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# Opening Pandora's Box

## *Corporate Social Responsibility Exposed*

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JESSICA C. LUDESCHER AND  
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**C**orporate social responsibility (CSR) refers to any activity that promotes the welfare of any stakeholder of a business corporation. Sometimes CSR refers to philanthropic programs targeting communities or employees. Other times it refers to commitments to promote the welfare of suppliers. It also refers to a variety of activities designed to enhance environmental stewardship (sustainability). More generally, it refers to the vague intention to better society (corporate citizenship). When used very loosely, the term can be conflated with general ethical practices with regard to customers, investors, or any other stakeholder. In short, the term has a variety of meanings and applications. As it is used today, it can be applied to every business in all industries. The CSR concept's looseness and generality enable it to encompass such a wide variety of ethical practices that it has practically become meaningless.

### **CSR's Limitations, Biases, and Nonsensical Applications**

Although CSR has served us well in shifting popular consciousness regarding global ethics, the concept now lies on its deathbed. The successive collapse of various

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prominent financial institutions points to a major problem with CSR—namely, that companies can use it to conceal financially risky strategies to pursue short-term gain by means of high-profile bankruptcy. Many formerly esteemed companies, not the least significant among them being Enron and Washington Mutual, touted their CSR activities and were widely praised for them. While these companies were disbursing philanthropic goods to the public, however, they mismanaged their own affairs, and as a result their more immediately implicated stakeholders—the shareholders and the employees—paid a high price for the management’s incompetence, greed, and charity.

CSR’s ludicrous nature is perhaps best exemplified by the fact that numerous banks and other companies in the financial services industry engage in philanthropic initiatives with regard to low-income communities and environmental stewardship. Upon surveying the wreckage of bank collapses and the subsequent global financial tsunami, we find that the unethical nature of these CSR practices has at last become visible to us. The financial firms are not alone in trading off CSR against business survival. Their compatriots in corporate hypocrisy include any businesses in any other industries that lose sight of a long-range focus or court bankruptcy as a competitive strategy while lauding their CSR initiatives.

CSR’s gravest danger may be that it diverts our attention from the deeper ethical issues surrounding the real value of products and toward superficial considerations of business/society engagement and organizational ethics. CSR becomes nonsensical when it is applied to businesses whose mission is to create products that are addictive, hazardous, or destructive.

Some theorists and consultants recommend the exclusion of all such companies from the CSR category, regardless of the companies’ stated commitments to social responsibility. For example, many socially responsible investment (SRI) funds screen out entire industries: defense, nuclear, tobacco, gambling, alcohol, sex. However, many companies in these industries still practice CSR, by definition, because they do philanthropy.

The inconsistency in stakeholder treatment that businesses practicing CSR can get away with can be identified most readily in businesses that manufacture products of dubious ethical value. However, the SRI screens tend to focus on so-called sin stocks at the risk of religious moralizing and the cost of failing to notice the degree to which companies in other, supposedly noble industries also manufacture ethically problematic products. For example, companies in the financial services, defense, pharmaceutical, medical insurance, and entertainment industries have been accused of peddling unnecessary, frivolous, and ridiculous products, not to mention utilizing predatory strategies that pressure the purchase of or deny access to these goods and services.

To be sure, all of these industries generate products of some value. Societal wealth, national security, human health, and entertainment are objectives critical to the maintenance of a decent and becoming human existence. Yet companies in all of these industries exceed the necessity of the good they create to the point that they

endanger and destroy human life and create poverty, fear, addiction, and dependence instead of wealth, security, health, and well-being.

Let us examine the defense industry to expose the deep trouble with the CSR concept. Defense companies like to practice business ethics and CSR by producing high-quality goods and services for their government customers, promoting internal workplace diversity, performing community service, and establishing philanthropic programs such as scholarship funds. The fundamental flaw in praising these CSR initiatives is that defense companies are in the business of designing weapons and military technology used to threaten and destroy human beings.

Simply because a defense company treats some of its stakeholders (the government customer, employees, and local community) according to high ethical standards does not mean that it is an ethical, socially responsible company. Most troublingly, the customer of defense products utilizes some of its purchases to wage war on persons of other regions—murdering, maiming, and terrorizing soldiers and civilians alike.

