

## **Do It Right:**

### **A noted author explains why an ethical business is a profitable business**

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*In "Do It Right", Jeffrey Seglin argues that practicing ethical business usually has a positive impact on a company's bottom line.*

Seglin demonstrates that companies that consider money, people and the common good generally outperform companies that consider only money. He cites a 1992 study published by Harvard Business School professors John Kotter and James Heskett in which 207 large American firms were studied over a period of 11 years. When comparing firms with a balanced approach to those with a narrow focus on profits, Kotter and Heskett discovered greater increases in revenue (682% vs. 166%), workforce (282% vs. 36%), stock price (901% vs. 74%), and net income (756% vs. 1%) among the firms with a balanced approach.

Seglin cites KPMG Consulting's 2000 Organizational Integrity Study to show that firms whose management is perceived to be ethical by customers and employees often have a better bottom line. Of 2,390 workers surveyed, 69% believed that their current customers would recommend their company to others. Looking more closely at that figure, 80% of workers who believed that their firm's management upheld the company's ethical standards thought that customers would recommend their firm. However, only 40% of workers who believed that their firm's management ignored unethical behavior thought that customers would recommend their firm. Similarly, 66% of all workers surveyed said they would recommend their company to potential employees. Breaking down that statistic, 81% of workers who believed management to be ethical would recommend their own firm, while only 21% of workers who believed management to be unethical would recommend their own firm. Seglin concludes that ethical firms can enjoy increased profits from customer referrals and decreased recruiting costs from employee referrals.

Seglin cautions that there are exceptions to the rule, such as the case of Smith & Wesson, a gun manufacturer. In response to numerous lawsuits, Smith & Wesson's former chief executive Ed Shultz decided to start including locks on its handguns in March 2000. Although the decision was clearly ethical, customers were unhappy with the change. Sales declined, employees were laid off, and Shultz resigned. In this case, the ethical decision did not have a positive financial impact on the firm. Nonetheless, despite jobs lost, lives may have been saved by the change in

product design.

Seglin also warns that there is a downside to downsizing. According to a 2001 Mercer Management Consulting study, 71% of firms whose primary strategy during the recession of 1989-1991 was cost-cutting did not achieve growth during the following five years despite the economy's upswing.

Finally, Seglin reminds us that the impact of technology can have both positive and negative effects on a company's bottom line. With the advent of e-mail, opinions can circle the globe instantaneously. Negative word of mouth can stymie business more quickly than ever. In short, companies need to promote ethical business practices in order to prosper.