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Geographies of Corporate Philanthropy: The Northern Rock Foundation

by

Neill Marshall, Stuart Dawley, Andy Pike, and Jane Pollard

neill.marshall@newcastle.ac.uk, stuart.dawley@newcastle.ac.uk, andy.pike@newcastle.ac.uk,

jane.pollard@newcastle.ac.uk.

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Centre for Urban and Regional Development Studies,

Newcastle University,
Newcastle upon Tyne,
NE1 7RU.

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Abstract

The paper contributes to literature on the geographies of corporate philanthropy through a case study of the origins, growth and decline of the Northern Rock bank's charitable foundation. Analysis reveals the complex, geographically-embedded nature of philanthropic motivations and impacts. It demonstrates that investment in home and community by philanthropists was part of a regionally-inscribed business-model of excessive risk taking that brought them considerable personal financial rewards. It highlights tensions and conflicts between corporate philanthropists and professional grant-makers over the scale and regional focus of giving. The paper concludes that the positive outcomes of corporate philanthropy are difficult to sustain in disadvantaged regions where shifts in corporate strategy and fragilities in the local economy undermine charitable giving.

Missing Geographies of Corporate Philanthropy

"If you're in the luckiest 1% of humanity, you owe it to the rest of humanity to think about the other 99%" Warren Buffet.

The paper explores the geographies of corporate philanthropy and the charitable contributions made by companies in both cash and kind to the wider community. Increases in senior executive remuneration and corporate profitability alongside deep inequalities in wealth and social deprivation have re-energised debate on corporate citizenship and social responsibility, reflecting the view expressed by Warren Buffet above that wealthy corporate philanthropists have an ethical responsibility to give back to the wider society from which they benefit (Stachowicz-Stanusch, 2017; Aras and Crowther, 2010). This reworking of the moral responsibilities of the corporation has increased significance in the context of the restructuring of the welfare state in advanced economies. While demographic changes and rising expectations have increased demand, slow growth, the neo-liberal roll-back of the state and reductions in corporate taxation to attract mobile transnational investment have reduced public sector revenues and investment. Corporate philanthropy has been singled out in a discourse arguing that an enhanced role for community self-help can plug the gap

created by the reduced role of the state relative to the scale of social need (Stott, 2012). This prioritisation of corporate philanthropy has been met with scepticism on the grounds that private investment directed by the personal preferences of corporate philanthropists and imbued with their commercial business practices is unlikely to adequately address the deep social inequalities left untouched by the welfare state (Harvey, 2014). In this context there is an urgent need for a rigorous academic assessment of the motivations for and impacts of corporate philanthropy.

Though too often ignored, geography is central to this debate, and deeply implicated in both economic and social inequality and philanthropic behaviour. The global financial crisis has both accentuated social dislocation in places left behind by economic growth (Martin, 2015; Martin et al., 2016), and simultaneously intensified interest in the contribution of philanthropy to deprived communities (Perrini et al, 2010). Considerable claims are made for corporate philanthropy based on examples of success in unpromising contexts (Acs and Phillips, 2002). However, emergent geographical work suggests philanthropic investment is unevenly distributed and the geographies of the non-profit sector are influenced by wider processes of spatial centralisation and concentration in the economy (Hurd et al., 1998). This connects to concerns that reliance on charitable giving to address social disadvantage is more likely to be successful in prosperous areas that possess numerous donors, a strong network of charitable organisations and relatively limited social disadvantage, and less appropriate to the complex social needs and limited philanthropic infrastructure of inner city areas and regions of industrial decline (Mohan, 2012a).

The paper advances geographical debate on the efficacy of corporate philanthropy through a case study of the Northern Rock Foundation in North East England, a disadvantaged region characterised by industrial decline, high levels of unemployment, poverty and social deprivation (Tomaney and Ward, 2001). One of the lesser known aspects of the history of the Northern Rock bank which failed during the financial crisis is that in 1997 it set up a charitable foundation, and between 1997 and 2016 when the foundation closed it invested £235.8m in good causes primarily in the North East of England. Evidence from the Northern Rock Foundation demonstrates the value of bringing a geographical sensibility to the study of corporate philanthropy which highlights subtle connections between corporate giving and regional capitalism. It reveals the geographically-embedded and personally-driven nature of philanthropic motivations and impacts, and indicates that the positive outcomes of corporate philanthropy are difficult to sustain in disadvantaged regions where fragilities in the local economy and shifts in corporate strategy undermine charitable giving. The paper begins by connecting the case study to urban and regional studies of corporate philanthropy before undertaking an analysis of the Northern Rock Foundation's giving.

Geographies of Corporate Philanthropy: An Emerging Agenda

“Whilst the role of corporate philanthropy in all its various guises has become increasingly significant in recent decades, there has been remarkably little research into its urban and regional implications, or into its historical geography” (Lew and Wojcik; 2010; 858).

In a “comprehensive and broad ranging review” Gautier and Pache (2015; 344) define corporate philanthropy as the voluntary expression of a firm’s commitment to the common good. They distinguish corporate from elite philanthropy arguing corporations expect a return on their good deeds unlike wealthy altruistic individuals, and also differentiate between corporate philanthropy and business sponsorship arguing the latter is specifically designed to achieve a commercial benefit rather than contribute to wider society (Gautier and Pache, 2015). Arguably these differences are too sharply drawn since altruistic intentions; self-interest and commercial motives feature in all forms of giving. Nevertheless, philanthropic decisions by managers in corporations are distinctive because they are made in the context of the regulations, rules and norms that affect the company which means they may act in ways which differ from their behaviour as private individuals.

Geographical questions are neglected in the extensive and rapidly growing research on corporate philanthropy which largely views the firm through an uncritical aspatial lens (see Schwartz, 1968; Fry et al., 1982; Campbell et al., 2002; Brammer and Millington, 2005; 2006; Porter and Kramer, 2011). An emerging strand of academic literature demonstrates the significance of philanthropy for the vitality of cities and regions (Wolpert, 1988; 1995; Card et al., 2010). Ashley (2010) identifies three developing areas of geographical research: 1) work exploring the spatial distribution of giving (Mohan, 2012a; Mohan, 2012b), and the extent to which philanthropic behaviour and preferences are unevenly distributed (Lew and Wojcik, 2010). 2) A strand that maps the location and influence of the non-profit sector itself (Mohan, and Breeze, 2016) showing how charitable institutions construct and re-construct the local community through their giving (Bryson et al., 2002). 3) Questions of equity and social justice and the extent to which giving reflects the actual needs of recipients (Morvaridi, 2015). However, few studies have examined geographical influences on corporate philanthropy in any detail, and the spatial distribution of corporate grant-making is often regarded as a simple expression of the customers, markets and production characteristics of the institutions involved. The geographical analysis of institutional giving, like the wider academic research on corporate philanthropy, draws heavily on US experience (Wolch and Geiger, 1985; Muller and Whiteman, 2009). The only comprehensive geographical study of corporate philanthropy in Britain focuses on trusts and

foundations where companies use a separate charitable organisation as a conduit to direct their giving (Hurd et al., 1998). This highlights the spatially centralised nature of the British economy is associated with a remarkable degree of concentration of corporate giving with three quarters of donations being provided by trusts in London and the South East. This is partly because national charitable organisations use London as a base to serve the rest of the country, but funding for regional and local charities is also considerably over-represented in London and its hinterland.

