

THE IMPORTANCE OF BUSINESS ETHICS

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Hardly a week goes by without another article on some corporate ethical, accounting or business scandal. Even businesses generally viewed as the “best” have seen some dirty laundry aired in the past couple of years. The negative publicity generated by such unethical behavior has cost not only the company, but investors and the public as well.

However, bad public perception is only one consequence of unethical behavior. While arguably one of the worst consequences of bad or unethical behavior, it is often only one of many expensive costs of being “bad”. Collateral consequences include a reduction of profits, even bankruptcy (just ask Arthur Andersen about this); morale problems as employees are kidded or ridiculed because of company actions by their friends and social acquaintances; the increased costs of combating the “bad image”, including added advertising, diversion of resources to solve the public relations problems, decrease in employee efficiency as a result of increased time to answer questions and complaints; public suspicion of a company’s intentions and future actions; and increased government regulation.

The fundamental question addressed by any ethical system is not “Can I?” but “Should I?” A simple example of this ethical question can be framed by a recent controversy. While I can download free music from the Internet without paying appropriate royalties, is such an action one I “should” take? Thus, the ethical system develops voluntary parameters within which actions must occur.

Generally, history has demonstrated that ethical errors end careers more quickly and permanently than any mistake in business judgment or other error. Another interesting factor is that those who “do as I was told”, without considering the ethical consequences of their actions often end up the scapegoats when things turn sour, since decision makers frequently lack the detailed knowledge lower level employees have.

Further, ethical misconduct undermines the basic foundation upon which business is built. Lying, cheating and other, similar conduct is universally detested. Additionally, such conduct often implies an underlying immorality that most find reprehensible. Thus, the basic trust that guides daily business decisions is absent, requiring additional checks and balances, more verification, greater supervision and many other additional steps that add time and cost to each transaction.

Any business ethical system must recognize that business is a part of life and impacts not only other employees, but everyone's family, friends and society in general. Business decisions are also part of one's overall life decisions, with an impact far beyond the office, not a separate and distinct set of rules that only apply at work. Thus, ethical rules can help reinforce that ethical behavior is not only part of the corporate norm, but part of the overall societal norm as well.

Any ethics system is a mixture of both moral and economic rules. For example, while I can charge \$2,000 for a generator (that normally sells for \$300) after a hurricane, is such an excessive charge fair? Then, of course, there is the question of enforcement. How are the ethics rules enforced – i.e. what consequences will the individual incur for an unethical act.

Another very difficult problem an ethical system must address is that of conflict of interests. Often the thorniest problem to deal with, the company's good must take precedence over an individual's self-interest. A frequent solution is to require full and accurate disclosure of any potential conflicts to all parties prior to any affected transaction, thereby enabling all of the parties to apply additional scrutiny to the terms of the deal.

Developing an effective ethical system is a challenge, because it must foresee and address basic business guidelines as well as effectively address common questions and issues.

In summary, it has often been said that business ethics is not an attack on business, but rather its first line of defense. By building a strong set of business ethics, educating employees about the importance of continued adherence to those rules, a business can enhance its standing not only in the business community, but in the communities it serves overall. That, in the end, benefits us all.

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