Debating the Responsibility of Capitalism in Historical and Global Perspective

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Geoffrey Jones

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Abstract

This working paper examines the evolution of concepts of the responsibility of business in a historical and global perspective. It shows that from the nineteenth century American, European, Japanese, Indian and other business leaders discussed the responsibilities of business beyond making profits, although until recently such views have not been mainstream. There was also a wide variation concerning the nature of this responsibility. This paper argues that four factors drove such beliefs; spirituality, self-interest; fears of government intervention; and the belief that governments were incapable of addressing major social issues.

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The concept of corporate responsibility is often assumed to be fairly recent in origin. This is far from accurate. Indeed, a recent study has traced the long history of corporate responsibility concepts in the United States back to the eighteenth century.[1] This working paper puts this American evidence in a wider comparative and global perspective. It proceeds chronologically, beginning with the era of the first global economy during the nineteenth and early twentieth century, and going forward to the present day.

Responsibility in the First Global Economy

As capitalism emerged in the Western world, it had an ambiguous relationship with the social values of the dominant religion, Christianity. Famously, the German sociologist Max Weber associated the advent of modern capitalism with the Reformation in the sixteenth century, arguing that the ascetic, rational and individualist nature of Lutheran and Calvinist beliefs set them apart from Catholic and Orthodox Christianity and shaped behavior. He identified the "Protestant work ethic" creating persons who worked hard, were frugal and strove for success as proof of personal faith. In other words, it shaped entrepreneurs whose values were aligned with "the spirit of capitalism.[2]

Weber set off a famous debate among historians about the cultural basis of entrepreneurial success which has continued until the present day, but this debate also overshadowed other issues concerning Christianity and the morality of capitalism. In the Gospel of Luke in the New Testament, Jesus was recorded as saying that "it is easier for a camel to go through a needle's eye, than for a rich man to enter the kingdom of God." This hardly provided compelling incentives to engage in capitalist endeavors. Medieval European societies struggled with the tensions between riches and religion, but the tensions did not go away as the modern world emerged. In 1776 Adam Smith in the *Wealth of Nations* argued that the market was value-neutral, and that its invisible hand promoted public good out of private self-interest. He considered the science of economics as "the great antidote to the poison of enthusiasm and superstition."[3] There was, however, far from a consensus in Western society that business and economic affairs were no concern of God. Indeed Thomas Malthus, a Christian minister, in *An Essay on the Principle of Population*, published in 1798, put God and morality in a central place in political economy.

As the Industrial Revolution took hold during the eighteenth century, the institutionalization of economic activity in the form of firms expanded. The concept of the corporation as a legal person separate from its owners was an invention of Western societies, originating in Roman law during the first two centuries AD, developing during the Middle Ages in both Church and civil law, and being further codified by the British and American common law tradition.[4] The role and responsibilities of such corporations was less clear. At first the family ownership of almost all corporations blurred the issue. The personal values of founders and owners were expressed in their firms. The Christian values of founders helped shape a wider societal role for firms in the form of industrial paternalism and welfare capitalism. In Britain, a succession of entrepreneurs from Josiah Wedgwood in the eighteenth century pottery industry to George Cadbury and William Lever in the late nineteenth century chocolate and soap industries, provided houses, villages, health and recreational facilities for their workers. Self-interest coexisted with religious concerns in these endeavors, as entrepreneurs sought to build loyal and stable workforces inculcated with the values of industrial capitalism. Economics also mattered. It was firms in especially favorable market positions, including Lever and Cadbury, which offered extended welfare benefits. Most large British firms did not.[5]

Mixed motives are evident in the literature on nineteenth century paternalism, both in Britain and the United States.[6] Lever built an exemplary model industrial village for his employees at Port Sunlight outside of Liverpool in 1888. However in order to counter the threat of socialism, he also appointed a Wesleyan minister as the company's welfare officer and minister at the church he had built in 1904 in a blatant strategy to keep ideological dissent under control. In an extraordinary departure from convention, he even confined membership of his church to his employees.[7] The Quaker George Cadbury, who built a new garden village of Bournville around a new chocolate factory four miles outside of the crowded industrial city of Birmingham, seemed to go above and beyond concerns to build a stable and docile workforce. In 1900 he even donated the village to a separate trust. Six years later Cadbury articulated his "theory of giving;"

"Begin at home with your work people, see to their comfort, health….See that your workshops are light and well-ventilated… give your people the advantage of living where there is plenty of space. This was our main object in removing from Birmingham into the country. It was morally right and proved financially to be a success, because the business had room to expand."[8]

The balance between morality and profits can be debated as much in the Cadbury case as in others, but the evidence of strong religious views driving an agenda concerning responsibility is strong. As Delheim has observed, “the Quaker business ethic legitimized but also tempered capitalism by defining the proper means and ends of business.” [9]

Debates about the motives of the American “corporate paternalists” of the nineteenth and early twentieth centuries in using some of their wealth to support philanthropic ventures, and engaging in sophisticated urban and social planning, are similar to Britain. The prominent examples of welfare capitalism, including the Houghton family who built the glass company Corning in the town of Corning, New York, the Hershey chocolate company, and George Pullmann, the railcar manufacturer who built a large town for his workers outside Chicago in 1880, are well-known figures in American business history. Company towns became a feature of the American industrial landscape as the century progressed, though, as Green has suggested, they fell into two types; ostensibly, at least, paternalistic, and downright exploitative of the workers who lived there.[10]

A major difference between the United States and Europe was the growing scale of American business, as well as the enormous wealth of successful business leaders such as Andrew Carnegie and John D Rockefeller. There was plenty of criticism of the abuse of power by “trusts” such as Rockefeller’s Standard Oil, but size also stimulated thoughts about responsibility. “I was taught,” Henry J Heinz, the founder of the Heinz Company wrote, “that a certain responsibility goes with .. any large business affecting many people.”[11]

