
***Report for
Corporate governance &
Social Responsibility
Assignment 2 - Philanthropy***



April 2019

Module Name	Corporate Governance & Social Responsibility
Name	Ruiyang Liu (Young)
Student Number	1805198

Content

1. Executive Summary	1
2. Introduction.....	2
2.1 Business Background	2
2.2 John D. Rockefeller.....	2
2.3 Andrew Carnegie.....	2
2.4 Robber Barons.....	2
2.5 Captains of Industry	3
2.6 Philanthropist.....	3
3. Main Body	3
3.1 Stakeholders of Carnegie and Rockefeller	3
3.2 Evaluation Governance Issues and Challenges	4
3.2.1 Key Governance Practice and Issues	4
3.2.2 Modern Views to Governance Issues and Challenges	5
3.3 Philanthropic Activities	6
3.3.1 Rockefeller and Carnegie Charity Activities	6
3.3.2 Still Cannot Get Rid of the Robbers	7
3.3.3 Merits of Philanthropic Activities	8
3.4 Oxfam.....	9
3.4.1 What is Oxfam	9
3.4.2 Oxfam Scandal.....	9
3.4.3 How to prevent similar events from happening.....	10
4. Conclusion	10
5. Reference	11

1. Executive Summary

Nowadays, the United States is one of the most developed countries in the world, and this has a certain relationship with the large number of capitalists that emerged after the 1860s.

After the American Civil War, the sluggish economy and backward production were the best portrayal of the United States at that time. However, Standard Oil, founded by John Rockefeller, made kerosene lamps enter Americans families and illuminate the dark nights. Carnegie Steel, founded by Andrew Carnegie, made a number of buildings appear in the United States. The capitalists represented by Rockefeller and Carnegie have accumulated a lot of capital for themselves while promoting the development and progress of the United States.

In order to protect their own capital, Rockefeller and Carnegie began to squeeze the company's employees, control government officials, and gradually evolved into a robber baron. Their company also became a "trust", and the United States entered a monopoly era. Fortunately, as time went by, two robber barons gradually realized the importance of philanthropic activities and began to engage in philanthropic activities. With their solid capital, they became one of the most famous philanthropists in American history, but these could not change the identity of robber barons.

However, their philanthropic behavior has affected generation after generation of entrepreneurs, making them realize that philanthropic activities can increase corporate reputation, enable enterprises to undertake corporate social responsibility, and redistribute wealth. At the same time, there are some companies directly related to philanthropy, such as Oxfam. Although there are some scandals, Oxfam is still a philanthropic organization that people admire after strengthening management.

2. Introduction

2.1 Business Background

After the end of the American Civil War, the US map was in ruins and many things waited to be done. Both the manufacturing industry and the financial industry were in a state of chaos, and the United States urgently needed visionary leaders to lead the United States out of the woods (Guo, 2017).

2.2 John D. Rockefeller

John D. Rockefeller, born on July 8, 1839, is the founder of American Standard Oil. He is a famous American industrialist and philanthropist. He was the first billionaire in the 19th century and was known as the ‘king of oil’. Between 1870 and 1882, Rockefeller led Standard Oil to grow from a small company to the first monopoly in American history. After the anti-monopoly judgment and the separation of the standard oil company, Rockefeller devoted himself to charity to help the development of the US healthcare industry and the education industry (Wang, 2004).

2.3 Andrew Carnegie

Andrew Carnegie, born in Scotland in 1835, is the founder of Carnegie Steel. He is a famous American industrialist and philanthropist and has been hailed as the “king of steel” and the “father of American charity” by the world.

In 1892, Carnegie formed Carnegie Steel on the basis of Carnegie Brothers, and developed it into the largest steel company in the United States, which produced nearly 30% of the nation's steel sales. In 1901, Carnegie sold Carnegie Steel to Morgan and devoted himself to charity and established many libraries named after him (Andrew, 2014).

2.4 Robber Barons

The **robber barons** refer to financial capitalists who monopolize the market economy in a certain era due to weak regulation of policies. Robber barons are often used to describe American business tycoons at the end of the 19th century—for example, John

D. Rockefeller, Andrew Carnegie, and John Pierpont Morgan. They are cruel and ruthless businessmen who would stop at nothing to achieve great wealth. These "robber barons" were accused of exploiting workers and forcing horrible working conditions and unfair labor practices upon the laborer (James. 2003).

