Is good ethics compatible with good business? And can we resolve that dilemma? (#104)

Jean Introduction 0:10

Hello, everybody, hang on to your seatbelts. You're about to meet Alison Taylor and Brian Harward. Both are affiliated with Ethical Systems, located in the NYU School of Business.[i]

Ethical Systems is founded on the principle that good ethics is good business. Let me say that again and make it into a question. Is good ethics good business? Do corporations really believe that if they act ethically, their businesses will improve? Should they engage in ethical practices to increase their revenues only? Or should they engage for its own sake?

I found Alison and Brian through a publication they wrote called *Incentivising ESG: What does it really take?*[ii] ESG stands for environmental, social, and governance principles. What is ESG? The E stands for environment, climate, the climate crisis, and environmental sustainability, for example. The S is for social concerns: human rights, diversity, consumer protection, animal welfare fit in there. And then corporate governance includes employee relations, executive compensation, employee compensation, how the business is structured, how the business invests.

So when we talk about ESG throughout this, we're talking about the environment, social and governance concerns, and corporate responsibilities. Here are Alison and Brian.

Hello, everybody. I am super excited to bring you this podcast and conversations on what I used to think of as corporate social responsibility, which has now evolved into environment, social, and governance responsibility.

I am so pleased to bring to you Alison Taylor and Brian Harward, both of whom are experts in the field, and who have written articles on what it takes for corporations to truly adopt a socially responsible -- holistic is the word that's used -- approach to what they're doing.

Just as a bit of background for some of you who don't know this: corporations used to think and say that their primary mission was to provide value to the stakeholders; in other words, to make money. Welcome to both of you. Welcome, Alison.

Alison 3:19

Thanks so much for having me.

Jean 3:21

And welcome, Brian.

Brian 3:23

Thank you. Good to be here.

Jean 3:26

Great. So, let's start off with your backgrounds, as I've explained, and you know, this podcast focuses on leadership for racial and social justice. What do you know about racial justice, social justice, what kind of communities did you grow up in? Tell us a little bit about your background. Let's begin with Alison.

Alison 3:54

Sure. It's a good question. I grew up in South London in the UK, in a very multicultural community. I went to a girls' high school in South London that was very mixed all girls but very mixed ethnicities, mixed cultures. Lots of Jamaican Londoners, lots of South Asians. Lots of people of all kinds of different backgrounds.

My mother is a teacher of the deaf, so I also grew up around a lot of deaf children and children with handicaps and was very much kind of brought up in a household that these things were very important. And I was quite badly behaved. So then I was sent to another school from 16 to 18.

And then I went to Oxford University, which your listeners probably know, is very White and my college was also not just very White but very male, it was about eight or nine to one men-to-women in the college that I went to.

I moved from an environment that was very diverse to an environment that was much less diverse. And that experience has really influenced my entire career because what I saw was that there was no... I knew some highly intelligent people from very underprivileged backgrounds that didn't seem to have a lot of opportunity. And then later, I encountered people who did not seem any more intelligent or more capable but had access to a ton of privilege. And were going to go on to be wildly more successful and rich. And that struck me as incredibly unfair.

Then the rest of my career, I've lived in a lot of countries, I worked in the Middle East and Africa, then I moved to New York, I worked in the Americas. And I have been, I think, in very kind of White professional environments ever since. But I think it's egregious. And I don't think it's sensible. So that's a pretty brief summary. I'm pretty old. But that's a pretty brief summary of my offering.

Jean 6:17

Well, you've had a range of experiences, and it's hard to pack all of that in the intro. You did it, and I thank you. Okay, Brian.

Brian 6:31

I was born in Dayton, Ohio, lived there for quite a long time. And there the diversity I would describe as pretty limited, I would say, White and Black, were very prevalent, but not much else. And so, to me, growing up, actually, the idea of "we" racially was actually a mix of White and Black, I would say, but I didn't have as much exposure to other cultures. So, that was probably a limitation there.

When I went to college in Wright State, which is nearby as well, it's not in Dayton, but in the same area, there was a really unique cultural experience there, because of a large number of immigrants, students, while some were immigrants, some were just students on visas from India, a very large number.

And it was a controversy at the school, about the number of students, the nature of the program, and things like that. And we had issues like things with hiring for new jobs, sometimes these jobs were dominated by the incoming Indian students. And some people had a problem with that. And we had to deal with where to draw those lines about how people get access to the jobs, especially those who need them to stay in the country.

And so there were some real interesting issues there that we had to deal with. Because there was definitely a racial component to who should be getting the student jobs. And it became a very obvious issue that we had to deal with. And so there were opportunities there.

Also, I was at one point hiring for a laboratory, to be someone who said, I'm not going to choose based on those characteristics and to ignore them. But it was a more complicated issue in many ways. So that was sort of an early exposure to those sorts of ideas. Later, I moved to...

