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Code needs backup says ethics expert

By ROB O'NEILL - Sunday Star Times Last updated 05:00 15/08/2010

A lack of requirements for ethics training could undermine attempts to boost faith in New Zealand's financial institutions and markets.

That's one message that will be presented at events and meetings around the country this week by UK-based Institute of Business Ethics (IBE) director Philippa Foster Back, who says business behaviours and cultures are under increasing scrutiny following the global financial crisis.

Foster Back says New Zealand's new draft code for financial advisers is similar to measures UK regulators are looking at.

"There is an expectation that professionals giving advice need to do it according to a code to provide trust and that all are signed up to it," she said.

The code is "as good as codes go" covering mass audience and expressed in user-friendly terms. However, a lack of training requirements is always a weakness.

"A lot of companies implement codes without training," she said. "No training means no consistency of conduct. You don't bring the code alive."

Foster Back, who has been helping with measures to improve the effectiveness of boards in the UK, is in New Zealand for a week and will be meeting Minister of Commerce Simon Power, the Serious Fraud Office, Securities Commission, NZ Superannuation Fund and will be running a workshop at the Insurance Brokers Association annual conference.

However, it appears ethics governance is gaining traction slowly here.

A local proponent of "ethical audits" is Jane Arnott, an associate of the IBE and country manager of Good Corporation, which conducts independent and confidential assessments of ethical management practices.

"It's been hard work," she admits.

Many managers say they don't need to have their values confirmed or checked. Some even take the suggestion personally, she said.

Even companies that make the front pages of newspapers because of ethical lapses and fraud don't see that as an ethical issue.

One of the few local companies to have submitted to an ethics audit is carpet maker Cavalier Corporation. Chief operating officer Colin McKenzie said the process put the belief that the company was highly ethical to the test.

"We bared our souls," he said. "We got a lot out of it and found out a few things."

He said the process was comprehensive, including interviews with internal and external stakeholders and across the company's many sites.

"People want guilt-free products and to deal with people they can trust," he said.

Arnott said it was interesting that state-owned enterprises were required to fulfil two broad expectations – to act commercially and to behave in a socially responsible way – yet although the first was audited, the second was not.

A spokesperson for the Office of the Auditor-General said there was no statutory requirement to audit social responsibility. The auditor-general looks at what parliament requires to be audited and the legislation does not currently envisage this role for anyone else.

However, a number of SOEs choose to report substantial additional non-financial information and, in some instances, seek independent advice and assurance over aspects of this non-financial reporting.

SOEs are also required to prepare statements of corporate intent as part of their accountability and are subject to a corporate social responsibility framework integrated with the business planning framework.

Foster Back said frameworks and policies could not stop someone behaving badly, but it could alert them to the risk of losing a licence or a job.

"It can bring home the nuances to people on the edge of doing something wrong, but it is unlikely to stop the determined conman or fraudster," she said.

Other areas, such as transparency and bonus and incentives structures, also need to be looked at to ensure they were aligned with any ethics policies adopted.

"A lot of companies seeking to change introduce non-financial measures," she said.

Foster Back will be speaking at an Institute of Directors breakfast in Auckland tomorrow and in Christchurch in the evening and in Wellington on Tuesday.