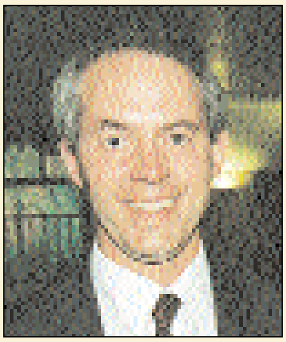
Virtuous treasurers



Rev. Justin Welby

Apart from my 'day' job (and quite a lot of nights for that matter) I am a non-executive director of the local NHS hospital trust, chairing their audit committee. Actually, this happened because of the Association bit and my shady financial past, not the vicaring, although that did not do much harm, and confuses the auditors terribly.

The board recently had a presentation about ethics in the NHS. Medical ethics are a difficult subject (eg who gets what share of finite resources?); what is clear is that one of the problems with ethics generally is how we decide what is right. And that applies to finance and treasury as much as anything else.

A hundred years ago things were much clearer. We were all 'jolly good chaps' and one JGC knew what another JGC thought was right. On the other hand, lots of actions now unacceptable were quite permissible, even encouraged, such as insider dealing. The board minutes of a large UK company in the 1920s, very active in M&A at the time, show the chairman, answering a complaint that non-executives were unpaid, with the comment "any non executive director who can't make a good living out of the information he gets on this board does not deserve to be one".

There are broadly speaking three ways in which we decide what is right:

- consequences: who benefits and how much?;
- rules: what does the code say?; and
- virtue: what is a generally recognised good way of being, and what does that mean in these circumstances?

Consequences

We are all used to scenario-based planning of projects. This is especially true of project financing structures, and risk management in general. The attractiveness of this approach in ethics is that it fits the way we are trained to think professionally.

But this way of deciding what is right has the most problems. It depends on us being able to measure consequences objectively (or at all), which we, on the whole, don't when our own interests are at stake. The interests of those closest to us (the CFO or board) seem more pressing than those further away. Taking the example of global markets in FX and commodities or investment, especially with the geared power of derivatives, it is virtually impossible to see what the overall effects of a decision are, most of all given that it is only a small fraction of a huge mass of decisions. But cumulatively, they may have dire consequences in an emerging market, or primary producer of raw materials.

It is also very crude. Anything can be justified in terms of its more beneficial consequences. But it is the way many of us instinctively think.

Rules

For those who like jargon (like clergy and treasurers) this is also called deontological. The great financial example of this is the old rule of the mediaeval Christian church (and Islam today), against the charging of interest. In its modern forms it is found in any code of ethics to some degree, and in listing regulations for stock exchange listing. So at one point a former employer of mine was not allowed to put a chart of future oil production into listing particulars for a rights issue (however qualified) because "charts are not allowed". Nothing to do with clarity of information (which they agreed was improved), but a rule. Prose good, charts bad.

However, rule-based systems date very quickly. Markets innovate far faster than anyone can cook up new rules to regulate them. The difficulties of the oversight of derivatives is a clear example that most treasury professionals live with each day. We all know that the main purpose of lawyers is to get one round the rules without going through them. Generally, rules don't work.

Virtue

The third way of coming to ethical decisions is based on commonly agreed virtues. This goes back to Aristotle, and starts with the question: what are the characteristics of a good person (or company)? In ancient Greece this would include courage, public service, pride and so on. "My word is my bond" is a statement of virtue, not a rule. The Takeover Code was for many years based on a number of principles, such as equal treatment of all shareholders, that were seen to be virtuous.

At the start of a New Year (never mind millennium) it is not a bad moment to think about how we make ethical decisions. There are constant challenges through market practice, company activity, pressure of colleagues, competition and general pressure of life. The problem of virtue-based ethics is deciding what the virtues should be, but a good place to start is by thinking what characteristics we admire in the organisations or individuals with which we deal.

The Association has its own code of ethics, which is a mixture of rules and virtues, like most professions. Doubtless it is not perfect, and equally likely is on more bookshelves of members than read by them. But it sets some standards and principles. ■

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