

All Ears with Abigail Disney
Season 1 Episode 12: Rebecca Henderson
Is Business Ethics an Oxymoron?
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Abigail Disney: Hi all, I'm Abby Disney and you're listening to All Ears. Thank you so much for listening to our first season. It's been an honor and a privilege to talk to some really amazing people. We started this podcast when COVID seemed to change everything. And we've rethought it as the murder of George Floyd and then the outcry that it sparked changed everything all over again.

So, it's time for us to take a little bit of a break. We'll be back with more great guests and honest conversations in season two in the fall. We taped the episode you're about to hear sort of a long time ago--or it feels that way--on June the 1st. It's about business and capitalism and how to do things better, but the protests were really at their peak when we taped it. So, it wasn't the right episode to air in early June, but it's still an incredibly important interview. So, enjoy my conversation with Rebecca Henderson, and thanks for listening to season one.

My guest today is Rebecca Henderson, who teaches business ethics at the Harvard Business School and has just published a book called *Re-imagining Capitalism in a World on Fire*, and since the world is on fire, she seemed like a good person to talk to. She is one of the smartest people I've ever met, and I was certainly delighted to learn that someone was teaching ethics at the Harvard Business School. But better than that, I watched her address lots of audiences of businessmen and women to talk about what's become of business and how to pull it out of this Darth Vader death spiral it seems to be in. So, Rebecca Henderson, thank you so much for joining me today.

Rebecca Henderson: It's a pleasure to be here. Thank you.

Abigail Disney: Yeah, I'm excited to have you. So, I'm going to start in a very official way now. Okay. 50% of the students at Harvard Business School believe capitalism is broken. Well, first of all, what? Second of all, what do you think they mean?

Rebecca Henderson: I think they have an intuition that things are badly wrong. They see that social mobility is falling, that the odds are less than 50% a child born in America will make more than their parents. That's a huge change and much lower than it used to be. They see that apparently no one is really dealing with the climate crisis.

And then they look around at the political system. More than 70% of the people in the U S think the system is rigged. That their preferences, their vote makes no difference. And when you look at some of the research, they may be right. The legislation that gets passed reflects the preferences of the rich. We see tax cuts. We don't see increases in the minimum wage. We see in the stimulus package, billions of dollars going to real estate developers not to the local pizza store. I mean, the sense that--that things are not working is I think really pervasive and that's why capitalism is broken.

Abigail Disney: So, you know, the obvious question is is business ethics an oxymoron?

Rebecca Henderson: Absolutely not.

Abigail Disney: Good. I'm relieved to hear that and tell me why.

Rebecca Henderson: Business is fundamentally a moral enterprise. Its ultimate goal, its social legitimacy derives from the fact that it promises to produce prosperity and freedom. Prosperity in the sense of all the good things we like, the food and the houses and the shampoo and the cell phones great jobs. A major source of dignity and respect in, in every society and individual freedom. Mostly freedom of opportunity. Capitalism at its best, doesn't care if you're purple and have tentacles growing out of the top of your head.

What it cares about is can you work hard and are you engaged? So yes, at its best, capitalism is fundamentally a moral enterprise.

Abigail Disney: So how did it get to the point where the perception is that the two things have nothing to do with each other?

Rebecca Henderson: We forgot. We forgot that free markets need free politics. That capitalism only works when it's balanced by a strong society and a democratically accountable government. What do I mean? I mean, let me be very concrete: capitalism only works when pollution is controlled. If there are no regulations on what you can burn, what you can dump into the river, any businessperson will do what they can. They'll say, oh, I can burn fossil fuels. No problem. I'll just do that. I can throw my waste into the river. No problem. I'll just do that. And my goodness, that's what capitalism has done.

So, we're looking at a world that's now badly polluted and at risk of climate change. If you systematically destroy the rules that set a level playing field. If you tell capitalists they can do anything to make money, whoa. They have a temptation to do so and so we've gone radically off the rails.

Abigail Disney: You know, I don't think we can talk about, I don't think we can talk about any of this without talking about Milton Friedman, who was a very popular economist in the 1970s and has had a massive influence on the way we do things.

Rebecca Henderson: Milton Friedman said, your duty is to do, you know, almost everything you can to maximize profits, provided it's legal and ethical. And there was this big asterisk on that statement, or there should have been. And we miss the asterisk and the asterisk said apart from undermining the health of the democracy and the vitality of the democratic process. I mean, if you make money by fixing the rules in your own favor, that's not free market capitalism. That's just crony capitalism. That's just manipulating the political process for your own benefit.

Abigail Disney: And crony capitalism always eventually kills itself. Eventually it chokes itself to death. I mean, that's why gout kills a wealthy man. You know? It's just, you tend to gorge on the goodies.

Rebecca Henderson: I mean, crony capitalism kills the whole society.

Abigail Disney: Yeah.

Rebecca Henderson: You get a handful at the top that's making out like bandits and everyone else is struggling. I mean, look at Russia--classic crony capitalism. I think a real capitalist, you know, someone who really cares about prosperity and freedom should be appalled by the prospect of crony capitalism.

