CHAPTER – II
HISTORICAL BACKGROUND AND DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY

2.1 Introduction

In this chapter, researcher examines how society has consistently held expectations of business that go beyond the narrow sphere of wealth creation. We approach this in two ways. First, we explore how the relationship of business with society has been acted out during different historical periods; second, we use that historical context to unravel various theories of how business relates to society.

In first chapter we have revealed that private enterprise has always been the subject of public scrutiny. What we mean by 'corporate responsibility' today has been influenced enormously by our economic systems, the evolution of the modern corporation, and the emergence of theories of corporate responsibility itself.

The Cadbury case is a useful starting point for putting corporate responsibility in context. The issues in 1909 were, in many ways, the same as those today. First, companies were then and are now felt by many to have a duty to uphold certain human rights, even when there is no legal liability. Second, companies that purchase commodities or manufactured goods are held to have influence over, and responsibility for, the behaviour of their producers. These principles were apparent in the 1909 court case and are central to areas of modern corporate responsibility, such as ethical trade.
Echoes of the Cadbury experience can be heard throughout this chapter as we explore the origins of corporate responsibility. The company's experiences are not unique: stick a pin anywhere in the timeline of corporate evolution and the issues of what a company should be responsible for, who decides, and where accountability lies are recurring themes.\textsuperscript{1}

From the early days business was closely related with society. It could exist only when there were people, for whom it produced products and services, if there were producers of raw materials and people who worked for this business. These basic things haven’t changed nowadays and business still depends on the society and at the same time influences it greatly.

The history of CSR comes back to the beginning of the 20th century and is connected mostly with the USA, when some businessmen decided that their enterprises should use resources in the way that would bring benefits both to the owner and to society. This idea had to be forgotten soon because of the Great Depression in the 30s, when all the enterprises had only one goal to survive and the Americans wanted nothing but salaries and employment. According to Lee Preston it was again brought up in 50s (some scientist are sure that it was a result of global cooperation during and after the World War-II) and approximately at the same time H.R. Boyen published his book (the first study on CSR) Social Responsibility of a Businessman where he showed that social responsibility can add to the profits of the company if it is correctly introduced. In 60s and 70s the idea of CSR was separated from economic profit and from that

\textsuperscript{1} Michael Blowfield, Alan Murray, Corporate responsibility: A Critical Introduction, Oxford University Press, 2008, P. 43.
moment business was expected to follow not only juridical legislation but nonofficial rules of business ethics as well.

After the collapse of the Soviet Union foreign companies started to enter our market and brought along ideas of CSR. Thus it is really rather new for our country, but if we want to develop and to reach the level of international business we need to form socially responsible business. American way of CSR is characterized as the one with most authorized enterprises. If the government tries to make some decisions for the enterprises it will be considered illegally interfered. Corporate aims are-profitability and responsibilities in front of shareholders. Charity is one of the most wide-spread activity, highly appreciated by the society. Great part of all social programs are financed through corporate funds and all the expenses on solving social problems reduce the amount of taxes paid by the corporation.

European way is to pay higher taxes and thus give money to the government to carry out various social programs. From this point of view government is a special institution that follows concrete norms to solve social problems with the help of business investments. Sponsorship and Charity is less popular because of tax pressure. Today European corporations are mostly focused on three main types of CSR: economy, employment and protection of the environment.

In the developed countries CSR is already an essential part of modern business. Many companies have admitted this way not only because of their own position in this matter, but because of social pressure. I will give several examples: food producers were blamed for obesity and had to change their production norms and marketing strategy (Kraft Foods had to cut down fat
and sugar in its food, limit portion sizes and stop marketing in schools). World’s biggest footwear and clothing brands including Levi Strauss, Nike and Reebok had faced a lot of problems because of their plants in developing countries and now they have special independent audits of their supplier factories to increase the transparency of their supply chain and work hard to improve terrible labour standards. British oil and mining groups came under strong pressure from a coalition of investors and government to make public their payments for developing countries to fight possible corruption. Even financial sector was forced to avoid giving loans for socially or environmental questioned projects. Practically all this concessions were made in order to keep good reputation and not to lose market share. Nowadays consumers are more concerned not only with the brand, but with the social behaviour of the company. Some of them are even ready to change their preferences, if the company’s policy doesn’t suit them.\(^2\)

Government and social associations are also concerned with the development of CSR. Now a special International Standard on CSR ISO 26000 is being worked out. 426 experts from 84 countries take part its preparation. It won’t be obligatory for all the companies, the principle of CSR is still voluntary but is strongly recommended and highly appreciated. The publication is expected in 2010.

### 2.2 Three Eras of Business Responsibility\(^3\)

However the Cadbury experience straddles three historical

\(^3\) Madhumitta Chatterji, Corporate Social Responsibility, Oxford University Press, 2011, PP.19-20.
periods, during which the nature of business' relationship with society has changed significantly:

1. The Industrial Revolution;
2. The Mid-Twentieth-Century Welfare State;
3. Globalization

Each period has raised new issues about what business should be responsible for, but, as we will see, many of the issues remain relevant from one era to the next.

2.2.1 The Industrial Revolution

Throughout much of Europe, the biggest change in human demographics and human working life came with the Industrial Revolution, as the poor from the countryside headed towards the cities in search of work. In the UK, the first industrial power, between 1801 and 1871, the proportion of the population engaged in manufacturing increased from one fifth to nearly two-thirds.

But this massive increase in urban living brought with it problems of overcrowding and disease. Children were employed in sweeping chimneys, domestic service, and manufacturing, as depicted in the popular novels of Dickens and Kingsley. Factories and mines were responsible for a large number of injuries and fatalities. Slave labour on the African and American continents produced many of the raw materials that industrialization required. In some industries, women became important components of the workforce, not out of choice, but due to poverty.

Industrialization provoked civil unrest. From the late 1770s, there were numerous popular, frequently violent, protests
aimed at resisting industrialization or improving the lives of those affected by it. Information about human exploitation spurred various reform movements, such as Wilberforce's anti-slavery society, while the UK's first Factory Acts were passed in 1819 and laws to control conditions in mines were passed in 1842.

In addition to government intervention, it was around this time that writers such as Carlyle and Arnold began to suggest how heads of industry might behave, marking the start of the era of Victorian philanthropy. Robert Owen had already set up his mills at New Lanark and was an instigator of the early Factory Acts. He strove to establish a new model of industrial development in Scotland and the USA, based on the belief that a man's character was formed by his surroundings, and the conditions under which he worked and lived. This vision was developed later in the century by the likes of Cadbury and Rowntree, who established villages at Bourneville and New Earswick respectively, within which their workers could live in supportive communities with open spaces, shops, and schools in easy reach.

Perhaps the most famous philanthropist from this era was the Scottish-born Andrew Carnegie, who made his fortune manufacturing the steel needed to develop America's railway network. When he sold up, he embarked on a philanthropic quest that saw him donate some $350m to charitable and other philanthropic causes, including the building of libraries, the establishment of educational trusts, and contributions towards creating such iconic buildings as the Carnegie Hall in New York and the Peace Palace in The Hague.
Each industrial economy has its own history of industrialization, and we only have to look at the different timelines of the abolition of slavery in the UK, the USA, and Belgium, for example, to see that change happened at different speeds and in different ways. More importantly for contemporary corporate responsibility, however, the social and environmental consequences of early industrialization in countries such as the UK remain relevant today, especially in countries such as China, which is now witnessing a massive influx of rural people into urban areas, and where economic growth can appear to be at the expense of human and environmental well-being.

2.2.1.1 The Evolution and Rise of the Modern Corporation

The first Industrial Revolution in Europe and the USA was part technological invention, part institutional innovation, and we should not overlook the importance of the latter, in particular the emergence of the 'limited liability company' and changes in the meaning of 'incorporation'. Today, the meaning of 'business' is either taken for granted, or the subject of typically polarized debates about whether it is a good or a bad thing. But in capitalism's early days, the advantages and disadvantages of different types of company were widely debated. A major factor that allowed the modern corporation to emerge was the legal construct known as 'limited liability': the system by which shareholders in a company are not liable for its debts beyond the nominal value of their shares. The economist, Adam Smith, disliked this idea and favoured partnerships over corporations, because he felt that separating the owner from direct control of
the company opens the way for professional managers to pursue their own self-interest. But, despite the fact that the limited liability company is only one of several forms of commercial enterprise, it has nonetheless come to dominate the modern business world.

Limited liability encourages entrepreneurship, but has also been singled out as the root cause of problems in the business-society relationship. It has made possible the emergence of multinational corporations, the power of which Korten (1995) views as a threat to society and Henderson (2004) sees as an asset. It also creates the tension between shareholders and corporate officials that is central to arguments about where a company's responsibilities lie. For some, such as Friedman (1962), and Laffer and Miles (1982), the primacy given to shareholder interests is the genius of capitalism; for others, such as Mitchell (2001) and Ellsworth (2002), it is the reason why managers focus on short-term results and therefore restricts their freedom to serve the interests of others in society. Thus, limited liability is central to the roles that companies play in creating jobs, paying taxes, and generating wealth, but also to aspects of corporate behaviour such as downsizing, bankruptcy, and who has claim to the company's assets. We discuss these issues in other chapters, not least in the context of the socially responsible investment movement, which seeks to change the investor-company relationship.

5 www.deehenderson.com
6 David Stephen Mitchell is an English novelist and has written novels “Number 9 dream, 2001” and ‘Cloud Atlas, 2004.
2.2.2 The Mid-Twentieth-Century Welfare State

- Between World Wars\(^7\)

Charitable giving by Carnegie and others did not ameliorate concerns about the growing strength of corporations. In the USA especially, the nature of incorporation underwent major reforms that removed limits on company size, for how long they could exist, and what they could own. From the mid-nineteenth century onwards, the idea that companies shared certain rights comparable to those of citizens began to be established and, some now believe that this extends to rights such as free speech. By the early twentieth century, there was a huge increase in the number of mergers and corporations came to be seen by some as huge, impersonal monoliths that were beginning to exert political pressure as never before, leading to public calls for greater regulation and supervision.

It is difficult to generalize, because of the differences in national experience, but the period before World War I, during which global free trade flourished, was largely one in which corporate power grew and private self-interest was promoted as serving the public good. This triumphalism died after the war, and momentum increased for greater equality and a rethinking of the social order following the leadership failures that had left eight million dead on battlefields around the world. The International Labour Organization, founded in 1919 as part of the League of Nations, brought together government, business, and trade unions, and explicitly recognized the dangers of an unjust political or economic order. Business leaders were forced to

\(^{7}\) Supra note 3.
consider the impact of their business activities on the society and, by the end of the war, a number of leading companies were engaged in what became known as 'New Capitalism'. This movement was founded on the idea that the company should voluntarily take steps to portray itself and its activities as beneficial to society at large.

