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The Ethics of Corporate Social Responsibility

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The Ethics of Corporate Social Responsibility

“Did you ever expect a corporation to have a conscience, when it has no soul to be damned and no body to be kicked? (And by God, it ought to have both!)”.

First Baron Thurlow (1731-1806)

Lord Chancellor of England

In the corporate economies of the contemporary West, the market is a passive institution. The active institution is the corporation...an inherently narrow and shortsighted organization...The corporation has evolved to serve the interests of whoever controls it, at the expense of whomever does not.
(Duggar, 1989).

These two quotes, made 150 years apart reflect a particular perspective of corporate social responsibility that is rarely found in the management literature. The first quote attributed to First Baron Thurlow was made in the glory days of what was probably the world's first multinational corporation – I refer of course to the infamous East India Company. In an era of British colonial expansion, this company was engaged in conquering markets, eliminating competition, securing cheap sources of raw material supply, building strategic alliances: in short, the empire did everything our current strategy textbooks now teach us. Colonial expansionist practices of the British empire in the 1800s involved both capital appropriation and permanent destruction of manufacturing capacities in the colonies – the “technological superiority” of the British textile industry for example, was established as much by invention as by a systematic destruction of India's indigenous industry involving innovative competitive strategies such as the severing of the thumbs of master weavers in Bengal, forced cultivation of indigo by Bihar's peasants and the slave trade from Africa that supplied cotton plantations in the US with free labor (Dutt, 1970; Shiva, 2001: 34).

The second and more recent quote seems to be more relevant today in light of the recent corporate scandals that have rocked the United States, Europe and Australia. For instance, from an ethical perspective what are the outcomes for society that result from “an inherently narrow and shortsighted organization”? What is interesting in Duggar's quote is the reference to serving the interests of the people who control corporations “at the expense of whomever does not”. This seems to imply that corporate strategies of wealth creation (including corporate social responsibility) are zero sum games, which is a debatable point. If this is true then we as a society have to decide how much minimum negative externalities we are prepared to accept for wealth creation. The current debate about CEO compensation is a case in point. Two recent studies have shown that the relationship between CEO pay to stock performance are negative: the CEOs of 10 large US corporations that posted negative returns in terms of their 2003 stock performance received significant pay increases in terms of salaries, bonuses and stock options (Strauss, 2003). Another study found that the biggest CEO raises were linked to the largest layoffs. While the median pay increase for CEOs was 6% in 2002, the figure for CEOs of 50 companies that announced the biggest layoffs in 2001 jumped to 44% (Kristof, 2003). Of course all of these 50 companies produce slick, glossy corporate social responsibility reports annually. The argument that this is somehow good for the global economy begs the question: whose globe and whose economy?

In this chapter I provide a critical perspective on the ethics of corporate social responsibility (CSR). The academic literature and business press generally talk about CSR in positive, if not glowing terms because it provides an ethical framework for corporate decision making. CSR is often viewed as a “practical” way for corporations to discharge their ethical obligations to society. However, in this chapter I argue that despite its emancipatory rhetoric, discourses of corporate social responsibility are defined by narrow business interests and serve to curtail interests of external stakeholders. I provide an alternate perspective, one that views corporate social responsibility as an ideological movement intended to legitimize the power of large corporations (Mitchell, 1989).

Social Responsibility and the Modern Corporation

A brief historical tour of the emergence of the modern corporation will help contextualize my analysis of current discourses on corporate social responsibility. An understanding of the historical role that the “social” played in the development of the corporation in its modern form will allow us to see how shifting power structures in the economy, society and polity construct the terrain of corporate social responsibility. In his excellent book “Organizing America”, Charles Perrow (2002: 31) described the economic, political, and social forces that combined to create the “legal revolution that launched organizations” in the United States. Initially state legislatures in 19th century America were the only bodies that had the power to grant special charters of incorporation, charters that specified what a corporation could or could not do, how long it could exist and how it was obliged to serve the public interest.

In the legal environment of the 1800s, the state in the initial formulation of corporate law could revoke the charter of a corporation if it failed to act in the public good and routinely did so. For instance, banks lost their charters in Mississippi, Ohio, and Pennsylvania for “committing serious violations that were likely to leave them in an insolvent or financially unsound condition”. In Massachusetts and New York, charters of turnpike corporations were revoked for “not keeping their roads in repair” (Derber, 1998: 124). However, by the end of the 19th century, restrictions around incorporation had all but disappeared. As Perrow (2002: 41) argues, this was not “a mistake, an inadvertence, a happenstance in history, but a well-designed plan devised by particular interests who needed a ruling that would allow for a particular form of organization”. This then begs the questions: what are the discursive and material effects of these new forms of organization? How have the power dynamics been shifted in this new regime? What are the possible conflicts that could arise from unrestricted corporate activity? If the corporation is no longer legally required to serve the public interest what is the role of non-governmental organizations in this regime? While the wealth creating ability of modern corporations unquestionable, their social and environmental effects (and indeed some economic effects) are unquestionably damaging as well. It is interesting that one hundred and seventy years after corporations freed themselves from state charters, consumer and environmental activists of the 1960s and 70s were campaigning for a system of federal charters to “reign in the power of large corporations”. In a call for a congressional hearing on the issue, Ralph Nader declared, “The corporation is, and must be, the creature of the State. Into its nostrils the State must breathe the breath of a fictitious life” (Nader, Green & Seligman, 1976: 15).

