The business case for ethics: why good guys finish first.

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Abstract

This study puts forward a business case for ethical behaviour in organisations. Data was collected over 5 years, coming from 18 countries, 16,813 staff from 1,535 organisations participated and approximately 18% of the database is international. Organisations came from an extensive range of industry groups. Findings included that businesses perceived as successful demonstrated a strong link to ethical behaviour and also had more engaged staff. Our analysis also indicated that there is an argument for linking good leadership and good ethical behaviour. Managers should consider the importance of promoting good ethical behaviour for a successful business.

Keywords

Ethics, Business Ethics, Leadership, Organisational Development, Organisational Surveys, Employee Engagement.

Paper Text

A survey of 2,526 randomly selected workers in the United States found that 25% of employees observed at least one form of misconduct in the past year but, of those, only 54% of employees reported it (Walker Information, November 2005). In the wake of such high profile corporate collapses such as Enron, Tyco, Arthur Andersen, WorldCom, Adelphia and scandals such as Europe's RoyalDutch/Shell, Parmalat and Australia's AWB and NAB it is becoming increasingly clear that there is good reason to distrust organisations. In 2004 the "Eye on Australia" survey found that 66% of Australian agreed that big business was untrustworthy (Grey Worldwide and Sweeney Research, 2004).

The business case for ethical behaviour: Customers

We ask whether ethics plays a practical role in business and what that role might be. Indeed, many researchers consider trust an integral part of economic growth and productivity (Donaldson 2001, Moore & de Bruin 2004, Etzioni 1988), hidden deep within the relationship between person and organisation, but the application of that research to a business environment seems to have been problematic at best.

Economic researchers Moore & de Bruin (2004) hypothesised that trust reduces transaction costs in any given economy and endeavoured to develop a framework to understand this relationship. They concluded that despite the difficulties in theorising about the consistency of human nature, ethical behaviour and trust can substantially lower every day transaction costs as people reduce the need to consider contingencies. This means less time spent in making the decision to buy as well as an ease of knowing who to buy from, and this in turn maximises value in transactions. The value is two sided as both the customer and organisation benefit from the increased efficiency brought about through trust.

If we take this theory at its face value, being ethical seems to be an important factor in long term business success at least in terms of relationships with customers. As the world becomes increasingly interconnected through the internet, information about companies and people becomes more easily

available and we are all more accountable to each other (Singer, 2002). However, customers are just one set of stakeholders for the average business.

The business case for ethical behaviour: Staff

It seems a given that everybody yearns for purpose in their lives, wanting their lives to contribute to something meaningful. Yet people seem to have trouble finding avenues for meaning, not least in the workplace, as evidenced by sales of such books as "The Purpose Driven Life" by Christian author Rick Warren (#1 New York Times Bestseller with over 15 million copies sold). In a reflective book aimed at changing our way of thinking about 'the' purpose of organisations, Pava (1999, p77) says that organisations "are often best described as locations where human beings interpret the meaning of life. Organisations provide the context for our search for human significance. Participating in the richness and depth of organisational life often teaches us that what we think, do, and say matters, not just in a pragmatic sense but from a moral perspective as well."

Pava (1999) clearly sees a link between morals/ ethics and work and he is not alone. Walker Information and the Hudson Institute (September, 2000) found a strong correlation between employee's commitment to their organisation and its' ethical orientation. This study found that 55% of staff who describe their organisations as ethical are more likely to stay with their present employers, and only 9% of those staff who considered their employers to be unethical intended to stay with their company. So it seems that staff turnover may also be influenced by the ethical orientation of a given business.

The ethical behaviour of leaders

Values affect leader behaviour. They determine what data a leader will choose to review, how they define problems and what they choose in terms of solutions. Values also have a key role to play in the choices leaders make (Curphy 2003, England & Lee 1974) not the least of which are choices about what is right and wrong. Researchers find, for example, that leaders with particularly strong commercial values and

weak altruistic values are often seen as greedy and selfish (Hogan & Curphy 2004, Hogan 2003) due to their behaviours around staff. These leaders may not make illegal decisions to further the business, but may make a decision to cut thousands of jobs to increase shareholder value, a less than altruistic approach.

