

Ethical Considerations

Can our industry establish ethical standards?

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RAPAPORT... Ethics is about doing the right thing, being good, honest and fair. It's about differentiating between right and wrong and applying a system of universal moral values to your decision making. While there are many ideas and philosophies about ethics, the bible sums it up in three words. "V'ahavta L'raiacha Komocha" – love your neighbor as yourself.

The problem with ethics is that it often demands altruism —doing good without reward —something that is inconsistent with our modern, Darwinian, survival-of-the-fittest competitive world. Why should I help someone else you may ask? What benefit will I get from it? Essentially, I love myself more than my neighbor, so why should I help my neighbor? This is especially true in a situation where if I help my neighbor, I lose out. Love my neighbor? You have to be kidding.

To some degree society has us do good, or at least refrain from doing bad, so that we can enjoy common benefits. It's an I'll donate to the hospital, so you will donate to the hospital, so if either of us gets sick we can be cured kind of situation. Or, I won't steal from you, so you won't steal from me. What happens when the benefit is less obvious? For example, a cashier does not notice they are giving you back too much change? Do you return the money? Why should you? Are you an ethical person?

Groups of people form societies that create laws and rules that supposedly optimize benefits to members. Laws are involuntary, created by governments who enforce compliance. Rules are voluntary. We may choose to join, or not join, a tennis club, or a trade association that enforces certain rules and provides benefits we desire. Then there are our own personal rules of behavior. What we do, or don't do is based on our sense of right and wrong. These personal rules reflect our ethical values.

Many people think that as long as they follow the law they are ethical. But that's not true. Ethics transcends the law. To be an ethical person you have to do what is right even if your government does not require you to do so and even if your government makes it illegal to do so. As my mother —a survivor of Nazi Germany — will tell you, laws and governments are sometimes evil. Consider Mahatma Gandhi, Martin Luther King and Nelson Mandela, all of whom fought against unethical laws and served time in prison. Make no mistake — if you want to be ethical you can't hide behind the law.

Being ethical requires a powerful personal commitment and a willingness to face strong challenges to your integrity. Sometimes, it can be downright painful. Those who do not share your ethical values will attack you for raising issues that make them look bad, or feel uncomfortable. They may hate you for not being politically correct. If the ethical issue you confront is important, be prepared to lose money and prestige as the maxim "no good deed goes unpunished" is applied. While others may or may not support you, in the end, your only real reward for being ethical will be knowing that you have done the right thing.

Ethics is personal. Your ethical values must be based on your internal beliefs and commitments. While your parents, family, friends, religion and society may have great influence, they are not responsible for your actions — you are. You can't delegate your ethical obligations, or your responsibility, for the intended and unintended consequences of your actions. Being ethical means internalizing your values and doing the right thing by following your conscience.

Business Ethics

The problem with business ethics is that there is no such thing. Businesses don't have their own ethics. They don't have souls and they don't have a conscience. Businesses are legitimate, money-making machines whose actions are controlled by law. In spite of the fact that public relations, marketing and branding experts give companies personalities, the hard truth is that businesses are profit robots, nothing more and nothing less. Don't be fooled into believing that companies love us, or our environment. Companies simply do what they have to do to make money.

Fortunately, in ethical societies the things that companies have to do to make money force them to adopt

ethical principles. I am not saying that companies can't be ethical. I am saying the sole motivation for companies to be ethical is based on their ability to make money by being ethical.

For example, if consumers care about human rights or environmental damage to the extent that they are willing to pay more for products that are not evil, then that is what companies will provide. On the other hand, if consumers don't want to pay more for ethical products, companies will then produce the best product at the lowest price ignoring the negative consequences of their actions. The same scenario plays out with laws. In a society that cares about ethical values such as human rights, or the environment, government creates and enforces laws that promote and protect the ethical rights of stakeholders impacted by a company's activities.

In many instances governments have passed laws that force and/or encourage ethical behavior by companies. The Canadian mining industry is a good example with legal approval required for a broad range of issues including environmental impact and agreements with the local indigenous population. Since companies have to follow the law in order to make money, laws play an important role in establishing minimal ethical standards for companies. The red line for a company is the law and the bottom line is profits.

But how does society get companies to do more than the law requires or is able to enforce? How do we get companies to apply ethical values that transcend the requirements of law? The answer is really very simple: We pay companies to do what we want them to do and we lower their profits if they do what we don't want them to do.

Once we accept the fact that companies are not altruistic, and that they are profit motivated, it's relatively easy to ethically manipulate them with a carrot stick approach based on creating demand for ethical products and destroying demand for unethical products.

The key to this approach, and the thing that makes it ethical, is that you can only increase or decrease ethical demand to the extent that consumers buy into your proposed ethical values. For example, if consumers are willing to pay 20 percent more for ethical diamonds, it stands to reason that some bright entrepreneurs will establish a reputable monitoring system that brings such ethical products to the market. The ethical diamonds will then compete in a free and fair market with other less ethical products. On the other hand, if consumers don't want to pay more for ethical products then they will not be created and offered for sale.

Therefore, the application of ethical standards that transcend law is a business matter driven by consumer demand. Consumers get to vote with their dollars for the type and level of ethical products that they want to buy. Society gets the exact level of ethical value it is willing to pay for. Companies make rational decisions about ethics based on consumer demand. Competition ensures a broad range of ethical products at fair prices.

