

Corporate Governance: Using your ethical compass

By Paul A Zaman MBA, MSC



Paul A. Zaman underlines the business value for pursuing good business ethics and improving accountability in governance

Corporate governance for a company has many dimensions. The three primary dimensions are: increasing long-term shareholder value, communicating with investors so that they can make informed investment decisions, and maintaining ethical standards of business conduct. The triple bottom line reporting on finance, social and environmental practices is recognising the ethical rights and duties existing between companies and the broader society. These dimensions of governance also apply to small business, not-for-profit organizations, charities and institutions. The employees, customers, charity beneficiaries, stakeholders are members of the broader society. Therefore they all need the broader society to survive and thrive.

Describing the ethical standards of conduct for an individual or community is complex. This task is even more challenging to accomplish for the entity known as a company because the shareholder's interests are varied and represented by an elected Board of Directors.

Ethics comes from the Greek word ethikos meaning "arising from habit". Ethics as a branch of philosophy is the study of value or quality. It covers the analysis and employment of concepts regarding right and wrong. Ethics is about having a set of guidelines for which one side is ethical, and the other unethical. These guidelines are based within time, space and community contexts. Ethical standards change over time. Something acceptable in the dark ages is not acceptable today, let alone the future. Many young people view content on the Internet as free for use, whereas older people view Internet content as intellectual property, bearing a price. Ethical standards change with environmental context, for example within rural, urban or city locations. Activities in the rural wilderness may be ethically unacceptable, however the same activities would be acceptable within the city. Ethical standards are often embedded in community values and beliefs, and therefore vary depending upon religious code of conduct, traditions, customs and folklore. An individual has ethical guidelines based upon their individual values, beliefs, religious customs and folklore.



Another aspect, which complicates ethics, is termed "moral luck". A drunk driver may safely reach home without injuring anyone, or he might accidentally hit a child who runs out into the street while he is driving home. How bad the action of driving while drunk is determined by the chance outcome. This judgement can flip upside down. For example, if the child was permanent injured, then restitution could be made. However, if the child was killed, then restitution is not possible. Ethics is often grey and blurred. The definition of when a driver is drunk, can be the legal definition, or could be considered to be a single drink of alcohol or consumption of drugs. Therefore, ethics are dynamic, not static.

Companies have a primary responsibility to shareholders in creating long-term shareholder value. Contemporary companies now adopt triple bottom line reporting, which creates long-term shareholder value with an ethical consideration of the interests of the community and the environment.

Before exploring ethics any further, let's explore the concept of trust. The concept of trust is often misunderstood. Trust is about behaviour. Trust means that in a given environment and set of situations, a person or computer programme will behave in a predictable manner. Some examples of trust are: A sports person will spit on the playing field, but would not spit on the pavement. A person will queue quietly at the company canteen however would be kiatsu at a queue at the cinema ticket office. Hence we can only trust the person not to spit or be kiatsu within certain environments. Trust is situation dependent. Making the generalisation "you can trust that person" is therefore misleading and often untrue, leading to let downs and disappointment. Again a trustworthy company is one that behaves in a specific environment in a predictable way.

Ethics is about living with the outcome and implications of behaviour. Every action has an outcome. That outcome has broad and long lasting effects long after the action is complete. The action of mining or manufacturing results in consequences on the environment and resource exhaustion long after the action is complete.

Jonathan Swift's English literature classic Gulliver's Travels (1735), Gulliver encounters two kingdoms at war with each other due to a dispute over which end of a cooked egg to open first: the pointed or the flattened end. Custom, tradition and dogma are all around us. These often form our values

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and beliefs. For example, I am British, American, Australian, Japanese; I am a graduate, a housewife, a student, tradesman; I have black, blond, straight, curly, no hair; are all identifiers which people often use to determine their identity. Behind the statement of identity lies a smorgasbord of values and beliefs. All of these form an individual's ethical map. Basically, ethics and trust are very complex and personal issues.

How then can a Board of Directors make ethical decisions?

First, recognise that each Director is an individual. Each must become aware of their own ethical and trust guidelines. This can be accomplished by: discussion with peers, reading about real life situations such as autobiographies of great people, by direct experience, and by challenging yourself. People are often amazed when they discover the fact that there are significant differences in ideas about ethics and trust. This realization often helps people to shift their rigid values and beliefs (or dogma) dramatically. For example, consider the pair of questions "Is lying always wrong?" and "If not, when is it permissible?" Now consider different scenarios of great stress such as kidnapping, war or protecting loved ones?

Secondly, you should explore the consistency and hierarchy of your ethics and trust, and ask your self, "Why is this a trusted action in this environment and not in another?" What is your hierarchy of ethical guidelines? Why is one higher than another?

Thirdly, you must be mindful of putting your ethics and trust into practice. Ethics and trust are based upon judgement; making decisions about if something is on one side of your rule or the other. Moral codes are created and imposed by the broader community and often enshrined in law. Moral decisions are then about deciding to obey or disobey those external moral codes. Ethical decisions are from an internal personal frame of reference and are not about being right or wrong, as we know that others may have opposing views. Each person's ethical decision framework is forged by your own upbringing and background.

You may ask, "Is there a hierarchy of ethics and trust?" In answering this question, you could adopt a legalistic view, a humanitarian view, an environmental view or even a spiritual view. Each viewpoint is correct in itself and each could produce a different hierarchical conclusion. A person with high ethical standards often has a consistent hierarchy of ethics, which are applied in widely varying environments.

For a Board of Directors, as well as any person managing a business, the aspects of ethics and trust are key to having a successful business. Consistency in strategy, execution and behaviour are recognised and often rewarded by stakeholders and customers.

Ethics and trust are not areas that you can leave to chance and reactively handle on a case-by-case basis. For sound business ethics, the Board of Directors and management will have discussed and formed well thought out views on the following scopes, but not limited to this example set:

- What are the rights and duties between the company, the society, and the environment?
- When and where does the Shareholder interest have a priority over the Stakeholder interest?
- What are the political and religious contributions/support by the company?
- What is the company's law reform and compliance with areas such as heat, safety at work, and environmental pollution? Do you lobby for reform and deregulation that benefits the company at the expense of others?

Once management has discussed all of these issues, then ethics statements can be written up. This document forms a great foundation for companies' corporate social responsibility (CSR) scorecard and ongoing triple bottom line reporting. The CSR scorecard formulation process needs senior management involvement and will surface most relevant ethical issues to the business. It is a powerful process for improving corporate governance and boosting long-term shareholder value.

Finally lets provide two simple tests. The first is simply ask yourself, "Will I be able to sleep easily at night having taken this action"? A second simple yet effective test of your ethics is to ask yourself, If I take this action and the outcome is reported in the newspaper, "How will my grandfather/grandmother reading the newspaper, think and feel?" Usually these two questions are enough for your ethical compass to work and give you the right direction.

Qualvin Advisory was founded in 2003. We provide advisory services to the Board, CEO and CFO of listed and unlisted companies in S.E.Asia. Qualvin facilitates the Board in areas such as formulating corporate goals & strategy and governance & CSR. Qualvin also formulates and executes the financial investor relations strategy to: increase shareholder value and institutional following; firm the share price and raise new capital. Contact Paul Zaman at email pzaman@qualvin.com.