Nonetheless, enthusiastic proponents of corporate citizenship and social responsibility make grand claims for the ability of business philanthropists to turn round disadvantaged areas (Zadek, 2001). 'Giving back' or 'making a difference' in the local community through philanthropy is cited as a powerful motivating force for entrepreneurs that can be used to foster regional regeneration, boost regional capacity and encourage regional social innovation through philanthropic networks (Maclean et al., 2012; 2013; 2015). Successful philanthropists are also regarded as heroic role models that can increase community self-belief and pride (Nicholls, 2010). However, Hay and Muller (2014; 640) argue, we need to open up such claims to a more critical geographical analysis, because "straightforward questions of where, how and to what effect philanthropic funds are being distributed" remain largely unanswered. The corporate philanthropy literature pays insufficient attention to the highly individual character of philanthropic funding choices (Pharoah, 2011; 65), the impure nature of corporate altruism and the institutional and personal benefits that philanthropists derive from their donations (Andreoni, 1990). It fails to appreciate the intricacy of managerial motivations when making donations or disentangle differences between what managers say and what they and their companies do in practice. It is also surprising that the impact of corporate philanthropy on recipients, either the end beneficiaries such as the homeless or youth, or the effects on intermediaries such as non-profit organisations and social enterprises has received little attention. In addition, research has ignored the limitations and fragility of corporate philanthropy which are exposed when companies withdraw funds from communities as they restructure or close their production sites.

Northern Rock and its charitable Foundation provide a critical case (Barnes et al., 2007; 10-11) which extends geographical perspectives on corporate philanthropy in four significant ways. Firstly, it provides a unique insight into managerial motivations for a distinct regional pattern of giving and shows how philanthropic investment in home and community are mobilised by business executives to shape corporate strategy and achieve personal goals and rewards. Secondly, more broadly, the study highlights the value of a geographical perspective towards corporate philanthropy demonstrating the ways in which the region became central to the mission of a charitable organisation, and how this shaped the impact of its funding programmes on the voluntary, community and cultural sectors.

Thirdly, the takeover of Northern Rock by Virgin Money provides an excellent opportunity to observe how shifts in corporate strategy and funding priorities affect patterns of giving. Fourthly, examining the decline of the Northern Rock Foundation, and the tensions and conflicts that contributed to its closure, adds to our understanding of the sustainability of corporate philanthropy in disadvantaged regions. In sum, then, a study of Northern Rock showing how the North East of England was affected by the growth, decline and closure of its charitable foundation will begin to address Hay and Muller's (2014; 646) insistence that we explore the way in which particular expressions of philanthropy are enmeshed with the production and reproduction of regional economies.

Analysing Northern Rock as a Critical Case

The Northern Rock bank, an exemplar of the excessive exuberance and flawed business models that characterised the global financial crisis (Milne and Wood, 2008; Marshall et al., 2012) is also an insightful strategic vantage point from which to explore the geographical motivations and regional impacts of corporate philanthropy. The company decision in 1997 to establish a foundation receiving 15% of Northern Rock's shares and 5% of its annual profits, at the same time as it converted from a mutually-owned building society to a public-limited company (plc), was a distinctive and apparently generous philanthropic gesture which at the height of its giving made the company the second largest corporate charitable donor in the country (Pharoah and Walker, 2015; Walker et al, 2012; Robinson, 2015). Northern Rock was a major regional employer; in 2007 90% of its 6,600 employees were located the North East of England and in the early 2000s it accounted for half of the region's growth in financial intermediation (Dawley et al., 2014). Its rapid growth made it a high profile symbol of the participation of the North East in southern-dominated de-regulated finance in the first decade of the 21st century. Before the financial crash it appeared to be a profit-making machine working in the interests of outside investors and the local community (Brummer, 2008), and was genuinely popular with both (Elliot and Atkinson, 2008).

Interview Evidence: Seven face-to-face interviews with senior managers at Northern Rock and its Foundation were conducted over almost 20 years. In 1996, an interview with senior management at Northern Rock was part of exploratory research on the building society industry (Marshall et al., 1997), and a further interview with the company was included in an investigation of demutualisation in 1998–1999 (Marshall et al., 2003). The latter study included face-to-face interviews with senior management in 31 of the 70 building societies established at that time accounting for 88% of the assets of the sector. The sample included all institutions with assets over £10bn, one half of the societies with assets

between £1bn and £10bn and one third of the societies with assets below £1bn. Three former building societies (including Northern Rock) that had converted to mortgage banks and three large high street banks were also interviewed in the study. Only four institutions approached did not respond and three of these institutions were replaced. These interviews provide insights into the motivations for the philanthropy of the Northern Rock Foundation. Confidential interviews with the company in 2008–2009 (Regeneris Consulting et al., 2010) as part of an evaluation of the regional economic impact of Northern Rock document the company's involvement in the financial crisis. In 2015 two interviews were conducted with senior members of the Northern Rock Foundation as it was being wound up specifically for this paper.

