BUSINESS AND SUSTAINABILITY: TOWARDS A NEW SOCIAL CONTRACT

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ABSTRACT

The wheels of time are fast changing calling for a need to do things differently, and the business sector is not immune to this. The role of business in society has been debated for the past decade. However, this debate seems to have reached new heights following the rise in the power and influence of business with more expectations that business must participate in economic growth and development in the society within which it operates. This debate is appropriate as big business has been intensifying its role in the developing world appearing to have stepped in where national governments have not succeed appearing to have ‘eclipsed’ but not replaced government as the major financier of development, although it is evident that poverty seems to be growing rather than shrinking. This paper is encouraging the business sector to increase its involvement in development by embracing a new contract with society. Business involvement has many advantages including but not limited to: contributions to capital, technology, employment, skills, poverty reduction benefits and the undertaking of non-commercial delivery of public goods, innovation, etc. However, before this can happen successfully, any obstacles need to be addressed. This paper then makes suggestions for improvements.

“Real sustainability involves being profitable and simultaneously responding to the reality and concerns of the world in which you operate” (Sir Lord Browne, BP).

“Without the private sector, sustainable development will remain only a distant dream. We are not asking corporations to do something different from their normal business; we are asking them to do their normal business differently”. (Kofi Annan, 2002)

INTRODUCTION

The question regarding the role of business in society has been debated for the past decade and looked at whether business can or should play a role in contributing to a sustainable global society. Despite the well-described and agreed-to intent and engagement during the World Summit on Sustainable Development held in Johannesburg in 2002, perspectives remain disjointed on the precise role of business in sustainable development (Wheeler and McKague, 2002).

Increased privatization has resulted in big business becoming a major financier of development, ‘eclipsing’ although not replacing government in the developing world, yet its benefits are not impacting the poor. Due to this heightened debate, today business faces a growing range of initiatives (sometimes protests) by civil society organizations, trade unions and governments that expect business to deliver on not only profit but resources, employment, social improvement and sometimes undertaking non-commercial delivery of public goods.

However, this debate is not entirely new but it is currently moving into a new phase. Corporate scandals such as Enron and Worldcom and associated reputation risks have elevated the debate to new levels. Additionally, pressure from NGOs,
A bystander might ponder or ask why business should be moving in this direction. There are many reasons for the need for business involvement in economic growth and development. It is however without doubt that there are philanthropic reasons as well as vested interests for business involvement in society and development. In bringing understanding behind business motives for getting involved in society, the World Business Council on Sustainable Development (WBCSD) recognizes four major challenges / societal changes that need to be responded to by the business sector: poverty, the environment, population change and globalization. It argues that ‘no one, least of all businesses can evade some form of responsibility.’ This in a way summarizes some of the key needs for the involvement of business in society / economic growth and development.

OVERVIEW OF THE DEBATE ON ROLE OF BUSINESS IN SOCIETY

There are two sides to the debate on the role of business in society: the one contends that ‘the business of business is businesses - while the other contends that social issues are important to the business agenda (Davis, 2005). The former viewpoint implies that the social role is periphery to the latter. Both standpoints must be seen or understood in terms of their merits and demerits.

Corporate Social Responsibility (CSR) has been seen as a management strategy enabling business to understand its environment, through which business is able to better manage its own development and impact. CSR has therefore been purposefully positioned by business to facilitate its engagement with the broader society within it operates. CSR or related terms refer to the intersection of business needs and wider social concerns that respects the complexity and symbiotic links between the two. Aspen Institute refers to CSR as Social Impact Management as this term better positions social matters within business areas where strategic, operational and investment decisions are made. It is added that there is inter-dependence between social and commercial objectives. CSR is also perceived as a delivery vehicle for achieving business goals, supporting change, and effecting innovation in business. These philanthropic acts of business in society are sometimes called Corporate Social Investment (CSI) in South Africa, for example. However, there are also those who are now pronouncing the demise of CSR and its survival by sustainability adding that CSR has largely been focussed towards public relations rather than development. However, that is not the focus of this paper.

