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# Products That Kill and Corporate Social Responsibility: The Case of U.S. Defense Firms

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## Abstract

Scholars of corporate social responsibility (CSR), which refers to the responsibilities of a firm to society in four domains: economic, legal, ethical, and discretionary, have typically excluded defense firms from their research, mainly on ideological grounds. This study challenges these assumptions and measures the CSR orientations of managers of defense firms. The findings reveal the orientations of defense firm managers to be consistent with those of other corporate populations, though the highly regulated environment of defense contracting causes some differences. The findings help to redeem the social standing of defense firms, and by implication, their employees and the military members who use their products, from unwarranted antimilitary biases.

## Keywords

corporate social responsibility, defense firms, defense industry, defense managers, military-industrial complex

The recent controversies involving Goldman Sachs and British Petroleum focus attention on obligations of private firms to act in socially responsible ways.

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Scholarly study of these obligations has proceeded over the past half century with development of the concept of corporate social responsibility (CSR).<sup>1</sup> In its most widely accepted definition, CSR refers to the responsibilities of a firm to society in four domains: economic, legal, ethical, and discretionary (or philanthropic).<sup>2</sup>

Along with tobacco and alcohol producers (the “sin industries”), weapons manufacturers and other segments of the military arms and equipment industry (hereafter, “defense firms”) have been excluded from CSR research under the presumption that they violate CSR standards in the ethical domain.<sup>3</sup> Byrne’s scathing critique—more ideological essay than empirical analysis<sup>4</sup>—in *Journal of Business Ethics* claims that defense firms would fail CSR tests through their (1) harm to the environment, (2) violation of human rights, (3) profiteering, and (4) abuse of political power.

This ideological bias against the social responsibility of defense firms touches on familiar *Armed Forces & Society* topics, such as societal attitudes toward the military,<sup>5</sup> the military-industrial complex,<sup>6</sup> and civil-military relations.<sup>7</sup> These negative views, while focused on defense firms’ products and purposes, necessarily taint the social standing of the several millions employed by over 19,000 firms currently under contract to the U.S. Department of Defense.<sup>8</sup> They can have only deleterious spillover effects on society’s views of military members and institutions. Antimilitary biases are exacerbated through the military’s guilt by association with, as Byrne puts it, these “harm-facilitating businesses.”<sup>9</sup> Put simply, if the firm that makes a weapon cannot be socially responsible, how then can either the firm’s employees or the weapon’s users be?

Further, views of defense firms as socially irresponsible reinforce—unreasonably so because they lack nuance—fears of the military-industrial complex.<sup>10</sup> The argument that defense firms might serve to help accomplish legitimate state ends is countered by the claim that industry is the dominant partner in the military-industrial complex, deliberately promoting state belligerency for profit. Considered in this light, the classic civil-military relations issue—the proper nature and extent of civilian control of the military—must account for defense industry with its behind-the-scenes machinations and manipulations of both civil and military leadership.

Finally, this bias obscures possibilities that defense firms might take any socially redeeming actions through, for example, community service or philanthropic contributions. Thus, in the same way that, while some may abhor those aspects of a soldier’s life that require him or her to kill, they will admire other aspects (e.g., participation in the Toys for Tots program run by the Marine Corps Reserve), might not shades and variations exist regarding the CSR of defense firms?

Treating each of these issues seriously would require more space than is available here. In this article, we wish to provide evidence that establishes an empirical basis for corrections or refutations of anecdotal and ideological arguments about defense firms’ CSR. Specifically, this article presents CSR research on this neglected yet significant<sup>11</sup> segment of the U.S. industrial sector. Using data obtained from a survey of managers of defense firms, it documents and analyzes their CSR orientation in

the four domains mentioned above: economic, legal, ethical, and discretionary. It provides evidence of the extent to which and ways in which the CSR orientation of these managers differs from those of managers in other industries, and thus also a more nuanced perspective of the ways in which and extent to which defense firms might actually be considered socially responsible. Ultimately, it helps to answer the question: “Can a company that makes products that kill be socially responsible?”<sup>12</sup> To the extent that the social responsibility of defense firms may be redeemed, so too may the social standing of their employees and the military be protected.

## Background

Bowen’s book *Social Responsibilities of the Businessman*<sup>13</sup> laid CSR foundations with the idea that a firm’s obligations to society extend beyond its formal legal obligations to operate within the law and its economic obligations (e.g., to shareholders) to be profitable. Early CSR frameworks envisioned three potentially overlapping domains—legal, economic, and ethical—in which a firm operates.<sup>14</sup> The balance among these three domains and the manner in which they overlap describe a firm’s actions and provide insights into its orientations and priorities.