Secondary Source Evidence: Interviews were analysed in close dialogue with corporate history, government and independent reports on Northern Rock and its Foundation, newspaper interviews by the main protagonists and academic literature on the building society-banking sector. The corporate history was commissioned shortly after the Northern Rock Foundation was established and situates the company's motivations in a historical institutional context (Aris, 2000). Throughout its life the Northern Rock Foundation studied the effectiveness of its work (<http://www.nr-foundation.org.uk>), and shortly before closure senior management commissioned a series of independent reviews. A history of the Foundation was compiled based on interviews with past and present staff and Trustees, annual reports and reviews (Robinson, 2015). Brightpurpose (2014) conducted an evaluation of the impact of the Foundation's voluntary and community sector investment based on 29 telephone interviews with recipients of funding and eight more detailed case study interviews. This was complemented by an Institute for Voluntary Action Research (2014) study of the distinctive place-based character of the Foundation drawing on five interviews with Foundation staff and 14 interviews with beneficiaries. A review was conducted of the Foundation's investment in arts, culture and heritage by TBR Economic Research and Intelligence (2014) based on five face-to-face interviews with Foundation staff, key stakeholders including local authorities, cultural venues, representatives of the Newcastle-Gateshead Initiative, Arts Council England staff in the North East, 12 interviews with recipients of funding and an analysis of programme data and grants. Taken together these secondary sources provide rich and detailed longitudinal evidence on Northern Rock and its Foundation.

Analysis: The research captures the geographies involved in the origin, evolution and ultimate fall of the Northern Rock Foundation through a mixed-methods approach that brings together unfolding institutional genealogies highlighting the particularity of the Foundation with wider relations and context explaining institutional configurations. The analysis takes seriously Schoenberer's (1997; 150)

insight that to comprehend institutional behaviour “we need to understand something about corporate strategists what shapes their interpretations of the world, and their ability to act in it”. Following Pike et al., (2016) and Peck and Theodore (2007; 2012), management in Northern Rock and its Foundation were analysed as part of a dynamic, relational institution deeply influenced by its regional and national setting. The study focuses on three important institutional events: 1) the establishment of the Northern Rock Foundation in 1997; 2) the protracted decline of the Foundation following the involvement of Northern Rock in the financial crisis in 2007 and 3) its final closure in 2016. Analysis is attentive to individual agency in articulating and shaping these events, captured through managerial interpretive views of the world (Jessop, 2001; Jessop and Oosterlynck, 2008). It recognises that the different intensions and objectives of actors produce tensions and conflicts which are central to corporate behaviour and institutional outcomes (Sadler, 2004), and explores how these pressures are played out within Northern Rock management, between the company and its Foundation and between new owners Virgin Money and Trustees and staff of the charity.

Analysis built up a detailed account of the key events, starting with how Northern Rock and Foundation management represented themselves in interviews, and this was triangulated with histories and public pronouncements identifying, comparing and corroborating evidence. This narrative of management behaviour was compared to the actions of other institutions involved in the sector and wider academic literature seeking to explain Northern Rock’s corporate philanthropy in context. In a similar manner independent reviews of investment by the Northern Rock Foundation were triangulated with studies of the voluntary and cultural sector to assess its impacts on the North East of England. Throughout the longitudinal analysis management’s philanthropic claims were compared with their behaviour in practice and evidence on the outcome of their actions.

Northern Rock’s Philanthropic Giving: A Regionally-Inscribed Business Model

A geographically-informed analysis of the establishment of the Northern Rock Foundation provides a deeper and more complex understanding of managerial motivations for giving than that found in the corporate philanthropy literature. Northern Rock’s decision to establish a Foundation in 1997 and to fund it lavishly was part of a regionally-inscribed business model that incorporated community contributions in an institutional strategy of demutualisation and reckless growth which provided substantial personal financial rewards to senior managers.

The decision to establish the Foundation was presented by management as a uniquely generous act of philanthropy. Leo Finn, a senior managerial insider at the time, subsequent Chief Executive of

Northern Rock and finally Chair of the Northern Rock Foundation, indicated the idea of a charitable foundation was conceived in discussions with consultants JP Morgan as “an honourable way” for Northern Rock to “lay up its colours” as a mutual building society (Northern Rock Foundation, 2005; 5). The decision to establish the Foundation is celebrated in the company history in a manner that highlights the historical regional roots of the company and draws parallels between the early directors of the institution, the leaders of the industrial revolution in the North East and today’s senior managers who saw themselves as part of a regional entrepreneurial tradition of paternalistic capitalism.

“Strictly speaking, the Foundation is the offspring of Northern Rock plc. But as an organisation devoted to the well-being of the people of Durham, Northumberland, Teesside and Tyne and Wear, its origins lie much further back, in the days, a century and a half ago, which saw the birth of the Northern County Building Society. In its manifesto, the Northern Counties set out to help the poorer and more disadvantaged people to find a home and build a better life for themselves and their families. So too does the Northern Rock Foundation. Our story, which started with the creation of the Northern Counties and the Rock, ends at the point when the Northern Rock ceased to be a building society. But the tradition of care and concern for the region and its people lives on” (Aris, 2000; 138-9).

The senior management team at Northern Rock represented themselves as modern capitalists in this paternalistic tradition who could be successful nationally and internationally while contributing locally. As Adam Applegarth, the Chief Executive of Northern Rock from 2001-2007, put it, “I’ve always wanted to be in charge of a northern company. We are loyal to the area” (quoted in Pukas, 2007). When asked if the scale of investment in the Foundation was, “Not something the board may later regret”, Applegarth stressed the importance of the company’s regional focus, “It is a lot to give ... but remember, this is an area undergoing huge transformation. The north-east needs to look after itself. There are not many out there who help us to look after ourselves, not many major employers here, and I think it is good for the company and community spirit too. And as it is the area where the vast majority of Northern Rock's staff are drawn from, its impact is pretty immediate too” (quoted Davidson, 2005).

The creation of a charitable foundation as part of demutualisation was unique to Northern Rock and the focus of the company on the North East of England and the regionally-embedded character of the institution’s management clearly influenced the decision. However, managerial motivations were more complex than suggested by the public account of generous regional philanthropy. The establishment of the Foundation was an institutional and individual management response to a wider

transformation of the banking-building society sector in the last two decades of the twentieth century. Mutual building societies had since their inception in the mid-19th century possessed a latent tension between borrowers who benefitted as long-term owners of the society and saver members who placed money on short-term deposit for a financial return. A tightly regulated cartel with a monopoly over the home loan business set interest rates to provide the financial room for manoeuvre to address the financial interests of both savers and borrowers (Kay, 1991). This web of relations was unpicked by demutualisation and the conversion of societies to public-limited mortgage banks. Government revisions to the regulatory framework initiated demutualisation by encouraging competition between banks and building societies, and then when the poorly drafted legislation was subverted it was viewed as a convenient extension of deregulation. Regulatory change and associated market competition instigated a cultural change in Northern Rock and other building society management, who no longer saw themselves as fiduciaries acting in the interests of members. Instead they increasingly ran their company like a profit-seeking bank and increased interest rate margins to build up surpluses to fund growth (Llewellyn, 1996).

