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PROLOGUE

Emerging from crisis through socially responsible and ethical business: The good, better, best theory, CSR, and the autocracy crisis in South East Asia

John Paul Fraedrich[1]

First, I would like to thank the Hang Seng School of Business and Prof. Robin Snell for inviting me to speak concerning a passion I've had for 4 decades which is business ethics. Specifically, I'd like to talk a little concerning corporate social responsibility along with the Theory of Good, Better, Best. As with all business ethicists such as myself, the preemptive phrase, "question assumptions", drives researchers and practitioners to describe and understand a normative concept within a business context. This is of paramount importance when doing research and in the practice of corporate social responsibility and economic theory as I shall explain.

The Godfather of business theories goes back to economics and their assumptions. When Adam Smith wrote his book, "The Nature and Causes of the Wealth of Nations", in 1776, I don't believe he could have imagined today's multinational corporation. For example, the world's four largest employers account for 4.6 million people. When Smith was alive, Western Europe had approximately 68 million. That's almost 7% of Western Europe being employed by only four companies. Nor do I think he imagined that the top three revenue-generating multinationals (Walmart, Saudi Aramco, Amazon: $1.736 trillion USD) would rank 12th in a world that has 270 countries. These three companies exceed the GDP of Brazil as of this moment.

From the 18th century and Smith's assumptions of perfect competition and a rational man, capitalism has been championed as the economic driver for business with only a slight hick-up in the early 20th century with competing capitalist arguments from Milton Friedman and Maynard Keynes. Friedman's capitalist theory won out due to the fact that the US emerged from World War II as the only economic

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✉ John Paul Fraedrich
fraedric@siu.edu

1 College of Business & Analytics, Southern Illinois University, Carbondale, USA

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global powerhouse. While Keynes' socialistic form of capitalism (the State can generate Wealth too) was left to slowly expire.

Fortunately, or unfortunately over the years capitalism has been transformed into a political theory, which it is not. The other problem today is the failure of the two pivotal pillars. There is no such thing as perfect competition and man is not always rational. These revelations have modified classical economic theory to a neoclassical and to a new genre called behavioral economic theory which embraces imperfect competition and the irrationality or perceived rationality of man. Again, the problem started after World War II when the West began to preach Friedman's form of Darwinian capitalism or the maximization of shareholder wealth. Maximizing shareholder wealth has been the mantra in finance, accounting, management, and marketing to some extent. Fast-forward to the 1990s when China started to embrace and combine Darwinian capitalism into communism such that today its economy ranks in the top 5 globally. I'll come back to the capitalism/communism issue later on.

Within the last 100 years corporate social responsibility has been around in one form or another. CSR becomes more significant as countries become more developed, where lifestyle is more important than maximizing shareholder wealth, and with the increase in the number of multinational corporations. This is where I would like to bring up the Good, Better, Best theory, which is normative relative to CSR.

In the 1st stage corporations decide to be "good" or pay attention to their stakeholders whether it be employees, shareholders, channel members, customers, communities, or a specific country or union of countries. They become CSR aware in that they have encountered some significant problems legally or it might be because the MNC comes in and it becomes politically advantageous for it to placate the politics of the country. Research suggests this is definitely the case with MNCs that are in natural resource extraction sectors. Because of the subsequent destruction of the environment, polluting nature, and land acquisition that occurs, CSR usually comes into play in the form of public relations. Quite simply the company has created atrocities such that employees, communities, the country, and the WTO form a consensus that "business as usual" must change. At this point we see some companies attempting to atone for their negative practices. Greenwashing or the perception of doing good while doing nothing or doing something that is negative is usually associated with this stage. In any event the company is becoming CSR aware because a negative action has imposed its will upon them. In other words, they have to pay attention and fix things. This is definitely a CSR "good".

In stage two or "Better", the company wants to do good by their stakeholders because in the long run it is better both financially and in the form of goodwill relative to employees, unions, channel members, and community. These companies are usually associated with strong brands, or they need to have a better global reputation as it relates to the long term especially from employees, channel members, and communities. They're less public relations oriented, with more CSR resources directed specifically at long-term growth. The "better" companies understand that being proactive rather than reactive maximizes profits in the long run. These firms usually have well organized HR programs as well as paying particular importance to accounting compliance and other ISO compliance issues. These companies are not fixated upon ever increasing revenue growth, but rather focus more on long-term profit maximization. It's the same as in corporate diversification strategies in that it's better to diversify relative to a corporate's skill sets rather than on unrelated market types.

