Business for Social Responsibility

Is It Time to Rewrite the Social Contract?

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> *Society is indeed a contract…between those who are living, those who are dead, and those who are to be born.*
>
> Edmund Burke (1792)

In the midst of BHP Billiton's assessment of the consequences of its massive and dramatically successful effort to reverse malaria in the region surrounding its aluminum smelter in Mozambique, the general manager of the smelter commented, "you can imagine, it was huge disaster. We could not deal with that level of absenteeism, and we would have had more fatalities. If we didn't treat malaria we could not operate."[1]

Not long ago, such an intervention on the part of a private firm in a traditionally governmental function like public health was a rarity. Today, interventions are increasingly commonplace, both in instances where a business case is evident (as in Mozambique) and in instances where the economics are less than compelling but the moral high ground is unambiguous.

Examples of corporate activities that impinge upon public goods abound: pharmaceutical companies providing affordable HIV/AIDS drugs to battle the pandemic worldwide; beverage companies controversially extracting potable water resources in India; multinationals assuming control over public water supplies in Bolivia; and privatization of mass transit in the UK and roadways in India.

Amid the broad spectrum of public goods — *public* health, *public* education, *public* lands — the emergence of the corporation as an investor, advisor and partner has moved from the exceptional to the expected. By all indications, this trend will accelerate in the coming decades as societal expectations of business stretch the traditional boundaries of companies from purely profit-driven entities to organizations with an obligation to operate with an enduring commitment to the public interest.

For some, the movement of the corporation into the domain of public goods is laudable. Government capability, integrity and resources are in short supply in many developing countries. Companies for which a stable, predictable operating environment is indispensable to business success find aligning the demand and supply of public goods to

[1] La Franiere, S. 2006. Business joins African effort to cut malaria. *New York Times,* June 29.

be an imperative for creating conditions for business prosperity. The burgeoning number of business–government–civil society partnerships attests to this reality.

For others, the growing presence of the corporation in public goods provision signals a disturbing continuation of a trend that began some 25 years ago as the privatization of public services began to take root as a basic element of the Washington Consensus, the dominant international development paradigm of the last several decades. The retreat of government and the increasing presence of corporations stir concerns over accountability and democratic control over public goods that many believe should remain in the domain of government. In a similar vein at the national level, the rise of Reagan–Thatcher market "fundamentalism" embraced privatization as the pathway to higher efficiency, less waste and lower taxes in the provision of traditionally public goods.

These differences defy easy reconciliation because the rules of the business–government–civil society engagement — which is integral to the social contract — are being rewritten not through some formal, centralized mechanism, but as a result of the pressures of shifting societal expectations about business' role in society. It is a process fraught with contradictions and uncertainties.

At the same time, demands on business to deploy its unparalleled managerial and technological capabilities to provide public goods provoke unease among many concerned with outsourcing of traditional public functions to the private sector. In some instances, this unease is shared by business leaders themselves who are concerned that expectations of business may be spiraling toward unsustainable levels.[2] Praise for relief activities by companies in the wake of Hurricane Katrina and other natural disasters abound while criticism for terminating or reducing workers' health care coverage and pension funding intensifies. Admiration for producing life-saving drugs is widespread while their unaffordability offends many on moral and ethical grounds.

Ambiguity is the inevitable consequence of the emergence of global businesses as the most influential and asset-rich social institutions of the early 21st century. Rethinking the societal–business contract is a work in progress that is likely to remain unsettled for years to come. Yet amidst these turbulent times, we can learn from the past and shape a future in which the reciprocity of public and private interests are reformulated in a way that meets 21st century societal needs and expectations.

The Idea of a Social Contract

Two centuries before the emergence of the 19th century modern, joint stock, limited liability corporation, the idea of a social contract took root as the linchpin of relationships between individuals and between individuals and government. The great philosophers of the 17th and 18th centuries — Thomas Hobbes, John Locke and Jean-

[2] Blowfield, M. and B. K. Googins. October 2006. *Business leadership in society.* Boston College Center for Corporate Citizenship.

Jacques Rousseau — put forward the earliest concepts of the rights and responsibilities of the state to its citizens and citizens to each other. This early thinking was the precursor to modern concepts of democracy and the democratic state, wherein ultimate power resides with citizens who willingly delegate certain authority to the state so that individuals may fruitfully participate in a social arrangement that enhances the shared prospects among all participants in a defined community.

While assumptions and emphases vary, the basics of the social contract are straightforward. Its essence has not fundamentally changed for many centuries despite the enormous shift from the agrarian societies in which the early philosophers lived to the complex industrial societies that dominate the contemporary global economy. To depart from a situation of undefined rights and endless conflict over control of common assets such as land and water, citizens assent to honor the rights of others in return for assurances that their own rights will be protected. Those who violate the rights of others — for example, by stealing, contaminating or trespassing — are penalized. While the scope of rights is constantly expanding, the principle of protecting individual rights through individuals willingly granting authority to the state remains a foundational element to the social contract.

