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. Ovitiating 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.

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).

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