

Ethical Businesses Perform Better

Amidst increasing turmoil across Asia, businesses have had to make more decisions with ethical implications. Corporate leaders need to decide how to respond to situations such as a civil disobedience movement in Myanmar, a law in India that grants citizenship based in part on religion, demonstrations against a National Security Law in Hong Kong, new voting laws in the United States and a multitude of other ethically fraught situations. Some firms simply carry on as usual with few considerations of ethics. What may surprise them is that behaving ethically improves business performance. Companies have more reasons to follow ethical business practices.

Good Ethics and Morals Improve Performance

While producing ethics statements at some companies may seem like a routine task focused more on following the law than on fundamental principles or values, research increasingly shows that companies with strong ethics actually perform better.

Research shows that businesses with ethical workplace cultures outperform their competitors in all the categories that matter, said Georgia State University assistant professor Steven Olson, and especially stock price growth. Writing on behalf of the SHRM Foundation, he noted that the stock price growth of the 100 firms in the US with the most ethical cultures outperformed stock market indices by almost 300 percent from 1998 to 2011, averaging 11 percent per year compared to 3.8 percent for the S&P 500.

On a global basis, Ethisphere's 2019 World's Most Ethical Companies report similarly found that the most ethical companies outperformed the large-cap sector over five years by 14 percent. "More than ever," Ethisphere added, "data shows global companies stepping up to advance society and addressing issues like diversity and inclusion, supporting the rule of law, and advancing human rights."

More qualitative research in Europe led by University of Castilla-La Mancha Associate Professor Pablo-Ruiz-Palomino found that following ethical guidelines can be a strategic strength to operate successfully and a source of business value.

Studies in Asia show similar results. In Korea, for instance, research on 130 Korean companies led by Sungkyunkwan University assistant professor Jinseok Chun found that corporate ethics, specifically in terms of collective organisational commitment and organisational citizenship behaviour, are predictors of better corporate performance.

In Indonesia, research in Bali led by Mahasaraswati University Denpasar associate professor Anak Agung Dwi Widyani showed that ethical behaviour can significantly improve enterprise performance. More ethical behaviour encourages improvements in productivity, profitability, growth, stability, and image.

How to Establish the Right Values

While the positive results of strong ethical practices are clear, what ethical standards are appropriate for a company can seem less certain.

"What is seen as moral to one set of followers," University of Buffalo assistant professor James Lemoine observed, "may be seen as immoral by another set of followers." Leaders who invoke morality should take care in doing so, he said, specifically with awareness of alternative approaches to morality.

While there are indeed individual, regional and national differences in ethics or morals, some principles that are relevant anywhere.

HOW Institute for Society Dov Seigman, writing in the World Economic Forum Agenda, said data in the State of Moral Leadership Report based on company surveys showed that 79 percent of respondents say that their organisations would make better business decisions if they followed a golden rule: treat others as you would have them treat you. "Moral leaders are advocates who see the humanity in everyone and take the time to build unique and deep relationships. They listen and learn from those they lead and are often more inclusive."

King's College London professor Catherine Bailey and Trinity College Dublin associate professor Amanda Shantz said their research shows that ethically strong organisations are characterised by the presence of a transcendent cause that unites them behind a vision and set of values that go beyond self-interest. As one example, a construction company's ethical vision of sustainability translated into protecting the environment as well as safeguarding its employees and customers.

One challenging issue for companies in recent years, in light of situations and potential repercussions in Myanmar or China or other countries, has been human rights. While making statements about human rights might seem risky, the International Corporate Governance Network said that not addressing human rights can pose a risk to companies, increase costs and damage valuable relationships with stakeholders. Moreover, poor human rights practices can materially impact financial performance and prospects for sustainable value creation. Companies can use the Universal Declaration of Human Rights, for instance, to establish a framework to address human rights.

Some companies have addressed the issue head-on. Unilever says, "we aim to have a positive influence across our value chain, working with suppliers, distributors and all third parties to raise the bar on issues such as human rights and anti-bribery and corruption." General Mills says that "respect for human rights is fundamental to our purpose of serving the world by making food people love and to our commitment to ethical business conduct."

These principles are, interestingly, supported by the basic framework of capitalism. As Seigman noted, "moral authority and moral capitalism are perfectly faithful to the original vision of capitalism expounded by the moral philosopher Adam Smith in *The Wealth of Nations*. In moral capitalism, you can't create shared value without shared values; the focus is not on doing the next thing right, but rather doing the next right thing."

While establishing clear ethical principles to guide the company and applying them in a multitude of situations around the world may seem difficult, clearly stated ethics can improve corporate performance, employee loyalty, customer retention and long-term prospects for corporate success.