Jean 8:17

Hang on a minute, when you said, "we" meant Black and White, were Black and White at the time united? Do you know if the Black people felt the "we" or just the White people felt the "we"?

Brian 8:33

I'm not optimistic enough to think that everyone felt that way, I think it's something I came to know later when exploring things like unconscious biases. You know, I felt that the group that I thought it was just who I was and where I came from as a result of where you live, was that mixture.

Whereas I later moved to Southern California, I was much less familiar with the culture that I saw there from a Hispanic Mexican culture, and it was all very new to me, but where I grew up, I thought it was just, you know, you think where you grow up is normal. And, to me that mix was pretty normal and the more worldwide diversity, I didn't get a ton of that until college.

But does that make sense? I mean, I think you just, you know who your neighbors and your friends are and that feels like "we" and people you know less about, maybe not as much and there isn't an "other" so much but a lack of exposure.

Jean 9:35

Okay. What I'm getting and you can correct me is that you grew up thinking we're friends and neighbors, Black and White, there's nothing to discuss really. And then as you move forward in life, you gained experience that said, "Oh, oh, there is something, a difference here that I need to pay attention to, or at least know about."

Brian 10:03

Yeah, I think that's true as well as culture has shifted to greater awareness of those areas. There was almost the thought that things maybe were better than they were or that it wasn't an issue to talk about. And we've become much more conscious.

I don't know how personal it is or how cultural it is. But that's something that I noticed anyway, it wasn't a huge issue for me as a child growing up but that may not be true for every one of every color in the same city. It felt to me like we but I don't know that like you said everyone felt that way. It's hard to say. I don't want to speak for them on that, my guess is there was a lot, a lot of people who felt very differently about that.

Jean 10:45

My experience is that people did feel differently about that. But it wasn't a discussable at that time, it wasn't something people were free to talk about. And so, those who felt not included or excluded, talked about it among themselves, I'd say, but very rarely talked about it with the White community. Okay, and it was later then, when you got more immigrant experience and exposure, you realized the problems in that area?

Brian 11:24

Yes. By moving to a more diverse area, and also through travel, definitely opened my eyes a little bit to some of the additional issues and got to know greater diversity of people. I know that I've sought out a culture that was different from the one I grew up in. I didn't particularly enjoy the Midwest culture as a person, I knew that it wasn't a perfect fit for me. I felt more comfortable in Southern California, for example, that was a better cultural fit. And it came with different demographics and different experiences.

Jean 12:10

Let's talk about ESG. First of all, Alison, please define it. What is ESG? And why should we care?

Alison 12:22

I would define ESG as what happens when the investment and financial services community gets hold of the idea of corporate social responsibility, or what used to be called sustainability. I would tell a story that corporate social responsibility originated in the 1960s. It developed as a result of reputational pressures of business, and was essentially business leaders saying, "Don't worry, you don't need to regulate us, we've got it covered, we want to do the right thing, because we like doing the right thing."

The term sustainability I believe, comes from the Brundtland Report,[iii] which I think was written in 1987 by the UN. And that has a definition of sustainability of working within the earth's natural resources, and also not undermining the ability of future generations to meet their own needs.

It was a definition around environmental responsibility and also tackling inequality and poverty, and so very much an agenda with a moral and ethical component. And that was also the era of socially responsible investing. So, the idea that we ought to be deploying capital to solve some of these problems, but at the time, the idea was that meant a more constrained portfolio and it meant lower returns.

Jean 13:22

Hang on a minute. You said it was some report and what you said...

Alison 14:02

The Brundtland Report.

Jean 14:04

Okay. Spell that.

Alison 14:07

B-R-U-N. I think there's a D-T-L-A-N-D.

Jean 14:15

Brundtland Report. Okay. All right. Okay, so, Brian...

Alison 14:23

Sorry, I hadn't finished, in the 2000s then the investment community started to all say, "Well, maybe if we do the right thing, and we do something environmentally and socially responsible, maybe businesses will make more money." And so, ESG is an effort to measure and codify those efforts in a way that is lucrative for the financial services community.

Jean 14:47

I'm getting some contradictory things here. On the one hand, it's a moral approach. On the other hand, the goal is to increase profits.

Alison 15:00

I'm telling a story that started with business leaders trying to deflect reputational pressure by saying they would voluntarily do the right thing, give to charity, invest in communities, things that are not good for shareholder value, but were designed to deflect regulation.

Then there was the rise of the idea that business caused a lot of the world's problems. This coincided with globalization. It coincided with a lot of rising public concern over things like sweatshop labor, and companies trying to avoid regulation by globalizing and going to countries where they could exploit the local population and where the laws were not as strong.

So that movement had a very strong moral and ethical component, and it emerged more and more into the mainstream. And then in 2005, also, the investment community got ahold of this idea and started to look for ways to correlate environmental and social responsibility with making more money.

So, I would define ESG as the financialization of sustainability. And that's where we are at the moment. BlackRock, and the biggest investors in the world, have decided this is a win-win for business and society.

