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Better stress

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SOCIAL RESPONSIBILITIES OF BUSINESS AND LABOUR by
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There are three possible views that an enlightened entrepreneur could take on this subject. The first of course is the ordinary Western businessman's view that, if he pays his taxes and produces a good product at a competitive price, he has done all that he should be expected legitimately to do as a businessman and that he owes nothing more to society. This view, as it happens, is held by some quite enlightened industrialists in India.

The second view is of those few noble people who accept the Gandhian concept of Trusteeship. There can be but a handful of these as it is only too likely that they would not be able to stay in business for long if they conscientiously practised their role as Trustees.

The third view is somewhere in between these two extremes, and that is the view to which I myself subscribe that both morality and expediency dictate that businessmen in India should accept certain social obligations as a part of their responsibility to the community.

Lord Coke had in his time observed that the Corporation has no soul. In the climate that prevails in India today, which has resulted from Gandhiji's teachings on the one hand and thirty years of state socialist propaganda on the other, I would venture to suggest that the Corporation in India had better develop a soul. I believe that an acceptance of this middle path will make it easier for Indian industry to survive and to thrive.

II

Social Responsibilities of Business

These have best been defined in a Declaration which was adopted unanimously at a Conference sponsored by Jayaprakash Narayan at the India International Centre in Delhi from March 15 to 21, 1965. The proceedings of that Conference, at which I had the privilege to be present, have been published as a book under the title Social Responsibilities of Business (Manektalas, Rs.30/-). That Declaration outlines the obligations of the enterprise towards shareholders, consumers and the community as follows:

"The Enterprise and the Shareholders

Management's first duty is to see that the enterprise is stable and enterprising. It would then be capable of providing those who commit their capital to it with such a fair and adequate reward for risk taken as permits the company to attract the necessary supply of capital from the market. Legally speaking, a company is not capable of being owned. It has a separate legal personality of its own. The shareholders appoint some, if not all the directors. They are entitled to see regular, accurate and full financial information about the Company. Shareholders are also entitled to receive audited annual accounts in order that the public owners may be satisfied in this case also that their capital has been faithfully and usefully employed.

The Shareholders also have their obligations. Shareholders who meet not less than once a year in General Meeting should make a point of questioning the direcotrs on the accounts and discussing policy with them and make their representation more effective through their associations. Through their association and interest they can see to it that a company is pursuing a dynamic policy and that sufficient profit is ploughed back for innovation and expansion. The provision of incentives by the State to such ploughing back would be helpful. The shareholders' interest is not solely in receiving present reward in return for past risk. They should play a constructive part in encouraging the directors to pursue a responsible policy towards the company, and its obligations to the community, employees and customers, upon which in the long run the company's reputation and future prospects depend.

Enterprise and the Workers

It is the basic responsibility of the enterprise to produce wealth. It is also its responsibility to provide opportunities for meaningful work. In doing so, managers are not to be considered as being in a different class from the worker. The manager is a worker and all who work in a company should give their best service and share in the resulting profit. It is the responsibility of the management to win the co-operation of the workers by creating the conditions in which workers are enabled to put forward their best efforts in the common task as free men. This means recognition of all the workers' right to a fair wage, a right to participate in decisions affecting their working life, to membership of a trade union, to collective bargaining and the right to strike. The worker should be helped by education and other means to throw up his own leadership. Management should give workers opportunity to develop their capabilities through training, education and the enjoyment of freedom to the greatest possible extent.

The plant or business is a community and justice should be its rule. This means that there should be a Company Code of Conduct with a recognised procedure for settling grievances and adequate reward for making suggestions which result in improved performance. The Code will guarantee the religious, political and social independence of the worker and make reasonable provision for him to take part in civic activities which benefit the community. Promotion policies should be such as to encourage the worker to develop his own capacity and this requires the setting up of consultative procedures by which the workers can participate in and contribute to the common cause of improving the efficiency of the company and the contentment of its members. There should be increasing association of workers with the management. One way of doing this is by the sharing of profits and its reinvestment in the company through purchase of the company's shares to be held in trust or by other means which serve to identify the worker with his work and give him an interest in the company and we wish to see this encouraged.