What is social responsibility to some of the defense company's stakeholders amounts to social destruction for others. The persons on whom the company's bombs are rained are stakeholders of the company as well because they are clearly affected by the business's activities. When we examine CSR from different perspectives, its conceptual flimsiness becomes apparent.

In general, the CSR doctrine leads us to focus too narrowly on certain stakeholders and businesses while neglecting others who are key components of the system. If we are serious about ethics and social responsibility, we must request the participation and support of all the other institutions, not just some businesses or industries. These other institutions need to examine their own complicity and negligence with regard to the perpetuation of industries that manufacture ethically problematic products.

## **The Complicity of Other Institutions in Corporate Irresponsibility**

Not only is the CSR label inappropriately applied to businesses in industries that manufacture ethically troubling products, but it also restricts our horizons and prevents us from discerning the roles that many institutions other than business play in creating global injustices. At present, the burden of remedying social ills rests disproportionately on the shoulders of selective businesses, especially on large multinational corporations. In today's global marketplace, corporations are expected to fill the classical role of government. When markets falter or when human rights are not protected, the free market, corporations, and executives are blamed by the government and society at large. The commonly proposed solution is either to stiffen government regulatory controls or to require more social responsibility of business. Neither of these solutions alone is sufficient.

That many people have proposed CSR as the ultimate solution to global social problems should alert us to its conceptual inadequacy and point us in a direction that will enable us to discard the term altogether. It is as absurd to think that business will create a social utopia as it is to think that government or the market will do so. A fundamental flaw in these mono-ideological perspectives has been the supposition that a single institution or system can or should direct the course of history toward an imaginary paradise. Advocates of CSR, expecting business corporations to bear the burden of fixing global society, express the same mistaken assumption.

Little progress will have been made if we move from a debate about whether the government or the market is the superior custodian of the public welfare to a mandate for CSR. Corporations will do no better than governments or abstract economic forces at solving social problems. CSR's danger is that it encourages transference of faith from two old institutions, neither of which works miracles alone, to a present-day behemoth even more likely to harm a trusting society.

It is tempting to backslide from the postideological progress sought via the CSR doctrine into one of the two opposing views about government and the market, abandoning CSR in favor of either more or less government. Such conclusions are regressive and fail to harness the power to consider other alternatives in the perplexities of our time.

Examining the ethics of defense companies brings to light problems with an entire system, in this case the military-industrial complex. The government subsidizes, utilizes, and perpetuates the defense business. Government is also implicated in other industries that produce products of dubious ethical value because it fails to regulate or tax these companies or to educate would-be consumers. In the name of liberty, the government interferes with the market by consuming products that secure its own power, often to the detriment or total annihilation of persons in other countries. At the same time, it retreats from market interference with regard to individual citizens' choices to produce or consume certain harmful or risky products, whatever the externalities on persons and communities at home or abroad.

Instead of excoriating the government for its contradictory and paradoxical role in propagating injustice, critics have wasted their energies in pinning the blame for social problems on business and demanding CSR. In calling for CSR, we have focused too narrowly on business's role in social problems and thus disregarded other institutional roles and processes that link them together in a larger system. Government does not have to beat out corporations or the market for it to assume responsibility for its role in furthering the supposed social irresponsibility of business corporations. Government needs to examine its own complicity in social problems with which business interfaces and assume more direct responsibility for them.

Government is not the only institution that can use a dose of social responsibility. Academia, religions, the news media, and other civil-society organizations have been remiss as well. Academia, for example, is quite complicit in bringing on the

recent financial crisis and has remained disgustingly complacent in the face of numerous pervasive social ills.

Although government has taken a beating for the wars it has waged under false pretenses and for its failures to produce appropriate regulations to prevent financial and economic catastrophe, considerably less attention has been paid to academics who produce the ideologies and technical strategies for justifying and maintaining the financial system, the global free market, and the military-industrial complex.

Academic institutions, especially business schools focused on bottom-line training, are strongly implicated in the current financial turmoil. Executives and other business professionals who were instrumental in bringing down or endangering large pivotal companies were educated somewhere. They did not merely produce their artful behaviors out of their limited imaginations. Teachers of these ethically inept executives need to take a hard look at themselves to examine their own roles in nurturing misshapen perspectives and mangled professional judgment.

