
A cost-benefit analysis for your ethics program?

BY JOE MURPHY, CCEP-I

This March I attended SCCE's European Compliance & Ethics Institute in London, and as always heard a variety of interesting and thought provoking points. One discussion in particular caught my attention and deserves further thought. During a presentation about evaluating compliance and ethics programs, one person in the audience who was an ethicist took the position that practitioners should be doing cost-benefit analyses to prove in the value of an ethics program.

This certainly surprised me, coming from an ethicist. While it sounds logical at first, there are some real pitfalls to relying on cost/benefit to justify an ethics program. I would lead off the discussion, though, with a supportive point. I believe it is wise for practitioners to be able to demonstrate business and economic benefits from a compliance and ethics program. There are a number of factors that would contribute to such an analysis: the value of a company's reputation; the possible savings from avoiding violations and the litigation that follows; protecting the company from waste, fraud and abuse; improved employee morale; and improved ability to recruit new talent, ranging from the workers up to the board. Protecting reputation alone would be more than enough to justify a compliance and ethics program. These benefits and more should be in the practitioner's toolbox to use when needed.



But here is the concern. The “cost/benefit” should only be an add-on argument. The prime argument is not economics, but rather that acting in an ethical manner is the right thing to do. This can be a surprisingly strong approach to take, and one that has more appeal to employees and the public. The fact that it helps the business is a plus, but not the core driver.

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While this point may sound a bit high-minded, there is also an analytical reason not to rely on the “cost/benefit” approach. It may indeed sound intuitive to prove in the economic benefit of an ethics program. You may be able to show that a dollar or Euro or pound invested in compliance returns 10% or 15% or some other impressive figure. But once you have reduced the decision making to mere numbers you are inviting your own downfall. What the advocates of a cost/benefit approach are missing is the concept of opportunity cost. That is, if we are working only by the numbers then you should invest not merely where you get a positive return, but where you get the *most* positive return.

Using opportunity cost, you begin by recognizing that you have only so much capital available. Wherever you invest that dollar you have given up the opportunity to invest it



elsewhere. Thus you do not invest in an activity to obtain a 7% return when the same dollar would reap a 10% return elsewhere. Otherwise you have lost that additional 3%.

Thus, from an economic perspective, if you are going to rely on cost/benefit you need to show not just that an investment in ethics pays off, but that it has a return greater than any alternative investment. This is an open invitation to the sales and marketing folks, and the new ventures folks, to show that investing in ethics is a mistake because they can bring in a higher return through their activities: selling, marketing and new market development. Do the advocates of ethics cost/benefit really think they can out-fox people who make their living selling and promoting? (Here a look

back at what cost-benefit analysis did in the Pinto case would be instructive.)

Once you fall into the economics approach you are trapped. Economic thinking is neat, logical, compelling, and very often completely wrong in predicting human behavior. When you start reducing everything to “costs” you leave the real world and enter into a fantasy world where everything can be predicted and decided by using numbers. For people who love math and logic it is a wonderland. But for the rest of us it is fatal fantasy. If you fall into this trap there is no escape and you will likely always lose your arguments.

How do you rebut the marketing or sales advocate who can prove his case that doing just this one thing this one time will be amazingly profitable? Sure, ethics may pay off most of the time, but if the company just uses this one underhanded trick once, or cheats on this one bid, or lies to the

government this one time, it will double its money. How can you, having tied yourself to cost/benefit, beat these “one-off” compelling cases? Have you not walked right into this trap by tying yourself into this numerical approach to business?

My advice is to recognize what our field is about. We are not about simply making money and maximizing profits. We are not about mathematical formulae. We are about doing the right thing and preventing business crime and unethical conduct. Will it help the business? We certainly hope so and we believe in the long term ethical businesses do better than those that lie, cheat and steal. But when it comes to distinguishing right and wrong, it is not a cost/benefit analysis. We do this work because it is the right thing to do. ■

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