

Extending Social Contract Theory to Corporate Entities: Exploring Applicability and Implications

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Abstract: Amidst the accelerating pace of economic globalization, many corporations increasingly grapple with the challenge of effectively balancing economic gains against their broader social and ethical responsibilities. This research paper delves deep into the applicability of social contract theory within the corporate sphere, analyzing its foundational principles in conjunction with Plato's Theory of Ideal Forms. The comprehensive study posits that modern corporations can be integral and proactive actors within the broader social contract, bearing significant societal responsibilities and moral obligations. It thoroughly explores the theoretical grounding for corporate adherence to social ethics and proposes practical and actionable implementations of social contract theory in corporate management. Emphasis is strongly placed on the moral role and the weighty societal responsibilities of corporations in today's ever-changing world. The compelling findings indicate that social contract theory offers a robust theoretical basis for corporations to adhere to social ethics voluntarily. Additionally, it assists corporate managers in developing decision-making models that align closely with these ethics. This alignment helps harmonize the pursuit of economic objectives with broader societal responsibilities.

Keywords: Social Contract Theory, Corporate Social Responsibility, Ethics and Morality, Corporate Governance, Plato's Theory of Ideal Forms

1. Introduction

In the context of the accelerating pace of globalization, the role and influence of corporations on a global scale are increasingly prominent. Against this backdrop, the challenge of how corporations balance the pursuit of economic gains with the assumption of social and moral responsibilities has become a significant topic within contemporary business ethics and corporate governance. Existing research has predominantly focused on the practice and impact assessment of corporate social responsibility (CSR). However, there is still a lack of theoretical exploration, especially regarding the role of corporations as entities within the social contract theory framework. This study aims to break through these limitations by applying social contract theory to the corporate environment, enriched by incorporating Plato's Theory of Ideal Forms creatively.

The central theme of this study is to explore the potential and methods of applying social contract theory within the corporate context. By thoroughly reviewing the fundamental principles and evolutionary trajectory of social contract theory, especially its adaptation in the modern society and

macroeconomic environment. This research seeks to provide a theoretical foundation for corporations as subjects of social contract theory. Subsequently, the paper synthesizes Plato's Theory of Ideal Forms to further articulate the role and responsibilities of corporations within the social contract, as well as their application in corporate management practices. The objective of this research is to offer a novel theoretical framework that aids in understanding the moral role of corporations in contemporary society and explores how they can balance economic objectives with social responsibilities.

This study aims to contribute new theoretical perspectives and practical guidance on how corporations can assume social responsibilities in a globalized context, significantly influencing the theoretical development and practical implementation of CSR.

2. Overview of Social Contract Theory

The development of social contract theory dates back to the 17th and 18th centuries. This period was marked by significant political and social transformations in Europe, including the Enlightenment and challenges to monarchical absolutism.

Against this backdrop, several renowned philosophers proposed different versions of social contract theory, offering new interpretations of the relationships between individuals, society, and the government.

2.1. Historical Background and Philosophical Development of Social Contract Theory

The origins and development of social contract theory are intimately connected with the political, social, and philosophical currents of 17th and 18th century Europe. During this era, European societies experienced a transition from feudalism to modern statehood, accompanied by the rise of the Enlightenment and the questioning of traditional authorities.

The 17th century marked the formation of the modern state concept and the centralization of monarchical power. Early forms of social contract theory primarily responded to the notions of natural rights and the divine right of kings. The theory at this time tended to explain and justify the existence of government and how individuals establish a consensus with it.

Influenced by the Enlightenment of the 18th century, social contract theory began to focus on individual liberty and rationality. During this era, the theory increasingly emphasized the concepts of democracy and popular sovereignty, while delving deeper into the boundaries between individual rights and governmental powers.

Social contract theory has evolved from initially explaining the legitimacy of government to later emphasizing individual rights and government responsibilities. It has become a cornerstone of modern democratic and rule-of-law states. This theory provides a crucial perspective for understanding the complex relationships between individuals and collectives, freedom and order, rights and responsibilities.

