



# BUSINESS ETHICS' IMPORTANCE

**B**usiness Ethics refers to principles and standards that define acceptable business conduct. Acceptable business behaviour is defined by customers, competitors, employees, regulators, interest groups, the public and each individual's personal moral principles and values. Ethics builds trust and confidence in business relationships, whereas unethical actions may result in negative publicity, declining sales and potentially even litigation. Establishing a positive relationship between ethics and financial performance has been a long-standing pursuit of researchers in business. This is justifiably in response to the inquiry whether there is any proven link between ethics and the bottom line.

The investigation, pertinent as it is, has significantly contributed to the growth of business ethics as a practising subject, and tremendous progress has consequently been made. In fact, business ethics has become a management science, and corporate ethics is clearly the new frontier for competitive advantage. Indeed, business leaders are right when they seek to understand the quantitative worth of business ethics. Because leaders are the ultimate custodians of company resources and reputation, they bear responsibility for the impact of any intervention whether positive or negative. A thorough cost-benefit analysis by leaders should order the acceptability or non-acceptability of corporate ethics as a business strategic tool. There is now in existence increasing and compelling evidence both qualitative and quantitative that links financial performance to the ethical standards of a business.

The first empirical research on the impact of ethics on business performance was conducted by Baumhart in 1961. And a study carried out by the UK Institute of Business Ethics from 2003 to 2007 established a positive relationship between business ethics and financial performance.

At Wall Street, studies and ethics surveys that have been carried out from time to time have always validated a direct relationship between ethical business practices with the strength of business success factors such as stock prices, customer purchasing patterns and employee retention. Perception surveys across the globe reveal that ethical companies are more successful than those that are not. In response to this empirical evidence, businesses the world over are witnessing the rapid growth of corporate ethics as a differentiator.

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TO REDUCE COSTS,  
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SECURE COMMUNITY  
GOOD WILL, AND  
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FOREIGN AND LOCAL  
INVESTMENT.**

Proof of the existence of corporate ethics structures in business operations is now a significant measure of a firm's competitiveness on the global marketplace. With effective corporate ethics processes, companies are sure to set themselves apart from their competitors. Ethics helps to influence

every employee's pattern of thought, choice, and action, and ethics ensures employees engage in sound decision making. Ethics intrinsically creates a unique ethical character that quietly guides what staff think, say, and do in their dealings with the business of the organisation. Through formal ethics, acts of misconduct such as theft, embezzlement of funds, abuse of company property and cheating on customers will be drastically reduced.