It was then a short step to convert to a plc which allowed institutions to operate on the wider stage of the mainstream financial sector. The demutualisation of Abbey National in 1989 provided an early example; following legal action initiated by senior executives, the company created and then distributed 'free shares' to members to encourage them to vote for demutualisation (TABLE 1). However, it was the announcement in 1994 of the demutualisation of the Cheltenham and Gloucester building society and its acquisition by Lloyds Bank that transformed the sector. Crucially Lloyds paid on average £2000 to individual members of at least two years standing in the Cheltenham and Gloucester to incentivise a vote for demutualisation and then merger. It was clear the operational independence of societies was threatened. The Halifax, the largest building society, immediately combined in a demutualisation with the Leeds Permanent, the fifth largest society, swiftly followed by the demutualisation of the Woolwich, Alliance and Leicester and Northern Rock. Bristol and West negotiated an acquisition by the Bank of Ireland on terms guaranteeing a measure of operational independence. Negotiating a similar deal with the Royal Bank of Scotland proved more difficult for the Birmingham Midshires and the Halifax stepped in and acquired the society. The conversion process culminated in the demutualisation of Bradford and Bingley, and by the end of the decade 11 of the 15 largest building societies had become mortgage banks (TABLE 1).

Establishing a charitable Foundation was central to Northern Rock's demutualisation strategy. Discussions with JP Morgan suggested selling shares to the local community could preserve the independence of the company by creating a 'poison-pill' for potential corporate predators (Aris, 2000;

134). Internal management discussions developed this idea into a Foundation controlled by the company, holding its shares and investing its annual profits in good causes in the North East of England. Northern Rock was one of the more aggressive commercially-minded building societies (All-Party Parliamentary Group for Building Societies and Financial Mutuals, 2006); senior management regarded themselves as “the most efficient society of them all”; and believed they had to grow rapidly and “drive cost out of the system” to be successful (Senior Manager, Interview, 1998). In its ‘Proposals and Rationale for Conversion’ (Northern Rock, 1997, 26) the company committed to delivering increased profits for shareholders through consistent growth and the establishment of the Foundation guaranteeing its independence allowed it to pursue this corporate strategy. After demutualisation corporate giving through the Foundation was integrated in to a regionally-inscribed business model of excessive growth.

Like other building societies Northern Rock was drawn in to the fast money of the City of London. Access to new forms of wholesale funding helped management overcome a key strategic dilemma; the fact that the main focus of the company’s activities were in the north when most of the growth in mortgage markets was in the south of the country (Aris, 2000; 130). Northern Rock became a high profile exponent of financial innovations associated with the ‘originate and distribute’ form of mortgage lending. This replaced traditional ‘buy and hold’, where mortgage assets were held on the balance sheet, with new complex and opaque forms of off-balance sheet securitized credit. New financial innovations, combined with demutualisation which facilitated access to external capital, allowed the company to grow rapidly. Adam Applegarth, argued the company possessed a “unique and successful business model” focused on “a virtuous circle” of rapid high-quality asset growth, competitive products and tight cost control (Applegarth, 2003; 14). In reality, the business model was more conventional, it used the location of the company in North East England, a low cost location for mortgage production, to control costs while new funding delivered rapid growth and increasing returns. This business model meant that while Northern Rock remained a regional company in terms of its savers, where it employed people, and its philanthropic giving, it increasingly became a national company in terms of its lending and a global company in terms of where it raised funds (Northern Rock, 2004).

Northern Rock and other convertors had considerable choice of ownership form and corporate strategy (Stephens, 2001; 351), but as an interview respondent directly involved observed, personal greed was “an enormous driver [of managerial behaviour and institutional decisions] ... there are people who think, ‘plc, share options, millionaire’. These things have an effect; they are never spoken about openly and they are never written down” (Senior Manager in a convertor in 1998). Reflecting

on the process of conversion and its relationship with financial rewards a senior manager in a mutual society summed it up as follows,

“Boards of Directors were told to get their act together and stop appointing the ‘great and the good’, and to appoint people with commercial acumen and everything else. So you had people from plc Boards coming in to larger societies. Then we started to get people from plcs recruited in to Executive roles and by the middle to late 1980s most of our societies had seen some form of transition to plc background ... Then you know what happened after that, salaries and Board fees exploded, bonus schemes came in, until in the end it wasn’t difficult to run a building society in some of the periods in a way that would meet your bonus targets ... Then along came the real ‘mega’ pay-offs in the banking world and people said ‘well we may as well be a bank’” (Senior Manager, mutual institution, 1998).

With demutualisation, according to Tayler (2003; 397) in effect “The mice were in charge of the cheese”. Almost £37bn in shares was distributed to more than 1 in 3 adults in the UK to buy their support in a vote for demutualisation, and cash bonuses and share options for management swiftly followed as part of the conversion process which linked management pay to the norms of the banking sector (Cooke et al, 2001; Shiwakoti et al, 2004; Marshall et al., 2003). Northern Rock annual reports and accounts graphically document the rapid growth of management salaries following demutualisation. Remuneration for Executive Directors increased from £1.89m in 2002 to £4.62m in 2006, the Chief Executive and Group Finance Officer/Deputy Chief Executive salaries increased by 80% and 30% respectively, supplemented by extensive share entitlements and enhanced pension arrangements, and non-Executive Director remuneration increased by 123% over the same period.

There was resistance to demutualisation within converting institutions because the capital reserves of the company built up over many years were being used to reward current stakeholders (Barnes and Ward, 1999). Vigorous management campaigns were conducted in a number of societies including the Nationwide, currently the largest building society, to rejuvenate mutuality as a socially responsible business model offering better returns to customers and the local community than the convertors (Marshall et al., 2003). Societies that had decided to remain mutually-owned and did not pay dividends to outside shareholders instead used charitable donations and local community involvement as a competitive weapon against institutions that were converting to plcs – in effect a dividend for voting against conversion and remaining mutual (Campbell and Slack, 2007). Senior management in convertors were forced to spend considerable organisational resources to overcome opposition and capture the assets of the organisation (Perks, 1991).