Jean 16:26

You said financialization of sustainability. In other words, does that mean the moral imperative is gone? Or does that mean we want to measure the results? What does that phrase mean?

Alison 16:43

Well, I think that investors, yes, are trying very hard to remove the moral component of this, they are saying that there is a long-term business case to fighting climate change. They say that more diverse teams get better financial results. They say that because the public wants to buy more environmentally and socially responsible products, there is a business case for going into this area.

So yes, the investment community is trying to take the moral component out, though I suppose a more accurate way to put it is the investment community is trying to tell a story that we can have both morals and money and there is no tradeoff and that this is a win-win. I personally don't think these arguments are convincing. But that is the story that the money is trying to tell us.

Jean 17:40

I got you. Okay. Brian, is there a contradiction between the moral imperative and the financial gains?

Brian 17:57

Not necessarily. I think it is what has happened. The opportunity was seen to say that we can do both, and so that it's been embraced, whether it is a contradiction kind of remains to be seen, I think if being more moral causes you to gain more business or causes your employees to perform better, it can be very consistent.

On the other hand, we know that sometimes these things are at odds with each other where the more profitable way is not the moral way. And so, you can certainly make the choice to do both without it being inherently contradictory, but it's difficult, because if the other businesses involved aren't doing the same things, then competitive pressures make it difficult. So, I think, potentially contradictory, but not inherently.

Jean 18:53

Okay, so the way it plays out, or the way it could play out, is that faced with a choice, businesses will choose one over the other?

Alison 19:03

Yes. Businesses would like to deny that there's a contradiction, because that is a very convenient message. And of course, as Brian has pointed out, sometimes there isn't a contradiction. Sometimes there is convergence between morals and money, and sometimes there isn't.

But a lot of the conversation in the mainstream discourse at the moment suggests that this is always a win-win. Better ESG performance correlates with better financial performance, and there's nothing else to discuss. We've basically landed on the idea that the best way to measure the success of an approach that was designed to get us beyond an obsession with shareholder returns is whether it drives shareholder returns. We have landed on a very strange circular argument

Jean 19:58

A circular argument. Yeah.

Alison 20:01

Yeah.

Jean 20:03

Okay, so I entered the diversity field with the business case for diversity as the big thing to argue. And then came people said, what about it for its own sake? What about the contribution to society? What about all of that?

Brian, I want to go back to you and ask you. What about that? Because you're saying, and I agree with I was raised on that. I'm talking about my professional diversity training that you need to promote the business case for diversity, the business case for sustainability or else corporations won't do it.

The name of the article is *Incentivising ESG: What does it really take?*[iv] Give us the bottom line of the answer to your question. What does it really take?

Brian 21:08

Well, I guess the problem you run into is when incentives are involved, we don't know if things are being done any more for moral reasons or because of the incentives. And so, is it for the sake of being good? It could be, but not if there's incentives involved, it's likely the case that you're being driven to receive the incentives.

And those always bring with it their own difficulty. And the fact that if there's an incentive, whoever's providing that incentive is actually the decision maker, the control of the incentive coming in, it frees you of the responsibility to decide what to do, but also means that you're sort of are asked for compliance rather than morality.

And that's often where it's leading, right? Where the leaders are given the answer to the difficult questions, if you just do this, you'll be viewed as good. And so, they do that. And it usually works, it's usually pretty simple, they get for the most part viewed as good. But is that the most good we could be doing instead of actually having people make moral decisions? I'd say it's probably not optimal in that way. And that there tends to be a lot of just doing what everyone else is doing and these sorts of things.

So, my bottom line as to what does it take to incentivize ESG, like more appropriately, would be to actually reward innovation in that area, getting results in your own way, telling us what you're going to do, following through on it and showing that it was the right thing to do all along. Rather than asking, what do you want me to do to be happy? What do I have to do to meet the next challenge? What do I have to do to not be in the doghouse?

And that it seems to be that that's not where we're at, we're more giving clear incentives or easy to reach behaviors, instead of asking ourselves what's right, and later showing, what can you do? Prove us, impress us. We don't say that anymore. We say comply, and you'll be rewarded.

Jean 23:27

Wow, this is goal setting theory. I don't know if you all are familiar with that. But this is Locke and Latham's goal setting theory[v] and how intrinsic motivation is undermined by extrinsic rewards. That's basically what you're saying.

Alison 23:46

Yes. We shared a recent paper at ethical systems, called Instrumental Use Erodes Sacred Values[vi].

Jean 23:57

Hang on, say that phrase again, that's a lot of words, and it's really important. Instrumental use?

Alison 24:04

Instrumental Use Erodes Sacred Values.

Jean 24:09

Yes.

Alison 24:09

So, the researcher did work, and diversity was one of the things she explored. And she found that when you message to people that...so corporations have got the idea that they need to message around the business case, we will solve climate change, because that's how we're going to make more money over the long term, we will put more Black people on our senior leadership team because there's all this data showing that more diverse teams perform.