The Scottish-born Andrew Carnegie, who built a huge steel business in the United States, took the concept of charity to the next level. Believing that “hoarding millions is avarice, not thrift,” he went beyond offering his workers good conditions and guaranteed employment to propose what he termed *The Gospel of Wealth*. Carnegie insisted that entrepreneurs had a responsibility to use their wealth to promote social good not be leaving money to their families, but by funding public institutions like schools and libraries that would further opportunity to others. Carnegie gave away almost all of his personal fortune of $10 billion (in today's dollars), and established the framework of modern American philanthropy by establishing the Carnegie Foundation in 1911, beginning "the art of spending money for the common good."[12] The foundation was a new form of institution designed to administer large resources and deliver them to multiple recipients. Carnegie had been distressed by sectarian divisions in Scotland, and initially showed little interest in religious matters, but by the time he began his large philanthropy projects he was an active Presbyterian. Among the first big projects was giving thousands of church organs to churches.[13]

Carnegie began a distinctly American view of the responsibility of business leaders – if they made a lot of money, they should then give it away to promote the public good. This reflected the idiosyncratic American system which was at once highly individualistic yet had a strong sense of community, and which was both committed to profit-making yet believed in social justice. Zunz has provided an excellent history of American-style philanthropy which need not be repeated in detail here. The Rockefeller Foundation was created in 1913. Between 1915 and 1930 the number of foundations in the United States grew from seventy-seven to 200.[14] During the 1920s the Guggenheims almost single-handedly funded the growth of American aviation before later turning their attention to museums and art. In 1936 the Ford Foundation was created. In 1944 the hotelier Conrad Hilton established his foundation to "relieve the suffering, the distressed, and the destitute." There were strong religious beliefs behind many of these figures – the Rockefellers were Baptists, the Guggenheims Jewish, and Hilton a fervent Roman Catholic. Bill Gates, Warren Buffet, George Kaiser and the Walton family are among the American business leaders who have continued this distinctive tradition until the present day. A key insight of Zunz is that American philanthropy from Carnegie onwards evolved from helping the poor to an investment in shaping the future. "Individual Americans return to society some monetary gain," he writes, "with the motivation that it might benefit them in the long run."[15]

While the view that philanthropy is a responsibility of business has proved immensely important in the United States, there was discussion of other responsibilities by the late nineteenth century. These included responsibility for the natural environment, although it was not to be until much later that this would become a major concern. By the late nineteenth century industrial pollution in major US cities such as Chicago and St. Louis was so evident that it encouraged a handful of business leaders to organize to persuade the business community to voluntarily seek ways to control such pollution.[16] A handful of "health reformers" also sought to address concerns about food adulteration, and the potential harmful effects of growing sugar consumption and the use of chemicals to grow crops. Among these entrepreneurs was Dr. John Harvey Kellogg, the inventor of the now famous Kellogg's Cornflakes.[17]

Another responsibility for business appeared during the nineteenth century - patriotism. There was plenty of jingoistic patriotism by business in both Britain and the United States, but it was really in the new nation states that there was a powerful rhetoric that business had a responsibility for nation-building. It was the entrepreneurs of Meiji Japan who famously, or infamously, found themselves characterized by Ranis in 1955 as "community-centered," or willing to pursue nation-building even if it was not a profit-maximizing endeavor. This provoked a famous historiographical debate, with Yamamura publishing a debunking of this argument thirteen years later.[18] It is apparent that the key entrepreneurs of the time understood the nature of the threat to Japan posed by the West, and saw themselves playing their part in resisting this threat. It is equally implausible to believe that private entrepreneurs made a practice of pursuing patriotic goals without any regard to their profitability. Wrapping oneself in the national flag was, and is, a rhetorical strategy for entrepreneurs which can only bring benefits and seldom has a downside, unless the flag was besmirched by a wicked government.

. The feeling of the patriotic responsibility of entrepreneurs is also evident among important German entrepreneurs in the nineteenth century. For example, Werner Siemens, the famous entrepreneur in the electrical industry, was born in in 1816 into a highly fragmented political entity still known as the Holy Roman Empire. He recorded in his *Memoires* that he inherited from his father a commitment to national unity which led to his early career in the Army. "The hope and confidence of a united Germany emerging from Prussia", he wrote, "was one of the decisive factors to enter the Prussian military service in the first place.[19] After the Prussian-Austrian War of 1866, Siemens abandoned his earlier liberal views to become an active nationalist supporting Bismarck's mission to unify the country.[20] These sentiments did not mean that Siemens, an astute entrepreneur as well as inventor, pursued business opportunities for primarily patriotic purposes, but such feelings certainly shaped his outlook and motivation.

The Great Depression and its Aftermath

During the interwar years the emergence of management as a profession took hold. In the United States, the creation of business schools attached to prestigious universities such as Columbia, Harvard and Dartmouth led to a push to make management a profession on a par with law or medicine.[21] This was a particular concern of Wallace Donham, a lawyer who became dean of the Harvard Business School in 1919, and strove to make the school as prestigious as the longer established Harvard Law School. He was concerned to develop a code of ethics for managers, and spoke on multiple occasions abroad the broader responsibilities of business.[22] In 1929 Donham commented within an address delivered at Northwestern University:

"Business started long centuries before the dawn of history, but business as we know now it is new - new in its broadening scope, new in its social significance. Business has not learned how to handle these changes, nor does it recognize the magnitude of its responsibilities for the future of civilization."