A charitable foundation which recognised the regional history and contemporary importance of Northern Rock in the region was crucial in ensuring that concerns expressed about demutualisation within the company were overcome (Aris, 2000; 135). Management could argue the Foundation responded to the competitive challenge of the community involvement of mutual building societies by delivering greater tangible benefits to the local area. By contributing to regional good causes management provided cover for and legitimized their financial accumulation; simultaneously enhancing their local cultural, social and symbolic capital and strengthening relations with the wider regional community (Bummer, 2008). This convinced the Northern Rock Board they could maintain the company's regional roots while becoming part of a much more "interesting financial world" (Aris, 2000; 134). Then payments of 500 shares to individual members worth approximately £2,300, served to convince 97% of the members of the society to pass a motion to support conversion from a mutual building society to a plc. In sum, then, by establishing a charitable foundation holding its shares and contributing to regional good causes Northern Rock preserved its institutional independence and helped establish a consensus among senior management, non-executive directors and members that facilitated demutualisation and a regionally-inscribed business-model of reckless growth based on excessive risk taking that brought considerable financial rewards for management.

Impact of the Northern Rock Foundation: A Brief Hurrah for Regional Philanthropic Capitalism

"Much of what is distinctive about the Foundation's approach flows from the particular challenges and opportunities of being a new and substantial regional funder, for whom the region and its challenges were at the heart of its mission" (Institute for Voluntary Action Research, 2014; 10).

Northern Rock's rapid growth resulted in a dramatic expansion in the charitable covenant established in 1997 which generated £9.9m in its first year and expanded to £31.3m by 2006. Grant making by the Foundation similarly increased from £5.7m to £27.3m (FIGURE 1). Initially this philanthropy was strongly influenced by the company. It appointed all Trustees (up to half could be former company employees) and all grant decisions were made by the Trustees at a full Board meeting. Senior management in Northern Rock focused the Foundation on assisting disabled people because the latter had missed out on demutualisation payments where they were not first-named holders on their building society accounts (Robinson, 2015; 8). In line with the company's business model the primary geographical focus of the Foundation was established as the North East of England (TABLE 2) where the employees and savers were based. However, as the Foundation grew it became increasingly independent of the company and giving was driven by the interests, expertise and enthusiasm of its Trustees and staff rather than the business interests of the company. Its purpose evolved and

broadened (TABLE 1), aiming “to tackle disadvantage and improve the quality of life” through programmes to support mental health, young people, older people, domestic violence, rural and urban regeneration, penal reform and the arts” (Institute for Voluntary Action Research, 2014; 9). From 2008 the bank no longer nominated Trustees, and post-crash the Foundation had an after-life as a smaller, independent, professional grant-maker concentrating on supporting the disadvantaged of the region (Institute for Voluntary Action Research, 2014).

The North East region of England was central to the mission of the Northern Rock Foundation and analysis of its giving provides a geographically sensitive assessment of philanthropic impacts. The research identifies three interrelated dimensions through which the impacts of the Northern Rock Foundation shaped and were shaped by the geographical context of its evolution. Firstly, the Foundation’s donations strengthened the arts, culture and heritage sectors in the North East of England assisting regional diversification away from declining industries. Secondly, the Foundation provided a significant short-term boost to the voluntary and community sector which helped disadvantaged people in the region to manage better. Finally, the collapse of the company and associated changes in institutional strategies produced conflict between corporate philanthropists and professional grant-makers that led to the eventual closure of the Foundation thereby demonstrating the weakness of corporate philanthropy as a long-term source of social welfare.

Culture-Led Regeneration and Regional Diversification: In the early years when philanthropy was more closely aligned with the company’s business model, the Foundation became a significant funder of regional arts, culture and heritage. Such funding reached a quarter of the Northern Rock Foundation’s annual giving before being paired back after the financial crisis and ceasing entirely in 2009. The Foundation’s cultural investment was criticised for not focusing on need, and was defended on the grounds that all benefitted, because it improved the image of the area, encouraged inward investment and supported economic development (Interview, Senior Manager Northern Rock Foundation, 2015). This claim of general benefit is difficult to sustain, however, Northern Rock’s giving contributed to a cultural rejuvenation in the North East of England in which public works of art and cultural projects were used to anchor regeneration (Bailey 2006; 6). The role of the Foundation was supportive rather than leading; it was drawn in to high profile regional schemes that could benefit from its rapidly growing income (Robinson, 2015). Momentum had already been established by the partnership of Newcastle City Council and Gateshead Metropolitan Borough which used public money through the Newcastle-Gateshead Initiative to develop three iconic pieces of architecture to regenerate the Quayside, an area on the banks of the river Tyne characterised by industrial decline. The Millennium Bridge was constructed in 2001 at a cost of £22m; the Baltic Centre for Contemporary Art costing

£46m was opened in 2002; and the £70m Sage Gateshead Music Centre opened in 2004 (Miles, 2005; Whiting and Hannam, 2016; Pasquinelli, 2014). This coincided with approximately £18m in donations by the Northern Rock Foundation through its Aspiration and Culture and Heritage programmes and £11.5m through the Capital and Better Buildings programmes and exceptional capital investments in culture and heritage venues (TABLE 3). Together with Sage Industries, another major regional company, the Foundation provided private sector support for public sector investment on the Quayside. It gave generously to the Newcastle-Gateshead Initiative itself, supported the core running costs of the Sage, Baltic and Seven Stories (the National Centre for Children's Books), and made smaller investments to support refurbishment of the Live Theatre and Amber Film located nearby.

A second strand of the Foundation's work supported capital projects and cultural activity in the wider North East region including performing arts (23% of culture and heritage funding), creative and cultural industries (16%) visual arts (15%) and cultural heritage (12%), museums, galleries and archives (16% of funding), and other areas of support included literature, festivals and exhibitions (TBR Economic Research and Intelligence, 2014). Funding produced a step change in the arts, culture and heritage sector providing a platform for local projects to expand, and the region benefitted from increased national and international exposure which led to a desire for artists and cultural professionals to visit and collaborate. Recipients also argued the Foundation's investments provided them with an opportunity to raise their level of ambition, develop new ways of working and improve the quality of their work (TBR Economic Research and Intelligence, 2014).

The impact of this philanthropy should not be exaggerated; London dominates arts, culture and heritage investment and employment in Britain (Power and Nielsen, 2010; Culture, Media and Sport Select Committee, 2014). Nonetheless, by supporting the cultural sector in a region characterised by a long term decline in traditional industries the Foundation assisted regional diversification. The North East of England is acknowledged as an example where cultural policy has successfully regenerated the physical landscape and the Newcastle-Gateshead Quayside is an internationally highly regarded urban renewal project (O'Brien and Miles, 2010; Bailey et al, 2004; Sacco et al 2013). The new buildings and initiatives have been taken to heart by the local population and are regarded as part of a reconstructed regional identity (O'Brien and Miles, 2010). Though not all projects were sustained when investment ceased, the Foundation helped Newcastle-Gateshead overcome the failure to win European Capital of Culture in 2008, and arguably the upgrading of the cultural infrastructure contributed to the region's successful 2015 bid for £15m of government Northern Powerhouse investment to run a Great Northern Exhibition promoting northern art, culture and design.