2.5 Captains of Industry

If the same powerful industrialist used his wealth to improve the lives of others or to bolster the economy in a positive way, he could just as easily be designated a **captain of industry** (Overbeeke, 2017).

2.6 Philanthropist

A **philanthropist** is a person who is enthusiastic about charity, often participates in charitable activities, and has outstanding contributions. They are willing to share all their personal resources and wealth with those in need in society (Aron, 2016).

3. Main Body

3.1 Stakeholders of Carnegie and Rockefeller

A stakeholder is defined as any person/group which can affect/be affected by the actions of a business. It includes employees, customers, suppliers, creditors and even the wider community and competitors. Edward Freeman (1984), the original proposer of the stakeholder theory, recognised it as an important element of Corporate Social Responsibility. Nowadays, some of the world's largest corporations claim to have CSR at the centre of their corporate strategy (Richter and Dow, 2017).

For Standard Oil and Carnegie Steel, their stakeholders are mainly composed of the following four parts:

- **Government:** The US government has introduced relevant laws and regulations that restrict corporate business practices and penalize violations.
- **Customers:** Customers buy goods produced by two companies.
- **Employees:** Employees are concerned about their work environment, working hours and income.

- **Shareholders:** Rockefeller and Carnegie are the largest shareholders at Standard Oil and Carnegie Steel. However, because it is a joint-stock company, the company also has other shareholders and they pay attention to the company's sales revenue.

3.2 Evaluation Governance Issues and Challenges

3.2.1 Key Governance Practice and Issues

- **Reduce manufacturing cost**

Before the 1970s, the US manufacturing industry had no difference in production and organization from traditional industries. From raw material processing to product output, all aspects were completed independently and there was no close connection between them.

Take the example of the US steel industry as an example. First, the iron ore is melted into pig iron in a molten iron furnace; then, the pig iron is rolled into iron bars and iron plates in a forging mill; finally, iron bars and iron plates are made into rails, nails, etc. in other factories. Each process is interrelated, but there is a middleman who earns the difference in profit between each process. The existence of these intermediaries greatly increases the cost of the product. Carnegie noticed this and soon he began implementing a vertically integrated management strategy at Carnegie Steel. From controlling the raw materials produced by the company to controlling the processing of raw materials, the final product is produced and transported to the control of the consumer market.

As a result, Carnegie began to purchase a large number of iron and stone plants, most notably the Cistell ore field in Pennsylvania and the manganese iron ore field in Virginia. In addition, Carnegie hired Henry Frick to manage the production of Carnegie Steel because he believed that Frick was a talented manager (Huang, 2008). Undoubtedly, under this management system, Carnegie Steel has quickly formed a vertically integrated management model, which has transformed the production, storage, transportation and sales of steel into an organic and intimate alliance and reduced the cost of production (Lu, 2003).

➤ **Establish a "monopoly enterprise"**

In order to control more production and sales markets, Rockefeller and Carnegie turned their attention to competitors' enterprises. The two used malicious acquisitions and price hikes to force competitors' businesses to operate unfavorably or even go bankrupt. Then the two then bought the factory at a low price to achieve the purpose of expanding the production and sales market (Zhang, 2014).

In 1872, Rockefeller annexed 20 refineries in Ohio, controlled 90% of Ohio's oil business, and he also controlled the state's major oil pipelines and all of Pennsylvania's oil trucks. Over the next eight years, Rockefeller continued to consolidate his monopoly in the oil sector. Its monopoly means that the refinery production of Standard Oil accounted for 95% of the national oil production in America, and also controlled the major US railroads. In 1904, Standard Oil accounted for 91% of the US refinery production and 85% of sales. Standard Oil became the first "trust" in history, which opened the prelude to the monopoly era in American history (Lv, 2011).

➤ **Squeeze labor interests**

Labor cost refers to the relationship between labor and management in the course of business operations, usually measured by the income of labor.