The Great Depression and the consequent public criticism of Wall Street and unfettered capitalism more generally, prompted extensive discussion of the responsibility of managers. Donham's ideas evolved further. In 1933 he published a widely-cited article in *Harvard Business Review* which maintained that business had the responsibility to be ethical, and warned that if it was not, governments would impose unwise and unnecessary laws on it. He wrote

"The solution of problems of business ethics, the task of learning how to conduct business so as to add to general security and happiness, must be undertaken primarily by business leaders. Their object must be to do the job so well that the law and the policeman are unnecessary….All business practices which put too great strains on human nature must be considered unethical, and men must be rated by their fellows less for their ability to appropriate economic power and for the success in accumulating dollars and more for their social imagination and institutional far-sightedness."[23]

During the 1930s, within the context of Franklin D. Roosevelt's New Deal, there was extensive debate on the responsibility of business. In 1932 Adolphe Berle, the corporate lawyer who became an adviser to Roosevelt, co-authored with Gardiner Means *The Modern Corporation and Private Property*. This landmark study laid out the problems of separating ownership and control in large modern corporations. A key, although subsequently overlooked component of the argument, was that the growth of professional managers had broken what he considered the historic link between capitalism and social and moral responsibilities to the societies in which firms were based. Berle's view of what had transpired in the past may not have been historically accurate, but it is evident that the emergence of limited liability and the joint stock company proved a considerable challenge for business leaders which sought to combine wealth accumulation with a wider societal role. As their companies went public, managers assumed a fiduciary responsibility to shareholders and the creation of shareholder value.

Berle's solutions were regulatory and legal. He designed the new Securities and Exchange Act designed to force disclosure of corporate information to make managers more responsive to social good. During the 1930s Berle debated with the Harvard Law Professor E. Merrick Dodd who argued that it should be formally recognized that large corporations were social institutions who had responsibilities to multiple stakeholders beyond shareholders. Berle was less confident that managers would ever be fit to exercise such responsibilities, and called also for formal government regulation to oblige them to meet broader responsibilities.[24]

In the United States there were also important regulatory and institutional developments to facilitate corporate giving. In 1917 US law was changed to permit individuals to deduct charitable donations from their income tax. The primary motivation was to encourage gifts for charities related to the war effort. It was much more contested whether corporations could make charitable donations. However the 1935 Revenue Act permitted corporations to deduct charitable donations from tax. Corporate donations rose sharply thereafter. In the United States also a number of intermediate organizations emerged which were crucial to corporate philanthropy. In particular, the YMCA (Young Man's Christian Association) pioneered methods of fund-raising from corporations between 1905 and 1916.[25]

There were echoes of American debates on corporate responsibility in many other Western countries, although they were framed within their distinctive cultures, traditions and political systems. In Britain, the Christian churches continued to play a role in making the case for the ethical responsibility of business. A report by the Church of England in 1918 noted that "Christianity claims to offer mankind a body of moral teaching which not only is binding upon individuals in their person and domestic conduct but also supplies a criterion by which to judge their economic activity, their industrial organization and their social institutions." A book written by a Post Office executive and published by the Student Christian Movement in 1922 described a new generation of managers who "may provide a priesthood in industry, just as there is a priesthood in worship."[26] As in the United States, there was much discussion of the professionalization of management. Quaker business families such as Rowntree and Cadbury were especially important in the so-called "management movement." The former company produced three of the most important interwar writers, Seebohn Rowntree, Oliver Sheldon and Lyndall Urwick.[27] Chapter 3 of Sheldon's *The Philosophy of Management*, published in 1923, entitled The Social Responsibility of Management, discussed in detail the responsibilities of business to the well-being of their broader communities and to maintaining high ethical standards.[28]

Meanwhile, beyond debates on societal responsibilities, some American business leaders saw their responsibilities extending also to international diplomacy. Among the more famous examples were Henry Ford's Peace Ship during World War 1, and the efforts by T. J. Watson, the chief executive of IBM, to head off mounting tensions in Europe in the late 1930s. In 1937

Watson, the president of the International Chamber of Commerce, arranged a personal meeting with Adolf Hitler to discourage him from planning another war. Watson was rewarded by Hitler's promise that there would be no war, as well as a special Nazi medal decorated with swastikas. As is well-known, Watson had no more success than Ford – who received a similar medal from the Nazi regime – and after the German invasion of France in 1940 he returned his medal.[29]

Beyond the West

It was not simply business leaders in the developed West who debated the responsibilities of business. In Meiji Japan, the only non-Western country to achieve substantial modern industrial growth before 1914, business leaders articulated highly divergent views on corporate responsibility. Iwasaki Yataro and Shibusawa Eiichi represented two extremes. Both were highly successful businessmen. Iwasaki Yataro was a major shipping entrepreneur and the founder of the Mitsubishi group. Shibusawa Eiichi was a serial entrepreneur, founder of nearly 500 companies, and the creator of the modern Japanese banking system. In a context in which Meiji Japan was threatened by expansionist Western imperial powers, both men were aware that Japan's sovereignty rested on a modernizing economy.

The views of the two men on the functions of capitalism, however, diverged. Iwasaki Yataro was a profit maximizer concerned to growth the wealth of his family. Shibusawa Eiichi developed the concept "gapponshugi" which insisted that capitalism could be both ethical, and had to a responsibility to be ethical. His views changed over time, not least because he was an international traveler who was well-aware of, and interacted with, discourses beyond Japan. In 1907, for example, he publically criticized John D. Rockefeller for holding on to his wealth and not returning it to society. Yet his views had a consistent basis that realizing public good and accumulating private wealth were not contradictory. Shibusawa Eiichi's justification for business responsibility was secular, unlike almost all of his Western contemporaries, and reflected Confucian philosophy. It might be seen, as a result, as a precursor to the present day, when the case for business responsibility is more regularly framed in secular terms, even if individuals hold strong religious views themselves.[30]

There were few parallels in the non-Western world to the precocious modernization seen in Meiji Japan which had stimulated Shibusawa Eiichi to consider the responsibility of capitalism. The most substantive development in the late nineteenth century was in the southern cone of Latin America, especially Argentina, where substantial industrialization in processing and consumer goods manufacturing occurred. However there is no evidence that the large business groups which emerged, such as Tornquist and Bunge, articulated views on the responsibility of capitalism. They were cosmopolitan, with strong connections to financial and banking groups in Belgium and Germany especially, and had limited sense of a national identity which in Argentina's case was still being formed. They were also heavily dependent on concessions and favors of the political elites running the governments of countries such as Argentina, which presided over socially stratified countries. The primary motivation of the business groups of this era was the enrichment of the controlling families and their allies.

