



Want more profit? Try ethical business

Overwhelmingly, people who run ethical companies believe it is simply the right thing to do.

AUTHOR

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James Burke, Johnson & Johnson chief executive officer, felt strongly that “those businesses who are the most consistently ethical in their behavior, will, on average, be more successful”.

He reported results from a study of 30 companies with higher-than-average ethical values. During a 30-year period, an investment in these companies outperformed a composite of the Dow-Jones by a factor of five (F. Aguilar, *Managing Corporate Ethics*, Oxford U. Press, 1994).

Another study reported that an investment in thirty-six selected “visionary” companies over a 65-year period (1926-1990) would have grown more than 15 times the general market (James C. Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies*, HarperBusiness, 1994).

We’ve all heard the old saw, “You get what you reward.” The Colorado Ethics in Business Awards (CEBA) annually honor outstanding ethical business practices in the state. Is the motivation for the honorees the expectation of more profit?

Ron McLaughlin of McLaughlin Water Engineers, one of the 2001 honorees, said upon accepting his award “Profits are not our No. 1 motive. Our No. 1 motive is to do it right and efficiently and the profits will follow.”

Essentials of business ethics

Ethics deals with the complex matter of moral behavior. The Conference Board, a nonprofit business research organization, published a document titled “Corporate Ethics,” a compendium of opinions from 300 business executives. They identified the most pressing issues facing their companies as:

- corporate social responsibility,
- employee rights,
- whistle-blowing
- ethical business conduct,
- business and the environment; and

- obligations of multinational corporations (Edited by Peter Madsen and Jay M. Hafritz, *Essentials of Business Ethics*, The Penguin Group, 1990).

Businesses can no longer consider these concerns as options. Survival, in these times of intense transnational competition, require their full attention. Whole industries lose credibility by public perceptions of unethical conduct by a single or a small number of companies.

Effects of the few on the many

The oil and gas industry suffers from a poor public perception based on a general antipathy to fossil fuels and the actions of a few. The industry absorbed another major blow recently from the Enron debacle that may just supplant the lingering effects of *Valdez*. Exxon was perceived as unresponsive to the oil spill in Prince William Sound, Alaska in 1989. Then – Chairman Lawrence Rawl later explained to *Fortune* magazine that severe weather hampered early containment possibilities and governing bodies were tardy in granting permission to use chemical dispersants. In answer to the criticism that he did not personally go to the spill site immediately, Rawl said, “I wanted to be able to deal with Congress, as well as operate the best we could around the world...it probably would have been better had I gone up there” (*Essentials of Business Ethics*). Staunch environmentalists seized the moment to denigrate the entire industry.

Twelve years later, they attack US President George W. Bush’s proposed national energy policy, insist on no drilling in Alaska’s Artic National Wildlife Refuge and strongly oppose drilling in any offshore areas known to contain needed petroleum reserves. All this in the face of uncertainties from terrorist actions and our reliance on 52% of our crude requirements from overseas.

Companies pay the price for lapses in ethical behavior. At one time, white-collar crime in the United States amounted to US \$40 billion annually, ten times the cost of “street crime.” Companies pay staggering amounts through regulatory fines, legal judgments and settlements.

Ethics 101

It appears the jolt of Sept. 11 caused Western societies to realize, once again, the importance of basic values. Some believe societal moral standards first suffered from the hippie

movement that advocated anti-establishment thought and the tolerance of “do your own thing.”

A recent interview with CBS news anchor Dan Rather illustrates the degradation. He was asked if he thought former US President Bill Clinton was an honest man, and he replied in the affirmative. The host pointed out that Clinton had lied to the American people about his illicit sex affair. Rather countered that he thought one could lie about certain things and remain an honest person. Had the moral compass of western civilization lost its true direction before the terrorist attacks? It seemed that political spins on important issues and behaviors sometimes had us believe right was wrong, black was white and up was down. However, older generations have a strong moral foundation, as do some within the younger generations. The generation born since 1984 may have a stronger moral code than their parents. Business leaders depending on a tolerant public especially after September 11, 2001 should carefully weigh their options before embarking on an unethical course of action.