Obligations of Workers

Likewise, workers should recognise their obligation to do a good day's work for a good day's wage, to co-operate in increasing productivity, to come forward with suggestions and to participate responsibly in the life of the plant community. For this purpose, it is necessary among others to develop good trade union leadership.

The Enterprise and the Consumer

Consumer's satisfaction is the ultimate aim of all economic activity. This involves more than the offer of products at the lowest possible price. Adulteration of goods, poor quality, failure to give fair measure, lack of service and courtesy to the customer, misleading or dishonest advertising, are all examples of a violation by business enterprise of its obligations towards the consumer of its products.

Free competition undoubtedly provides the best protection of consumer's interests in normal circumstances. It has therefore to be sustained and encouraged by anti-monopoly legislation. Where certain monopolies, private or public, are accepted as unavoidable or in the public interest, the price of their toleration has to include the government's right to impose any controls that may be needed to check proven abuses of monopoly power. In general, legislative regulation is required to prevent deception and fraud being practised on consumers, and where essential goods are in short supply - but only then - their fair distribution also calls for their impartial administrative allocation.

There are however limits to the effectiveness of any external control and, in any case, management should have the necessary freedom for improvement and innovation. It is therefore important that its internal accountability to consumers be extended. To this end we propose two steps. First, that the Memorandum of Association of public limited companies and state enterprises should embody a specific declaration of their wider responsibilities of management. The management should encourage the establishment of Consumers' Advisory Councils or Committees. Consumers' Associations and other bodies would then have the opportunity of representing their complaints to them, in consultation with these Advisory Councils or Committees.

The consumers themselves have social responsibilities to their fellow-consumers. If they passively submit to exploitation they help to lower the standards of service and of management. Equally they owe support to consumers' associations which by investigations and reporting on the comparative prices and quality of products, can assist them in making a more informed choice in their purchases. Co-operative organisations can also serve as a form of consumers self-help and should be used to set higher standard for goods and services.

The Enterprise and the Community

The duties which the Company and the community owe to each other are reciprocal. The Company should respect the law and pay taxes honestly. So long as it does so, the Company, like any other citizen, is entitled to protection and respect by the State. Since industry's plans are necessarily made far in advance, legislation affecting the company should be consistent and there should, where possible, be prior consultation. Uncertainty is a grave handicap to the creation of a dynamic economy. The obligation of the community to the Company includes a clear and consistent legal and fiscal policy and a stable currency.

In its day to day relations with the local community the company needs a reliable means of communication. This is provided by a free and vigourous Press which is essential if the company is to discharge its responsibilities. The Company needs trained and educated men and women. In this, its interest is the same as the community's. The company should allow its workers time off, within reason, for civic duties and for assisting in technical and other educational programmes.

As a good citizen the company is not free to damage the amenities of the community. Bad effluent, smoky chimneys, ugly buildings and above all lack of attention to housing and workers' living conditions, are not the signs of a responsible company, but of its opposite. The location of industry including workers' housing is of local concern and should be the subject of prior local discussion and agreement. As far as possible, the responsible company will seek to work through the locality or through housing trusts rather than to build and own, in order to safeguard the independence of the worker.

Two new and connected instruments are needed if the company is to discharge its social responsibilities. They are the Local Meeting and the Social Audit. The public meeting should be regular, annual and open to representatives of the consumers, workers and community as well as shareholders. It should be advertised in advance in the local press. At his meeting the directors, or the managers on its behalf, will report on the progress of the company and refer to its ongoing relations with the community and its plans. There will be questions and opportunity for discussion.

The other instrument is Social Audit. Factual assessment by trained and professional observers will be made of the company's social performance. Men trained in the social sciences with the help of the universities and technical colleges will do for the social performance of the company what the financial auditor does for the financial performance. In the cases of State industry, Public Boards, large Cooperative Societies and public and private companies where there is monopoly we suggest that Social Audit may in time be made compulsory.