The thoughts of these philosophers profoundly influenced modern political theory and practice, especially in understanding individual freedom, governmental power, and social justice. Social contract theory has become a fundamental theoretical basis for explaining the legitimacy of government, individual rights, and the relationship between citizens and the state.

2.2. Key Perspectives in Social Contract Theory-Hobbes, Locke, and Rousseau

The three main representatives of social contract theory, Thomas Hobbes, John Locke, and Jean-Jacques Rousseau, shared a consistent fundamental theoretical framework.

This framework posits that individuals agree to some form of contract or agreement, sacrificing a portion of their freedom in exchange for greater social order and safety. However, each of these theorists emphasized different aspects in their specific content [1].

2.2.1. Thomas Hobbes

According to Hobbes, human life in the natural state was characterized as solitary, poor, nasty, brutish, and short.

To escape such chaos and violence, people agreed to form a collective, transferring power to an absolute authority-the Leviathan. Hobbes emphasized the importance of centralized power and the necessity of maintaining social order and safety [2].

2.2.2. John Locke

Locke's theory significantly diverged from Hobbes'.

He argued that people, in their natural state, inherently possessed a series of natural rights, including life, liberty, and property. Through a social contract, they established governments to better protect these rights. Locke's theory of social contract underscored the limitations of governmental power and democratic principles [3].

2.2.3. Jean-Jacques Rousseau

Rousseau's interpretation of social contract theory placed a greater emphasis on collective decision-making and the public good.

According to him, the social contract results in the formation of a general will that represents the collective best interests of society. In Rousseau's theory, individual freedom is defined as adherence to laws established by the collective will of all citizens [4].

2.3. The Role and Impact of Social Contract Theory

Social contract theory has profoundly influenced modern political philosophy and practice. It not only provides a theoretical foundation for understanding the relationship between individuals and the government but also significantly impacts the development of democratic institutions and the construction of modern rule-of-law states.

The core ideas of social contract theory-individual rights, social justice, and governmental responsibilities-remain the cornerstone of discussions in political philosophy and public policy to this day [5]. Furthermore, the concepts of social contract theory have been widely applied in the business and economic sectors, particularly in discussions about CSR and ethical standards [6].

3. The Relationship Between Social Contract Theory and Corporations

The question of whether social contract theory is applicable in the realm of business is of significant importance.

This approach offers a theoretical foundation for determining a corporation's social responsibilities and ethical obligations. Additionally, effective application of social contract theory can significantly enhance a corporation's understanding of its role and responsibilities within society.

3.1. Applicability of Social Contract Theory in Corporate Governance

In applying social contract theory to corporations, it is crucial to recognize that businesses are not merely economic entities but also social entities.

The existence and operations of businesses have far-reaching impacts on various aspects of society, including the economy, environment, and community welfare. From this perspective, the legitimacy of viewing a corporation as an entity within the social contract is apparent.

The relationship between a corporation and its stakeholders, akin to that between individuals and the government in a social contract, is based on mutual dependence and shared interests. Corporations bear the responsibility of providing value and assurance to their stakeholders, which include employees, customers, suppliers, the community, and shareholders [7].

3.1.1. Application and Value of Social Contract Theory in Corporate Governance

Social contract theory emphasizes relationships based on consensus and fairness, which can be directly applied to corporate governance. In this context, social contract theory underscores the importance of transparency, accountability, equity, and ethical principles.

For instance, the relationship between shareholders and management can be seen as a contractual agreement where management commits to effectively utilizing shareholder resources and pursuing the long-term interests of the corporation.

Similarly, a corporation's responsibility to its employees extends beyond salary and benefits to include maintaining a safe working environment and respecting their rights [7].

3.1.2. Corporate Contractual Relationships from a Stakeholder Perspective

Viewed from the perspective of stakeholders, the relationships between a corporation and its various stakeholders can be understood as a series of contractual interactions [8].

These contractual relationships encompass not only explicit legal contracts, such as employment agreements and supply arrangements, but also implicit social and ethical contracts, like commitments to environmental stewardship and considerations for social justice.

