

HONESTY IS THE BEST POLICY



CONDUCTING BUSINESS IN AN ETHICAL WAY MAKES GOOD FINANCIAL AND RELATIONSHIP SENSE SAYS **PHILIPPA FOSTER** BACK OF THE INSTITUTE OF BUSINESS ETHICS.

When a company is first registered, it states its 'objects' – that is, its purpose in its Memorandum and Articles of Association. This is what it will do as a business. But the company does not state how it will do it – yet, this is just as important. A company nowadays needs to be able to state clearly how it will carry out its business – that is, how it will conduct itself with those it does business with. These are often known as stakeholders. This is the essence of business ethics, the working out in practice of the basic values to which the company aspires.

If you go back to the Victorian era, a businessman would have been insulted if challenged that he wasn't doing business ethically. Ethics, or operating to a set of values, was implicit to the Victorian – or was it? Historians have their doubts. Where companies were not operating ethically (perhaps by today's rather than yesterday's standards) they got away with it. Some companies of course were exemplary, even by today's standards. Cadbury and Lever Brothers come to mind.

Roll the scene forward 100 years, and given the technology and modern global communications, companies can no longer get away with it – and rightly so. An environmental, human rights or financial scandal anywhere in the world will now hit the headlines back home and the company's reputation will be tarnished as a consequence – remember Barings, Exxon or Nike?

WHAT CAN COMPANIES DO? Today, companies are encouraged to express their core values of their business in a code. The code can have a variety of names – business conduct, ethics, practice, principles and so forth. But it is no good having a code of ethics unless it is relevant not only to the business policy but to the issues that face individual people in that business. For instance, supposing a treasurer is asked by a minor relationship bank to go on a weekend wine-tasting in a chateau in France, all expenses paid, just when the treasurer is about to undertake a major refinancing. Easy dilemma to resolve? For many, yes. But you will have your own views.

A company code, taking an issues approach, will address a topic such as entertainment and gifts. A statement might read: "We will only give or accept gifts and entertainment that are for business

purposes and are not material or frequent".¹ This would be linked to a general comment that employees are expected to raise issues within an open environment if they are at all unsure whether a gift or type of entertainment is appropriate.

Questions that a member of staff might consider would be: Does this feel right? Would this cause embarrassment to my company or me by accepting? Is this gift/entertainment intended to sway my opinion? The best policy to follow in this case would be that, if there is any doubt, you should discuss it with your superior or just say "no thank you". Would you now respond differently to the bank?

REPUTATIONS AT STAKE. For many, including board members of companies, it is often easiest to view business ethics, or the way they do business, in reputation risk terms. A company's fall from grace in one area can have knock-on effects in many others. In the treasury context, typically it can increase the cost of borrowing or, given a general lack of confidence in the management team, can lead to sources of funding actually drying up – the US commercial paper (CP) market is usually cited in this instance.

Ethical practice is in a grey area; but if you put it into reputational terms, it becomes clearer. Reputation here, particularly for the treasurer, involves personal reputation as well as that of the company they represent. Indeed, in some cases, it is prudent to put personal reputation above that of the company because what you may be asked to do could go against your personal set of values by which you judge right, wrong and dilemmas in those grey areas.

A difficult time for the treasurer is while undertaking a major refinancing. Not only may more invitations of the special kind be received, but if the markets are difficult or the company faces tough prospects, you may be in doubt as to how to play it. In a company's code value terms, there will probably be reference to dealing with all stakeholders with integrity and honesty. Anything other than an open and honest approach is remembered by others with feeling. Bankers, like treasurers, have long memories and personal reputations can become tarnished generally across the market all too easily. Best practice is always to talk it through internally with the boss, weighing up the pros and cons, and then agreeing the strategy and noting it down. In basic terms, you may be weighing up

'A WESTERN-BASED COMPANY WHICH OPERATES GLOBALLY MAY NOT ALWAYS BE ABLE TO OPERATE IN A WESTERN WAY IN CERTAIN CULTURES'

your personal standing versus a couple of basis points on the margin. Where would you stand when faced with this sort of situation?

A company code may be part statement, part aspirational. It is essentially the demonstration of commitment and understanding that while an aim of the company is to manage its financial performance to maximise long-term value for shareholders, that is not the sole aim. As the Seattle to Genoa anti-globalisation protesters have sought to express their fear of corporate power, so it is recognised that lasting business success demands more than profit from companies. Whether this fear is real or not, companies need to be seen to react responsibly and responsively. Hence the need for them to demonstrate high standards of business ethics through compliance to their own codes of business conduct and core values. This is never easy.

The reaction of some companies has been to develop detailed environmental and social policies. The former requires performance measures against which the company can monitor its performance. Social policies, usually referred to as corporate social responsibility, will be derived from the initial value statements about how the company wants to do business with stakeholders.

It usually takes a company some time to debate ethical issues, preferably using a bottom-up, as well as top-down approach. The aim is to achieve a statement of values and a code of conduct that is both correct and useful. Even if a bottom-up approach is not used, it should be an open and transparent process. It will need to take account of its application in overseas culture, if that is appropriate. A Western-based company which operates globally may not always be able to operate in a Western Way in certain cultures. The code of ethics in that country should reflect this. An example would be the core value of diversity in employment. As it is generally not possible to employ women in certain Middle Eastern cultures, some modification will be required. A code will also need to take into account both the type of business and how business is done in that sector. For instance, financial services companies will have to include issues relating to money laundering, bribery and privacy in some detail, whereas industrial or processing companies will emphasise health and safety and supply chain issues.

CODE OF CONDUCT. There are two key conditions for a company successfully to implement a code of ethics. The first is leadership – from the CEO and the board (do they believe and understand the concepts, rather than feel “we have to do this so someone else can tick a box somewhere”?). Second, the values messages need to be promulgated throughout the organisation. This embedding process will take time, effort and resources. It needs to be done positively – a few paragraphs in a staff handbook is not enough. Such messages need consistent reinforcing through training and in-house corporate literature, and from each manager to each member of staff. Doing business ethically is more than donating to the local charity. The



Wine tasting in France, a possible dilemma.

benefit to the company may take a little time to show through. There will inevitably be some employee and stakeholder scepticism, but the benefits of a contented workforce, recruiting quality staff and fostering a positive public perception of the company's reputation for products, services and shareholder value, will be tangible, even to banker's margins.

So where do ethics fit in to corporate life? They are the hub of the wheel of any business. They underlie how that business operates in all its dealings – without this hub that wheel will eventually fall off. A code of ethics must be overarching in its reach throughout a company. Its messages need to be embedded not only in the organisation but with all its external stakeholders too, because they are fundamental to the success of the company itself.

The code needs monitoring in a transparent way and continual review will ensure it remains relevant to all in the business. The success or otherwise will be seen in the company's good standing among its peers and its high reputation with the public. A good reputation takes time to build, yet is so easily lost. It is easier to cultivate if the company recognises that doing business ethically makes for better business. That is what the treasurer is there to promulgate too, as better business means better margins.

Philippa Foster Back is Director of the Institute for Business Ethics
info@ibe.org.uk
www.ibe.org.uk

The Institute of Business Ethics was set up in 1986 to encourage high standards of corporate behaviour and sharing of best practice, enabling companies to build relationships of trust with their owners, customers, employees, supplier, partners and the community.

Note: 'BP – Business Principles, June 2000

Editor's note: The ACT's Ethical Code which "sets down the principles which should be followed by all members in the course of their professional duties", can be found in The Treasurer's Handbook or at www.treasurers.org.