

BUSINESS ETHICS: THE CASE FOR OPERATING WITH INTEGRITY



WHAT ARE BUSINESS ETHICS?

“Business ethics” is a broad term that defines “good” versus “bad” behavior in business. More specifically, the phrase encompasses policies and practices regarding controversial issues such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities (“Business Ethics,” 2016).

Although many of these topics are governed by law, some can be overseen by individual corporations. “Managing ethics is an integral part of any successful business operation and major decisions that affect the company’s bottom line always involve ethics” (Collins, 2011). When it’s time to make a hard decision, ethics will guide you.



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THE WORTHINESS ERA

Today, consumers are showing a preference towards companies that treat their employees, customers and communities fairly. They are demanding that companies show increased responsibility to others and to the planet. The rise in demand for products produced by ethically sound businesses is being referred to as the “Worthiness Era,” a term coined in the book “Good Company.”

There are many reasons for the public’s concern for ethical companies, including “increased trade globalization, consumers who want holistic experiences, greater public concern for economic security, worries about environmental issues and climate change, more stringent regulations, shareholder activism, and workplace democracy” (Bassie, 2011).

To succeed in the Worthiness Era, organizations must consider the factors at play. According to the book “7 Lenses” by Linda Fisher Thornton, there are six key trends that will shape the future of business ethics:

1. **Broadening scope.** Ethical decisions now require a more universal mindset, as opposed to focusing on local implications. “Full inclusion, multifaceted business responsibilities, and cross-disciplinary thinking will be required to solve complex problems” (Thornton, 2017).
2. **Increased visibility.** Since the advent of the internet, business practices are now transparent to the public. This results in intense scrutiny as well as the demand for social responsibility and accountability.
3. **Focus on protecting human rights.** Although individual viewpoints and cultural norms may vary greatly, there has been an increased focus on basic rights. Businesses are under pressure to treat their employees and communities with a higher code of ethics.
4. **Companies contributing to society.** Corporate social responsibility is now a competitive differentiator, thus organizations must find ways to contribute to the improvement of society.

5. Managing ethics as a performance system.

Companies can infuse ethical behaviors and mindsets by including ethics as an integral part of managing employees.

6. Retooling skills to stay ethically competent.

Ethical decisions are becoming more complex; therefore, leaders will need to be hands-on in ensuring their skills stay current with ethical leadership requirements (Thorton, 2017).

Organizations that are seen as “worthy” by consumers behave in ways that are honorable. They do what is ethical not only for public perception, but because it is ingrained within the company culture. In short, “They do the right thing without first being asked” (Bassie, 2012).

THE MILLENNIAL CONNECTION

Millennials are fast becoming the largest generation in the workforce, as well the largest subset of consumers. They demand ethical treatment by their employers and by the companies they conduct business with. Therefore, it is important to note that the millennial generation is leading the charge behind the Worthiness Era. “Millennials have very high expectations of companies, and these young people are poised to motivate firms to be better sellers, stewards, and employers” (Bassie, 2012).



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THE BUSINESS BENEFITS OF ETHICS

When a company is able to gain the trust of consumers through social, environmental and politically responsible practices, it is better poised to succeed in the long run. Trust in corporations has been steadily decreasing for at least forty years due to continual scandals that are covered heavily by the media and spread throughout the internet (Weiss, 2013). Today, when a company makes an ethical misstep, everyone will know about it. Thus, a company that acts with integrity and remains consistent will gain the trust of consumers and will truly stand out.

There is evidence that ethical companies perform better financially. An example of this trend can be found when examining the list of best companies to work for produced by the publication *Fortune*. A study found that “from 1998 to 2009, the average annual return on a portfolio comprised of the publicly traded companies on this list was 10.3 percent. In contrast, the annual average return for the Standard & Poor’s 500 for the same period was 3.0 percent” (Bassie, 2012).

Additionally, a study performed by Danny Miller and Isabelle LeBreton-Miller examined long-lived corporations. The study found that organizations with longevity were mainly family controlled and shared these three fundamental values: The owners are good stewards for the environment and for the communities where they do business; the companies are

driven by a substantive mission instead of quick financial results; and the companies have shared values and foster lasting relationships (Bassie, 2012).

In addition to outperforming unethical corporations and gaining the trust of consumers, benefits of an ethical company include:

- Attracting and retaining higher quality employees, customers, suppliers, and investors
- Earning goodwill with community members and government officials
- Achieving higher product quality
- Requiring less employee supervision (Collins, 2011)

From this information, it is easy to draw a correlation between ethics and success in business. We can see that the significance of ethical business practices is not a passing fad – consumers are only becoming more conscious and aware of the companies that they buy their products from. Operating with integrity leads to a stronger workforce and more loyal customers that will build an enduring company. If you have not already, it is imperative to the success of your company that you adopt an ethical mindset both as an individual and as a corporation.



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CASE STUDY: PATAGONIA

Patagonia is a recreational apparel and gear company. Its ethical values align closely with those of its consumers. Patagonia is referred to as the “world’s greenest company,” with its mission statement promising “maximum transparency.” When Patagonia is faced with a dilemma that goes against its values, it often elects to make the issue public through environmental impact studies.