### Four Domains of CSR

Carroll proposed a four-domain model of CSR, which added discretionary responsibilities to the legal, economic, and ethical domains; he later renamed the discretionary domain as the philanthropic domain.<sup>15</sup> This four-domain model has been widely used among scholars of business ethics<sup>16</sup> as well as among firms that face societal pressures (e.g., from governmental agencies and stakeholders) to improve their business citizenship, while at the same time improving their business performance.<sup>17</sup>

The economic and legal domains of Carroll’s model are straightforward. The economic domain refers to a firm’s commitments to profitability in several respects: to maximize profits, to be consistently profitable, to maintain a strong competitive market position, and to maintain high operating efficiencies.<sup>18</sup> The legal domain refers to a firm’s obligations to obey statutes and regulations and to pay taxes. As Pinkston and Carroll note, these two domains are the foundational tiers of CSR: “If one accepts that both economic and legal responsibilities are required of business by society, then these two factors combine to form a minimum threshold for the corporation’s social responsibility.”<sup>19</sup>

Inclusion of the ethical domain substantially complicates the scope of CSR, as it attempts to capture responsibilities of a firm to conduct business in accordance with societal norms and customs. Ethical considerations may of course be in tension with economic considerations, and social standards vary over time and across cultures.<sup>20</sup>

Finally, the discretionary domain reflects societal expectations that firms not merely comply with laws and norms but rather choose to contribute in socially ameliorative ways. Firms might participate in any number of “quality-of-life” activities

such as investments in the arts, having employees participate in community charities, or assisting in educational programs.<sup>21</sup>

Stakeholder theory relates to CSR in the sense that society—in addition to a firm's owners, shareholders, employees, suppliers, and consumers<sup>22</sup>—becomes a stakeholder for the firm, and society's issues become the firm's issues. A firm's particular culture is shaped as management adjudicates and balances various stakeholders' concerns.<sup>23</sup> Examples include firms such as Ben and Jerry's (ice cream), Café Direct (coffee), and Green & Black's (chocolate),<sup>24</sup> which have developed strong and explicit corporate commitments to so-called fair trade practices.<sup>25</sup>

### *CSR Orientation Research*

Aupperle<sup>26</sup> employed survey research to determine relative weightings (on a ten-point scale) for the strength of managers' CSR orientations in each of the four CSR domains. His study of chief executive officers of Forbes Directory firms revealed that they placed the heaviest emphasis on the economic domain (with a mean of 3.50), followed by the legal (2.54), ethical (2.22), and discretionary (1.30) domains. This study supported Carroll's relative weighting construct for the four domains,<sup>27</sup> as well as the foundational importance, mentioned above, of the combined economic and legal domains.

Aupperle also found that CSR orientation in the economic domain was inversely related to that in the ethical domain, as well as to the combined three non-economic domains. The three non-economic domains have been denoted a "concern for society" category, since social responsibility is often seen as combining legal, ethical, and discretionary concerns; high CSR orientation scores in this category indicate a strong orientation toward social responsibility.<sup>28</sup>

Numerous academic studies of CSR orientations since 1985 have employed the same survey methodology to examine various industry segments and populations. These provide evidence that managers' CSR orientations are attributable to a variety of factors, including gender,<sup>29</sup> race,<sup>30</sup> firm type,<sup>31</sup> and industry type.<sup>32</sup>

### *CSR and Defense Firms*

An important assumption of these studies, and a key one for this article, is that a firm's CSR may be assessed empirically from the CSR orientations of its people rather than by subjective moral judgments concerning its purposes, activities, or products. None of the studies, however, included defense firms or any of the sin industries; thus such biases seem operative.

Historically, CSR has been defined mainly as what firms do to "give something back," and industries such as tobacco and defense firms were not visible in that movement.<sup>33</sup> The more recent studies cited above expand CSR to include how a firm creates wealth rather than just how it spends it. Now, previous "corporate villains" are claiming social responsibility, opening alternative views and causing consternation

among some CSR purists who prefer to focus on the worst impacts of these firms' products. As one author says of the tobacco industry:

[We may see] unscrupulous companies, very happy to sell as much as possible with little care to the consequences . . . Alternatively, we could see a different type of company. One that seriously invests in research to develop reduced harm products. One that manages its environmental impact carefully, and treats the people in its supply chain with respect. One that supports and develops its own people, and which aims to improve society through that process of "giving something back" . . . [A] number of those companies are now stating that these are all things they address, or aim to address. If we agree that it is important how these companies operate, we should welcome the aim and then judge them by their actions.<sup>34</sup>

Considering the social responsibility of defense firms leads to questions that require more nuanced analysis. For example, we may ask how harmful a product must be and for what purposes it is to be used before its producer is deemed socially irresponsible. Firms like Boeing produce items for peaceful commercial use, along with military-unique lethal weapons such as the HARPOON missile. Colt and Beretta produce weapons not only for the military but also for law enforcement. Still others like Raytheon produce ancillary equipment (e.g., radar and communications systems) that, while not inherently lethal, direct and enable the employment of lethal weapons. Sikorsky helicopters may, in addition to transporting troops to battle, be used for humanitarian relief operations. Even a Caterpillar bulldozer might be seen as an instrument of war if employed by Israelis to demolish a Palestinian settlement.<sup>35</sup> Other defense firms provide services (e.g., consulting, managerial, logistics, and training) rather than products; indeed, the U.S. Defense Department now spends more for services than for materiel.<sup>36</sup> Clearly, categorically excluding defense firms from CSR consideration leads to a failure to account for variations and nuances in these firms' products and services and how they might be used.