This legal revolution that gave birth to the modern corporation essentially removed all major restrictions around corporate activity and rules of incorporation. Since the legislative authority of states for regulating corporate behavior was removed there was now no “official” requirement to serve the public interest except in the economic realm. As the legal personality of the modern corporation evolved in the 1800s, contestations in the public, political and legal spheres revolved around the conflict between public and private interests. Now that the corporation was defined as an entity that could enjoy property rights the focus shifted to developing systems of enforcement and mechanisms that protected these rights. While this system of property rights gave more power to corporations in a post-charter era, it also served as the primary incentive to maximize economic return for shareholders. Any reference to “social good” was at best symbolic and derivative in that the economic function provided the social good. The separation of the economic from the social in defining corporate identity, in itself a political process, also mirrored the tenets of economic theories of the time – the notion of “externalities” for instance, where governments and other agencies, not economic actors were responsible in managing the negative social and environmental effects of economic growth.

The landmark decision of the U.S. Supreme Court that bestowed property rights on private corporations was *Dartmouth College v. Woodward* in 1819. The case typified the inherent ambiguities that arise in defining the role of a corporation, ambiguities between the economic and social that are yet to be resolved today. Lawyers for Dartmouth Corporation in its move to free itself from state control argued that the rights of private corporations and private rights in general must be “protected from the rise and fall of popular parties and the fluctuations of political opinions” (Perrow, 2002: 41). Chief Justice John Marshall concurred, declaring that “... a corporation is an artificial being, invisible, intangible. And existing only in contemplation of law”. (Chief Justice John Marshall, *Dartmouth College v. Woodward*, 1819). Establishing the legitimacy of a “fictitious legal person” or an “artificial legal entity” distinct from its owners and officers (Hessen, 1979: xiv) had two effects: first, it effectively put an end to the argument that the corporation was a creature of the state thus limiting public representation and second, by conferring private rights on corporations, rights normally held by individuals the court automatically guaranteed a system that would protect those rights. Thus, an artificial legal entity like a corporation is entitled to protection under the 14th Amendment of the U.S. Constitution. As we shall see these legislative requirements were designed to protect private interests, often at the expense of the public. The legal personality of the modern corporation was created by certain interests to deliver specific outcomes that needed a particular form of organization and a strong state presence was inimical to these interests. In fact, over time the state view also mirrored the corporate view as new laws were created in the United States that allowed states to allocate property to private corporations. Perrow (2002) describes how powerful private interests in the railroad industry, the “big business” of the 1800s, with a combination of creative legal interpretations of property rights along with more than a few illegal activities were able to obtain rights-of-way on public land at virtually no cost. Public legal actions in most cases were decided in favor of corporations in a socio-economic climate where public purpose was defined so broadly that eminent domain and corporate privileges could always be justified in the name of “prosperity and growth; and in general for the freedom to externalize costs” (Perrow, 2002: 45). For instance, a court decision on a petition by Louisville residents protesting the company’s decision to lay rail lines across their neighborhood declared:

“A railroad will be allowed to run its locomotives into the heart of Louisville despite the noise and pollution from its smokestacks (the externality), because so necessary are the agents of transportation in a populous and prospering country that private injury and personal damage must be expected” (1839 Kentucky court decision, cited in Perrow, 2002).

If a corporation had the legal right to externalize the social and environmental costs of its business activity without impunity, its responsibility to the larger community was less clear and definitely not one mandated by law in the new regime of incorporation. While the property rights of the private “agents of transportation” had to be respected, the “necessary externalities” should be dealt with not by the corporation but by someone else. Contemporary notions of corporate social responsibility and corporate citizenship that deploy the “legal fiction” argument of the corporation in order to create a legal soul for the artificial corporate person run the danger of conflating citizenship with personhood. A corporation cannot be a citizen in the same way a person can. A corporation can however be considered a person as far its legal status is concerned. Current notions of corporate citizenship conflate citizen (which as Windsor (2001) argues a business corporation cannot be) and person (which a corporation can be but only as a “legal fiction”). Thus, as Windsor (2001: 4) points out “fictional personhood is not a sound basis for artificial citizenship” and theories of corporate social responsibility that take the citizenship approach will tend to be limited in defining the scope of responsibility. The problem is compounded in the case of multinational firms where there is no constitutional or legal basis for MNCs to becoming “world citizens”. We do not have a system whereby international bodies like the United Nations can charter a particular business.

While the law recognizes a corporation’s metaphorical personhood allowing it to enter into contracts and promote private property rights, the metaphorical soul of the corporation and its corresponding responsibilities cannot be legally prescribed. Thus, social responsibility, an integral part of a corporation’s identity and existence in the 1800s now becomes an activity devolved to the corporation, a strategic choice influenced by market and competitive factors. This process of redefinition was an exercise of political and economic power by a minority interest group promoting a particular ideology that “redefined the character of the Republic in order to justify the new opportunities that the corporation offered for the accumulation of private wealth” (Harvard Law Review: 1886-7). Changes in the legal environment also shifted the onus of addressing the “social” from corporations to governments. However, while new organizational forms were proving to create wealth for the few people that owned them, social and environmental costs continued to be passed off as externalities. There was little recognition, at least in legislative circles, that the kind of organization profit-seeking corporations build “determine social costs that the society will bear, and the powers and freedoms that the organizations will have” (Perrow, 2002: 143). However, these anxieties were voiced in several sections of the business press of the time by intellectuals, workers, union officials, artisans and entrepreneurs.

