

BASIS POINTS

LITTLE THINGS THAT HELP YOUR BUSINESS GROW

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Welcome to Basis Points! Each month, Basis Points provides you tips and techniques that we've gleaned from a variety of sources to help better your business life. This month's issue is devoted to "Business Ethics". In it, we'll show you that ethical business behavior isn't only morally right, it's fiscally prudent. You'll discover the true cost of wrongful behavior, as measured in dollars-and-cents. And we'll share some simple questions that will help ensure your next challenging issue is deliberated on sound ethical terms.

Business Ethics Defined

One source defines business ethics as "a system of moral principles applied in the commercial world that provide guidelines for acceptable behavior". Another suggests that business ethics are "the appropriate constraints on the pursuit of self-interest or – for companies – profits, when the actions of individuals or their firms affect others". We happen to like a simpler expression: "doing the right thing, even when nobody's watching". In a fair and just society, any behavior that's considered ethical should also be legal. The obverse isn't always true, though: just because something is legal doesn't make it ethical.

What's In A Word?

Firms that manage assets on behalf of others have fiduciary responsibilities to their clients. These responsibilities encompass both a duty of loyalty and a duty of care. The entirety of such relationships is based on trust, which isn't surprising: fiduciary comes from the Latin, *fiducia*, which means "trust".

Doing the Right Thing Pays Off

The benefits from incorporating ethical and responsible business behaviors are many. Among them:

- 1 Enhanced earnings for the firm.
- 2 Personal integrity for the management.
- 3 Honesty and loyalty from employees.
- 4 Confidence and satisfaction from customers.

Source: *Contemporary Reflections on Business Ethics*, Ronald F. Duska, Springer Books, 2007

"It's not an adequate ethical standard to aspire to get through the day without being indicted."

- Richard C. Breeden, SEC Chairman, 1989-93

Five Principles that Govern Ethical Behavior

In business, decision-making is rarely a simple choice. Instead of black-and-white, we live in a world of varying shades of gray. In an environment of increased complexity and ambiguity, how can you make sure your business decisions are governed by ethical behavior? One industry expert suggests you evaluate your decisions on these bases:

Do no harm. Avoid inflicting physical or psychological harm on others.

Make things better. Operate with the best interests of serving and helping others.

Respect others. Don't compromise others' right to freedom of thought and choice. Honor others' privacy.

Be fair. Be just, impartial and treat all parties equally.

Be faithful. Keep promises, remain loyal and tell the truth.

Source: Dr. Bruce Weinstein, www.theethicsguy.com



Creating An Ethical Culture

The 2009 National Business Ethics Survey, prepared by the Ethics Resource Center, notes that transparency and accountability are integral to a firm's ethical culture. Four elements are essential:

- *Ethical leadership*: leaders who set the right tone and model proper behavior to earn the trust of employees
- *Supervisor reinforcement*: employees' immediate supervisors reinforce that tone and set serious examples
- *Peer commitment*: the importance of ethics is discussed often and peer support exists for "doing the right thing"
- *Embedded ethical values*: "how we do things around here" is integrated into daily activities

The complete survey can be downloaded at www.ethics.org.

The Cost of Wrongful Behavior

With so many financial scandals in the first decade of the 21st century, interest in business ethics has intensified. Companies are now as likely to share Statements of Corporate Values and Codes of Conduct with their employees, vendors and clients as they are Corporate Goals or Mission Statements. To put some dimension on the cost of bad corporate behavior, consider this: in a two-year period (2002-2004), the U.S. Securities and Exchange Commission brought some 1300 civil cases against businesses, obtaining orders for penalties in excess of \$5 billion.

While it's difficult to calibrate, reputational trust also has an economic value. When the key components of a firm's reputation are its honesty, dependability and fairness, trust is essential. Nothing undermines trust faster or more completely than questionable ethical practices.

Source: Speech by Jack Guynn, President and CEO, Federal Reserve Bank of Atlanta, March 2005