



Good ethics makes good business sense



Sound ethics is one of a company's most valuable intangible assets. *By Cynthia Schoeman*

Creating an ethical organisation is not achieved by simply having a set of values or a code of ethics. It entails leadership commitment, effort, focus and time – all of which have to be on-going to maintain an ethical culture. Effective workplace ethics therefore requires a long term “investment” approach. Given this level of commitment, it is fair to question whether ethics makes good business sense.

The answer may be a prompt, “Yes,” if the only choice was between working in an environment where the employees work with integrity and treat colleagues and stakeholders fairly and with respect, or in an environment where the employees work little integrity, are disrespectful to colleagues and stakeholders and don't treat them fairly. Clearly the first choice is the ideal – based on the assumption that the goals are a better working environment for employees, better service delivery and better stakeholder relationships.

However, instead of always getting a decisive answer, the question often raises other issues and questions, particularly to identify what value

workplace ethics brings to the organisation. There are a number of reasons why ethics makes good business sense.

Ethical and unethical behaviour

A primary reason that ethics makes good business sense is that it promotes ethical behaviour and creates a more trustworthy workplace. The many advantages of this include faster and more consistent decision making, greater confidence in top management action and more individual accountability with less need for policing.

Ethics and a strong ethical culture also serve to reduce unethical behaviour and minimize the probability of ethical failure. This decreases the risk of consequent loss and damage, which can range from financial costs in the form of fines or legal settlements, reputational damage, eroded market confidence and declining share price to the closure of the business in extreme cases (as in the case of Wandy Machank Properties, the national estate agency that collapsed last year).

Compliance

Ethics also makes good business sense because it supports compliance with applicable laws, rules and regulations. Notable among the many laws this includes is the new Companies Act which mandates the establishment of a social and ethics committee. Organisations that move beyond a minimalist tick-box approach to fulfil the spirit of this law stand to benefit from the increased focus on ethics in their workplace. Compliance also extends to conforming to the recommendations of the King III Report on Corporate Governance.

While abiding by legal requirements should be taken for granted, the many incidences of unethical and illegal conduct illustrate that it is not always the case. The penalties for non-compliance are well illustrated by, for example, the many fines levied by the Competition Commission.

Stakeholders

Stakeholder management is a further reason why ethics makes good business sense. This is because all the company's stakeholders – employees, customers, investors or unions – constantly assess the ethical status of the organisation. They base their conclusions on many factors, such as press reports, how stakeholders are treated, whether the company acts consistently or whether values and rules apply differently for different people or groups.

Their conclusions about the ethical status of the organisation may rest on perception – but those perceptions represent the reality upon which they will act. A positive view lends itself to many benefits, while a negative view can be very damaging. Among the benefits are the ability to attract and retain top staff and board members, improved investor and market confidence, reduced cost of capital and enhanced corporate reputation.

Competitive advantage

Competitive advantage is another reason why workplace ethics makes good business sense. Although competitive advantage is critical for almost all companies and industries, it is frequently limited because of the ease and speed with which many sources of competitive advantage can be copied. A unique source of competitive advantage, which cannot be easily copied, therefore, has far greater value.

Workplace ethics offers just such a source: ethics is not easy to copy, it cannot be bought or sold, it cannot be owned, but must be lived every day. It is one of the company's most valuable intangible assets.

For these reasons, among others, the view that ethics makes great business sense continues to gain ground. The benefits above should be viewed as the returns that can be gained by an investment in ethics and an ethical culture. However, getting from an acceptance of that approach to reaping the rewards of an ethical organisation is not automatic. It will rest on leadership commitment and the effective management of workplace ethics. ■

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