It would be naïve of us to assume that the “legal revolution” was launched uniformly and spontaneously with the public interest in mind. Large corporations in the 1800s wielded considerable economic and political power and some 19th century underhand skullduggery strategies would bring a blush even to the crooks that ran Enron. In his historical analysis of the railroad industry in 19th century America, Perrow (2002) describes an impressive list of activities that could hardly be considered “social”. Judges and legislators were routinely

bought, shady financial dealings like watering stock, misuse of stock in paying dividends, obtaining public funds through deception, misuse of public funds, and violation of legal statutes were common. In fact, the level of corruption was such that Perrow (2002: 143) argues ease of corruption should be added to the usual factors of production such as land, labor, capital, technology and organizational form. He rightly points out that corruption involved considerable social costs in terms of wasting a society's resources, risking the lives and health of communities and workers due to evasion of environmental health and safety laws, and increasing negative externalities. Corrupting the legislature and judiciary meant that corporations could shape their own powers and freedoms. As he argues:

“Corruption meant that the profits were not returned to either the government that subsidized so much of the railroads, or even to many of the private investors, but to a small group of executives and financiers. This concentrated wealth and the power that comes with it. Corruption counts, but few historians and social scientists have done any counting. Instead, they tend to blame the victims, not the perpetrators – the large organizations. There are no accounts of railroads as corporations engaged in lobbying, joining with merchants and shippers in getting public funds, fighting regulation and accountability, and generally using the organizational tool to shape the commercial world to their liking (Perrow, 2002: 144).

It is important to realize that the legal developments that created the modern corporation did not go uncontested. Anti-corporate protests were strong in the mid-1850s as they were on the streets of Seattle one hundred and fifty years later. But, as Perrow (2002) points out, these protests were more a reflection of the anxiety about the growing powers of corporate capitalism as opposed to any resistance to capitalist ideals per se. Individual entrepreneurs, workers and artisans with restricted access to capital supported private property rights for individuals because it could provide freedom from wage dependence. However, they opposed easy incorporation of corporations without a state charter because opportunities for self-employment would be limited. A community of self-employed artisans and traders with shared interests was seen as a public good which was threatened by permanent wage dependence (Perrow, 2002). In fact, a union publication declared in 1835:

“We entirely disapprove of the incorporation of Companies, for carrying on manual mechanical business, inasmuch as we believe their tendency is to eventuate in and produce monopolies, thereby crippling the energies of individual enterprise, and invading the rights of smaller capitalists” (cited in Harvard Law Review, 1989: 1989).

Concerns about the effect of “commerce” on society and “political virtue” were the source of early public hostility towards corporations. Easy incorporation laws that would dramatically expand the power of corporations were seen as creating new forms of dependency that “threatened the capacity of citizenship” (Harvard Law Review, 1989: 1891). There was a fear that in the Republic a new form of aristocracy would be created, “depending for its wealth on government privileges and therefore with an interest in corrupting government by diverting it from the public good” (Harvard Law Review, 1989: 1891). Small entrepreneurs, artisans and farmers were also concerned their livelihoods would be destroyed because of the new privileges granted to corporations.

Debates about the role of corporations in their new entity centered around two assumptions: that the corporation was inherently guided by self-interest or that a corporation has an “enduring capacity to operate on the basis of civic virtue” (Regan, 1998: 305). The first notion also reflected in economic theories of the firm where the focus is on efficiencies required to maximize rent-seeking opportunities. The second notion refers to the legitimacy of a corporation and its role in society. Thus, to quote Dahl (1973)

“Business corporations are created and survive only as a special privilege of the state. It is absurd to regard the corporation simply as an enterprise established for the sole purpose of allowing profit-making. One has simply to ask: Why should citizens, through *their* government, grant special rights, powers, privileges, and protections to any firm except on the understanding that its activities are to fulfill *their* purposes? Corporations exist because we allow them to do so” (Dahl, 1973: 11).

The problem with the efficiency-legitimacy dichotomy is that in public policy it is often the case that legitimacy becomes subordinate to efficiency because notions and terms of legitimacy are discursively produced and defined by economic efficiency criteria. As Regan (1998) has argued both assumptions are problematic for society. Assuming that the corporation is solely guided by narrow economic self-interest tends to reinforce structures that will lead to this outcome. According to Regan (1998: 305) it also denies agency to the multitude of people who work in corporations and are “denied the exercise of full moral autonomy”. Here, Regan seems to refer to the received view of corporate social responsibility that recognized institutional, organizational and individual levels of responsibility where the “principle of managerial discretion” meant that managers could exercise their own autonomous moral judgment on business decisions (Carrol, 1979). According to Wood (1991: 698), “managers are moral actors. Within every domain of corporate social responsibility, they are obliged to exercise such discretion as is available to them, toward socially responsible outcomes”. The fallacy of managers as “moral actors” is easily revealed by the Foucauldian notion of subjectification, a mode that reveals how managers become constituted as subjects who secure their meaning and reality through identifying with a particular sense of their relationship with the firm (Knights, 1992). Individual managers’ role in accommodating stakeholder interests is predefined at higher levels and practices at this level are governed and organized by organizational and institutional discourses. Do managers really have genuine freedom to make socially responsible decisions?

A second outcome of the self-interest assumption is that it leads to a free rider scenario where corporations will not usually take the socially responsible course of action unless it meets their profitability criteria (Regan, 1998). This view is reflected in the “corporate social responsibility is good for business” refrain heard from many CEOs, government officials, academics, NGOs and the like. If the sole obsession is with profits then governments and other agencies need to regulate business to produce socially beneficial outcomes, which is another shortcoming with this approach. Laws are usually created after the fact and cannot anticipate every instance of social evil. Monitoring compliance in a command and control system can be an expensive process involving high transaction costs. Moreover, it is naïve to think that laws governing the behavior of corporations are made in isolation and not without active involvement from industry. Political lobbying as a corporate strategy has more than a 200 year history.

