



Business ethics summary

Introduction

This summary provides an overview of the main issues that corporations, and professional accounting bodies in particular, require of their members. Ethics instil codes of practice and conduct on their members to give confidence to clients and those doing business with the company. It may also aid companies and professional bodies in the regulation of those employed/engaged as establishing a defined set of standards to which they are expected to adhere.

Why does it matter?

For those people who wish to take the examinations of the professional accounting bodies, business and professional ethics is part of the syllabus and examinations. It is also a significant aspect of corporate governance and corporate social responsibility. Further, following the corporate scandals around the world, it is important for those in business, management, and accountancy firms, at all levels of the organization, to be able to recognize ethical issues and conflicts, and know how to deal with them.

Finally, this is a summary of the main points of business ethics but this is a potentially fascinating area of study. Ethics have legal, moral, social, cultural, religious, political, and environmental dimensions (to name just a few). Therefore the topic permeates many areas of study, work, and family life. Do not pigeon-hole this topic as an isolated module, rather, think how many times you have been involved in ethical conflicts and how this is likely to rise the further up the organizational hierarchy your promotion takes you. Consider whether your response to an ethical conflict was the same as required by the professional bodies and try to critique why differences in how you acted and what a professional body requires, may exist.

Ethical issues

Ethical issues are, perhaps surprisingly, common in business. Examples of how an individual may be affected and have to contend with ethics include:

- A request to alter accounting information as accounting equitably could result in less profit for a business/client (and this may negatively impact on the accountant with a reduction/loss of a bonus).
- Pressure being applied from senior managers who wish for the accountant (the employee) to act in such a way so as to take some unethical action.
- Another person at an organization has acted unethically (performed some wrongdoing at work) of which the employee is aware and is unsure whether disclosure of this information may lead to disciplinary action against him/her.

These are issues which would require the individual to consider whether he/she should follow an unethical instruction by a manager/employer, or to refuse.

Looking for extra marks?

Ethics need not necessarily be considered a discretely examinable subject, rather, it may involve other areas of study. For example, where an employer instructs the employee to take some action (eg falsifying accounts), there is no requirement for the employee to do so. An employee is obliged through the implied terms in the employment contract to follow only the lawful orders of an employer. Relating ethics to wider obligations shows true understanding of its implications in business law.

There is no necessity for an unethical act or omission to be illegal or unlawful (although they may be). An excellent example here is the findings of the government of the US investigation into the collapse of Lehman Bros.

Ethics have a personal/professional dimension and so must be considered in that context. This is the reason why those interested in careers in law, business, and accountancy, for instance, will need to be aware of the ethical codes applicable to their professional governing body. Professional bodies often produce codes of practice and conduct for their members. These provide details of ethical resolution frameworks, examples of good practice, and they may outline the consequences for breach.

Examples of where ethics affect business

The following are examples of where ethical standards are necessary/add value to the activities and working arrangements of organizations:

- the way board members operate/corporate culture;
- employment relationships;

- the conduct of human resources departments;
- contracting with suppliers;
- advertising and the possibility of transgressing laws through, for example, misleading advertising.

Business ethics?

Business ethics may be considered as an outline of behaviour that will serve as a foundation of action which the organization considers acceptable (ethical values) and will result in responsible behaviour.

It may be considered that such values may begin in the boardroom and trickle down through the organization via policies and rules of practice. They may also be formed by membership rules of bodies such as the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the International Federation of Accountants (IFAC).

Ethics have also moved further from ‘just’ business practices to being incorporated into aspects of legislative requirements. For example, the duties imposed on directors in the **Companies Act 2006 s 172** identify some of the wider issues directors must consider in relation to their impact on the community, environment, and suppliers. Further, **s 176** imposes the duty not to accept bribes. This is a potentially very complex issue but effective communication, transparency of decision-making, and corporate policies at the board level can ensure that possible conflicts and (seemingly) unethical behaviour are avoided.