And this researcher found that that kind of messaging, people find it gross and off-putting and it undermines the goal in the first place. If something is a sacred value, something is a value that that people hold sacred whether that is diversity or environmental responsibility, and then you message around the business case, it undermines the effect it's trying to have.

Jean 25:05

Holy Toledo! I did not know we were going to come and have this conversation. This is downright fascinating to me. Because I had never applied it at the corporate level, believe it or not, I've applied it at the community level, in the work that I've done, but I had never applied it at that level. So, the challenge is how to distinguish between a reward and a bribe, basically.

Alison 25:42

Yes, and how to figure out what you incentivize, with rewards and bonuses and goals and targets. And what you make a fundamental ethical obligation that you punish if somebody breaches it. That's our argument that you need to differentiate, you can't just tick the box. The example we use in the article is McDonald's setting diversity targets for its senior leadership team. And we're saying you can't tick the box on that and think you will solve your wider diversity problems.

Jean 26:15

Right. Good stuff. Okay. Let me back up and ask another fundamental question, then I've got to come back to where we are now. But I just want to clarify, what's the connection between environmental, social, and governance? Why are you putting those three in the same ground? And, that's to Brian.

Alison 26:45

Sure.

Brian 26:47

Sorry, you asked me?

Jean 26:48

Yes, sir.

Brian 26:50

Well, you know, the industry, not us has done this, and I think you know that, it's been the evolution. I would agree with the idea that it was CSR became ESG, or ESG came along as a different idea and replaced it, either one of those.

Jean 27:13

Wait a minute. Hang on, Brian, you said VSG. Are you using a...?

Brian 27:17

No, sorry, ESG?

Jean 27:19

ESG. Okay.

Brian 27:21

Yeah, CSR was either the older term for the same thing, or the...

Jean 27:25

What was the next thing? I must stop you on all these initials.

Brian 27:29

No problem.

Jean 27:30

Okay.

Brian 27:31

Corporate social responsibility or CSR.

Jean 27:32

Social responsibility. Okay, so take that from the top.

Brian 27:38

To simplify a little bit, is the old term, the old way of thinking, and you could either say it evolved into or was replaced by ESG.

Jean 27:48

Social Responsibility initially, then environmental, social, and governance was the evolved term.

Alison 27:57

Yes. And the UN coined it in 2005. We didn't come up with this.

Brian 28:04

And I think the evolution there is that it's broader. The idea is that we went from before CSR, it was businesses have to follow guidelines, and then make all the money they want. That was about it. Right? And then it was, no, they have a responsibility that's larger than themselves. And now it's to the planet to people, the larger meaning of that, people wherever there's impact, and I think the reason it includes all three of those is because we acknowledge that it interacts with governance, which means not just government governance, but governance within an organization who was in charge who's making the decisions? And how was that done?

So, the leadership is doing what they do because of who they're governed by. So, to me, I would say, it includes all of those to show that now, the global social environmental impact of a company is the focus, not just the simpler idea of being responsible. And so, it's broadened to that.

Not everyone likes it. Some people would say it's going too far, but at least we can think on that level and say, what are the impacts, the broad impacts, name everyone impacted? And ask ourselves, what should be done about that? And if they have a say, and, you know, again, the planet being one to say, do they have a responsibility not just to pollute, but maybe to do more? Things like that.

Jean 29:14

Okay. So, you're saying before, it was just a generalized, be more responsible. But then when you parceled out, when the UN parceled out global social environment, now it gave a focus to their efforts. Is that the point you're saying?

Brian 29:14

Well, I'd say it broadened the effort and basically said that, you know, who are they responsible to is now the broadest possible category, which is everyone that they may affect, as well as, social includes just remembering the social factors inside your own company.

But that can go beyond just mere responsibility to saying, what are we doing? What is the impact of our business activities on the social ecosystem inside and outside of your company? I think that's all in play. What you're actually expected to do is a different question. But to say that it's got that that next level of an even broader focus, so to remain focused, but with a broader scope.

Jean 30:50

Okay. Alison, is there a trend line between companies on how they deal with governance, social, and environment, are those connected? Let me put it another way. There's been this fight about whether or not the environmental folks were really concerned about diversity, or whether the diversity folks were really concerned about environment.

And what I, as a researcher, what I have observed there, the people who believe in one tend to believe in the other, you'll have some folks who don't, but that they go hand in hand. So what I'm asking you is at the corporate level, is it so that companies that tend to be socially responsible also tend to be environmentally responsible? Does that go hand in hand and to set up governance for that? Or is that separate? Are they distinct things?

Alison 31:59

It's a really good question. I think that the UN effort and the rise of investor interest in these topics comes from the idea that corporations should stop treating their negative impacts on society and the environment as just externalities that have nothing to do with the business.