Due to excessive pursuit of cost reduction, Carnegie and Rockefeller also noted the employee's working hours and work income. Since 1880, Standard Oil and Carnegie Steel have begun to adopt a cruel work system of '12 hours of work a day, 6 days of work a week, and reduced worker income' (Huang, 2018). This caused many workers to be injured and even lost their lives due to accidents caused by overwork. According to America History (Huang, 2013a), between 1880 and 1900, there were 35,000 deaths per year in the United States and 1 million injured. Carnegie Steel's strikes and the "Pinkton incident" were the consequences of their brutal work system, and the "Pinkton incident" became the most disgraceful side of Carnegie's life.

3.2.2 Modern Views to Governance Issues and Challenges

On the one hand, the management of Rockefeller and Carnegie brings some benefits to

businesses and the United States. At the company management level, Rockefeller and Carnegie's management methods help companies complete vertical integration of production, improve the production efficiency of enterprises, and reduce the production costs of enterprises (Lu, 2003). Secondly, under high-pressure management, the birth of new production technologies will be promoted to some extent, such as separation of kerosene by distillation (Zhao, 2018). Finally, under the leadership of Vanderbilt, Rockefeller, Carnegie, Morgan and other commercial tycoons, the United States is developing at a high speed. The railway runs through the country, kerosene lamps enter thousands of households, steel creates high-rise buildings, and electric power illuminates the dark night sky. These are recognized by modern company managers (Huang, 2013b).

On the other hand, the management of Rockefeller and Carnegie has had a bad influence on the development of enterprises and the United States. Excessive exploitation of employees leads to employee injury or even loss of life (Huang, 2013a). The use of force to prevent employees from strikes will not alleviate labor-management relations, but will further deepen the contradictions between employers and employees, and will also reduce corporate reputation and affect the development prospects of enterprises (Andrew, 2016a). For the development of American society, the emergence of "trust" such as Standard Oil Company and Carnegie Steel Company has made the United States enter a monopoly era. The monopoly of these companies, in order to ensure the interests of their own enterprises, has seriously affected the healthy competition among enterprises and hindered the emergence of potential enterprises (Zhang, 2014).

3.3 Philanthropic Activities

3.3.1 Rockefeller and Carnegie Charity Activities

Carnegie is the "father of American philanthropy" and the first philanthropist born in the American monopoly era. In 1901, in order to help young people with great ambitions but poor families, Carnegie donated 68 "Carnegie" libraries in New York

City. This business lasted for 16 years. He donated a total of 12 million US dollars and established 3,500 libraries. In 1920, Carnegie founded the "Carnegie University" in his second hometown of Pittsburgh; later, Carnegie also donated money to various schools and educational institutions in the United States and Britain, the total amount of these donations reached 90 million US dollars. In the following years, Carnegie established several other funds. By the end of 1920, Carnegie had donated more than \$350 million to charity (Andrew, 2016b).

Despite his late start in philanthropy, Rockefeller, who is obsessed with Carnegie, has begun to work on philanthropy, mainly in the fields of education and medicine. He funded the establishment of the Rockefeller Institute and set up schools to raise the level of knowledge of American citizens. In addition, he also supported many institutions with a church background. In 1913, he established the famous Rockefeller Foundation, inherited and expanded the work of the Health Committee, and in 1915 the health committee was cancelled. He has given the organization about \$250 million, mainly engaged in charitable causes related to public health, medical training and art, and has been active since then. Rockefeller contributed a total of about \$800 million to charity in his lifetime (John, 2014).

3.3.2 Still Cannot Get Rid of the Robbers

Although Rockefeller and Carnegie contributed a lot to the cause of public welfare, the author do not believe that they still get rid of the fate of the robbers. The reason is that their public welfare still retains a lot of self-interested ideas. As Washington Gladden (1893) pointed out in the US magazine Outlook, 'Defiled Money', Carnegie wants the public's approval of philanthropy and avoids judging how donors get money. 'Defiled money' has become a symbol of the accumulation of wealth by robbery barons, such as Carnegie and Rockefeller, because their money flows 'the blood of workers' and their charity is just to please the public and workers.

However, their philanthropy also affects every generation of entrepreneurs in some extents, letting them realize the importance of philanthropy.

3.3.3 Merits of Philanthropic Activities

Although corporate charity activities may bring about time and money loss, charity activities can bring more wealth and benefits to enterprises (Xu, 2017).