We may also ask whether it matters, in CSR terms, that defense firms increasingly design for weapons improvements that allow for more precision and control in lethal effects (e.g., Joint Direct Attack Munition) and hence, for less harm in terms of collateral damage.<sup>37</sup> Nonlethal weapons also receive increased emphasis.<sup>38</sup>

We may also ask whether the rationale for any particular weapon or piece of military gear matters when it comes to CSR. As armed forces exist to serve state (public) ends, so do the weapons and equipment used by those forces serve those same ends. Exclusion of defense firms from CSR consideration fails to recognize and account for any contributions they might make to public ends (e.g., national security). In a related vein, we may ask whether it matters that defense firms provide their products and services under contract in response to government solicitations in furtherance of at least nominally public purposes.<sup>39</sup>

Byrne's critique dismisses such complications, suggesting instead that defense firms inherently are involved in "fundamentally (not just incidentally) unethical

activity.”<sup>40</sup> He argues that society fails to recognize this because of its outmoded “Westphalian” view of industry as a dutiful servant of the nation-state.<sup>41</sup> From Byrne’s post-Westphalian perspective, the boundaries between defense industry and the state have grown indistinct, and industry interests now drive state action.<sup>42</sup> He claims, “the primary beneficiaries of nation-state arms procurement are not citizens needing protection but private corporations needing revenue” and further that “weapons businesses are profitable only because of amoral government priorities that the industry fosters and largely controls.”<sup>43</sup>

Such claims fail to recognize that close ties must be expected when the state depends on industry to provide means for military action.<sup>44</sup> It is also to be expected that defense firms would make little distinction among what is best for them, their industry, and the nation’s national security.<sup>45</sup> These expectations, however, do not justify the logical leap from a legitimate alignment of interests to presumptions of systemic unethical collusion and manipulation.

Byrne’s critique might be simply dismissed had it not appeared in a well-regarded journal like *Journal of Business Ethics*.<sup>46</sup> However, since no one has answered him, nor have any new studies emerged to examine CSR of defense firms, his ideological opposition to violence in any form seems to reflect the prevailing view.<sup>47</sup> Absent opposition, this view would continue to exclude defense firms from CSR research.

As we noted above, however, the mainstream CSR scholarship acknowledges that an industry’s CSR is determined by the CSR orientation of its managers. Therefore, in order to confirm or refute the conventional wisdom of excluding defense firms, we assess the orientation of their managers and compare it to the CSR of other industries.

### *CSR-Related Studies and Developments in Defense Firms*

While no explicit CSR research has been accomplished in defense firms, some related studies have addressed legal and business ethics issues, for example, in defense procurement overcharges and fraud.<sup>48</sup> These may be viewed as a reaction to the ethical scandals and instances of procurement waste that occurred during the 1980s. For example, Operation Ill Wind, a U.S. investigation of procurement fraud, led to convictions of several government officials and defense contractors.<sup>49</sup> Several so-called horror stories of apparently overpriced tools and parts were featured prominently in the media.<sup>50</sup>

The Defense Industry Initiative on Business Ethics and Conduct<sup>51</sup> was a CSR-related response to such cases. Thirty-two defense firms organized this initiative in 1986 with the stated intent to govern their conduct by adopting and implementing “a set of principles of business ethics and conduct that acknowledge and express their federal procurement-related corporate responsibilities to the Department of Defense, as well as to the public, the Government, and to each other.”<sup>52</sup> The Initiative features include a written code of ethics, ethics training, and internal mechanisms for reporting ethics violations, for self-governance, and for

sharing of best practices among its now eighty five member firms. A study conducted from 1988-1992 found, however, that member firms had higher instances of ethical violations than nonmembers,<sup>53</sup> indicating that the Initiative reflects good intentions rather than an effective system of enforcement or compliance.<sup>54</sup>

The Electronic Industry Citizens Coalition is a more recent example of CSR-related activity in the electronics, information, and communications technology field. This coalition developed a code of conduct outlining standards “to ensure that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally responsible.”<sup>55</sup>

### *CSRO of Defense Firm Managers*

Such developments indicate that the managers of defense firms have concerns that their firms operate (or are perceived to operate) in socially responsible ways, and these concerns have not been considered in prior studies that exclude defense firms. Thus, the CSR orientations of these managers should be assessed to determine the extent to which they differ from those of managers in other industries and whether such exclusions are valid.