There is the perception of an implicit contract between business and society as well as between entire economic sectors and society (Davis, 2005). There is also a growing view that this social contract is being expanded from implicit to semi-formal. Recent Chinese protests are potent reminders / evidence of the growing strength of the social contract. Often the social contract has been seen as a unilateral contract benefiting business alone, but this is changing rapidly as more is expected from business.
The symbiotic nature of relations between society and business needs to be emphasized. Without business there cannot be wealth creation in society, without society, there cannot be business. Business needs a healthy functioning society to continue creating wealth in order to remain successful in business as well as to continue producing goods and services needed to establish and maintain sustainable communities. Maintaining healthy relationships with the community and building trust within the community is also an important goal for business.

The following section expands on the need for an increased role and involvement of business in society / economic growth and development.

WHY SHOULD BUSINESS PLAY AN INCREASED ROLE IN SOCIETY

In Sub-Saharan Africa (SSA) for example, there is ample evidence for why business must get involved in development. The problems cited in the developing world pose a serious threat to proper functioning of business while others present an opportunity to innovate. Some of these are listed below:

- Growing population rates, from 1975 - 2000 population doubled from 325 – 650 million reflecting a growth rate of 2.5% per annum;
- Age structure in this region reflects a young population of over 47% (aged from 5 to 24)
- The SSA region is home to 2/3 of people living with HIV/ AIDS
- Tuberculosis (TB) is a problem that catalyses the HIV/ AIDS pandemic
- Malaria is the tenth biggest killer of the poor in the region
- The United Nations has predicted increased urbanization in this region by 2025 half the African population is projected to live in cities
- 72% of Africa's population were living in slums in 2001 (UNHABITAT)
- It is estimated that 30% of illness and deaths in the region is from environment related problems.
- Lack of improved water supply affects a fifth of urban Africa
- Social indicators of the region show that the region will not meet the Millennium Development Goals, e.g. child mortality.

Added to these, developing countries are also facing the challenge of negative impacts of globalization on their economies. If the global population is too poor to afford purchasing the goods and services produced by business, then the very existence of business is threatened.

It has been established that national governments within SSA have neither the resources nor capacity. They would be able to cope with this multitude of problems alone, and yet if business is to succeed in this region, these identified problems would need to be addressed to provide a fertile environment in which to establish thriving business.

The world as a global community is also faced with global sustainable development challenges, including but not limited to: pollution threats that are set to affect the ecologically significant Antarctica; air pollution; depletion of the Ozone Layer; Climate change and the threats of rising temperatures; water issues: water pollution, associated water-borne diseases, water over-exploitation and scarcity, shared water resources and their potential problems; etc.

Additionally, worldwide global trends as shown in Table 1 require business to be proactive in order to remain on top of the business game.
Table 1 Global trend and their implications for business

<table>
<thead>
<tr>
<th>Issue</th>
<th>Implications</th>
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<tbody>
<tr>
<td><strong>People and Tomorrow’s markets</strong></td>
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<tr>
<td>Expanding Population</td>
<td>• Population dynamics shape the terrain of international markets and are the basis for society’s greatest economic and social challenges.</td>
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<td></td>
<td>• Growing young population in developing countries will create major labour and consumer markets.</td>
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<td>Rising Global Wealth</td>
<td>• Expanding middle and lower income consumers represent potential markets and developing of affordable goods and services which can drive innovation.</td>
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<td>Nutrition</td>
<td>• Food production, transport, and distribution is one of the largest business activities in global economy.</td>
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<td></td>
<td>• Private sector investment in economic development creates jobs and higher incomes to allow more food purchases.</td>
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<tr>
<td>Health: rising life expectancy amidst disease</td>
<td>• Health directly affects productivity. Travel provides new routes for diseases and can change status of disease from national to global.</td>
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<td></td>
<td>• Improving health in developing world is key.</td>
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<td></td>
<td>• Pharmaceuticals, health services, water infrastructure and water sanitation need to be involved.</td>
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<td>Education: elusive for many</td>
<td>• Business has a direct stake in the educational systems in the communities where they operate.</td>
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<tr>
<td><strong>Innovation</strong></td>
<td></td>
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<tr>
<td>Rising Consumption</td>
<td>• Rising consumption creates environmental risk and business opportunities for innovation.</td>
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<tr>
<td></td>
<td>• World population projected to grow by 50% by 2050.</td>
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<td></td>
<td>• Production efficiency is key.</td>
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<td>Energy</td>
<td>• Price of fossil fuels may rise.</td>
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<td></td>
<td>• Proactive businesses are conducting inventories of their operations to reduce energy intensity and Green house gases (GHGs)</td>
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<td></td>
<td>• Voluntary commitments to reduce GHGs and to support markets for trading carbon emissions.</td>
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<tr>
<td>Emissions</td>
<td>• Rising pollution a global concern.</td>
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<td></td>
<td>• Innovation to avoid waste required, use renewable resources, and to develop industrial models in which waste is captured and treated for use as an input into other resources is required.</td>
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<tr>
<td>Efficiency</td>
<td>• Successful companies will focus on production processes and business models that recycle raw materials, process outputs and finished products through the value chain and the product life cycle.</td>
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<td><strong>Natural Capital</strong></td>
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<tr>
<td>Ecosystem; declining productive capacity</td>
<td>• Business that can reduce environmental impacts, embody environmental performance in consumer products, innovate services that protect and renew the environment and that reduce the costs and liabilities associated with ecosystem damage will win.</td>
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<tr>
<td>Agriculture</td>
<td>• New approaches are needed such as organic farming, fish-farming, genetic engineering will need to be used.</td>
</tr>
<tr>
<td>Freshwater</td>
<td>• New approaches are needed</td>
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<tr>
<td>Connections</td>
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### Urbanization
- Demand for energy and infrastructure and concentration of labour and consumers

