

URL: <https://stvp.stanford.edu/clips/enlightened-self-interest>

Nicole Diaz, Global Head of Integrity & Compliance Legal at Snap Inc., presents several ways of looking at business ethics. One approach, developed by Milton Friedman, argues that a company's sole purpose is to maximize shareholder value. In contrast, Diaz encourages entrepreneurs and innovators to adopt a framework of "enlightened self-interest," pursuing the long-term financial health of a company by taking into account all impacts on stakeholders and society at large.



## Transcript

- The guiding questions I'd like to have 00:00:06,460 for our talk today are what do we mean by ethical? If we're gonna build an ethical company, right, ethics means the moral principles that guide our decision-making, but which moral principles should we choose? And why should businesses be ethical? I mean, they're in, in business to be profitable, right, what, why should we introduce this idea of ethics into the business sphere? They're, I'm gonna cover three different frameworks that have different ways to answer these two guiding questions and then I wanna talk a little bit about Snap.. So the first framework is by this guy, Milton Friedman, and he introduced this idea of profit maximization, where he basically said look, the business of business is to make money for its shareholders.. And it needs to focus 100% on that.. And ethics is really a constraint on its ability to make profit and so businesses should really have a minimum view of ethics, right, they should just obey the law, they should comply with the rules and policies, but no more.. And, you know, if you want to be ethical, you know, above and beyond the law, go start a charity, was essentially Milton's view of the world.. Very popular view, you know, and, and has continued to dominate corporate law.. Right, corporate law, it interprets the fiduciary duty of directors and officers of the company to be, primarily to the shareholders, and often, their interpretation of what that means sets aside any notion that there's a higher order ethics that those officers or directors have to obey.. And it dominates the culture of many companies, including Silicon Valley, if you look at, you know, Uber, kind of always be hustling, stepping on toes.. Facebook, move fast and break things, there's echoes of Friedman's thinking in, in those, you know, values and, and guidelines.. So if you're like me, you might think that there are some problems with Friedman's view of the world..

When you set the ethical bar extremely low, and it's just basic compliance with the law, you end up with a lot of ethical gray area that is not yet addressed by the law and not yet addressed by any regulation, or maybe could be interpreted different ways and, you know, if the businesses or people in business are saying my job here is just to do the least amount possible, right, and otherwise just aggressively pursue profits, well, you end up with a lot of unaddressed, negative social impact, you know, on our planet, on our, you know, racial inequality, who's responsible for that? The law, the regulators and the law may not be moving fast enough to address all of those issues.. The second issue of Friedman's point of view is it's kind of a drag to work for a company where, you know, the entire culture is geared towards aggressive competition and has no consideration for any social responsibilities above and beyond that.. And we've really seen this, I will say, come to a head with your generation.. I've been so impressed with this increasing sense that employees care where they work.. A paycheck is not enough and they really want to know, hey, if I give you my time, am I going to feel good about what I'm doing at the end of the day? And, you know, employees are asking tougher and tougher questions, I've even learned about something recently, which is employee ethical unions, and they're geared not even towards worker rights 'cause worker rights are pretty good in many tech companies, they're geared towards ensuring that companies are taking their ethical obligations to, to all of their constituency seriously, so employees have really felt they don't want to be part of Friedman's vision of business.. Second framework, you may, so you may be on board with all this, and you may say okay, look, Nicole, I really agree with you, I want business to be a positive force in the world.. And if I were to start my own company, in fact, or they'll work for a company, I would want it to have an amazing mission statement and positive values, and really, you know, just be a virtuous, good company that, you know, you know, can have values of integrity and compassion and caring and helpfulness and, and honesty and honor, and this is my vision, right, of what companies should be, they should uphold a really high ethical standard.. And this all sounds wonderful.. And what we've learned is that it's not entirely realistic.. There is a new academic field called applied ethics with some amazing people, Max Bazerman, Dan Ariely, you know, Tom and John, who we mentioned are certainly, and, and all the academics I've been connecting with are certainly well-steeped in this, and, and this field of applied

academics says, applied ethics says we've noticed something..