But New Capitalism gained limited attraction, partly because of the greater struggle between managers and organized labour that was a feature of the post-war period, and also because economic growth (particularly increases in share value in some countries) encouraged a belief that markets could be the ultimate guarantors of the public good. The principles of New Capitalism came more to the fore, however, following the great depression, when corporate greed was blamed as one of the possible causes of the Wall Street Crash, 1929\(^8\) that left millions destitute in the USA, with ramifications across the world's economy.

But voluntary constraints on business behaviour did not prevent government intervention. In 1934, US President Franklin D Roosevelt initiated the 'New Deal', a series of measures that were, in part, designed to limit the power of corporations. If the 1920s' view of corporate managers is encapsulated in the phrase of Sloan, 'The business of business is business', Roosevelt's view can be seen in the quote: 'We consider too much the good luck of the early bird, and not enough the bad luck of the early worm.' Despite the vehement opposition of some industry leaders, the

\(^8\) The Wall Street Crash of 1929, also known as Black Tuesday and the Stock Market Crash of 1929, began in late October 1929 and was the most devastating stock market crash in the history of the United States, when taking into consideration the full extent and duration of its fallout. The crash signaled the beginning of the 10-year Great Depression that affected all Western industrialized countries and did not end in the United States until the onset of American mobilization for World War II at the end of 1941.
provisions of the New Deal remained until the early 1970s, when oil shortages forced the US government to rethink economic policy.

- **World War II**

  After World War II, the principles of the New Deal influenced the type of welfare state that was to define Western European public policy over the coming decades. In the UK, the post-war Labour government put in place a system of welfare safety nets. It also acted on its belief in state-owned industry by nationalizing major industries such as coal, railways, steel, gas distribution, and power generation. The idea that business best served the public good if it was state-controlled took hold in much of Western Europe and, of course, in the Eastern Bloc of Communist countries, in which private enterprise was outlawed. It also characterized the role of business in newly independent countries such as Indonesia and India.

  In West Germany and Italy, new models of governance were put in place to ensure that workers, as well as shareholders, had a say in how companies were run. In the USA, a seemingly spontaneous interplay between business and society emerged, similar to what chaos theory would later term 'complex adaptive systems', but which, at the time, was seen as a debate over how much of its power business would cede to wider society.

  These different approaches to managing the role of business in society all marked a significant change in thinking from that of the days when it was assumed that business best benefited others by being left largely to its own devices. The welfare state was primarily concerned with a more equitable distribution of the benefits of economic prosperity. Distribution was the
responsibility of government and the primary role of business was to create jobs, obey the law, and pay taxes. The concerns of the welfare state, however, such as health care, living wages, and education, influence what we think of as 'corporate responsibility' today. Equally, national governments' renewed interest in human rights in the aftermath of the war gave rise to such agreements as the United Nations' Universal Declaration of Human Rights, which is now referenced in important corporate responsibility initiatives.

But post-war prosperity brought with it new social concerns. In the early 1950s in both the UK and USA, air pollution claimed the lives of many citizens, with serious instances in London, New York, and Los Angeles. Pollution became a political issue, resulting in the passing of the US Air Pollution Control Act in 1955 and the UK Clean Air Act in 1956. A year later, scientists working with the Scripps Oceanographic Institute were surprised to discover rising carbon dioxide levels in the world's oceans.

In 1962, Carson's *Silent Spring* was published, detailing the effect of man-made pesticides, and, throughout the decade, scientific discovery into the effects of leaded petroleum, water pollution, and chemical seepage served to make increasing numbers of people aware of the connection between environmental degradation and corporate activity. In the following decades, regular instances of corporate malfeasance, such as the Love Canal, Bhopal, Chernobyl, and the Exxon Valdez, served to reinforce this connection.

Non-government environmental groups, such as Greenpeace (founded in 1971), began advocating for change outside the
mainstream political process. In terms of organization and strategy, they set the agenda for a much broader range of rights-focused activists, such as those protecting the interests of workers, indigenous people, animals, children, bonded labour, etc. the advocacy groups that play an important in contemporary corporate responsibility.

The women's rights movement also became more visible in the 1970s and, among other things, raised issues of equality in the workplace. One aspect of this was equal treatment in terms of remuneration and working conditions, and another was equality of opportunity. The movement worldwide has had an enormous impact in a relatively short space of time, most notably in the area of legislation (e.g. maternity rights, equal pay). In terms of corporate responsibility, the women's rights movement established the basic principle that companies shall not discriminate against women. Similar principles have been applied in relation to age, ethnicity, race, disability, and sexual orientation, and, in the USA especially, racial discrimination has been a significant part of the corporate responsibility agenda.

2.2.3 Globalization

The third era during which a marked shift in the nature of corporate responsibility can be witnessed is the contemporary era of globalization. Indeed, so important is globalization to corporate responsibility that we devote the next chapter to a detailed discussion of what it means, and how it relates to current ideas and practices. All that we will emphasize for now is that not everything about globalization is unique: indeed, as we discuss in Chapter 3, it can be difficult to describe what it is that makes globalization a distinct phenomenon. What is discernible
are a number of policy shifts that have allowed international trade to flourish to a degree not seen since World War I and which have ultimately stimulated new thinking about the business-society relationship.

Historically, these shifts have common roots in the Bretton Woods' Summit, at which, towards the end of World War II, policymakers set about establishing three major institutions that would ensure that the economic collapse that led to war did not reoccur. Two of these are the International Bank for Reconstruction and Development (commonly called the World Bank) and the International Monetary Fund have long been champions of free trade, but, arguably, their younger sibling, the World Trade Organization (established in 1995), is the most relevant to corporate responsibility because it governs international trade relations, prescribing much of what its member States can and cannot do in this area.

Free trade was seen as essential to global peace and prosperity, but the post-war decades saw only grudging steps away from protectionism. The economic prosperity that Western Europe and North America enjoyed in the 1950s and 1960s was, however, threatened by the 'stagflation' of the 1970s when, contrary to mainstream economic theory, relatively high unemployment (stagnation) was accompanied by a rise in prices (inflation). This was blamed on regulatory constraints and the power of the labour movement, as well as on taxation systems that stifled investment. Most famously, Margaret Thatcher and Ronald Reagan enacted policies supporting more private enterprise, less labour power, free markets, government control of currencies, and more incentives for private investment. These
types of economic and social policy came to define good
government in many countries and institutions such as the World
Bank, and were reflected in what came to be called the
'Washington Consensus': the set of policies that countries around
the world had to adopt if they were to receive assistance from the
major international financial institutions.

The term applies to a package of policies that were widely
adopted by borrower countries in Latin America, Africa, and
Southeast Asia and which created the conditions for overseas
companies to set up factories, or to source from suppliers, in
countries that hitherto had adopted policies of protectionism and
import substitution. They were also accompanied by neoliberal
ideas promoting the minimal state, ending income redistribution
and reducing welfare provision, and were eventually stripped
down to what Krugman (undated) calls the Victorian economic
values of free markets and sound money.

The impact of the Washington Consensus on the course of
globalization has been enormous, creating an environment in
which foreign investment, global trade, and the removal of tariff
barriers are all part of mainstream policy, compared with only
four decades ago, when private enterprise was barely recognized
as being a partner in economic development. Although, in recent
years, it has been roundly criticized by anti-globalization
activists, economists, and even the World Bank, many of the
elements of the Consensus remain part of orthodox economic
policy and, in what Rodrik calls the 'augmented consensus', it has
been expanded to include issues such as corporate governance,
combating corruption, transparency, and poverty reduction.
2.3 Corporate Responsibility Theory in Historical Context

Alongside the historical context, it is important to understand how social and economic theory has evolved over the same period, because this defines how we think about corporate responsibility today. As we will see, the whole meaning of 'corporate responsibility' can alter depending on what lens we use to understand the world in which we live. This is readily apparent in the following section in light of the current position of different economic systems in the world.

2.3.1 Business Before and Beyond Capitalism

Many think of capitalism as the only economic system and, certainly, many may not consider how different types of economy affect the way in which we think commerce should contribute to society. Yet there are many different types of economic system, and understanding something about non-capitalist economies helps both to show how capitalism shapes the way in which we think about the business-society relationship and to highlight that even today religious and political ideologies influence economic behaviour.

Trade is a basic human activity, but it is not always about making money. The idea that trade is synonymous with profit is very culturally specific. In the highlands of Papua, for example, the purpose of trade is to extend one's network of social relationships and wealth is less important than creating alliances. Contrast this with capitalist society, in which often what we value most is the accumulation of wealth and in which, unless things go wrong, we feel we have no further obligation to the trading partner.
Clashes rooted in the different assumptions of economic systems are highly relevant to many modern enterprises. One of the main reasons why international logging, oil, and mining companies operating in regions such as Papua, for example, have faced persistent opposition from local populations is because they fail to understand community expectations: witness, for example, BP's Tangguh natural gas project.

Different types of economy also affect other aspects of economic life. We may take it for granted that someone wants to work for a wage. Yet, even today, in parts of Africa, for example, working for someone can be part of a complex social system under which the worker may receive little in the way of money, but may instead learn important skills and may even establish rights to inherit property from his 'employer'. Understanding this type of relationship is important: both in recognizing that the commoditized labour typical of modern business (i.e. people 'selling' their labour for a wage) is not universal and in helping companies better to address slavery, child labour, and other exploitative practices that may arise along their supply chains.

2.3.2 Politics

Within modern economies, different types of political system still affect the form that business takes. Gilpin and Gilpin (1987), for example, set out three ideologies of political economy:

(a) the liberal model of the USA, the European Union, etc., that is based on notions of individual equality and liberty;

(b) the nationalist/mercantile model, within which economic activities are subordinated to the goals of the state (e.g. as in
(c) the Marxist model, under which investment and enterprise is controlled by the state, as still found in Cuba and, to some degree, in China.

It is easy to forget that, for much of the twentieth century, there were lively debates about which political systems were most productive and that it is only relatively recently, with what Fukuyama (1989) called 'the end of history' and the emergence of liberal democracy as the dominant political system, that interest in this aspect of political economy has, at least for the time being, subsided.