## **Methodology**

Such an assessment was conducted using the same survey questionnaire developed and administered, as mentioned above, by Aupperle for his study of Forbes executives,<sup>56</sup> and which has been used in numerous other studies of CSR orientation. The survey consists of twenty forced choice weighted questions with six additional demographic questions. Each forced choice question provides a value statement and four choices of answers to which the respondent can allocate a combined value of up to ten points. Each answer is assigned to one of the four CSR domains as in the example below:

It is important to perform in a manner consistent with:

- A. expectations of corporate stockholders. (economic)
- B. expectations of government and the law. (legal)
- C. the philanthropic and charitable expectations of society. (discretionary)
- D. expectations of societal mores and ethical norms. (ethical)

The study population consisted of managers of all 1,082 firms that provided electronics equipment (specifically command, control, communications, computers, intelligence, surveillance, and reconnaissance equipment) under contracts with the U.S. Army’s Communications and Electronics Command Acquisition Center, Fort Monmouth, New Jersey, during the fiscal years of 2005–2007. The values of these contracts ranged from several thousand dollars to approximately \$1 billion.

The survey data were analyzed using SPSS 14.0. Means and standard deviations for participant scores in each of the four CSR domains were calculated. Principal factor analysis and four-factor, principal factor analysis with varimax rotation were performed. Factor loadings were analyzed to determine if all four CSR domains were represented, and intercorrelations among the domains were analyzed. The results were analyzed to compare the CSR orientation means of this survey with those obtained from previous studies.

## Results

The number of firms responding to the survey was 192, and after eliminating erroneously completed or incomplete responses, 169 firms' (15.6 percent) responses were included in the demographic analysis and 166 (15.3 percent) in the statistical analysis. The demographic data reveal that very small businesses (fewer than 100 employees) comprised the largest group (39.1 percent) of respondents, while very large firms (more than 10,000 employees) represented the next largest group (28.4 percent). Most of the firms (61.5 percent) reported deriving more than 75 percent of their annual revenue from defense contracts. Almost half (43.8 percent) of the firms were based solely in the United States, while almost a third (30.8 percent) reported having locations in more than 10 countries. Regarding membership in the previously mentioned Defense Industry Initiative and the Electronic Industry Citizens Coalition, 13 percent reported membership in either or both of these organizations, while 86.4 percent of respondents reported either that their firms were not members or that they did not know their firm's membership status. Over 85 percent of respondents classified their positions in their firms as "senior-level manager" or higher, and almost 60 percent had a master's or higher level degree. Almost two-thirds of the respondents were over 50 years old, 84 percent were male, and 84 percent gave their race as "white."

As described above, factor loadings were analyzed to determine if all four CSR domains were represented. Factor loadings greater than or equal to .40 were considered to have high correlation with the factors. The results indicated that the four domains were well represented by the respondents in this study; thus, defense firm managers' orientations do not exclude any of the four CSR domains.

Table 1 gives summary statistics, and Table 2 displays correlations. Table 3 lists findings from twenty-three separate studies since 1982, including Aupperle's 1981 study of Forbes Directory firms and this current study of defense firms.

In contrast to the Forbes firms, this study revealed that defense firms had the strongest orientation to the legal domain, followed by the economic domain. However, defense firms and the Forbes firms both reflect, as noted above, the same emphasis on the economic and legal domains as foundational in their respective orientations.

For defense firms, significant positive relationships exist between the economic and legal domains, the legal and discretionary domains, the legal and ethical



**Table 1.** Summary Statistics: CSR Orientations of Defense Firm Managers

| Domain        | N   | Min | Max  | M      | SD      |
|---------------|-----|-----|------|--------|---------|
| Economic      | 166 | .00 | 8.85 | 3.0334 | 1.12033 |
| Legal         | 166 | .80 | 9.35 | 3.2383 | .82316  |
| Discretionary | 166 | .00 | 8.20 | 1.2001 | .88671  |
| Ethical       | 166 | .35 | 9.35 | 2.5019 | .96225  |

**Table 2.** Correlations (\*\* $p < .01$ ): CSR Orientations of Defense Firm Managers

| Domain        | Economic | Legal  | Discretionary | Ethical |
|---------------|----------|--------|---------------|---------|
| Economic      | 1.000    |        |               |         |
| Legal         | .202**   | 1.000  |               |         |
| Discretionary | .045     | .225** | 1.000         |         |
| Ethical       | -.084    | .473** | .520**        | 1.000   |

domains, and the discretionary and ethical domains. Recall from above that Forbes firms exhibited a negative correlation between the economic and ethical domains, as well as between the economic and the combined three non-economic domains; similar inverse relationships were not found in defense firms. This may indicate that these negative correlations in CSR orientations occur only when the economic domain has the highest score.

Figure 1 depicts CSR orientation means from this study of defense firms relative to means of groups studied in previous research. High and low values are noted, along with the grand mean with and without the means of defense firm managers. The mean scores of defense firm managers are higher in the legal and the ethical domains and lower in the economic and discretionary domains. However, the means of defense firms fall within the boundaries of high and low means of other groups, and there is virtually no difference in the overall mean scores with and without the current research.

Byrne's critique leads one to believe that defense firm managers' CSR orientations would be significantly different than those of other firms. In particular, he suggests that defense firms are highly motivated by profits and little concerned with societal welfare. Accordingly, one might hypothesize that defense firm managers' CSR orientation (1) in the economic domain should be higher than that of other firms and (2) their combined CSR orientation in the other three non-economic (i.e., concern for society) domains should be lower than that of other firms.