Over centuries, rights protected through mechanisms of the state have steadily expanded. Consider the right to vote, the right to freely associate in the workplace, the right to freedom of speech and the right to own property, the latter of which originated thousands of years ago. These rights and many more have been placed in the hands of the individual and overseen by a sovereign state that serves as custodian and adjudicator. Embedded in the social contract, the state, by virtue of authority granted by the citizenry, mediates among individuals and between individuals and society. The state's role remains legitimate only as long as citizens agree to let it continue. When the social contract frays or fails, either peaceful democratic change or forced change through civil (and sometimes violent) action results.

While property rights provided individuals with the resources to create wealth for their own enrichment and to drive productivity improvements, the commons — public land, water and air — represented communal assets to ensure the community's long-term survival and prosperity. Thomas Paine in the late 18th century observed that "natural property…which comes to us from the Creator of the universe must not be appropriated by private interests." That is, assignment of too many property rights to individuals may endanger the very assets that are the foundation for wealth creation. A society that permits endless incursions into the commons for the benefit of the privileged is not a society destined to build deep democratic roots.

These early notions of a social contract initiated the codification of rights and obligations among citizens and between government and citizens. While much of the early formulation of the social contract was property-centric, within it there is something deeper; namely, the contours of what today we call democratic processes: the rule of law, due process and, more broadly, the pillars of modern nation states.

Debates around rights and a social contract were not limited to the commons but rather drifted into the domain of worker–employer relations, portending the emergence in the early 19th century of the corporation as a third party to the social contract in addition to government and the citizenry.[3] Speaking from the perspective of a largely agrarian society, Jefferson stressed the need for workers to reap the benefits of their labor; and Paine's vision of "every man a proprietor" is precursor to the notion that individuals have a natural right to reap the benefits of not just societal capital, but corporate capital as well. That is, those who create wealth in a corporate setting are rightful claimants to its benefits. In contrast, concentration of wealth in the hands of those who already possess it creates, in Adam's Smith's terms, "…an absurd tax upon the rest of their fellow-citizens."

The rights of citizens in society and in the workplace specifically to receive a just portion of wealth they help create is a universal norm in modern nations, but the expression of this contract varies widely over time and place. Centuries later, for example, the Japanese social contract is not identical to the French social contract, and the French social contact is distinct from the American social contract. The U.S. Bill of Rights and Constitution provide the framework within which rights of and obligations to citizens and the state are articulated for the U.S. as a sovereign nation. At the same time, citizen–corporate relations were left to the legislation process and to judicial decisions spanning more than two centuries. The proposed (and now stalled) European Constitution offers an alternative framework to the American model. Diversity notwithstanding, each nation has defined the components of a social contract through its unique culture and political devices.[4]

In short, approaches to social contracts across countries vary, but their core underpinnings do not. Democratic societies function based on the assent of the governed who, in turn, reserve the right to terminate a government or a governmental decision if sufficient numbers feel aggrieved or violated. When either of these conditions arises and the outlets for change are non-existent or blocked, the stage is set for reconstitution of the social contract through conflict. History is rife with such circumstances, from the American Revolution in the late 18th century to the anti-apartheid movement in South Africa two centuries later. These cases and dozens of others may be viewed through the lens of the social contract: an aggrieved citizenry demands an overhaul of the government–citizen arrangements built not on assent but on imposition of illegitimate exercise of state power.

[3] Kelly, M. 2002. *The divine right of capital*. San Francisco: Berrett-Kohler. 109-113.

[4] We have yet to see such social dialogue, deliberation and debate when it comes to citizen–corporation and state–corporation relations. This is true despite the emergence of the corporation as a player that arguably wields as much influence in the lives of people as the very governments that grant corporations the license to operate.

Enter the Corporation

Corporations were by and large absent from the earlier formulation of the social contract. The emergence of the corporation as societal actor on a par with government or the citizenry began in earnest only in the early 19th century. The earliest state-chartered corporations such as the British East India Company and the Dutch East India Company, for all their influence, power and resources, were unique monopoly enterprises with a royal mandate as much political in nature (to expand the empire) as commercial (to enrich the royalty and investors).[5]

By the early 19th century, the economic landscape began to change dramatically, and with it the rules of the social contract shifted.[6] Prior to that time, corporations were of modest scale and formed as partnerships between small groups of investors who remained active in the day-to-day operations of the company. This partnership model was adequate as long as partners could meet capital needs. Alongside these partnership enterprises were public chartered enterprises that were, for all intents and purposes, state enterprises, chartered for time-limited periods for specific public purposes such as building a road or canal. Upon completion of an enterprise's mandate, the charter would be terminated and the enterprise dissolved.

As companies scaled up their operations, capital needs expanded and government control turned from dominant to subordinate and from active to passive. Nineteenth century entrepreneurs, enriched and emboldened by rapid expansion of their enterprises, began a century of evolution that shifted their relationship from one of servant of government to one of rival of government. While corporations were formally dependent on the state for the license to operate via the charter process (at the state level in the U.S. and at the national level in virtually all other countries), the ascendance of the corporation effectively emerged as a challenge to citizen sovereignty. Unlike the governments over which citizens exercise the authority to install or dismiss, no such accountability defined the citizen–corporation relationship.