In China, the new business leaders who began to develop manufacturing and other businesses from the late nineteenth century did sometimes pursue wider social and cultural roles, especially in their local cities and regions, although as in the case of American and British corporate paternalism discussed above, it would be wrong to interpret the motivation as altruistic in a very idealist sense. The case of Zhang Jian (1853-1926), who founded and began the building of the Dasheng Cotton Mill in Nantong into a diversified business group, has been researched in detail. Zhang Jian invested extensively in educational, welfare, and cultural facilities in Nantong city in an extensive program aimed at modernization of a formerly backward area. However it was evident also that Zhang Zian was well-aware that these activities increased his social status and increased his influence. He carefully handled his favorable image in local newspapers, whilst reducing his actual financial commitments by charging for schools and libraries he founded, whilst often handing over facilities which his family founded to the local government.[31]

Within Asia, however, the closest parallel to Japan was British India in terms of both its modern economic development and in discourse on the responsibilities of business. During the middle of the nineteenth century a locally-owned modern cotton textile industry had emerged around Bombay (Mumbai). The owners were Parsi families such as Tata, with whom Shibusawa had a close business relationship due to cotton trading. They developed close relationships with the British administration and performed a quasi-intermediary role.[32] However the Tata family was also an early advocate of the responsibilities of business. "In a free enterprise," Jamsetji Tata, the group's founder noted, "the community is not just another stake holder in the business but in fact the very purpose of its existence."[33] The Tata group developed a distinctive corporate culture characterized by the concept of service to the wider community and high ethical standards which persisted through the twentieth century.

It was also in India that a more radical view of corporate responsibility emerged. During World War 1 a new wave of industrial entrepreneurship emerged from the small Marwari community.[34] This group continued to dominate Indian business until the present day, and was associated with commercial and financial-style focused on profitability and sharp business practices. However alternative perspectives emerged also.

Jamnalal Bajaj, a Marwari trader and manufacturer, bankrolled Gandhi's independence struggle against British colonial rule. However, his contribution to Gandhi's campaign extended well beyond providing financial resources. He and his family, including his wife, took part in demonstrations and passive resistance against the British, and found themselves jailed for long periods as a result. Bajaj articulated the view that business has a patriotic duty to serve India and free it from British domination. However the campaign against the British was not the most radical element of Bajaj's views. Following Gandhi, Bajaj affirmed a trustee model of capitalism, emphasizing the responsibilities of firms to all stakeholders as well as the adoption of the highest ethical standards. He gave away most his own personal wealth to charitable causes. Bajaj and his family pursued an ambitious social agenda focused on addressing the needs of the disenfranchised in society, especially the Untouchables and women, as well as rural development and environmental sustainability. In 1928, he opened the doors of his family temple at Wardha, to all, including Untouchables, becoming the first temple in India to welcome them. Later in his life, which ended prematurely in 1942 following a long bout of imprisonment, he became an active animal rights campaigner, especially for the rights of the cow. Like many Hindus, he was a strict vegetarian.[35]

Like the Quaker families Cadbury and Rowntree, who strictly avoided businesses related to war out of their pacifist convictions, Bajaj insisted that it mattered how business made profits as well as how funds were used. During the 1930s he refused to follow his peers in diversifying beyond sugar refining into the lucrative business of alcoholic drinks as Gandhi forbad consumption of alcohol. Bajaj's belief that the use handmade cloth was essential to solving the poverty of the Indian countryside, and providing employment opportunities for rural women to facilitate their emancipation, also led him to avoid textile manufacturing.[36] The Bajaj companies flourished after Indian Independence in 1947. They are still one of India's largest business groups, and remain noteworthy for their high ethical standards.

Postwar Decades

World War 2 saw a dramatic improvement in the reputation of big business in the United States which was hailed as playing an essential role in the Allied victory. The corporations themselves invested heavily in reinforcing this improved public image.[37] Berle among others hailed American corporations as accepting they had a wide range of social and other responsibilities.[38] The new Dean of the Harvard Business School, Donald K David, insisted that business needed to expand its wider role in American society. In 1946 he called for firms to move beyond serving shareholders to acknowledge the "public responsibilities of enterprise."[39] Three years later, in a landmark article in *Harvard Business Review*, he insisted that American business had a responsibility to show it was a superior system to Russian-style socialism. This meant avoiding a narrow focus on profits and, among other things, treating employees fairly, combating racial discrimination, and assisting the development of poorer countries.[40]

There remained a significant religious dimension to discourses on business responsibility. In 1953 the National Council of Churches, an interfaith organization, funded a book by Howard Bowen called *Social Responsibilities of the Businessman*. Bowen identified the multiple stakeholders in a business, and argued that managers needed to serve all of them. Firms made "commercial goods and services," Bowen argued, but they also impacted the conditions in which such goods were made, including providing employment, the natural environment, and marketing and advertising practices, and managers also had responsibility for these "social products."[41]