Disputes between “social” and corporate interests that entered the legal arena tended to muddy social responsibilities of the modern corporation and narrow the focus of the board of directors to generating shareholder wealth. In one celebrated case, the Ford Motor Company was taken to court by its shareholders who contested the company’s plan to forego the payment of special dividends. Henry Ford, in the middle of implementing one of his social engineering plans declared to the court that he chose to forego the dividend payment because the company wanted “...to employ still more men; to spread the benefits of this individual system to the greatest possible number; to help them build up their lives and their homes” (Henry Ford, 1919, cited in Regan, 1998). The court disagreed, ruling that,

“A business organization is organized and carried on primarily for the profit of the stockholders. Directors cannot shape and conduct the affairs of a corporation for the mere incidental benefit of shareholders and for the primary purpose of benefiting others” (*Dodge vs Ford Motor Company 1919*, cited in Regan, 1998).

Now a vulgar interpretation of this ruling could mean that it is illegal to be socially responsible. However, managers do have some discretion in determining the best way to enhance shareholder value. Had Henry Ford chosen to be a little less modest about his plans for society and restated his argument concentrating on the long-term financial benefits of his “social investment”, the court may well have accepted his argument. Hertz (2001) mentions a similar case where the court ruled that a donation to a civil rights group by Kodak was not a “financially responsible” investment and ordered the company to accede to shareholders’ demand to pay the amount as dividends instead. However, some recent rulings have attempted to include some level of stakeholder recognition by emphasizing that directors do not “have a duty to the shareholders but instead have a duty to the corporation” (Cunningham, 1999: 1294). Another ruling stated that directors in considering the best interests of the corporation consider “the effects of any action upon any or all groups affected by such action, including shareholders, employees, suppliers...” (Cunningham, 1994: 1294). However, this simply allows company directors to consider public interests, it is not legally binding in any way, thus limiting whatever attention corporate elites will pay social concerns. As Regan (1998: 305) puts it, “the operation of both law and the market therefore systematically tend to deprive corporations of the capacity to cultivate civic virtue”.

If the legal revolution that launched the modern corporation was one that served particular interests, the same can be said of the current rhetoric in corporate boardrooms about “corporate social responsibility” and “corporate citizenship”. The power of this rhetoric lies in its ability to validate a particular form of ideology along with its accompanying epistemological and ontological assumptions. Thus, from a critical perspective corporate social responsibility becomes an ideological movement designed to consolidate the power of large corporations. In the next section I will discuss how “progressive” discourses of corporate social responsibility, corporate citizenship, and sustainability create a particular form of corporate rationality that despite its emancipatory intent serves to marginalize large groups of people.

Corporate Social Responsibility, Stakeholders and Sustainability: Holy Trinity or Praxis of Evil?

Research on corporate social responsibility (CSR) is not new and dates back at least 50 years. The two major camps hold divergent views – from the almost tiresome Friedman cliché of “the business of business is business” to a vastly more accommodating (although ultimately meaningless if taken to the extreme) stakeholder framework. While the Friedman camp is dismissive, in fact downright suspicious about corporate social responsibility outside the shareholder value framework, the fact remains that corporate social responsibility is publicly espoused by almost all the major corporations of the world. Margolis and Walsh (2003) in a study of 127 empirical studies conducted during 1972-2002 measuring the relationship between corporate social performance and corporate financial performance found that about half the studies found a positive relationship. The research findings are not convincing however, and recent reviews have pointed out serious shortcomings ranging from sampling problems, measurement issues, omission of controls, and more significantly lack of explanatory theory linking CSR with financial performance (Margolis & Walsh, 2003). However, the authors found little evidence of a *negative* relationship, which would certainly weaken the Friedman case of CSR having negative financial effects. In other words there is no evidence to state that CSR can harm the wealth-generating ability of business firms which should lead to alleviating concerns about shareholder value. In any case corporate rationality dictates the nature and scope of acceptable CSR practices engineering the inevitable compromise of making a business case for corporate social responsibility. Corporate social responsibility in this framework is limited to win-win situations starting with the assumption that it makes good business sense and enhances shareholder value.

I will not review the vast literature on corporate citizenship and social responsibility here. More than 50 years of research in the field has produced a variety of theoretical concepts along with some limited (and somewhat dubious) empirical evidence on the relationship between corporate social responsibility and firm performance. An examination of the literature indicates that the rationale and assumptions behind the corporate social responsibility discourse are: (1) corporations *should* think beyond making money and pay attention to social and environmental issues (2) corporations *should* behave in an ethical manner and demonstrate the highest level of integrity and transparency in all their operations (3) corporations *should* be involved with the community they operate in terms of enhancing their social welfare and providing community support through philanthropy or other means. These notions of corporate citizenship should be operationalized through engagement and dialogue with *stakeholders* (another term that seems to be unproblematically and uncritically accepted in the literature) and corporations should always engage their stakeholders and build relationships with them (Waddock, 2001). The normative core of this discourse is not hard to ascertain: the assumption is that corporations should do all these things because (1) good corporate citizenship is related to good financial performance (despite the dubious nature of empirical evidence of this relationship) and (2) if a corporation is a bad citizen then its licence to operate will be revoked by “society”. Both of these are simplistic assumptions with little theoretical or empirical support. Large transnational corporations responsible for major environmental disasters and negative social impacts in the Third World (Union Carbide, Nike, Exxon, Shell to name a few) rather than lose their licence to operate have actually become stronger and more powerful whether through mergers, restructures or relentless public relations campaigns.

