

13.10: The Need for Ethics in the Workplace

Learning Outcomes

- Explain the need for ethics in the workplace.
- Describe the costs to a company's health of unethical behavior.



The Association of Certified Fraud Examiners estimates that fraud costs US companies about 5 percent of their revenues. In 2016, this meant roughly \$900 billion was lost to fraud.^[1] This includes the identity and credit card thefts that concern everyone and the massive corporate frauds that bring down companies. This estimate includes only *reported* fraud. We don't know the cost of unreported fraud and unethical behavior, but we can assume it's significant. This is a continuing battle that managers cannot delegate to HR or the legal department.

Just how much can unethical behavior cost a business? In some cases, billions. For example, in 2004 and 2005, General Motors engineers “misdiagnosed [an ignition switch problem] as a customer satisfaction issue and not a safety issue,” according to GM CEO Mary Barra, and they hid information from regulatory agencies and the public. Their unethical decisions led to 124 deaths. “A series of mistakes were made over a period of time . . . This had tragic consequences,” said Barra.^[2] GM has paid settlements, penalties, and legal costs close to \$2.5 billion, and it could face additional lawsuits.^[3]

The improper actions of board members, corporate-suite (C-suite) executives, mid-level managers, and nonmanagerial employees can create negative consequences ranging in intensity from petty annoyances to global recessions. Those affected by the consequences can include stakeholders, customers, and the general public. When the stakes are so high, it's imperative that the leaders of an organization understand ethical behavior, be committed to making ethical decisions, and encourage and empower all stakeholders to take ethical actions.

Ethics is defined as principles of conduct or moral behavior. **Business ethics** is ethics as it relates to the conduct or behavior of the members of a business organization. The need for ethics in business is twofold. First, it prevents the external constituents of an organization (i.e., the public, other organizations, and the environment) from being harmed. Second, it benefits the organization internally by helping to ensure its success.

Good business ethics involves, but is not limited to, adhering to laws, regulations, and standards related to fair employment, product safety and quality, truthful advertisement, and environmental responsibility. Companies do suffer for bad ethical behavior and gain from good ethical behavior.

The reputation of a company reflects the ethical or unethical decisions of managers, and consumers often purchase the products or services of companies with a good reputation. If a business has a good reputation, consumers may prefer that company over similar businesses that offer the same products or services, even at higher prices. The companies Tom's Shoes and Patagonia both advertise their ethical practices. And wise executives go to great lengths to repair their company's reputation. For example, British Petroleum (BP) has extended cleanup and conservation efforts following oil spills, and Toyota has issued several major recalls to address potential problems associated with a faulty accelerator pedal.

A broad survey of consumers shows that many factors affect reputation but that ethics is the primary concern.^[4] Customers will switch to other brands when a company appears in headlines reporting ethics violations. BP gas stations suffered a boycott for a year after the Gulf of Mexico spill. The volume of sales did not recover to pre-spill levels in that time.^[5]

A good reputation creates a buffer, a “halo” effect, where customers, suppliers, and regulators are slower to judge a company. Employees' morale is better in ethical companies, and new employees are easier to hire. An ethics program also gives stock an edge. Ethisphere, an ethics consulting firm, found that share price of the publicly traded companies recognized as the 2016 World's

Most Ethical Companies consistently outperform other major indices, including performing 3.3 percent higher than the S&P 500 last year. Exhibiting good business ethics is essential to the survival and success of a company.^[6]

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Costs of Unethical Behavior

The costs of unethical behavior are varied and numerous. In addition to a poor reputation, these costs can include reduced customer loyalty and subsequent revenue loss, heavy fines, probation, criminal or civil prosecution, and the loss of needed employee talent. For example, Wells Fargo has paid penalties totaling \$170 million and faces civil lawsuits for defrauding customers.

To reach high sales goals, Wells Fargo employees opened unauthorized customer accounts, forged client signatures, charged unnecessary fees on unwanted accounts, and misstated customer phone numbers to hinder customer-satisfaction surveys. Employees resorted to issuing illegal credit cards and lines of credit to avoid pressure from managers. Some employees lost their jobs after reporting the illegal tactics. A civil lawsuit filed in California in 2015 called for reimbursement of the fraudulent fees charged to customers, a fine of \$2,500 for each violation of California's Unfair Competition Law, and an injunction against unethical practices.^[7]

As a result of the unethical behavior of executives and employees, there has been a strong drive to improve business ethics. Congress passed the **Sarbanes-Oxley Act** in 2002 to impose sanctions on executives who commit unethical acts in financial reporting and to protect employees who report fraud. In addition, business schools have increased their focus on informing students of ethical/unethical acts, and more individuals and organizations have filed lawsuits against companies involved in fraud, regardless of whether senior executives are aware of the unethical acts committed.^[8]

? PRACTICE QUESTION

<https://assessments.lumenlearning.co...essments/12295>

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