During the same era large American businesses ramped up their corporate philanthropy. These were prosperous and confident years for large American corporations, which dominated innovation and led the world in high-tech industries. During the 1950s General Electric invested heavily in social programs in local communities, and in education, encouraged by new laws which made corporate giving to charities tax deductible. A new generation of firms established foundations, and firms also invested in higher education in particular directly. Alfred Sloan and other business leaders worked on the Council on Financial Aid to education to encourage firms to give to universities.[42] During the 1960s some American firms ramped up their corporate philanthropy further. The Minneapolis-based Dayton Hudson became noteworthy for giving away 5 per cent of its pre-tax profits to philanthropy.[43]

The most radical exponent of the responsibility of corporations was the computer mainframe company Control Data Corporation and its founder William C Norris. The firm was founded in 1957 in Minneapolis, and grew incredibly rapidly, entering the *Fortune 500* in 1965. Norris saw responsibility extending far beyond charitable giving, and made the case for businesses to identify social problems and address them as opportunities. The company proactively sought to provide employment for people with physical handicaps and provided childcare for women employees, and also built factories in deprived inner city areas.[44]

The ambitious thoughts of Norris and other business leaders on business responsibility were not without critics even during the 1950s and 1960s. In 1958 the *Harvard Business Review* published an article by Theodore Levitt, a marketing consultant who would later join the Harvard Business School faculty, and become the *Review*'s editor between 1985 and 1989. The article was headed "The Dangers of Social Responsibility." Levitt asserted flatly that companies were designed to address social issues, and were not equipped in such a task.[45] In 1970 the economist

Milton Friedman published his now-classic article in *New York Times Magazine* stating "the social responsibility of business is to increase profits." [46] The new liberal era had not yet dawned, but the intellectual case was being made.

It is less easy to track the development of concepts of responsibility in European business during the postwar decade. European firms initially had to reconstruct their business rather than debate wider responsibilities, and business leaders were more discrete than their American counterparts in discussing their strategies. Many of the foundations founded in Germany and elsewhere during the postwar decade were more concerned with retaining family ownership over firms than philanthropic activity.[47] Europe lacked institutions like the Harvard Business School which could articulate theories of responsibility. In addition, government everywhere took responsibility for welfare and other issues in ways which they did not in the United States, reducing the perceived need for corporations to be involved in society. In Britain, France and elsewhere, large segments of the economy had also been nationalized.

Nevertheless, it is evident that a broadening view of the responsibility of large corporations was underway during the postwar decades. In the Netherlands, the executives of large corporations, including Philips, Shell and Unilever, articulated views on the wider responsibilities of companies. Unlike the United States, there was limited interest in corporate philanthropy, but there was widespread support for concepts of trusteeship, and the belief that firms had multiple stakeholders.[48] The consumer products company Unilever was at the forefront of such trends. Paul Rijkens, the Dutch chairman of Unilever during the immediate postwar decade, was a strong advocate of the social responsibility of corporations. He insisted that Unilever had responsibilities not only to shareholders, but also employees, consumers and the environment.[49]

Rijkens recruited like-minded figures into Unilever, including Pieter Kuin, who became a director in 1961. Kuin published important studies concerning the responsibilities of business.[50] In 1966 he told an international management conference in Rotterdam that "management should never take up the cause of the rich against the poor, the privileged against the masses, the private against the public good." [51]

It would be mistaken to suggest that Unilever became a consistent exponent of social responsibility. Rijkens's successors were less passionate about the subject. Yet the corporate culture continued to insist that, in the words of an article in the house journal published in 1959, it was a "powerful force for good in the world."[52] During the 1960s the firm's large Indian affiliate, Hindustan Lever, began a program of rural development which would over time emerge as a textbook case of how a large Western multinational can use business to promote development. Seeking more reliable milk supplies, Unilever provided small farmers with guidance and knowledge of animal husbandry, and intervened with banks to get them loans without corrupt payments.[53]

Responsibility for Sustainability

During the postwar decades the number of entrepreneurs concerned about the natural environment, and interested in the ability of business to prevent its depletion, appeared. This reflected growing public concerns in Europe and the United States, and a rise in public awareness of environmental damage. This second wave of environmentalism is often described as beginning with the publication of Rachel Carson's *Silent Spring* in 1962, which warned of the detrimental environmental impact of widely used and produced pesticides like DDT.[54] Without denying the galvanizing significance of Carson's work, this should not obscure the earlier work of many small entrepreneurs, frequently located on the margins of society, who established startups which sought to promote a more sustainable future, and whose identification of environmental issues was broadly similar to Carson’s.

The desire to roll back the use of chemicals in food production, and provide consumers with alternative and safer food, grown in a sustainable fashion, was one focus. In Texas, Frank Ford founded Arrowhead Mills as a farm to market company in 1960. He was prompted into action by the perception that “food is over processed, laced with chemicals, and devoid of nutrition.” He came to the conclusion that the extraction and use of the planet’s resources had reached an unsustainable level, and that conventionally produced food “consumes precious energy when we produce it and weakens our health when we eat it.”[55] He argued that business had the responsibility to provide an alternative, and set about building a supply and distribution network that would enable consumers to avoid chemically-contaminated food if they wished. By the 1970s Arrowhead Mills had grown to become the largest distributor of organic food in the United States.