2.3.3 Religion

Religion also affects economic behaviour and what is considered ethical. For believers, the 'morally right' thing to do is generally synonymous with the notion of what God might have commanded and, conversely, the 'morally wrong' choice is what God might have forbidden. There have been some attempts to examine corporate responsibility from a religious perspective and religious ideas are today influencing faith-based companies in parts of the USA. In many cultures, religion is connected with trade. According to Evers and Schrader (1994), traders have traditionally occupied a unique position in society: on the one hand, they are expected to represent the community's interests when dealing with other communities; on the other, they risk being ostracized for exhibiting the same behaviour within the community. This 'traders' dilemma' may account for why traders often pursue separate religions, such as the Jains in India, the Jewish traders of medieval Europe, and the Chinese Christian churches in Indonesia.
Hostility to trade has certainly led to racial stereotyping and violent outbursts in many parts of the world. It has also, as in the spread of Islam throughout Asia by Arab traders, led to significant cultural and religious change. Moreover, as economic theory evolved, it became possible to argue that a certain type of economy, as well as religion, was morally superior. Nowhere was this to become more apparent than in the American idea of manifest economic, political, and religious destiny.

Religion was depicted by Weber as playing an important role in the shaping of economic systems and he argued that the values of Protestantism, in particular, explain why capitalism took hold in some societies rather than in others. It is certainly true that many successful Victorian enterprises sprang from relatively small Quaker and Calvinist communities, which emphasized the connection between work and religious belief.

2.3.4 Economics and Society

The examples so far all show how commercial activity is affected by the world around it. In modern capitalist societies, it is common to look at society through the lens of economics and economic well-being is a major factor in our lives. But does it make sense to think of society as synonymous with the economy? Can the economy be trusted to produce a just, sustainable society, or do markets need to be tamed by other institutions? Do we believe that economic reasoning can establish the responsibilities of companies, or does there need to be a broader perspective?

Such questions require us to think about the nature of the economy. Today, we tend to think of economics as a distinct discipline, but this was not always the case. It was Marshall and Pigou, his successor, who, in the nineteenth century, did much to
establish economics as a discipline in its own right: as an enquiry into flows in goods and services. Perhaps the most far-reaching consequence of this shift is how it has made the market a central reference point in how we view the world. Certainly, how we look at markets in terms of their contribution to the public good is an important factor when thinking about corporate responsibility. If we believe, as pure classical economists do, that the good of society is served by letting the market function without external intervention, then major areas of corporate responsibility should be rejected as unwarranted interference (e.g. attempts to set a fair wage, to limit overtime, or set environmental legislation). But if we are uncertain about markets acting as the main arbiter of the public good, corporate responsibility offers the promise of rectifying their deficiencies.

What underlies questions about the role of markets is how we see the relationship between the economy and society. Contrasting views of this relationship are apparent in the works of Polanyi, Veblen, and Hayek. Economic anthropologist Polanyi (1944) argued that classical economics had become too focused on the 'formal economics' of Marshall and that what matters more is 'substantive economies', i.e. the instituted process of interaction between man and his natural and social environment. For Polanyi, the significance of capitalism's emergence in the nineteenth century is that it 'disembodied' economic behaviour from society and led to the economy being seen in terms of markets, rather than in terms of actors, and their actions and values.

'Institutional economics' also refutes the notion that all economic issues can be described and resolved in terms of individual interactions with the market. Veblen (1904), its
founder, argued that continually changing customs and institutions, not only economic rationality, affected people's economic decision making and the importance of these other factors increases the less perfect competition is present in the market. This idea has been taken further by New Institutional theorists such as Coase (1937), who treats the role of institutions and the imperfect nature of competition as central to any understanding of business.

Hayek, the liberal economist, accepted the importance of social institutions, but argued that it is one thing to say that man created the institutions of society, such as the law and moral codes, but another to say these can be altered to satisfy man's desires or wishes. He likened institutions such as the market to a footpath across a field, worn away over time by people pursuing selfish motives while producing something that appears collaborative and planned. For Hayek, the problem is not that the capitalist economy is unalterable, but that, in changing it, we might unwittingly destroy the complex overall order that we are hoping to improve.

Such theories provide more than only a context for understanding modern enterprise: they tell us something about how some of the basic issues addressed in corporate responsibility, such as fairness, sustainability, and well-being, are viewed within theories of capitalist society. These differing views are worth considering in the corporate responsibility context because, although corporate responsibility is not overtly wedded to any particular political ideology, it does assume that conscious human intervention is necessary to improve the business-society relationship. This becomes more apparent when
we examine the capitalist economic system in greater depth below.

2.3.5 Capitalism the Backdrop to Corporate Responsibility

Capitalism is the dominant economic system in today's world. Even though there are other systems, what we think of as 'business' is essentially a capitalist business model and what we think of as 'corporate responsibility' is framed in important ways by the principles, norms, and values of that model. Therefore, any attempt to understand corporate responsibility divorced from an understanding of capitalism will make it difficult to grasp why certain courses of action have been taken and others not, why certain things are valued and others considered unimportant, and why particular behaviours are taken for granted that, in other systems, would seem strange, if not abhorrent. Although, as we will see, there are different interpretations of what capitalism is, could, and should be, the various theories have much in common that sets them apart from the alternative systems that we discussed in the opening section of this chapter: for example, the notion of profit-markets as the main determinants of price and utility; the commoditization of things (goods, labour, land, etc.); the concept of private property.

2.4 Liberal Theories of Capitalism

The characteristics of capitalism are most clearly seen by comparing the liberal (or classical) perspective and the critique provided by socialist (or Marxist) theory. The difference between liberal and socialist views of capitalism is less in their underlying analysis of capitalist economics than in what they saw as its consequences. The founder of liberal economics was Adam Smith (1776), who argued that what made the individual
enterprise competitive (i.e. division of labour and availability of capital) also made nations competitive. The idea that the specialization promoted by the division of labour leads to greater productivity informed early thinking about free trade, under which nations are predicted to benefit from producing goods for which they have a competitive advantage. It is nations with free competitive markets, Smith argued, that are best able to allocate resources and that ultimately grow wealthier, because they allow people to pursue their own self-interest.

Ricardo (1817) developed many of Smith's ideas, and his law of comparative goods (i.e. that trade exists between countries only when there are differences in cost) has probably had more influence on arguments for economic globalization and free trade than has Smith's belief that trade happens because of the benefits of specialization. What both Smith and Ricardo believed, however, was that the capitalist economic system tends towards an equilibrium between buyers and sellers of goods, and labour and capital, and that there should be little government intervention in what came to be known as the 'laissez faire' system. How much intervention and under what circumstances it should occur has become a major theme of both economic theory and government policy since Smith wrote in the late eighteenth century. Left unfettered, liberal economists claim, competitive markets will both check the power and profits of business, and induce firms to allocate resources effectively enough so that the economy always returns to full employment. This tradition of seeing market forces as the most efficient determinant of utility is still very much evident in contemporary politics, although some have pointed out that even Smith did not believe in
unconstrained self-interest, as is apparent in his argument that the self-interest of business people should be shaped by moral forces in the community, so that it does not degenerate into greed and selfishness.

2.4.1 Socialist Critique of Capitalism

Smith and Ricardo's theories of labour value were fundamental to the ideas of Karl Marx (1865), but he differed from them in highlighting labour as the basic determinant of a product's value. He distinguished between a worker's 'exchange value' (the price paid to raise, feed, clothe, and educate a worker) and that worker's 'use value' (the value of the worker's labour to the capitalist, as reflected in the final product's market price). For Marx, the capitalist's profit was the difference between exchange value and use value, which he called 'surplus value'.

At the heart of Marx's critique of capitalism is that markets are unfair to workers, who are unable to capture a fair price for their labour and who repeatedly suffer, because of the periodic depressions and economic fluctuations that Marx saw as characteristic of capitalism. Clearly, this is in contrast with the liberal notion of market equilibrium, under which imbalances between supply and demand are typically temporary or the result of external interference.

Liberal and socialist perspectives on capitalism framed much of the debate about economic policy in the nineteenth and twentieth centuries, and continue to have a significant influence on how we think about the route to economic prosperity and justice, even if, since the collapse of Communism in the Eastern Bloc, Marx's ideas, in particular, have typically been derided.
In the Western world, much of twentieth-century policy sought to create a middle ground between laissez faire and socialism. Keynes, and later Galbraith, significantly influenced government policies that sought to mediate between society and markets following the economic crises of the 1920s. Elsewhere, the very different policies of Nazi Germany and Nehru's India also sought to harness the power of the private sector for the public good. In the latter part of the twentieth century, economists, such as Friedman (1962), and philosophers, such as Oakenshott, argued for a return to a purer form of market capitalism. Public policy has also been significantly affected by recognition of other factors that influence economic life, such as gender, race, and forms of identity other than social class. Yet the policies of most liberal democratic governments boil down to questions about the strengths and weaknesses of markets that stem from insights into liberal economics. Moreover, such questions are central to corporate responsibility, and add significantly to our understanding of corporate responsibility's origins and its current concerns.

In the late 18th century a Scottish philosopher and economist named Adam Smith wrote numerous articles on these subjects, his magnum opus being *The Wealth of Nations* in which he espoused the concepts of free trade and the free market on which the classic market economy was based.

Smith's principles were borne out. By the early 19th Century, new technology saw jobs being created and living standards improved. Unchecked by regulation businesses flourished and industrialists in Europe and the USA amassed huge fortunes. However few of these wealthy new industrialists

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9 Thomas L. Friedman is an internationally renowned author, reporter and Columnist and the author of six best selling books, among them “From Beirut to Jerusalem and The World is Flat.
were concerned about the well being of their employees, society or the environment. The appealing conditions under which people worked were documented in the novels of Charles Dickens and inspired radical theorists such as Karl Marx and Friedrich Engels to write about new concepts on labour, socialism and communism.

By the start of the 20th century, powerful corporations suffered a backlash against their widespread exploitation. Labour unions were formed, giving a voice to the workers, and governments began to assume more responsibility for welfare and infrastructure, gradually introducing anti-trust legislation.

In the 1950s, emerging ‘consumer power’ saw companies start taking a new interest in the social and human aspects of their markets – it was at about this time scientists and environmentalists started noticing some worrying changes to the environment.
The 1960s saw a shift in attitudes towards government and business. In 1962 Professor Milton Friedman, Nobel Prize-winning economist, published his controversial *Capitalism and Freedom*. In it he makes the case for economic freedom as a precondition for political freedom.

The 1980s and 1990s saw communism collapse, globalization emerge and the information revolution change the way the world did business. As globalization intensified, so did environmental awareness and the emergence of responsible business practice. Key developments include: the Brundtland Commission, the formation of the World Business Council for Sustainable Development, and the United Nations Global Compact.

However for further insight into the history of development of Corporate Social Responsibility there is need to examine the history of CSR in different countries.