More research is needed into the relative economic and social performance of these various kinds of enterprise. What has been said about the social responsibilities of business applies to all business enterprise regardless of their form of ownership and internal organisations. It doesnot follow, however, that ownership and **organisations are irrelevant** to the capacity and willingness of enterprise to meet its social responsibility. Plainly they are not. The Seminar was not able to examine these questions at length. Nevertheless, it considers them important and would welcome experimentation with different forms of ownership and organisation and their scientific evaluation to discover how they affect the discharge of social responsibility".

If I may be permitted to strike a personal note, I may mention that this Conference called by Jayaprakash, with a certain amount of modest encouragement from me, was the culmination of activities in which we had been engaged since the mid-fifties ever since JP had engaged in Bhoodan activities. This was a continuous effort to develop the concept of Trusteeship and the need for businessmen to move in the direction of a more clear acceptance of their social responsibilities as a first step.

The Group that met in Delhi was a remarkably interesting and representative one. Among the business leaders there were only Mr. Charat Ram and Col. Leslie Sawhny. There were academicians, planners and officials. Those from Europe and America included two old acquaintances of mine - Mr. George Goyder and Prof. Alan Flanders of Oxford.

With a group as heterogenous as this, it was only to be expected that the discussions should be lively and indeed, at times, somewhat heated. To start with, there was little in common between Marxists like Mr. K. T. Chandy and Prof. V. K. R. V. Rao, Gandhians like J.P., Mr. U. N. Dhebar and Prof. S. Das Gupta, and believers in competitive free enterprise like Col. Sawhny and myself. While in the Chair at one of the Sessions, I recall my impression that it felt like being astride a bucking bronco!

It is therefore a matter to be recorded with pleasure that, in the end, the Group was unanimous in adopting the Declaration. Col. Sawhny and I had argued throughout that, unless conditions were created in which businessmen could breathe freely and have elbow room to function, it would be unrealistic to expect their whole-hearted cooperation to this cause. I am glad to say that our views found reflection in the opening paragraphs of the Declaration:

> "At the outset, we believe that the social responsibilities of business can best be assumed in an atmosphere of freedom and with the least possible restraint on healthy competition. We may differ in individual views as to the relative role, size and liberty which we would wish to give to the private, public and State sectors. But we are united in the view that every enterprise, no matter how large or small, must, if it is to enjoy confidence and respect, seek actively to discharge its responsibilities in all the directions indicated above and not towards one group alone, or to one or two groups, such as shareholders or workers, at the expense of the community and consumers.
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> All life is a trust and all power carries with it obligations. The Gandhian principle of trusteeship expresses the inherent responsibility of business enterprise to its consumers, workers, shareholders and the community and the mutual responsibilities of these to one another."

III

SOCIAL RESPONSIBILITIES OF TRADE UNIONS

After this Conference, JP decided that he should call a Conference of Trade Union leaders to undertake an examination of their social responsibilities. This Conference took place on March 29, 1966, in Delhi. It was a fairly representative gathering of Trade Unions functionaries and they adopted a long Declaration of which a few points which were accepted as worthy objectives of Indian Trade Unions may be mentioned.

The first was that members of unions should be served better in the following ways than they had been by Trade Unions during the last half century: (a) to get a better economic and material deal by way of wages and conditions of work. (b) To secure a redress of their difficulties and problems. (c) To help in the development of their cultural, moral and social level of consciousness.

At this point one begins to wonder how platonic this was, how much it was done to please Jayaprakash, how much this was done with sincerity. Six years have now passed and I for one have never heard of a single activity of any Trade Union desiring to raise the cultural, moral or social level of the consciousness of its members. It is a very worthy thing, but today it is a pious objective - adopted in 1966, but no sign as yet of its implementation.

Then the Declaration goes on to say that in order to carry out these obligations to their members and to society as a whole, the following tasks should be undertaken:

(1) Maintaining international and democratic and effective communication with members.

