but the possibility that some form of CSR was being practiced before the 1960s has generally attracted little attention. Deegan, for instance, in an overview of "some of the research questions that can be pursued" in social and environmental reporting, identifies 13 actual or potential research areas - investigation of the historical development of CSR does not figure among them [Deegan, 2002, pp. 286-288].

History and an Understanding of CSR: The belief that "the development of social and environmental accounting and accountability practices is still in its infancy (for example, compared to the long historical practice of financial reporting)" [Deegan, 2002] is understandably widespread, given the focus of most academic studies. The present paper argues, however, that AGM disclosures 1914-1919 are part of the early history of CSR, and that this history has implications for a contemporary understanding of the practice.

There are a number of possible objections to this contention, related to the form and the content of the AGM reports. In relation to form, it is the case that the subject-matter of this paper has been taken from newspaper and journal reports of AGMs, whereas present-day CSR is directly produced by companies – via annual reports, separate CSR documentation etc. Are the CSR elements of wartime reports deliberately planned disclosures or simply those parts of AGM speeches that were selected by journalists as being particularly controversial? There are a number of reasons for rejecting the latter suggestion. When different publications report the same AGM very similar content appears, suggesting that reports were transcripts, rather than edited and angled versions of what was said. (The reports printed in *The Economist* were paid for by the relevant firm, which makes it unlikely that the journal exercised editorial control over their content).[17] The absence of CSR material from the

[17] For instance there are close resemblances between the reports of Armstrong Whitworth in *The Economist* [1918, pp. 374-377] and in *The Times* [19 September 1918], and between those of Boots in *The Economist* [1919, pp. 80-81] and in *The Times* [16 January 1919].

newspaper reports of a substantial number of AGMs is also evidence that published reports were not edited highlights of meetings. It appears that political, social and economic elements were reported when they occurred; speeches that were simply a commentary on financial results and prospects were recorded as such.

In relation to content, the statements made by senior businessmen fall largely into the category of CSR disclosure described by Gray et al [1995, p. 86] as "declarative" – their modern counterparts are categorized as "mission statements, statements of social responsibility and political statements" [Gray et al, 1995, p. 89]. There are some quantitative and monetary elements – e.g. the number of staff who had joined the forces, the amounts of tax/wages/benefits paid in the public interest – but the majority of the disclosures are narrative statements or political/economic arguments. The preponderance of qualitative material marks a difference from contemporary practice, and from contemporary attempts to find new methods of accounting for/quantifying activities, but the qualitative material is still a form of disclosure.

The objection might also be made that the disclosures made are simply self-expression by businessmen with strong political views, and that the content of the present paper is therefore anecdotal, rather than evidence of a general tendency amongst British businesses. The evidence offered can be supported in a number of ways. One aspect that deserves attention is the wide spread of companies making CSR disclosures. As noted above, companies in certain sectors placed particular stress on certain disclosures (shipping and EPD, mining and labor relations), but examples of such disclosures can be found among a wide spectrum of industries and trades – including armaments, iron and steel, food, textiles, chemicals, petroleum and rubber.

The topics that are covered, as noted earlier, fall into a limited number of categories, suggesting that there were certain concerns – about profits and taxation, labor relations, and government intervention – that preoccupied many businesses. The timing of disclosures also coincides – manpower contribution was a topic for the early part of the war; comments on EPD and labor relations became less positive as time wore on, again suggesting a shared point of view. Finally, the extent to which the FBI acted as a proponent of similar arguments suggests that these were shared by many businessmen who were ready to support an organization that would speak on their behalf.