### 2.5 History of CSR in U.K.

Adam Smith (1776) in his book ‘The Wealth of Nations’ said that “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our necessities but of their advantage.” Some large UK firms have argued that ‘doing good is good for business’, which perhaps sums it all up. However, the actions of ‘The Abolitionists’ from the 1780s 1830s show that altruistic CSR in the UK has a very long history.\(^\text{10}\) Here in this chapter history of CSR practices in two main leaders of corporate world i.e. U.K. and U.S. is studied along with India so

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as to understand the nature of CSR in historical period.

History suggests that the field of corporate social responsibility (CSR) has been practiced in some or other way in nearly every country where business and trade was prevalent. The concepts similar to CSR were practiced in UK for well over two hundred years. Albeit actions that are tantamount to the activities now referred to as social responsibility were not previously so described. CSR is a relatively modern term used for all those corporate actions that now fall under its ambit.

The UK a widely acknowledged world leader in the field has played a pivotal role in recent corporate activities/actions in the field. This chapter explores how corporate entities have been practicing CSR over the last few decades and also that the governments have assumed at different times in the field of CSR in the past few centuries.

The notion that British corporate entities should behave responsibly can be traced back several centuries. It was the Portuguese that started the slaving of Africans in 1440 Rawley and Behrendt (2005); by 1562 England had joined in the socially irresponsible trade through Sir John Hawkins (Du Bois 1896). By the 1760s, slavery and the treatment of African slaves had become a social issue in Great Britain. By the late 1780s, Sir William Wilberforce and two of his other parliamentary colleagues, Thomas Clarkson and Granville Sharp, had formed the ‘social activists group’ of their time ‘The Abolitionists’ as they were then called. This pressure group they formed campaigned peacefully for 35 years for the abolition of slave trade. The powerful federation of planters, merchants, manufacturers, and ship owners understandably put up a strong
resistance against the efforts of these social activists through their actions in both the Houses of Commons and Lords. Finally, on the 25th of March 1807 the Abolition of Slave Trade Act was passed. The Act made it illegal for British ships to carry slaves and for British companies to trade in slaves. In effect, the Act could be interpreted as a legal mandate that forced British corporate entities, including the church, to behave in a socially responsible manner in respect of the trade in human beings and all related activities. However, the trade continued despite the 1807 Act until another Act: the Slavery Abolition Act 1833; even then the Tory government of Robert Peel had to pay compensation to the slave owners. The value of the compensation depended on the number of slaves owned. It was claimed that the then Bishop of Exeter, Dr Henry Phillpotts, was paid £12,700 for 665 slaves, an average of about £19 per slave.¹¹

During the Industrial Revolution of 1750-1830, several British industrialists and entrepreneurs had indirectly practiced some aspects of corporate social responsibility (CSR) as we know it today.

Arkwright was the first industrialist to build low-cost houses near his factories for his employees in Derby in 1775. Arkwright had embarked on what in today’s terms would be perceived as being socially responsible by providing these homes either rent free or at nominal rents, as pointed out by Crowther (2002), and this took place even in the eighteenth century when making a profit was the single objective of a business enterprise. There was also Titus Salt, the Yorkshire wool baron, who Cook (2003)

describes as ‘a pioneer of caring capitalism who should really be described as ‘the pioneer of modern environmentalism’. In 1848, in an attempt ‘to make a difference’ in the lives of the residents of Bradford town, which was then described as the most polluted town in Britain, he relocated his woolen mill in Saltaire, outside Bradford town centre. Over a period of 20 years Salt created a model community for his staff in which every home had running water. Cook (2003) recites the social responsibility behavior of Joseph Rowntree, the sweet manufacturer and famous philanthropist, who in 1904 built ‘Rowntree Village’ in York for his employees with houses centered on a community hall. In 1906, Rowntree set up a pensions fund for his staff, in 1916 he established a profit-sharing scheme for his employees, and in 1918 he introduced The United Kingdom of Great Britain and Northern Ireland 13 staff holidays. All these acts of social responsibility were revolutionary at the time.

Maltby (2004), in her study of the historical antecedents of CSR reporting in the UK, argues that the assumption that CSR reporting in the UK is a recent phenomenon is incorrect. She notes that CSR reporting had been practiced proactively by several UK manufacturing companies; for example, there is evidence of such reporting by Sheffield steelmakers since the earlier part of the 1900s. Cook (2003) argues that the UK National Insurance Act of 1911 introduced by Herbert H. Asquith’s Liberal Government, which compelled firms to make contributions for unemployment and sickness benefits for all their staff, was the first recorded direct intervention by the state in this aspect of CSR anywhere in the world. History, therefore, indicates that the UK has contributed its fair share in the development of the practice of CSR.
2.6 History of CSR in U.S.A.

The first glimpse of CSR in USA is seen in the Quaker movement, which was founded in 1652 by George Fox, who rebelled against the established political and religious practices and promoted what he believed was genuine Christianity. Quakers are credited with being the first group of investors to use social criteria to investing standards, based on their belief in human equality and nonviolence.\textsuperscript{12}

The first significant judgment came in 1819\textsuperscript{13}. The judgment declared the role of the state was no longer that of a sovereign over the corporate, but that of a partner in a private contract. In 1886, the US Supreme Court declared that a corporation is considered a ‘natural person’.

The social awareness was first reflected in the creation of the Pioneer Fund in 1928 to take care of the needs of the church group investors, who did not want to invest in ‘sin’ such as gambling, tobacco, and alcohol. The beginning of using shareholder activism to create social awareness can be traced to 1970, when Ralph Nader launched a campaign against General Motors. He submitted nine shareholder resolutions on consumer rights, minority hiring, and representation on GM’s board. In the same year, the Interfaith Centre on Corporate Responsibility (ICCR) was formed. It is a coalition of almost 300 groups of religious investors who sponsor shareholder resolutions on social issues in order to affect corporate policies and practices.

Examples of some early initiatives by organizations that began to take active steps towards CSR are discussed here. The

\textsuperscript{12} Madhumitta Chatterji, Corporate Social Responsibility, Oxford University Press, 2011, P. 292.
\textsuperscript{13} Dartmouth College vs. Woodward, 17 U.S. (4 Wheat.) 518 (1819).
Pax World Fund was the first mutual fund to adopt social responsibility standards for its investments. It promoted the idea of a mutual fund with conscience and included companies with fair employment practices and sound environmental policies.

South Shore Bank is the country’s oldest bank that is involved in the largest community development activities. It promotes and focuses on improving the economic health of neighborhoods and also caters to individual financial concerns of consumers, businesses, religious, and community organizations. The bank is also the first bank to offer bank accounts to social investors with development deposit options, for funds to go directly towards rebuilding urban communities.

The promulgation of the Sullivan Principle, which was drafted by Rev. Leon Howard Sullivan to promote social, economic, and political justice through corporate codes of conduct, encouraged the business world to get involved in ethical and human rights concern. It is interesting to note that Rev. Sullivan was the first black member in the board of the General Motors Corporation, and he secured GM’s support in development of the Sullivan Principles, which began as a code of conduct for American businesses operating in South Africa. The principles were later widened for universal application.\(^{14}\)

Voluntary Corporate Codes of Conduct (CERES Principle) regarding waste reduction, energy conservation, and public safety. This is also known as the Valdez Principle. Organizations like the Body Shop, Ben & Jerry’s, Seventh Generation, and Aveda were the first to endorse the principle and were willing to

\(^{14}\) Madhumitta Chatterji, Corporate Social Responsibility, Oxford University Press, 2011, P. 293.
report on their environmental activities.

Another interesting index that took shape around the same time, i.e., 1990, was the Kinder, Lyndenberg, Domini and Co. Inc (KLD), which created the Domini 400 Social Index (DSI). The main purpose behind this was to track the performance of a number of companies that pass multiple broad-based social screens. DSI attempts to reflect the market as it exists for most socially responsible investors. This means that it further attempted to reflect the behaviour of stocks of companies that socially responsible investors might purchase. The famous Dow Jones Global Sustainability Index is the first index to incorporate social, environmental, and financial analysis into a comprehensive rating system. The evaluation is based on the company’s ability to compete in a global economy and focus on sustainability. A movement by students called Students for Responsible Business, now called Net Impact, has a membership of about 1500 graduates who together work to foster socially responsible businesses.

2.7 History of CSR in Japan

CSR, the relationship between business and society in Japanese perspective is a subject of study of business administration from long ago.

History of CSR in Japan can be divided in three phases:

1. Meiji Era: 1867-1911
2. Pre-War Period 1911-1945
3. Post- War Period 1945-1989

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15 Nobuyuki DEMISE Meiji University, Tokyo, Japan “CSR in Japan: A Historical Perspective”
2.7.1 Meiji Era: 1867-1911

In Meiji Era, the government adopted the policy to form the industrial society and imported institutions from the West, including the legislation system and the company system. This era is the first period for the relationship between company and society. Before 1867, Japanese society was a feudal society under the Tokugawa shogunate. Although there was the Movement for Civic Rights and Freedom in the 1880s, we could not consider that Japan was a democratic state in those periods.

Eichi Shibusawa is called “the founder of Japanese Capitalism”. He took part in foundation of about 500 companies and about 600 social works. He founded Tokyo Stock Exchange in 1878. He presented his idea, ‘The Analects of Confucius and Abacus’. He reasoned that this would be the best way for Japanese business people to make success of their business. He thought that economy was consistent with morals and that business people complied a moral code. There were the classes of warriors, farmers, artisans and tradesmen in Edo Period. In those days, tradesmen meant business people had lower social standing. Some of them bribed government officers actually. After the Meiji Restoration, Shibusawa thought that the private profits were not inconsistent with the public interest in the right business.

The Japanese government tried to make a lot of money by industrial development. The government founded national enterprises including the coal mine, the shipyard, the silk mill, the railway, and the steelworks. Later, the government sold many of them to business people, like Yataro Iwasaki, at the relatively lower price. Iwasaki was the founder of Mitsubishi combine,
zaibatsu. Business people were closely connected with the government. When the relationship weakened, some business declined. But the relationship between the government and business people was changing on occasion. Mitsubishi Zaibatsu had good relationship with the government, but once they lost a supporter in the government. In those days, they got into trouble and they left the shipyard.

Companies with limited liability found since 1899, when the Japanese Commercial Code was legislated. The Stock Exchange Ordinance was enacted in 1878. Based on this ordinance, the Tokyo Stock Exchange was established in 1878. However, the stock market was not fully grown.

As Japan was industrialized, many workers at the factories worked at a lower wage for a long time. Many young women worked at the silk mill. Some companies, especially large companies, introduced the life time employ system.

There were large damages from mining pollution in Ashio, where was a copper mine and mined copper. The copper poisoning damaged rice paddies in the Watarase valley. These are the initial instances of ill effects of environmental pollution in Japan. But corporate did not take care because of week govt. So, we see that business responsibility was not a general practice rather was adopted by a few individual businessmen.

