



## UNDERSTANDING SOCIAL CONTRACTS: FORMAL AGREEMENTS IN BUSINESS PRACTICE

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### Abstract

This article explores the concept of social contracts in business relationships, emphasizing that contracts extend beyond formal agreements to encompass trust, social norms, and power dynamics between involved parties. It highlights how these elements shape the understanding and implementation of business contracts, with a focus on the significance of trust as a foundational aspect of successful partnerships. Norms and values inherent in specific cultural contexts also play a critical role in establishing how contracts are perceived and fulfilled. The dynamics of power between negotiating parties can influence the fairness and balance of contractual agreements, potentially leading to unequal outcomes. The study argues that recognizing and addressing these factors is essential for fostering sustainable business relationships. By integrating the principles of social contracts into business strategies, companies can enhance collaboration, promote ethical practices, and build long-term trust with their stakeholders. The findings suggest that social contracts should be seen as integral components of business operations that contribute to both organizational success and social responsibility.

**Keywords:** social contracts, business relationships, trust, social norms, power dynamics, sustainability, collaboration.

## Introduction

In the ever-evolving business world, the social contract has become a vital element in building relationships between involved parties. A social contract is not merely defined as a formal written agreement, but also encompasses deeper elements such as trust, social norms, and power relations. This indicates that behind business figures and data, there is a human side that significantly determines the success of a collaboration (Ali & Darmawan, 2023). Business relationships are often based on interactions more complex than simple economic transactions. In many cases, trust serves as the primary foundation underlying agreements between parties. When trust is established, interactions become smoother, and the likelihood of reaching mutually beneficial agreements increases. Therefore, understanding the social contract in business relationships requires a broader approach, covering the elements that shape the dynamics of that relationship. This aligns with the view that the social contract functions as an informal governance mechanism that mitigates the risk of opportunism in strategic partnerships (Wallenburg & Schäffler, 2014).

The social contract in business relationships can be understood as a normative mechanism that binds the behavior of economic actors through a mutual understanding of rights, obligations, and shared expectations. Jean-Jacques Rousseau's classic social contract theory emphasizes that social order is formed through collective agreements among individuals. Today, in the modern era, these agreements must also consider how ethics and legal rules run hand-in-hand so that no party feels disadvantaged (Darmawan, 2022; Hardyansah et al., 2021). In modern business practice, this concept has evolved into an institutional framework that relies not only on formal legal rules but also on social legitimacy, as explained in institutional theory by DiMaggio and Powell (1983). Business relationships often operate effectively not solely because of the strength of legal clauses, but because of social expectations regarding honesty, responsibility, and relationship continuity. Consequently, the social contract serves as a moral foundation that fills the gaps that cannot always be explicitly regulated in contractual documents. Contemporary research shows that the effectiveness of a social contract heavily depends on the consensus of moral values shared by stakeholders within the business ecosystem (van Oosterhout et al., 2006).

In societies that emphasize interpersonal relations and values of collectivism, business practices show a tendency to rely on social trust rather than mere formal control. Fukuyama (1995) explains that high levels of social trust allow for lower transaction costs because business actors do not always have to depend on complex legal monitoring mechanisms. Essentially, the way we communicate and interact honestly becomes the primary key to making everything run more easily (Darmawan, 2021). Verbal agreements, personal reputation, and relational networks become important instruments in maintaining the stability of economic relations. This perspective is consistent with Granovetter's (1985) theory of economic embeddedness, which asserts that economic actions are always embedded within broader social structures. Thus, understanding the social contract means analyzing the interaction between cultural norms, social structures, and daily business practices. The integration between formal contracts and relational governance has been proven to significantly improve collaborative performance (Poppo & Zenger, 2002).