(2) The collection of dues, without which no service can be rendered to members.

(3) The providing of training and research facilities.

(4) The achievement of Trade Union unity. (After six years, the same six Central Federations are however still squabbling and fighting every day).

(5) Obligations towards the un-organised sector of labour, whether urban or rural. (This is a very good though that the trade unions, who are a privileged class in our society, should do something for the landless labourer, who is the real proletarian in India, with the lowest standard of life and who is not organised, or for other unorganised workers who still do not have trade unionsor industrial legislation to protect them.. I am not aware that trade unions have in a fraternal spirit gone to help their weaker brethern who are much worse off than themselves).

(6) Combating caste and untouchability.

(7 (7) To join in breaking the vicious circle of poverty, unemployment, and low productivity by cooperating in attaining higher productivity and maintaining discipline. (Extremely well-worded objectives. One's only wish is that the Indian Trade Unions would take these more seriously.)

(8) To safeguard democracy, without which Trade Unions cannot function.

Thirteen years have passed since then and it is for us to consider to what extent this Declaration has been implemented. The answer of course is most disappointing to anyone who knows the state of the Trade Union Movement in the country.

I had occasion, when preparing the B. P. Wadia Memorial Lectures in August 1973, to probe into the causes of this failure. I may mention incidentally that B. P. Wadia was an uncle of mine who had established the first Trade Union in India in Madras, viz., the Madras Labour Union in 1918. Puzzled over this sad picture of disappointing results, I have come to the conclusion that the factors that come into play are: First, the illiteracy and the backwardness of the worker, who is unable as a result to organise himself, throw out these "outsiders", and build up a genuine working class movement. Secondly, the selfishness of the political leadership coming from the intelligentsia. Thirdly, the spoon-feeding by Government which, instead of allowing a virile Trade Union movement to come up, mothers it so much that it can never be strong, puts it on crutches, and treats it like a baby which cannot grow.

Fourth, the attitude of industrial management which seems to be to oscillate between beastliness on one side and abject appeasement on the other. I am sorry to say this, but the leadership of industry, with honourable exceptions who try to work out a sound personal policy which is fair and firm, does oscillate between beastliness and trying to break the union on one side and lying down and being trampled on by the trade union leaders on the other. If a Union leader comes with a five per cent membership, they recognise the union, handing over the remaining 95 per cent of their employees to that leader. By recognising a union which is not representative, they actually let down the workers. Instead of facing unions with an intelligent policy of reciprocity and mutual regard, they either appease them or try to weaken them by unfair means, and the result is a correspondingly ugly picture on the other side.

IV

Progress Made

To come back to the social responsibilities of Business, the effort to promote these included the convening, with JP's blessings, in September 1969, of a meeting of a few industrialists in Bombay to assess what had been done in concrete terms in furthering the Declaration adopted in Delhi in March 1965. This meeting, which was convened by Mr. Nani Palkhivala and myself as Chairman and Secretary respectively of the Leslie Sawhny Programme for Training in Democracy, decided that certain proposals should be made to joint stock companies for their consideration and implementation. The first of these was that an enterprise should work out and adopt a statement of social objectives which would spell out the obligations which it accepts towards its shareholders, employees, consumers, the local community and society in general. It was suggested that the Companies should alter their Articles of Association to include a General Purpose Clause on those lines. This step was actually taken by certain leading Companies in the Tata Group who convened Extraordinary General Meetings to alter their Articles of Association accordingly and I believe that this example was followed by certain Companies in the Bajaj Group.

The relevant article adopted at an Extraordinary General Meeting of the Tata Chemicals Ltd., on 29-1-1970, was the model followed by other Tata Companies.

> "The Company shall have among its objectives the promotion and growth of the national economy through increased productivity, effective utilisation of material and manpower resources and continued application of modern scientific and managerial techniques in keeping with the national ~~and~~ aspirations; and the Company shall be mindful of its social and moral responsibilities to customers, employees, shareholders, society and the local community".

