



TABLE of CONTENTS

Introduction	2
Section One: The Cost of Unethical Conduct for Firms	3
Impact on Business Performance	
Difficulties Accessing Financing	
Risk to Business Reputation	
Section Two: The Benefits of Embracing Ethical Conduct for Firms	4
Reputational and Performance Benefits	
Positive Work Culture and Employee Satisfaction	
Attractiveness to International Markets	
Section Three: Areas for Further Study	6
Focus on Business Conduct, Not Just Government Actions	
Clarify Terms and Definitions	
Recognize Sector-Based Nuances	
Develop Fit-for-Purpose Methods to Study the Ethical Practices of SMEs and the Impact of Ethics on Business	
Study the Best Strategies and Methods for Implementing Ethical Conduct	
References	7



Section Two: The Benefits of Embracing Ethical Conduct for Firms

In comparison with the number of studies assessing the costs of corruption, there are far fewer studies shedding light on the positive gains for businesses, especially SMEs, that embrace ethical business conduct. This section provides an overview of scholarly work on precisely that approach, linking desirable business outcomes with adherence to ethical practices.

Reputational and Performance Benefits

Donker et al. (2008) constructed a corporate value index to quantify the ethical performance of Canadian businesses. They find that an increase in the corporate value index is associated with improved firm performance (as indicated by an increase in market-to-book value). Wu (2002) similarly observes that “high levels of organizational performance were found to be directly attributable to high levels of applied corporate and individual ethics” and that there is a demonstrable tendency for high-performing SMEs to reject ethically unsound practices. Ferrell et al. (2019) surveyed the attitudes of 400 US customers and find that brand attitudes were enhanced by ethical business practices, with customer responses to companies’ business ethics behavior accounting for 70% of their attitudes toward the brand.

Other studies focus on benefits of ethical conduct beyond monetary gain. A study by Vyakarnam et al. (1997) suggests that organizations increasingly understand that ethics and profits are not in conflict. Rather, moral directives can become key components of a firm’s culture. Ethical behavior, action and communication can serve in both an organization’s and the public’s best interests, making a vital contribution to the success of long-term planning and contributing to financial results. Furthermore, the benefits of an ethical stance can have a competitive advantage as a company distinguishes itself from its competitors.

In research regarding ethics in the informal business sector in South Africa, Gaxamba (2012) finds that all interviewed informal business owners feel that the benefits of ethical conduct are important. These benefits include protection of reputation, public acceptance, marketplace advantage and employee retention. Similarly, Amisano (2017) finds that small business leaders are concerned about ethical leadership because they understand that how the local community and other leaders perceive them has an impact on their business.

Positive Work Culture and Employee Satisfaction

Beyond impact on business performance, some studies have suggested that companies with a strong, values-based corporate cultures showed improved employee engagement and significantly reduced employee turnover. One study, based on a survey of employees at a healthcare organization, found that group creativity is positively correlated with corporate ethical values and that both variables are associated with increased job satisfaction and reduced employee turnover intention (Valentine et al. 2011). Schminke et al. (2005) determine that congruence between the “moral development” of leaders and employees is positively associated with job satisfaction and organizational commitment. Amisano (2017) further finds that ethical leadership in supervisors leads to highly rated employee performance.

Some insights in this field refer to the “ethical climate,” a concept initially introduced by Victor and Cullen (1988) to describe “shared perceptions of what ethically correct behavior is and how ethical issues should be handled” (i.e., how certain conventions, norms and institutions within an organization influence internal perception of the organization’s ethical orientation.) Elçi and Alpan (2009) advanced this line of study empirically by conducting survey research on staff and managers across 62 different telecommunications firms in Turkey and categorizing the firms into nine different ethical climate types. The researchers find that firms falling into ethical climate types



characterized by team interest, social responsibility, and law and professional codes are associated with positive impacts on employee work satisfaction. Frisch and Huppenbauer (2014) find that organizational identification may play an important role in enhancing the feeling of belonging that employees experience, thereby enabling them to focus on customer needs and increase subsequent employee performance.