To add to this, employees whose values are similar to their organisation or team are more likely to stay with their organisation and those with dissimilar values are more likely to leave (Hogan & Hogan 1996, Hogan & Curphy 2004). Thus, successful leaders seem to need to have a strong alignment of their personal values with their organisation's (Hogan & Curphy 2004). These two points seem to indicate that the ethical behaviour and values of an organisation's leader will impact strongly on the organisation itself.

Hence, although ethical behaviour in some organisations may be questionable, there seems to be a mismatch between researchers' current thinking of the importance of good ethics and the business application of it. In this study we look at the impact of good ethics on the engagement of employees, and their perception of the organisation's success. We also test whether leadership and ethics are independent predictors of these outcomes, and the extent to which leadership impacts engagement through ethics.

METHODOLOGY

This research was conducted under the auspices of the Voice Project at Macquarie University. Voice Project is a research and consultancy centre within the department of psychology at Macquarie University.

Sample

16,813 staff in 1,535 organisations. The database is largely Australian, however 18% was collected internationally, 18 countries are represented in the data: Australia, New Zealand, China, Hong Kong, Singapore, Indonesia, South Korea, Pakistan, Malaysia, Sri Lanka, India, UK, USA, Germany, Mexico, Sweden, France and Canada. Industries included Agriculture, Mining, Manufacturing, Utilities, Construction, Wholesale Trade, Retail Trade, Hospitality, Transport, Information Technology, Finance/ Insurance, Law, Engineering, Management Consulting, Professional Services, Defence, Government Administration, Police/Security, Education, Health, Community Services, Pharmaceutical and Biotechnology. Men and women were generally equally represented.

Process and Instrumentation

The standard Voice Climate Survey consists of 24 human resource management and leadership issue scales. This survey was used to collect data from 2002 - 2006. Samples were collected by asking students from a business course at Macquarie University to conduct smaller research studies with their own organisations, this data was then combined to create the larger sample.

Subject organisations were asked over 100 questions on leadership and human resource management issues, relevant managers were then asked to complete a questionnaire asking about business deliverables such as absenteeism, OH&S records and profitability (Langford, 2006). The two outcome measures of employee engagement and perception of bottom line results were collected by asking a further set of questions around 6 scales.

Engagement was defined as having an intention to stay, high job satisfaction and a willingness to put in extra effort and demonstrate commitment to the organisation, and was collected through relevant scales.

Perception of bottom line results was defined as perceiving the organisation as meeting its objectives, being responsive to change/ innovation and having satisfied customers.

The ethics scale consisted of 3 questions and asked respondents whether they felt their organisation was ethical, socially responsible and environmentally responsible.

The leadership scale consisted of 4 questions and asked whether respondents felt their leaders were good role models, whether they inspired confidence and kept staff informed while also listening to what staff were saying.

RESULTS

To examine the business case for ethics we initially looked at the correlation between the ethics scale and overall perception of bottom line results. This indicated a significant positive correlation ($r=.666$, $p=.000$ this all following significance tests are based on a two tailed test). This result supports the business case for ethics, indicating that there is a positive link between good ethics and staff perception of business success.

In addition to this, when we included all 24 scales and rank ordered the correlations between all these factors and perception of bottom line results, we found that the ethics scale we used had the 8th highest correlation with bottom line results. Scales that had higher correlations included positively worded questions around processes ($r=.664$, $p=.000$), communication across the organisation ($r=.671$, $p=.000$), a focus on results ($r=.673$, $p=.000$), a knowledge of the organisation's direction ($r=.674$, $p=.000$), a perception of the availability of resources ($r=.702$, $p=.000$), a belief in the mission and values of the organisation ($r=.705$, $p=.000$) and a perception that the organisation was recruiting the right people ($r=.749$, $p=.000$). By far the highest correlation with perception of bottom line results however, was leadership at ($r=.773$, $p=.000$). This seems to indicate that even when other factors are thrown into the calculation, ethics has a strong correlation with bottom line results.