So, it comes from a rise of investor focus on the consequences of negative externalities kind of on the world. And then the UN, I think, put governance in at the last minute, is what I've been told, partly because there was more evidence on the business case for good governance leading to a better financial value.

But I think the origin is more concern about the negative externalities of corporations. This is how this kind of came about. There's other interesting data showing that there has been a rise in intangible value, right? So, it used to be that how corporations made monies was plants, machineries, cash, buildings, etc. And then there has also been a rise of intangible value versus tangible value. So now corporate valuations are much more dependent on reputation, brand IP, network effects, essentially social license to operate.

So I think the rise of awareness and concern over externalities and then the rise of intangible value really explain the rise of ESG. Now, I'm not answering your question, but I'm about to. So, then you're asking, is there a correlation between environmental and social responsibility?

The other thing about ESG is that it argues that you should look at the most material factors to your business. So, you don't just go and launch a save the woodchucks campaign, if your business has nothing to do with woodchucks, you don't just donate to charity, you don't just do things out of the goodness of your heart. But you look at the environmental and social issues that are most strategically relevant to your business, and you prioritize those.

And you're right, I think that companies that believe in climate change are likely to believe in diversity; companies that are trying to push this agenda, they likely see it as a package. But in reality, I don't think it is a package, if we just take a very basic example, which is if you shut down a factory, you will reduce your carbon emissions, you'll also put 1000 people out of work. So there obviously can be tradeoffs, and there obviously can be contradictions.

The other thing I would say is that no business really performs well on all factors. So, if we take, for example, a mining business, very problematic impact on the environment, very problematic impact on human beings in general, but you will likely see quite advanced human rights approaches compared to a company that has less friction and less pressure on these issues.

So, it's pretty complicated. It's not that companies tend to be good at everything at the kind of governance level, at the culture level, at the leadership level. Yes, I think you tend to commit to ESG and commit to these ideas as a package. But the truth is, no one's really got the bandwidth, energy, or commitment to do the right thing on 30 or 40 things. So, it's not always true that a company that's great on climate change is also great at diversity.

Jean 35:40

Okay, so if I'm hearing you, right, and correct me if I'm wrong, companies should look at what's important to them, important to their business, and maximize on the values, the social environmental values that's relevant to them, because you can't do it with all 40.

Alison 36:00

Right, exactly, and the word for that is materiality. People in ESG have thought about, you know, they've thought about greenwashing, they've thought about this being treated as PR, they've thought about companies messaging just as a form of kind of stealth advertising and not doing anything about the issues that are really relevant.

And they're also trying to say that this should be part of the core of doing business, it shouldn't be kind of charity or a foundation effort on the side, it ought to be really fundamental to how you're running your business. So, both those ideas converge on this idea of materiality which is that you should find the priorities that are relevant to your stakeholders, relevant to you, relevant to your externalities, relevant to your value, and you should focus on those things.

Jean 36:54

Okay. Let's go back to this bribe/incentive reward discussion. One of the reasons I was just so totally excited when I found your article was that I'm just dumbfounded about how to get encouraged -- I shouldn't say to get, that's too controlling -- how to encourage organizations to move towards more what I consider to be moral stances.

Now, we know from Jonathan Haidt's[vii] work, what I consider to be moral standards may not match my neighbor's idea, but still how to move corporations and companies towards wanting to do more to support the environment, towards wanting to increase diversity.

In an organization that I consulted in, they set up diversity goals as part of the performance appraisal for the managers, and it was terrific. One manager took on: I'm not getting along with my female employees. My direct female direct reports don't like me, I'm going to take this on. Another one said, I want to mentor the minority assistants who don't have a chance to break into the professional levels. So, they took on really challenging goals.

Now, that was year one. And eventually, as I understand it, that whole thing faded away. Listening to you now, I'm wondering in year three, what was intrinsically motivating initially. Oh, this is so cool! [with managers saying] And I get a reward at the end for doing this, whether in year five, that would have become a compulsory compliance to use Brian's word compliance thing rather than an intrinsically motivating act for the executives.

So, I'm not sure what my question is, and I hope you can help me with this. But I'm trying to figure out how do we do this?

Alison 39:19

Brian is going to have a better answer on that than me on this.

Brian 39:22

Yeah, I guess the question would be how to communicate to these people the values and opportunities related to this. So, they should know that there's an expectation to make progress in these areas, or certainly, at least not to have problems where, say, there's unequal treatment, but even beyond that, to make progress.

And, to be told, you know what it is that we value and that you're expected to always work within those guidelines, and here's where we would like there to be progress. And we trust that you can come up with a plan for doing this, and that you'll come back to us with results later. That is probably the way to do it. But that's hard. Because, as you said, and we're all guilty of it, what you really want is to make them do it. And we would say, it's probably better to ask them to do it.

So of course, make sure that they're aligned on values. And that they know that's what's expected. And to say, hey, impress me with how you can make progress in this area. And then see what they can do with it.