This perspective elucidates that a corporation's role in society extends beyond mere economic activity to encompass broader social responsibilities [9].

3.1.3. From Individual to Corporate Contracts: The Potential for Theoretical Expansion

Expanding the principles of social contract theory to corporate governance offers a new framework for understanding the relationship between businesses and society.

This theoretical extension highlights the role of corporations as members of society and their participation in creating, maintaining, and developing social order [7].

Furthermore, it proposes that corporations are responsible not only for achieving economic objectives but also for playing a role in moral and social responsibilities.

3.2. Opposition to the Application of Social Contract Theory in Corporations

When considering the feasibility of applying social contract theory to corporations, challenges and objections must also be addressed.

3.2.1. The Gap Between Contract Theory and Corporate Practice

Although social contract theory theoretically provides a robust framework for the relationship between corporations and their stakeholders, a significant gap exists between theory and reality in actual business practices.

Corporations in practice are often more influenced by market forces, competitive pressures, and profit motivations, which may hinder their full adherence to the principles of social contract theory

[10]. For instance, corporations may sacrifice environmental protection and social welfare in pursuit of increased profits and shareholder value.

3.2.2. The Incompatibility of Corporate Nature with Social Contract

The essence of social contract theory is rooted in the relationship between individuals and the government. In contrast, corporations are economic entities and fundamentally differ from governmental institutions.

The primary purpose of corporations is to generate profits and enhance shareholder value, which may not be entirely compatible with the equality, freedom, and public interest emphasized by social contract theory. Corporate decisions are often based on economic benefits rather than the moral and ethical principles advocated by social contract theory [11].

3.2.3. Power Imbalance and Defining Responsibility: Challenging Social Contract Theory

A notable power imbalance exists between corporations and their stakeholders, particularly between large corporations and small suppliers or consumers. This imbalance makes it difficult to achieve the equal negotiation and mutual consent presupposed in social contract theory [12].

Furthermore, the transnational operations of corporations in a globalized context add complexity to defining responsibilities, making it more challenging to hold corporations accountable for their social responsibilities.

3.3. Elements Similar to Social Contract Theory in Modern Corporate Governance

Despite challenges and opposition, numerous elements related to social contract theory can still be observed in modern corporate governance.

These elements of social contract help guide corporations to focus on ethical behavior and social responsibilities while pursuing economic objectives.

3.3.1. Corporate Ethics and Social Responsibility: Echoes of Social Contract

In social contract theory, individuals agree to relinquish certain freedoms for the greater public good. At the corporate level, this notion is reflected in the adoption of corporate ethics and social responsibilities.

Corporations are expected not only to pursue economic benefits but also to consider their impact on employees, consumers, the environment, and society at large. This awareness of responsibility reflects the role of corporations as members of society, bearing significant duties in maintaining social welfare and moral standards [13].

3.3.2. Stakeholder Governance: Embodiment of Contractual Theory

Social contract theory emphasizes negotiation based on mutual interests and consensus between individuals and collectives. In corporate governance, this idea is manifested in stakeholder governance [14].

Corporations need to balance and reconcile the needs and expectations of various stakeholders, including shareholders, employees, customers, suppliers, and the community. Through participatory governance and dialogue, corporations can establish more stable and equitable stakeholder relationships.

3.3.3. Transparency and Accountability: Practicing Corporate Social Contract

Transparency and accountability are key principles in social contract theory and are equally vital in modern corporate governance.

Corporations build and maintain public trust by disclosing their operations, financial status, and social impacts, as well as being accountable for their actions [15]. This sense of transparency and accountability helps elevate the ethical standards of corporations and ensures that their conduct aligns with societal expectations and norms.

3.4. Author's Perspective: Compatibility of Social Contract Theory with Corporations

The author contends that the theoretical framework of social contract theory is applicable not only to individuals but also compatible with the characteristics of corporate entities.

This viewpoint rests on two considerations. Corporations, as social entities, exhibit characteristics similar to individuals in social contract theory. Additionally, drawing on Plato's theory of ideal forms, applying social contract theory to corporations aids in constructing an idealized model. This model represents the optimal state of corporations adhering to social morality and fulfilling social responsibilities.