Abigail Disney: Right. So let me, let me ask you this. People tend not to talk about The Powell Memo which was not long after Friedman started talking about shareholder primacy. And I wonder, this interplay between free markets and free politics I think got really disrupted by this Powell Memo, which I know I'm saying these words, and they mean nothing to most people who are hearing them. Can you, can you tell me what that was exactly?

Rebecca Henderson: Sure. It was a memo written by a Republican lawyer who actually went on to become a Justice on the Supreme Court about the fact that business was under attack from unprincipled radicals who didn't understand the power of the free market. He says if our system is to survive, top management must be equally concerned with protecting and preserving the system itself. But how was that translated? That was translated into spending a great deal of money to make sure that the government didn't effectively regulate business.

Basically, to try and take control of the political process. But what happened was that it really helped trigger a major political movement by leading businesspeople to try and make sure that the political process did not threaten what they saw as the health of business and their view of what that meant was what we're living with now. Take regulations to zero. I mean, literally the current administration announced that they would stop enforcing environmental regulations. Just stop because of the pandemic. I mean probably totally illegal, cutting taxes to the bone so that there wasn't funding for health care or education. It was translated into a wholesale attack on anything that might hold capitalism in balance or to account.

Abigail Disney: There was a driving out of a discourse around morals and ethics. And when those things were driven out, they were also looked upon as sort of childlike and naive and ridiculous inside of the rooms of the people who saw themselves as serious hardcore capitalists.

Rebecca Henderson: I think you're right on target. Once businesspeople came to believe that maximizing shareholder value was the moral thing, they essentially bracketed morals and all the ambiguity, all the issues, at least as far as they related to the purpose of the firm. We told managers, your job is to maximize this number, and we gave them very strong personal incentives to do so. I think we have to add to Milton Friedman Michael Jensen, who was a professor at the Harvard Business School for a long time and wrote one of the most highly cited economics papers of all time, which was about agency theory. And he said, if you don't maximize profits, you're betraying your responsibility to your investors. So that was another moral place to go as it were, okay, let me just put my head down and maximize.

Abigail Disney: Oh yeah. And that's exactly what happened over the next decades. Corporations just really embraced the idea that they could do whatever, as long as they made money.

Rebecca Henderson: It turns out that treating people like things is bad for business, and it turns out that destroying the planet is bad for business. You know, the trouble is it's really good in the short term. My pointy headed scholarly research is all about the fact that when you start treating people with dignity and respect, creating jobs with reasonable wages in which people are empowered to make decisions, firms become significantly more productive, more innovative, and more creative. That doesn't mean that they always beat out the old kind of red in tooth and claw firms. It does mean they can survive in the world and the thing about capitalism red in tooth and claw is it destroys the long term of the whole society.

I mean, we're living with that right now. Years of bad jobs, structural racism, discrimination, have left people struggling just to get by. This is not stable. What I think we see from the research is these kinds of societies do not survive. They--and I can't believe I'm talking about the United States, the most successful, the most prosperous, of the freest countries on the planet with an amazing history doing the right thing.

Abigail Disney: How do you teach ethics to people who, who have shown up to business school? Why do they come to business school these days? And what are you hoping to get through to them?

Rebecca Henderson: More and more students come to business school because they're hoping to make a difference. Because they see business as such a powerful institution. And yes, they're trying to make a good living for themselves, but many of them also looking around and saying, where can I go that will make a difference? And how do we, how do we teach ethics or morals? We give the students examples. We give them cases. We say, here's Facebook. What do you think? The business model says basically, you need to tell potential advertisers everything about groups of consumers. You know, we want to take all your personal information.

We want to basically forget about privacy, at least at the group level, and just sell it. We want to have everyone on our platform. We want people clicking, so we're okay if we see political speech getting increasingly hateful and vitriolic. We see bots flooding Facebook, and hey you know, free speech. And of course, these are super tough and difficult issues. We try and put the students in the seat of businesspeople who have to grapple with free speech vs. privacy. How do you think about that? That tension? You're running an energy company. You may be fired if you don't maximize profits, but you can see climate change coming towards you. What should you do? You run a major retailer like Mercadona. You've been paying over the odds for some years. The company's now in trouble going through a difficult time.

Should you cut wages? We try and put the students in real situations of real businesspeople and get them to think through what they would do, how they would think about this.

Abigail Disney: Do you think they're different, these younger ones? I mean, are they reacting to the same cases differently?

Rebecca Henderson: The students are completely different. When I started teaching 30 years ago. Um, it, it didn't cross my mind to talk about, uh, the effect of firms on the health and wellbeing of society in the long term. Now, the students, even the right-wing students are saying we have a problem here.

You know, how do we think about it? What are we going to do? Students are totally engaged with these conversations. They don't all agree, but they talk, and they wrestle, and they bring their own values into the classroom. And sort of--that's what we need, right? We need to rediscover that conversation right through, um, our firms and our society and our meetings and our gathering places.

Abigail Disney: So, do you think someday when we arrive at some time when these people are in boardrooms do you think that they will look at their decisions about wages as moral decisions at long last?

Rebecca Henderson: Only if we change the government.

