BusinessManagement DAILY

BUSINESS ETHICS

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Business ethics is a phrase thrown around so frequently that most employees probably don't even think about it. "Yep, I'm being ethical," they say. But what do business ethics really mean? Don't steal, don't lie, and don't discriminate. Check. But not all ethical issues are so clear cut, and not all employees will have their annual ethics training video memorized.

In this special report, we've collected the best of Business Management Daily's advice on the importance of ethics in business and common issues to look out for. Whether you're a small business, Fortunate 500 company, in-person, remote, or hybrid — we've got the insight you need.

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.

Common ethical issues in the workplace

Sometimes, ethical issues in the work environment jump out as huge red flags. Other times, however, business practices are a bit murkier.

Consider the case of Diane. Shortly after receiving her associate's degree in early childhood, she landed an interview for what she thought was a full-time position with a major daycare chain. The meeting went well, and the company offered her a job two days later. Looking over the terms of employment, she noticed her status listed as "part-time." Given the number of hours she was scheduled to work, Diane figured this was a mistake and brought it up. The HR representative informed Diane that she fell a half-hour short of being a full-time employee. This news also meant that Diane would not receive benefits.

Desperate for a job, Diane half-heartedly took the position even though she felt misled and unvalued. Her morale fell further after later discovering the majority of her colleagues in the same situation. When the labor market improved a year later, Diane seized the opportunity to find a new job. Not only did she not feel the least bit bad about leaving her employer in the middle of a school year, she made a point of sharing her poor hiring experience on social media outlets where employees past and present post company reviews. And, when Diane's neighbor was looking for suggestions on where to send her son to preschool, guess where Diane told her to avoid like the plague?

Ethical problems in business run a gamut. What Diane's employer did was nowhere near something as horrific as, say, Enron, which with its fraudulent accounting practices, negligence, and outright deception has become synonymous with ethical violations. In fact, some people look at Diane's situation and see it as unfortunate but acceptable. They argue that financial decision-making is tough, and sometimes business owners — especially small business ones — need to do what they have to in order to survive.

The situation does show, however, that questionable business ethics often come with consequences. Even if a practice does not overstep legal boundaries, it can damage a brand by hurting things such as employee retention, future recruiting efforts, and public reputation.

Here, we look at some common ethical issues of various magnitudes that may arise in a workplace:

Dishonesty

When people hear the term “unethical behavior,” dishonest actions often come to mind. Some of these violations of workplace ethics, such as theft or fudged financial statements, are punishable by law. Regardless of the legal implications, a dishonest organization, leader, or employee breaks bonds of trust with whomever the actions affect, such as customers, colleagues, and stakeholders. Gaining back the confidence of those hurt frequently proves difficult.

A sample of ethical problems involving dishonesty include:

- Lying to customers about a product’s composition, quality, or safety.
- Refusing to honor terms of warranties, contracts, or policies.
- Posting incorrect or misleading information in advertisements or job descriptions.
- Hiring illegal workers.
- Evading taxes.
- Giving or receiving bribes or “gifts” in return for contracts, promotions, favors, and the like.
- Failing to report workplace accidents to the appropriate authorities.
- Manipulating data in surveys or laboratory experiments to produce more desirable results.
- Putting false information on a resume when applying for a job.
- Taking credit for an idea or accomplishment that is not yours.
- Selling company information for personal gain.
- Putting personal purchases on a company credit card.
- Stealing business assets, such as petty cash, office supplies, or larger items.
- Fudging timesheets to show more hours than actually worked or to cover up tardiness.

- Using company (non-break) time to do personal tasks such as online shopping or phoning a friend.

Pressuring employees to violate or ignore ethical business practices

Employers hold a position of power. Workers depend on them for a paycheck and benefits such as health insurance and retirement income. Likewise, individual managers have a great deal of influence over their charges since they control things such as reviews, promotions, and assignments.

Organizations or specific leaders sometimes use their power to encourage (or even demand) employees to engage in acts that go against the professional code of conduct. They may demand outright or highly suggest that those who wish to keep their jobs or advance at the company provide false information to clients, overlook health and safety concerns, or stay quiet about questionable behavior exhibited by their superiors. Individual managers may even go so far as to solicit bribes or sexual favors from employees in return for better workplace status.

Whistleblowers

Further complicating the matter is the subject of whistleblowing. Employees who experience or suspect improper actions or working conditions bear the burden of deciding if they should report the problem and to whom. They worry about the potential repercussions of exhibiting their own ethical behavior.

Research backs up the fears of whistleblowers. The Global Business Ethics Survey conducted by the Ethics & Compliance Initiative (ECI) reveals that 49% of U.S. employees have witnessed misconduct that violated their organization's ethical standards. On the plus side, rates of reporting misconduct have risen to an all-time high of 86%. Unfortunately, retaliation rates have skyrocketed along with the increase in reporting, with 79% of U.S. employees reporting retaliation.