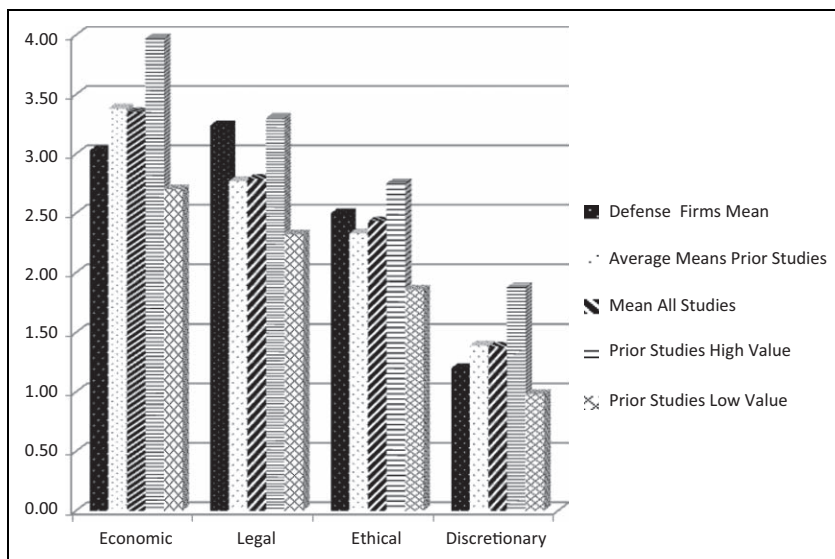
The data provide evidence to the contrary. One-sample *t*-tests ( $\alpha = .05$ ) were performed to compare the CSR orientation means of defense firm managers to those of the Forbes managers<sup>79</sup> and to the grand mean of all other groups from Table 3. The results reveal that the CSR orientation of defense firm managers in:

**Table 3.** Mean Scores of CSR Orientation Studies for Comparison

| Population  | Economic | Legal | Ethical | Discretionary |
|---|----------|-------|---------|---------------|
| 1981 Forbes Annual Directory <sup>57</sup>  | 3.50     | 2.54  | 2.22    | 1.30          |
| Business Students <sup>58</sup>   | 2.75     | 2.59  | 2.75    | 1.74          |
| Top Managers from Standard & Poor's Register <sup>59</sup>  | 3.92     | 2.62  | 2.33    | 1.12          |
| Insider Directors <sup>60</sup>   | 3.28     | 2.62  | 2.21    | 1.83          |
| Outsider Directors <sup>61</sup>  | 3.77     | 2.50  | 2.08    | 1.31          |
| German Chemical and Allied Products Industry<br>Chief Executive Officers/General Managers <sup>62</sup>   | 2.86     | 3.21  | 2.46    | 1.42          |
| Swiss Chemical and Allied Products Industry Chief<br>Executive Officers/General Managers <sup>63</sup>    | 3.11     | 3.04  | 2.70    | 1.10          |
| Swedish Chemical and Allied Products Industry<br>Chief Executive Officers/General Managers <sup>64</sup>  | 3.27     | 3.30  | 2.43    | 1.00          |
| U.S. Chemical and Allied Products Industry Chief<br>Executive Officers/General Managers <sup>65</sup>     | 3.31     | 2.96  | 2.48    | 1.19          |
| Japanese Chemical and Allied Products Industry<br>Chief Executive Officers/General Managers <sup>66</sup> | 3.34     | 2.76  | 2.42    | 1.41          |
| U.K. Chemical and Allied Products Industry Chief<br>Executive Officers/General Managers <sup>67</sup>     | 3.49     | 3.15  | 2.29    | 0.98          |
| French Chemical and Allied Products Industry<br>Chief Executive Officers/General Managers <sup>68</sup>   | 3.60     | 3.04  | 2.35    | 0.98          |
| Undergraduate Business Students—U.S. <sup>69</sup>  | 2.70     | 2.48  | 2.59    | 1.33          |
| Undergraduate Business Students—Hong Kong <sup>70</sup>   | 3.02     | 2.32  | 2.33    | 1.88          |
| USA Managers Enrolled in MBA Program <sup>71</sup>  | 3.69     | 2.87  | 2.02    | 1.23          |
| French Managers Enrolled in MBA Program <sup>72</sup>   | 3.97     | 2.64  | 1.86    | 1.51          |
| Accountant Students—U.S. <sup>73</sup>  | 3.11     | 2.68  | 2.37    | 1.68          |
| Practicing Accountants <sup>74</sup>  | 3.78     | 2.74  | 2.13    | 1.18          |
| High Religiousness Students <sup>75</sup>   | 2.75     | 2.66  | 2.70    | 1.85          |
| Low Religiousness Students <sup>76</sup>  | 3.03     | 2.75  | 2.46    | 1.75          |
| High Religiousness Managers <sup>77</sup>   | 3.81     | 2.67  | 2.06    | 1.45          |
| Low Religiousness Managers <sup>78</sup>  | 3.85     | 2.71  | 2.01    | 1.32          |
| Defense Firm Managers (this study)  | 3.03     | 3.24  | 2.50    | 1.20          |
| Mean of all studies   | 3.35     | 2.79  | 2.34    | 1.38          |
| Mean without this study of defense firms  | 3.36     | 2.77  | 2.33    | 1.39          |