The problem is, there's risks there, there is risks that don't in year one do much good at all, because you didn't make them. But we really like when things are our ideas, we really like when we can have our own creative solution, you know, we call it autonomy over how to get our work done.

At the highest levels, people have more of that, and not less, the higher need to know that they are responsible for coming up with good ideas responsible for making them work. And again, with risk, there is a good chance they come to you with something better than what you could have mandated. And you say, "Wow, I didn't even know you could have done something this good."

But you have to give that trust, the time, and communicate the values, the expectations, and give them a chance to impress, and the consequence shouldn't be not getting a bonus if the progress isn't being made, but to worry about their job. And to say not that it has to be super harsh, but just in terms of think about it if this is truly important as a core value of your company, it shouldn't be an incentive. Alison said this already, it should be an expectation that you operate as if this is true. And they should know that, it shouldn't be too difficult in most cases.

Jean 42:12

The solution is to make it clear, and this is what Alison was saying before, make it clear that this is the moral, this is the value of the company, this is what we expect. Show us how you're going to do it. Show us how you're going to fulfill this. And if you fulfill this, let me play it out. If you fulfill this, then there could be rewards and bonuses and recognition and whatever forthcoming. And if you don't, do you want to be here?

Brian 42:45

Yeah, and it depends what the specific thing is, there are certain things that are expectations and a bare minimum. And those are the ones that would be related to continuing in the position. And then there are others that are aspirational. And maybe none of us knows how to solve them. But, you can ask for their best effort to innovate that solution.

And one of the best things you would get there, I think is possibly longer-term solutions where they look at core root issues. Because if you demand that happens this year, there's a limited set of things they can do to make it happen this year, the way they can make it happen. And so, the more systemic, or things we've been talking recently a lot about pipelines as a thing, when you look at say, diversity in hiring, these reach back years into people's job preparation.

And often that's where the divergence in the equality is. It's not in being given a fair opportunity today, it's in making those job choices, knowing that those things are available, choosing certain careers, these sorts of things. So, if it's a value and not of this year, we need this percent change, it would be deeper.

But again, there's always these risks, you have to say there's risks, it's slower. It might not happen at all. And that's the scary part, I think. So, we go with strict, easy to follow, really desirable by the public and investors kind of things. And there's some value in that, I think, right? To make sure that you're not being viewed negatively or falling too far behind. But, it's not everything.

Jean 44:34

Okay. Alison, we've been talking at the individual interpersonal manager to employee or direct report level. Take the same principle and at a macro level, we're now at some corporate board of directors, and they have to make some decisions about whether or not to follow the mining company or whether or not to drill in Alaska or whether or not to whatever, they have to make some decisions. What's to incentivize them, to put environment first?

Alison 45:22

It's a really good question. And I think, you know, I would come with the same answer, which is that you need to have a values commitment that is made by the company that you care about the environment. There is a lot of thinking that if you put public goals out, there’s lots of people making a net zero commitment, for example, that that will be helpful.

And then, you know, now, a large proportion of the S&P 500 is putting in place ESG goals, especially for senior leadership. So, the thinking is that we should make this part of the incentive scheme. Now, I think it starts to get problematic when we start to incentivize ticking the box.

Jean 46:25

Ticking the?

Allison 46:26

Ticking the box, so we say...

Jean 46:28

Oh, ticking the box. Okay. I have a southern accent and you have an English accent.

Alison 46:35

Yeah, I'm sorry about my accent.

Jean 46:37

Oh, I'm sorry about mine. So, keep going.

Alison 46:40

Yeah. So, I think we need companies to decide what their values are and make them public and make that very clear. Clear to anyone that's thinking about working there, making that clear to anyone that's thinking about buying from this company. I think it also makes sense to incentivize performance, to incentivize something other than meeting shareholder returns on a quarterly basis.

Where I think things start to get tricky is how to design those incentives so they don't have problematic unintended consequences, either of ticking the box, or duking the stats or lying or using greenwashing or woke washing, or that they're too narrow. So, we say that diversity is the same thing as having two diverse board directors, or a woman in the C-suite, and we say that that solves all the problems.

And that's what Brian and I wrote our article about, because what we see is a lot of incentive design that we believe will not have the intended consequence. And so, the question we were trying to answer is, if you wanted to incentivize doing the right thing, how would you go about this? What is more likely to work?

Jean 48:08

Right, so let's take the consumer. Alison, you have written a lot of stuff about should CEOs speak out? Should corporations have...? You didn't do this, somebody else did. Should consumers boycott businesses that they politically disagree with? All of that. I'd like to hear both of your opinion of that as part of our closing. So, let's get Alison's first.

Alison 48:40

Sure. So, the big problem I have around this whole topic, is that what we have seen, and I think we've seen this, let's just stick to America. We've seen in the US over the past six or seven years a complete transformation in the kind of rhetoric that the average big business is pulling out there.

