

Ethics and Business Success

Overview

Ethics are the principles of right and wrong that are accepted by an individual, a social group, or society as a whole. When it comes to professional ethics, we take into consideration our personal values, family background, culture, education, and religion or philosophy before making important decisions. These factors provide the framework from which we base our decisions and justify our actions. Unfortunately not everything in life is so cut and dry, there often exist many gray areas that can lead to ethical dilemmas, since what one person thinks is the right course of action might not always appeal to everyone else's ethical sensibilities. For many the words "business" and "ethics" form an oxymoron. We are frequently inundated with reports of ethical misconduct in the business world—misappropriated finances, inflated earnings, labor misconduct, and environmental recklessness are just a few of the many egregious acts to which we have become familiar.

In this reading, we will explore the importance of business ethics and closely study how it relates to corporate success. We will take a look at several stellar examples of companies that regularly exhibit high ethical standards. While you read, consider how your personal ethics come into play when you make business and personal decisions that affect others.

Codes of Conduct

The first step towards implementing ethical business practices is to clarify what types of behaviors a company wishes to promote and what activities are considered unacceptable or prohibited in the workplace environment. As part of this step, an organization should adopt a thorough, all encompassing *code of conduct*, also known in some circles as a *code of ethics*. A code of conduct outlines the specific actions that employees must take in order to comply with the values and philosophy of the organization, it also details the expectations the company has for its employees' behavior. Examples of items listed in a code of conduct might include policies pertaining to non-compete clauses, political contributions by employees, and confidentiality practices. Furthermore, a proper code of conduct should also provide guidelines on unacceptable personal behavior as it relates to bribes, harassment, frequent absences and so on. As mentioned earlier in this reading, it is important for an organization to

carefully outline what behavioral standards it expects its employees to uphold, lest misunderstandings or misinterpretations occur.

An organization's code of conduct should also address the consequences of non-compliance with its stated policies. A company must uphold its side of the ethics agreement by enforcing the code of conduct equitably no matter who is responsible for the violation. For example, in 2012 Yahoo fired a CEO after four months on the job because it was determined that he had lied about his academic credentials on his résumé. In another recent example, Best Buy's chairman left the company under accusations that he had failed to disclose a personal relationship between the company's then-CEO and a company employee. Both of these examples represent violations of an organization's code of ethics and provide insight into the importance of across-the-board enforcement.

Organizations need to provide training for their employees in order to ensure that company policies and ethical guidelines are clear and well understood. As such, many organizations require their employees to participate in rigorous ethics training programs. Caterpillar—the major manufacturer of mining and construction equipment—hires an outside firm to provide ethics training to their 95,000 employees (Thilmany, 2007). This training program is conducted by the company on an annual basis, and is a basic requirement for continued employment. The US government also has specific guidelines for its employees regarding ethics training, including which federal agencies are required to undergo annual or semi-regular training and which agencies have flexibility in their training programs (United States Office of Government Ethics, 1994). Additionally, many states also require their employees to undergo ethics training programs on a regular basis (National Conference of State Legislatures, 2011).

Ethics training programs in the workplace are increasingly being implemented due to the long-term value that they ultimately provide. However, in order for these training programs to be successful an organization must stand by its code of conduct, make its ethical guidelines clear to all employees, and enforce its stated policies equally without regard to position or status within the company.

Ethical Corporate Leaders

Since 2007, the Ethisphere Institute has compiled a list of the “World’s Most Ethical Companies.” According to Ethisphere, these companies are chosen based on their commitment to acting as good corporate citizens, promoting and upholding ethical

business practices, and providing examples of sound ethical decisions to other businesses. As of 2012, 23 companies have made the list every year since it was first published. These companies include American Express, Patagonia, Starbucks, and General Electric (GE). Other major companies on the 2012 list, which includes 145 companies in total, are Gap Inc., National Australia Bank, Microsoft, Marriott International Inc., Wegmans, and many others.

What are the potential benefits to a company that makes it onto such a publicized list? Are there tangible business incentives for ethical behavior practices? In the next section of this reading, we'll take a close look at the advantages that are gained by businesses that develop and maintain positive ethical reputations.

Ethical Business Practices in Action

The ethical practices of an organization, both good and bad, can produce a wide range of results. While companies that follow good ethical practices don't always achieve their stated goals and objectives, it is also true that organizations that do not follow sound ethical practices are more likely to fail in the long run.

Let's first take a look at some examples of companies that have failed to behave ethically, and how their poor judgment has negatively affected their long-term business outlook. According to Michael Beer, a Harvard Business School professor and author of the business ethics book *High Commitment, High Performance*, many of the Wall Street companies that collapsed during the economic crisis of 2008 did so in part due to their lack of focus on customer service, lack of clear business strategies, and their propensity to over prioritize profits at the expense of commonly accepted ethical practices. According to Beer, companies such as Bank of America and Citigroup have also suffered in their business due to their poor risk-management strategies, overly high corporate salaries, and parochial objectives which are focused only on increasing profits (a poor strategy in a time of high unemployment and low consumer confidence). These behaviors indicate poor ethical judgment and show a disconnect between the companies and the customers that they serve.

