

## **Beyond Paternalism. An Early Innovative German Corporate Social Entrepreneurship Model (1825-1923)**

*Paul Thomes RWTH Aachen University*

### **Motives and background**

The current financial crisis has revived the discussion on the goal of business models and with it about business beyond the firm. This paper analyses a highly innovative interplant approach to create a regional social and educational labor welfare system. It dates back to the year 1824/25.

Two aspects make it worth to be discussed here:

- It represents "business beyond the firm" in a literal sense.
- It gives an example of innovative private public partnership and social entrepreneurship in a historical context.

### **Definitions:**

Paternalism:

attitude or a policy reminiscent of the hierarchic pattern of an institution or firm based on patriarchy; occasionally used derogatorily to characterize attitudes or systems that are thought to deprive individuals of freedom and responsibility, only nominally serving their interests, while in fact pursuing another agenda which is directly against the interests of the individuals; a ruling ideology for entrepreneurs during industrialization.

Public Private Partnership(PPP):

government service or private business venture funded and operated through a partnership of government and one or more private sector companies.

Social Entrepreneurship

identifies a social problem and uses entrepreneurial principles to analyze, organize, create, and manage a venture to create socio-economic change (sustainable socio-economic scheme)

basic principles: democracy and human dignity

Focus on creating welfare (social capital, environmental goals etc.)

not necessarily incompatible with making a profit.

### **Hypothesis**

The industrial take-off was neither pure capitalism nor traditional paternalism in a sense of a short-term profit-maximization - as the typical organizational scheme of the firm.

There were alternative business models, anticipating concepts of PPP and CSE

### **Empirical Evidence**

#### **Aachener Verein zur Beförderung der Arbeitsamkeit (AV) (1825-1923)**

Characteristics:

- long-term utility maximization, balancing interests of employees and entrepreneurs.
- establishing a democratic basic official order instead of an absolute monarchy.

Target group: underprivileged people and entrepreneurs

Aims of the business model:

sustainable social-economic structures, i.e.: education, social security, culture, formation of wealth

Features of the business model:

two pillars:

- financial services including insurance as cash cows
- widespread social cultural and educational activities
- interplant regional scheme
- optional membership
- co-determination of members
- private organization
- commitment of regional entrepreneurs, state and clerical officials
- financial and educational incentives

Facilities offered by the association:

fire insurance, savings bank, kindergardens, schools

Activities sponsored by the association:

- foundation and funding of a university,
- funding of schools, libraries and other educational opportunities, hospitals, educational and cultural activities

Financial basis:

- earnings (50%) of an insurance company, founded for the purpose (until 1874)
- earnings of a savings bank run by the association itself
- fees of the users of the institutional range of products
- donations

Reasons for limited diffusion:

- ahead of the times
- shaping of a general social security system in Germany since the 1880s (health, invalidity, old age, accident)

Reasons for failure:

Instable political and financial situation after World War I (loss of war loans, inflation) forced the association to integrate its savings bank into the public savings banks sector and give the schools and kindergardens etc. in public ownership

Contemporary relevance:

Regional socio-economic network, educational and financial opportunities for common people, scientific sponsoring, creating favorable business conditions

Current relevance:

PPP resp. EP scheme, backing demographic and institutional change management  
The insurance company still exists today as one of the biggest German companies (now part of the Italian Generali).

RWTH University belongs to the nine leading German universities.

The scheme has been until today a pillar of the of the not-for-profit German savings banks business model.

### **Empirical data:**

Fire insurance est. 1825; AV est. 1834, savings bank est. 1834

1900: Savings banks customers: > 170.000 out of 600.000 inhabitants of Aachen county;  
25 branches

1912: total assets: 170 mio. Mark

Social investments, 1834-1912: total 26.5 mio. Mark

=

15.0 mio. M.	bonuses on savings of underprivileged people
4.5 mio. M.	technical schools and RWTH Aachen University
1.1 mio. M.	girls schools
3.6 mio. M.	kindergardens

### **References**

Gerstlberger, W./Schneider, K. (2008): Öffentlich Private Partnerschaften.

Zwischenbilanz, empirische Befunde und Ausblick, Berlin.

Hemingway, C.A (2002): An Exploratory Analysis of Corporate Social Responsibility: Definitions, Motives and Values, Research Memorandum No. 34, University of Hull Business School.

Pauly, Lothar (ed) (2006): Das neue Miteinander – Public Private Partnership für Deutschland.

Thomes, P. (2010): 175 Jahre Sparkasse Aachen. Fair. Menschlich. Nah. Aachen.

Thomes, P. (2003): Zwischen gesellschaftlicher Verantwortung und Kapitalismus.

Reflexionen zum Wirtschaftsstil des frühindustriellen Unternehmers David Hansemann, in: Soénius, U.S. (Hg.), *Bewegen - Verbinden - Gestalten: Unternehmer vom 17. bis zum 20 Jahrhundert*, Festschrift für Klara van Eyll. p. 155-168, Köln.

Thomes, P. (2000): Vorsorge statt Fürsorge - Überlegungen zum Wirtschaftsethos David Hansemanns, in: *Zeitschrift für die gesamte Versicherungswissenschaft*, p. 509-518.

Weber, M. (2007): Towards Sustainable Entrepreneurship: A Value Creating Perspective on Corporate Societal Strategies. Discussion Paper. Lüneburg: Centre for Sustainability Management CSM Lüneburg.

Zude, H.U. (2006), *Paternalismus. Fallstudien zur Genese des Begriffs*. Freiburg im Breisgau.

Wehler, H.U. (1987/1995), *Deutsche Gesellschaftsgeschichte*, vol 2/3, München.