- (1) the economic domain ( $M = 3.03$ ,  $SD = 1.12$ ) is significantly lower than that of the Forbes managers ( $t(165) = -5.37$ ,  $p < .001$ ) and significantly lower than that of all other groups ( $t(165) = -3.76$ ,  $p < .001$ );
- (2) the average of the combined non-economic domains ( $M = 2.31$ ,  $SD = 1.23$ ) is significantly higher than that of Forbes managers ( $t(165) = 3.08$ ,  $p = .001$ ) and, while higher than that of all other groups, not significantly so ( $t(165) = 1.547$ ,  $p = .059$ ).

Thus, while the CSR orientations of defense and nondefense managers differ, the differences provide evidence that defense managers may actually have stronger



**Figure 1.** Comparison of defense firms' CSR orientation with other studies

orientations to social responsibility than the general population of private sector managers.

## Discussion

Overall, these results contradict the notion that defense firms have weak CSR. What accounts for the differences in the CSR orientations of defense and other firms?

### *The Legal Domain*

The largest mean score difference is in the legal domain between defense firms ( $M = 3.24$ ) and the Forbes firms ( $M = 2.54$ ), as well as between defense firms ( $M = 3.24$ ) and all other groups studied ( $M = 2.77$ ) (from Table 3). Probably the most important factor in this difference is the requirement for defense firms to operate under and comply with the provisions of the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement, a requirement not levied on firms that conduct usual commercial contracting. The Federal Acquisition Regulation governs all federal contracting, and with the Defense Supplement, all defense contracting.<sup>80</sup> As federal regulations, they have the force and effect of law.<sup>81</sup> They contain detailed requirements and constraints covering all aspects of the contracting process, including solicitations, proposals, vendor selections, contract awards, and contract administration. A few of the myriad areas addressed in the fifty-three parts of the Federal Acquisition Regulation are contractor qualifications,

methods of contracting, types of contracts, labor laws, occupational safety, energy conservation, environmental protection, cost accounting standards, and contract financing. It even requires that a “Contractor Code of Business Ethics and Conduct” (Subpart 3.10) be included as a clause in contracts over \$5M or 120 days in duration.

These regulations create a complex of intricate and often arcane rules with which defense firms must comply but which are of no concern to firms that conduct business solely in the commercial sector. Thus, it is unsurprising that managers of defense firms would have a substantially greater focus on and orientation toward the legal domain of CSR.

In 2005, the Government Accountability Office convened a forum of industry leaders to assess the state of the national industrial base for government contracting.<sup>82</sup> One of the major complaints that emerged from this forum was the complexity and burdensome nature of the rules surrounding the federal acquisition process. In such an environment, the risks of noncompliance (e.g., being disqualified from a contracting action and unfavorable media attention) may outweigh the rewards from the contract. Risk-averse attitudes and approaches thus prevail, again reflecting a concern for the legal domain among managers of defense firms, one that is not necessarily prevalent in other firms.

Third, and again reflecting the same concerns with rules, the orientations of defense firm managers in the legal domain exceeded that of the economic domain. This is not necessarily an unusual result, however, as Table 3 indicates two other such cases (i.e., chemical industry firms in Sweden and Germany) of industry segments subject to extensive regulation and oversight. In such cases, it might be expected that the legal component of CSR would compete with the economic component.

### *The Economic Domain*

Defense firms’ mean orientation in the economic domain ( $M = 3.03$ ) was lower than that of the Forbes firms ( $M = 3.50$ ) and lower than the average of groups in all studies ( $M = 3.36$ ). One possible explanation for this outcome is found in the monopsonistic (i.e., one buyer, many sellers) conditions under which defense firms operate.<sup>83</sup> The federal government has a public policy interest in maintaining a healthy industrial base of many suppliers, ranging from major defense firms to small and disadvantaged businesses.<sup>84</sup> The Federal Acquisition Regulation contains provisions for contracts to be set aside for small and disadvantaged businesses precisely to promote socioeconomic policy interests.<sup>85</sup> Further, members of Congress are often perceived as sponsoring legislative earmarks that lead to directed defense contracts to their constituencies.<sup>86</sup> These factors create an environment that assures at least a minimally robust business base and thus serves to reduce economic risks for defense firms to levels lower than those faced by their purely commercial counterparts.

Economic risks for defense firms are also mitigated by the twenty-three regulatory references to “fair and reasonable” costs or prices. While these help guard against contractor profiteering, they also cut the other way to provide a measure

of financial security for contractors; again, an advantage not enjoyed by purely commercial firms.