The example I have given a lot in the media is in 2014. Michael Brown was shot on the street in Ferguson and left to die. There were protests. And in general, the corporate world did not want to touch this with a bargepole. There were a few exceptions, but no one wanted to talk about it. No one wanted to go near that topic. Just considered something that a CEO would not say anything about.

Fast forward to 2021 we have CEOs all over America, talking about the verdict in the George Floyd murder and giving their personal opinion on it. So that's a very dramatic change in a period of seven years. That has had good and bad consequences, that would be a very long conversation if we were going to kind of try and dive in there.

Jean 49:56

One sentence on each. One sentence on the good concept. One good consequence, and one bad consequence.

Alison 50:07

I think a good consequence has been that by making these statements, CEOs have opened up the Overton window[viii] of debate and discussion. Once you have said that you are prioritizing something other than shareholder value, once you have said that corporations should have values, you've opened up a space for debate and negotiation in society, you've opened up a lever for employees to hold you more accountable. You've opened up a new conversation.

The bad consequence is what I was about to say. This is perfect, which is that speech has not mirrored action. So, what we see is a lot of grandstanding for brand advantage, divisive grandstanding for brand advantage, we see a lot of black squares on Instagram, we see a lot of really cynical PR, that is not mirrored either by action or even more critically mirrored by what these companies are doing on their political spending.

So, you will see companies saying here is my commitment to net zero and climate change. And those same companies are by their core government relations departments funding climate denying politicians. You see, no one's really said anything about the end of Roe versus Wade, but a lot of companies are providing benefits. A lot of those companies are providing benefits and also supporting politicians that are trying to undermine women's reproductive rights. The negative consequences of the hypocrisy have not been resolved.

Jean 51:39

Well, I'll pick up from where she ended up with hypocrisy. Okay, and I'm reading from something I hear companies, this is off the website, companies also frequently tout feel good sustainability initiatives while undermining their programs with lobbying and tax avoidance. This is something that Alison just mentioned as a negative consequence of CEOs speaking out and making public their values. Do you regard that as a negative consequence? Do you see other negative consequences, and is this negative consequence worth doing it anyway?

Brian 52:28

So, when we think about the change that's happened, especially that now companies are becoming political or socially active, speaking out on issues, really, what I see is, if you think in the broadest terms the power around these topics shifting around.

To go way back, a business wasn't really involved at all, their job was acceptably to make money. And then individuals with that money made political choices with that money, and social choices with that money. A problem that we talk about as this power shifts to companies is that it then shifts downstream to consumers. So, we're worried that there may one day be -- will definitely be, I would say -- negative.

But companies that serve political factions, we talk about there being red versus blue companies for different products and services. If the companies are being so public in their statements about political and social issues, then customers or investors gain the power over those things. So, the larger ESG movement could centralize that power with the investors to determine what is right. Or it could be balkanized, so to speak by consumer groups, and who they choose to support and boycott.

All of that seems really dangerous to me, the upside is that people care, and that you're no longer allowed to say this isn't our problem. The downside is that we're now chasing around the power to make all these decisions. And it's going to change hands. It's going to end up being a combination of those groups, consumers banding together, or whoever really pulls the strings when it comes to ESG. The investors, the larger investors, determining what is moral.

And so those are the things I would worry about because they both sound really problematic to say that top down or bottom up problems.

Jean 54:39

Who should make the decision?

Brian 54:40

I don't know that I have the answer to that. I don't have an objection to individuals making that decision; the problem we have, and that would be probably my general bias to say, yeah, well, individuals can choose these things. The problem with that is just that I think the individual has decreasing power in society, right?

The power of businesses, even relative to government, has grown, and certainly relative to individuals. So maybe that's why we look at them and say we care so much today about what they have to say. But I don't have any answers here. To be perfectly honest, I have concerns, which is just we need to watch this and think of it for what it is to say that the power to decide what is moral is shifting to two really odd places: consumers and where they spend their money. And very large companies that determine who gets investment dollars. And I don't have a solution at all. I really don't. But I think it an important problem to think of it that way.

Jean 55:47

Believe it or not, this is one of the problems that wake me up at night. Not my grandchild going to school, she's going to be fine going off to college. That's not what wakes me up at night. The future of what we're talking about right now is what wakes me up and goes between scaring me because I don't have a solution either. Alison, final comment?

Alison 56:14

The final comment I'd make is that a lot of the story we've been telling, I think, is a story of political failure, and social policy failure. And so, one of the reasons that we have turned to business to solve these problems is that we no longer trust the political process. And we no longer trust social policy to solve these problems.

So, there's an outlet, we can boycott a brand. My young students, my impression is they sort of have this idea of, well, I could stand in line to vote once every four years in a gerrymandered system where my vote doesn't make a difference. Or I can vote with my dollars, and I can vote with my voice and I can decide where to work and I can pressure my employer.

Now they're right. But are we giving young people the impression the corporations are political actors, that a corporation is a democracy that employees and consumers are the electorate. Where are we even going here? So, I think this is all about political failure. And I do get concerned that consumers, which is a funny word, right, the public ought to reengage with our political crises in this country. And maybe we're expecting a little bit too much if we're expecting business to solve these problems.