Power relations are also a critical factor in understanding the social contract. In many cases, power within business relationships can be unevenly distributed, which affects how contracts are accepted and implemented. We must realize that not all parties hold an equally strong position; therefore, a sense of fairness must be maintained to prevent the relationship from breaking down (Arifin et al., 2021; Fariz, 2021). Parties with more power in a business relationship may have the ability to impose certain terms in a contract that benefit them over others. Conversely, weaker parties may feel pressured to accept less fair agreements due to their dependence on the stronger party. In this regard, the social contract illustrates not only formal agreements but also the power dynamics that influence how those agreements are understood and executed. This power imbalance often triggers latent conflicts that can damage the legitimacy of the social contract in the eyes of the weaker party (Gaski, 1984).

Problems arising in business relationships involving social contracts relate to how trust and social norms can function as guarantees in the execution of agreements. In situations where a relationship is built on trust, a violation of a formal contract might not immediately result in legal consequences, but it could damage the long-term relationship. When that trust is lost, it becomes very difficult to rebuild good cooperation in the

future (Kurniawan & Khayru, 2021). When trust is shaken, parties may feel hesitant to continue the relationship or invest further in the collaboration. Therefore, it is important to understand how these social elements interact and influence contract execution in business relationships. Trust functions as both a substitute for and a complement to formal contracts, where relational failure often has more fatal impacts than legal sanctions (Adler, 2001).

Another relevant issue is the extent to which social norms can adapt to changes in the broader business environment. In the era of globalization, companies often must operate in contexts involving various norms and values from different cultures. Furthermore, modern developments and trends also require us to be more sensitive to the ever-changing desires of society (Fared & Darmawan, 2021; Kurniawan et al., 2021). When companies seek to build business relationships in international markets, they face the challenge of understanding and respecting the social contracts applicable in other countries. A lack of understanding regarding local norms can lead to difficulties in establishing mutually beneficial relationships, resulting in potential conflicts that can harm both parties. These cross-cultural challenges require companies to develop 'hypernorms' or universal ethical standards that still respect local moral autonomy (Donaldson & Dunfee, 1994).

The urgency of research on the social contract in business relationships lies in the need to identify and analyze various elements that influence the effectiveness of business agreements. In an increasingly complex world, where business relationships involve various parties with different interests, a proper understanding of the social contract can be the key to creating sustainable cooperation. Ultimately, good business is not just about seeking profit, but also about maintaining good relationships with everyone involved (Darmawan, 2022). This research also contributes to the development of business theories that account for social and cultural dimensions in the drafting and implementation of contracts. Strategically, strengthening the social contract contributes to long-term value creation through the enhancement of an organization's social capital (Nahapiet & Ghoshal, 1998).

Based on the descriptions above, the problem formulation addressed in this paper is: how business contracts are understood and applied within

a broader social context, including elements of trust, social norms, and power relations between the parties involved. This question encourages a deeper analysis of the dynamics within business relationships, highlighting the importance of non-formal factors that influence successful contract implementation. Thus, the purpose of this study is to construct a comprehensive overview of the social contract in business relationships, emphasizing how trust, social norms, and power relations interact in the process of making and executing contracts. In achieving this goal, this paper will provide explanations regarding various relevant theories and practices, as well as implications for developing fairer and more sustainable business relationships.

## Method

This study is structured as a qualitative literature review aimed at developing a conceptual understanding of the social contract in business relationships. Gomm (2008) suggests that social research methodology requires precision in formulating research questions as well as in selecting the sources to be used. In this regard, this writing begins with the formulation of questions regarding how business contracts are built upon trust, social norms, and power relations. These questions will be broken down into several key themes, including the foundation of trust in contracts, the influence of social norms on contract implementation, and an analysis of the power relations involved in business relationships. Ragin and Amoroso (2011) emphasize the importance of integrating various methods in social research; thus, the approach used in this study will accommodate diverse perspectives in understanding the social contract.