The relationship between ethics and employee engagement was also examined and this revealed another significant positive relationship ($r=.631$, $p=.000$). When all the other factors were introduced again, ethics had the 5th highest correlation with employee engagement and, interestingly leadership came in 6th ($r=.623$, $p=.000$). Scales that ranked higher were a feeling of being involved in the running of the organisation ($r=.646$, $p=.000$), a knowledge of the direction of the organisation ($r=.647$, $p=.000$), a perception of being fairly rewarded by the organisation ($r=.670$, $p=.000$) and a belief in the mission and values of the organisation ($r=.754$, $p=.000$).

All of the above seemed to indicate that the relationship between leadership and ethics was worth exploring, and an analysis of such revealed another significant positive correlation (r=.625, p=000).

Finally, when we look at how leadership predicts perception of bottom line results in a simple linear regression, a significant beta is revealed (*b*=.661, beta=.775, p=.000), indicating that how staff perceive leadership in an organisation significantly predicts how successful they perceive the organisation to be. If we then add ethics into the same equation the beta for leadership drops (*b*=.502, beta=.589, p=.000) and ethics has a significant coefficient (*b*=.274, beta=.297, p=.000). These findings support our hypothesis that good ethics has an impact on the bottom line of an organisation and this seems to be mediated through good leadership. Doing the same analysis, this time with employee engagement as the depended variable we find that leadership again is a significant predictor of employee engagement (*b*=.629, beta=.623, p=.000) and when ethics is included leadership's predictive ability drops (*b*=.379, beta=.375, p=.000) and ethics takes a strong role (*b*=.433, beta=.396, p=.000). These findings indicate that ethics has an impact on staff engagement as well, and that this is likely to also be mediated through leadership

CONCLUSION

This research indicates that good ethics is significantly and positively linked to a business's bottom line results and this effect is mediated through leadership. Indicating that whether an organisation is ethical impacts significantly on the perception of a business achieving its' outcomes, satisfying customers successfully and being responsive to change/ innovation. Business success, at least in terms of how we've measured it here, seems to go hand in hand with good ethical behaviour. This supports previous researcher's theories about the place of ethics and trust in growth and productivity (Donaldson 2001, Moore & de Bruin 2004, Etzioni 1988) in markets.

We also found that ethics has a strong relationship with staff's willingness to engage in an organisation. A finding that suggests good ethical behaviour has a clear role to play in a worker's willingness to put in extra effort for an organisation, their satisfaction with their work and their intention to stay working in the organisation. This seems to make sense and also has some support in previous research (Walker Information and the Hudson Institute, September 2000).

In addition to our examination of the place of ethical behaviour in business we found that good ethics impacts the bottom line and employee engagement through leaders. In particular, the regression analysis revealed that good leadership impacts perception of the bottom line and engagement in the organisation positively, but that good ethical behaviour and good leadership will make the stronger impact on perception of bottom line results and staff engagement in an organisation.

These results indicate that there is a role for ethical behaviour to play in successful business and, considering both our data and recent research (Curphy 2003, England & Lee 1974, Hogan & Curphy 2004), that this role seems closely partnered with leadership behaviour and staff perception of leaders.

Practical Applications and Implications for Managers

This research indicates that there is a good financial business case for the promotion of ethical behaviour in organisations. Good ethics means a successful business in terms of strong bottom line results and high staff engagement in the organisation. Managers wanting to take advantage of this link should look toward developing organisational systems and cultures promoting ethical behaviour. A core part of these programs should be their capacity to promote ethical behaviour through leaders and the ethical behaviour leaders role model.

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