➤ **Philanthropic Activities can enhance the credibility and reputation of company.**

A company can start charity activities, so its business conditions are relatively good. Charity activities can bring a psychological hint to consumers, and send a positive energy signal to the market at the same time, which will enhance the credibility and reputation of the company. If charity is seen as a commodity, it must have a cost, but the cost it pays is far less than the gains it brings to the company. China CR Cestbon is a public welfare model brand in Chinese mineral water industry. From advocating ‘protecting the Pearl River’, ‘protecting the white dolphin’ to ‘100-library plan’, ‘1 + 1, China’ and etc public charity activities, all reflect ‘Trust’ which is the brand connotation. The charity event also promoted CR Cestbon, which became one of the Chinese mineral water giants in less than a decade.

➤ **Philanthropic Activities enable companies to assume corporate social responsibility.**

Charity is an important part of corporate social responsibility, at the very top of the Carroll’s Pyramid. It is true that a company is run for profit, but it cannot be developed only for profit. When the scale of a company grows and develops, its every move has an impact on the construction of the country and society. Small charity activities will be observed under the microscope and then will be made rational judgments on enterprises by consumers and society. Therefore, charitable activities can help companies expand their social impact and allow companies to take on corporate social responsibility.

➤ **Philanthropic Activities enable the redistribution of wealth.**

From an economic point of view, when a company develops large enough, the marginal profit of wealth is low. For example, 100 pounds is only a small number for a millionaire, however, 100 pounds has a large marginal profit for the poor because this is not a small asset. The existence of charity can make the social wealth be redistributed to

a certain extent, which can narrow the gap between the rich and the poor in society.

3.4 Oxfam

3.4.1 What is Oxfam

Oxfam is an internationally influential development and relief organization that consists of fourteen independent Oxfam members (UK, Canada, USA, etc.). In 1942, Oxfam was founded in Oxfordshire, England, formerly known as the Oxford Committee for Famine Relief. The purpose was to deliver food in World War II to Greece, which was occupied by Nazi Germany. In 1965, the name of the telegraph address Oxfam was changed.

Oxfam is an organization that transcends ethnic, gender, religious and political boundaries. Oxfam works with government agencies, the community and the poor together to address poverty and work to make the poor respected and cared for. ‘Helping people to help themselves and fighting poverty’ is the purpose and goal of Oxfam (Su, 2016).

3.4.2 Oxfam Scandal

In January 2010, Haiti experienced a magnitude 7.0 earthquake. Rescue organizations from all over the world arrived in Haiti to carry out post-disaster reconstruction work for local residents, including Oxfam from the UK. However, the original charity has an unknown side.

In February 2018, the British ‘Times’ broke the news that the Oxfam staff who went to Haiti for disaster relief had many sexual relations with local women and underage girls, while the money was paid by charitable donations. After the incident, the relevant information was destroyed the relevant persons immediately.

In the following days, the media continued to explode similar incidents of Oxfam in other countries in the world: some employees in countries such as South Sudan witnessed or suffered sexual assault. From 2009 to 2013, in Bangladesh, Nepal and the Philippines Individual employees are also involved in sexual assault cases (Khan, 2018).

The well-known charitable organizations that have been admired by people have witnessed such scandals. It is really eye-popping and its reputation has been reduced.

3.4.3 How to prevent similar events from happening

The Oxfam scandal is indeed very regrettable, but the author believes that what is more important is how to prevent such incidents from happening again. This is the question that people should most consider (Zhang, 2015).

- Oxfam employees need to improve their own quality and eliminate the abuse of power.
- Oxfam will set up relevant departments to supervise the work of employees and formulate relevant regulations to deal with violations seriously.
- Government departments have increased supervision over the behavior of charities to ensure that charities act correctly.

4. Conclusion

In conclusion, in the 1950s, the United States, under the leadership of capitalists, such as Rockefeller and Carnegie, gradually emerged from the predicament, making technological progress and economic prosperity. These capitalists also accumulated a lot of capital for themselves. In addition, Rockefeller and Carnegie contributed a lot to the cause of philanthropy. However, these are not enough to cover up their identity of robber barons, squeezing labor for their own interests, bribing officials, and so on. However, their behavior also affects each generation of capitalists, attaches importance to the philanthropy of the enterprise, which does not only enhance the reputation of the enterprise, but also enables the enterprise to assume the social responsibility of the enterprise.