In arranging the reading materials, the systematic organization of information is crucial. Crano et al. (2014) underline that the selection and arrangement of reading sources must consider relevance and the richness of the arguments. Therefore, this study will categorize relevant sources into several groups, including literature on social contract theory, trust-based business relationships, and studies on power relations within a business context. Sarantakos (2017) adds that a qualitative approach allows researchers to understand the nuances present in social interactions, thereby providing a more comprehensive overview of the phenomenon

under study. Through this approach, the study aims to construct a strong argument regarding how business contracts transcend formal agreements.

Singleton and Straits (2018) emphasize the importance of clear organizational logic in social research so that readers can easily follow the flow of thought. In this case, the structure of the writing will follow a logical sequence, starting from the introduction of the social contract concept, the analysis of trust elements and social norms, to the discussion of power relations in business relationships. By utilizing a comprehensive literature review, it is hoped that this writing can provide a theoretical contribution to a better understanding of the importance of the social contract in business relationships. Furthermore, the results of this study are expected to serve as a reference for business practitioners in designing contracts that are more responsive to existing social dynamics.

## Result and Discussion

In an equitable and sustainable economic order, the principles of mutual respect and shared responsibility must serve as the foundation for every business interaction. Business actors are obligated to uphold integrity in every transaction so that the certainty and stability of relationships become a reality. Good behavior within an organization essentially begins with how individuals value one another (Darmawan, 2013). These ethical norms encourage the creation of a trustworthy business environment where involved parties can act in good faith and prioritize collective interests over short-term gains. Integrity in business interaction is crucial because ethical behavior is empirically proven to improve a company's financial performance by strengthening its reputation in the eyes of stakeholders (Wang et al., 2016).

The principles of accountability and transparency become the primary foundation for strengthening social control mechanisms in the modern business world. Within a governance framework, accountability reflects an organization's obligation to account for its decisions and actions to stakeholders, while transparency serves as a means to ensure fair and open access to information. Ethical leaders will always strive to be open and responsible for every decision made for the sake of collective progress (Rojak & Darmawan, 2021). This concept is extensively discussed in corporate governance theory developed by Shleifer and Vishny (1997),

which emphasizes the importance of oversight mechanisms to prevent the abuse of economic power. When companies practice these principles consistently, business relationships gain not only legal legitimacy but also social legitimacy that strengthens organizational sustainability. Information transparency not only mitigates information asymmetry but also serves as a signal of quality that strengthens a company's bargaining position in the global market (Bushman et al., 2004).

Furthermore, the implementation of accountability and transparency contributes to the building of institutional trust, which is a prerequisite for sustainable economic growth. North (1990) explains that credible institutions are capable of reducing uncertainty in economic exchange, thereby increasing market efficiency. With information disclosure, the public can see the extent to which an institution truly works for the public interest (Wahyudi et al., 2021). In this context, compliance with contracts is not merely a legalistic act but a reflection of ethical and professional commitment. Information transparency strengthens organizational reputation, enhances business partner loyalty, and creates an inclusive economic ecosystem. Thus, the social contract in business cannot be separated from governance practices that uphold integrity as a primary operational value. Institutional trust built through transparency has proven to be a major determinant in attracting foreign direct investment and fostering macroeconomic stability (Nasir, 2022).

In business relationships, the social contract carries a deeper meaning than just a formal written agreement. This contract reflects trust between the involved parties, where this trust becomes the basis for building mutually beneficial relationships. In today's digital era, human relationships have indeed changed significantly, but trust remains the primary capital in communication (Darmawan, 2021). Trust can emerge from previous experiences, reputation, and interactions that take place outside formal spaces. In practice, trust allows parties to commit to agreements without feeling the need to monitor every step of the other party. In other words, the social contract functions as a guarantee that each party will fulfill its obligations based on the mutual understanding that has been formed. In this regard, trust not only supports efficient business relationships but also reduces the transaction costs required to monitor and enforce agreements. This relational dimension often transcends

formal legal boundaries, where norms of reciprocity act as a more effective dispute resolution mechanism (Gulati & Nickerson, 2008).