There is a remarkable lack of critical examination in the literature of these concepts of corporate citizenship. The literature on corporate social responsibility easily identifies “bad” corporate citizens: tobacco companies, weapons manufacturers, environmental polluters. However, the fact that these companies regularly publish corporate citizenship and social performance reports tends to muddy the waters more than a little. Thus, a recent report released by the Vice President, Corporate Affairs and Social Responsibility of Phillip Morris, outlines their “values-based culture” that demonstrates “integrity, honesty, respect and tolerance” while promising “transparency” and “stakeholder engagement” (Phillip Morris, 2002). How tobacco firms can use these concepts to produce “socially responsible” cigarettes is of course another matter. These concepts are echoed by academics as well: for instance, Birch (2001: 59-60.) in developing a conceptual framework of corporate citizenship outlines “12 generic principles of corporate citizenship” including “making a difference, employee and stakeholder empowerment, transparency, accountability, sharing responsibility, inclusivity, sustainable capitalism, a triple bottom line, long-termism, communication, engagement and dialogue”. It is interesting to see how these theoretical principles are seamlessly integrated into corporate policies. Consider for example, the following excerpt from the corporate responsibility annual report of a large multinational corporation:

The principles that guide our behavior are based on our vision and values and include the following:

- Respect: We will work to foster mutual respect with communities and stakeholders who are affected by our operations
- Integrity: We will examine the impacts, positive and negative, of our business on the environment, and on society, and will integrate human, health, social and environmental considerations into our internal management and value system.
- Communication: We will strive to foster understanding and support our stakeholders and communities, as well as measure and communicate our performance.
- Excellence: We will continue to improve our performance and will encourage our business partners and suppliers to adhere to the same standards.

This corporation, voted by Fortune Magazine for six consecutive years as the most “innovative company in North America”; for three consecutive years as one of the “100 best companies to work for in America” and on Fortune Magazine’s “All star list of global most admired companies” is of course none other than Enron (Enron, 2002). Glossy corporate social responsibility reports are a form of “greenwashing”¹ that often do not reveal the grim realities that lie behind them. To quote the words of a famous philosopher, Marx (Groucho, not Karl), “The secrets of success in business are honesty and transparency. If you can fake that, you’ve got it made”.

¹ The Oxford English Dictionary defines greenwash as “disinformation disseminated by an organization so as to present an environmentally responsible public image”. The non-governmental organization CorpWatch has a less charitable definition of greenwash: “the phenomenon of socially and environmentally destructive corporations attempting to preserve and expand their markets by posing as friends of the environment and leaders in the struggle to eradicate poverty”.

While stakeholder empowerment is indeed a noble goal, one wonders how this would affect the economic performance of a firm when the stakeholders it is supposed to “empower” have opposing agendas to industry, for example in the current conflicts between mining and resource companies and indigenous communities (Banerjee, 2000; Banerjee, 2001a). In my work with two indigenous communities in Australia I sought “stakeholder input” about the presence of a mine on indigenous land. The response was unanimous: both communities wanted the mining company (a very, very, very large multinational company) to “clean up, pack up, leave and never come back”, to quote the words of one traditional owner. The company’s response was to hire an anthropologist to “consult” with communities on how best to expand its operations. The fact that these “consultations” take place under drastically unequal power relations remains unaddressed. As Tatz (1982) points out, Aboriginal communities are the “*receivers of consultation*”, that is, that Aboriginal people are from time to time *talked to* about the decisions *arrived at*” (p.176, original emphasis). In every case involving “consultation” with traditional owners in Australia, the focus was not whether or not mining should proceed but under what conditions should it be carried out. Royalties, promises of jobs, pitting one community against another are some strategies that have proved useful for mining companies.

Any analysis of the history of corporate citizenship must also reflect the history of corporate power. North American corporations for example, originally conceived in the 18th century as entities serving the public interest, have over the past 200 years systematically diminished the power of state and federal governments in regulating or governing their activity. There are no legislative requirements that corporations serve the public interest, thus opening up what Alan Greenspan calls more “pathways to greed”. This is quite apparent in the emergent discourse on “sustainability”, which originally promoted sustainable development as an alternate paradigm to the growth model but like the modern Western environmental movement, has been hijacked by corporate interests.

The World Commission for Economic Development provides the most commonly used definition of sustainable development, describing it as “a process of change in which the exploitation of resources, direction of investments, orientation of technological development, and institutional change are made consistent with future as well as present needs” (WCED, 1987: 9). Discourses of sustainable development are becoming increasingly corporatized. For instance, the Dow Jones recently launched a “Sustainability Group Index” after a survey of Fortune 500 companies. A sustainable corporation was defined as one “that aims at increasing long-term shareholder value by integrating economic, environmental and social growth opportunities into its corporate and business strategies” (Dow Jones Sustainability Group Index, 2000). It is interesting to observe how notions of sustainability are constructed, manipulated and represented in both the popular business press and academic literature. As evidence of the deleterious effects of development mounted, the discourse shifted from sustainable development to the more positive sounding sustainability and then shifted the focus to corporate sustainability. Corporate discourses on sustainability produce an elision that displaces the focus from global planetary sustainability to sustaining the corporation through “growth opportunities” (Banerjee, 2003). What happens if environmental and social issues do not result in growth opportunities remains unclear, the assumption being that global sustainability can be achieved only through market exchanges. Even national governments and international organizations like the United Nations promote sustainability as a business

case a consequence of which is that business, not societal or ecological, interests define the parameters of sustainability.

