

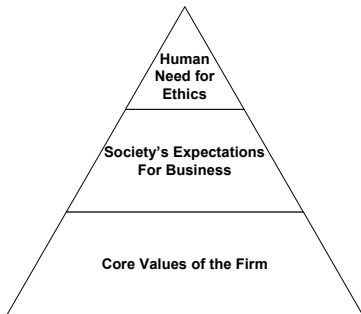
Why Ethics and Profits Can and Must Work Together in Business

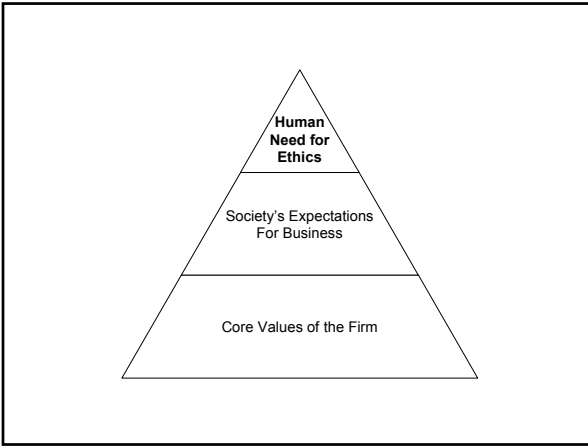


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A Hierarchy of Influences on Ethical Decision Making in Business

- The Human Need for Ethics
- Society's Expectations for Business
- Central Core Values that Define Who We are as a Business

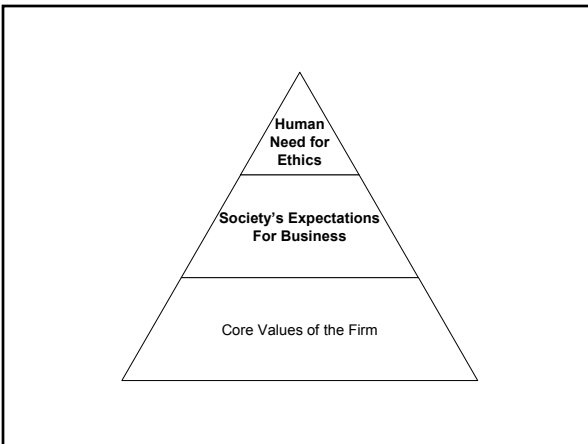




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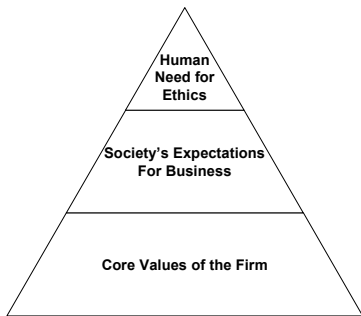
The Human Need for Ethics

- A World without Ethics is: ***Solitary, Poor, Nasty, Brutish, and Short*** [Thomas Hobbes in Leviathan]
- Ethics moves us away from this Jungle-Like Environment
- Specifically, Ethics helps mediate against **Abusive** Power and Chance



Society's Ethical Expectations for Business

- Society creates the basic structure of business, and dictates change over time.
- The best approach for satisfying society is to act “as if” you are a part of an ethical community.
- An ethical society would select “capitalistic democracy” as its political economy.
- However, an ethical society would demand that business not abuse its position of power with stakeholders.



Core Values of the Firm

- Business has Considerable Freedom to Establish It's Own Values
- However, with Freedom comes a Responsibility to Stakeholders
- When there is a Failure in those Responsibilities, Society Forcibly Constrains Business
- Such Constraints are Undesirable for Both Business and Society

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Making Ethical Capitalism Work

- How Can Business Operate:
 - a successful profit-based company
 - that produces the least negative/greatest positive impact on stakeholder groups???
- One Answer is to Develop a Unified Business Mission *Blending a Focus on Ethics and Profits*

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What Does Business Owe Stakeholders?

- Two Things:
 - Attempts at Fairness & Justice
 - Respect for Individuals
- Each Stakeholder Group Believes that We will Attempt to Treat Them Fairly and with Respect

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Ethical Requirements for Relations with Stakeholders

- Equity (direct effect)
- Respect of the Individual (direct effect)
- Promise Keeping (Equity & Respect)
 - Keep implied as well as written promises
- Honesty in Behavior & Communications (Equity & Respect)
- Openness (Respect)
- Appropriate Use of Power (Equity & Respect)

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But What About Profits??!

- Being Fair & Showing Respect Can Produce an *Economic Competitive Advantage*
- With Employees, Organizations Simply Run Better– They are More Efficient, More Effective, and More Creative
- With Customers, Companies Attain Greater Loyalty and Repeat Business
- With Suppliers, Companies Facilitate Relationship Building & Easier Supply Chain Management

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Treating Stakeholders Fairly & With Respect Acts as a *Performance Multiplier* for Businesses that Uses It!



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An Example of Employees

- Every Employee from Janitor to CEO has Things that They Must Do and Things that They Must Not Do in the Performance of Their Job
- More Interesting However is Their Area of Volition (Freedom of Action) in Their Job
- In the Age of Downsizing, Reengineering, Reorganizing, Reshaping, and Empowered Employees, the Area of Volition has become Larger and More Important

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Freedom of Action and Trust

- What Happens when You Empower Employees Who Don't Believe that you Care?
 - At best, satisfying, or minimal acceptable performance occurs
 - At worst, some form of sabotage occurs!
 - **Why?**
 - Employees don't feel comfortable trying new approaches.
 - Employees fail to share ideas.
- Only when Stakeholders Believe the Company Will Behave Fairly Does Empowerment Work!!!

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An Example of Customers

- There is Almost Always a "Knowledge Gap" between what Customers Know about Potentially Important Traits of a Product or Service and What the Business Knows
- Customers Fill that Knowledge Gap with *Trust* that the Producer, the Retailer, or at Last Resort, the Government Operates in a Fair Manner.

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The Knowledge Gap and Buyer Trust

- Buyers Want and Need to Trust Sellers.
- When Sellers Prove to be Trustworthy, Buyers Become Loyal Customers.
- When Sellers Prove to be Untrustworthy, Buyers have Long Memories.
 - Buyers tell others
 - Regaining trust is extremely difficult once lost

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Why Aren't More Firms Using An Approach that Focuses on Fair Treatment and Respect?

- Primarily, because it's tougher than a bureaucratic, power-based, command-and-control approach.
- It requires leadership through-out the company.
- It requires leaders to be empathic.
- It requires "managing the culture" (values).
- It requires that we *trust* others to do their job.
- **BUT HERE'S THE GOOD NEWS:** It provides us with a competitive advantage, PLUS it tends to make us an ethical company!!!!

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Conclusions

- Save the Competitiveness for the Competition and Focus on Fair Treatment & Respect for Stakeholders.

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QUESTIONS???