And what we've noticed is that the way that people say that they're gonna act, the ethical standards that they say that they uphold, are not always what they do in real life.. There's a gap.. And we want to study and understand that gap.. And what they've, they've recognized is that most people want to think of themselves as good people.. And this is, Tom mentioned that I have a background in litigation and in, in white collar law, and I will tell you everyone in that field, you don't have clients coming in through the door and say that say I did a really bad thing because I'm a bad person.. Says no one.. Everyone says I'm a really good person, you have to understand, but, excuse, justification, reason why that they failed to uphold those principles in real life.. And what the field of applied ethics says is that, you know, we are prone, if we, if we still think that there is something to be gained from taking advantage of others, we're gonna do so sooner or later because all of us want, you know, to self, we still operate through self-interest.. And self-interest will have us engage in behaviors that, you know, if we think there's something to do, to, to be gained by taking advantage of others, we will do so.. And the way, what will happen is we will rationalize and justify that self-interested behavior to ourselves so that we can still maintain this vision of ourselves as good people..

Even worse, here's the kicker.. The stronger your vision of yourself is as a good person, the more firm and absolutely certain you are in your own goodness and in your own moral virtue, the more likely, the more leeway you give yourself to engage in unethical acts because you are so convinced that you're a good person, you couldn't possibly be a bad person, and you simply do cognitive gymnastics to rationalize and justify these bad acts to yourself.. I will give you a case example of this, which is Enron.. Enron, we now know, is one of the greatest corporate scandals and failures of all time, but they didn't think of themselves that way.. In fact, they had a wonderful mission statement, they were going to create solutions for growing economies, a better environment worldwide.. They had wonderful core values of respect, integrity, communication, excellence.. They had a very long code of conduct.. They, at the front of their code of conduct, they adhere, they stated that they're gonna adhere to the United Nations Declaration of Human Rights.. Amazing.. And their CEO, Jeff Skilling, later even said, "We believed that we were doing the work of God." Okay, so hopefully, at this point, all of you are going uh-oh..

Right, because this, you know, if you still have a belief that you can benefit yourself by taking advantage of others by extreme, aggressive, self-interested competition, which is sort of the view that Milton Friedman held, held up of the world, you're just gonna, this creates the perfect storm, and that's what happened to Enron.. Their culture was one where they were very focused on short-term quarterly profits.. At the end of every quarter, you either got a Ferrari or, you know, for the top performers, or for the lowest performers, you got fired.. So everyone's self-interest was geared toward what can I do to get ahead, that's the way that the, the culture was set up.. And they did, in fact, engage, end up engaging in, while not illegal, a questionable accounting vehicle that when applied in the way that they did resulted in massive fraud to, you know, and, and ended up bankrupting the company.. So again, that, that sort of ethical gray area, if you set the bar very low, can create real issues.. And so I'm gonna propose a third framework for, for answering these guiding questions that we set out in the beginning.. Enlightened self-interest.. Enlightened self-interest aligns profit and ethics.. And this framework says I understand that the best way for me to have a healthy long-term business is actually not to act out of, you know, short-term self-interest, it's actually to invest in the long-term health of everyone that my business touches, all of my stakeholders..

And that's actually in the best, if I do that, that's the way I will make sure that my own self-interest is accounted for.. And so this is a wonderful framework because it does two things.. Number one, it aligns your self-interest with ethical action and ethical behavior, with making sure that you are taking care and considering those with whom you come into contact through the vehicle of your business.. So you avoid that sort of perfect storm, the applied ethical issue that we talked about.. The second wonderful thing about this framework is that it takes the focus off of you, what a wonderful person you are, and it actually directs your focus towards what's my actual impact on others? You know, how is this working on, on others, and, you know, that's really, again, the way that you can escape that ethical blind spot of really just being so in love with your own image of a virtuous person, getting really honest about the tough questions that you're gonna have to face as you try and have positive impact on your people through business.. Not always easy road, to really take a look at that, but honest..