Investment Addressing the Needs of the Region's Voluntary and Community Sector: The bulk of the Northern Rock Foundation's philanthropy focused on the voluntary and community sector in the North East of England. Funding supported core salaries, expanded and added value to the work of beneficiaries, and invested in their facilities (Institute for Voluntary Action Research, 2014). The main institutional recipients were national and local charities directly providing services to vulnerable people: Citizens Advice, Depaul Trust, Oasis Aquila Housing, Impact Housing Association, Barnardo's, Changing Lives, Project North East, The Key and NACRO (Robinson, 2015; 27). As TABLE 4 indicates funding addressed a wide range of regional disadvantage. Such investment is unlikely to have happened in the absence of the Foundation; recipients of funding believed it had brought forward and increased the scale of activity,

"In 2000 there was nothing. The Foundation has helped build an infrastructure which wasn't there before" (Brightpurpose, 2014; 18).

"Without the Foundation's funding there wouldn't have been any service" (Brightpurpose, 2014; 15).

"In the region, the sector is in a much better and different place than 10 years ago. This has been driven by the Foundation" (Brightpurpose, 2014; 18).

The activities of the Foundation were influenced by the national milieu and supported government assistance for coalfield communities, investment to combat child poverty and financial and social exclusion (TABLE 4). However, it also strengthened regional governance; the Foundation provided a distinctive "northern voice in a southern dominated [funding] environment" (Brightpurpose, 2014; 17) working alongside the recently created regional development agency One North East (Tomaney and Ward, 2001). In the words of the title of the Institute for Voluntary Action Research's (2014) report, by 'Being There' - operating in the region - it developed a good understanding of local need and the challenges faced by the voluntary and community sector. The Foundation provided regional thought leadership and acted nationally as an advocate for the sector in the North East. Funding from individual initiatives was co-ordinated by the Foundation at the regional scale, building networks and sharing good practice. Investment in training and development grew the capacity in the voluntary and community sector to absorb the funding provided and promoted management and planning in the sector. This was supported by evaluative toolkits and a Fresh Ideas Fund that helped the sector to "prove and improve" encouraging beneficiaries to think more strategically and longer-term (Brightpurpose, 2014; 6). However, a trust-based approach with little paperwork and considerable

freedom for programme managers to develop a close dialogue with recipients of funding meant there was insufficient measurement of outputs and outcomes (Robinson; 2015; 40).

The Fragility of Corporate Philanthropy in Disadvantaged Regions: Despite these impacts the collapse of Northern Rock in 2007 and the protracted decline of the Foundation provide a stark example of the fragility of corporate philanthropy which militates against its long-term viability as a form of social investment in disadvantaged areas. The financial crash took the Foundation by complete surprise; funding from the company ceased and grants expenditure was reduced to £10m pa (FIGURE 1). For a time government support sustained reduced corporate giving - they contributed £15m pa to the Foundation until 2010 in lieu of the fact that nationalisation had made the Foundation's shares in Northern Rock worthless (TABLE 1). But when in 2012 Virgin Money acquired the retail arm of Northern Rock plc, the Foundation's long-term future was not a requirement of the sale (Virgin, 2012), and the change in ownership opened up tensions between the company and the Foundation. Virgin had a post-crash business model which returned to more incremental growth, and was reluctant to match the scale of the Foundation's investment plans,

“The Foundation has insisted that it requires a minimum annual donation of £4m to continue to operate. You will appreciate that for any company, let alone one with the history of Northern Rock, this is a huge amount of money to commit to one charity ... We simply cannot support the £4m requirement of the Northern Rock Foundation on our own” (Virgin Money Chief Executive, Jayne-Anne Gadhia, quoted in Weakley, 2014).

There was a lack of fit between the Foundation's mission to address regional disadvantage and Virgin Money's targeted corporate philanthropy which assisted young people to overcome the barriers to their full engagement in education, employment, housing and mental health. The company also facilitated the giving of others rather than investing directly in good causes, and concentrated on sponsorship in areas likely to bring increased national rather than regional profile e.g. the London Marathon, Edinburgh Fringe Festival and Fireworks Concert (Virgin Money Group, 2015; 40-42). After careful consideration the Northern Rock Foundation Trustees felt their mission was to focus funds on areas within the region of “significant social need and a lack of resources” and Virgin's proposals “either duplicated the work of others or weren't aimed at priority areas” (Northern Echo, 2014). In December 2014 the Northern Rock Foundation began the final run down and in parallel Virgin Money launched a separate foundation which received £4m of funding from the government's bank levy, to be matched by the company over the next 4 years (Virgin Money Group, 2015; 42). After one last failed approach to the government for financial support from the sell-off of Northern Rock's assets the Northern Rock Foundation closed in April 2016 (TABLE 1). As part of its closure plan it invested

£13.8m in legacy projects to support literacy for deprived children, and to continue its Fresh Ideas and Social Investment Funds. However, inevitably the expansion of activity funded by the Foundation is unlikely to be sustained (Brightpurpose, 2014; Garfield Weston Foundation, 2015).

Putting Geography into Corporate Philanthropy Research

This paper has sought to contribute to an emerging agenda which seeks to put the geography into corporate philanthropy research. It responds to calls for more critical geographical approaches that better capture and uncover the what, where and for whom of corporate philanthropy (Hay and Muller 2014). Using the critical case of the Northern Rock Foundation, the paper extends existing corporate philanthropy literature through a unique, in-depth, longitudinal analysis of the ways in which the motivations and impacts of corporate philanthropists shape, and are shaped by, the distinctive geographical contexts and institutional settings in which they evolve. Northern Rock's location had a critical influence on the behaviour of its philanthropists, and the region was central to the mission of the foundation they established. By taking a geographical perspective to corporate philanthropy, the analysis captures a more complex interpretation of the motives of philanthropists and a deeper understanding of their impacts. The investigation also highlights tensions and conflicts that are arguably integral to the nature of corporate philanthropy, both within company management over the role of philanthropy in corporate strategy, and between philanthropists and professional grant-makers over the regional focus and scale of giving.

