

TRUE VALUE RESIDES IN DOING RIGHT

Opinion

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The ASX's Corporate Governance Principle 3 may well be the governance guideline that receives the least attention from boards. The principle, which imposes an obligation on directors to "actively promote ethical and responsible decision making," is extremely broad in its reach, covering entire organisations, every person in them and every transaction.

In practice, boards often focus on complying with its associated recommendations, which are limited to establishing codes of conduct and formulating policies for trading in company securities.

But focusing on the recommendations does not do justice to the essence of the obligation imposed by Principle 3, for which it is useful to get a dictionary sense.

"Actively" implies full involvement, "promote" suggests advancing something, "ethical" refers to being principled, fair, right, and decent, and "responsible" implies being answerable, dependable, and sensible.

The obligation requires the board's wholehearted involvement. It involves building an organisational framework that leads to right decisions. It involves building a reliable and trustworthy organisation where people are held to account.

One way to understand the potential impact of proper attention to Principle 3 is to consider the negative impact of not "actively promoting ethical and responsible decision making."

A Gallup poll commissioned by *The Wall Street Journal* found that 78 per cent of executives used their company phones for personal long-distance calls and 75 per cent had stolen work supplies.

The Day America Told the Truth written by James Patterson and Peter Kim and published in 1991, revealed that 91 per cent of respondents lied regularly at home and at work, and that most workers admit to wasting almost a day a week.

A 2006 survey by Towers Perrin found a 52 per cent difference in operating income performance for companies with high versus low employee engagement and 39 per cent difference in earnings per share.

The KPMG Fraud Survey 2008 suggested fraud was on the rise, and 43 per cent of respondents regarded it as an inevitable cost of doing business. Respondents rated the poor communication of the organisation's values and code of conduct as the most significant contributor to misconduct, followed by a poor example from senior management and a poor ethical culture.

There is an implicit message that boards need to do far more to promote ethical decision making and that this will affect performance.

Many companies have policies on appropriate behaviour of directors, executives and staff, but little has been done to integrate these into the company-wide management practices.

Many boardroom responsibilities can be met if there is the competence and commitment. Staff and customers readily discern whether the underlying emphasis is on being seen to do the right thing or on doing it.