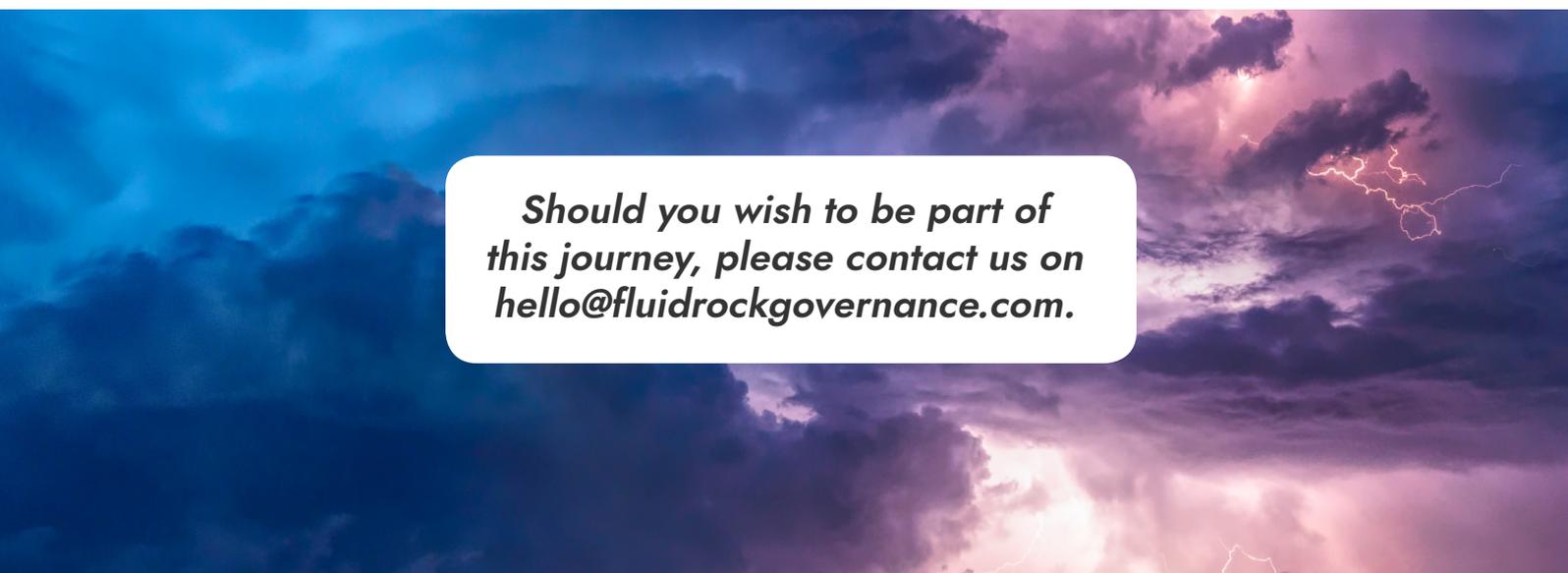
Sound ethics help to reduce costs, attract and retain competent staff, secure community good will, and attract both foreign and local investment. Other benefits include increased employee job satisfaction and increased productivity and company profitability. While a harsh economic environment tends to justify unorthodox means of conducting business in the eyes of some people, the futility of doing so cannot be overemphasised. There will never be a trade-off between ethics and business performance because the two are mutual. Its either the business upholds ethical practices and succeeds, or it is unethical and fails.

While it's difficult to determine the true cost of developing an ethical culture within your organisation, it's clear there are several tangible benefits. Practicing ethics can help you avoid costly legal issues while enhancing your company's reputation. It will also help you build customer loyalty, with 80% of customers saying they are more loyal to a company with good ethics, according to a recent survey from Salesforce. The same qualities that attract customers will also increase your ability to attract and retain outstanding employees. When you're able to establish ethical standards as the foundation of your company values, you foster a more positive, meaningful work culture for your employees.

Promoting ethical conduct and compliance doesn't have to be expensive. By utilizing the resources available and cementing strong ethical standards as a critical part of company values, businesses can establish an ethical company culture that benefits everyone involved.

Emerging responsible business practices demand that businesses must embed effective ethics management processes in their operations. An ethical culture improves productivity, and an investment in ethical business practices brings forth a good return on investment.

- **Enhanced brand image and reputation.** Businesses are finding that customers, banks, and insurers are more favorably disposed to companies with an image of responsible behaviour. This enhanced image produces more sales, increases access to capital, and lowers risk.
- **Increased sales and customer loyalty.** Companies perceived as socially and environmentally responsible are more likely to experience increased sales and profitability compared to their peers. Surveys indicate that as many as 80% of consumers take corporate citizenship into account when making purchases.
- **Increased productivity and quality.** Better working conditions and lower environmental impacts translate to increased productivity and a lower error rate in the workplace. The result is far fewer defective products and greatly reduced costs in handling customer complaints.
- **Increased ability to attract and retain employees.** Prospective employees are likely to evaluate a company's behavior toward the environment and the company's values prior to signing on for a career.
- **Reduced regulatory oversight.** Regulators are likely to reward organisations that have a record of proactive efforts that carry beyond mere compliance. The result is that companies that are considered more responsible are subject to fewer inspections and less paperwork.
- **Access to capital.** Investments in socially responsible companies are growing at a rate well beyond that being experienced by their peers.
- **Improved financial performance.** Companies listed on various Sustainability Indexes and those on the 2019 Business Ethics Best Citizen list performed significantly better than their peers.
- **Reduced operating costs.** Corporations that pollute less, use less energy, and use resources more efficiently will significantly reduce both resource costs and liability exposure. Increasing recycling and reducing emissions can lower operating costs and can even generate income.



*Should you wish to be part of  
this journey, please contact us on  
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