Abigail Disney: Yeah.

Rebecca Henderson: I'm very realistic. I'm not saying to you that businesspeople will fix things. No, no, no, no. You know, we need a massive political movement to change the rules.

Abigail Disney: Right.

Rebecca Henderson: What I believe is that ethical businesspeople can be allies. That we can build a profitable economy, a growing economy, doing the right thing.

My hope is that business will stop. Stop being such a destructive blocker in so many ways that the kinds of policies that we need. That would be a huge step forward and that yes, together we can build the kind of cooperation. I mean, let's be clear, this isn't some kind of crazy pipe dream. There are countries that are run like this right now. Um, in Germany and Japan, senior businesspeople think about themselves ethically all the time and think about their role in the broader society all the time and sit down with the government and sit down with unions to try and do the right thing for the whole society.

We know that humans could do this. It's possible here. You know, sometimes people say, Rebecca, you, you're not really talking about re-imagining capitalism, are you? You're talking about, could we please go back to the balanced capitalism we had in the fifties and sixties only without the racism and the misogyny? I mean, yes, we did this in the U S. We had a society in which government was strong and business was strong, and employees were strong, and it grew fast. People were well-paid. It was a healthy and strong capitalism.

Abigail Disney: Yeah. Well, I would hope, I just--I worry that the racism and the sexism were part of the equation that made it strong.

Rebecca Henderson: Well yes, there is that, I mean, so I don't really want to go back to the fifties at all.

Abigail Disney: Yeah. Let me ask you this. Um, you know, so much of the damage that Donald Trump has done has not been because he's legislated his way to destruction. He's violated norm after norm, after norm, after norm, like age old norms that until he violated them, we didn't even realize they were norms. And much of the damage in the last 50 years of business has been also violating norms. How can those things be legislated ultimately?

Rebecca Henderson: I think norms cannot be legislated, but the chances of building norms increase as the rules change. You need both. We need a moral and cultural revolution. All this talk about purpose and community, it's absolutely central. For the last 50 years, we've been obsessed with me right now. We've forgotten us and later. Every major faith tradition says that's a catastrophic mistake, both at the individual level and at the social level. So yes, we need to rediscover that we are one people, that people are integral to our wellbeing. That doing the right thing is the only way to behave, but we also need to change the rules and we need to do those together as we move forward as we stumble forward.

I mean, Abby as I'm talking to you, I'm thinking, you know, the problems we face can be so seemingly so insurmountable. Action is so hard sometimes, but I have seen what individuals who start moving can do. People who stand up and say, this sucks. Let's fix it.

Abigail Disney: Right, right. And the system is rigged, by the way. It just is. But a normal, regular garden variety person, what can they do? What can a regular person do?

Rebecca Henderson: First. Where do we work? Many firms are changing because their employees are demanding that they do things differently. There are purpose driven CEOs who are really taking their firms in new directions. So often they were pushed by the people inside the firm who said, you know, we could grow this product more sustainably.

So being a businessperson is important. Being a consumer is important. Firms really care what their customers think. If you refuse to buy products produced from firms that behave badly, you will make a very significant difference. You are an individual, you have friends, you can start changing the way you behave. So little gestures like not eating meat, like tipping properly when you know wait staff are not properly compensated, like refusing to use gig services when they don't take care of the people who work for them. Putting solar panels on your roof.

You may think my individual action makes no difference, all of the social psychology literature suggests that when other people see you acting, they change. When people stop flying, for example, and announce why they're doing it, all their friends are significantly less likely to fly. And last but not least, and most importantly, get politically involved. When people show up, when they insist their voices are heard, when they push to get money out of politics to make sure no voter is prevented from voting, that's what changes systems. We have immense power in this country because we still have the power of the ballot. And it's so easy to sit at home--well, right now we're all sitting at home and think there's nothing we can do. Small groups getting together, joining in pursuit of the things they care about.

Whoa. That makes politicians as jumpy as heck reasons. We have the power to change this system.

Abigail Disney: Yeah. I mean, what's happening right now is going to change us all forever. Um, and had there been better, more responsive governments to the well displayed anger that was building long before now we wouldn't be looking at the violence we see today.

Rebecca Henderson: To be fair, Abby, how many people look the other way? How many people didn't do all we could to ensure that black citizens were treated equally, that brown citizens were treated equally that uh, the, the police were not armed to the teeth.

Abigail Disney: Yeah.

Rebecca Henderson: So many of us were complacent. I mean, I hold myself, you know, I'd been worried about these issues for 15 years. But I've been trying to make a difference and I think I should have done more. I could have done more. And if we can mobilize that, I think I persist in being hopeful.

Abigail Disney: Yes. Yes. Well, I think that actually is a great way to draw this to a close. You have been wonderful, Rebecca, and brilliant. As always. Thank you so so much. Rebecca Henderson is professor of Business Ethics at the Harvard Business School and the author of a great quarantine read. I have it all marked up.

Um, Re-imagining Capitalism in A World on Fire. Just the thing, we need when the world is on fire, right, Rebecca?

Rebecca Henderson: Yeah, Abby, it's such a pleasure to talk to you,