The research of Kia et al. (2019) on the Australian banking sector suggests that organizational identification, customer service climate, and ethical climate mediate the relationships between ethical leadership and employee performance, where ethical leadership is positively associated with customer-oriented behavior among employees. Kia et al. recommend that banks invest in the ethical leadership of their managers because when managers visibly engage in ethical behaviors, employees are found to follow suit.

Attractiveness to International Markets

Global businesses face issues relating to transparency, accountability, and increasing awareness of customers' rights. Thus, there is also increased pressure on SMEs to adopt ethical business practices. Šípková and Choi (2015) find that companies and government officials in the Czech Republic gradually realized, after the reinstatement of a market economy in 1989, that ethical business conduct was an important factor influencing the overall quality and international attractiveness of the local business environment. It became clear that a culture of ethical practices was an important consideration for foreign companies envisaging bringing their business to Central Europe.

This factor became particularly important for the Czech Republic as its entry in the European Union (EU) brought the need to harmonize local standards with those of the EU. The EU accession process highlighted the need for anticorruption measures, corporate social responsibility and ethical business practices. Šípková and Choi's research suggests that Czech managers believed that there was still not enough accessible information or literature on ethical business conduct, and that these issues were neglected by the media. The managers welcomed more information concerning the implementation of various ethical business conduct instruments, more positive examples and databases containing the experiences and best practices of other companies.



Section Three: Areas for Further Study

As demonstrated in Section One, the costs of corruption and unethical business conduct are well understood. In addition, a smaller but notable body of research has demonstrated the benefits of ethical business behavior, for large firms as well as SMEs. There remain rich opportunities to increase understanding in this area. The following avenues of inquiry would further strengthen our understanding of this field:

Focus on Business Conduct, Not Just Government Actions

The study of corruption has thus far largely focused on government officials and institutions. Such research underpins policy recommendations to reform government practices to improve the overall business environment. Further study of business ethics, however, might consider how measures to mitigate corruption or unethical conduct undertaken by the business community, rather than by the government, may affect the business climate and firm performance.

Clarify Terms and Definitions

When studying the impact of corruption, researchers may find it useful to further consolidate terms and definitions. Much of the research focuses primarily on the impact of bribery, although distinctions between corruption, anticorruption, business ethics, corporate culture, corporate social responsibility, and other concepts are necessary. Understanding the precise impact of corruption on business requires clarity regarding the practices and concepts being considered.

Recognize Sector-Based Nuances

Many challenges or benefits demonstrated in research are thus far found to be largely consistent irrespective of an enterprise's particular industry sector. However, sectoral distinctiveness is found to be more pronounced in SMEs given their lower levels of structure as compared with large firms. This simplified structure makes SMEs highly susceptible to unique ethical considerations or dilemmas. There also appears to be a need for more research in health-related sectors, as no research on this topic specifically looking at SMEs in health-related industries has been identified.

Develop Fit-for-Purpose Methods to Study the Ethical Practices of SMEs and the Impact of Ethics on Business

Typical processes for the evaluation of ethical business conduct are best suited for large enterprises. A fair characterization of SME performance may be difficult to achieve with such methods, however, given that SMEs often have limited resources to dedicate to measures such as formal reporting and retaining legal or human resources experts. SMEs also operate within smaller organizational structures, with many relying on relationships rather than formal reporting or compliance regimes (Spence 2019). These factors warrant consideration in order to produce precise work measuring the effect of ethical business practices on SMEs.

Study the Best Strategies and Methods for Implementing Ethical Conduct

Some research has been undertaken to better understand methods of implementation of anticorruption measures, as well as their relative effectiveness. This work, however, has in many cases been theoretical or case study based, yielding only a limited amount of empirical evidence to quantify the effect of such measures. Kaptein and Schwartz (2008) write that the paucity of insights is due to varying definitions of key terms, deficiencies in the empirical data and methodologies used, and a lack of theory. Some studies offer evidence that ethics training sessions may lead to improved ethical organizational culture (Warren et al. 2014), but further work is needed, including research that helps to evaluate the effect of specific strategies such as business codes of ethics or business founder or leader statements on ethics commitments. And as mentioned above, tailoring this research to business specificities of sector and size would prove useful.



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