

What Are Ethics?

Ethics are the moral principles that govern behaviour, many of which are enshrined in law. Businesses have long been expected to comply with wide-ranging ethical policies, including relating to modern slavery, anti-tax, bribery and corruption, money laundering, competition, data privacy, sanctions, environmental and safeguarding. We have all seen poor ethical business practices, such as tax avoidance and breaches of worker rights, make headline news, demonstrating the financial and reputational consequences of misbehaviour or lack of compliance. Hence, where there is compliance, there are good business ethics.

Why Are We Talking About This?

While well-established ethical policies remain fundamental, newer ethical principles, such as sustainable investment, are both being reflected in new legislation and are influencing corporate behaviours for commercial and public benefit rather than merely to comply with policy. Investment criteria relating to Environmental, Social, Governance (ESG) is starting to enable better categorisation and analysis of ethical behaviours to produce an ESG score that informs investors how relatively risky or attractive the investment is against key ESG criteria.

For example, a fast-fashion producer may receive a relatively low score on its environmental behaviour if it produces large volumes of waste. However, it may fare better for social and governance behaviours if it has a diverse and inclusive board, and a well-paid workforce with suitable working conditions.

To demonstrate the importance and the significant rise of ESG in modern investing, figures from the Investment Association (published in November 2020), saw net inflows of £7.1 billion into ESG funds in the nine months up to September 2020, almost four times more than the £1.9 billion reported for the same period in 2019. PWC has forecast that 57% of mutual assets in Europe will be held in ESG funds at the end of 2020, up from 15% at the end of 2019.

Why Are Business Ethics Suddenly in the Spotlight?

It is not only financial institutions that are taking an interest in ethical behaviour. Value-based businesses are a growing target for millennials, both as employers and as investment opportunities. A recent survey¹ found that 87% of millennials declared ESG as an important factor in their investment decisions. Given the collective influence of millennials as the generation that will be inheriting, generating and investing wealth over the next few decades, their views and requirements will help shape the ethical standards to which a business should adhere, and the regulatory regime that will underpin them. In order to remain competitive, attractive and compliant, businesses need to examine and deliver on their ESG and other ethical credentials and obligations.

The wider public is increasingly interested in holding businesses to higher standards following some high-profile failures leading to rising mistrust of the corporate sector. Where businesses perform to higher ethical standards, this can have a positive impact on brand perception. Ethical activity and reporting may even form effective marketing tools, providing a competitive advantage for greater profit. However, where businesses fail to comply with a complex and evolving regulatory regime, the resulting regulatory intervention and public exposure, leading to fines, penalties and loss in consumer confidence, can have a highly damaging impact. ESG reporting better enables investors, regulators and the public to hold businesses to account for their actions.

Unsurprisingly, the COVID-19 pandemic has been a critical driver in the rise of ethical principles. Amid the volatility of the markets over 2020, investors flocked to ESG strategies to find some level of confidence. While, previously, the climate crisis had been the forefront concern for businesses and investors alike, the pandemic highlighted various social issues, such as support for the Black Lives Matter movement, safety in the workplace and the importance of key workers, as well as governance issues relating to fiscal support measures and the allocation of leadership bonuses.

¹ Reference: Bank of America [“U.S. Trust Wealthy and Worth Survey.”](#) 2018



As the world emerges from the pandemic, ESG and other ethical factors have the potential to act as a framework for successful business recovery post-pandemic. Business behaviour will inevitably need to evolve by reference to social and governance factors, which will have been influenced by collective experience during the pandemic. The publication of ESG data will highlight businesses with relatively better or poorer business ethics, and their ability to compete may be affected accordingly, especially where data indicates a strong correlation between good ESG credentials and long-term financial performance – a significant benefit for businesses in a recovering economy.

The Risk of Ethical Failure

The consequences of deficiencies in business' compliance programmes are very real. A business that fails to meet obligations based on ethical principles and regulation could risk unlimited fines and loss of an operating licence, as well as damage to the business' reputation, and the health and welfare of its people. Investors are increasingly seeing non-financial considerations as material to companies' performance. Published data is starting to demonstrate a positive correlation between strong ESG and other ethical practices and financial performance. Businesses with robust governance frameworks are generally better able to manage their ethical policies efficiently and effectively to better mitigate risks and meet their corporate objectives.

The Future of Ethics

Ethical principles are an ever-growing factor in business activity. ESG-conscious companies with sound governance and solid relationships with their suppliers, employees and stakeholders are likely over the foreseeable future to be better able to mitigate long-term risks, show greater resilience and outperform their financial targets. Recognising ethical factors, and how and why they should influence a business' activity, is a start to that process.

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