The American Business Ethics Award

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"Business ethics is an oxymoron."
"There's no such thing as business ethics."

How many times have you heard those comments? As a professor of business ethics, I hear them all the time. The stories that fill the newspapers about one scandal or another in the business world add credence to the cynicism inherent in those statements. Business is portrayed as a dog-eat-dog affair, where people lie and cheat competitors or customers to get ahead or to make a buck. In the face of so much scurrilous activity it seems naïve to think there is ethics in business. Any defender of ethics in business appears to be either a silly Pollyanna or an ostrich with its head in the sand.

Nevertheless, at the risk of appearing naïve, I want to claim that there is ethics in business. Any evidence for that claim comes from what I have seen serving as a judge on a panel that selects recipients of the American Business Ethics Award (ABEA). The Society of Financial Service Professionals presents this award yearly to at least three companies for outstanding ethical practices. The award originated in 1994, and I have had the privilege of being on the panel of judges who decide the recipients of the award every year but one. The task of the judges is to examine the activities of a large number of companies that have been nominated as outstanding exemplars of businesses conducted with integrity in a highly ethical manner. Being a judge offers me the opportunity to observe firsthand outstanding and exemplary ethical behavior in scores of companies. Since good news seems not to be newsworthy, such laudable behavior by companies rarely gets covered by the media.

Serving as a judge for the ABEA reinforces the claims made in books like Built to Last, which showed that the most successful and effective companies are those companies that pay attention to ethical matters. Recent studies reflect an enormous shift in the past quarter of a century in the way we think about ethics in business. Almost 40 years ago, the eminent economist Milton Friedman insisted that the "one and only responsibility of business...is to increase profits." It is taught as the purpose of business in most MBA programs. The stock market still evaluates companies mostly on that measure. The pressure to meet earnings expectations is immense. Yet there is recent evidence that shows that such an exclusive emphasis on the pursuit of profit can and often does lead companies astray.

Such a view of the purpose of business is wrongheaded. To be sure, profit making is a rewarding goal for a business and essential to its survival. But it is a serious mistake to put the pursuit of profit as the company’s primary purpose and goal. In an article titled “The Whys of Business Revisited,” I claimed that the primary purpose of business is not to maximize profits, but rather to create goods and services. The argument is simple. Whoever thinks the primary purpose or goal of business is to increase profits confuses the "why" of motivation with the "why" of purpose or justification. Motives are not the same as purposes. To confuse them is like confusing the destination of a train (the purpose of a trip) with the engine that drives the train (what moves the train to the destination).

It has been encouraging over the past several years to see the notion that "the primary function of business is to maximize profits" replaced the idea that the primary purpose is to serve stakeholders. An indication of this shift from profit making to creating goods and services can be seen when you examine more and more businesses’ mission statements. Their missions are defined more and more in terms of serving their customers or stakeholders and less and less in terms of profit making. Companies striving to be ethical have become aware of the fact that while profit is necessary for a business to be sustained, it is not the raison d'etre of a business.

It is in this spirit that the ABEA "recognizes companies that exemplify high standards of ethical behavior in their everyday business conduct and/or in response to specific ethical crises or challenges." What are these standards of ethical behavior exhibited in everyday business that the judges look at?

First, the judges look for a "clear demonstration of the company’s executive commitment to ethics." Obviously, ethical companies need ethical leaders. Having looked at hundreds of companies over the years since 1994, I think that an executive branch consciously committed to ethical behav-
ior is a necessary ingredient for an ethical company. Simply put, for companies to be ethical, the chief executives need to be ethical. If they cut corners or cheat, other employees have no reason to trust them and have every reason to be uncomfortable working for them. If the executives have integrity and “walk the talk,” they are trustworthy and set an example to follow. In short, the ethics of a company mirrors those of its executives.

A second item the judges look at is the company’s code of ethics and the extent to which it emphasizes the necessity for everyone in the company to be honest and act with integrity. Just having a code, though, is not enough. It should be examined and implemented with training sessions to make sure it is understood and followed. Further, in the best of companies there are tools to assess and reward conformity to the code. Enron had its code of ethics, but it was just window dressing and was waived by the board to help Andrew Fastow develop some of his notorious “special purpose entities.”