2.7.2 Pre-War Period (1911-1945)

In the first this period, the society started to democratize. There was the Movement for Democracy and Liberalism in the Taishou Era, and the Universal Suffrage Law legislated in 1925. The social movements, including labour movements and human
right movements, occurred in this period. But, with widening gap between rich people and poor people, the violence in society grew. The terror groups took aim at statesmen and business people including Zaibatsu. Many big business people were assassinated and then business people commented that sometimes they did not devoted gains to charity. But Yasuda (big businessman) thought good deed should be done behind the scenes, so he anonymously subscribed a large amount of money to Tokyo University for building an auditorium, which was called the Yasuda auditorium after his death.

Zaibatsu (another big businessman) had a change of direction in that situation and gave priority to national interests. Zaibatsu decided that group companies were listed the stock exchange and the holding companies which controlled group companies were listed the stock exchange at last. The mass of the people bought shares of those companies. The largest financial panic occurred and most of them suffered damage. Zaibatsu practiced charity in this period. Mitsui Zaibatsu decided to make a donation of 2.5% of their profits and founded the large hospital for charity. As the influence of the military became stronger, Zaibatsu cooperated with the military by pressure.

Koyata Iwasaki who led Mitsubishi Zaibatsu in this period presented the Three Corporate Principle of Mitsubishi. These principles were the foundation of the vision and strategy for our commitment to corporate social responsibility.

I. **Corporate Responsibility to Society; “Shoki Hko”**

Strive to enrich Society, both materially and spiritually, while contributing towards the preservation of the global environment.
II. **Integrity and Fairness; “Shoji Komei”**

Maintain principles of transparency and openness conducting business with integrity and fairness.

III. **International Understanding through Trade; “Ritsugyo Boeki”**

Expand business, based on all encompassing global perspective.

2.7.3 **Post-War Period (1945-1989)**

After World War, GHQ (the General Head Quarters of the Allied Powers) broke up Zaibatsu (The most powerful business family) and compelled Zaibatsu families to dispose of all company shares. GHQ directed the Japanese government to prohibit holding companies. GHQ ordered many Japanese managers, who cooperated with the Japanese military authorities, to leave public life. Thus, the founder and his family left the post of many Japanese companies that were founded before 1945. GHQ supported the seminars on top management for newly-appointed top managers, the ideas of social responsibility for business were taught there. GHQ reformed the agricultural land ownership system and gave rights to the workers. The Anti Monopoly Law was legislated in 1947. These policies to democratize the Japanese society set the framework for Japan's post war economic development.

Many workers joined the labour union and labour movements. The strong labour movement rose in the Toyota Motors and Kiichiro Toyoda, who was the founder of the Toyota Motors, resigned as president of the company. After these experiences, many companies adopted the capital-labour
cooperation policy. They gave priority to employees' interests and welfare over those of their stockholders.

In 1956, the Japanese Association of Corporate Executives, Keizai Doyukai issued the statement on social responsibility for corporate executives. They suggested that the corporation was a social institution and that corporate executives were no longer stewards of shareholders, but that they were stewards of the society in which their companies operated. The goal of social responsibility for corporate executives was to develop economy in harmony with society. Really Japan's GNP had become the second largest to the United States by 1968. Akira Yamashiro and Shigetaka Mori, they were famous scholar of business administration in Japan, presented the idea on social responsibility for corporate executives. Their idea related to the separation between ownership and management.

On the other hand, the price of this rapid economic growth was steady pollution. Some pollution diseases were famous around the world; Minamata disease, a type of poisoning caused by industrial mercury pollution in Kumamoto Prefecture, and ouch-ouch, “itai-itai” disease, so called because of its extremely painful effects, caused by cadmium poisoning from industrial wastes in Toyama Prefecture. After these diseases were well known in the Japanese society, the Basic Law for Environmental Pollution legislated in 1967. In 1960s, the idea of consumerism was introduced and the consumer movements occurred. The Japanese Government enacted the Basic Law for Consumer Protection. But the Product Liability Law came into force in 1997.
In those days, the different concepts of corporate social responsibility were introduced into Japan from the United States. Some of the concepts were related to interaction between business and society. One concept suggested by Milton Friedman was that the only social responsibility of corporate executives was to make as much money as possible. In the early 1970s, the members of the Japan Society of Business Administration entered into a controversy with corporate social responsibility in their national conference. Some books on business and society were published, and some university established the chair of business and environment, or corporate policy. However, the concept of corporate social responsiveness, that R. W. Ackerman and R. A. Bauer presented in their book, “Corporate Social Responsiveness: the Modern Dilemma”, in 1976, was not introduced to Japanese business society. Corporate social responsiveness referred social issues management and attached importance to the process of management.

The oil crises brought about economic business depression. The more they were interested in the economic recovery, the fewer they were interested in corporate social responsibility. In the mid-1980s, many Japanese companies went into the United States after the high-yen recession and the trade friction. The community which Japanese companies operated in urged them to undertake philanthropic activities. At first they started with donations and volunteer activity. After that many large companies introduced philanthropic activities into Japan. This was related to the “bubble economy”. Keidanren, Japan Federation of Economic Organization, established “1% Club”, which requested each member to contribute 1% of ordinary profit in 1990.
Ryuzo Kaku, who was the chairman of Canon, presented the idea, “kyosei”, symbiosis. A concise definition of this word would be "living and working together for the common good," but our definition is broader: “All people, regardless of race, religion or culture, harmoniously living and working together into the future.” Unfortunately, the presence of imbalance in our world in areas such as trade, income levels and the environment-hinders the achievement of kyosei. Presently the idea of kyosei is the corporate philosophy of Canon.

Many bribery incidents came to light in this period. The bribery scandal of Showa Denko, which operated in the business of chemical fertilizers, the Lockheed scandal came to light in 1976, and the Recruit scandal was detected in 1988. Recruit developed information services on job offers. The founder of Recruit, the one time Chief Cabinet Secretary, former chairman of NTT, which was the largest telephone and telex company in Japan, two government officials were arrested.

Thus, we see, that in Japan before second world war the business was in the hands of few families and they were actively involved in social welfare through charity. After second world war when Japan started emulating USA in economic pattern then there was rapid industrialization, many legislation aimed at social welfare & environment protection were passed and CSR in modern form developed with industrial development and legislative enactments.

2.8 History of CSR in Brazil

In the early 1960 the debate on CSR started in Brazil. The events and social transformations characterized the socio economic problems, and in a certain way prepared the acceptance
of the idea. In seventies, the topic won amplitude, and in the eighties it came to be considered as part of corporate ethics and quality of life in the work place.

In these times social responsibility has come to be discussed more largely by diverse sectors of society, becoming relevant in that it looked to better the understanding of the role of the state in current society, further questioning which social and economic objectives should be pursued by the companies.

In 1981, the sociologist Herbert de Souza, known as Betinho, founded the Brazilian Institute of Social and Economic Analyses (IBASE). In 1996, IBASE promoted a campaign in favour of Social Responsibility with the support of Gazeta Mercantil (a newspaper in Brazil). The main objective was stimulating managers and corporative directors to be committed to organizational strategies and actions with social impacts. At the same time, the State could not continue to support all the social demands, and there was a strong need to share responsibilities with other social actors. So, the number of non-governmental organizations increased and some companies became more concerned about the social consequences of their decisions. Since that time, the social responsibility discourse assumed a new configuration in this context.

Thus, we see that CSR in Brazil is recent phenomenon started in late in 20th century and is in nascent stage but with the support of government it is taking strong roots.16

Thus we see that social responsibility of business which is CSR in modern era is not a new or recent phenomenon. In U.S.A.

16 Mariana leema Bandeira and Fernando lopez “Brazil CSR under construction” P. 312-316.
& U.K., as business charity it dates back to late eighteenth century and in Japan it dates back to late nineteenth century however in Brazil it is recent phenomenon. It has also come to the notice that discharging of social responsibility by business was mostly in the nature of charity in 18th, 19th & early 20th century and was purely voluntary. The modern CSR finds its genesis in industrial revolution, world war-I & II. However Indian CSR is not only 2 to 3 century old but dates back to ancient times. Therefore, there is need to examine the history & development of CSR in India in detail.

2.9 History of Social Responsibility of Business in India

The history of CSR can be traced back to the description of the aim of the state found in ancient Indian literature. Observations in the Vedas suggest that peace, order, security, and justice were regarded as the fundamental aims of the state. Chandogya Upanishad (V.II.5) records that religion was to be promoted, morality was to be encouraged, and education was to be patronized. All-round welfare of the public was clearly regarded as the chief aim of the state during the Vedic and Upanishadic ages. These relate to periods as old as C.1000 BC and C.600 BC.17

Literatures on politics describe the promotion of dharma (moral law), artha (wealth), and kama (pleasure) as the aims of the state (Altekar 1977). The state was to promote dharma by fostering a feeling of piety and religiousness, by encouraging virtue and morality, and by patronizing social institutions like hospitals, feeding houses for the poor, as well as promoting

17 Madhumitta Chatterji, Corporate Social Responsibility, Oxford University Press, 2011, P. 19
literature and sciences. Artha was procured by encouraging trade, industry, and agriculture. Rules were formulated for systematic and extensive working of mines. Kama was ensured through establishment of peace and order. Ancient policymakers were thus fully committed to the ideal perfect development of the individual, which culminated in the development of society.

The activities of the state, as envisaged by the Mahabharata and the Arthasastra relate to all the aspects of human life: social, economic, and religious. The theory that state was a necessary evil was refuted and even the laissez-faire theory the activity of the state should be reduced to the bare minimum of maintaining law and order was not advocated popularly. The state was to administer in a manner that encompassed society as a whole. Thus, the activities such as establishing piety, morality, and righteousness were inculcated by encouraging learning, education, and art.

The state delivered public welfare by maintaining rest houses, charity halls, and hospitals to provide relief during distress situations like floods and famines. The state ensured increased productivity in agriculture by acquiring fresh land, and by building dams and canals. Thus, the state played a proactive part in helping trade and industry and ensuring that common citizens did not suffer from capitalistic greed and selfishness. Extreme precaution was taken that individual liberty did not suffer in this embracing of welfare activities. This was achieved through a balance between bureaucracy and independent institutions like trade guilds and Sramana or Brahmana assemblies, which were local in nature. Decentralization was carried out by empowering the village panchayats (council), city
councils, and trade guilds. In periods of economic instability, guilds took over decision-making and governance roles at local levels (adapted from Altekar 1977, pp. 58, 63).  