Ethical policies and shareholder value/benefits to the business

Ethics is not a new subject and has formed an important feature of many of the world’s largest organizations for many years. Indeed, ethics were strongly promoted (externally at least) in companies which were famously part of corporate scandals – the Bank of Credit and Commerce International, Enron, WorldCom, and so on. However, despite high-profile failures of ethical/whistle-blowing standards, that should not detract from its significance or value to organizations.

The Institute of Business Ethics identified a strong correlation between companies which had developed codes of ethics and the benefits to their business when measured against financial performance. As such ethical policies not only protect those who work with and within the corporation, but also impact positively on companies’ finances.

Professional bodies' codes of professional ethics

The ACCA, CIMA, ICAEW, and IFAC each have codes of practice for members instructing them of the obligations under which they operate their trade, and provide case study examples of how to act when faced with potentially unethical or questionable requests/practices. Links to the bodies' codes are provided at the end of this summary.

CIMA expects its employees (a representative of CIMA) to act at all times in a professional, ethical, and compassionate manner. They do so through acting in a:

- competent;
- professional; and
- diligent manner

whilst maintaining open, honest communication with all and to keep in confidence information to which they are privileged.

CIMA requires compliance with the code and violation subjects the employee to proper disciplinary action (in accordance with employment legislation and the Advisory, Conciliation and Arbitration Service Code of Practice).

Conclusion

This summary has aimed to present some introductory information to allow you to consider the relationship between business and ethics, the importance of ethical policies in the workplace generally, and how professional bodies govern the ethical behaviour of their members.

Further reading

McPhail, K, and Walters, D (2009) *Accounting and Business Ethics* (Abingdon: Routledge Cavendish)

Ug Oji, K, Dando, N, and Moir, L (2007) *Does Business Ethics Pay?* (London: Institute of Business Ethics; <http://www.ibe.org.uk>)

Useful websites

www.accaglobal.com/en/member/professional-standards.html

The website of the Association of Chartered Certified Accountants provides information for professional practice and membership regarding standards and ethics, the licensing of practitioners, the regulation and monitoring of statutorily reserved areas of practice, quality assurance of firms and the global quality assurance initiative, investigation of complaints, and discipline in respect of standards or rule breaches.

www.cimaglobal.com/Professional-ethics/

The Chartered Institute of Management Accountants information on professionalism, ethics and conduct.

www.icaew.com/en/technical/ethics/icaew-code-of-ethics/icaew-code-of-ethics

The website of the professional accounting body, the Institute of Chartered Accountants in England and Wales, which contains information regarding standards for its members, students, and affiliates in all of their professional and business activities, whether remunerated or voluntary. It contains research, legislative sources, and practical advice.

www.ifac.org/Ethics

The website of the International Federation of Accountants and the link to its ethics section which contains information regarding minimum standards and research/discussion papers/studies in the topic.

Exam question

Describe and assess the role played by ethics in the accountancy profession in England and Wales.

Indicative content

The answer should outline the main aims of ethical policies and draw distinctions between ethics and laws. The *Lehman Bros* case could be used here to draw an effective comparison.

Ethics should be described and students could explain potential differences in approach between those employed in the public sector compared with those who operate in the private sector. This may enable a discussion of the wider significance of ethics in public confidence generally and the status of the profession.

The professional bodies and the main guides they have produced regarding personal and professional behaviour of members and affiliates should be identified. Examples of the requirements imposed on members would demonstrate knowledge of ethics and the expectations on them.

The domestic accounting bodies each have their own codes of conduct, and similarities and differences could be identified, but it would also be useful to relate these to the international standards developed by IFAC.

Some examples of ethical issues and how an accountant should deal with these would add further evidence of knowledge. Also, the answer could relate ethics to whistle-blowing and protections for a person disclosing wrongdoing. Related to this point, the example of disclosures at Enron, and the inaction of the board of directors, could lead to consideration of the development of legislation in the United States and UK regulating the role of directors and the imposition of duties on them individually and as a body.