In the U.S., a series of judicial decisions fortified the position of the corporation as an entity with many of the protections and privileges of "natural persons" including due process, habeas corpus and, within certain limits, freedom of speech and freedom to engage in the political process through certain political contributions. As the scale of corporations grew, their readiness to exercise political influence to reconstitute their position and form increased in parallel. Because capital was scarce in the 19th century but was critical to a rapidly expanding industrial economy, companies aimed to extend privileges to capital providers to ensure a steady flow of investments in new and growing enterprises.

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[5] Robins, N. 2006. *The corporation that changed the world: How the East India Company shaped the modern multinational.* London: Pluto Press.
[6] White, A. L. 2006. *Transforming the corporation.* Great Transition Initiative Paper Series No. 5. http://www.gtinitiative.org/documents/PDFFINALS/5Corporations.pdf (accessed April 11, 2007).

This time period laid the foundation for what would evolve over many years into the uncontested preeminence of capital in defining the corporation's obligations to society. The principal obligation of corporate directors to shareholders (the capital providers), the requirement of boards to accept the highest bidder in the event of competition among multiple offers to acquire a firm, and the duties of pension fund trustees to maximize returns to pension beneficiaries are but some of the contemporary fiduciary principles that have roots in the 19th century ascent of capital interests.

The 20th century tinkered with but did not fundamentally alter these relationships as the citizen–corporation social contract gradually took shape. Shareholder primacy was occasionally softened in the early 1900s but was never seriously challenged, much less dismembered. Anti-trust legislation of the early 1900s reigned in some of the most egregious forms of monopolistic behavior. The 1930s witnessed the first serious efforts to tame volatility and speculation in securities markets through the creation of the U.S. Securities and Exchange Commission to oversee capital markets and mandatory, audited disclosures of companies' financial performances. For the first time, workplace standards on the rights of labor were established by law.

These actions served not to undermine, but rather preserve the fundamentals of the capitalist economy by providing greater certainty, transparency and confidence to the investment community. Even basic protections for labor, which might seem to be a step towards diluting the supremacy of capital interests, actually served capital interests by providing a predictable process through which management–labor disputes could be settled.

The second half of the 20th century saw further change that modulated but still retained the dominance of capital in defining corporate–societal relations. Beginning in the 1960s, the U.S. environmental movement spawned a series of regulations that for the first time established limits on pollution caused by companies' activities in relation to air, water and land. This incipient movement implicitly recognized the environment as a legitimate stakeholder in defining corporate rights and obligations to society. Companies were mandated to operate within certain limits of their use of the ecological commons. Capping the use of resources to protect public health and the environment was a breakthrough idea in the evolution of business–society relations.

Compliance with these new rules meant allocation of a fraction of the firm's economic resources away from earnings and dividends, thereby reducing shareholder returns. The process of setting pollution standards immediately became highly contested territory, where business interests would engage both government and newly emergent environmental advocates in dueling testimony over how to define a "safe" level of air, water and land pollution. Incremental changes in regulation occasioned changes in compliance costs. Elaborate cost–benefit methodologies emerged to guide regulatory agencies as heated debates arose over imponderables such as the value of a human life or illness relative to the cost of its prevention through technological improvements in processes and products. While these debates held consequences for human and ecological well being, their existence signaled at least a temporary weakening in the grip of shareholder primacy as the paramount principle in defining the boundaries in the social contract between business and society.

The closing two decades of the 20th century tempered the shifts spurred by the environmental movement. It was a period in which new political forces, led by U.S. President Reagan and UK Prime Minister Thatcher, challenged the drift toward activist government by espousing lower taxes, trade liberalization and privatization of heretofore public goods and services as the underpinnings of an ideology that would once again realign the social contract. Unbridled market capitalism, it was argued, was the only viable economic system in an age of globalization; the less government, the better to enable markets to deliver innovation, efficiency and wealth. The fraying of Soviet statism in the eyes of the Reagan–Thatcher champions was a vivid example of a failed system. They argued that the know-how of private enterprise, not the bureaucracy of big government, should be applied to traditional government and quasi-government functions such as public transport, education, health services and energy services to reduce inefficiency and inject competition in areas that once were the exclusive domain of the public sector.

This economic mindset was not limited to Anglo-Americans: it also defined the emerging Washington Consensus of liberalized trade, fiscal austerity and privatization that has dominated the ideology of the World Bank, International Monetary Fund and other multilateral institutions during the last two decades. Without using the terminology of the social contract, the Reagan–Thatcher alliance and its offspring heralded a period of belief that business could function best absent government control, as business was essentially the only capable provider of goods and services as well as the most powerful engine for sustaining economic growth.

Amidst this ideological landscape the role of government receded, the role of civil society became one of watchdog to place constraints on business behavior, and the scale, reach and influence of global business surged to unprecedented levels on the back of international trade agreements and increasingly borderless capital and technology markets. Only during the last decade has the grip of the Washington Consensus begun to soften due to a confluence of several challenges to the prevailing social contract. Interestingly, shifts have in part originated in the business community itself.