During the Maurya (C.300 BC) and Gupta (C.500 AD) periods, this collaborative, socially responsible process worked extremely well and India experienced its golden era of political strength and socio-economic harmony and stability. This portrays the continuity of social responsibility, which can be traced from the BC (before Christ) era to the AD (after the birth of Christ) period in history as an ideology in ancient India.

2.9.1 Impact of Religion on Social Welfare

Religion played a major role in encouraging charity. Hindu scriptures highlighted the concept of using wealth for granting charity, performing sacrifices, and discharging debts. The best gift was the gift of spiritual knowledge and the lowest that which satisfied the basic physical needs of human beings. Therefore, most Hindu merchants made generous gifts to temples, monasteries, and conglomerates of religious practitioners like priests and monks. To encourage secular learning, scholarships were instituted by the merchant families and educational institutions were set up. Other forms of gifts included land, cattle, food, etc. The founder administered all endowments, whether small or big. This thought of giving evolved into the final philosophy of Lokasangraha (universal brotherhood) and Sarvabhutahita (welfare of all beings) found in the sacred book of the Hindus the Gita. Jainism also encouraged charity and many hospitals, rest houses, and libraries were constructed from

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their endowments. Since the Jain religion strictly prohibited any kind of violence and cruelty, Jains normally provided charity to all races and creeds as part of the practice of compassion for all living beings. **Islam** popularized Zakat, i.e., a certain percentage of the acquired wealth and profit should be dedicated for the purpose of charity. Building mosques with attached educational institutions was a common form of charity. **Christianity** was made popular by the Jesuits who visited India during the Mughal rule, and was entrenched as a religion when Great Britain colonized India. The tenet of giving was central to Christian teachings as well. In fact Christians were told ‘let thy right hand not know what thy left hand gives’, signifying the importance of giving but not for publicity. In Christianity also, wealth was considered as a trust and therefore, distribution of wealth was also about doing justice to society, not just compassion. Christianity highlighted the importance of giving time and personal service for the welfare of others, and that encouraged great humanitarian activities by the followers of the religion.¹⁹

The Parsi community in India drew its strength from their religion, Zoroastrianism. The religion, in a way, preached a middle path by neither glorifying poverty nor wealth. It was more about self-development through self-help and hard work. Prosperity was to be shared through works of beneficence and public well-being.

Charity was, by and large, motivated by religion and spirituality. However, at times practice faltered in terms of strict adherence to the religious because self-interest drove charity.

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¹⁹ Madhumitta Chatterji, Corporate Social Responsibility, Oxford University Press, 2011, P. 19-20
This is visible when we find that every charity was linked to business interest and practices. Studies by Rudner and Bayly (1983) have clearly shown that religious giving was often linked to social creditworthiness and this in itself was self-reinforcing and self-fulfilling. Quotes like ‘the social consequences of Sangha (Jain religious brotherhoods are many. On the one hand, prestige is acquired by the Sanghapati (head a the Sangha) and financial reputation is earned through spending large sum of money, which begets investment and credit facilities, which in turn leads to expansion of business’ by Singhi (1991) highlights the underlying business agenda in charity. This encouraged the practice of combining charity with triple bottom line of business.20

Often, merchants who had endowed temples with charity used the temple grants to increase their business. As trustees of endowments, they can occupy important social positions and respect, which further enhanced their business. Historical sources verify that various means of religious gifting were used as mechanisms by merchants and mercantile communities to penetrate into new localities and create respectable social identities, which helped them entrench their authority over commercial enterprises (Rudner 1995).21 Religious grants were supplemented with individual secular spending, like building wells, rest houses, and commissioning relief work at times of peril to gain social status by merchants.

21 Rudner, Davis West, Caste and Capitalism in Colonial India, Munshilal Manoharlal Publishers, Delhi, 1995.
2.9.2 Role of Merchant Class in Social Welfare

- Emergence of Merchant Class

The emergence of reform movements like Buddhism and Jainism, which later became independent religions, gave an extraordinary fillip to trade and business. These religions emphasized non-violence and therefore those who embraced it chose to follow trade as a profession because it helped them to maintain the tenet of non-violence. The merchants practiced frugality, honesty, and believed in individual responsibility. These qualities were supported by religious and spiritual teachings and the merchants came to be highly respected in the community. They donated wealth for social causes like setting up educational institutions, hospitals, gardens, charity homes, orphanages, etc. They were renowned for their charity, which also helped them gain social status. History records eminent merchant families like Virji Vora of Surat, Shantidas Jawahari of Ahmedabad in Western India, Jagatseth of Murshidabad in East India, and Malaya at Pulicat in South India. Similar merchant guilds like those that flourished in ancient India can be traced in medieval India as well. A businessman was called shreshthi, which later changed to seth or sethi. The wealthiest businessman was also selected as the nagarseth who took care of the city’s needs as a modern day mayor does.\(^{22}\)

With the establishment of British rule in India, there was a change in the position of the merchant families. The British brought modern banking and uniform currency system, which affected the merchant bankers and money lenders. Though

\(^{22}\) Madhumitta Chatterji, Corporate Social Responsibility, Oxford University Press,2011, P. 21
business flourished because of improvement in transportation, irrigation, communication, etc., traditional business families could not keep pace with the changes. Families who migrated from pure trade as business to industries became the next famous group of businessmen.

The Indian merchant community consisted of various religious and regional groups. Some of the famous communities were the Marwaris, Khatris, Chettiars, and Parsis. Most of them had strong community ties and helped needy members of the community. The communities collaborated at different levels of common interest, like religion, supplying credit, marketing, etc. They actively participated in social reforms and ensured the growth of social welfare.

- **Merchant Charity & Social Welfare**

  Merchant gifting was a strategic ploy in gaining political influence and smoothening relations with rulers whose origin was outside the community, city, or country. In return, the donors were credited with honours by the rulers, which enhanced their prestige and added to their creditworthiness, and thus improved business. Merchant charity can be studied under four broad headings religious, secular, individual, and collective. Religious grants were made, as the name suggests, to any activity of religious significance and was not limited to geographical boundary. Merchants often donated to religious institution beyond their homelands. Secular charity included donations and to activities like development in infrastructure, education, arts and culture and public welfare, etc. There are references to individual merchant code and even of a number of merchants coming together in a group and offering collective grants and
Perhaps the earliest religious endowments can be traced to the Buddhist era when land was donated for building stupas, or financial help was given to them and monastic institutions like the Sangha was also given financial support by devout merchants. Similar activities were followed by Hindu merchants their religious communities and temples. Merchants often went beyond geographical boundaries and donated to famous religious institutions the notable examples are the Travadi family, a wealthy family of Brahmin banker who built a big temple in Surat and many others across India. The No.1 banking family of Surat the Chakawala family built a temple of Shiva in a nearby village and also donated huge sums to Vaisnavite (followers of Lord Vishnu) deities elsewhere. The well-known family of jeweller Manek Chand Jhaveri, who belonged to the Jain community, built rest houses for pilgrims hostels for Jain students in Surat, Bombay (now called Mumbai), Kohlapur, and other places where Jains traded and worshipped.

Merchant families kept a portion of their profit to use for charitable purposes. Individual grants were made in areas of public welfare, like feeding the poor, building roads, rest houses, wells, providing relief during natural calamities like floods and famine, setting up schools and colleges, and giving alms. Rich merchants often helped their less well-to-do colleagues with financial support because of strong community ties that were ingrained in every community. Communal institutions like

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hostels were usually built to cater to members of the same community. Animal homes were also provided for as an extension of ahimsa (non-violence) as a religious mandate.

It is also evident that merchants collectively supervised charitable activities for the benefit of the common population. The Buddhist Jatakas record incidents of collective charities organized through the collection of various rates and taxes, which were used for public benefit.

Instances can be traced back to the nineteenth century, when businessmen came together in an effort to help their city by collecting cesses (taxes). Hindu and Muslim merchants often helped in the upkeep of each other’s shrines through donations (Haynes 1987). Although the usual help was extended mainly to members of the same community or caste, it was not unnatural to find grants being given for the development of entire villages and cities, especially during times of calamities.25

- **Important Business Categories of British Era**

With the establishment of the British hegemony, the urban economy of India threw up two distinct classes of business categories. One was dominated by the typical westernized expatriate businessmen who usually concentrated on running mines, plantations, or indulging in export-import trade. Businesses were controlled by small groups or managing agencies like Shaw Wallace, Andrew Yule, and Dunlop, to name a few.

Indian business houses drew capital from the ‘bazaar economy’, consisting of the local bankers, money lenders, wholesale merchants, and others. This new group was not the

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extension of the earlier mentioned merchant families. They belonged to the same community, but to new families who had made fortunes in opium, indigo, cotton, land, and banking. Some of them had extended beyond the confines of India and forged ties with businesses in other countries. Some famous communities that ventured beyond India to do business were Parsis with China, Chettiar with Burma, and Bhatias, Khojas, and Memons with the Middle East and East Africa. Others had become brokers (the Banias of Calcutta and Dubashes of Madras) to the European agency houses.  

2.10 Development of CSR in India

The evolution of corporate social responsibility in India refers to changes over time in India of the cultural norms of corporations' engagement of corporate social responsibility (CSR), with CSR referring to way that businesses are managed to bring about an overall positive impact on the communities, cultures, societies and environments in which they operate.

Among other countries India has one of the most richest traditions of CSR. Much has been done in recent years to make Indian Entrepreneurs aware of social responsibility as an important segment of their business activity but CSR in India has yet to receive widespread recognition. If this goal has to be realised then the CSR approach of corporates has to be in line with their attitudes towards mainstream business-companies setting clear objectives, undertaking potential investments, measuring and reporting performance publicly.

Broadly development of CSR in India can be divided in

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four phases which run parallel to India's historical development and has resulted in different approaches towards CSR. However the phases are not static and the features of each phase may overlap other phases. These phases are examined in brief as;

2.10.1 The First Phase

In the first phase charity and philanthropy were the main drivers of CSR. Culture, religion, family values and tradition and industrialization had an influential effect on CSR. In the pre-industrialization period, which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples for a religious cause. Moreover, these merchants helped the society in getting over phases of famine and epidemics by providing food from their godowns and money and thus securing an integral position in the society. With the arrival of colonial rule in India from 1850s onwards, the approach towards CSR changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, Birla, Singhania were strongly inclined towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by caste groups and political objectives.