Closer to the core of the problem with academia are the arcane institutional rules and norms that discourage academics from producing work of relevance or benefit to society. Overspecialization has led most academics to concentrate on issues that blind them to a larger perspective of how their work contributes to the knowledge base of a greater whole. In losing sight of how their contributions connect with others' contributions, both within and across disciplines, researchers have less capacity to carry on dialogue meaningfully with diverse intelligences. As a result, academics write papers for a literal ghost readership, and the general public cannot directly reap the fruits of their well-honed labors.

There are few institutional incentives to produce academic research that influences society for the better. For all the intellectual freedom that tenure supposedly protects, many academics remain the guardians of the status quo, perpetuating slow-moving structures of thought and insulating themselves from the critical perspectives of researchers even in their own departments. Where academia does produce perspectives and theories that radically criticize existing modes of thinking and operating, the researchers tend to communicate in such an ethereal and abstract manner as to make it seem impossible for their ideas to come down to earth and change the ways people act. If these two opposing tendencies were brought into earnest and respectful communication, a new pragmatic-intellectual synthesis might actually change the world.

Academics might do much to improve our social responsibility by writing papers that can be understood, analyzed, and utilized by a diverse audience, both within and outside the academy's walls. For this change to happen, they will need to collaborate on projects and engage in discourse with a wider variety of persons than just their students and coterie of likeminded colleagues. Extensive critique of all existing institutions would reveal the need for more social responsibility from all of them.



## **If CSR, then GSR, ASR, MSR, and RSR!**

Institutions of all sorts, not just business corporations, need to be socially responsible. If CSR were true to its name, it would include multiple institutions under its umbrella. CSR, in truth, requires broad institutional social responsibility. The rationale for extending CSR to other institutions that are also technically corporations is more than simply semantic. When we view social problems through the lens of a systems perspective, we see that no single institution bears the entire responsibility for them, yet each participates in shaping the social reality out of which such problems emerge.

Considering government and academia once again, we see that each plays a strong role in supporting the defense industry. The government purchases and uses the products, and academia educates the defense companies' employees and managers. News media and other civil-society organizations that ignore ethical problems in the defense industry and neglect to examine and expose these issues bear culpability as well. The media rarely reflect on their role in shaping societies' ideologies of justice and equality, busy as they are in producing gossipy and superficial news for sensation and profit. Many religions are likewise complicit in the perpetuation of war by not taking a more active stance in favor of peace, by approaching religious differences with divisive politics, and by failing to call on their devotees to live out the spirit of loving relationships in acting for the common good.

Regarding the current turmoil in the financial system, the institutions of government and academia might look to broader systemic problems that make financial problems so challenging. Instead of harping on the signals of economic demise, such as rising unemployment, persons in all of these institutions need to engage in deep analysis of the structures that cause such demise. The current panic about joblessness can be channeled into an evaluation of the government's role in creating defense jobs. If the U.S. government, which has by far the largest defense budget in the world, can spend hundreds of billions of dollars a year to support an industry whose mission is death and destruction, then we can rethink our reticence to have it support jobs that promote social prosperity.

One wonders why powerful institutions such as the news media and academia are quiet on issues of such importance that entail saving not only American lives, but lives around the globe. One cannot claim to be ethical when thinking narrowly of defending one's own family, community, or country but creating vast devastation for others. All humanity belongs to a single global system.

We need clearer, truthful, and productive debate on these deeper issues and tangible solutions. Deeper explorations will be fostered by a broader systems view of all businesses' relations with other institutions and by an emphasis on these other institutions' social responsibility.

Rather than playing a blame game that pins responsibility for all of the world's problems on business corporations, we should work through a diverse set of

institutions to transform our currently destructive ways into behavior that harmonizes and enlivens society and thus creates universal prosperity. Institutions engaged in creating ethically problematic products or in perpetuating a system that demands these products from them should devise new products and processes by harnessing the power of current, destructive approaches and turning it toward better, more creative ends.

Instead of asking companies in problematic industries to placate our concerns in regard to the ethics of the products they make by doing CSR, we should demand that they reevaluate their choice of products. For example, defense companies can diversify the products they manufacture in such a way as to minimize the percentage devoted to weaponry and even begin to develop new applications of existing military technology to areas of more obvious betterment to mankind. These companies can apply existing technology, skills, competences, and systems knowledge to issues such as increasing sustainable food production in impoverished societies, timely protection against natural calamities, prevention of diseases that still orphan millions around the world, alternative energy, and so forth. These suggestions are not unreasonable, given that some of the most brilliant scientists, mathematicians, and engineers in the world work in the defense industry.