The findings summarized in this paper are of interest for a number of reasons. They offer an insight into the publicly-expressed views of senior businessmen in a period where these were not widely recorded,[18] and they contribute towards an understanding of the history of CSR, which, as Gray [2002] points out, deserves further exploration. 1914-1919 was a period in which businesses were collectively exposed to a number of similar challenges. It was a stimulus for them to respond vehemently with a repertoire of similar arguments that are a striking case-study in CSR. This is not to suggest, however, that CSR was a product of the First World War in Britain which then went into abeyance until the 1970s. Maltby [2004] gives an overview of similar reporting strategies by a number of large manufacturing firms over the first three decades of the 20th century: there, again, different companies appear to have identified similar issues and applied similar arguments in countering them. As noted above, there have been a number of previous studies which look at CSR prior to the 1970s, but there is still a need to establish how widely CSR was practiced during – and indeed before – the 20th century, what social and political challenges appear to have prompted it and what arguments were adopted by companies in putting their case.

Why did company chairmen publicly express strong views on issues of taxation, labor relations and government control during the Great War? Contemporary writing about CSR offers a number of competing explanations for the activity, which may also be applied to the findings of the present paper. From the company's viewpoint, CSR may be seen as an attempt to communicate with an audience of stakeholders, inside and outside the firm. Certainly the examples offered above display management's desire to demonstrate patriotism, and to impress shareholders with their concern to promote profitability as far as was consistent with serving the national interest, but it is questionable how far management was communicating with workers as stakeholders. At some points, the management style was to treat the workforce as part of a team – at others, management was accusing workers of an unrealistic or a deliberately destructive attitude. Similarly, Maltby [2004, p. 431] quotes the managing director of Hadfields as treating working men as "colleagues" in a 1907 speech; in 1920, he inveighed against the danger of "red ruin" caused by their strikes. Workers appear to

[18] Boswell and Johns, [1982, p. 425] note the potential usefulness of company chairmen's speeches as a record of business attitudes.

have been treated as stakeholders only as long as they were co-operative.

Legitimacy theory suggests that companies report in order to demonstrate their adherence to social norms and expectations – they are reacting to external pressures [see for instance Deegan, 2002, pp. 282-311]. Political economy theory on the other hand regards CSR as proactive, "information provided from management's perspective designed to set and shape the agenda of debate" [Guthrie and Parker, 1989, p. 351].[19] Certainly, wartime reports attempted to demonstrate patriotism and selflessness – companies' contribution to the war effort via tax, manpower and charitable donations. To this extent, they were legitimizing themselves by allying themselves with the national spirit. But the vehemence with which many businessmen defended their position arguably goes beyond legitimating. Their attacks on government incompetence and trades union Bolshevism suggest that the disclosures made at AGMs were indeed an attempt to set, rather than observe, the agenda and to "show a strong front" to a potentially hostile public. In the same way, armaments manufacturers in the 1930s made the case that they were not self-interested warmongers but essential to national security [Maltby, 2004, pp. 433-434].

The AGM provided companies with an opportunity to advance "the business case" [Owen et al, 2001] using a medium that would enable them to communicate not only with shareholders but with the newspaper-reading public in general. As the environment changed – in wartime with the increasing level of EPD and growing problems in labor relations – the tone of AGM speeches became increasingly aggressive. Companies went beyond aligning themselves with national interests: they were making the case for their own values – for what Sir Robert Hadfield later called their "necessary and honourable service to the nation" [Maltby, 2004, p. 433]. This was achieved not only by recounting their own achievements but attacking those who criticized them or limited their freedom of action. Limited companies were not merely supporters of patriotic values; they presented themselves as embodying those values. When the Chairman of John Brown claimed that his company "were never encouraged by the government to do more than they had done; on the contrary they found themselves in advance of the govern-

[19] This is the interpretation placed by Unerman on the disclosures made by Shell 1950-1965, which commented on government behaviour and taxation as it affected the petrol industry.

ment demands" [*Economist*, 1915, pp. 22-23] he was doing more than legitimizing his company – he was presenting it as part of the vanguard of national security.

Recognition that CSR is not the product of a new ethos, but rather a continuing response to social and political challenges, offers scope for further exploration of the motives behind its adoption and the themes which management chooses to address. An investigation of the history of CSR has much to contribute not only to the discussion of modern CSR but to an understanding of the relationship between business and society.

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