Ethics are an advantage, not a cost, to business

It would serve modern companies to explore how they are viewed

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WHILE the many ethical scandals in the private and public sectors keep an ongoing focus on ethics, it can nonetheless be questioned whether ethics in the workplace are an illusion, a luxury or a necessity.

Ethics as an illusion refers to a commitment to an ethical code that is talked about, but which does not really exist.

The claim that "our employees are our most valuable asset" may be a standard inclusion in most company's annual reports, but that often does not reflect reality.

A more serious aspect of this is the many ethical failures where the perpetrators specifically set out to create a false impression or misleading image.

This can range from the employee who pinches the petty cash to the CEO who is guilty of false financial reporting, both of whom will strive to project the perfect picture of innocence.

Regrettably, black economic empowerment sometimes also falls under the banner of being an illusion.

While the pursuit of transformation is unquestionably the right thing to do, when transformation

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turns to tokenism it results in BEE becoming a delusion.

Added to that, it is also very damaging for the people involved, who, instead of being sought out for their ability or potential, are expected to fulfil largely symbolic roles. Ethics as a luxury recognises that while in theory it is the right thing to do, companies simply can't afford it.

Competitiveness is the main reason used to justify this view, which recognises that only the fittest survive, and that ethics undermine competitiveness.

This all too easily leads to "results at any cost", which includes paying bribes to secure contracts or tenders.

While this may deliver short-term gains, it risks also delivering far bigger long-term disadvantages.

And the legacy cost can linger and cast a shadow over an organisation long after the financial or other costs have been settled.

However, beyond illusion and necessity, there are a number of sound reasons why workplace ethics are a necessity.

Ethics make good business sense because they can promote ethical behaviour, reduce unethical activity, and create a more trustworthy workplace.

From the perspective of stakeholder management, ethics also make good business sense.

All the company's stakeholders – employees, customers, investors, lobby groups and unions – assess the ethical status of the organisation. They base their conclusion on many factors such as press reports, what the employees say about the company and its leaders, how stakeholder groups are treated, whether there is a gap between what is said and done, and whether the values are lived or just framed on the wall.

Their conclusions about the ethical status of the organisation may rest on perception, but those perceptions represent the reality that will be acted upon. A positive view lends itself to many benefits, while a negative view can be very damaging on many fronts.

Among the benefits of being recognised as an ethical organisation 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.

Internally, an ethical organisation is also likely to enjoy better and faster decision making and consistency of responses, greater confidence in top management action and more individual accountability with less need for policing.

Workplace ethics are also a necessity because ethics can be a source of competitive advantage.

Competitive advantage is increasingly critical, but is frequently subject to a limited window of competitive opportunity.

Technology advances, for example, are vulnerable to the ease and speed with which they can be copied. A unique source of competitive advantage, which cannot be easily copied, would therefore have infinitely greater value.

Workplace ethics offer just such a source. This because ethics are not easy to copy, they cannot be bought, sold, or owned, they must be lived every day.

Ironically, each fresh corporate scandal enhances the value of organisations seen to be ethical and makes them even more likely to be rewarded for their ethical stance.

The third reason in favour of ethics being a necessity relates to the cost of ethical failure.

High-profile ethical breaches have costs. Guilty individuals have lost their positions and, sometimes, their freedom following jail sentences. Companies have faced huge financial costs in the form of fines or legal settlements. Costs to reputation have ranged from eroding an individual's credibility, reducing confidence in an organisation and negatively impacting its share price. In some instances the business has closed.

When this happens, the employees who lose their jobs also bear the cost. This illustrates a particularly nasty consequence common to many ethical failures, namely that the cost extends beyond the perpetrators to innocent victims who effectively "share" the costs.

This adds enormously to the public outrage, the publicity and the damage. It illustrates each time how much ethics matter.

A further reason why ethics are a necessity today stems from the changes to the Companies Act.

The act mandates that every state-owned company and listed public company establish a Social and Ethics Committee by May 1, 2012. The challenge for each organisation will be to ensure that this committee is not viewed as a cost, just taking up time and effort, but rather as a value which contributes positively to the company.

Ethics should be managed proactively, rather than reactively, and managed regularly, rather than on an ad hoc basis. This represents the optimal approach w ich allows organisations to reap the rewards of an ethical environment and avoid the cost of ethical failure.

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