

Ethics Pays:

HOW AN INVESTMENT IN ETHICS TRANSLATES TO PROFIT, PRODUCTIVITY, AND PRESTIGE

What It Is

Research shows that an organization that commits to ethical business practices reaps a wide range of benefits. Ethical companies—those that avoid fines, enforcement actions, and negative headlines while instilling a culture based on doing the right thing because it is the right thing—enjoy an enhanced reputation and an increased ability to attract and retain the best talent. Obviating ethical pitfalls also leads to stable and steady growth, rather than the alternative: dramatic pendulum shifts of loss and catch up.

Note: The research referenced here focuses on companies based in the US that do business primarily in the US and other OECD nations, where there is reasonably good rule of law and a free press.

Why It Matters

Good governance matters for a variety of reasons, both in the immediate time frame and over the long term. The Ethical Systems website features a range of research that explains how ethics supports sustainable growth.

Illegal conduct can be costly. Governments and regulators exact large tolls from organizations that flout regulations. But ethical lapses do not just cause immediate financial damage. They also cause long-term damage to the organization's reputation. A company can live or die by its brand. So why risk, for a short-term gain, something that takes decades to establish?

Beyond avoiding costly penalties, an investment in ethics creates a long-term value-add for shareholders and other stakeholders. Studies have found a growing investor preference for ethical and socially responsible companies and products. Overall, the returns of the 100 Best Companies to Work for in America beat their peers by 2.3 to 3.8 percentage points a year from 1984 to 2011 on industry benchmarks for employee satisfaction and long-run stock returns.

Employees of ethical companies enjoy a high-trust environment in which leaders model the behaviors they expect from their teams. An ethical culture perpetuates itself by attracting ethical employees: a 2004 study reported that 94 percent of MBA students said they would be willing to forgo financial benefits to work for an organization with a better reputation for ethics.

What To Do

DRAW A DISTINCTION

With ethics you will get compliance but with compliance you may not get ethics. In short, don't merely ask people to follow the rules. Doing so can encourage people to find ways to do whatever they can get away with, not what is truly right.

PROMOTE A LONG TERM PERSPECTIVE

Short-term thinking yields only short-term results. One study observed what happened when firms shifted toward prioritizing shareholder value. These firms developed a "results orientation," and their managers sought to maximize what the firm valued most: sales. Although this led to a boost in financial performance in the first year, the emphasis on "getting results" damaged the firm's less tangible resources, such as its goodwill from customers and its employees. Researchers (Popadak) observed declines in customer focus, integrity, and collaboration among employees.

SHOW YOUR WORK

Highlighting efforts to promote ethics—both to internal and external audiences—illustrates the value placed on doing the right thing. It burnishes the organization's reputation and reinforces the sense that ethics is a priority for your firm. This, in turn, helps employees aspire to the ethical behavior your organization values.

MAKE A MOVE

Your organization's ethics function should look beyond regulatory compliance. It should cut across your entire company and foster collaboration to influence your company's culture. A dedicated ethics team can safeguard against a slide towards mere compliance. No matter where it's placed, it should be independent and well-resourced with access to all areas of your organization.

Where To Go Next

Ethical Systems' Ethics Pays Research Page:
<http://ethicalsystems.org/content/ethics-pays>



Popadak, J., A Corporate Culture Channel: How Increased Shareholder Governance Reduces Firm Value (October 25, 2013).

Treviño, L., and Nelson, K. Managing Business Ethics: Straight Talk About How To Do It Right, John Wiley & Sons 6th Edition, 2016.

Websites

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