Through this theoretical framework, one can gain a deeper understanding of a corporation's social role and guidance on how these ideals can be realized in practice.

3.4.1. Characteristics of the Subject in Social Contract Theory

The subject of social contract theory is fundamentally human, based on several key reasons, including moral attributes, rational capacity, and the nature of social interaction.

Considering moral attributes, humans possess moral consciousness and the ability to make judgments, a primary reason for treating them as the subject of social contract theory. People can distinguish right from wrong and formulate and follow moral rules [16]. This moral consciousness and sense of responsibility form the foundation of social contracts. For example, John Locke emphasized in his "Two Treatises of Government" the natural rights inherent to humans (such as life, liberty, and property) based on inherent moral and rational characteristics [17].

Regarding rational capacity, social contract theory posits that humans are capable of rational thought. This means individuals can weigh personal interests against collective interests through rational judgment to make decisions that form and maintain social contracts. For instance, Thomas Hobbes described in "Leviathan" how individuals, to escape the "war of all against all" in the natural state, rationally choose to form a social contract seeking safety and order [18].

In terms of social interaction traits, humans are inherently social beings whose survival and well-being rely on interactions and cooperation with others. Social contract theory captures this essence, suggesting that individuals establish and maintain social order through negotiation and consensus. Jean-Jacques Rousseau, in his work *The Social Contract*, highlighted the significance of achieving individual freedom through a concept based on interaction and cooperation among individuals within a social collective. This concept is known as the general will [16].

In summary, humans are the subject of social contract theory because of their capacity for moral judgment, rational thought, and interaction and cooperation within a social collective. These traits enable humans to understand, formulate, and adhere to social contracts, jointly building and maintaining social order and justice.

3.4.2. Corporations Possess Attributes Similar to Subjects of Social Contract Theory

The author believes that corporations can be subject to social contract theory because they possess attributes similar to those of the subjects in social contract theory.

Corporations, as legal entities, often incorporate moral and ethical considerations into their decision-making processes, reflecting their moral and ethical decision-making capacity. In formulating policies and strategies, corporations need to consider their impact on employees, customers, suppliers, communities, and the environment. CSR initiatives reflect their moral and ethical considerations, similar to the moral obligations of individuals in social contracts [19].

Regarding rational behavior, modern corporations, while primarily aiming for profit maximization, are increasingly balancing these objectives with social responsibilities through rational analysis [20]. For example, corporations might recognize that maintaining good employee relations, environmental conservation, and community support are crucial for their long-term success.

Corporations, as integral parts of society, engage in social interaction and establish contractual relationships with various stakeholders. These include employment contracts with employees, transaction agreements with consumers, and implicit agreements with communities and the environment. This ability to seek balance in multifaceted relationships reflects the role of corporations in social interaction, akin to the role of individuals in social contracts [7].

Therefore, despite their fundamental differences from natural persons, corporations as legal entities exhibit characteristics in moral decision-making, rational behavior, and social interaction. These characteristics allow for the application of social contract theory principles in corporate governance and operations. Through this, corporations can not only achieve their economic objectives but also play a role in maintaining social order and promoting public interest [6].

3.4.3. Applying Plato's Theory of Ideal Forms to Elucidate Social Contract in Corporations

Plato introduced the concept of ideal forms in his philosophical system, a concept that is fundamentally important for understanding the value and application of social contract theory in modern corporate management.

In his work *The Republic*, Plato emphasized the importance of deeply understanding the ideal forms of things to acquire true knowledge and insight. He described these ideal forms as high-level abstractions that embody the perfect and eternal nature of reality. Plato suggested that understanding these forms enables individuals to strive for excellence, identify errors, and determine the right course of action [21].

When applying social contract theory in a corporate context, it can be seen as an ideal model guiding CSR and ethical behavior. Attempting to apply this theory to corporate practice essentially explores the ideal standards of corporate conduct. While some critics may point out a gap between theory and practice, deeming such attempts as overly idealistic fantasies, Plato's perspective argues that this idealization is necessary [10].