Social norms play a fundamental role in shaping the social contract because norms function as informal rules that direct individual behavior in economic interactions. Coleman (1990) explains that social norms work as a collective control mechanism that maintains the stability of social relations through shared expectations regarding acceptable behavior. Therefore, every small step in business must be carefully considered to ensure it remains in line with existing societal values (Sinambela & Darmawan, 2021). In business practice, norms of honesty, open communication, and respect for commitments often determine the success of a contract more strongly than the power of formal sanctions. When business actors share the same value system, the level of conflict can be suppressed because the interpretation of contractual obligations becomes more uniform. The power of social norms significantly reduces the need for expensive legal enforcement by creating "internalized compliance" among economic actors (Posner, 1997).

Furthermore, the social capital theory developed by Putnam (2000) demonstrates that networks of trust and norms of reciprocity strengthen long-term economic cooperation. Business contracts aligned with local social values tend to be easier to implement because they gain cultural acceptance from the parties involved. It is important for us to always support small businesses so that the community's economy as a whole can grow well (Wisnujati & Mardikaningsih, 2021). Conversely, disregarding social norms can result in dissatisfaction even when a contract is legally valid. Therefore, effective contract design requires a sociological understanding of the social context of business actors, ensuring that the contract is not just a legal document but also a reflection of the social values living within that economic community. Utilizing social capital in business contracts has been proven to facilitate innovation and knowledge transfer between companies through informal communication channels (Tsai & Ghoshal, 1998).

Power relations are another aspect that cannot be ignored in the discussion of the social contract. In business relationships, power can stem from various sources, such as market position, access to information, or control over resources. The party with greater power in

the relationship may be able to influence contract terms according to their wishes. We must remember that technological advancement should bring justice to all parties, not just benefit a few (Radjawane & Mardikaningsih, 2022). When power relations are imbalanced, a risk arises where the resulting contract favors one party while the weaker party is forced to accept detrimental terms. In this regard, it is essential to realize that power relations can influence how a contract is understood and accepted by each party. This structural power imbalance, if not managed with strong ethics, can lead to cooperation failure due to perceptions of distributive injustice (Benton & Maloni, 2005).

The social contract in business relationships can also function as an instrument to reduce uncertainty. In a dynamic and high-risk business environment, a good contract can provide certainty regarding the rights and obligations of each party. Capital support and the mastery of appropriate technology will greatly assist business actors in facing future challenges (Sinambela et al., 2021). With this certainty, parties can plan their activities better, reducing the potential for disputes that might arise. However, contracts that do not incorporate elements of trust and social norms can lead to rigid agreements that are unresponsive to change. In such situations, the contract can become a burden that hinders the flexibility required in a business relationship that should evolve dynamically. Studies show that flexibility in relational contracts is crucial for maintaining collaboration when facing unexpected external shocks (Lumineau & Henderson, 2012).

Changes in the global business environment demand that companies review the concept of the social contract in a more adaptive and cross-cultural manner. Globalization brings together various value systems, business practices, and differing social expectations, so contracts cannot be drafted universally without considering the local context. Hofstede (2001) shows that differences in cultural dimensions such as individualism, power distance, and uncertainty avoidance directly influence how individuals understand authority, obligations, and contractual commitments. Sometimes, business methods we consider modern may clash with long-standing local customs (Mardikaningsih et al., 2021). Therefore, multinational companies need to perform normative adaptations so that the drafted contracts can be socially accepted in their operational

environments. Recent research confirms that alignment between contract design and the local cultural context significantly lowers legal enforcement costs and increases voluntary compliance (Handley & Angst, 2015).

In an international management perspective, the failure to understand local social norms is often a source of business conflict and strategic cooperation failure. Trompenaars and Hampden-Turner (1997) assert that global business success depends on an organization's ability to balance global corporate standards with local cultural sensitivity. Cross-cultural research, consultation with local actors, and flexibility in contract design become important strategies to minimize misunderstandings. The main key is the willingness to listen to input from those around us so the business can survive even though rules often change (Mardikaningsih & Darmawan, 2021). Thus, the social contract in the global era is no longer a static document, but an instrument of cultural negotiation that continues to evolve following the dynamics of international economic interaction. The ability to negotiate culturally sensitive contracts is a core competency that determines the success of cross-border strategic alliances (Steenma et al., 2000).