Ford became a born-again Christian, and a significant number of the new generation of entrepreneurs who built natural foods businesses in the United States were active Christians. However this formed a wider pattern of spirituality driving views about the responsibility of business in this domain which extended beyond traditional Christianity. Indian spirituality was important in the thinking of other natural foods entrepreneurs, including John Mackey, who started the Whole Foods organic food retailing business in Texas in the 1980. Ford had studied philosophy and religion at the University of Texas. The macrobiotic movement in the United States, which created the first health stores in Boston during the 1960s, was driven by ideas from Japanese spirituality. Nor was this an exclusively American or Western phenomenon. Ibrahim

Abouleish, who started and developed a prominent organic farming and retailing business in Egypt called Sekem from the 1970s, was motivated by his Islamic beliefs. He noted in a recent interview about the role of religion in driving his entrepreneurial endeavors to make the world more sustainable:

“My religion Islam needs more entrepreneurs, entrepreneurs that are able to explain religion in a modern way so they are not considered as greedy people, but as a factor of development, a sustainable development.” [56]

The belief that business had a responsibility for sustainability motivated businesses in other industries also. It was particularly evident in clean energy, where the pollution caused by fossil fuels and nuclear energy prompted entrepreneurs to explore more sustainable alternatives, despite the technological and financial obstacles which made profitability a distant dream. This was especially evident in the technologically challenging PV solar industry. In Japan, the solar industry was created and shaped by electronic corporations based in the Kansai region. The pioneer venture was Sharp, founded by Tokuji Hayakawa before World War 1 as a metalworking shop and a vision to make people happy. During the 1950s Sharp pioneered solar technologies, and subsequently the use of cells in calculators and other electrical products, and Japan’s space program.[57] None of these activities generated profits, and the continued investment appeared to have been motivated by the personal vision of Hayakawa. “I believe the biggest issue of the future is the accumulation and storage of solar heat and light,” he wrote in his 1970 biography “while all living things enjoy the blessings of the sun, we have to rely on electricity from power stations. With magnificent heat and light streaming down on us, we must think of ways of using those blessings. This is where solar cells come in.”[58]

Kazuo Inamori's Kyocera Corporation investments in solar during the 1970s were also motivated by wider concerns about sustainability. Inamori's interest in solar had its origins in his own growing awareness of environmental problems. Japan's rapid industrialization during the 1950s and 1960s resulted in extensive pollution, just has the recent fast growth in China and India. Inamori noted that the water from his own factories polluted rivers and killed fish, and by the late 1960s he began investing in water purification technology, even though this forced up the costs of his still medium-sized company. These environmental issues led him into solar after a fortuitous encounter with a new technology in the United States. As he later described, "Japan had no energy sources and had to import everything including coal, oil and natural gas, and I thought it was a weak point of the nation." Inamori's views reflected his lifelong belief that "people have no higher calling than to strive for the greater good of humankind and society." [59]

Inamori was ordained to the Buddhist priesthood in 1997, but his views on the responsibility of business to others was primarily shaped by Confucian thought, as were those of Shibusawa Eiichi. In his book *A Compass to Fulfillment*, Inamori stresses the "will of the universe," which he calls a "cosmic force that seeks to cultivate all things, that encourages development and evolution."[60] If a leader is to attain the Confucian supreme virtue of "ren," he or she needs to attain the will of the universe by encouraging the growth and development of others. Confucian thought also led Inamori to discount narrow concepts of profit maximization. In the long run," he observed, "actions based on a solid philosophy never result in a loss. Despite the fact that they appear disadvantageous, in the end such genuine actions will profit you."[61]

In the United States also, investments solar energy was sometimes driven by wider concerns than profitability. The American industry struggled to gain traction until big oil companies entered it during the 1970s. One of the most important of the new investors was Atlantic Richfield Oil Company (ARCO), which formed ARCO Solar in 1977. ARCO's investment in solar reflected a longstanding commitment to environmental issues. Robert O Anderson, who had founded the firm in the 1940s, was an outspoken proponent of the responsibility of business to address the world's environmental problems. He was among the founders of Friends of the Earth in 1969, and a regular speaker at international events on the need to protect the environment. He was actively involved in the preparations for the United Nations Conference on the Human Environment in Stockholm in 1972. As early as 1969 ARCO appointed a prominent ecologist to work in Alaska as its chief ecologist and environmental advisor, and the firm pioneered techniques to minimize environmental pollution from its operations. ARCO became, for a time, the largest PV manufacturer in the world, and engaged heavily in research, forming a strategy which Anderson described as "growing tomorrow's new industries."[62] Wider sustainability concerns were also important in the early stages of the wind energy industry, both in Denmark and Germany, and the United States. Pioneering wind entrepreneurs were often environmental activists and the two activities were intimately interconnected.[63]

The early pioneers of the responsibility of business for environmental sustainability were far from mainstream, but they built a foundation for the subsequent growth of sustainability concerns in corporate strategies. By 2013 there was probably no annual report of a major corporations which did not report sustainability activities. Much of this was rhetoric, as suggested by the fact that such reports invariably indicated progress rather than problems, and some of it was outright "green washing." It was also striking, however, how firms now believed that they had to at least claim that were reducing their environmental footprint.

There were also a powerful cluster of profitable business enterprises built entirely around sustainability, whose founders were evangelists for business's role in improving the natural environment. These included, in the United States, the outdoor clothing company Patagonia, founded in 1973 by Yvon Chouinard. By 2003 this had become a $500 million company committed to five key stakeholders – "owners, workers, customers, communities, and nature."[64] A second example was the organic food retailer Whole Foods Market, which now has revenues of $9 billion, and whose co-founder and chief executive John Mackey made the case for a "conscious capitalism" in which business is responsible for creating "value and well-being" for all stakeholders – "financial, intellectual, physical, ecological, social, cultural, emotional, ethical, and even spiritual."[65] A third example was Natura, the Brazilian direct selling beauty company founded in 1969, which by 2013 had revenues of $3 billion, employed over 1 million sales representatives, and ranked as one of the world's twenty largest beauty companies. The three company co-founders embraced a radical view of corporate responsibility for social justice, ethical standards and sustainability.[66] Guilherme Leal, one of the co-founders of Natura, was the Vice-Presidential candidate for the Green Party in the Presidential elections in Brazil in 2010. The Green Party lost, but secured over 19 per cent of the popular vote.