This was taking place by the time the next meeting was held on January 3, 1970, in Bombay with Mr. J. R. D. Tata in the Chair. At Mr. Tata's instance, it was agreed that some concrete steps should be taken by those who accepted their social responsibilities, which would involve some "sanctions" to implement these noble concepts. The meeting felt that Social Audit was perhaps the best way of devising these sanctions and this concept should be studied.

Following another meeting on March 30, 1970, the Leslie Sawhny Programme requested a team of experts to prepare a framework for social audit by an industrial unit. This Study Team prepared a Note which is appended to this paper. (Annexure 'A').

While all this was going on, Prime Minister Indira Gandhi made an interesting observation in the course of an address she delivered in Madras on October 5, 1969. Addressing a group of industrialists, she made an offer to lift governmental controls to the extent that private trade and industry took measures to give expression to their sense of awareness of social responsibilities. She went on to say that her Government was not committed philosophically to controls for controls' sake and went on to observe that in her view social responsibilities involved a fair deal for labour, the production of quality products, their sale to consumers at a reasonable margin of profit, and a faithful observance of government and state regulations.

As it happens, I was about to speak in Bombay on October 8, 1969. Since I felt that the Prime Minister had thrown an important challenge to business and industry, I departed from my text and welcomed whole-heartedly the Prime Minister's statement by saying: "I congratulate the Prime and I give her full credit for her sincerity in the matter". On the following day, October 9, I wrote to Mrs. Gandhi welcoming her remarks in Madras and telling her about my response. "Yours I feel", I wrote, "is the approach that could have a healthy effect by strengthening the hands of those in business who are equally aware of the need for an acceptance of the social responsibilities of business".

I went on to say: "It seems to me that on this particular issue those of us who believe in the values of a competitive free enterprise and those who adhere to the values of democratic socialism like yourself, who believe in a mixed economy and a complementary role of the private and public sector, could cooperate in creating conditions in which a mixed economy could flourish to the maximum advantage to the country. That is why I am writing to you to express the hope that you will persist in the offer or challenge that you have held out to businessmen".

Some time later, I got a brief non-committal reply from the Prime Minister. What was disappointing was that she did not take up my suggestion to repeat the challenge. The offer was never repeated.

The lates development in this field is the statement made by the Chairman of Tata Iron & Steel Company Ltd., Mr. J. R. D. Tata, on 12th July 1979 addressed to the shareholders of the Company in advance of the Company's Annual General Meeting. In the course of the statement, the Chairman of TISCO observed:

> "Your Company has always been conscious of the fact that its obligations extended beyond the normal corporate responsibilities of a joint Stock Company to its shareholders and included social obligations to employees, consumers and the national economy. The advent of Independence brought to us an added sense of duty to the nation and society as a whole as well as to the community in the midst of which our activities are located. Share holders will remember that in 1970, in order to formalise these principles, our Memorandum and Articles of Association were amended to include a clause (Article 3A) which specifically called upon the Company to be mindful of its social and moral responsibilities to the consumers, employees, shareholders, society and the local community". "My colleagues and I now feel that the time has come when our belief that the Company has indeed lived up to its social and moral obligations should be independently confirmed. With that object in view, we have recently decided that, some time before the end of the year, a panel of four eminent and respected persons totally unconnected with the Company or its activities and enjoying public confidence should undertake such a 'social' audit. The members of the 'audit' panel may consist of or include a retired Judge of the Suprese Court or of the High Court, a Member of Parliament, a trade unionist and a sociologist, whose report will be made public. I hope shareholders will approve of this decision".

ANNEXURE 'A'

A NOTE ON SOCIAL AUDIT

The Declaration on the Social Responsibilities of Business adopted at the Delhi Seminar in 1965 refers to "two new and connected instruments needed if the company is to discharge its social responsibilities". They are local meeting and social audit. The Declaration says:-

> "Factual assessment by trained and professional observers is to be made of the company's social performance. Men trained in the social sciences with the help of the universities and technical colleges will do for the social performance of the company what the financial auditor already does for the financial performance. In the case of state industries, public boards, large co-operative societies and public and private companies where there is monopoly, we suggest that the social audit may in time be made compulsory".