In modern society, more and more companies aiming at philanthropy, such as Oxfam. Despite the sexual scandal shocked the world, the author believes that if use certain strategies to strengthen supervision staff behaviors, Oxfam will be on the right track.

5. Reference

- Andrew, C., (2014). *Andrew Carnegie Autobiography*, 1st ed., Hebei People's Publishing House Press, pp.7-10.
- Andrew, C., (2016a). *Iron King Carnegie Autobiography*, Beijing: China Legal Publishing House, pp.161-169.
- Andrew, C., (2016b). *Iron King Carnegie Autobiography*, Beijing: China Legal Publishing House Press, pp.174-175.
- Aron, J., (2016). 'The New Philanthropists', *New Scientist*, Vol.230, No.3070, pp.18-19.
- Daniel, J., (2017). 'Oxfam Has Cut the Price of Thousands', *The Sun*, pp.40-41.
- Freeman, R., E., (1984). 'Corporate Views of the Public Interest', *Academy of Management Review*, Vol.9, No.2, pp.366-368.
- Guo, R., (2017). 'American Society in the Golden Age', *Journal of Development & Reform*, No.11, pp.52-54.
- Huang, S., (2008). 'A Research on the American Outstanding CEOs Crisis Management Strategy in the 20th Century', Doctor Thesis, Nanjing University of Science and Technology, pp.149.
- Huang, S., (2013a). *America History*, 1st ed., Beijing: China Encyclopdia Publishing House Press, pp.78-79.
- Huang, S., (2013b). *America History*, 1st ed., Beijing: China Encyclopdia Publishing House Press, pp.71-72.
- Huang, W., (2018). 'United States of American Constitution and Capital Oligarchy', *Journal of Economics of Shanghai School*, Vol.16, No.2, pp.126-142.
- James, T., B., (2003). *Andrew Carnegie Robber Baron and American Hero*, 1st ed., Adivision of Thomson Leaning Press, pp.17-18.
- John, D., R., (2014). *Life Memoirs: Rockefeller Autobiography*, Nanjing: Jiangsu Literature and Art Publishing House Press, pp.163-168.

- Lu, Y., (2003). ‘Andrew Carnegie’, Doctor Thesis, East China Normal University, pp.51-53.
- Lv, L., (2011). ‘The Legend of Rockefeller’, *World Market Journal*, No.4, pp.54-57.
- Overbeeke, E., (2017). ‘Captains of Industry’, *Muscial Times*, Vol.158, No.1941, pp.105-109.
- Richter, U., H., and Dow, K., E., (2017). ‘Stakeholder theory: A deliberative perspective’, *Business Ethics – A European Reviewm*, Vol.26, No.4, pp.428-442.
- Su, P., (2016). ‘Curating how to change society - Oxfam experience sharing’, *Taiwan Social Studies Quarterly*, No.104, pp.285-296.
- Wang, Y., (2004). ‘Accumulating and Dispersing Wealth: Rockefeller s Oil and Benevolent Trust’, Master Thesis, Jilin University, pp.5-6.
- Washington, G., (1893). ‘Review: Tools and the Man’, *The Journal of Education*, Vol.37, No.21, pp.331.
- Xu, Q., (2017). ‘Business and Public Welfare’, *China Policy Review*, No.12, pp.76-77.
- Khan, M., S., (2018). ‘Oxfam: sex scandal or governance failure’, *The Lancet*, Vol.391, No.10125, pp.1019-1020.
- Zhang, B., (2015). ‘Research on the problems and reasons on the developing of International Non-governmental organizations in China——with OXFAM HongKong as an Example’, Master Thesis, Renmin University of China, pp.55-57.
- Zhang, Z., (2014). ‘Study of Monopoly Intensifying Social Contradiction in the Gilded Age of America’, *Journal of Inner Mongolia University of Finance and Economics*, No.4, pp.1-4.
- Zhao, L., (2018). ‘Analysis of the Development Track of American Science and Technology’, *Modern Science*, No.7, pp.71-79.