Moreover, attention to the geographies involved in the origin, evolution and ultimate fall of the Northern Rock Foundation, as part of the broader development of Northern Rock, demonstrates the ways in which institutional geographical restructuring is interwoven with corporate philanthropy. Extending Andreoni's (1990) characterisation of corporate philanthropy as impure giving, the paper reveals how the powerful pull of home and community on philanthropists was mobilised to facilitate wider corporate and individual strategies. It is through this prominent influence of the home region on senior managers and their institution that corporate philanthropy both reflects and shapes regional capitalism. The paper illustrates how a substantial programme of corporate giving, established as part of a transformation of the building society-banking sectors in the latter part of the 20th century, was influenced by the historic roots of Northern Rock as a mutual building society, and the paternalistic involvement of the leaders of the company in their home region. Though the Northern Rock Foundation's charity was part of a historic tradition, it was incorporated by a group of regionally-embedded senior managers into a modern, regionally-articulated business model that allowed them

to gain control of corporate strategy, and then project themselves on to a national and international stage in the banking sector simultaneously increasing their personal financial rewards and cementing their social and cultural capital in the region. While Northern Rock was distinctive in the regional concentration of its business and charitable interests, this analysis suggests scope for and the value of further work exploring the impact of home and community on corporate philanthropic behaviour and the interaction of regional philanthropy with personal motives and individual rewards for senior managers.

While recognising the personal motives of management in establishing the Foundation, and that Northern Rock is rightly synonymous with the reckless lending of the financial boom and the hardship of the great financial crisis, the impact of the donations of its regionally-focused charity on the voluntary and community, arts, culture and heritage sectors in the North East of England remains striking. While investment was influenced by the business model of the company the Foundation supported arts, culture and heritage industries, assisting public sector-led regeneration of a rundown area of Newcastle-Gateshead and a diversification of a regional economy dependent on declining industries. The Foundation enhanced regional governance becoming a philanthropic champion, and had an important after-life once the company influence had declined as a well-respected practitioner-led charity addressing regional social need. It helped vulnerable and disadvantaged people to manage better in the short-term, though the North East of England remains one of the poorer regions of Britain which suggests the Foundation's giving addressed the symptoms rather than the structural causes of disadvantage. This conclusion draws attention to the need for further work on the impact of corporate philanthropy on the ultimate vulnerable beneficiaries of assistance and not just third sector charitable intermediaries.

Corporate philanthropy inevitably took a back seat in a financial crisis that threatened the viability of Northern Rock, the British banking system and economy as a whole. However, the eventual closure of the Foundation also reflects the impact of changes in corporate strategy on geographies of giving. New owners, Virgin Money, lacked the regional roots of Northern Rock; adopting a banking business model with a more incremental approach to growth, they sought to break with the toxic reputation of the former mortgage bank. This deepened tensions between the priorities of the Foundation which focused on regional need and the more commercial philanthropy of Virgin Money based on a smaller, more focused and increasingly nationally-orientated foundation. The decline and closure of the Northern Rock Foundation graphically demonstrates the dangers of over-dependence on corporate philanthropy for social welfare, and casts a harsh light on its redistributive effects in disadvantaged regions with few successful firms and significant economic weaknesses.

