

# Corporate Social Responsibility: the new Social Contract

In April 2001, "Big Pharma" threw in the towel. Four years earlier, some 40 international drug companies had filed suit to block implementation of a law in South Africa that would allow the government to manufacture or import affordable generic versions of patented HIV/AIDS drugs.

The companies were attempting to protect their patent rights, and they argued that patent protection was necessary to provide the incentive to develop better drugs. They may have had a case under the terms of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), an agreement the industry had helped design.

But such arguments proved no protection in the court of public opinion. An international "drop the case" campaign organised by human rights and advocacy organisations worldwide accused the firms of participating in a "new global apartheid," as hundreds of thousands of South Africans died of untreated AIDS and the disease became the country's leading cause of death. By the time the companies dropped the suit, they had found themselves globally vilified as callous profiteers willing to condemn millions to a miserable death.

## A matter of standards

This case is only one of many dramatic conflicts in which quite different conceptions of corporate rights and responsibilities are competing for public favour. Many corporate leaders see themselves as legally and morally obligated to strive for profits above all, with concern for employees and perhaps a bit of corporate philanthropy thrown in. Increasingly, however, civil society groups are holding corporations to new standards of social responsibility that go far beyond existing legal requirements. But what should those standards be? And who should decide?

Since the rise of modern-style large corporations over a century ago, such questions have been answered by the traditional counterpart to big business: big government. But at the global level, no such unified government exists, nor, fortunately, is one likely to emerge in the foreseeable future. And thanks to the vast ideological shift of the late 20th century in which markets, not governments, came to be seen as the road to prosperity, the halls of the United Nations no longer ring with calls for international regulation of multinational corporations.

But as the South African case indicates, even if governments are not trying to negotiate rules governing corporate behavior, others are. The lack of effective international (and often national) regulation to protect workers, communities, investors, and the environment has spurred the development of a powerful movement aimed at promoting corporate social responsibility. That movement's partisans have on occasion forced significant

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changes in business practices through campaigns aimed at consumers and investors. And businesses are finding themselves under intense pressures to adopt corporate codes of conduct specifying what standards of behavior they will apply.

Those codes are controversial. Proponents argue that codes can lead corporations to buy into new norms of behavior without the need for government intervention, making them attractive to corporate leaders who want to fend off government regulation. More ambitious proponents see them as a means of achieving consensus around standards of behavior that can be tried out voluntarily, then eventually adopted and enforced by governments. Detractors

portray them as mere fig leaves. Some codes, such as the Caux Principles, are just aspirational statements. Others, such as the Social Accountability 8000 standards, are more demanding, requiring that corporations permit outside auditors to inspect their facilities to assess compliance with the code's standards on labour practices. The United Nations' Global Compact relies on corporate self-reporting, asking signatories to report annually on progress in implementing human rights, labour, and environmental standards.

## Compliance: cost and benefit

How should corporations respond to these growing pressures? Corporations that try to conduct business as usual, lobbying governments to set up global rules that benefit business interests and ignore any negative social consequences, may find themselves the targets of campaigns conducted by the growing number of transnational activist networks - as the pharmaceutical industry found. Those that adopt codes of conduct and strive to be good global citizens, however, may find that the more they promise, the higher the standard against which they are judged.

Corporations have no choice. If they want to prevent a massive public backlash, their economic activities must be embedded in a social contract that takes into account wider societal interests. Given the lack of a world government and the ineffectiveness of many national governments, corporations must play a key role in negotiating the terms of that global social contract.

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