Values and Vision: Two astute business consultants offered the following: “Let us suppose that we were asked for one all-purpose bit of advice for management, one truth that we were able to distill from the excellent companies’ research. We might be tempted to reply, ‘Figure out your value system. Decide what your company stands for. What does your enterprise do that gives everyone the most pride? Put yourself out 10 or 20 years in the future: what would you look back on with greatest satisfaction?’ (Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence*, Harper & Row, 1982).

Companies that do that stand apart from the others, and in the process they have happy employees and stakeholders. These companies have discovered something about human nature, either through coherent observation and study or simply by accident. That “something” strikes respondent chords in such a way that beautiful relationships occur. It causes the ‘creative juices’ to flow from employees, for ideas to form and grow such that the whole becomes greater than the sum of its parts. Many books have been written about what makes a given group of companies excellent.

The one timeless connection between these 'stand apart' companies appears to be that they are visionary. They have a set of core values, usually well-stated that may be noble and platonic or sometimes more utilitarian. Normally, this core ideology transcends notions of profits and stockholder return. Collins and Porras suggest, "A key step in building a visionary company is to articulate a core ideology" (*Built to Last*). Their definition is in the form of a mathematical equation: Core Ideology = Core Values + Purpose. Core Values are the organization's essential and enduring tenets, and purpose is the organization's fundamental reasons for existence beyond just making money. Collins and Porras offer two examples.

From Johnson & Johnson:

- alleviate pain and disease;
- maintain a hierarchy of responsibilities—customers first, employees second, society third and shareholders fourth;
- base individual opportunity and reward on merit; and
- decentralization=creativity=productivity

From Philip Morris:

- defend the right to freedom of choice (to smoke or buy whatever one wants);
- win – be the best and beat others;
- encourage individual initiative;
- foster the opportunity to achieve based on merit, not gender, race or class; and
- work hard and strive for self-improvement.

These were selected from 36 companies identified as visionary. However, these example companies appeared to be seeking something other than profits and, in time, the profits naturally occurred as a result of their lofty values. Did having a core ideology insulate these companies from hard times and a questioning of the ideology from their constituents from time to time? Absolutely not. Collins and Porra reported, "We found that high ideals - a core ideology - often existed in the visionary companies not just when they were successful, but also when they were struggling just to survive." The authors also related how, in 1979, 36 years after the Johnson & Johnson credo was written, Burke had to "resell" it to his operating managers and did so successfully (*Built to Last*).

Now, what about the second part, which is seldom written down, called purpose? Clues come from the legendary stories that are part of the fiber of an ethical company.

For example, stories about Tom Armstrong, the founder of the company that bears his name, abound regarding fair pricing. Early in the company's history, Tom found out a salesman had sold a large lot of odd-sized corks at a price

of \$0.40 per gross. Armstrong knew the right price was \$0.30 and made the salesman go back and make amends with the customer. Eighty years later, the company determined it was making too much profit on its subcontract to an aircraft manufacturer during World War II. Armstrong subsequently reimbursed the surprised customer company \$1 million (*Managing Corporate Ethics*).

Johnson and Johnson's unwritten purpose is to relieve suffering and when that purpose was threatened by outside tampering of Tylenol, its leading product, it found itself in a position of financial jeopardy. Seglin reported, "Johnson & Johnson's immediate response (removing all products from retail shelves) saved the Tylenol brand and won the company rave reviews. Ironically the move turned out to be a huge marketing coup that resulted in significant goodwill from customers" ("How Business Can Be Good" *Sojourners Magazine*, January/February 2000).

Ethical diligence

The adherence to an ethical ideology takes conscious and continuous reflection on what that means. Every business decision must be judged against the backdrop of the core values and purpose. Every ethical dilemma means that whatever action taken, even doing nothing at all, will incur a degree of harm to someone. So how does the ethical company go about making those agonizing decisions? Laura L. Nash offers a 12-point program, a list of questions, to guide decision-making. Here are two salient ones: "To whom and to what do you give your loyalty as a person and as a member of the corporation?" and "Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?" She added, "The 12 questions are a way to articulate an idea of the responsibilities involved and to lay them open for examination." ("Ethics Without the Sermon," *Harvard Business Review*, November-December, 1981).

Writing up core values and purpose does not ensure success. Success depends on whether top management believes in the core values and purpose, makes decisions on the basis of them, conducts all business according to them, treats all stakeholders relative to them and instills them in employees' day-to-day business activities. In other words, the company must "practice what it preaches."

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