The concept of Social Audit has been well summed up by Mr. George Goyder in his paper on 'The Responsible Company'. Mr. Goyder discussing the Social Audit says:

> "In the economy of big business there is as much need for a social audit which should inform the public about the manner in which a large business is discharging its social responsibilities. Any company could establish a social audit voluntarily by placing an adequate amount in the hands of four trustees to be appointed by such bodies as the company, the Trade Union Congress, the Board of Trade and an independent body such as the National Council of Social Service. The areas of inquiry to be covered should be:
>
> 1. the company's pricing policies as they affect its consumers;
>
> 2. the company's labour policies as they affect the employees and the trade unions; and
>
> 3. the company's community policies.
>
> The trustees would engage the required staff from the social sciences and economic faculties of the universities and from bodies interested in the social responsibilities of business. The trustees should brief them and publish their report, independent of the company, and place the report before the Annual General Meeting of the company.
>
> Whether or not the social audit is instituted voluntarily by large public companies, it should form part of the participating companies and be laid down in the legislation for the purpose. Meanwhile it should be taken up as an experiment in social responsibility by large companies".

In India a few industrial houses could make a beginning by inviting a group of responsible academicians, social workers and sarvodaya workers to go into the performance of the Company as a citizen and report to the general public on the participation of the Company in the community's social and educational life. It is not enough for industrial houses to give donations to educational institutions and build concert halls once in a while or erect beautiful parks in public places. A report on the Company's social performance by an impartial and outside team of observers would go a long way in making the general public aware of the work done by a Company.

One way in which a company can demonstrate to the public that it is participating in social life is to adopt a few villages in its neighbourhood and take steps to improve them and make them models for rural India. This is precisely the kind of work which the Tata Charities are doing in a part of Satara District.

We give here below an extract from thw TISCO Community Development and Social Welfare Work in Jamshedpur - (First Annual Report 1959):

> "About half the population of Jamshedpur lives in eight bustees which are situated in and around the Steel City. These bustees are as follows:
>
> 1. Bhunyadih
> 2. Kasidih
> 3. Mohulbera
> 4. Ranikudar and Tinplate
> 5. Namada - Kalimati Road
> 6. Tuiladungri
> 7. Sitaramdera
> 8. Sonari
>
> These bustees have approximately 9,000 buildings. The inhabitants of these bustees are mostly illiterate and are socially and economically backward. Some of them are the aboriginal settlers of Jamshedpur which was formerly a small village named Sakchi, while others have migrated from different States and have settled in the bustees.
>
> In free India, popular hopes and demands centre round freedom from want. Such hopes are amply justified as every human being has a birthright to lice a socially and economically healthy normal life. Our population, however, is steeped in poverty, disease and ignorance. The urgent need of the day, therefore, is to take concrete steps for the eradication of the three great enemies of mankind, namely, poverty, disease and ignorance.
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> Though it is the responsibility of the State, specially that of an underdeveloped country, to help the common mass of people raise its standard of living, everything cannot be left to the State and everyone - the employer as

well as the common man - has his role to play. With a view to arousing this much-needed awareness for a better standard of living, the Steel Company has extended timely helping hand to the bustee population and has launched *Community Development and Social Welfare* programmes in its bustees. It is an uphill task and the drag has to be pulled not only by the Steel Company but also by the bustee people - in fact, mainly by the bustee people after having gained a sufficiently confident start in this direction. In order to get this desire fulfilled, self-help and mutual cooperation, unity of purpose and hard work, friendship and fellow feeling should be their watchwords. This will be the only panacea for century-old ills which have perpetuated poverty, ignorance and disease amongst these bustee people".

What Social Audit would do is to ensure that a report of this type should come from a team of impartial observers every year. This would help improve the image of a Company much more than a reference to the activities of the Company in the Annual Report of the Company by the Company's own men.