

# **PROFITABILITY & ETHICS:**

In the fallout from Enron and others, many investors are paying closer attention to a company's ethics, as well as their profits. These investors realize that a corporate focus on profits alone with little regard to ethical standards, conduct and enforcement—may result in short-term revenue gain, but long-term profitability may be limited. In cases like Enron, long-term viability is limited too.

Consider this balance between profits and ethics to be "ethical profitability." Well-balanced companies not only consistently reward owners, investors and employees with profitable performance, they also genuinely focus on these five key areas:

## **Leadership by example**

The chasm between managing and managing well is wide and deep. To manage is to merely lead employees. To manage well is to lead employees effectively, ethically and without arrogance. Company owners, executives and managers must set the highest examples of attitude and conduct for their employees. "Do what I say, not what I do," is a parental anachronism with no value in management.

## **Company-wide ethical awareness**

Most employees, when not at work, practice personal ethics in areas such as caring for others, being kind and honest, and not harming others. Do these same people, when they arrive at work, maintain their personal guidelines? In-the-office ethical behavior includes demonstrating trustworthiness to managers and coworkers, respecting privacy and avoiding conflicts of interest. Ethics knows no time clock.

Occasional classes can help, by reminding employees of the simplicity of determining ethical behavior. In a nutshell, examine questionable action and speech, and determine if it's harmful to yourself or another. If it is, avoid that behavior. Employees with any sort of religious background will recognize this ethic of reciprocity as familiar. The Bible's Golden Rule is a good example.

## **Strong management of revenue generation and reporting**

Corporate temptation to stretch ethical behavior in revenue generation and reporting is universal. From excessive cost-cutting to expand short-term market-share, to outright lies about revenue to positively affect stock price, it's easy to see why an otherwise intelligent, educated corporate officer can end up behind bars for condoning such behavior.

To overcome these temptations, revenue-related managers must establish and maintain a firm stance on ethical marketing, advertising, selling and reporting. This requires regular dissemination and enforcement of codes of conduct.

## **High level of internal trust**

The level of trust within a company should reflect the level of trust the company solicits from customers. If customers are encouraged to put their complete trust in the product or service, then company teams must do the same with each other. Management must guide this internal process.

An increase in trust is a reduction in risk and uncertainty, which in turn will keep the revenue generation process flowing smoothly. Another advantage of running a high-trust organization is improved internal flexibility and creativity. Instead of being constantly monitored, the person to whom a task is assigned can accomplish it the best way possible. The outcome is never in doubt because of the trust the team shares.

## **Formal and active compliance program**

Ethical profitability is far more than merely operating within the boundaries of the law. Legal compliance limits unethical behavior, but it does not define ethical behavior. An organizational ethics doctrine does have legal benefits. Properly written, published and disseminated ethical codes will reduce corporate risk if an employee creates a criminal or civil problem because of poor ethical behavior.

(Even federal sentencing guidelines recommend lower fines if such violations occur contrary to the existence and enforcement of compliance codes.)

The true test of ethical profitability is whether or not the company is a positive example to its employees, to its customers and even to other companies. Such companies practice the truest form of leadership-by-example. They reach for a higher bar.