

Executive Summary

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This report describes research into the relationship between the provision of business ethics training and corporate financial performance over a five year period (2001 – 2005).

In 2003, IBE research found that companies with a code of ethics financially outperformed those without. Now, most firms (85 of the FTSE100) have codes of ethics and so having a code is no longer a clear sign of being 'more ethical'. A commitment to embedding ethical values into business practice through a training programme differentiates companies from those which simply declare a commitment to ethical values. Do these companies enjoy stronger financial performance as a result?

Fifty companies in the FTSE 350 were split into two categories. Companies which disclosed their code of ethics/conduct were labelled *Corporate Revealed Ethics*, while those which not only disclosed their code of ethics/conduct but provided training programmes to reinforce these codes to their employees were labelled *Corporate Applied Ethics*.

The research tested whether:

- a) companies with *Corporate Applied Ethics* perform better financially than those with only *Corporate Revealed Ethics*, and
- b) business ethics has a stronger impact on accounting-based measures or on market-based indicators.

Four financial performance measures (Return on Capital Employed, Return on Assets, Total Return and Market Value Added) were analysed. The financial performance measures were adjusted for size, risk and price-to-book value as these are some of the factors that affect a firm's performance.

The long run analysis, in the five years 2001-2005, showed a significantly greater positive relationship between provision of training for business ethics (Corporate Applied Ethics) and financial performance compared to those which only disclosed ethical values and their financial performance.

This study also found that accounting-based measures are more influenced by business ethics training than market-based indicators.

The results of this research are consistent with the expectation that companies with a demonstrable ethics programme benefit from the confidence that is instilled in their stakeholders. This facilitates reputation building, enhances relations with bankers and investors, helps firms attract better employees, increases goodwill, leaves the firms better prepared for external changes, turbulence and crisis and generally helps the firm run better.

Appendix 3 explores how a commitment to business ethics may translate through to improved financial performance.

This report is based on the MSc thesis of Kaodi Ugoji, whilst studying at Cranfield University and supervised by Dr Lance Moir.