Other industries and institutions can similarly alter their practices. We concentrate on the defense industry here because it has such great potential to transform the human condition for the better owing to the mighty resources its component businesses command.

Academic literature needs to evolve to incorporate these additional dimensions, and so must the public debate that occurs through mass media. Businesses need to collaborate with other institutions without taking over their functions and must reflect on their own practices vis-à-vis others to make sure that they are not using customer satisfaction as an excuse for avoiding responsibility to the end users of their products. News media should work harder at encouraging the representation of a broadly inclusive set of perspectives that are global in scope, not just American. World religions should devote more resources to fostering interfaith dialogue with the objective of envisioning a world that is harmonious, beautiful, unified, and just, uplifting the spirits of all the inhabitants of the planet. Nonprofits that purport to serve society unselfishly must also take a hard look at their compensation schemes and organizational structures to ensure that their internal structures adhere to the vision of justice they claim to seek for society. And the ultimate source of social responsibility should be the government itself, which in theory, if not in practice, is an institution set up by society to serve society.

A more pragmatic and realistic view of how to effect social change should lead us to the proposition that multiple institutions work in tandem on different dimensions of social issues. CSR should be broadened to demand institutional social responsibility. Government, academia, media, and religions need to be socially responsible. If we want CSR, then we also need GSR, ASR, MSR, and RSR, respectively.



## Individual Responsibility

All of us have a social responsibility to devise feasible solutions to these problems and to conceive of a more desirable future. Besides attending to institutional social responsibility, individual stakeholders of various institutions need to take responsibility for the roles they play in how institutions operate within the larger system of global society. Talk of CSR steers us away from the realization that persons, not abstract institutions, are ultimately the ethical or unethical actors.

CSR's extension to all institutions and a deep critique of institutional practices require that the persons who compose and interact with those institutions hold themselves responsible for what the institutions do. Institutions such as corporations or the government are not flesh-and-blood-humans and bear responsibility only abstractly as a result of legal artifices. Ultimately, real human beings make these institutions what they are.

Instead of tribalizing and melodramatizing our political associations by converting one institution or another into our preferred hero or villain to which we become slavish devotees or maniacal nemeses, we ought to fabricate new means for directing the latent power of all existing institutions with which we interact toward the objective of large-scale global transformation.

In an advanced global capitalist society, we all interact with a variety of institutions with different degrees of knowledge, participation, and consent. We are stakeholders of multitudinous corporations as consumers, employees, investors, and third-party bystanders. We are beneficiaries of government works and programs, most omnipresently and forgettably via education, transport infrastructure, and security. Civil-society organizations support, reinforce, undermine, or thwart the workings of corporations and government through a variety of complex and interlocking mechanisms.

The complete nature of the global system is beyond our imaginative capacity to behold. Nevertheless, the impossibility of envisioning with full comprehension the intricate workings of this vast network of institutions should not prevent us from attempting to expand our consciousness of it. If we begin to grasp the necessity of all institutions for the flourishing of global society, we can then embark on the task of collaborative multi-institutional problem solving.

Universal social responsibility for all institutions will require that all individuals associated with all institutions become aware of how they relate to and form the reality of those institutions. Individual social responsibility must extend universally.

As individuals become more conscious of their roles in shaping the larger system of global society through their actions vis-à-vis institutions, we will witness tremendous changes in the way our world functions. We will become like water molecules in a great ocean, each with a consciousness that shapes the waves and movements of the seas. We will realize that there is nothing "outside the system," only distorting and isolating paradigms of perception.

Awareness of each person's part in the whole will magnify the beauty of these new times. This evolution will yield a paradigm beyond paradigms, an outlook on self and whole that is deeply integrative and radical in its call for social responsibility. To be human is to be socially responsible, but to be socially responsible one must think and act as an individual.<sup>1</sup>

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1. **Editor's note:** For another, quite different discussion of corporate social responsibility, see Norman Barry, "The Stakeholder Concept of Corporate Control Is Illogical and Impractical," *The Independent Review* 6, no. 4 (spring 2002): 541-54.