For instance, if teachers can construct an ideal model of education, they can find direction and motivation amidst the pressures of daily teaching. Similarly, if corporate managers can grasp an ideal model of corporate behavior, they will make wiser choices amidst complex conflicts of interest. This pursuit of ideal forms encourages stakeholders to think deeply, combining ideals with reality, to more comprehensively understand the needs of corporations in fulfilling their social moral responsibilities.

Based on Plato's theory of ideal forms, it is possible to refute the notion that applying social contract theory to corporations is excessively idealistic. Furthermore, one could argue that insufficient idealization impedes a complete understanding of the true form of a corporation. To accomplish tasks in a contradictory real world, it is essential to clearly understand the ideal goals to be achieved.

Therefore, the pursuit of ideal forms should not be abandoned but rather pursued more steadfastly. This approach will guide corporations to reflect higher moral standards in their decision-making and actions, thereby promoting the welfare and progress of society as a whole.

4. The Significant Role of Social Contract Theory in Corporations

This paper endeavors to interpret the concept of corporations within the framework of social contract theory, as this theory is especially pertinent to corporate governance and operations.

Social contract theory provides a distinctive perspective for understanding and evaluating corporate behaviors and responsibilities on various levels.

4.1. Impact on Corporate Governance and Management

Social contract theory underscores principles like fairness, transparency, and accountability, which become particularly significant in corporate governance and management.

This theory encourages corporations to consider the interests of all stakeholders, not just shareholders. This governance approach necessitates that corporations consider the needs and rights of employees, consumers, suppliers, and communities in their decision-making processes.

Moreover, social contract theory highlights the importance of morality and ethics in corporate decision-making, advocating for moral leadership from corporate executives and the embodiment of integrity and fairness in management practices [22].

4.2. Influence on Corporate Culture and Ethics

The moral values and sense of responsibility advocated by social contract theory can profoundly impact corporate culture.

Corporate culture reflects the internal values and behavioral norms of an organization. When infused with the principles of social contract theory, it can foster an environment that is more open, inclusive, and ethical. This includes fair employment opportunities, respect for employees' rights and opinions, and encouraging team members to pursue innovation and efficiency while adhering to ethical standards [23].

4.3. External Relations and Social Responsibility

Under the influence of social contract theory, corporations place greater emphasis on their responsibilities to society.

This is reflected not only in compliance with laws and regulations but also in active efforts in environmental protection, social welfare, and sustainable development. For example, corporations might take measures to reduce environmental pollution, support community projects, and improve working conditions. Additionally, corporations are increasingly involved in addressing global issues, such as climate change, economic inequality, and educational challenges [24].

5. Conclusion

This study explores the role and responsibilities of corporations in modern society from the perspective of social contract theory. The findings indicate that the core principles of social contract theory, traditionally applied to the relationship between individuals and governments, are equally relevant in the corporate context.

As social entities, corporations possess the capacity for moral and ethical decision-making, enabling them to consider their responsibilities to society and the environment while pursuing

economic benefits. Applying the principles of social contract theory to corporate governance facilitates a better balance between corporate economic objectives and social moral responsibilities.

Significant discoveries of this research include the capabilities of corporations in terms of morality and social responsibility, as well as the value of Plato's Theory of Ideal Forms in understanding and guiding corporate responsibility practices. By integrating theory into corporate practice, this study demonstrates the application of social contract theory in corporate governance and its positive impact on corporate culture and ethics. The research holds significant implications for the theoretical development and practical application of CSR. It provides practical guidance for corporate managers on balancing economic pursuits with social responsibilities, offering a new theoretical perspective on the moral role of corporations in contemporary society.

Future research directions worthy of exploration include the specific application of social contract theory in different types and sizes of corporations. The applicability of social contract theory in diverse cultural backgrounds and various industries is also an area of interest. Lastly, future studies could focus on the effective implementation of social contract principles in rapidly changing business environments. Such research directions will further enrich and deepen the theoretical and practical application of social contract theory in the field of corporate management.

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