Jean 57:44

Wow. I'm reflecting on that. So, we're expecting too much from corporations to solve these problems. Just put myself in your class, I would think, but it's the corporations who buy the politicians.

Alison 58:03

Exactly. Exactly. So, corporations are saying, hey, hey, hey, we're really responsible, we really care about diversity. That's what they're saying. And then on the back end, they're doing what they've been doing all along.

Jean 58:18

Okay, Brian, final thoughts.

Brian 58:21

I agree with that. A lot of that was something that I can't say as eloquently, but I feel it and I agree with that, the problem seems to be that where we have lost faith in institutions, that loss of faith is not only understandable, but seemingly just plain legitimate.

And so of course, we're looking for new ways to have an influence on the world. And some of these things may just be a little bit out of our reach. And so, we know that maybe collective action is what we need. So, we look to what are the biggest groups? What are the biggest sources of power and money that could do things, and its businesses and so we apply the pressure there.

But, it's interesting, some of these problems that we say we need to address, we want to know, what will it be like in 10 years if we don't address them? I feel certain that we'll find out. So please place your bets now. And unless something drastic happens, and that's one reason I focus on innovation, things like that, because if there's pressure on the larger scale for people to come up with truly innovative solutions, that might change the fundamental mathematics behind some of these problems.

Because there's a reward in it for them rather than an easy box to tick, but rather, to have someone to fill that vacuum of leadership and innovation, that maybe there's a chance. But for the most part, I think we will see where we end up without addressing these issues, for better or worse, and we'll just, I don't want it to be that way. I don't think anyone does.

But that's my firm belief that we will find out because of that, and perhaps those things will be interesting enough to then have a look back with good 2020 vision of hindsight and do better but even that, I'm not optimistic on but it's possible.

Jean 1:00:34

Okay, hang on. I had said last question, but now this is the real last question. Are we trending up? Are we trending down? Just one-word answer.

Brian 1:00:54

Down.

Jean 1:00:56

You say down. Alison?

Alison 1:01:00

I think we're trending to a reckoning. I think we're trending to a crisis.

Jean 1:01:07

Yeah. Okay. My husband says that. He says it's going to fall apart before it comes back together. Okay, with that, I thank you both. This has been a delightful conversation.

Jean's summary

That was a whirlwind of a conversation. Here are my takeaways.

First, the critical question is, how do we encourage businesses to do the right and ethical thing for its own sake? The most obvious answer is, give incentives. Yes. But there, there's the danger that they will stop doing the right thing for its own sake, because they have value support doing the right thing. And they will instead start doing things that will earn them the incentives and reward.

This is what is meant by undermining intrinsic motivation. Instead of doing what's right for its own sake, companies will try to figure out how to comply with the system so they could get the rewards. And the whole idea of doing what's right for its own sake goes out the window. They will narrow down to doing just that bare minimum that will get them the brownie points or financial incentives. And the whole of supporting factors that will make for a truly ethical response to the situation won't get addressed.

Second, there's no easy answer to this. We do want to incentivize corporations for doing the ethical thing since so many don't. But we also don't want to set up a system or a situation where the whole idea is just to game it. So how should we make it happen?

What they talked about was the importance of the company having a strong set of values that they return to again and again and again. And they tell their employees, we're here for these values. And if you are, you will get these rewards, and we will recognize you for it. If you're not, do you really belong here? That minimizes individuals gaming the system. But how can the same thing be said to a corporation? We talked about that, but we didn't have a real answer for it.

The last thing is the importance of setting priorities. There are so many things to be done and ethical principles to uphold that if we want corporations to be accountable, or individuals within corporations to be accountable for ethical principles, we can't expect them to meet all environmental and social and governance goals that are out there. So, the thing is, we encourage them to choose what's relevant to their businesses, and focus on maximizing what's good for them, rather than spreading themselves trying to meet all the possibilities of what's relevant or what's out there.

I learned a lot in this conversation and thoroughly enjoyed it. Hope you did too. Thanks for listening.

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Let's start a conversation. Email us at jeanLC@leadingconsciously.com

[i] NYU/Stern Business & Society Program. https://www.ethicalsystems.org/who-we-are/

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[vii] Jonathan Haidt is a social psychologist at New York University's Stern School of Business. He writes: "My mission is to use research on moral psychology to help people understand each other and to help important social institutions work better." https://jonathanhaidt.com/

[viii] "The Overton Window is a model for understanding how ideas in society change over time and influence politics. The core concept is that politicians are limited in what policy ideas they can support — they generally only pursue policies that are widely accepted throughout society as legitimate policy options. These policies lie inside the Overton Window. Other policy ideas exist, but politicians risk losing popular support if they champion these ideas. These policies lie outside the Overton Window." https://www.mackinac.org/OvertonWindow