The social contract can also function as a tool for building reputation and brand. In business, a good reputation is often rooted in the ability to fulfill promises and maintain good relationships with partners and customers. Especially in this day and age, reviews or comments from buyers heavily determine whether a product will sell or not in the market (Negara et al., 2021). When companies treat contracts as morally binding instruments, they contribute to the building of broader trust in society. By having a good reputation, companies can attract more clients and business partners, which in turn can increase profits and business sustainability. In this regard, the social contract functions not only as a legal tool but also as a strategic tool for building identity and corporate image in the eyes of the public. A corporate reputation built through the fulfillment of social contracts acts as an intangible asset that protects the company's market value during times of crisis (Fombrun et al., 2000).

In a broader context, the social contract in business relationships can contribute to social and economic development. When companies adopt principles of fairness and transparency in drafting contracts, they help create a healthier business ecosystem. Honest relationships between business owners and their partners are proven to make business performance much

better (Putra et al., 2022). By involving parties who might be marginalized in the negotiation process, companies can contribute to the reduction of social inequality. In this case, the social contract functions as a tool to integrate social values into business practices, thereby creating benefits for all involved parties. The integration of social responsibility into business contracts allows companies to create "shared value" that benefits the business as well as the local community (Dembek et al., 2016).

One of the challenges faced in building a social contract is when a discrepancy occurs between the values held by each party. In some cases, companies operating in markets with different cultural norms may experience difficulty in aligning their values with local expectations. This mismatch can lead to tension in the business relationship and affect the effectiveness of the contract. Therefore, it is very important to work together in teams and support each other so that all work targets can be achieved (Putra et al., 2021). This value discrepancy can be mitigated through intensive communication that builds "inter-organizational identification" between parties of different cultures (Homburg et al., 2009).

The social contract must also be understood as a dynamic process that constantly changes following the development of the business environment. Modern organizational theory asserts that economic relationships do not take place in stable conditions but exist within systems that undergo continuous changes in regulation, technology, and market preferences. Williamson (1985), through transaction cost theory, explains that it is impossible for a contract to detail every future possibility; therefore, adaptation mechanisms are required to face uncertainty. We all need to find a middle ground so that the economy, social life, and the surrounding environment remain balanced and preserved (Mardikaningsih & Hariani, 2021). Contractual flexibility allows parties to make adjustments without having to terminate the overall cooperation. Dynamic contracts that allow for periodic renegotiation are proven to be more effective in maintaining long-term relationships in technology-intensive industries (Argyres & Mayer, 2007).

In the context of the digital economy and technological innovation, the ability to update the social contract becomes a strategic factor for organizational sustainability. Teece (2014) emphasizes the importance of dynamic capabilities, which is a company's capacity to respond to

environmental changes quickly through learning and resource reconfiguration. Adaptive social contracts maintain the balance between the stability of commitment and the capacity for change, ensuring business relationships remain productive despite facing external transformations. Thus, flexibility is not a sign of contract weakness but rather an evolutionary mechanism that ensures the long-term relevance of business relationships. Dynamic capabilities in contract management allow companies to capture new opportunities while minimizing risks from digital disruption (Helfat & Winter, 2011).

Facing existing challenges and dynamics, companies need to develop a more integrative approach in drafting social contracts. Open dialogue between the involved parties must be promoted to ensure that all voices are heard and accommodated. When parties feel they have a stake in the contract drafting process, the likelihood of reaching a mutually beneficial agreement increases. This process not only produces better contracts but also builds stronger relationships and mutual trust among the parties. Collaborative involvement in contract design enhances the sense of procedural justice, which in turn strengthens the long-term commitment of business partners (Kim et al., 2017).