Whether it is pressure from above to go against one's code of ethics or worry from the ethical dilemma of reporting wrongdoings in the face of possible personal loss for doing so, such situations cause a great deal of work-related stress. Subjecting employees to this type of toxic workplace culture creates a myriad of problems beyond ethics. Modeling what they witness, workers may feel entitled to violate company policies as they see fit. They also can feel justified in giving less than their best performance out of anger for being put in this predicament. Absenteeism and turnover may rise as workers look for ways to attend to their own well-being and escape an uncomfortable environment.

Favoritism

Remember your feelings toward the teacher's pet back in fourth grade? From an early age, people become upset when they believe someone is getting special attention or operating under a different set of rules in what should be a neutral environment. As any elementary-school student will attest, it isn't fair.

When such favoritism occurs in the workplace, employees are equally likely to cry foul. Workers want to operate on a level playing field where everyone has an equal chance of success and leaders enforce standards and procedures across the board. Workplace culture suffers when, say, Alice's boss writes her up for tardiness but lets team member Robert come in late without a word. Or, favoritism could be to blame when the business owner's golf buddy receives a promotion over a more highly qualified colleague.

Two specific types of favoritism are nepotism and cronyism. Nepotism is favoritism given to family members. For instance, the resume of the CFO's niece gets put at the top of the pile when hiring for a new receptionist, or an organization chooses to extend a contract not to the best bidder but to the company owned by somebody's brother. Similarly, cronyism occurs when favor is given to friends and associates: Jacob from sales receives "one more chance" every month despite posting poor results because his friend from college runs the department, or a high school student lands a prime summer internship because of her mom's friendship with one of the fashion firm's top designers.

Favoritism can be a tricky subject because people often jump to conclusions without knowing all the facts. Tardy Alice in the earlier example may not know that Robert does not get written up when he fails to arrive on time because he is undergoing a medical treatment and has cleared the occasional lateness with human resources and his boss. Likewise, employees may call it favoritism when a colleague receives something they did not, such as a raise or the option to work remotely. The reality, though, may be that nothing unethical is going on — the other person's exceptional performance or proven trustworthiness may be at the heart of receiving the reward.

Smart companies know that morale suffers when employees believe favoritism — real or perceived — exists. Thus, many organizations create policies aimed at eliminating conflicts of interest. Sometimes, family members are not allowed to work in the same department, or managers are forbidden to date direct charges. And whether forewarned by other leaders or learned through experience, new managers moving up the ranks quickly discover that their friendships with colleagues who they now manage are subject to scrutiny with the shift in power.

Discrimination

Opposite to favoritism is another ethical issue in the workplace — discrimination. Discrimination occurs when unjust or prejudicial treatment occurs because of someone's background or identity. Some of the forms this type of unethical behavior may take include:

- Failing to pay women the same wages as men for equal work.
- Refusing to hire qualified candidates of certain ethnicities or sexual orientations.
- Allowing workers to make fun of another team member's religion.
- Pressuring older workers to retire.
- Treating customers differently based on their race.
- Hassling an employee with a disability who requests an accommodation.

Besides creating a toxic workplace culture, discriminatory practices can cause brand reputation problems. Many customers, investors, and job seekers shy away from organizations that fail to recognize the importance of an inclusive, diverse workplace — both out of dislike for the actions and for fear of guilt by association.

Discriminatory practices also can result in costly legal action. The U.S. Equal Employment Opportunity Commission (EEOC) notes it received more than 67,000 charges of workplace discrimination in Fiscal Year 2020, and the agency secured $439.2 million for victims of discrimination in the private sector and state and local government workplaces through voluntary resolutions and litigation.

Ways to develop a more ethical work environment

Numerous options exist for organizations interested in developing better business ethics. Some common strategies include:

- Create a company code of ethical conduct, and explain that every person who accepts employment at any level is expected to follow it. Put it in the employee handbook for easy reference, and obtain a signature from each new hire during onboarding as proof of reading and understanding the message.
- Take swift, consistent disciplinary action when anyone violates the code of conduct to show that the company means what it says and acts accordingly.
- Develop a merit system for promotions and raises to keep the playing field level and avoid favoritism and discrimination.
- Provide guidance on ethically murky areas. For instance: What constitutes acceptable gift-giving in the work environment? What information about the company can employees share on social media? How much control can the organization exhibit over questionable employee behavior outside of the office on their own time?
- Model good behavior from the top down. It becomes easier to justify unethical choices when those around you are doing the same or worse.
- Obey government laws and industry standards because that's how good businesses operate.
- Value a diverse workforce.
- Provide outlets for employees to express concerns, perhaps even anonymously. Respect those who come forward rather than punish as snitches. "See something, say something" should be more than a catchy phrase.
- Refuse to work with unethical clients or vendors.
- Conduct exit interviews when employees leave the company. You may discover wrongdoings within the organization contributed to their departure,

such as a manager asking them to keep quiet about their department's unethical practices.

- Follow the mantra of Jiminy Cricket and let your conscience be your guide. If something feels unfair or wrong — even if the action is not illegal — it probably is unfair or wrong. Listen to your true self.