

Performance and Branding

Are Business Ethics Important?



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China is undergoing a get-rich-quick social revolution and economic development phase. Fraud, embezzlement, and corruption are rife; the sheer number of bad experiences with copying and counterfeiting alone has created the perception of China as a place where anything goes: an ethical wasteland. According to Professor Hu Angang of the Tsinghua University, around 16 percent of GDP is lost to public sector fraud and embezzlement, compared to 4 percent in the US (source: ACFE). Losses are similar or greater in private firms and in foreign invested enterprises. Good business ethics are important to reduce such risks and prevent loss. A company where employees do not know the difference between right and wrong, between acceptable and unacceptable behaviour, and where management adopts a permissive attitude, will wreck its bottom line and end up on the rocks. Is your company putting the necessary training and processes into place to identify and deal with such situations? Multinationals must instil good corporate culture, best practices, and an ethical environment in the workplace. Lead by example. This means having a strong Code of Ethics and driving it down through the ranks from top to bottom through ethics awareness training for all members of staff.

Ethics and Organisational Performance

Leading business schools and management experts have long emphasised the risks associated with blatant ethical failures such as large legal judgements, prison sentences, anti-trust litigation, fines, lost sales, lost good will, etc. They have also stressed the moral need for organisations to do what is right for moral purposes alone. While these reasons are all legitimate, they miss the biggest reason why business ethics are important – organisational performance. Ethics programmes

manage values at a strategic level associated with: quality management, strategic planning, and diversity management. Positive performance changes in the organisation can be expected in the following areas:

- Improved trust, teamwork, and group productivity;
- Increased openness, communication, and motivation;
- Improved visibility, decision making, and outcomes;
- Better reasoning and strategic information
- Improved processes, governance, and performance;
- Less frustration, fire fighting, and waste;
- Less secretive and unethical behaviour;
- Reduced risk.

Many organisations struggle to improve their ethics because they fail to practice ethics as an 'organisational discipline'. Getting ethics into the organisation's culture is one of management's highest responsibilities, yet managers often lack the skills and focus to be effective culture champions. It also ensures that authorised, accountable people make decisions and establishes checks and balances that minimise conflicts of interest, collusion, and fraud – all elements of effective corporate governance.

Ethics and Branding

A corporate-wide ethics programme forms business culture and influences brand reputation through the ethical values communicated to customers. Increasingly, ethics are the most general form of product promotion and may be a key element of your product's promotional strategy. Ethics can be essential to direct marketing, as your business and its reputation become a part of your 'brand'.

Ethics is about examining collective and individual decision-making and seeking to determine what are worthy actions and why. One of the greatest enemies of ethics is unthinking customs and practice - even when that practice is basically good. Organisations face real dangers as long as they rely on people who do things because "everyone does it" or because "that's just the way we do things around here".

Case Study: FMCG maker ravaged by internal counterfeiters

There once was a packaged consumer goods manufacturer where employees in every department colluded with a counterfeit syndicate to produce fake products and inject them back into the firm's distribution channels alongside the genuine product. People in procurement, packaging, sales and distribution, in the warehouses and in trucking, even in the R&D department were in on the act. They even had a business plan with annual production and sales targets. This explosive mix of faking, supplier-purchaser scams, distribution fraud, and technology theft forced the firm, at great cost, to restructure its China operation, terminate many agreements with suppliers, staff, and distributors and end numerous partnerships.

Unfortunately, no system of compliance can cope by itself with the complexity of today's world. Ethics require people to think and make choices.

Business Ethics

Broadly there are two areas of ethics to be confronted in business. Firstly, 'managerial mischief': the questionable, unethical, or illegal practices by an individual manager (or managers in collusion) or by an organisation. And secondly, the less straightforward area of 'moral mazes': most managers have to deal with ethical problems on a daily basis, i.e. potential conflicts of interest, wrongful use of resources, and mismanagement of contracts and agreements.

Managerial mischief can be addressed by introducing good corporate governance. What China in particular lacks however, at least at the larger corporate level, is a set of fundamental corporate good-governance practices. Their absence removes an essential level of protection against the unethical practices of ill-intentioned managers.

The constant dilemma imposed by facing moral mazes is less easily solved. Here the organisation will need to make a 'top-down' commitment to uphold the highest values. Managing values means prioritising moral values for the workplace and, most importantly, ensuring that the organisation's behaviour is aligned with those values.

Increasing Interest in Ethics

There is a link between ethics and 'best practice'. The managerial drive to improve the efficiency and effectiveness of our organisations: companies, social services, legal practices, and so on. To accomplish this, we must become better at managing values.

A clear vision/picture of integrity throughout the organisation is the hallmark of a high integrity organisation. The vision is owned and embodied by top management and the reward system is aligned with the vision of integrity. There are no mixed messages: policies are aligned with the vision. And every significant decision has ethical value dimensions. Finally, there is an overwhelm-

ing need to work through and resolve conflicting-stakeholder value perspectives. Is your company a 'high integrity organisation'? Does your company make ethical decisions? To find out, complete the business ethical checklist below.

Ethical Business Checklist

Doug Wallace and John Pekel of the Twin Cities-based Fulcrum Consulting Group, suggest the following ethical checklist to address ethical dilemmas. If necessary, revise your decision and action plan based on results of this test. [Scoring: score each test below from 1 = 'not at all' to 5 = 'totally, yes']

1. Relevant Information Test: Have I/we obtained as much information as possible to make an informed decision and action plan for this situation?
2. Involvement Test: Have I/we involved all who have a right to have input and/or to be involved in making this decision and action plan?
3. Consequential Test: Have I/we anticipated and attempted to accommodate for the consequences of this decision and action plan on any, who are significantly affected by it?
4. Fairness Test: If I/we were assigned to take the place of any one of the stakeholders in this situation, would I/we perceive this decision and action plan to be essentially fair, given all of the circumstances?
5. Enduring Values Test: Do this decision and action plan uphold my/our priority enduring values that are relevant to this situation?
6. Universality Test: Would I/we want this decision and action plan to become a universal law applicable to all similar situations, even to myself/ourselves?
7. Light-of-Day Test: How would I/we feel and be regarded by others (work associates, family, etc.) if the details of this decision and action plan were disclosed for all to know?

Result: Total Ethical Analysis Confidence Score. How confident can you be that you have done a good job of ethical analysis?

- Not very confident
- Somewhat confident
- Quite confident
- Very confident

PROFILE

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