Faster, Higher, Farther: but at what price?

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Faster, Higher, Farther is the title of a new book which looks at the culture at Volkswagen which led to the emissions scandal. VW sold 11m cars with software deliberately designed to deceive the authorities, emission testers, customers and the public into thinking that their diesel cars were environmentally friendly. Much has been written about the scandal since it first broke in 2015, with estimates at costs to the company of about $30bn.

Since Enron, the potential risk of severe reputational damage has persuaded businesses that unethical behaviour comes at too high a price. IBE research back in 2003 indicated that business ethics pays in the long-term. Yet the pressure on companies to perform in the market in the short-term persists. The drive to produce higher profits quicker leads to bad practice and cutting corners – as the VW scandal illustrates.

Results like these mean that the investor community must finally start to realise that the demand for short-term returns is unsustainable. Almost £8bn was wiped off BT's stock market value after the telecoms group revealed that an accounting scandal at its Italian business was much worse than originally thought, and the hefty fine imposed on VW – unethical corporate behaviour is starting to impact shareholders where it hurts.

"Does business ethics pay?" is a question we often get asked at the IBE and we often respond by saying you do the right thing because it's the right thing to do.

Ethics is personal. Just as everybody thinks they have a good sense of humour, so everybody thinks they are ethical. That's why it can be a challenge for companies to communicate to employees what they mean by "doing business ethically". Sometimes, unethical behaviour may be so ingrained into a company's culture as to be considered 'the way business is done around here', and may not be considered unethical at all.

Culture is 'the way we do things around here'. So for example, a company may have excellence as a business value,. But how is excellence defined in that organisation? How is it achieved? Is it with integrity, or is it at the expense (for example) of child labour, 'creative accounting' or by cheating an emissions test?

'The way things are done around here' may subtly be working against the company's ethical values. No matter what communications come from Head Office, employees will share their own stories regardless. So for example, the organisation may say that it has zero tolerance for bribery; but the reality may be that employees believe that they must secure business, whatever the cost.

It's a question of priorities.

Business ethics is the application of ethical values to business behaviour (such as fairness, honesty, openness, integrity). Ethics is about *how* an organisation does its business, not *what* it does. Does it treat its employees with dignity and respect? Does it treat its customers fairly? Does it pay its suppliers on time? Is it open to dialogue with its local communities? Does it acknowledge its responsibilities to wider society?

Too often, however, there is a 'say/do gap' – top leadership espousing ethical behaviour, but failing to ensure there are sufficient systems and controls in place to support that behaviour.

There is pressure on all sides for companies to perform. The demand for profits means companies need to sell more, quicker, cheaper and retain more market share. Just as incentives create unethical behaviour in employees, so the pressure to meet targets creates ethical problems for company culture.

Goal-setting has long been seen as an effective management technique, and one which helps companies to measure and improve their performance. The best way for organisations to measure and report on how they are doing, both internally and externally, is to create targets and drive to meet them. However, research indicates that, although most people are basically honest, those who are set specific goals were more apt to cheat than those who were simply asked to 'do their best', regardless of whether there was financial encouragement.

Although employees respond well to the motivational use of targets and goals, it seems that when there is a lot at stake, for example if a job is on the line or a significant bonus is in jeopardy, employees are more likely to behave unethically in order to achieve targets. If an employee cannot speak up or challenge, there is a higher risk of an ethical lapse and, possibly, reputation loss.

The pressure to perform financially means that corners can get cut, and ethical issues swept under the carpet. As the author Edward Abbey said "Growth for the sake of growth is the ideology of the cancer cell." But in today's leaky and transparent world of social media, unethical behaviour is being exposed and, as a consequence, the hefty fines imposed are having an impact on shareholders. It's time that investors too shared some responsibility and encouraged businesses to re-engage with their social purpose, as well as their fiduciary one.