Business, Government and International Institutions

If one role of governments is to promote democracy while looking after the welfare of the poor and needy, a richer but needier client seems to be getting most of their attention. Corporations are one of the largest receivers of welfare in the United States in the form of direct subsidies that run over \$75 billion (Hertz, 2001). The poorer states in the US having the greatest income inequality not surprisingly offer the largest tax concessions and other subsidies, not to mention the non-financial benefits of lax environmental regulation and a “flexible” labor force (meaning no unions). Caring for the corporation has become a bigger business than the caring corporation. The impact of multinationals in the Third World is even more powerful. As “carriers of democratic values” multinational companies often take on the role of governments in these regions, as in the case of Shell. Here we have one company that generates 75% of the Nigerian government’s revenues and nearly 35% of the country’s GNP. As a Shell manager put it: “Things are back to front here. The government’s in the oil business and we are in local government”. (Brian Anderson, Shell senior manager, cited in Hertz, 2001: 173). The distribution of this wealth is of course another matter.

The rhetoric of corporate social responsibility also seems to confuse democracy with capitalism. While the rhetoric behind American foreign policy over the last 70 years is to “spread democratic values”, the reality is that foreign policy decisions promote a brand of American liberal democracy that seeks to create a global system “based on the needs of private capital including the protection of private property and open access to markets” (Hertz, 2001 p. 78). There is also more than an element of hypocrisy as far as “open access” is concerned in dozens of cases where the US government has restricted foreign access to their markets to protect national economic interest in several industrial sectors. Iran, Guatemala, Brazil, Chile, Philippines, South America are just a handful of countries where democracy took a back seat to American corporate interests. Jean Kirkpatrick, former US ambassador to the UN in an admirable act of political doublespeak was able to reconcile these opposing positions. Kirkpatrick distinguished between authoritarian regimes (Philippines, apartheid South Africa and Chile) and totalitarian regimes (Cuba, the former Soviet Union). Although authoritarian regimes were not democratic and often used violence to suppress dissent they “shared” American beliefs about open markets and free trade and hence it was acceptable for American corporations to do business in these regions. Free markets first and democracy would follow was the motto. Totalitarian regimes on the other hand were evil for Kirkpatrick because “they controlled every part of society especially the economy which was closed to private enterprise and foreign access” (Hertz, 2001, p. 79).

Thus, Woodrow Wilson’s declaration that the world must be made safe for democracy must therefore be seen in light of the kind of market fundamentalism that defines the parameters of democracy. American style liberal democracy where multinational corporations become the carriers of democratic values to Third World regions is perfectly capable of functioning in authoritarian regimes, in fact these regimes are preferred, as long as a market economy is allowed. Property rights and the rule of law are a must, other aspects of democracy such as “mass participation, an active civil society, regular free and fair elections” are optional and in fact expendable (Hertz, p. 80). Democracy also seems to be conveniently

forgotten in many of the decisions taken at international trade or environmental summits. For instance, at the 1992 Rio Summit there were open conflicts between corporations, their trade associations, NGOs, and indigenous community leaders over environmental regulations. The demands of NGOs were shelved and a voluntary code of conduct developed by the Business Council for Sustainable Development (consisting mainly of multinational corporations) approved instead in what was supposed to be a democratic process of developing an action plan for sustainable development (Hawken 1995). While the policies from the Rio Earth Summit and the more recent Johannesburg Earth Summit (an even bigger failure according to many NGOs and environmentalists) stressed the role of multinational corporations in promoting sustainable development, they are silent about corporate responsibility and accountability for environmental destruction. Development, sustainable or otherwise, in a globalizing world is inherently anti-democratic as several indigenous groups have found. As Subcomandante Marcos, a spokesperson of the Zapatista movement in Chiapas, Mexico stated:

“When we rose up against a national government, we found that it did not exist. In reality we were up against financial capital, against speculation, which is what makes decisions in Mexico as well as in Europe, Asia, Africa, Oceania, North America, South America – everywhere”. (Zapatista 1998).

The story is depressingly familiar to indigenous communities all over the world. In this case, officials of the World Bank met in Geneva and decided to give a loan to Mexico on condition they export meat under the agreements laid down by the World Trade Organization. Land used by indigenous communities in Chiapas to grow corn is now used to raise cattle for fast food markets in the U.S. to feed American consumers while locking out local communities from participating in the benefits (there is no McDonald's in Chiapas). This is an inherently undemocratic process where peasant populations do not have the right to decide how they want to live. This is another example of how imperialism operates in the Third World: where one “state” (in this case representing the interests of the rich countries, the international institutions they support and their transnational corporations) controls the effective political sovereignty of another political society, by force, by political collaboration, by economic, social or cultural dependence. The following was a response to the Zapatista uprising by a multinational bank, a major financier in the restructuring of Mexico's economy:

“The government will need to eliminate the Zapatistas to demonstrate their effective control of the national territory and security policy”
Mexico, Political Update, Chase Manhattan Bank.
(Zapatista 1998).

If this is an example of a corporate “triple bottom line” strategy to integrate social and environmental issues, the future for resistance movements is very bleak indeed.

The recent North-South conflict over the World Trade Organization's controversial Trade Related Aspects of Intellectual Property Agreement (TRIPS) is another case in point. The TRIPS agreement legitimizes private property rights through intellectual property even over life forms. These rights are for individuals, states and corporations, not for indigenous peoples and local communities. In effect, governments are asked to change their national intellectual property rights laws to allow patenting of

“micro-organisms, non-biological and micro-biological processes.” There are two related problems that arise from imposing a regime of intellectual property rights on indigenous knowledge. First, “traditional” knowledge belongs to the indigenous community rather than to specific individuals. Second, as indigenous communities all over the world have discovered, national governments are increasingly employing neoliberal agendas (some willingly, a majority through coercion) that have adverse impacts on their livelihoods by restricting community access to natural resources. “Equitable” sharing of commercial benefits through mutually beneficial contracts between indigenous groups and multinational corporations are unlikely to occur given the disparities in resources and capacities to monitor or enforce the terms of any contract.