This leads us to stage three or having the "Best" corporation possible. And the answer as to whether or not a firm is the best is: **it depends**. Yes, it depends. This is where the business ethicist asks the company what "best" is to them. Many nonbusiness types that do consulting never understand the conflict within this concept. The first hurdle is to teach the nonbusiness consultants that there must always be profit: that profit is "good". In fact, I believe but am not sure, that Deng Xiaoping stated that profit was an inherent good within China's current form of communism. You see, CSR by definition, embraces stakeholder theory and diminishes the Darwinian concept of profit maximization for the firm. CSR allows the company to be long term in its orientation. Long term is defined by more than 12 to 24 consecutive months. In the inevitable switch from revenue maximization to a profit orientation the switch helps to increase CSR monies within the firm. As stated, when a country becomes more developed, consumers, employees, and communities become more long-term oriented. They want more out of life than just the maximization of income, rather they start to see the disconnect between it and lifestyle which is a conundrum that US corporations are now just discovering with their workforce. The EU or European Union has a pro socialistic political framework that has already gone down the learning curve in this present reality. Add to this, developed economies, and geographic union with the state supporting universal healthcare and pensions, CSR becomes a significant component that is mandatory for all for-profit, publicly traded entities. Given to the nth degree one could falsely argue for the extinction of profitability. To prove this point let me explain what happened to the Swedish economy.

In the early 20th century Sweden (Scandinavia) was one of the poorest areas within Europe. With the ending of World War II they had a series of prime ministers who instituted a strict socialistic form of government and control. As a result, Sweden had the highest GDP growth per capita than any other country within Europe up until the late 1960s and mid-1970s. At this point in Sweden's economic history, socialism had significantly eradicated the potential for profitability. In fact, in 1977 there were people paying as much as 99% of their income to the state. This led to an exodus of capital and investors from Sweden. At this juncture the government changed policies by deleting certain socialistic programs and inserting more capitalistic incentives resulting in a steady increase not only in per capita income but in quality of living indexes. Up until recently it was in the top 5 globally with Denmark being ranked 1st as the country with the highest standard and quality of life.

Within organizational behavior and strategy journals the argument has been made that few for-profit companies can ever be "best" from an altruistic definition of the phrase "Best Good". So what is the solution? That solution within the U.S. for many new firms has been to incorporate as a Benefit Corporation, sometimes called a "B Corp," meaning it is a for-profit corporation that commits to create a material positive impact on society and the environment from the business and operations of the corporation. The reality is that B Corporations have demonstrated a greater revenue growth rate than public firms of comparable size and assets under management have reportedly grown by 18% compounded annually. The B Corp. form is becoming the favorite for technology and service firms because they have a large amount of intangible assets which become an increasingly important part of business valuation. This type of corporation has the greatest chance of becoming a stage III or “best” company that maximizes all the elements within CSR yet provides a strong profit motive.

Remember I said I’d come back to the capitalism/communism issue later on? Within the next 2 to 3 decades Asia and India will economically surpass most Western countries because of population growth rates and economies going from developing to developed country status. But there is a problem unique to this area as it relates to CSR and public policies. As of 2023 almost all of the countries within the region mentioned are either a closed or an electoral autocracy. Autocracies and business can be either very good or very bad. Let me explain. In both types of autocracy decisions can be made quickly as well as its implementation which can be very beneficial to business so long as it relates to the business’ goals and objectives. By definition autocracies demand power by the few to generate wealth to the many. And as I have explained through the Swedish example socialism, which may be argued by some as a weak form of communism, can generate quick results but becomes a hindrance for business or capitalism at a certain point in time. Please be aware that the framework for capitalism assumes some form of democracy which is an anathema to the nature of the political entities within the countries named. When one has a significant number of strong CSR related MNCs within these countries, there may come a point when the autocracy country perceives the MNCs to have too much power being generated by the masses.

But businesses in Western, pro-democracy government forms don’t have this concern because they are controlled not by autocracy but by a constant called, The Rule of Law. CSR researchers and practitioners should be aware of this when promoting the stakeholder form associated with our conference topic, “emerging from crisis to socially responsible and ethical business”.

I hope I haven’t bored you, but these are some of the things that business ethicists like myself think about. We try to understand why good people can do illegal, unethical, and immoral decisions within business. We also try to take this normative field of study, using the scientific method, and attempt to predict so as to increase long-term profitability while helping those stakeholders gain a better lifestyle.

Thank you.

Do we have time for questions?