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A note to those who think business ethics is bad business

BUSINESS ETHICS
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Whenever I sit down to write this column, I am mindful that many business professionals remain deeply skeptical about the field of business ethics and question its value in running a company in the real world. After all, when you boil business down to its essence, it's a fairly simple concept; the object is to produce goods or services that people want and sell them at a profit.

As long as we're doing so in accordance with the law, business ethics skeptics might say, what more is there to talk about? Any additional energy spent concerning ourselves about touchy-feely ethics concepts and what we might do to exceed legal requirements is likely to make us less competitive and violate our chief ethical obligation—to earn money for our shareholders.

I think it's fair to say that this describes the unspoken sentiment of many business professionals who find even the phrase "business ethics" to be mildly to severely irritating. The general discomfort that many people may have with taking amorphous ethical considerations into account in running their businesses is likely exacerbated by the relentless taunts and criticisms of the Occupy movement, protesters at economic summits and platoons of corporate social responsibility advocates who rail incessantly against the evils of the "corporate world."

In such an environment, many well-intentioned businesspeople may react by thinking: "What naive fools. Don't they know that the cars they drive, the houses (or in the case of the Occupy movement, the tents) they live in, the medicines they take, the food they eat and everything else that makes our modern society possible is made by corporations? These ethics nuts clearly don't know the first thing about how to run a business and seem to deliberately ignore all the good that corporations bring to employees, customers, investors and our world. So why should I pay any attention to them, let alone seek to integrate ethical considerations into my business processes?"

I submit for your consideration three thoughts in answer to this important question.

■ Corporate social responsibility advocacy and business ethics are not the same thing.

Generally speaking, corporate social responsibility advocates' aim is to encourage businesses to increase their investment in activities designed to mitigate the harm or risk of harm associated with their operations and to contribute more to social and environmental causes. As laudable as this objective might be, it is not necessarily more "ethical" than the balance businesses themselves choose to strike between the good and harm associated with their operations.

This is especially true for businesses that are struggling to survive and that would jeopardize their employees' and their customers' well-being if they were to begin writing checks to charities. Although corporate social responsibility advocates may chafe a bit when they hear it, they don't have a corner on what it means to run an ethical business. So don't throw out the baby with the bathwater by rejecting the field of business ethics in its entirety simply because you don't subscribe to the views of the Occupy movement.

■ The law alone is not enough.

As appealing as the "let the law be our only guide" approach might be to discerning an ethical course in every circumstance, this strategy breaks down completely when the ethical decision you need to make involves a range of legal options. For example, it may be entirely legal to invest in improved safety controls in your manufacturing operations, improve product quality, give your employees a raise, construct a new production unit, pay a dividend to shareholders or direct your limited resources elsewhere. In such circumstances, the law does not assist you in identifying the most "ethical" choice. Instead, in these and many other similar circumstances, conscientious business professionals are compelled to take extralegal ethical considerations into account to determine the best course.

■ Taking into account ethical considerations is a crucial component of enterprise risk management.

By its nature, business is a communal activity involving the interactions of many players: customers, employees, shareholders, regulators, competitors, the news media, labor unions, legislators, governors and presidents. Each of these market participants has a set of expectations with respect to how a business should behave. Collectively, these expectations are the "ethical norms" of the marketplace. Failure to act in accordance with the market's ethical norms can and often does have severe consequences.

When the media report that Apple products are being assembled in facilities that don't respect basic human rights or when a JPMorgan trader makes "a stupid mistake," the market's reaction is as swift as it is brutal. Neither of these companies was accused of violating the law, but the failure to meet stakeholder expectations cost them dearly. JPMorgan alone is reported to have lost $25 billion in market capitalization as a consequence of its most recent stumble—not just because of the anticipated trading losses but because of the loss of investor trust in its management.

To manage such risks effectively, businesses must systematically incorporate extralegal ethical considerations into their routine business operations. This is what Apple and JPMorgan are doing in response to their most recent crises. Apple is redoubling its efforts to ensure humane working conditions in its supply chain, and JPMorgan is improving internal controls associated with managing customers' money.

Regardless of the degree of irritation you might experience when you hear the term "business ethics," wittingly or not, you and your colleagues manage ethical risks on a daily basis for the purpose of winning and maintaining stakeholder trust. So the question is not whether you should integrate ethical considerations into your business processes, because you already do. The question is whether you are doing it well enough.

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