The TRIPS agreement at the Uruguay Round of the GATT was developed “in large part” by a committee called the Intellectual Property Committee (IPC) consisting of many transnational firms including Bristol Myers, Merck, Monsanto, Du Pont and Pfizer. Monsanto’s representative described the TRIPS strategy:

“...(We were able to) distil from the laws of the more advanced countries the fundamental principles for protecting all forms of intellectual property... Besides selling our concept at home, we went to Geneva where we presented or document to the staff of the GATT Secretariat... What I have described to you is absolutely unprecedented in GATT. Industry identified a major problem for international trade. It crafted a solution, reduced it to a concrete proposal, and sold it to our own and other governments... the industries and traders of the world have played simultaneously the role of patients, the diagnosticians and the prescribing physicians” (cited in Rifkin, 1999: 52).

This is another example of how corporate power is wielded in the area of international trade and why any analysis of corporate social responsibility at the level of an individual organization cannot address broader social concerns. If the “industries and traders of the world” dictate global trade and environmental policies that serve certain interests then the question to ask is who gets excluded from these policies? WTO policies such as TRIPS are developed to ensure protection of corporate rights, not community rights. The TRIPS agreement resulted in mass protests by indigenous and peasant communities along with NGO’s in Asia, Africa and South America that continue to this day (Dawkins, 1997).

The distinction between national and corporate interests become particularly important in the way these disputes are resolved in the WTO. National environmental legislation, safety regulations, social welfare nets, ethical buying policies are all examples of “unfair trade practices” as far as recent WTO rulings are concerned. In 1996, the state of Massachusetts ruled that it would stop awarding government contracts to companies operating in Burma because of the country’s brutal human rights record. A number of European companies (Unilever, Siemens, ING, ABN-Amro among them) lobbied their governments and as a result the EU threatened to take the case to the WTO, arguing that the ban was an unfair trade practice. The courts ruled in favor of the corporations. Lawyers representing Massachusetts argued that Nelson Mandela “would still be in prison had current trade rules been in force in the 1980s” (Hertz, 2001). In every environmental case considered by the WTO, national laws of democratically elected governments have been overridden by an organization that is accountable to no one. And exactly who are the institutions and people that play a highly

influential role in global trade negotiations? Trade advisory bodies representing business interests of member countries are key players. However, the problem is about whose interests the trade advisory bodies represent. For example, in three of the main trade advisory committees of the U.S. trade representative's office, representing a total of 111 members, only two represented labor unions (Korten, 1995). Ninety-two represented individual companies and 16 were trade industry associations (10 from the chemical industry). More than a third of the member companies represented at these meetings, (referred to in WTO parlance as "the green room meetings" which are essentially closed door meetings with no access to the public) had been fined by the Environmental Protection Agency for failure to comply with environmental regulations (Korten, 1995). A third of the member companies had actively lobbied state and federal governments opposing higher environmental standards. It is quite clear not only whose interests are being promoted in these world bodies but also who is being excluded from this process.

Thus, despite all the strident rhetoric about the "stakeholder corporation" the reality is that stakeholders who do not toe the corporate line are either coopted or marginalized. The stakeholder theory of the firm represents a form of stakeholder colonialism that serves to regulate the behavior of stakeholders. That (perceived) integration of stakeholder needs might be an effective tool for a firm to enhance its image is probably true. However, for a critical understanding of stakeholder theory, this approach is unsatisfactory. Effective practices of "managing" stakeholders and research aimed at generating "knowledge" about stakeholders are less systems of truth than products of power applied by corporations, governments and business schools (Knights, 1992). As Wilmott (1995) points out the establishment of new organization theories are very much the outcome of the historical development of capitalism and create value only for particular people and institutions. A view of the full picture of the consequences of stakeholder theory and practice requires a stepping out of the frame. A more critical examination of stakeholder theory, for instance understanding that stakeholder relations are systematized and controlled by the imperatives of capital accumulation, may produce a very different picture. Notions of power, legitimacy and urgency and the resultant practice of identifying stakeholder salience are contingent on the interests of nation states, industries, organizations or other institutions (Wilmott, 1995) and in the process of stakeholder integration, either negate alternative practices or assimilate them.

Conclusion and Implications for Management Ethics

As Clegg and Rhodes state in the introduction the core questions of this book are: "What are the ethics of organizing in today's institutional environment and what does this mean for the practice of management and the organization of work and business". In the context of corporate social responsibility we might ask what are the ethics of CSR? How can we make corporate social responsibility work for society and not just for corporations? What are the outcomes of CSR activities for the broader society? While much of the research focuses on the financial consequences of corporate social initiatives, we know little about the social consequences of these strategies. To what extent do current corporate initiatives actually achieve their intended outcomes? Instead of focusing on win-win situations, perhaps identifying and describing the conditions, challenges, and consequences of lose-lose or win-lose situations might reveal more interesting theoretical and practical challenges. Much of the strident voices against corporate power draw attention to issues such as exploitation of labor in developing countries, abusive practices and environmental destruction. These are

practices that are easy targets. We need more research on the social consequences of apparently beneficial economic development policies at the level of people, for example detailed ethnographic accounts of the social transformations and dislocations created by foreign direct investment, industrial development, industrial agriculture, privatization, offshore production and export processing zones (Harvey, 2003; Ong, 1987).