The rise in expectations around the societal obligations of corporations exposed fissures in the business community. For some, privatization of government functions in water systems, energy and education has opened vast new commercial opportunities, particularly in emerging economies. Much of the business model underpinning the "bottom of the pyramid" concept — serving untapped markets among the world's poor — is premised on the view that governments in developing countries lack the resources or competency to provide many basic goods and services to their populations. For the 60,000 multinational corporations that already represent about one quarter of global economic output, these markets are ripe for exploitation and include activities such as financing micro-enterprises, restoring damaged natural resources and partnering with local entrepreneurs in developing appropriate health and energy technologies.[7]

While the optimists depict infinite opportunities in privatization, the skeptics worry about the continuing offloading of governmental responsibilities onto the commercial sector. What should be the division of responsibilities for reversing climate change, or for managing the HIV/AIDS pandemic and other global health issues such as malaria and tuberculosis?

The answers to these questions defy simple either/or responses. Responsibilities more often than not are shared, not exclusive. While the scale, influence and resources of global companies makes them ready targets for solving public goods shortfalls, many in the business community look askance at the intensifying pressures to outsource critical problems to the private sector that arguably should remain in the public sector sphere. These anxieties were expressed as early as the 2002 World Summit on Sustainable Development in Johannesburg. They continue to be heard in contemporary debates within business and at other forums focused on business–society relations.

Enter Civil Society

Amid the shifting and contested frontier between business and government obligations, civil society is making its presence felt at unprecedented levels, particularly since the mid-1990s. Civil society organizations (CSOs), of course, are not a new phenomenon; for centuries, citizens and workers have organized themselves into guilds, associations and trade unions to advance a common purpose. What is new are the number and impact of CSOs that have reached the point of formal recognition by multilateral organizations and national governments as legitimate stakeholders in international and national decision-making bodies. CSOs have also inched their way into the corporate domain, establishing a foothold in the governance of corporations through mechanisms such as community advisory panels and ad hoc consultative groups and partnerships on issues such as labor standards and climate change. A plausible future is one in which civil society moves closer to the core of corporate governance by, for example, securing positions as corporate directors or assuming more powerful roles of oversight.[8]

Now in the early years of the 21st century, the sophistication, complexity and reach of CSOs continue on an upward trajectory. Dramatic changes have occurred not only in CSOs' influence, but also in their diversity and modus operandi.

[7] Prahalad, C. K. 2005. *The fortune at the bottom of the pyramid.* Upper Saddle, New Jersey: Wharton School Publishing. Hart, S. 2005. *Capitalism at the crossroads*. Upper Saddle, New Jersey: Wharton School Publishing.
[8] White, A. L. 2006. *The stakeholder fiduciary: CSR, governance and the future of boards.* San Francisco: Business for Social Responsibility. http://www.bsr.org/CSRResources/index.cfm (accessed April 11, 2007).

Until the 1990s, a large segment of transnational CSOs fell into the category of humanitarian organizations, such as CARE and Oxfam, as well as that of environmental advocacy and scientific organizations, such as IUCN, WWF and Greenpeace. As globalization has accelerated, an explosion of new organizations has evolved in response to urgent problems that globalization itself has caused, accelerated or exposed, including lack of accountability of transnational corporations; government corruption in oil and mineral-rich nations; health pandemics such as HIV/AIDS and malaria; labor practices of transnational companies in contract factories in poor and emerging economies; residual land mines in former conflict zones; biodiversity loss in critical regions; and incorporation of sustainable development paradigms into international trade regimes.

The diversity of issues faced by CSOs is matched by the variety of CSO tactics. For some, confrontational tactics like campaigns, boycotts and litigation remain the preferred modus operandi. For others, including some that were historically committed to confrontational modes, partnerships with business and government now complement or have displaced confrontation as the preferred approach to advancing their social change agenda. Still other CSOs were conceived as multi-constituency initiatives, with business and other sectors represented on boards and other governing bodies.

CSOs are demonstrating growing political astuteness and far-flung networks of affiliates and partners through reducing the "governance deficit": they fill gaps in public goods that government and business have proven unable or unwilling to address. The formation of consortia, alliances and forums of such groups reflect their growing self-consciousness, appetite for strengthening capacity and readiness to engage business and government not as subordinates but as equals in addressing critical global problems.[9]

The emergence of CSOs as a new party to the social contract has exposed them to new levels of scrutiny in terms of their own governance and accountability. With the proliferation of international CSOs, their expanding influence in setting public policy agendas and the frequency of engagement in partnerships with business and government have come questions of legitimacy. For whom do CSOs speak? Under what authority do they lay claim to represent the interests of various stakeholder groups? Corporations, which have been challenged to identify key stakeholders and groups that capably represent them, are among the parties raising these legitimacy issues. Surveys consistently reveal that levels of public trust in CSOs greatly exceed levels of public trust in business, and this data is not lost on corporations. Translating these public perceptions into operational relationships with CSOs remains a continuous challenge for corporations seeking to align with the most trusted and capable CSOs.

Reflecting their higher profile and more intense scrutiny, a group of international CSOs recently established principles of conduct in the form of International Non-

[9] See http://www.gan-net.net for a leading example of a consortium of global civil society organizations spanning a broad range of issue areas. Others included the World Social Forum (http://www.wsf2006.org) and Civicus (http://www.civicus.org).

