

THE BUSINESS CASE FOR ETHICS IN BUSINESS

Article by Herb Rubenstein, President, Sustainable Business Group

Introduction

The huge costs of Enron, Global Crossing, Tyco, MCI//WorldCom, Clinton, Catholic Church, Milken, and so many other ethical failures should make a solid beginning to making the business case for ethical leadership. However, just as the traffic is slowed briefly by “someone else” getting a speeding ticket, soon after this “other person” gets the ticket the average speed of the traffic gets right back to the same level it was. The reason is simple: there is no justifiable “business case” for driving exactly the speed limit in the United States.

Definition of A Business Case

“A business case” is a logical, empirically sound, measurable set of assumptions, premises and expectations that prove that if “x” behavior (or product) occurs it will lead to “y” results. Those results will allow the producer of the behavior or products to capture income or wealth as a result of transactions that result from that behavior or product. While a strong business case is not a guarantee of wealth or income, it does represent a road map to economic success. The general unstated belief in economics is that unless a strong business case can be made for an activity, that activity will not be prevalent in society. Today, no one has made a strong business case for ethics in leadership. Therefore, it should come as no surprise that “ethical behavior” is only one of numerous options that leaders can use at any given time in their attempts to achieve their goals.

The Leadership Production Function

The elements of the leadership production function have never been clearly described and it is beyond the scope of this short article to explain them in detail. However, we can state the leadership production function starts with the recognition of the need for a change or an opportunity that can be realized by a group or person who develops a plan, takes action, deploys resources, monitors interim results and ultimately guides collective behavior to produce the desired result. All of this has to be done efficiently so that the value (cost) of the resources deployed in this production function is less than the value of the result that is produced.

Ethics and Value

Therefore, to make the business case for behavior “x”, in our case “ethical behavior,” one must show that the cost of ethical behavior is less than the economic value that results of ethical behavior. And we must be able to compare the anticipated economic results of unethical behavior to the anticipated results of ethical behavior before we can ever make the business case for ethical behavior.

Economic results, an empirical measure, can be measured over any period of time. In the short run, then the question is can one make a solid business case that ethical behavior will produce economic results in the short run superior to those that could be expected to result from unethical behavior. To our understanding, no one has ever successfully made a business case that shows that ethical behavior produces superior economic results to unethical behavior in the short run. If one could make this case, convincingly sales people would not lie, quarterly earnings would not be overstated, and even politicians would make only those campaign promises they know they can keep. Since people and systems respond to information in predictable ways, the short run business case for unethical behavior, producing false or fraudulent information that causes people to act in ways that allow the producer of false information to capture income or wealth is unfortunately unassailable. In the short run, no one can make the case in the current economic or political environment that a strong business case can be made in the short run for ethical behavior. Nice guys do finish last in the short run.

The Long Run

The long run is a different story. Over time a stronger business case can be made that people tend to choose to work with individuals, corporations and non-profits that tell the truth and are ethical. The business case for this is easy to understand. When a person makes repeated decisions based on information provided by organizations or person X, the decision often can only be as good as the information used in making the decision. Inaccurate information, over time, causes bad business decisions and the cost of relying on the unethical or inaccurate information goes up over time. Eventually the cost of relying on people or organizations that act unethically becomes greater than the cost of dealing with people or organizations that act ethically or provide accurate information. While this suggests in the long run we will be fine, today, unfortunately, the long run is more a function of many short “runs” put together rather than independent of the short run.

Conclusion

We can not rely on economic rationality to help us build a business case for ethical behavior in the short run. In fact, it does the opposite. Here values (ethics) and economic rationality are at odds. When one creates false information that guides behavior in a way that allows one to garner income or revenue, the unethical behavior looks like an economic winner in the short run. That is why over 30% of all resumes contain false information. This unethical behavior produces short run advantages, including interviews, job offers and income. And in the long run, people usually don't even get caught.

The only way out of this dilemma is to create a new economic reality that raises the cost of unethical behavior in the short run. While it is beyond the scope of paper to give a full prescription, effective boycotts of companies that practice unethical leadership, increasing sanctions in terms of fines or jail time, increasing ethics education, barring people with ethical violations from certain activities or continuing in their line of work would all be a start to solve a problem that our economic system actually encourages in the short run.

About the Author

Herb Rubenstein is the President of Sustainable Business Group, a consulting firm to businesses and governments. The headquarters of the Sustainable Business Group is Denver, Colorado. He is co-author of Breakthrough, Inc. – High Growth Strategies for Entrepreneurial Organizations (Prentice Hall/Financial Times, 1999). He also served as an Adjunct Professor of Strategic Planning George Washington University, and has been an Adjunct Professor of Entrepreneurism at George Mason University and Colorado State University. He has his law degree from Georgetown University, his Master of Public Affairs from the LBJ School of Public Affairs, a graduate degree in sociology from the University of Bristol in Bristol, England and was a Phi Beta Kappa/Omicron Delta Kappa graduate from Washington and Lee University in 1974. His email address is herb@sbizgroup.com and he can be reached at 303 910-7961. For more information about the Sustainable Business Group, see www.sbizgroup.com.