It is unlikely that any radical revision of corporate social responsibility will emerge from organizations given how this discourse is constructed at higher levels of the political economy. Focusing on the individual corporation as the unit of analysis can only produce limited results and serves to create an organizational enclosure around corporate social responsibility. For any radical revisioning to occur, a more critical approach to organization theory is required and new questions need to be raised not only about the ecological and social sustainability of business corporations but of the political economy itself. Radical revisions at this level can only occur if there is a shift in thinking at a macro level. We need to open up new spaces and provide new frameworks for organization-stakeholder dialogues as well as critically examine the dynamics of the relationships between corporations, NGOs, governments, community groups and funding agencies. Contemporary discourses of organizations and their stakeholders are inevitably constrained by “practical” reasons such as the profit-seeking behavior of corporations (Treviño and Weaver, 1999). While the vast literature on corporate social responsibility, stakeholder integration and business ethics is based on the assumption that business is influenced by societal concerns, the dominance of societal interests in radically reshaping business practices is in some question (Mueller, 1994). The domain of corporate social responsibility cannot be assessed by primarily economic criteria and neither can an environmental ethic be developed through an “ethically pragmatic managerial” morality that primarily serves organizational interests (Fineman, 1998; Snell, 2000). The limitations of a market-based model of corporate social responsibility mirror the shortcomings of economic rationalism. The term economic rationalism itself is problematic and needs to be unpacked. It assumes firstly that there is something inherently “rational” about economics, which needs to be debated. Secondly, it disallows alternate imaginaries from emerging because of its discursive power to automatically label them as “irrational”. Perhaps market fundamentalism is a more appropriate term where fundamentalism is less about the content of any belief system and more about the strength with which it is defended.

Corporations cannot replace governments and contribute to social welfare simply because their basic function (the rhetoric of triple bottom line aside) is inherently driven by economic needs. What will happen to a local community that is completely dependent on its economic, social and environmental welfare on a multinational company once the latter decides to move its location? On economic grounds of course, not social or environmental reasons. Markets, however efficient they may be in setting prices, cannot be counted upon to ensure that corporations will always act in the interests of society. Social investment and social justice can never become a corporation’s core activity – the few companies that have tried to do this, Body Shop and Ben & Jerry’s come to mind, have failed and even worse been accused of fraudulent behavior (Entine, 1995). In the political economy we live in today, corporate strategies will always be made in the interests of enhancing shareholder value and return on capital, not social justice or morality. And emerging attempts to conceptualize social responsibility as “social capital” will still fall short unless there is a radical restructuring of the political economy and fundamental rethinking about the role of a corporation in society. Social capital is not a universal good, often times it is generated for

one group of people at the expense of some other segment of society. The Mafia has considerable amounts of social capital. So has Al Qaeda.

A radical ethics of corporate social responsibility will go beyond a managerial position and whose purpose will be “not performativity but emancipation” (Grice and Humphries, 1997: 422). Much of current critical work in management focuses on the same questions and tries to provide better answers. As we have seen, even theories of social responsibility despite their emancipatory intent, are avowedly managerialist and do not contribute to a critical understanding of the consequences of managerial decision-making. Changing organizational theorizing needs a different way of thinking that asks new questions rather than obtaining more answers to the same questions. It needs to ask questions from different, often oppositional perspectives, it is constantly suspicious of all answers. It asks why certain questions are asked, why others are not asked, “why some approaches are chosen over others and what interests are included or excluded in this process” (Grice and Humphries, 199: 423). An overwhelming proportion of research in management focuses on traditional profit-oriented corporations. The bulk of research on not-for-profit organizations is also framed by similar corporate goals: how can we raise more money for charity, how can we get more people into museums or libraries or zoos? There is very little research on strategies for activist groups and organizations, and the theories and practices required to oppose corporate actions (Frooman, 1999). Contemporary discourses of stakeholder theory often distort its “normative core” for “practical” reasons such as profit seeking (Trevino and Weaver, 1999).

An critical-ethical perspective on stakeholder theory would not just focus on documenting “best practices” in stakeholder management. It would involve examining how knowledge and theory development in the field constitutes social relations between different stakeholders and perhaps even set the ground for a different set of conditions, which in turn needs to be critiqued. It would also question the autonomy of corporate law and focus attention on the power dynamics between different groups in society. Let us not forget laws also represent the interests of a specific class despite its self-representation as an expression of “universal will”. Questions that need to be addressed include, what are the power dynamics underlying the political process of stakeholder partnerships? What are the material and discursive effects? How do institutions reinforce hegemonic structures? What institutional structures can overcome the narrow self-interest of the financial elite? How can we create alternate structures of decision-making, conflict resolution and accountability?

Mahatma Gandhi was once asked by a newspaper reporter in London about what he thought of Western civilization. Gandhi replied that it might be a good idea. Perhaps the same thing applies to corporate social responsibility – it may be a good idea provided it creates genuine change rather than reacting to changes in the political economy. As Frank (2001: 143) states, management theory teaches us that the corporation is capable of resolving all social conflict “fairly and justly within its walls”. It is this theory that an ethical-critical perspective seeks to subvert. Restoring a sense of social justice and equity cannot be achieved through “some final triumph of the corporation over the body and soul of humanity, but some sort of power that confronts business” (Frank, 2001: 143). As we debate issues of corporate social responsibility, corporate citizenship, sustainability and stakeholders let us never lose sight of the fact that companies are not the only inhabitants of this planet. Perhaps the words of Subcomandante Marcos can serve as a guide:

“En suma no estamos proponiendo una revolución ortodoxa, sino algo mucho más difícil: una revolución que haga posible la revolución.” (To sum up, we are not proposing an orthodox revolution, but something much more difficult: a revolution that will make the revolution possible).

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