The New Liberal Era and Contemporary Globalization

The recent decades have seen several paradoxes. The pursuit of the wider corporate roles in society fell away in Western economies from the 1980s as investors acquired shorter-time horizons, finance theory followed Michael Jensen's strictures on agency costs, and globalization weakened the connection between firms and communities. Yet this did not mean that firms stopped talking about responsibility. Instead, corporate social responsibility became institutionalized as CSR, which grew as a virtual industry in itself. Mainstream corporations pursued CSR programs for multiple reasons, including enhancing their reputations, build legitimacy, and even gaining competitive advantage.[67]

The twenty-first century saw a return of more radical ideas. Although there was no single driver, there was evidently a connection with a series of shocks which undermined the legitimacy of global capitalism. The United States passed through a dismal decade of corporate wrongdoing, including the Enron accounting fraud, the Madoff investment scandal, and the Galleon Group hedge fund scandal, which also involved insider trading accusations against Rajat Gupta, the Indian-born Harvard MBA who had reached the pinnacle of corporate America as managing partner of McKinsey & Co between 1994 and 2003, as well as a director at Goldman Sachs Group and Procter & Gamble. It was hard to find a country where some major corporate misdeed was not revealed. Low points of corporate behavior included the News Corporation phone-hacking scandal in Britain, the Satyam Computer Services fraud in India, and Olympus in Japan. Meanwhile the 2008 financial crisis, which caused such widespread economic and social dislocation in many parts of the world, was widely (and correctly) perceived to have been caused by systemic failures in the global financial system, including a willful lack of corporate responsibility in matters such as sub-prime lending and derivatives trading.

The result was an ongoing revaluation of the responsibility of capitalism by leading management thinkers. As in earlier decades, faculty at the Harvard Business School were articulate on the importance of the issue for the future of capitalism as a whole. Rosabeth Moss Kanter's *Supercorps* imagined a company of the future using actual examples from today, including IBM and Procter & Gamble, as well as non-US companies such as the Mexican-owned cement corporation, CEMEX. Moss Kanter, who had been Levitt's successor as editor of *Harvard Business Review*, termed such firms "vanguard companies," who were both progressive and successful in business, and paid attention to community and social needs. In contrast to what she perceived as traditional CSR, this attention to societal needs enhanced financial performance rather than distracted from it.[68]

A second stream of work was associated with Michael Porter and his concept of "Shared Value". In a co-authored article with Mark Kramer published in 2011, the authors argued that capitalism was "under siege," being blamed for being "a major cause of social, environmental, and economic problems." In response, they called for a reinvention of capitalism. The starting point of their analysis was the view that not all profit should be regarded as equal. Instead, they argued that profits serving a social purpose should be seen as more important than other sources of profit. An underlying assumption of this model was that conventional CSR was not sufficient – indeed, it was more of a problem for firms than the solution. Porter and his co-author argued instead that firms needed to get beyond the view that social issues are at the periphery of a business, and instead see them at its core. The concept of shared value was defined as "creating economic value in a way that also creates value for society by addressing its needs and challenges." Societal needs, not just conventional economic needs, were seen as defining markets. Social weaknesses created internal costs for firms, such as costly accidents or the need for remedial training to compensate for inadequate policies in education. Shared value was seen as not redistributing economic wealth, but rather expanding the total pool of social value.[69]

The shared value concept in particular strongly echoed Shibusawa Eiichi's view that business activities which increase the public good are the most important virtue. The significance of these recent contributions, then, lies more in the status of the authors and their institution. The evidence concerning how many corporations have, in recent years, pursued such wider concepts of responsibility remains unclear. A key challenge is disentangling the now near-universal rhetoric of corporate responsibility with what is actually happening. It would appear that in the Western world there was a spectrum of strategies, with a small minority of corporations actively implementing very broad concepts of corporate responsibility, a majority aiming to conform to regulatory and societal requirements and expectations, and some employing rhetoric cynically as a pure public relations device. A further challenge was that the concept of CSR remained ill-defined, and evidently is interpreted in different ways between countries, even in a single region like Europe.[70] An even more serious issue was whether the evidence from the case studies of Porter and Kramer and Kanter that corporations could combine making profits and benefitting society was generalizable. It proved hard to demonstrate a positive correlation between corporate profitability and corporate social responsibility, at least in the United States.[71]

A striking feature of contemporary globalization is that some of the most radical strategies are found beyond the West and Japan. Given the historical evidence of Bajaj, Sekem and others in this paper this should be no surprise, but as a recent study of the extensive implementation of CSR by local companies in Mexico has noted, CSR research has focused almost entirely so far on developed countries.[72] Anecdotal evidence, however, suggests considerable innovation in Latin America, with corporations active in market-based solutions to poverty and environmental problems.[73]

Concluding Remarks

Looking over the last one hundred and fifty years, a striking phenomenon has been the diffusion and globalization of the belief in corporate responsibility, broadly defined. Since the nineteenth century there have been powerful prophets of responsibility from business, including

Andrew Carnegie, Shibusawa Eiichi, Jamnalal Bajaj, Paul Rijkens, Robert Anderson, Ibrahim Abouleish and Kazuo Inamori, as well as educators like Wallace Donham and Donald David. These were not prophets crying in a wilderness, but neither were they representative of general practice. During the late twentieth century, and especially after 2000, the rhetoric of CSR globalized. By 2013 there was hardly a large corporation anywhere in the world that claimed in its published annual report that its primary purpose was solely to maximize the wealth of its shareholders. Of course, the reality was often quite different. There remained plenty of negative social externalities from corporations, CSR was frequently used as little more than public relations, and even when top managers were well-intentioned (as many were), most corporations struggled to persuade lower levels of their managerial hierarchies to execute relevant policies. Overall there remained wide variations in what responsibility means, and even wider variations in the relationship between rhetoric and practice.