In contrast, many of the financial institutions and banks that have behaved honestly and with propriety, such as Charles Schwab and US Bancorp, have managed to survive and thrive in the recovering economy without alienating their customers. In stark contrast to many of their contemporaries, these two organizations chose to avoid the now infamous subprime mortgages that sparked the global financial collapse in 2008 because these

high-risk loans did not fall in line with either's ethical business practice policies. According to the book *Charles Schwab: How One Company Beat Wall Street and Reinvented the Brokerage Industry* by John Kador, Charles Schwab's strong focus on customer service, its philosophy of transparency, and its leadership under founder Charles R. Schwab have enabled the company to evolve "a distinctive values-driven management mindset that encourages the company to put the interests of its customers first." Due in part to these efforts, Charles Schwab has consistently appeared as one of the top-rated securities firms on Fortune 500's annual list of America's largest corporations, a distinction that is based on corporate revenues. Additionally, according to a recent survey conducted by *Fortune Magazine*, Charles Schwab ranked #1 as the "World's Most Admired Company" in the securities industry.

US Bancorp also takes the issue of ethics quite seriously. The company has \$340 billion in assets and is the fifth-largest commercial bank in the US, with 60,000 employees working in 25 states (Belmont University, 2012). In a 2012 speech at Belmont University in Nashville, TN, US Bancorp chairman and CEO Richard K. Davis discussed the importance of ethical business behavior. In his open remarks Davis claimed that "Making money is not a bad thing, because capitalism is what got America where it is today, as long as you do it the right way with honesty." Davis went on to point out that while bank employees in other organizations have been incarcerated for their actions, US Bancorp is considered one of the "best-managed" and "cleanest" banks. In accordance with the company's policies, US Bancorp does not make any loans to organizations that deal in pornography, weaponry, or other industries that run against the company's ethical standards. In recognition of his focus on business ethics, Davis has been honored with the Hendrickson Medal for Ethical Leadership and recently was granted the title of "Banker of the Year" by *American Banker Magazine*. These distinctions are highly valued in the banking industry, especially in light of the rampant unethical behavior exhibited by many financial institutions in the years following the US economic crises. Indeed, Bancorp has solidified itself as an ethical poster child for generations to come all thanks to their intensive CSR activities.

Cadbury Schweppes is another great example of an organization that takes its ethical behavior seriously. Cadbury's financial success can be attributed to its strong commitment to exceed the expectations of customers, employees, and other stakeholders. The company's socially responsible behavior is made evident by its efforts to improve nutritional values across much of its product line, especially within its brands that are marketed directly to children. Furthermore, Cadbury Schweppes's has worked diligently to cultivate a diverse work environment, which it believes is an

essential component of its creativity and success. In its manufacturing processes, Cadbury works to ensure proper waste water treatment, while paying particular attention to energy-efficient practices and the gasses that are discharged into the atmosphere as a result of production. In its dealings with suppliers, Cadbury seeks to improve working conditions in locations from which it purchases raw materials and products, such as cacao farms in West Africa, where the company has worked to develop programs that assist local communities and farmers.

As described in a company statement titled “Our Business Principles,” Schweppes states, “A creative and well managed corporate and social responsibility programme is in the best interests of all our stakeholders – not just our consumers – but also our shareowners, employees, customers, suppliers and other business partners who work together with us” (The Times 100 Business Case Studies, 2013). Cadbury Schweppes’s position as the world’s third-largest soft drink manufacturer and one of the most-recognized confectionary companies in the world is due at least in part to its empowering corporate philosophy and strong commitment to ethical practices.

Benefits of Good Corporate Ethical Behavior

Companies that follow good ethical practices can achieve a wide range of corporate benefits. These include:

- **Increased Customer Loyalty** – Customers who believe that a business has a good reputation are more likely to continue to purchase their products and utilize their services. In contrast, customers who have a negative view of an organization will tend to avoid purchasing that company’s products or services regardless of price competitiveness. Since it is often more costly to sell to new customers than it is to sell to existing customers, a company that enjoys a good reputation will also benefit from the repeat business of its loyal customers.
- **Employee Retention** – The process of recruiting employees is very costly and time-consuming. When organizations continually have to replace their employees, the expense and disruption to work processes can have a damaging effect on the organization’s overall productivity and profitability. The goal, therefore, is for an organization to retain its best employees on a long-term basis. When a company is open, honest, and fair with its employees, talented workers will be more inclined to stay onboard with the organization.

- Fewer Legal Issues – When a company focuses on maintaining high ethical standards, it will tend to face fewer legal problems related to its products or services. Some companies elect to cut costs by purchasing sub-standard materials or ignoring important work-safety practices and environmental laws. The effects of this type of neglect may include legal and financial consequences as well as damage to the organization’s reputation. In contrast, companies that work to address such issues in a conscientious manner are less likely to face legal problems.
- Good Public Image – A company that demonstrates high ethical standards in all of its business practices will enjoy a positive public image. A positive public image will result in increased loyalties across the board; this will likely translate to higher levels of productivity, larger profit margins, and increased opportunities for investment and growth.

Conclusion

Consumers, investors, employees, and other stakeholders tend to distrust organizations that do not adhere to high ethical standards. On the other hand, companies that treat their employees well, value their loyal customer base, act as good corporate citizens, and respect the environment will find that their businesses will be positively impacted by these ethical practices. As a consequence, these organizations will have a greater chance at achieving longevity and profitability.

Summary

- Ethics is all about doing the right thing.
- Corporations should create a code of conduct (or code of ethics) that describes acceptable and unacceptable behavior for the organization.
- Organizations must take steps to enforce their codes of conduct and follow through with consequences for non-compliance.
- In 2008, many financial companies suffered monetary losses and damaged reputations as a result of poor corporate judgment and misplaced priorities.

- Organizations that behave in an ethically positive way will enjoy a positive reputation among the public.
- Benefits of good corporate ethical behavior include:
 - Increased customer loyalty
 - Employee retention
 - Fewer legal issues
 - Good public image

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