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, suppose 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.” 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'

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