

5 Reasons your organization needs to think about business ethics

Ever tried to Google the term “business ethics articles?” Doing so yields a list of entries spanning many different topics: money getting in the way of corporate ethics, how to establish a culture of ethical behavior at your company, the importance of business ethics to saving the environment, and the moral responsibilities of business leaders, to name a few.

For anyone who has ever taken a philosophy class, this diversity should come as no surprise. The word “ethics” covers a lot of territory, and great thinkers throughout history have struggled to define its concepts.

Business ethics is no exception. An interesting article put out by the Markkula Center for Applied Ethics at Santa Clara University notes that when sociologists asked business people [“What does ethics mean to you?”](#) they received answers such as:

- "Ethics has to do with what my feelings tell me is right or wrong."
- "Ethics has to do with my religious beliefs."
- "Being ethical is doing what the law requires."
- "Ethics consists of the standards of behavior our society accepts."

Experts in the field present different mindsets, too. For instance, the concept of corporate social responsibility (CSR) has many business owners today examining their role in the environmental crisis or figuring out how to demonstrate support for social causes. Nobel Prize-winning economist [Milton Friedman](#), however, contends: “There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

Alternately, business ethics notable Edward Freeman puts forth a [Stakeholder Theory](#) in which companies and the executives who manage them should “create value” for “those groups without whose support the organization would cease to exist.” This opens up the door to take into consideration groups such as customers, employees, suppliers, local communities, and more. Also, using the word “value” instead of “profit” brings more than monetary concerns into the mix.

Because of the complexity, many leaders might be tempted to leave the debate of ethical issues to business school classes. A business that fails to think about its ethical standards, however, may end up regretting it. Here, we take a look at five reasons why business ethics needs to be discussed at every organization.

Unethical behavior can lead to a legal mess

Yes, it is true that “legal” and “moral” are not always synonymous. But let’s start with perhaps the clearest reason every company must be concerned about ethical behavior — failure to do so can cause legal problems.

The law has certain standards that must be upheld, and companies whose business practices go against them face hefty fines and possible jail time for wrongdoers. Like it or not, conducting business within the United States means abiding by its governmental rules. The Internal Revenue Service goes after tax evaders or cheaters. The U.S. Equal Employment Opportunity Commission says you cannot discriminate against workers on the basis of race, national origin, gender, sexuality, religion, disability, or age. The Occupational Safety and Health Administration sets rules designed to keep employees from workplace harm. Whether to go above and beyond requirements presents dilemmas to individual companies, but laws provide a minimal starting point for ethical business concepts such as fairness and honesty.



An ethical culture plays a large role in attracting job applicants and retaining employees

Businesses rely on human capital. Securing qualified talent and keeping it around is both a priority and a challenge. Insufficient labor reduces productivity and causes the company to spend time and money trying to fill the gap.

Human beings possess their own individual sense of right and wrong. When an employer’s actions and attitudes contrast with someone’s personal beliefs, problems result.

Modern job seekers can find a plethora of information on potential employers. Negative hiring practices such as nepotism, favoritism, and discrimination can make candidates immediately pass over a given company. Likewise, hearing about poor treatment of employees, questionable practices with customers, breaking laws, and the like leads prospects more often than not to avoid a company. Why chance getting into a sticky situation?

Those who take on jobs and later discover ethical conflicts experience a great deal of turmoil. Even if a worker is not the one performing questionable acts, he may fear for his own reputation through guilt by association. Or, he may just feel deflated to be there. Unethical workplace situations cause stress. Leaders may pressure employees to keep quiet, overlook things, or actively commit crimes in order to keep their jobs or advance up

the ladder. The weight of how to respond, including whether or not whistle-blowing would result in repercussions, often proves too heavy, and leaving to seek employment elsewhere proves a saner option.

Research supports this type of outcome. According to [Deloitte's 2022 Gen Z and Millennial Survey](#), nearly two in five people from these age groups say they have rejected a job or assignment because it did not align with their values. Meanwhile, those who are satisfied with their employers' societal and environmental impact, and their efforts to create a diverse and inclusive culture, are more likely to want to stay with their employer for more than five years.

An unethical corporate culture can damage your reputation

A global survey conducted by the Human Resource Institute (HRI) and commissioned by the American Management Association (AMA) posed the interesting question "[Why should companies behave ethically?](#)" The number one response was not "to do the right thing" (though that answer did come in a close second). The top-ranked reason was "to protect a company's brand and reputation."

Undeniably, we live in a world where social media and around-the-clock news stations report business happenings quickly and thoroughly. Becoming known as the place that pays women less than men for equal work, violates human rights in its overseas manufacturing plants, or clearly chooses practices that favor profit over environmental sustainability can kill relationships with potential customers and investors.

Practicing corporate social responsibility can help you stand out

While not Friedman's cup of tea, many modern businesses make CSR part of their business practices and ethics. They purposely operate in ways that enhance society — such as supporting social causes, minimizing carbon footprints, performing volunteer work, and donating to charity. These actions not only increase morale among those in your organization, they can generate good vibes among the public. With so many businesses centered on profitability, a firm marketed as one that cares about the greater good draws attention.

Ethical business practices are positive for your bottom line.

It is no secret that businesses want to make money, and research shows a link between ethical values and profitability. According to Ethisphere's Ethics Index, the [2022 World's Most Ethical Companies](#) honorees outperformed a comparable index of large-cap companies by 24.6 percentage points from January 2017 to January 2022.

What might be going on here that explains this finding? Maybe customers are drawn more to companies that make good ethical decisions. Or, perhaps fines, lawsuits, and lawyer fees eat up much of the profits at companies with a questionable code of ethics. It also stands to reason that leaders and employees alike at places with a high ethical culture demonstrate greater respect for one another, leading to better decision-making and less conflict among teams. They may also have a greater desire to give 100% because they trust their employers have their best interests at heart.

Maybe it could even be theorized that people who work at places whose practices align with their own personal code of ethics sleep better at night. With plenty of Zzzs and a clear conscience, they arrive at work ready to perform rather than focusing on whether or not they are doing the right thing.