



## SOCIAL LICENSE\*

**A firm's Social License to operate is an increasingly important intangible asset. For varied reasons, governments and array of stakeholders are questioning how the business operations of firms affect social welfare and whether firms are a net benefit for society.<sup>1</sup> While a Social License embodies the discrete Yes or No answer to whether the firm can operate, a firm's Social License is multi-dimensional. Can the firm market its existing products? Can it develop new products? Can it operate in particular geographies? Can it employ its preferred business model? A firm's Social License can be strong, weak, or nonexistent on the dimensions; and its force can change over time and response to social and business developments.**

Historically the Social Licenses for many firms were not questioned. The shoe cobblers in Adam Smith's England were guided by the *Invisible Hand* of the market, and they only survived if they provided services valued by customers, paid employees wages that covered opportunity costs, and generated returns for their owners. In the second half of the last century, the US shoe industry led dramatic improvements in technologies.<sup>2</sup> While these required changes in business operations and dislocations of some employees, in combination the improvements in product quality, lower prices, and increased variety generated substantial benefits for consumers. As a result, the Social Licenses of manufacturers remained strong.

By contrast, the Social Licenses of shoe manufacturers in the modern era have weakened. Serious questions are raised about (i) the hiring practices of global firms like Nike that manufacture their shoes outside of the EU and US, (ii) the environmental impacts of their global operations, and (iii) their marketing practices.<sup>3</sup> Other examples of weakening Social Licenses include auto manufacturers (because of climate change), energy companies (because of environmental impacts), and bike-sharing companies (because of impacts on public spaces). One can also, however, identify examples where social acceptance of products has strengthened Social Licenses. Manufacturing and selling alcohol was illegal in the US during Prohibition (1920-1933), but it is not controversial the US now or in the EU and China.

The increasing importance of Social Licenses means that the set of questions for which individual firms must have convincing answers has increased from four traditional questions to a set of five:<sup>4</sup>

1. What should customers buy our products and services?
2. Why should employees be willing to work for our firm?
3. Why should suppliers, distributors, and partners contract with us?

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\* © Edward A. Snyder. Mr. Jakub Madej provided valuable assistance with this brief.

<sup>1</sup> Raufflet, E., Baba, S., Perras, C., Delannon, N. (2013). Social License. In: Idowu, S.O., Capaldi, N., Zu, L., Gupta, A.D. (eds) Encyclopedia of Corporate Social Responsibility. Springer, Berlin, Heidelberg. [https://doi.org/10.1007/978-3-642-28036-8\\_77](https://doi.org/10.1007/978-3-642-28036-8_77).

<sup>2</sup> Rf., Masten, Scott E. and Edward A. Snyder, "U.S. versus United Shoe Machinery Corporation; On the Merits," *J. of Law & Economics*, vol. 36 (April 1993), pp. 33-70.

<sup>3</sup> <https://www.theguardian.com/world/2001/may/20/burhanwazir.theobserver>,  
<https://www.nytimes.com/1994/02/13/business/viewpoints-just-undo-it-nikes-exploited-workers.html>.

<sup>4</sup> Sam Palmisano, former CEO of IBM, summarized these questions at a Yale Program in Fall 2023.



4. Why should investors invest in our firm?
5. Why should governments allow us to operate in their jurisdictions?

The last question relates directly, of course, to the firm's Social License.

Firms in high-tech industries – once the darling of most stakeholders – seem to lack convincing answers to the fifth question. The general public and many stakeholders now express concerns about (a) the economic and political power of individual firms, (b) their collection and use of vast amounts of personal information, (c) how content and ads are targeted to individuals, and (d) their broader impacts on families, communities, schools, and society. As indicated above, the Social Licenses of individual firms have been curtailed by governments. In recent years, governments around the world have limited the distribution of products and services by companies such as Meta, ByteDance, Apple.<sup>5</sup> A mix of local and national governments has also limited how businesses operate and their scope in terms of product offerings. Examples include (i) Uber and whether its drivers must be employees, and (b) Alibaba and whether it could move aggressively into financial services. It is important to note, however, that as high-tech companies are under attack, governments and societies are asking high-tech firms to solve pressing issues, including how to improve educational systems and reverse climate change.

Will Social Licenses become more important in the future? YES. While market-oriented economies dominate, societies face huge challenges and the role of governments within economies continues to grow. With increasing power, governments can restrict what firms can do. Artificial Intelligence by itself will make Social Licenses a yet more important asset. Indeed, AI's impact on industries, communities, and societies will ensure that companies will need to pay great attention to whether they have permission to operate and how to operate.

#### References:

1. John Morrison, *The Social License. How to Keep Your Organization Legitimate*, Springer 2014, <https://doi.org/10.1057/9781137370723>
2. BCG, *Why AI needs a social license*, <https://www.bcg.com/publications/2022/why-a-social-license-is-needed-for-artificial-intelligence>

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<sup>5</sup> [https://en.wikipedia.org/wiki/Censorship\\_of\\_TikTok](https://en.wikipedia.org/wiki/Censorship_of_TikTok), [https://en.wikipedia.org/wiki/Censorship\\_of\\_Facebook](https://en.wikipedia.org/wiki/Censorship_of_Facebook), <https://www.wsj.com/world/china/china-bans-iphone-use-for-government-officials-at-work-635fe2f8>.