2.10.2 The Second Phase

In the second phase, during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was

\[27 \text{ www.wikipedia.com.} \]
\[28 \text{ Ibid.} \]
when Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. "I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories." This was Gandhi's words which highlights his argument towards his concept of "trusteeship". Gandhi's influence put pressure on various Industrialists to act towards building the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

2.10.3 The Third Phase

The third phase of CSR (1960-80) had its relation to the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure
suitable distribution of resources (wealth, food etc.) to the needy. However the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

2.10.4 The Fourth Phase

In the fourth phase (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social cause. Globalization has transformed India into an important destination in terms of production and manufacturing bases of MNCs are concerned. As Western markets are becoming more and more concerned about and labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards.

In this regard the different stages and dimensions of CSR can be concluded through Figure given below:
From above details it is very much clear that the concept of CSR has been evolved from the traditional view of Philanthropy to modern view of public relations and transparency in CSR activities & practices. Now the concept of CSR not only covers legal & economical responsibility but also includes the ethical responsibility of the company towards the society.

2.11 Judicial Evolution of the concept of CSR

Judiciary in India has from time to time through various landmark judgments interprets nature of company and its status in the society. In the following paragraphs we will discuss how the concept of company emerged as important social institution in light of following historical case laws: As the judicial trend on company activities have been changed in light of present
corporate scenario. In a very important Supreme Court Case\textsuperscript{29} P. N. Bhagwati J. says: “Company according to the new socio-economic thinking, is a social Institution having duties and responsibilities towards the community in which it functions”. Further the Sachar Committee opens its chapter on Social Responsibilities of companies with prophetic words: “In the development of corporate ethics, we have reached a stage where the question of social responsibility of business to the community can no longer be scoffed at a taken lightly.”\textsuperscript{30} Indian judiciary has recognized ‘social’ character of company since long. For example, Mukherjee, J. said in Chiranjit Lal Vs, Union of India\textsuperscript{31}: “A corporation which is engaged in the production of commodity vitally essential to the community, has a social character of its own and it must not be regarded as the concern primarily or only of those who invest money in it.” Here it is very important to discuss the leading case laws on company law to know: what is company? How it works? How it deals with all the stakeholders? And How it wind up. These case laws make the concept even clearer because example is better teachers\textsuperscript{32}.

1. Cases on separate legal entity:

- **Kandoli tea company Ltd\textsuperscript{33}**

  Facts – Certain persons transferred their properties in the name of company on which tax was payable.

  Petition – Petitioners claimed exemption from such tax on

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\textsuperscript{29} National Textile Workers Union vs. P.R. Ram Krishnan, AIR 1983 SC 75.
\textsuperscript{30} Report of the high powered expert Committee on Companies and MRTP Acts, August 1978, para 12.1
\textsuperscript{31} AIR 1951 SC 41, P. 59.
\textsuperscript{32} http://www.caclubindia.com/articles/important-caselaws-on-company-law-7630.asp
\textsuperscript{33} 1886 ILR 13 Cal 43.
the ground that the transfer was from them individually to
themselves in another name.

Judgment – Company is separate from its shareholders and
this should be treated as transfer.

- **Saloman vs. Saloman & Co.**\(^{34}\)

  Facts - Saloman sold his business to a company named
Saloman & Company Ltd., which he formed. Saloman took
20,000 shares. The price paid by the company to Saloman was £
30,000, but instead of paying him, cash, the company gave him
20,000 fully paid shares of £ 1 each & £ 10,000 in debentures.
The company wound up & the assets of the company amounted to
£ 6,000 only. Debts amounted to £ 10,000 due to Saloman &
Secured by debentures and a further £ 7,000 due to unsecured
creditors. The unsecured creditors claimed that as Saloman & Co.
Ltd., was really the same person as Saloman, he could not owe
money to himself and that they should be paid their £ 7,000 first.

Judgment-

1. A Company is a "legal person" or "legal entity" separate from
   and capable of surviving beyond the lives of, its members.
2. The company is not in law the agent of the subscribers or
   Trustee for them.
3. Saloman was entitled to £ 6,000 as the company was an
   entirely separate person from Saloman.
4. The unsecured creditors got nothing.

\(^{34}\) 1897 AC 22.
• **Lee vs. Lee's Air Farming Co. Ltd.** \(^{35}\)

Facts - Lee incorporated a company of which he was the managing director. In that capacity he appointed himself as a pilot of the company. While on the business of the company he was lost in a flying accident. His widow claimed compensation for personal injuries to her husband while in the course of his employment. It was argued that no compensation was due because L & lee's Air Farming Ltd. were the same person.

Judgment-
1. L was separate person from the company he formed and compensation was payable.
2. His widow recovered compensation under the Workmen's Compensation Act
3. A member of a company can contract with a company of which he is a shareholder.
4. The directors are not precluded from being an employee of the company for the purpose of workmen's compensation legislation.

• **Macaura vs. Northern Assurance Co. Ltd.** \(^{36}\)

Facts - M was the holder of nearly all the shares except one of a timber company. He was also a substantial creditor of the company. He insured the company's timber in his own name. The timber was destroyed by fire & M claimed the loss from Insurance Company.

Judgment-
1. The Insurance Company was not held liable to him.
2. A shareholder cannot insure the company's property in his own

\(^{35}\) 1960 3 All ER 420.
\(^{36}\) 1925 AC 619.
name even if he is the owner of all or most of the company's shares.

3. Lifting of corporate veil:

- **Daimler Co. Ltd. vs. Continental Tyre & Rubber Co. Ltd.:**[^37]

  Facts - In a company incorporated in England for the purpose of selling tyres manufactured in Germany by a German Company, all the shares except one was held by the German subjects residing in Germany. The remaining one was held by a British. Thus the real control of English Company was in German hands. Question arose whether the company had become an enemy company due to war & should be barred from maintaining the action.

  Judgment -

  1. A Company incorporated in United Kingdom is a legal entity, a creation of law with the status & capacity which the law confers.

  2. It is not a natural person with mind or conscience. It can neither be loyal nor disloyal. It can be neither friend nor enemy. But it can assume enemy character when persons in de-facto control of its affairs are residents in any enemy country or whenever resident, are acting under the control of enemies.

  3. Held that company was an enemy company for the purpose of trading and therefore it was, barred from maintaining the action.

  4. Doctrine of ultravires:

[^37]: 1916, 2 AC 307
• Ashbury Railways Carriage & Iron Co Ltd vs Riche\(^38\)

Facts – A railway company was formed with an object of selling railway wagons. The directors entered into a contract with Richie to finance the construction of railway line. The shareholders later rejected the contract as ultravires.

Judgment – The court held that the contract was ultravires and therefore null and void.

5. Doctrine of indoor management / Turquand rule:

• Royal British Bank vs. Turquand\(^39\)

Facts - The Directors of a company borrowed a sum of money from the plaintiff. The company’s articles provided that the directors might borrow on bonds such sums as may from time to time be authorised by a resolution passed at a general meeting of the company. The shareholders claimed that there had been no such resolution authorising the loan and, therefore, it was taken without their authority. The company was however held bound by the loan. Once it was found that the directors could borrow subject to a resolution, the plaintiff had a right to infer that the necessary resolution must have been passed.

Judgment-

1. Persons dealing with the company are bound to read the registered documents and to see that the proposed dealing is not inconsistent therewith.

2. Outsiders are bound to know the external position of the company, but are not bound to know its indoor management.

\(^{38}\) 1875 LR 7 HL 653.

\(^{39}\) 1856 6 E&B 327.
3. Company may ratify the ultra vires borrowing by the directors if it is taken bonafide for the benefit of the company.

4. Exception to Turquand rule:

- **T.R. Pratt Ltd. vs. Sasson & Co. Ltd. (1936)**

  Facts - There were three companies, namely, 'S' 'MT' & 'P' Company. S company had been financing P Company for a number of years and all transactions of loans were entered into through the agency of MT Company which held almost all the shares of P Company. The Directors of MT Company were also the Directors of P Company and this fact was known to S Company. An equitable mortgage was created on the property of 'P' Company for a loan granted by S to MT Company. In the winding up of P Company, it was held that the official liquidator was entitled to avoid the equitable mortgage as S Company had the knowledge of the facts through its directors.

Judgment-

1. Just as in case of agency, a notice to agent will amount to a notice to the principal, in the same way a notice to director will be deemed as a notice to the company.

2. Money having borrowed and used for the benefit of the principal, i.e. company in either paying off debts or for its legitimate business, the company could not repudiate its liability on the ground that the agents i.e., directors had no authority from the company to borrow.

3. "Under the law an incorporated company is a distinct entity, and although all the shares may be practically controlled by one person, in law a company is a distinct entity and it is not permissible or relevant to enquire whether the directors
belonged to the same family or whether it is compendiously described as one man company.

- **Peveril Gold Mines Ltd. Re**\(^{40}\)

  Facts - The articles provided that no winding up petition could be presented without the consent of two directors or unless a resolution to wind up was passed at a general meeting or the petitioner held one-fifth of the share capital. None of these conditions was fulfilled.

Judgment-

1. Restriction was invalid & the petition could be presented.

2. Sec. 439 of the Companies Act, 1956 confers the right on a shareholder to petition for winding up of the company in certain circumstances. This right can't be excluded or limited by the articles.

3. Each member is entitled to say that there shall be no breach of the Articles and he is entitled to an injunction to prevent breach.

- **Erlanger Vs. New Sombrero Phosphate Co.**\(^{41}\)

  Facts - Erlanger was the head of a syndicate who purchased an Island containing mines of Phosphate for 55,000 pounds. Then formed a company to buy this Island. A contract was made between X a nominee of the syndicate and the company for its purchase at 1,10,000 pounds. A prospectus was then issued. Many persons took shares. The company failed & the liquidator sued the promoter for the refund of the profit.

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\(^{40}\) 1898 1 Ch 122.

\(^{41}\) 1878 3 App Cas 1218.
Judgment-

1. Promoters stand in a fiduciary position. They have in their hands the creation & moulding of the company.

2. The promoters are in the situation a kin to that of a trustee of the company, & his dealings with it must be open and fair.

3. Promoter is guilty of breach of trust if he sells property to the company without informing the company that the property belongs to him or he may commit a breach of trust by accepting a bonus or commission from a person who sells property to the company.

In light of above landmark cases it is very important to mention here that Judiciary on various occasions highlighted the legal position of the company and its duties towards other stakeholders of the company. Thus, CSR is not a new concept in India. Ever since their inception, corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community. Through donations and charity events, many other organizations have been doing their part for the society. The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporates feel that CSR is not just another form of indirect expense but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.  

Companies have specialised CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. These programs are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainstream business. The programs are put into practice by the employees who are crucial to this process. CSR programs ranges from community development to development in education, environment and healthcare etc. Provision of improved medical and sanitation facilities, building schools and houses, and empowering the villagers and in process making them more self-reliant by providing vocational training and a knowledge of business operations are the facilities that many corporations focus on. Many of the companies are helping other peoples by providing them good standard of living.

