

Insight - Business is not one-dimensional

CORPORATE NEWS

Tuesday, 22 Sep 2020

By DAVID BERRY



David Berry, deputy president of the Malaysian Institute of Corporate Governance: Today, we face a blank sheet of paper when it comes to envisaging business in a post-Covid world. For those responsible for governance, reinventing the business is a challenge

FIFTY years ago this month, an article by Milton Friedman was published in the New York Times.

One of the most influential economic thinkers of the 20th century railed against the idea of business having any “social responsibility”.

He invoked the ever-present US political bogeyman, accusing those favouring the idea of “preaching pure and unadulterated socialism” and “undermining the basis of a free market society”.

Friedman’s view was clear; social responsibility in business was to be regarded as a “fundamentally subversive doctrine”.

He saw a single dimension: make as much money as possible while conforming to the basic rules of society.

The world’s view of business has changed greatly since Friedman painted that somewhat shallow and callous picture.

The current mid-pandemic economic situation only serves to emphasise the fact that business and society need each other. A business cannot exist if it is separate from society or its environment.

Business depends on the resources of society and the environment, including access to materials and labour. It must follow the rules and regulations of society if it is to be given permission to operate.

Business sustains itself only by delivering goods and services desired by and approved by society. In turn, society depends on business for sustenance, growth and renewal.

There is a mutual economic dependency. It is complex, and relies on a series of economic bargains between business and society. These bargains must benefit both parties and be willingly made if the business is to survive and society is to be sustained through economic exchange and taxation.

So, a social dimension is implicit in a sustainable business.

In his opinion piece, Friedman referred to the "Father of Capitalism", Adam Smith, whose economic treatise, "The Wealth of Nations", was published in 1776. Smith's work is regarded as the foundation of free market economic principles. He argued for limited government intervention in the economy, believing that the willing exchange of economic bargains creates a balance of mutual benefit.

However, Smith was sceptical when it came to proposals from business for projects "in the public interest", seeing it as more likely the public interest would take second place to the profit desires of the business. He also feared collusion between business and government. Where Smith saw a role for government was in the development of nascent industries, as long as those industries did not become forever reliant on government subsidy for survival.

The past still echoes loud, and Smith certainly saw the social dimension in business.

Interestingly, Smith was also the author of an earlier publication, "The Theory of Moral Sentiments", which he is thought to have considered the better of his two most prominent works.

This treatise proposes a psychological theory that, from birth, a person develops a conscience (a moral and ethical core) by observing the behaviour of others and receiving approval for similar behaviour. The theory is commonly accepted today.

This influences decision-making. Before a choice is made, a person imagines how others might respond. The natural desire is to have others sympathise with the decision, which influences the choice that is made. This is not a conscious process. It is as if an "impartial spectator" or an "invisible hand", to use Smith's words, guides the decision-making process. It is the person's conscience at work.

When business makes a decision, it is usually rooted in self-interest. Smith did not think this necessarily bad. He believed that, in a free market, a balance of benefit was often the outcome, even when it might not have been the motive.

Smith also believed that an economic person could be a moral person, and his moral theory is clearly present in his economic work. He talked of choices made by a person who “intends only his own gain”, but is led by an “invisible hand to promote an end which was no part of his intention” – an end which delivered a balance of benefit.

So, a moral dimension for a business sits easily beside the economic and social dimensions. But, it is incomplete if it is seen only in terms of the external economic and social relationships of the business. The moral dimension has an internal face as well.

Smith’s works show he was opposed to hierarchies, inequality (including racial inequality), slavery and colonialism. He believed in appropriate wages, fair treatment of employees and intellectual respect. No doubt, he would have believed the moral dimension should also be reflected in behaviour within the business, and not reserved for external interactions.

He would have understood the modern epithet: “Walk the Talk”.

Certainly, Smith would have approved of a business having a Code of Conduct – the “invisible hand” guiding its business decisions, both external and internal. He valued common sense and understood economics not as a scientist, but as a human.

Today, we face a blank sheet of paper when it comes to envisaging business in a post-Covid world. For those responsible for governance, reinventing the business is a challenge.

But if we are to be well guided as we imagine a future, we need to consider what wisdom the past has to offer, and remember governance is a human endeavour.

If you don’t know where you’re coming from, you can’t plan where you’re going to!

David Berry is the managing director of Fidelius Sdn Bhd and the deputy president of the Malaysian Institute of Corporate Governance. The views expressed here are the writer’s own.

TAGS / KEYWORDS:

Insight , Corporate Governance , David Berry , Post-Covid ,

Link:

<https://www.thestar.com.my/business/business-news/2020/09/22/insight---business-is-not-one-dimensional#:~:text=A%20business%20cannot%20exist%20if,be%20given%20permission%20to%20operate.>