From a business perspective, threats by NGOs agitating for ethical products and against unethical products is nothing more or less than good marketing by competitors seeking to introduce new products. NGOs can scream their heads off, but if consumers don't put their money on the line by paying more for ethical products, or by refusing to buy unethical products, it's just noise. On the other hand, if NGOs or ethical competitors hit the right note with consumers – watch out. People will put their money where their mouth is and markets can be irrevocably changed, generic products destroyed and businesses bankrupted.

Consider what happened to Nike. After NGOs and the media publicized Nike's unfair labor practices in the late 1990's its profits plunged 49 percent and its share price fell by 57 percent. Our point here is not to terrorize jewelry brands into accepting unreasonable NGO demands, but rather to point out that there are real sticks and carrots out there.

Perhaps the best way for us to understand ethical business practices from a company and consumer perspective is to consider ethics as another added value service or product. A broad range of ethical jewelry products will be coming onto the market. Companies should incorporate these products into their marketing mix based on their ability to sell them. Treat ethical products as a sustainable business opportunity that requires real demand. At the same time keep far away from unethical products. Don't buy them and don't sell them. You don't want to be Nike'd.

In conclusion, consider this: Business ethics isn't another form of ethics, ethics is another form of business.

Organizational Ethics

Many years ago before the Gemological Institute of America (GIA) established a diamond grading system, legitimate jewelry retailers had a severe problem. Consumers had no idea about the quality of diamonds. Misrepresentation was rampant. Companies that honestly represented their diamonds were at a distinct disadvantage. Most often the sale went to the jeweler who was the biggest and best liar. The term “clean diamond” was so abused and misrepresented that the U.S. Federal Trade Commission outlawed its use.

The American Gem Society (AGS) and GIA were established to bring order and set standards that ultimately cleaned up what had become a dishonest and dysfunctional diamond market. The role that these organizations played at that time is proof positive that trade organizations can play an important role establishing a basis for ethical business practices and standards.

Given the success of the AGS and GIA many of us might believe that it is okay to delegate ethical responsibilities to trade organizations like the Jewelers Vigilance Committee (JVC), Responsible Jewelry Council (RJC), or World Diamond Council (WDC). In my opinion, that’s not a good idea. The ethical standards of the JVC, RJC and WDC are not up to my standards and may not be up to yours.

Let us consider an initial simple ethical standard for non-profit organizations: “Tell the truth, the whole truth and nothing but the truth.” Unfortunately in my opinion, the JVC, RJC and WDC fail to meet this standard.

The WDC, RJC and JVC refuse to inform their members and the trade that Kimberley Process (KP) certification does not ensure that diamonds are free of human rights abuses. While the RJC has great potential, it fails to require certified members to source their products ethically and suffers from a “garbage in and garbage out” problem that could be easily fixed.

Then there is the JVC whose tagline is “The Industry’s Guardian of Ethics and Integrity.” Last year the JVC failed to disclose direct evidence of murder, rape and other human rights violations in Zimbabwe. On September 27, Cecilia Gardner, JVC’s President and CEO issued a bizarre statement outlining how U.S. companies can evade U.S. sanctions against Zimbabwean companies. Aside from the fact that her statements are patently false and misleading her final paragraph says it all.

“You will note that there is one issue the JVC has not addressed in this article – the ethical calculation one might apply generally to the purchase of diamonds from Marange. This is a subject for another day. JVC’s focus and expertise is legal compliance which is the subject of this article.”

Perhaps it’s time for the JVC to get rid of its “The Industries Guardian of Ethics and Integrity” tagline. At least until “another day comes around.” Right now it looks like false advertising.

It is important to counter our negative statements about industry organizations with compliments for an organization that is telling the truth. Consider the following statement by Jewelers of America (JA).

“We remain concerned and have advised our members of other serious issues around the goods from Marange beyond the scope of the KP. ... As such we recommend that JA members practice due diligence, doing what they can, within their spheres of influence to protect the legal integrity of the diamonds they trade in. This includes requiring their suppliers to provide additional written reassurances, beyond the WDC’s System of Warranties statement, that the diamonds they supply have not been obtained in violation of applicable nation laws and/or sanctions. Despite the fact that limited exports from the Marange region of Zimbabwe will have KP certificates, we believe these diamonds should be considered such a violation at the present time.” (bolding by JA).

Clearly, JA is taking a responsible position in spite of the fact that it is part of a political coalition whose other members support the KP to the extent that they refuse to inform the trade of its deficiencies. Kudos to JA. They have had the integrity to warn the trade even when it is not politically correct to do so. JA meets our standard — the others don’t.

Conclusion

It is important to recognize that ethical values that transcend the law are a personal and voluntary issue. Just because I may not agree with another person’s ethics does not necessarily make them, or me, evil. It is okay if you don’t agree with me, or with anything I have said in this article. It’s okay to be ethical without being judgmental.

I would like to make the point that it is vital for people to take the time and make the effort to personally establish ethical guidelines. While it may be advantageous to join a group of likeminded people who share your values, do not ever delegate your ethical values to trade organizations or others. In a world where people are sometimes killed for diamonds I have written this article to provide fair warning to the diamond and jewelry trade that each of us must take full personal responsibility for our actions.