Four factors seem to have driven beliefs that corporations have responsibilities beyond making money for their owners. The first factor, especially until recently, was spirituality. Many of the most forceful exponents of responsibility had strong religious or spiritual values. They did not accept the arguments of Adam Smith, Ted Levitt and Milton Friedman that they should set aside these values in the sphere of business, and simply take on trust that self-interest and profit maximization would automatically deliver public good. It was more recently that Shibusawa Eiichi's primarily secular justification for business responsibility has become the norm.

A second driver was self-interest. American corporate philanthropists were making investments in shaping the future. Less grandiosely, CSR and philanthropy could be interpreted as reflecting the desire of business leaders to secure legitimacy for themselves and their firms. In some cases, as in the peacemaking adventures of Henry Ford and T. J. Watson, strategies emerged from self-delusional egos.

The remaining two drivers were related to governments. In the United States in particular, there were fears of government intervention if business was perceived to be acting badly or being responsibility for social woes. This was important both in the interwar years and the present day. Finally, and more altruistically, some entrepreneurs were not so much afraid of governments but came to the conclusion that they were unwilling to, and incapable of, addressing major social and environmental issues which the world faced. This perception has been the driver of much of the most substantive corporate responsibility thought and action over the last decade, especially in countries experiencing fast economic growth but with weaker governmental structures, such as Latin America.

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[2] Weber (2011).

[3] Quoted in Young (1998), p. 43.

[4] Avi-Yonah (2005).

[5] Gospel (1992), pp. 27-8.

[6] Brandes (1976).

[7] Jeremy (1991).

[8] Gardiner (1923), p. 120.

[9] Dellheim (1987), pp. 13-44.

[10] Green (2010).

[11] Cited in Carroll, Lipartito, Post and Werhane (2012) p. 81.

[12] Zunz (2011) p.1.

[13] Carroll, Lipartito, Post and Werhane (2012) pp. 85-87; Zunz (2011) p.23.

[14] Zunz (2011) p. 22.

[15]Ibid, p.296.

[16] Rosen (1995); ".Carroll, Lipartito, Post and Werhane (2012) pp. 107-109.

[17] Murray and Tarr (1984), pp. 13-14; Fromartz (2006), pp.153-5.

[18] Ranis (1955); Yamamura (1968).

[19] Von Siemens (1908), p. 169.

[20] Feldenkirchen (1994), p. 146.

[21] Khurana (2007).

[22] Carroll, Lipartito, Post and Werhane (2012), pp. 132-4.

[23] Donham (1933) p. 423; Carroll, Lipartito, Post and Werhane (2012), p. 179.

[24] Carroll, Lipartito, Post and Werhane (2012) pp.169-171; Berle and Means (1932).

[25] Muirhead (1999); Hopkins (1951). This paragraph draws heavily on the comments of Chris Marquis.

[26] Jeremy (2009), pp. 365-366.

[27] Wilson and Thomson (2006), p.180.

[28] Sheldon (1923).

[29] Jones and Brown (2011).

[30] Shibusawa Eiichi features prominently in the standard business histories of Meiji Japan, such as Hirschmeier and Yui (2006). See also Shichihei (1992) chapter 10, Shibusawa Memorial Museum (2009) and Eiichi's autobiography, translated by Craig (1994).

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[36] Jones (2013).

[37] Marchand (1998).

[38] Berle (1954); Carroll, Lipartito, Post and Werhane (2012), p.199.

[39] Spector (2008), p.318.

[40] David (1949); Spector (2008); p. 329; Carroll, Lipartito, Post and Werhane (2012), pp.210-211.

[41] Bowen (1953); Carroll, Lipartito, Post and Werhane (2012), pp. 212-214.

[42] Carroll, Lipartito, Post and Werhane (2012) pp. 217-219; Heald (1970).

[43] Carroll, Lipartito, Post and Werhane (2012). pp. 246-8, 250-1.

[44] Nicholas and Singleton (2011); Carroll, Lipartito, Post and Werhane (2012) pp. 248-9.

[45] Levitt (1958).

[46] Friedman (1970).

[47] Rey-Garcia and Puig-Raposo (2013).

[48] Sluyterman (2012).

[49] Jones (2005), pp. 247-8.

[50] Kuin (1977).

[51] Sluyterman (2012), p. 328.

[52] Jones (2005), p. 249.

[53] Ibid, pp. 173, 175.

[54] Guha (2000), chapter 5.

[55] Bloom (1979), p. 86.

[56] Abouleish (2008); On the influence of religion generally, see Jones (2012a).

[57] Sharp Global http://sharp-world.com/corporate/info/his/h_company/1962/index.html; See also http://www.sharp-world.com/corporate/ir/library/annual/pdf/annual_2009.pdf retrieved on January 2, 2013.

[58] Johnstone (2011) pp. 125-126.

[59] Interview by Geoffrey Jones with Kazuo Inamori, May 27 2010, cited in Jones and Bouamane (2012) .

[60] Inamori (2009), Preface. I owe this reference to Kazuhiro Tanaka.

[61] Ibid, p.32.

[62] Harris (1967), p.165.

[63] Vasi (2011); Sine and Lee (2009).

[64] Chouinard and Stanley (2012).

[65] Mackey and Sisoda (2013).

[66] Jones and Pinho (2012); Jones (2012b).

[67] Carroll, Lipartito, Post and Werhane (2012) chapter 10; on the history of CSR, see Carroll 92008).

[68] Kanter (2009).

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