A third item the judges look at is the vision or mission statement of the company. What does the company say it is about, and how does it go about implementing that vision? The fact that more and more companies have vision statements that say nothing about profit making—or put profit making on a back burner—shows how the emphasis on ethics and values has begun to permeate the business sector.

Fourth, the judges examine whether the concern for ethical behavior permeates the culture of the company. Many recent studies show how much the culture of a company and the expectations of that culture affect the behavior of its members. To mention Enron again, the culture was one of “be smart, get ahead, and make money” and was probably portrayed well in the movie, Enron; The Smartest Guys in the Room. The outstanding book, Moral Mazes, shows just how much cultures affect behavior.

Fifth, the judges look at whether the company has a means for employees, customers, or other parties to bring ethical problems to the attention of appropriate people for resolution. Is there a hotline or ombudsman to whom one can report inappropriate behavior?

A sixth criterion for the award is the extent to which a company is committed to creating value for its various stakeholders, including employees, other businesses, and importantly, the external community. How does the company view its responsibilities toward these various constituencies upon whom the company’s existence impacts?

Finally, the nominees are asked to tell a story about some practice or event they think is particularly noteworthy from an ethical point of view. Since part of a company’s culture are the stories it tells, these stories become great determinants of how well ethics is imbedded in the culture of the company. The stories we encounter are inspiring and uplifting, and they range over all sorts of good works, from instances of returning checks, going the extra mile in service, or just helping others.

Counting up, I realized that over the past 14 years I have reviewed hundreds of entries of remarkable companies dedicated to ethical practices. This has given me a view of wonderful businesses...
that act ethically and continually strive to improve ethically. Consequently, as I have said, I have evidence that allows me to say to the cynics, “Business ethics is not an oxymoron. There is such a thing as ethics in business, and I get glimpses of it yearly.” Companies are like people, and just as some people do some bad things, some companies will do bad things. But by and large good companies—just like good people—will act ethically most of the time. My final point, when I am challenged on that, is simply to say that if companies were not ethical most of the time, the system would cease to work.

When I am asked how much of the time companies are ethical, I am tempted to take a page from the book *Freakonomics* and say about 85% of the time.1 Any of you who have read the book will remember the story of the bagel provider who brought bagels for offices, and let them be purchased on the honor system. He put out a cash tray and asked people to donate a prescribed amount that would cover their cost and his expenses. It turned into a huge business that let him quit his full-time job and concentrate on bagel sales. He kept close tabs on expenses and income. What he found after carefully scrutinizing the numbers is that 85% of the people were honest. I think that’s about right. If there is too much cheating it erodes trust.

The ABEAs have gone to all sorts of companies—construction companies, car dealerships, security companies, and health and fitness centers. At our last judging session one of the staff of the Society asked whether we thought giving the award does any good. From my perspective the answer is yes. Besides the fact that studying the entries of companies over the years exposes me to ethical companies trying to be even better and reinforces my optimism about the possibility of ethics in business, the award benefits the companies themselves.

Many companies that were nominated have remarked on how helpful it was for them to examine their ethical practices while completing the nomination form. “The unexamined life is not worth living” probably applies to companies as well as individuals, so filling out the applications necessary to be considered for a business ethics award is an introspective exercise that leads those companies into very fruitful self-examination of the ethical appropriateness of their practices.

Role models are important for providing inspiration to others to behave in proper ways. That is as true for companies as it is for individuals. The awards have the benefit of holding up such companies as role models. Therefore, if you know of a company that sets a high bar for ethical behavior that can serve as a role model and deserves to be recognized as such, why not nominate it? If you want to learn more about the ABEA and see how you can get involved, go to the Society’s Web site at www.financialpro.org. In the meantime, don’t believe it when someone says, “Business ethics is an oxymoron.” It’s just not true.

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