Despite its lower score, managers of defense firms still asserted the economic domain's importance, as evidenced by comments by survey respondents. One manager explained, "The purpose of business is to make a profit and meet its fiduciary obligations to owners (stockholders). It is not to provide jobs or give 'goodwill' to others in the form of jobs/positions/ welfare/support of the arts, etc." Another executive stated, "The burden of outside financial pressures in the form of federal, state, and local taxes and fees eats excessively into whatever profit may be gained." Finally, another executive complained, "Between the recent fuel price rise and increase in taxes, businesses are hard pressed to make a profit." These comments reflect on-going concerns for profitability in the face of current economic and financial pressures.

### *The Ethical Domain*

Considering past exclusions of defense firms from CSR research, perhaps the most surprising finding is that the ethical domain score for managers of these firms ( $M = 2.50$ ) exceeded that of the Forbes firms ( $M = 2.22$ ) and that of all groups studied ( $M = 2.33$ ). Several explanations may account for this finding. First, despite Byrne's assertions, defense firm managers may truly see their businesses as fulfilling some higher public purpose such as enhancing national security. Second, their sensitivity to ethical issues may be heightened due to past wrongdoing by defense firms. (Recall the Defense Industry Initiative and Electronic Industry Citizens Coalition were formed in reaction to such abuses.) Third, the Federal Acquisition Regulation intends explicitly to promote ethical practices in federal contracting; it contains ninety-five references to either "ethics" or "ethical." Many of its requirements (e.g., process transparency) contribute to an environment that, at least nominally and to some extent substantively, serves to curb wrongdoing and promotes ethical behaviors. Managers of defense firms who are focused on complying with the regulations will thus naturally perceive such compliance as inherently constituting ethical behavior.

### *The Discretionary Domain*

The CSR orientations for defense firm managers in the discretionary (philanthropic) domain ( $M = 1.20$ ) were lower than that of the Forbes firms ( $M = 1.30$ ) and other groups ( $M = 1.39$ ). At least two explanations may account for this result. First, the Federal Acquisition Regulation contains specific rules concerning both the allowable costs that a firm may charge to the government and the profit a firm may earn on a contract. Regarding contract costs, for example, "[c]ontributions or donations, including cash, property and services, regardless of recipient, are unallowable . . ." and that only "[c]osts of participation in community service activities (e.g., blood bank drives, charity drives, savings bond drives, disaster assistance, etc.)" are

allowed.<sup>87</sup> Regarding profit, regulations require the government to adopt “a structured approach” and to use accepted profit guidelines to develop a prenegotiation profit or fee objective for its contracts.<sup>88</sup> That is, a defense firm, unlike its purely commercial counterpart, may not simply charge what it believes the market will bear. Rather, its profits are in large measure determined by the government. Such regulations obviously restrict defense firms’ abilities to make charitable donations and take other discretionary/philanthropic actions; hence their lower CSR score in the discretionary domain.

Second, many aspects of federal contracting under the Federal Acquisition Regulation contain features that purely commercial firms may consider discretionary. Policy provisions concerning small and disadvantaged businesses are a good example. While a commercial firm might decide, as a discretionary goodwill action, to sponsor minority scholarships, regulations promote such actions as matters of public policy. As noted above, socioeconomic policies are promoted through, for example, the Historically Underutilized Business Zone (HUBZone) program, Indian Incentive Program, Small Business Administration, Small Business Administration 8(a) contractors, small business concerns owned and controlled by service-disabled veterans, women-owned small business, historically black colleges and universities, and minority institutions in federal procurement programs. Thus, the Federal Acquisition Regulation and U.S. policy include something of an implicit CSR framework. Operating within that framework, defense firm managers naturally see compliance with rules as accomplishing at least some of their discretionary CSR.

## Summary

We conclude that the overall CSR orientations of defense firm managers are not substantially different from that of other managers. The relatively minor differences that do exist are attributable to moderating factors, such as regulatory requirements, that create a unique managerial environment for defense firm managers. In this environment, defense firm managers perceive the CSR domains (economic, legal, ethical, and discretionary) differently than their nondefense counterparts. What may be a question of legal compliance for a defense firm manager may be question of discretion for her nondefense counterpart. Economic considerations for defense firm managers are moderated by the government’s policies that help ensure they earn a fair and reasonable profit. Discretionary actions are moderated by the government’s restrictions on allowable costs. Given these findings, we may hypothesize that differences in CSR between defense firms and firms in other industries are attributable to differences in the extent and nature of regulation and oversight between the industries.

## Revisiting Byrne’s Critique

Recall that Byrne locates the main problem with defense industry in its abuse of political power in promoting and facilitating violence for profit. In terms of the CSR

domains, he sees its drive for profits in the economic domain as insufficiently tempered either by legal considerations (because industry exercises undue control over the state) or by ethical considerations (because of the Westphalian myth that industry is merely a servant of legitimate state ends).<sup>89</sup> Byrne's view is however not supported by this article's analysis of defense firm managers, who report a fairly balanced CSR orientation—one with a robust ethical component—not substantially different from other industry managers. The most obvious explanation for this discrepancy is that defense managers simply would not agree with Byrne's assessment of the nature of the problem, or for that matter, whether a problem actually exists.