On the other hand, the CSR programs of corporations like GlaxoSmithKline Pharmaceuticals’ focus on the health aspect of the community. They set up health camps in tribal villages which offer medical check-ups and treatment and undertake health awareness programs. Some of the non-profit organizations which carry out health and education programs in backward areas are to a certain extent funded by such corporations.

Also Corporates increasingly join hands with Non-governmental organizations (NGOs) and use their expertise in devising programs which address wider social problems.

CSR has gone through many phases in India. In development of modern CSR many organs have contributed in which the Corporate are the leader but State i.e. government has also contributed a lot especially by enacting many laws which
though are not directly regulate CSR but contribute towards responsible corporate behaviour and modern CSR in India has developed as a result of these legislations. The legislations which contributed in the development of CSR in India are being examined as under;

2.12. Development of CSR Framework in India through various Legislative Provisions supporting CSR

The area of social responsibility of a company is to be judged according to circumstances of the company; says the Sachar Report. It further lists some such areas of social responsibility:

(a) Health, safety and welfare of its employees.
(b) Avoiding discomfort of congested localities.
(c) Avoiding strain on already existing resources.
(d) To set up new industrial plants in the rural areas.
(e) Creating maximum jobs for areas of maximum unemployment.
(f) Employing socially handicapped and the weaker section of the community.
(g) Environmental protection.
(h) Consumer health, well being and safety.

The report also says that the impact of corporate sector in terms of finance and employment shows that well being of corporate sector is considerably significant to the society. A company must reckon with the social costs and social benefits arising out of any given investment. Further the Companies Act 1956 which is a comprehensive legislation for regulating the

43 Supra note 25.
corporate behaviour has contributed in development of modern CSR framework in India. The objectives of Companies Act 1956 in respect of minimum standard of business integrity and conduct in promotion and management of companies, full and fare disclosure of reasonable information relating to the affairs of the company, effective participation of various stakeholders and protection of their interest, enforcement of proper performance and management & good corporate governance. These objectives relates to CSR & have contributed a lot in its development. The provisions of SEBI Act, 1992 to protect the interest of investors in securities and to promote the development of and to regulate the securities markets and for matters connected therewith and incident thereto are aimed at protecting the interest of investors that is internal stakeholders and thereby promote the responsible behavior of corporates which is again CSR in modern perspective.

Environment Protection Legislations are aimed at controlling environmental degradation. Important acts related to protection of environment are, Environment Protection Act, 1986; various pollution control acts such as Water (Prevention and Control of Pollution) Act, 1974; and Air (Prevention and Control of Pollution) Act, 1981. All these legislations are aimed at protecting the ecological balance by way of protecting, maintaining, enhancing and replenishing the environment and also by ensuring that society at large is not affected by industrial activity degrading the environment. These comprehensive legislations have contributed in devising a comprehensive framework for environment protection which is again a very critical element of responsible corporate behaviour.

Labour Legislations have been passed from time to time for
protecting the interest of labor and also for ensuring their welfare. For example the Factories Act, 1948 has been enacted for protecting the interest of workers at workplaces. The Payment of Wages Act, 1936, the Minimum Wages Act, 1948, Workmen’s Compensation Act, 1923, The Equal Remuneration Act, 1976, provide a comprehensive mechanism for ensuring reasonable wages and compensation to workers and these provisions force employer to look after the interest of workers in respect of wages and compensation and thus contribute to overall responsible behavior of the corporates. Similarly the Employees Provident Funds and Miscellaneous provisions Act 1952, The employees State Insurance Act 1965, the Payment Gratuity Act, 1972, the child labour (Prohibition and Regulation) Act 1986, the Contact Labor(Prohibition and Regulation) Act, 1970, sustainability and all this can be achieved through socially responsible behaviour. The bonded Labour system (Abolition) Act 1976, The Apprentices Act, 1961, The Maternity Benefit Act, 1961 provides a broad and comprehensive framework for ensuring social security to workmen and their families. Thereby provide structure on which the comprehensive framework of Corporate Social responsibility can be based. Similarly these acts Industrial Dispute Act 1947, Trade Union Act, 1926, Industrial Employment (Standing orders) Act 1946 provide right to workmen for forming associations for protecting their interest by way of collective bargaining and makes employers responsible for speedy resolution of industrial disputes. Thereby contribute to sustainability by way of protecting legitimate rights of employers.

Indian Tax Laws have also encouraged contribution by
corporate in Social Development. The provisions with respect to tax break provided in section 35 AL, 35 CCA, 35 CCB and section 80 G of Income Tax Act, 1961 are aimed at motivating/encouraging corporates to contribute as charity in those aspects those may not have direct relationship, however maintenance of such activities may be very critical for overall social welfare, so these provisions also contribute towards making corporates socially responsible.

In view of the above analysis it can be summarized that the State has played a key role in the development of modern CSR. Even though there is no specific legislation aimed at regulating CSR still these supporting legislations have provided the platform on which today’s CSR activities can be defined and established.

2.13 Development of CSR at International Level

With this stated, the first concrete manifestation of this idea developed at the beginning of the twentieth century with the Americans: Charles Elliot (1906), John Clark (1916), and in 1923 with the Englishman Oliver Sheldon as cited in Carroll 1999. Despite their defense of the inclusion of the social question between the concerns of the companies in addition to the profit of stockholders, their time periods did not grant them acceptance and their questioning was put to the side. CSR was not generally accepted until 1953, when Howard Bowen in the USA released his book “Responsibilities of the Businessman”. Several authors including Carroll (1999) have described Bowen’s book of 1993 as the initial point in the study and debate of social responsibility.⁴⁴

In the early 1960s, the debate on CSR started in Brazil. The

events and social transformations characterized the socio-economic problems, and in a certain way, prepared the acceptance of the idea. In the seventies, the topic won amplitude, and in the eighties it came to be considered as part of corporate ethics and quality of life in the workplace.

In these times, social responsibility has come to be discussed more largely by diverse sectors of society, becoming relevant in that it looked to better the understanding of the role of the State in current society, further questioning which social and economic objectives should be pursued by companies.

Although its importance is recognized, there has not been a consensus in order to define the term social responsibility and that has caused a series of different interpretations. If, for some, the term means legal responsibility or social obligation, for others it signifies socially responsible behavior in which ethics or mere contributions of charity can be observed in companies. There are also those that argue that social responsibility is only an obligation to pay employees well and ensuring the compliance of labor rights. There are still even those who believe that social responsibility is an evasive “battle” for contemporary capitalism. This lack of consensus probably denotes how many values and motivations are behind the movement, which becomes many times more dominant in the capitalist discourse.

According to Carroll (1999), the first systematization of the term social responsibility came about during the decades of the thirties and forties, with the most important references of that period being the works of Barnard (1938), Clark (1939) and Kreps (1940). Bowen’s “Social Responsibility of Businessmen” (Bowen and Carroll, 1999) is considered a mark in the beginning
of modern literature on this topic as already indicated.\footnote{Bowen H.R., Social Responsibility of the Businessman, Harper & Row, New York, 1953.}

The social responsibility of businessmen can be defined as “obligations of businessmen to pursue politics, make decisions or follow the lines of action that are beneficial in terms of objectives and values in society” (Bowen and Carroll, 1999). Bowen’s work had as a base the belief that the large companies were vital centers of power and decision-making and that their actions affected many aspects in the lives of citizens. Besides that study, McGuire (1963) and Elbing & Elbing (1967) also contribute to reinforce the ideas defended by Bowen, in the way in which they affirmed that companies should accept social obligations and current responsibilities from “prominent and powerful positions in society”. \footnote{Litz R.A., ‘A Resourced- Based- View of the Socially Responsible Firm: Stakeholder Interdependence, Ethical Awareness, and Issue Responsiveness as Strategic Assets’, Journal of Business Ethics 15, 1996, PP. 1355-1363.}

In his terms, Friedman (1962) argues that social responsibility of the company should only be based on the profitable use of resources and in the environment of activities conducive to the increase of profitability, always following “the rules of the game”. This author used the idea of Adam Smith, in the sense that the company should only look for profit, since an “invisible hand” will try to do the rest.

Henderson (2000) considers social responsibility to be an idiom which is incapable of understanding the rationality of capitalism. Furthermore, a socially responsible stance is never free and once it provokes costs for the company it can bring the consequences of raising prices. On this aspect Carroll (1999)
assures that the costs of socially responsible actions are at times more relevant than the behavior by itself or the qualitative results created by the decision. In this case what is really important is the cost-benefit relationship as opposed to the ethical process. The subjacent values at reach are completely instrumental. It was Samuelson, an American economist who elaborated the concept of social responsibility (Carroll 1999). For Samuelson companies cannot just assume responsibility for the consequences of their decisions and actions for society.

From this idea new theoretical constructs were proposed. Among them, the work of Davis distinguished itself as the concept of social responsibility referred to as “the considerations and answers by the company to questions that go further than strict economic, technical, or legal demands” (Davis, and Carroll). Davis even proposed the known “law of responsibility”, according to which the company is a social institution that should utilize its power in a responsible form because if it fails to do this, then society can take the power from its hand.  

Among the defenders of social responsibility in the heart of the corporate world, Frederick indicated that social responsibility was a concern of companies with expectations from the public. Afterwards, this would have as a base the use of human, fiscal, and economic resources for ample social ends and not simply just to satisfy the interests of particular people or organizations. 

In terms of social objectives, there is a very instrumental relationship in these concepts. Offering something in exchange,

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47 Davis K. The case for and against business assumption of social responsibilities. Academy of Management Journal, 16, PP. 312-322.
obligations to maximize positive impact and to reduce the negative for stockholders, giving satisfaction to clients and a return to stockholders are the terms that denote an instrumentality behind the concept. Supposedly what are most important are not the values, ethical ideas or ethical processes.

Thus while concluding, we see that CSR is not a modern discovery and certainly not a discovery that can be credited to the economically developed countries of today. Everywhere in the world where there was impact of religion on the overall dimensions of lifestyle, education and governance there was definitely an impact on trade also. And the natures of socially responsible activities were influenced by religion, education and governance. However in India these were more in the form of philanthropy or charity in ancient times which took some shape of present type in late Nineteenth century and early twentieth century. Whereas in U.K. and U.S. it starting taking concrete shape in eighteen century itself.

As far as academic development of concept of CSR is concerned it started in eighteenth century and is going on till date. There is lot of debate about the nature of CSR but still a consensus is also emerging about the aspects of stakeholder’s concern and environment protection. So, we can say that CSR is not a new concept rather it is an ancient activity and concept has been evolving continuously.