WHY A CODE OF ETHICS?

The previous chapters showed that ethics is often a forceful driver of profitable and long term wealth creating business. The Conclusion of part I of this report (page 81) made the point that a business must in the first place be an ethical entity. To achieve this and to remain a respected and trusted organization, a business should draw up a code of ethics (or a policy of conduct) and continuously refine it as circumstances change. Any business must make certain it conducts its affairs in accordance with the agreed code. A code is worthless if it is not enforced, but by the same token ethics is not an exact science. A code of ethics can therefore be no more than a guideline and actions cannot always be blindly based on such a guideline. Careful reflection, judgment and experience is required when applying the code and deciding on difficult moral questions.

A code of ethics, according to Deon Rossouw (42. Rossouw, 2002), is a document or agreement that stipulates morally acceptable behaviour within an organization. The Hippocratic Oath, which still governs the ethical behaviour of doctors, was first
Ethics guidelines can reside in the head of the owner of a one-man operation, but as soon as the number of persons working in a business increases, the ethics policy needs to be a shared one so that every employee subscribes to it and behaves accordingly. A code of ethics should be in writing to ensure uniformity and consistency over time, place and person; a written code is needed so that there is no difference in the degree of information for all, so that every employee has ready access to it and so that the actions of every employee and of the business as a whole can be measured against the agreed standard. In the heat of the moment it may be difficult to consider all the ethical issues that should guide the decision-maker. A code of ethics is a fast and comparatively simple tool to direct one toward the relevant reflection and right action.

Although morally wrong actions are always due to personal action, it would be wrong to conclude that it is always only a question of the individual’s ethics or lack thereof. The firm is responsible for ensuring a business climate in which misdeeds (e.g., stealing) are discouraged. Many corporate moral wrongs or untoward events are the result of a systemic problem. People are often encouraged to act wrongly by the corporate structure (work distribution and integration), by historically grown community values and by inappropriate incentive systems – see also pages 109 and 110. The decision process of a business must incorporate focused, systematic, co-coordinated and binding ethics guidelines, i.e., a code of ethics.

When things go wrong it is not helpful to look only for the guilty individual. Such action excuses everyone else and does not address the administrative processes, policies or values of the company that may have encouraged the bad behaviour. An example is the Baring Bank debacle a few years ago when one of its senior, rogue dealers in Singapore, Nick Leeson, committed the 230-year-old bank, apparently unauthorized, to transactions that led to its collapse. Leeson was jailed – correctly, but it seems clear that the bank’s policies were either insufficient or not controlled. The bank’s corporate environment (its
poor risk management system) encouraged Leeson’s behaviour and the bank’s compensation policy rewarded success without sufficient consideration of moral issues. The selection, training, mentoring and delegation process was flawed. Thus the bank’s management was not blameless.

A code of ethics is not a legally binding policy but it is a self-regulating measure, which provides a guideline and which obtains its force from joint (management, staff and other stakeholders) formulation, from monitoring compliance and from sanctioning breaches. Often the employment contract incorporates the company’s ethics policy. The moral credibility of a business depends on the conduct of its staff and it is therefore crucial that the staff is part of the formulation process and fully subscribes to the final code of ethics.

Ethics management requires “value management,” which is needed at all levels of the business decision process. A well accepted value system/code of ethics can be the strongest, simplest, most positive and cost-effective management tool. If all people in an organization agreed to a code of ethics, control would be driven by those who agreed and are committed to the code. The personal commitment supports self-discipline, responsibility, and loyalty to the team. Further, a code of ethics is useful because it has orientation (minimum ethical standards), motivation (joint goals can inspire and sharpen the image of the business) and limitation (the code documents the business’s preparedness to accept moral responsibility) functions.

A code of ethics helps a company to take the morally responsible action it wants to pursue, but which it might, under competitive pressures and without a code, not take. Competitive pressure may not allow the time for thoughtful deliberations – a code can provide a ready guide. Competitors who do not care about ethical issues may have an advantage but this is likely to be a short term, Pyrrhic victory. The code is an aid in defining ethical issues such as conflicts of interest, receipts of gifts, other questionable payments and actions.
A code of ethics provides us with shared reference points. Without a clear sense of our values we may simply ignore a moral issue – with a code, a value statement, we will at least try to rectify it.

Industry-wide codes can obviate the need for government regulations which are usually expensive to comply with, inflexible, unfair, top-down and therefore demotivating. Government regulations are often seen as challenges to find ways and means to circumvent them rather than to achieve the desired effect. An ethical code is to the mutual benefit of suppliers and purchasers. This is particularly so in credit insurance where the knowledge imbalance of the product between the selling and purchasing parties can lead to uncertainty and suspicion. A code of ethics can help remove distrust from the prospective customer while at the same time be an assurance to the buyer. An industry-wide code is likely to be obeyed by the competitor as well.

To summarise: a code of ethics should be formulated and implemented in order to:

1. help the business to be an ethical entity and to enhance its reputation;
2. make clear what is acceptable and unacceptable practice;
3. guide and ensure uniformity, consistency, efficiency and stability in the decision-making and conflict resolution process;
4. advance joint decision-making and motivate staff;
5. provide ready access to and congruency of information concerning the company’s moral values;
6. aid defining ethical issues (e.g., what is an acceptable gift? what is a bribe?) and so make it easier to detect ethical infringements;
7. guide company policy by providing a set of corporate ethical standards and to describe and codify its own value and culture system;
8. encourage ethical behaviour of the board, managers and employees at all levels;
9. support good information and risk management systems;
10. highlight wrong corporate policies and structures and promote organizational integrity and co-ordination;
11. promote awareness of, and sensitivity to, ethical issues;
12. assist customer and market relationships and cooperation between stakeholders;
13. provide a cost-effective and employee-friendly human resource management tool;
14. specify the enterprise’s social responsibilities (including corporate governance and sustainable development);
15. obviate government regulations;
16. cater specifically, where required, for cultural changes. For instance from an authoritarian to a more open, democratic organization, from mass standardized production to a custom built product/service line, from a small to a medium or large organization; and
17. as a result of all this, underpin profitability and long term wealth creation.

Business should act ethically because moral behaviour is in its long term interest, because it believes it is the right thing to do and because it is to the benefit of all its stakeholders (including the community in which it operates). That is why business should focus on self-regulation (a code of ethics). This thinking is grounded in the Kantian doctrine: “do what is right because it is right rather than simply because it is what the law requires.” Although Kant addressed this tenet at persons rather than firms, people who run businesses and live this doctrine will have high moral standards and thus steer the business along an ethical path.

All the arguments listed in 1 to 17 above apply to credit insurers just as much as to any other businesses and they are mostly founded on Kant’s ethical theory as summarized in his categorical imperative.