In practice, the implementation of the social contract requires attention to detail and commitment from all parties to adhere to the agreements that have been drafted. Failure to fulfill the promises contained within the contract can damage established relationships and reduce trust between parties. Therefore, it is important to have effective monitoring and evaluation mechanisms to ensure that each party carries out its obligations in accordance with the agreement. In this way, the social contract can function as a tool to maintain healthy and sustainable relationships. Transparent and fair monitoring mechanisms prevent opportunistic behavior and ensure that incentives remain aligned among business partners (Wathne & Heide, 2000).

In establishing successful business relationships, it is important to remember that the social contract is not the end goal, but rather a tool to achieve common objectives. When all parties move toward the same goals and support each other, the social contract can function as a bridge connecting various interests and ensuring the sustainability of the relationship. In this regard, the social contract becomes an integral

part of a business strategy oriented toward cooperation and mutual growth. Aligned strategic visions, articulated within relational contracts, are primary predictors of long-term alliance performance success (Zollo et al., 2002).

The importance of sustainability in business relationships is becoming increasingly clear, especially in an era where consumers are more aware of the social and environmental impacts of corporate actions. A social contract built on principles of sustainability can contribute to long-term value creation for all involved parties. When companies demonstrate a commitment to social responsibility, they not only meet consumer expectations but also build a strong reputation in the market. In this case, the social contract functions as a tool to achieve sustainability goals and create a positive impact on society and the environment. Sustainability commitments in business contracts increase customer loyalty and the company's attractiveness to ESG-oriented investors (Bansal, 2004).

Every business actor is obligated to place sustainability principles as an integral part of their strategy and operations. A commitment to environmentally friendly and socially conscious practices must be viewed as a moral and professional obligation that strengthens the company's legitimacy in the eyes of the public. By implementing policies that guarantee community welfare and resource sustainability, companies help create a fair and resilient economic ecosystem. Organizational legitimacy gained through sustainable practices positively influences a company's access to critical resources and financial capital (Bansal & Clelland, 2004).

Furthermore, stakeholders are obligated to mutually monitor and strengthen the implementation of social contracts oriented toward sustainability. Strict regulations, transparent accountability mechanisms, and active participation from civil society serve as vital supports to ensure that social promises in business practices are truly fulfilled. Through synergy between corporate ethics and public oversight, business relationships can develop sustainably and provide long-term benefits for all parties. Pressure from external stakeholders has proven effective in encouraging companies to adopt stricter environmental and social standards within their supply chains (Sarkis et al., 2011). Strengthening

adaptive and ethics-based social contracts is not merely a legal obligation, but a strategic investment that ensures the business remains relevant, trusted, and capable of providing real contributions to the welfare of the wider community in the future.

## Conclusion

The social contract in business relationships carries a broader meaning than just a formal agreement. This concept encompasses the interdependent elements of trust, social norms, and power relations. A deep analysis of the social contract shows that the success of a business relationship heavily depends on how the parties understand and adhere to the values underlying the agreement. In many cases, the trust built between the involved parties becomes a solid foundation for contract implementation. However, the challenges faced in business relationships require an approach that is adaptive and sensitive to environmental changes, as well as the active involvement of all parties in the contract drafting process.

The implications of this study indicate that the social contract should be integrated into a broader business strategy. Companies need to pay attention to the social norms and power relations present in every business relationship they establish. In order to create sustainable and mutually beneficial agreements, open dialogue and the participation of all parties in the negotiation process are crucial. With this approach, companies can not only forge stronger business relationships but also contribute to the development of a fairer and more sustainable society.

The suggestions that can be put forward include the need to develop training programs for business professionals regarding the importance of the social contract and how to build trust-based relationships. Furthermore, further research is required to delve deeper into how the social contract can be applied across various cultural and industrial contexts. With a better understanding of the social contract, it is hoped that companies can create business relationships that are healthier, more sustainable, and mutually beneficial in the future.

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