Return on integrity: the new ROI

There is a new source of capital – ethical capital – and it can be a company's most valuable intangible asset.

BY CYNTHIA SCHOEMAN

ROI, as the acronym for return on investment, is central to most businesses. The investment of capital and resources is intended – and expected – to deliver a financial return. But there's another, new ROI – the return on integrity, which centres on investment in workplace ethics.

The two ROIs are similar as regards failure to deliver. Failure to deliver financial returns and failure to conduct a business ethically both risk eroding shareholder confidence and, ultimately, jeopardising the existence of the company. Unethical conduct can also damage the organisation's reputation, diminish customer support and incur financial costs in the form of fines or legal settlements.

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Yet there is often not as much focus on ethics and the return on integrity as on the return on investment.

A focus on this is especially relevant when trust is a criterion for business success. This is apparent in businesses that are trust-based, such as financial services companies and legal practices, where their services and advice require a high level of client trust, as regards both their expertise and their integrity. This might appear to exceed the level of trust required in, for example, the retail industry, where a customer's interaction may only entail a transactional purchase. However, trust is increasingly recognised as a crucial factor for success in all businesses encompassing, among other factors, the organisation's purpose, its behaviour and its relationship with shareholders and stakeholders.

Earning trust necessitates that the concept of a return on integrity is recognised and acted on.

The optimal route to achieving this is via an ongoing focus on building and maintaining an ethical culture.

Leadership's commitment is a primary factor in creating an ethical culture. Their behaviour effectively demonstrates to their followers what is and isn't acceptable, thereby shaping the company's culture and reinforcing or undermining the company's values.

The goals and strategies the company's leadership pursue are also relevant. When, for example, they promote profits above all else – as Greg Smith claims Goldman Sachs did in his book *Why I Left Goldman Sachs: A Wall Street story* – this results in a culture that sidelines the interests of clients.

Leaders also need to consider what behaviour their organisation's goals and measures is likely to encourage, and avoid ill-conceived outcomes in an effort to avoid unintended consequences. An example in legal, accounting and consulting firms is the goal of maximising billable hours, which reflects an ethical vulnerability. Delivering on the targets set for billable hours is generally in employees' best interests, earning them benefits such as recognition, a promotion, salary increase or bonus. This can easily lead to expanding the scope of work unnecessarily or, worse, to inflating the billable hours which, although unethical, can foster an 'ends justifies the means' view.

A high level of transparency is a further factor that adds to an ethical culture. Since transparency is synonymous with openness and honesty and involves sharing all relevant information, it builds and maintains trust. The opposite is also true – a lack of transparency can be very damaging, such as when an organisation chooses to handle serious ethical matters in secret, internally. This approach can be defended on the grounds that making unethical incidents public can undermine the organisation's reputation, customer confidence and the share price for publicly traded companies. The risks, however, are far greater if misconduct is exposed by another party, such as the media.

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A valuable return on an investment in integrity is the creation of a more trustworthy workplace. This brings with it greater confidence in top management, more individual accountability with less need for policing, and faster and more consistent decision-making. A company culture based on integrity can also reduce the risk of ethical failure, fraud and corruption and the associated costs.

Another very important return is enhanced levels of competitive advantage. While competitive advantage is critical for almost all companies, 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 offer such a source – not easy to copy, cannot be bought or sold, cannot be delegated, cannot be owned, but rather must be lived every day.

These factors combine to create a further return in the form of a new source of capital, namely ethical capital. This is arguably an organisation's most important intangible asset. It not only enhances other sources of intangible assets by, for example, improving the quality of the relationship capital between the organisation, its people and its external stakeholders but, crucially, it also boosts its conventional ROI.

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