Governmental Organisations Accountability Charter.[10] The Charter, signed by 11 organizations in June 2006, comprises 10 core principles:

- Respect for universal principles
- Independence
- Responsible advocacy
- Effective programs
- Non-discrimination
- Transparency
- Reporting
- Good governance
- Ethical fundraising
- Professional management

This first-ever effort to bring a generally accepted normative framework to international CSOs speaks to their maturation as a major player in the continuing evolution of the social contract. Virtually all the signatories to the Charter (and hundreds of non-signatories) routinely interface with corporations. This interfacing is multi-dimensional, ranging from advocacy and campaigns to partnerships and alliances. The rules of engagement remain fluid. Because of the deep well of public trust enjoyed by CSOs, corporations unsurprisingly are drawn to building relationships with those CSOs they regard as legitimate and competent. For CSOs, business partnerships are one, but not the only, modus operandi to achieve their public interest mission. Managing these relationships is a delicate matter for CSOs since the risk of perceived or actual co-optation is always present.

As a practical matter, the social contract between CSOs and business in the last decade has assumed a more collaborative mode relative to the more confrontational and litigious quality of the 1980s and 1990s. The urgency and complexity of global economic, environmental and social problems have effectively forced the hands of CSOs, business and governments into a more cooperative mode as each party recognizes that problem solving is beyond the reach of any single player.[11] The future course of this type of "collaborative governance" cannot, at this juncture, be forecasted with certainty. What

[10] The charter can be viewed at http://www.amnesty.org/resources/downloads/INGO_Accountability_Charter.pdf (accessed April 11, 2007). Initial signatories are: ActionAid International, Amnesty International, CIVICUS World Alliance for Citizen Participation, Consumers International, Greenpeace International, Oxfam International, International Save the Children Alliance, Survival International, International Federation Terre des Hommes, Transparency International and World YWCA. See also: Zadek, S. 2005. Reinventing accountability for the 21st century. *OpenDemocracy.* http://www.opendemocracy.net/globalization-accountability/peer_to_peer_2823.jsp (accessed April 11, 2007).

[11] Zadek, S. August 2005. *The logic of collaborative governance: Corporate responsibility, accountability and the social contract.* Working Paper Series, Paper #3. The Corporate Responsibility Initiative, John F. Kennedy School of Government, Harvard University. http://generativedialogue.org/documents/Logic%20of%20Collaborative%20Governance%20-%20Published%20PDF%20-%202005.pdf (accessed April 11, 2007).

can be said is that its future is inseparable from the broader issue of the social contract that continues to unfold in the early years of the 21st century.[12]

Shifting Norms

Centuries after the birth of the idea of a social contract, the search continues for a modern version that reflects 21st century realities. The earlier contract, which is rooted in relationships among citizens and between citizens and the state, is no longer sufficient to capture the complexity of contemporary societal relations wherein the corporation plays a pivotal role in shaping the lives of people and the actions of government.

The purpose and architecture of the modern corporation, unlike the purpose and architecture of government, has never been subject to the seminal moments and enduring frameworks embodied in the U.S. Declaration of Independence, the Constitutional Convention or the Bill of Rights. Questions of rights and obligations of corporations have evolved in a piecemeal and reactive fashion over two centuries, resulting in a situation that remains unsettled and unresolved. What do corporations owe society? What does society owe corporations? What is the nature of a social contract that will provide the compass in shaping these critical relationships in the decades that lie ahead?

Observers of the business role in society continue to ask these questions with increasing frequency. One observer comments:

> *"The challenge for capitalism lies in fashioning a social contract that can channel financial capital's return-seeking properties in a way that better balances financial with other goals — social, fiscal, political, cultural, environmental…the myth of the isolated, individual self [is sustained] by a social contract that views the needs of self as somehow separate and removed from the large community and nature.*"[13]

This atomistic perspective of business is firmly entrenched in the prevailing shareholder-centric view of the purpose of the corporation and is reinforced in the institutions that shape the minds of managers present and future. A study of the 30-year trends in research focuses of management scholars reveals substantial imbalance between studies oriented to capital and economics aspects of the firm versus those related to the social welfare outcomes of corporate activities:

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[12] For a glimpse of the future role of CSOs within a reconstituted global governance structure, see Rajan, C. 2006. *Global politics and institutions*, Great Transition Initiative Paper Series No. 3. http://www.gtinitiative.org/documents/PDFFINALS/3Politics.pdf (accessed April 11, 2007).
[13] Gates, J. 1998. *The ownership solution: Toward a shared capitalism for the 21st century.* New York: Perseus Books.

"The public interest — as distinct from the private interests of capital and labor — holds a tenuous place in management scholarship; the social objectives of society have not received equal attention in our work… management scholars' eerie silence on the social role and impact of organizations is conspicuous."[14]

For these scholars, the situation is lamentable because a rich set of questions, all with potentially major implications for fashioning a future social contract, remains under-explored. For example, how do the human resources policies of companies contribute to the exercise of active, democratic citizenship and the conditions most appropriate for companies to assume the role of public goods provider when governments are unable or unwilling to do so?