When Patagonia made the decision to switch from traditionally sourced cotton to 100 percent organic cotton, they soon realized that there was a shortage of the material to meet demand. Patagonia worked closely with producers and suppliers to encourage organic farming. Eventually, there was enough organic cotton available to meet its needs, and Patagonia made the change to all-organic cotton. Despite the good intentions behind this decision, Patagonia saw an initial decrease in sales by 20 percent. Patagonia did not back down from their ethical decision and continued to produce clothing using only organic cotton. Over time, as customers became more educated regarding the negative impacts of non-organic cotton, sales returned to normal. Furthermore, this radical change pressured competitors to follow its lead as consumers began demanding the more environmentally friendly option (Hollender, 2012).

The efforts of Patagonia can be seen as a footprint for other corporations looking to operate with transparency and high moral standards. When an issue arises within a company, it is best to be completely transparent with consumers and get ahead of the problem – preferably before it becomes a crisis. Furthermore, when the public does not initially respond positively to a major change, organizations should not abandon their morals. Sometimes, it is best to wait for the public to catch up. Sticking to the company's mission leads to long-term success, as opposed to short term gains.



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LEADING AN ETHICAL BUSINESS: STARTING AT THE TOP

Effective leadership is critical to the success of any business. A leader has the responsibility of identifying and promoting the values of an organization. Therefore, it is imperative for ethical practices to begin at the top. In the exclusive video “Leading with a Moral Compass,” author Linda Fisher Thornton explains the importance of ethical leaders. Leaders with strong morals set the tone for the organization at the highest ethical level. As an ethical role model, the goal is that anyone following the lead will be ethical as well (Thornton).

In the article, “Influencing with Integrity,” author Jasbindar Singh explains how leaders can better align their personal values with their organizations’ values. According to Singh, there are three major considerations to ethical leadership:

- 1. The Greater Good:** Look at all issues from a wide lens. Instead of thinking about a personal agenda, or even the agenda of the business, leaders should think about everything that could potentially be effected – company, employees, community, environment, etc. Once all implications of a decision is considered, leaders can act in a truly ethical manner.
- 2. Values-driven:** Use personal values to make decisions and influence the company. When leaders know what is most important to themselves they can then use those values to guide business decisions. Whether an animal lover strongly against animal-testing, or an environmentalist who wants to install solar panels at the office, leaders can use their moral compasses to act as an advocate.
- 3. Being Authentic:** Value authenticity and share honest views on any subject even if it is not in line those of colleagues. Although leaders may not get the desired outcome, they are proving that they are consistent and worthy of trust and are willing to stand up for what they believe in most (Singh, 2015).



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CREATING AND MAINTAINING AN ETHICAL COMPANY

If you are afraid that your organization has fallen out of line with its values, or that it never had values, know that it is never too late to instill ethical standards into your company. Over the past years, there has been an increase in companies that are changing their strategies and objectives to better align with consumers demands.

The first step to creating or maintaining an ethical business is to assess the current state of your organization to see where it can improve. Familiarize yourself with the three main characteristics of “worthy businesses.” They are:

1. **Worthiness as an Employer:** Worthy employers treat their employees well. They would never exploit or harm their workers. These employers create an inspiring culture, fair working conditions and often have a motivating mission.
2. **Worthiness as a Seller:** Worthy sellers do not take advantage of their customers. Instead, they work to find a “win-win” transaction that will benefit both the buyer and the seller.
3. **Worthiness as a Steward:** Worthy companies care for the environment as well as their communities. This is often a long-term commitment to understanding environmentally friendly practices and creating a socially responsible company culture (Bassie, 2012).

Next, it is recommended to adopt corporate social responsibility (CSR) policies. CSR policies are defined as a “business strategy that is assimilated with core business competencies, is designed to create both business value and positive social change and is embedded into day-to-day business culture and operations” (McElhaney, 2009). In order to be successful, these policies must be integrated authentically within a company. CSRs that are used only for publicity will eventually face scrutiny and consumer mistrust. They must also benefit the company as well as the community, or they simply will not be sustainable. CSRs that resonate with the public are original, genuine, and proven by a company’s goals and commitments (McElhaney, 2009).

When you have identified your company’s mission and CSR policies, it is important to ensure that your employees fully understand the importance of ethical business. Take time to go through exercises and scenarios with those who might be faced with moral questions. Some suggestions include:

- Challenge yourself and your employees with various dilemmas, including some that might be considered small ethical missteps.
- Discuss with your staff minor errors that have occurred at other organizations and see how you can learn from their mistakes.

- Ensure that all employees understand that it is not acceptable to look the other way regarding ethical mistakes, including those that might be considered relatively minor.
- Take time to discuss risks and expectations, and answer any questions that your employees may have (Duggan, 2017).

Instilling ethics within your company takes time and work. As a leader, you must begin with yourself. Then, you can expand to spread your vision throughout your company.



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CONCLUSION

An investment in good business ethics is imperative to succeeding in today's socially and environmentally conscious consumers. As we have seen, companies that operate with integrity are able to attract and retain loyal customers and employees. Case studies show that developing and maintaining a high moral standard is a difficult task that requires investments in time and money. However, if organizations can remain loyal to their business' ethics, you will see a return on investment.

Ethically sound businesses begin at the top. As a leader, you must develop your own set of personal morals and use them to guide you when making important decisions. As a company, you must ensure that your employees are well-versed on your organization's ethics and mission.

Learn More About Ethical Business Practices with *Acce/5*[™]

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These unique tools can be used by both managers and employees to gain a complete understanding of how business ethics can be incorporated into your company. Experts provide real-world examples to help guide your ethical decisions and create an environment that operates with integrity. Developing this integral skill will improve your company's morale and boost your bottom line.

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