Nevertheless, Byrne's arguments contain at least a kernel of validity; that is, some U.S. defense firms and their managers no doubt suffer from moral failings. Of course, abuses by individual firms should not condemn the whole industry. But the nature of these failings and the extent to which they are widespread might be revealed through further CSR research. Thus, it is important that CSR scholars pursue further studies of defense firms rather than continuing to exclude them.

## Conclusion

This study contributes to the body of literature concerning CSR in the United States, with findings that are largely consistent with existing literature. It provides a baseline for CSR orientations for defense firms, permitting comparison with those in other industries. This study demonstrates that a company that makes "products that can kill" also exhibits similar social responsibility tendencies as other industries. Against ideologically based claims to the contrary, it provides empirical support that a defense firm may indeed be considered as socially responsible. Armed with this knowledge, scholars and business practitioners should welcome defense firms to the world of CSR research and practice.

## Notes

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2. A. B. Carroll, "A Three Dimensional Conceptual Model of Corporate Performance," *Journal of Business Ethics* 15 (1979): 927-39.
  3. E. F. Byrne, "Assessing Arms Makers' Corporate Social Responsibility," *Journal of Business Ethics* 74 (2007): 201-17; A. P. Mayer-Sommer and A. Roshwalb "An Examination of the Relationship between Ethical Behavior, Espoused Ethical Values, and Financial Performance in the U.S. Defense Industry: 1988-1992," *Journal of Business Ethics* 15, December (1996): 1249-74.
  4. The essay's ideological bent is revealed in such phrases as the "monarchical domination" sought by the executive branch post-9/11 (p. 210); Americans' "moral blindness" (p. 212) to and the "blood-drenched reality" (p. 213) of defense firms' guilt; and the firms as "facilitators of death and destruction" (p. 217).
  5. See, for example, David R. Segal and John D. Blair, "Public Confidence in the U.S. Military," *Armed Forces & Society* 3, 1 (1976): 3-11.
  6. Wesley J. Yordon, "The Military-Industrial Complex: A Historical Perspective," *Armed Forces & Society* 9, 2 (1983): 348-50; S. Melman, *Pentagon Capitalism: The Political Economy of War* (New York: McGraw-Hill, 1970); Robert Mandel, "The Transformation of the American Defense Industry: Corporate Perceptions and Preferences," *Armed Forces & Society* 20, 2 (1994): 175-97.
  7. Samuel P. Huntington, *The Soldier and the State: The Theory and Politics of Civil-Military Relations* (Cambridge, MA: Belknap Press, 1957); Morris Janowitz, *The Professional Soldier: A Social and Political Portrait* (Glencoe, IL: Free Press, 1960).
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  9. Byrne, Assessing Arms Makers, 202.
  10. C. W. Mills, *The Power Elite* (New York: Oxford, 1956); D. Eisenhower, "Farewell Address," in the *Annals of America: 1961-1968: The Burdens of World Power*, Vol. 18 (Chicago: Encyclopaedia Britannica, 1968): 1-5; Melman, *Pentagon Capitalism: The Political Economy of War*.
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20. See, for example, K. B. DeTienne and L. W. Lewis, "The Pragmatic and Ethical Barriers to Corporate Social Responsibility Disclosure: The Nike Case," *Journal of Business Ethics* 60 (2005): 359-76 on the issue of Nike's use of "slave labor of young Asian women" (p. 361) to build its corporate fortune in the 1990s.
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  34. Ibid.
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  41. We note here that “just war” analyses are irrelevant in Byrne’s view since the means for war must be acquired prior to the onset of war, whether just or unjust.
  42. This view invalidates application of principal-agent theories in government-industry dealings (Jean-Jacques Laffont and David Martimort, *The Theory of Incentives: The Principal-Agent Model* [Princeton, NJ: Princeton University Press, 2002]).
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  45. Mandel, *The Transformation of the American Defense Industry*, 193.
  46. *Journal of Business Ethics* (JBE) is one of 40 journals used by *Financial Times* in determining business school research rankings, accessed September 10, 2010, from <http://www.springer.com/social+sciences/applied+ethics/journal/10551>.

47. Byrne has a more recent latest JBE paper that elaborates his views of American defense industry's immorality. See Edmund Byrne, "The U.S. Military-Industrial Complex is Circumstantially Unethical," *Journal of Business Ethics* 95, 2 (2010): 153-65.
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86. See Fox, *The Defense Management Challenge*, 38-39.
87. Parts 31.205-8 and 31.205-1(e)(3).
88. D. Oyer, *Pricing and Cost Accounting*, 2nd ed. (Reston, VA: Management Concepts, 2005).
89. Discretionary/philanthropic considerations do not come into play in his analysis.

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