Among business leaders, little consensus exists on the shape of a future social contract:

" [There is] a simultaneous fear and push for business to take on wider, different responsibilities than in the past…Most executives would probably rather not take on such responsibilities, but recognize that this is no longer an option as business today has the competencies, resources and infrastructure to help meet social challenges."[15]

Across countries, this tension is felt to varying degrees. In countries such as the European nations with long traditions of active government and extensive social safety nets, health care and retirement security remain largely sacrosanct even as aging populations exert increasing pressure on the public treasury. In contrast, the longstanding U.S. traditions of employer health coverage and pension funds are rapidly diminishing as companies seek to offload all or most of these rising costs onto employees. Meanwhile, there is little evidence of business leaders collectively stepping forward to pressure government into providing single payer or other forms of federally managed health care.[16] While circumstances vary across nations, core elements of the social contract are increasingly tenuous while workable propositions about business' societal obligations are in short supply.

What, then, might be offered as the broad contours of a new social contract? This is more than an academic question. Public trust in business continues at low ebb, and this fact may be interpreted as a widespread belief that companies are failing to uphold their end of the unwritten bargain with the societies in which they operate. Company and sectoral CSR (corporate social responsibility) initiatives, though noteworthy in their own right, have done little to bolster the perception of business in the public eye.

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[14] Walsh, J. P., K. Weber and J. D. Margolis. 2003. Social issues and management: Our lost cause found. In *Journal of Management* 29(6):859–881.

[15] Blowfield, M. and B. K. Googins. October 2006. *Business leadership in society.* Boston College Center for Corporate Citizenship.

[16] A notable exception to the scarcity of collective action on the part of business are recent initiatives to pressure Washington to establish national carbon reduction targets and create a national cap-and-trade system for achieving such targets. See, for example, http://www.us-cap.org/ (accessed April 11, 2007).

In the last decade the social contract has entered the latest chapter in the story of defining optimal balance between government, business and civil society. A number of trends have brought the extant social contract under intense scrutiny and intensified pressure in all sectors to rethink its configuration in the coming decades. These trends include disparities between haves and have-nots both within the North and between the North and South; human dislocation due to consolidation and diminished labor requirements in numerous industrial sectors; market bubbles and busts; Enron-type ethical breakdowns; failure of wages to keep pace with productivity gains; and intractable global poverty with the expectations that business do its share to alleviate problems.

The extent to which business is responsible for social conditions is actively debated. For many observers, government rather than business has failed to uphold its end of the contract by failing to provide stable, enforceable, transparent rules for business activities. This criticism is heard most often in emerging economies where basic governmental accountability mechanisms are often weak or absent. In other situations, different questions are asked. Has business incursion into traditional government functions reached or exceeded its useful limit? Are the commons — clean air, clean water, radio frequencies, the human genome — subject to inappropriate levels of private control?[17] Does privatization of traditional governmental functions undermine prospects for building strong, democratic public institutions?[18] More broadly, have the complexity, reach and scale of modern corporations rendered the traditional definition of the social contract obsolete?

Contours of a Future Social Contract

Governments grant corporations the license to operate because it is in the public interest to do so. The public interest is served by creation of long-term wealth, defined as value that continues to yield societal benefit even if a corporation were dissolved today.[19] In addition to wealth created by technological innovation and productivity applied to goods and services, long-term wealth implies productive activity that at least preserves and potentially expands the stock of natural, human and social capital. Put another way, wealth creation sustains and enriches what Barnes defines as three components of the commons — nature, the community and culture — that are inherited from one generation, used by the present and preserved for the future. Using this definition, the challenge of a designing a social contract for the 21st century may require a framework that enables, encourages and requires private enterprise to maximize its contribution to long-term wealth creation.

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[17] Barnes categorizes the commons "river" as comprising three "forks": Nature (e.g. air, water, DNA, seeds, airwaves and oceans), Community (e.g. streets, holidays, libraries, social insurance, law accounting standards and capital markets) and Culture (e.g. language, classical music, the internet, the broadcast spectrum and open source software).

[18] Margolis, J. May 17, 2004. Interview: Why we don't study corporate responsibility. Harvard Business School Working Knowledge for Business Leaders. http://hbswk.hbs.edu/cgi-bin/ (accessed April 11, 2007). Margolis notes: "Even laudable and noble actions taken by companies on behalf of society need to be taken in accord with procedures that respect rights and afford subsequent accountability."

[19] Lydenberg, S. 2005. *Corporations and the public interest: Guiding the invisible hand.* San Francisco: Berrett-Koehler, 19.

How might this occur? A point of departure might include a number of key building blocks:

1. Forging a Generally Accepted Statement of the Purpose of the Corporation

Statements of corporate purpose are as varied as corporations themselves. A recent survey across a sample of global corporations found purpose statements ranging from exploiting technology to serving customers' needs, maximizing shareholder value and serving society.[20] Notably, among the list of all companies and a subset of "the most admired companies," a balanced purpose — serving shareholders, employees, customers and society without priority to any one party — was most common.