### Mobility
- Mobility opens market opportunities
- Sustainable mobility is a major area of business investment and innovation

### Communications
- Access to information and communication technologies enables economic opportunities.
- Innovative use of the internet, combined with software designed for illiterate users and low cost solar powered wireless devices is already increasing incomes in developing countries.

### Labour
- Worker training is essential as part of increasing the skills of workers.

### Roles and Responsibilities

#### Democracy
- Companies will face hard decisions regarding whether or not to operate in non democratic environments and perhaps support democratic change through their own practices, but risk their regional or international reputation.
- Trends towards transparency and democratic governance and global corporate standards augur well for business.

#### Accountability
- Civil society is demanding greater accountability and transparency from government and business.
- Civil society creates pressures for business to be more open and transparent in its dealings with the public.

#### Privatization
- Privatization has given business a greater say in the developing world’s economic future.
- The expectation of private ownership is to upgrade technologies, practices, and performance.

Source adapted from *Tomorrow’s markets*¹

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Other key trends as identified by Davis and Stephenson (2006) include:

- The consumer landscape will change and expand significantly as annual household income increases;
- Technological connectivity will alter the way people live and interact;
- The role and behaviour of big business will come under increasingly sharp scrutiny and the increasing pace and extent of global business and the emergence of truly giant global corporations will exacerbate the pressures over the next decade;
- Demand for natural resources will grow, as will the strain on the environment; and
- Management will go from art to science, and bigger more complex companies will demand new tools to run and manage them.

Table 1 further shows the benefits and/or opportunities for each sector associated with global trends. Business involvement can help to influence/driver appropriate behaviour towards a more socially sustainable, economically just and environmentally acceptable environment. These new global trends call for the development of new business strategies to successfully harness the opportunities linked to these trends.

Business has the advantage of scale and reach. However, business cannot single-handedly address these problems. National governments and international organizations must collaborate to ensure that necessary support is adequate. Large corporations are already involved in development as governments and NGOs take strain in fighting underdevelopment. It has been observed that organs such as the United Nations lack the resources needed to successfully execute its mandate throughout the globe and are perceived to be promoting the agendas of superpowers (Hopkins, 2006).

The Millennium Development Goals will not be attained in the developing world without the involvement of business in partnership with national governments. The World Bank asserts correctly that:

“Action plans for sustainable development, such as Agenda 21 or the Millennium Development Goals (MDG’s) adopted at the UN Millennium Summit 2000, can only be achieved if all involved stakeholders make an effort to find effective long-term solutions together and then commit themselves to implement them in partnerships. It is through collective action that hope can be brought about for billions of people around the globe.” (www.worldbank.org)

Despite the benefits highlighted in table 1 some businesses are still only striving to comply with basic legal requirements and the question is how can this be overcome?

EMBRACING THE NEW SOCIAL CONTRACT

Changing expectation calls for companies to respond proactively and that business leaders adopt a more ethical approach in dealing with the world in the light of recent corporate scandals such as Enron and WorldCom.
There is a need to move beyond simply compliance with law or a ‘must-do’ to a ‘can-do’ stance as espoused in the United Nations’ Global Compact.

CSR has been adopted by various companies as a response to manage the new business challenges. CSR has been particularly useful in the absence of, or poorly regulated environments in some developing countries where companies have developed their own codes of conduct.