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TABLES AND FIGURES

Figure 1

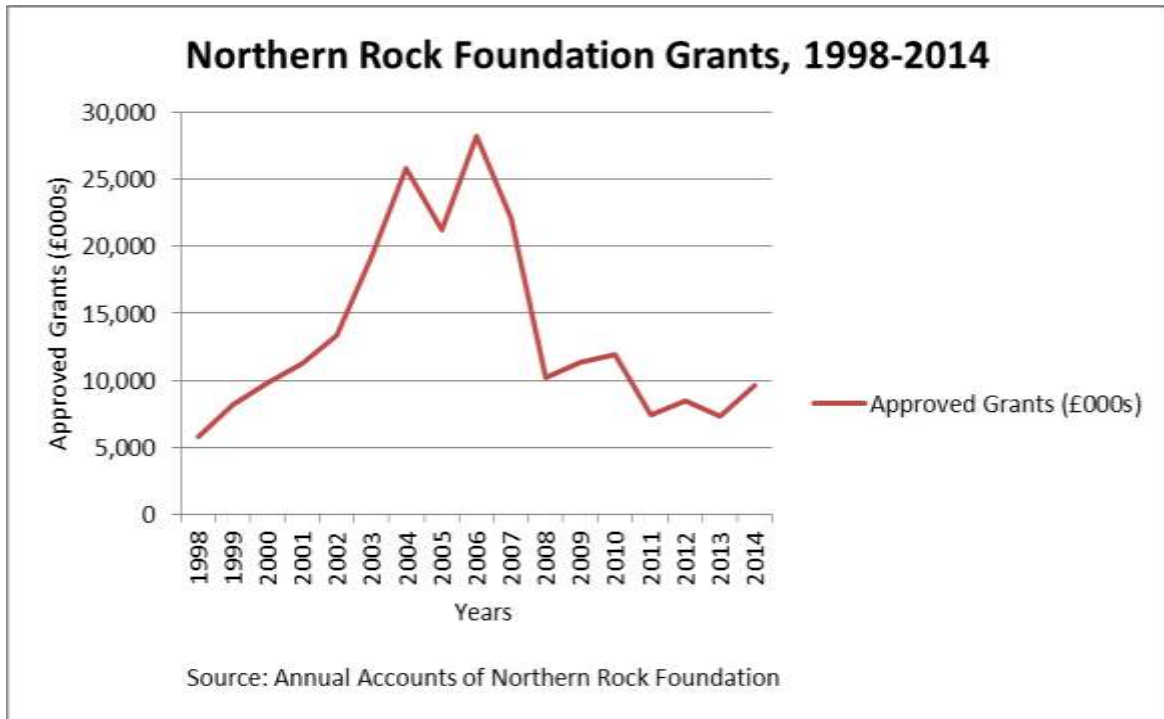


Table 1: The History of Northern Rock and its Foundation

Date	Northern Rock Demutualisation and the Financial Crisis	Northern Rock Foundation
1965	Northern Rock building society formed by a merger of the Northern Counties and Rock societies	
1989	Abbey National building society converts to a plc	
1995	Lloyds Bank takes over the Cheltenham and Gloucester building society	
1996	National and Provincial building society taken over by Abbey National plc	
1997	Northern Rock becomes a plc after demutualisation and flotation on the London Stock exchange Halifax and Leeds Permanent building societies merge and convert to a plc. Woolwich and Alliance and Leicester building societies convert to plc. Bristol and West building society taken over by the Bank of Ireland	Northern Rock Foundation registered as a charity and a charitable covenant established
1999	Birmingham Midshires building society taken over by the Halifax plc	The Foundation has 8 staff Support for disabled, hospices, parenting, community development established
2000	Bradford and Bingley building society converts to a plc Woolwich plc acquired by Barclays	Focus of support widened to encompass young people, older people and a coalfields initiative
2001	Granite securitisation vehicle created by Northern Rock Halifax plc merges with Bank of Scotland to create HBOS	Grant programmes were recast. Funding of Regeneration; Penal Reform; Gay/Lesbian people; Creative Communities and Arts and Culture capital programmes established (subsequently Better Buildings). Northern Writer's Award established
2003		Funding broadened: Aspiration Programme (Culture, environment, heritage, sports); Prevention; Basics (disability and domestic violence); Exploration and Experiment; Better, Stronger Voluntary Sector, Regeneration programmes established Charity Commission report recommends new governance arrangements to dilute company control of the Foundation
2007	Northern Rock granted emergency funding by the Bank of England	Northern Rock Foundation has 26 staff. It reduces and focuses charitable funding. Capital schemes for arts and culture ceases
2008	Northern Rock taken in to public ownership; government invests £1.4 billion in the company UK Financial Investments Limited (UKFI) established with responsibility for managing taxpayer interests in publically-owned banks Bradford and Bingley plc nationalised, branch network and retail customers sold off to Santander plc and UKFI made responsible for its mortgage assets Alliance and Leicester plc acquired by Santander plc	Government provides £15m pa in financial support for the Foundation for three years until 2010, recognising that nationalisation had made the Foundation's shares in the company worthless

2009	HBoS acquired by Lloyds Bank	Northern Rock Foundation has 13 staff Culture and Heritage funding ceases
2010	Northern Rock split in to Northern Rock plc a standalone retail bank and Northern Rock Asset Management plc (NRAM) subsequently UK Asset Resolution (UKAR) responsible for the mortgage assets and loans of the company Abbey National plc acquired by Santander plc	Northern Rock Foundation linked to Northern Rock plc With funding stabilised two new programmes introduced focused on financial inclusion and homelessness
2011	Northern Rock sheds 3480 jobs between 2007 and 2011 to prepare for a sell-off	Fresh Ideas and Social Enterprise Funds introduced
2012	Northern Rock plc sold to Virgin Money for between £863 and £977m	Virgin agrees to move its operational headquarters to Newcastle, maintain the Northern Rock Foundation and continue a reduced covenant to pass on 1% of pre-tax profits to the Foundation until 2013
2012	£465m NRAM mortgages sold to Virgin Money	
2013	UKAR sells a portfolio of standalone unsecured Northern Rock personal loans to OneSavings Bank and Martin Financial Group for £400m	
2014	Sale of £2.79m of NRAM residential mortgages to consortium led by JP Morgan	Virgin Money indicates it will not invest in the Northern Rock Foundation unless it raises money from other companies. The Foundation approaches the government for support and when this is unsuccessful announces that it will close. Virgin Money Foundation established
2015	Sale of £13bn of assets from NRAM announced (sale completed 2016) including £12bn from Northern Rock Granite securitisation and £1bn non-Granite to Cerberus Capital Management, a US private equity firm, and Cerberus pass on £3.3bn of loans to the Trustee Savings Bank. Government received £520m as part of the sale.	
2016	Cerberus launches a successful sale of £6.2bn of securitised bonds backed by 80,000 mortgages purchased from NRAM UKAR announces 7yr transfer of the mortgage servicing operations of Northern Rock to Computershare covering £30bn of NRAM assets and 1,700 NRAM employees UKRA retains 250 employees to manage the balance sheets of NRAM and Bradford and Bingley	Northern Rock Foundation closes

Source: National Audit Office (2012) *The Creation and Sale of Northern Rock plc*, Report by the Comptroller and Auditor General, HC 20 Session 2012-13, May; Robinson (2015); Building Societies Association, various company press releases and press reports.

Table 2: Northern Rock Grant Expenditure by Area, 1998–2014

Location	Nos of Grants	Spend (£)	Spend per head of population (£)
Northumberland	472	23,078,148	73
Tyne and Wear	1,351	68,700,553	62
County Durham	548	21,573,545	42
Tees Valley	557	27,496,291	41
Cumbria	520	25,632,534	51
North East and Cumbria	66	6,886,425	-
North East	524	43,308,069	-
Elsewhere	362	8,497,271	-
Total	4,400	225,172,836	-

Source: Robinson (2015)

Table 3: Major Culture and Heritage Investments by the Northern Rock Foundation, 2002-2009 (£000)

Investment	Financial Assistance
<i>Newcastle Gateshead Initiative</i>	
NG Partnership (Culture 10)	£4,425
<i>Quayside</i>	
Sage Music Centre	£1,000
Baltic Centre	£400
Seven Stories the National Centre for Children's Books	£330
Live Theatre	£750
Side Gallery/Amber Film	£500
<i>Newcastle University Cultural Engagement</i>	
Northern Stage	£490
Great North Museum	£500
<i>Other Large Grants</i>	
Newcastle Theatre Royal	£987
Bowes Museum	£680
Darlington Borough Council (railway museum and arts programme)	£650
Middleborough Council (new art gallery)	£500
Tyneside Cinema	£500
Dance City	£450
Durham Castle/Durham University	£450
English Heritage Belsay Hall	£436
HMSTRincomalee	£404
Woodhorn Museum	£390
Grizdale Arts	£368
Alnwick Gardens	£350
Berwick on Tweed Preservation Trust	£350

Source: Northern Rock Foundation Annual Reviews

Table 4: Northern Rock Foundation Grant Expenditure by Programme, 1998-2014 (%)

Funding Categories	% of Grant Expenditure
Older people, carers, physical disability, learning disability, mental health difficulties	21.8
Arts, culture, heritage, creative communities awards	16.9
Domestic and sexual abuse and sexual exploitation	8.4
Children and young people	8.4
Sector development, Fresh Ideas Fund etc	6.9
Community development and facilities, urban and rural regeneration, environment	6.6
Jobs, enterprise, training for work	5.6
Homelessness	5.2
Financial inclusion, credit unions, debt and welfare advice	5.0
Penal reform and tackling offending	4.9
Health, sport, substance misuse	3.7
BME, prejudice and discrimination, hate crime	3.6
Other	3.0

Source: Robinson (2015)