Valuing ethical capital

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While regular ethical scandals continue to highlight the many costs and negative consequences of ethical failure - such as falling share prices, damaged reputations and eroded investor confidence – there is not as much focus on the opposite, namely the rewards of being ethical.

All stakeholders, whether employees, investors, customers or unions, can easily recognise the benefits of dealing with an ethical organisation. Stakeholders would also place greater value on relationships that are characterised by, for example, honesty, fairness and respect, than on less trustworthy associations.

The value that is generated by an ethical organisational culture amounts to ethical capital. The benefits it delivers include, amongst many others, the ability to attract and retain top staff and board members, increased customer loyalty, improved risk management, enhanced brand equity and reduced cost of capital. Yet, despite the obvious merit, ethical capital is not widely recognised or acknowledged as a source of value.

Its value is well illustrated as part of an organisation's asset base. Financial capital represents the most obvious element of an organisation's asset base, to which tangible assets and intangible

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assets contribute either positively or negatively. Tangible assets include plant and machinery, while intangible assets include employees' knowledge and relationship capital, the company's organisational capital, customer and supplier capital, community capital and ethical capital.

Ethical capital stems from ethical behaviour exercised both within the organisation and relative to its external stakeholders. It is an especially important intangible asset as it also serves to enhance other sources of intangible assets by, for example, improving the quality of the relationship capital between the organisation and its people and its external stakeholders, and by increasing their trust in the organisation.

Although intangible assets, by their nature, are often not visible and can be difficult to measure, it should not diminish their value. In the case of an organisation's ethical capital, one way in which this can be quantified is in the form of an ethics rating via the use of a tool such as the Ethics Monitor, which is a web-based ethics survey.

An ethics rating serves as aneffective device to enable organisations to manage their ethics more effectively and in this way reduce ethical risks and maximise ethical capital. Much as credit ratings fulfil an important role in evaluating the credit worthiness of businesses and governments, so too can an ethics rating add significant value by allowing investors and other stakeholders to assess an organisation's ethical risks. Ethics ratings can also be used as a benchmark between multiple branches of a company or within industries, market sectors and regions.

For an organisation, an ethics rating further affords it the opportunity to receive recognition for creating a workplace with an ethical culture. By way of illustration, I have asked audiences at various conferences and workshops to identify just three companies operating in South Africa that have really distinguished themselves as being ethical. The minimal number of companies identified is a telling sign - not that there are no ethical companies in South Africa, but rather that very few organisations have been widely acknowledged for their sound ethical culture. The lack of such recognition represents a real waste of ethical capital. Seeing that organisations rarely waste other sources of capital, it is prudent that companies quantify their ethics to ensure they can leverage its inherent benefits.

The Ethics Monitor produces an ethics rating that ranges from AAA, the most ethical rating indicating ethical conduct that applies to internal and external stakeholders and encompasses a triple bottom line, to a D rating, the worse rating signifying unethical conduct in pursuit of self-gain. Aspiring to a AAA ethics rating necessitates more than good intentions and a recognition of the value of ethical capital. It warrants the ongoing commitment from leadership to a sound ethical culture, which concludes that ethics is clearly identified as a high priority business goal and integrated as a core feature of the organisation's strategy. In the absence of this support, the value of the company's ethical capital is unlikely to be fully realized, and the pursuit of ethics risks being overtaken by operational targets. ■