As has been shown above, business cannot afford to alienate itself from societal issues as social issues threaten impending forces that can alter their strategic future as observed by Davis, 2006. However, Davis also cautions of the ‘defensive nature and disconnectedness of CSR from corporate strategy’ adding that the prescriptions as set by groups and activists involved in CSR are not without their limitations.

CSR has raised the issue of where the line is between government responsibilities and the role business can play through voluntary social action. Business is continually being looked upon to fill perceived gaps in government functions in developing countries e.g. enforcement of legal frameworks. However, this tension between the roles of government and business is problematic as it inter alia, and potentially distorts CSR contributions and undermines the current legal situation in developing countries. It also promotes what is seen as ‘unreasonable’ expectations thus diverting company focus from profits to philanthropy. There are however, inherent dangers of this debate as companies cannot be seen to replace government in providing public goods. CSR is also not an alternative to appropriate legislation.

However, it must be stressed that often in developing countries business encounters obstacles in pursuit of trying to make an impact in development. The Survey of Global Opinion conducted by the IBLF, Centre for Business and Government at Harvard University as well as Eldeman has shown that for enhanced business involvement in economic growth and development, certain things need to be in place or improved. Identified obstacles include internal challenges, external obstacles and stakeholder obstacles that are beyond the control of business and examples of some of these are listed below:

**Internal challenges**
- Resistance from board of directors;
- Unrealistic expectations; and
- Factors outside of the business sector’s control.

**External obstacles**
- Poor infrastructure;
- Bribery and corruption;
- Impacts of HIV/AIDS;
- Political uncertainty;
- Poor skills development;
- Poor education levels;
- Lack of technology and technical capacity; and
- Lack of uniform international standards for global business development.

**Stakeholder obstacles**
Poor understanding of commonly used terms which may have different meanings to different stakeholders may pose problems. There may be problems revolving around meeting developing
country business partners and the challenges they face in meeting production quality specifications and other international standards.

In some of the developing countries there are added complications and problems that do not bode well for business involvement and an increase in its role in development such as: political ‘in-fighting’, lack of awareness among stakeholders, poor enforcement of law, etc.

TOWARDS EFFECTIVE BUSINESS PARTICIPATION IN ECONOMIC GROWTH AND DEVELOPMENT IN SOCIETY

The previous section indicated that business needs to work closer with non traditional allies including critics in NGOs and the development arena, with different motivations, schedules, governance structures, etc to contend with. It is more appropriate for business to engage in CSR activities or development initiatives that are related to their company strategy. To an extent, this is already happening but still has room for improvement. Current examples of international Projects based on business objectives and competences.

- Healthcare companies supporting improved access to essential medicines and improved local capacity to meet health needs;
- IT companies improving access to technology
- Energy companies supporting affordable energy access
- Water companies and companies sourcing locally to increase access to credit and business skills
- Professional services firms sharing their management expertise with local NGO, government and business partners
- Food companies improving access to nutritional foods and/or supporting local farmer’s livelihoods

International standards are needed to help businesses to contribute to the reduction of poverty and, more generally, optimise the value added by the business to society’s social and economic development objectives. A new calibre of business leaders is required to be able to successfully meet these new expectations from business. These leaders must be better able to manage across financial, social and environmental dimensions. They must possess requirements such as: self knowledge, communication skills – speaking and listening, leading with multiple perspectives, operationalizing values-based decision making throughout the firm and understanding the reality of choice (McGaw, 2005). Wheeler and McKague (2002) add that what is needed to create sustainable businesses with the right development attitude is innovation which is critical to developing partnerships, business ideas and new organizational forms. They add that creative solutions to old problems will require shaking old assumptions and developing new mindsets.

CONCLUSIONS

Business has to cease viewing an increased role in development as synonymous with profit erosion. Instead business must embrace this as an opportunity to strategically manage competition through, for example, effective CSR programmes, innovation and making a long-lasting impression or difference in development. It has been
shown in this paper (section 2) how business can begin to embrace the view that it must be more visible in development through acting proactively in response to global trends and shown that business can maximise its participation in development while simultaneously generating profits and thus maintain its ‘raison d’être’.

REFERENCES

Corporate Social Responsibility Initiative at Harvard University’s Kennedy School of Government, Prince of Wales International Business Leader’s Forum