Is it plausible to move from the unique to the general, to formulate a statement of purpose rooted in the public interest that is applicable to corporations generally? It is not only possible, but it is a prerequisite to shaping a new social contract. Restoring trust in business requires nothing less. Society expects corporations to operate in the public interest and is perfectly willing to grant the license to operate that will enable commercial interests to thrive as long as such interests are pursued with a higher sense of public purpose. This leads to a generic but flexible statement of the purpose of *the* corporation:

> *The purpose of the corporation is to harness private interests to serve the public interest.*

Various international efforts, including the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the draft UN Business Norms, are advancing generally accepted principles and codes of corporate conduct. The same could occur for corporate purpose. This would place the foundation for rethinking the social contract on firm footing, something that until now has been absent. Corporation-specific purpose statements can and should continue because they motivate and build loyalty within organizations. But with public interest as an anchor, the signal would be clear: shareholder enrichment alone does not align with 21st century needs and expectations of corporations. All global companies, by virtue of their scale, their reach and their economic, social and environmental footprints are unavoidably "public" entities. Large corporations by nature have aspects of both the private (their ownership and control) and the public (their activities that impinge upon the lives of people and communities across countries, regions and the world). It is these attributes that argue for reinstating in law and practice an unequivocal statement that the public interest is the ultimate obligation of the corporation.

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[20] Binney, G. 2006. *Corporate purpose and values: Time for a rethink?* London: Tomorrow's Company. http://www.tomorrowscompany.com.

2. Embedding Long-Term Wealth Creation in the Heart of the Enterprise

A second building block of a new social contract is the recognition that long-term wealth creation lies at the heart of the enterprise. Few corporate leaders would disagree with the notion that companies ought to be structured and run for the long-term. Most also would agree that long-term wealth — the preservation and expansion of human, social and natural capital — represents the highest calling of a company. For these leaders, profits and shareholder value are a means to an end. They enable long-term wealth creation but are not an end in themselves.

Those who subscribe to the long-term wealth view implicitly understand that a company's well-being is inextricably linked to the well-being of the society in which it operates. Societal well-being, in turn, depends on the quality and quantity of human and non-human resources that can be accessed, mobilized and deployed toward productive ends. When all companies commit to enlargement of the stock of human capital, companies individually benefit from the expanded talent pool because they increasingly draw mobile talent from global sources. Company investments in environmental conservation yield benefits to both the company and the long-term well-being of communities, countries and the planet. In a similar vein, both business and society stand to gain when companies are supportive of social capital expansion through their own actions, including advocating for a stable legal and regulatory environment, the rule of law, democratic processes and respect for human rights.

Preaching about the benefits of long-term wealth creation is a far cry from practicing it. Impediments are plentiful. One impediment is the problem of free riders, or companies that do little or nothing to commit to the capital expansion strategies of other companies but are still quick to appropriate the benefits of others' commitments. Another is short-termism in capital markets that incentivizes (some would say demands) short-term profits at the expense of long-term wealth creation.[21] Warren Buffet's view that the preferred holding period for a stock is "forever" may be admired by many but is emulated by very few. The dramatic rise of hedge funds and certain classes of private equity funds signals a shift toward greater, not lesser, flows of capital to short-term investment instruments.

These impediments are serious but not insurmountable. A societal consensus in favor of long-term wealth creation may bring to bear any number of policy and legislative incentives and mandates to induce companies to behave in a form that aligns with long-term wealth creation. For some firms, these incentives and mandates would be superfluous; they already understand the case for and actively pursue long-term wealth creation. For many others, a more assertive role by government may be a precondition for translating principle into action. Voluntary or mandatory mechanisms that vastly

[21] White, A. L. 2006. *The grasshoppers and the ants: Why CSR needs patient capital.* San Francisco: Business for Social Responsibility. http://www.bsr.org/CSRResources/index.cfm (accessed April 11, 2007).

scale up the collective drive to expand investment in human, social and natural capital, together with a shift toward long-termism in capital markets, are preconditions to implementing a critical element of a new social contract.

3. Building New Institutional Structures

Contemporary corporations find themselves operating in increasingly complex institutional environments. Alliances and partnerships with CSOs and government to address critical global issues of health, poverty and gender equality have dramatically increased in the last decade. These arrangements are breaking down traditional boundaries of responsibilities and functions in producing goods and services. Conventional models of philanthropy are being transformed into blended for-profit and not-for-profit ventures. For example, in the U.S. technology entrepreneurs who have accumulated huge sums of wealth at firms such as Google, eBay and AOL are reinventing charities as blended for-profit/not-for-profit business ventures with a social mission at their core.[22] Investment funds, including microfinance ventures and even hedge funds such as The Children's Investment Fund (TCI) that epitomize short-term horizons, are involved in technology development and capacity building of socially-oriented enterprises in poor countries.[23]

New institutional structures have profound implications for how large global corporations will run their businesses in the future under the new social contract. Multinationals operating in developing countries inevitably confront expectations that their license to operate is contingent on more than simply managing a mine site or harvesting hardwoods from tropical forests, no matter how responsibly those activities may be pursued. Like the BHP Billiton malaria campaign in Mozambique cited earlier, partnerships are increasingly essential to sustaining business operations. In some instances, it is a matter of survival: work forces decimated by the HIV/AIDS pandemic demand the intervention of multinationals in functions historically associated with government. In other instances, societal expectations prompt a demand for social investments in education, health and training even if the relationship of the investments to the company is oblique and perhaps more about reputation than practicality. In other instances, the lines between survival, prosperity and reputation are blurry. When HP invests in computer literacy in a developing country, for example, elements of all three motivations are discernible.

