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With 80,000 employees, one million shareholders, and 15 million customers - not to mention countless suppliers, competitors and the community in which our business is rooted - we have a lot of stakeholders.

But writing a code is the easy part and the real challenge is to ensure its adoption across the company by everyone in the company in daily business situations. Publication and circulation to all employees, use of the company Intranet, employee training and feedback, awareness raising and compliance monitoring have all been part of the continuous effort.

With corporate ethics under the spotlight as never before, the demands on companies to be more open, transparent and accountable are increasing. The Company Law Review in The UK, the Sarbanes-Oxley Act in the US and the development of the Corporate Social Responsibility agenda throughout Europe are all expressions of the pressure for greater regulation in this area.

But, for Lloyds TSB, it is not just a question of doing what is expected. It is a question of doing what is right. And all our evidence shows us that doing what is right also makes good business sense. That is why we have supported this research - because we believe that ethics does pay.

**ExxonMobil**

At ExxonMobil, the means by which we achieve our results are just as important as the results themselves.

We strive to achieve superior financial and operating results while adhering to the highest standards of business conduct. Our ethics policy, like all of our policies, is clear-cut, straightforward and applies to everyone without exception.

The strength of any policy lies in how well it is implemented. At ExxonMobil, we not only test the effectiveness of our ethics policy, we also ensure that proven management control systems are in place throughout our operations. While we continue to improve upon these systems, they provide the basic framework for ensuring operational excellence throughout our company. We believe that a disciplined approach to managing the business is good business.

As a founding supporter of the IBE, we welcome the opportunity to be one of the sponsors of this study. We have long recognised the importance and value of business integrity and strongly support the IBE in its efforts to encourage all British companies, large and small, to adopt the highest standards of business behaviour.

Integrity is the primary principle on which we base our corporate citizenship commitments to the communities, customers, shareholders and employees wherever we operate worldwide. It is a sad fact that people today are less trusting of business than they have been for a long time. This is why values such as integrity and honesty have to be at the heart of business. There can be no place, certainly not in our company, for those who do not live by them.

**ExxonMobil**

Gordon Sawyer
UK Public Affairs Manager
Esso UK Limited
An ExxonMobil subsidiary

**Lloyds TSB**

David Pritchard,
Group Executive Director
Lloyds TSB

‘Does business ethics pay?’ is a question that some would say is a wrong one. Behaving ethically, they argue, is what you do because it is the right thing to do.

Nevertheless, there is a continuing requirement for reliable indicators to measure the performance of corporations in the non-financial areas of a business and to link these to business success. Concepts such as integrity and fairness are, however, generally only measurable using indirect indicators.

This study was undertaken to explore some indicative measures of a commitment to ethics/corporate responsibility and then to compare them against financial performance measures over a period of four years. In this way, the research set out to investigate whether it can be shown that a commitment to business ethics does pay.

For this research, seven indicators were chosen - four of corporate financial performance [Market Value Added (MVA), Economic Value Added (EVA), Price Earnings Ratio (P/E) and Return on Capital Employed (ROCE)] - and three of corporate responsibility [having a code of ethics, ratings for managing socio/ethical risks and being cited consistently in the annual list of Britain’s Most Admired Companies].

The sample consisted of between 41 and 86 companies taken from the FTSE 350 for which full and comparable company data was available for the years 1997-2001. It was divided into two cohorts: those who have had codes of ethics/conduct/principles for five years or more and those who explicitly said they did not.

A review of similar research shows that the relationship between good financial performance and other indicators of corporate responsibility (environmental management, corporate social responsibility, sustainability etc.) is positive but not definitive. However, Verschoor’s work in the US, on whose methodology this research is based, showed that there was superior MVA in companies which referred to their ethics’ programmes in the annual report, compared with those who did not.

Before testing the validity of Verschoor’s conclusion for the UK, this study sought to find out whether or not the presence of a code of ethics could be used as an indicator of a genuine commitment to ethics. Good practice for a sample of UK companies with and without a code was tested by looking at a) a rating for risk management and b) a peer evaluation which included, for example, competent management, financial soundness and quality of goods and services. A positive relationship was found. Having an accessible code of ethics was then used to investigate the relationship between ethical commitment and financial performance over the four year period.

* Regarding financial performance, from three of the four measures of corporate value used in this study (EVA, MVA and P/E ratio) it was found that those companies in the sample with a code of ethics had, over the period 1997-2001, out performed a similar sized group who said they did not have a code.
1. Introduction: Do Business Ethics Matter?

If it were possible to produce evidence that companies which are explicit about their commitment to doing business ethically perform better over the longer term than those that do not, it might help to convince more business leaders that it is a worthwhile thing to do – as well as the ‘right’ thing to do.

The management expert, Peter Drucker, is quoted as saying “What cannot be measured, cannot be managed.” Measurement of the measurable is clearly worthwhile if management is to be effective. There are aspects of business which whilst notoriously difficult to measure accurately, do need to be managed. While some aspects of corporate responsibility are clearly susceptible to measurement – progress toward environmental management and enhancement is an example – many others are not. Business ethics programmes are one of these. Sometimes referred to as the soft areas, they are best approached by looking for indicators of ‘tendency’ or ‘direction’ rather than absolute numbers. In addition, some things can only be measured by their effects.

Corporate officers sometimes question if not actually veto, spending on programmes which cannot be shown to yield a benefit to the ‘bottom line’. On the other hand, many chief executive officers and boards of directors are conscious of areas of business activity not susceptible to measurement, but which if not addressed, leave the organisation vulnerable. Their problem is that good policies aimed at lowering risk but which incur cost, are difficult to make convincing because they can only be justified by negative criteria e.g.: “we did not have a fire” or “our integrity was not breached”.

An example of this is corporate safety policy, the basics of which are obligatory by law in most countries. A significant proportion of any pecuniary losses due to breaches of policy can be covered by insurance. But can the same be said of security? In recent years, protection of premises from infiltration by unauthorised people has moved up the corporate agenda. Employees, customers, sub-contractors etc. now expect some measure of security from the risk of random attack by intruders. Expenditure for minimising this risk has become a necessity and therefore, has been built into budgets. So it is with integrity risk. There are enough examples of unethical (and sometimes illegal) behaviour by individuals or groups in corporations which have severely affected the reputation, if not the viability, of a business. Recent examples which are well documented include:

- The maverick trader at Barings Bank (Leeson)
- The Mirror Group’s Chairman (Maxwell)
- Arthur Anderson’s shredder
- The Captain of Exxon Valdez
- A unit of a British Airways US sales team
- Enron’s finance director (Fastow)
- BNFL’s incorrect recording of data on nuclear waste
- WorldCom’s ‘fraudulent’ accounting