Corporations regardless of their motives face a fluid and experimental landscape when it comes to partnerships and alliances. This dynamic, unsettled situation no doubt will persist for many years as business, government and civil society learn how to optimize their relationships with the other two. What is certain is that long-term wealth creation as we have defined it requires the contributions of all three. Business needs the legitimacy and know-how of civil society to articulate local needs and wants, while civil society

[22] Strom, S. 2006. What's wrong with profit? *New York Times,* November 13.

[23] TCI allocates a fraction of its fees to social investment in poor countries. The Acumen Fund, funded in part by Google.org, lends seed money to for-profit and not-for-profit social ventures in poor countries.

needs business for its management and technological competencies. Government needs business to drive productivity and innovation, and business needs government to establish a stable and fair operating environment. Civil society needs government to strengthen its legitimacy as a recognized development partner and to provide input to policy decision-making. Government needs civil society to provide public goods (e.g. accountability, affordable access to health services, energy services to the poor) that government is either unwilling or unable to provide on its own. For all these reasons, tri-sectoralism is here to stay.

While the forms of tri-sectoralism will continue to evolve with plenty of trial and error along the way, the decades ahead will witness deepening interdependency that companies should recognize and nurture as a critical asset in building and sustaining public trust.

4. Reinvigorating the Role of Government

Business cannot prosper where government fails. Only government is capable of creating an enabling environment that ensures the stability, predictability and fair rules of the game that the private sector needs to manage its affairs. Undermining professionalism and efficacy in government, as has occurred in the U.S. since 2000, may satisfy the political agenda of some, but it is no recipe for optimizing the long-term government role as a partner of business and civil society in resolving the urgent issues of the 21st century.

Defining a new social contract requires public discourse that rises above the issue *du jour* of government–business relations. The crises of confidence triggered by the Enron debacle and the subsequent rush to legislate corporate governance standards in the U.S. and other countries is no substitute for calmer, long-term debate over the interface of government and business. The ideology of market fundamentalism — privatization, deregulation and unbridled free trade — has come under fire in recent years. At the same time, no consensus has yet emerged on an alternative pathway — a new political economy — that defines the expectations and roles of government in the new century. A tangle of issues remains unsettled, including long-term responsibility for employee pensions, universal health care and retraining of workers dislocated by globalization. Is government the primary provider, the provider of last resort, the regulator of business or a partner of business in building a sustainable society?

These issues are a reminder of both the degree to which the old social contract is unraveling and the challenges that lie ahead in crafting a new version commensurate with 21st century realities.

Reflections

For more than two centuries, the social contract has undergone cycles of definition and redefinition. This has occurred not through formal acts of government, but through evolving norms and expectations of the purpose of business in society.[24] The end of the 18th century marked the end of the aristocracy- and royalty-dominated enterprise and the dawn of the publicly chartered, public purpose corporation created by government to perform specific tasks over a specified charter period. A century later, the public purpose corporation was supplanted by the rise of the joint stock, limited liability corporation as the dominant corporate form, with public purpose receding into the background of the corporation's core purpose. By the close of the 20th century, this corporate form still reigned supreme but was now scaled up to global proportions with unprecedented influence and complex footprints that transcend borders, regions and cultures.

This is the moment to ask if the prevailing corporate form is optimal for the 21st century. The tumultuous business environment of the last decade creates a sense of both urgency and opportunity to rethink the social contract. The rising tide of dialogue around "business and society" is symptomatic of the search to define the elements of a new contract responsive to the demands of the coming decades. Trends in many of the world's economic, environmental and social vital signs send an urgent message that wealth disparities, the precipitous decline in the quality of ecosystems, and challenges to children's and women's health are not being corrected at the rate at which they must be to avoid a century of instability and strife among nations and cultures.

Neither business nor government nor civil society is capable by itself of reversing these perilous trends. The most promising initiatives are built on bi-sectoral and tri-sectoral partnerships. Conventional definitions of corporate purpose are unsuitable to meet 21st century challenges. Confidence and trust in corporations and corporate leaders are disturbingly low because of a widely held belief that core societal values — democracy, stewardship and justice — are being undermined rather than fortified by contemporary corporate practices. It need not, and must not, be so. For this reason, rethinking the social contract remains one of the most urgent imperatives of our time.

About Allen White

Allen White in his Senior Advisory capacity with Business for Social Responsibility (BSR) has been charged with challenging both BSR and businesses engaged in corporate social responsibility to revisit conventional wisdoms and to think in new ways about the future of the corporation. Toward this end, he has prepared a series of white papers and briefs designed to catalyze dialogue among companies and their stakeholders on issues pertaining to business-society relations in the coming decades.

[24] White, A. L. 2006. *Transforming the corporation.* Great Transition Initiative Paper Series No. 5. http://www.gtinitiative.org/documents/PDFFINALS/5Corporations.pdf (accessed April 11, 2007).