Business Ethics for SMEs

A guide for CIMA partners
Welcome

This briefing, based on content initially published by the Institute of Business Ethics, explores what business ethics means for small to medium-sized business enterprises and how they can introduce and support high standards of business practice. Professional management accountants have specific obligations from their Code of Ethics to uphold ethical principles and as such can make a direct contribution to the ethical conduct of businesses.

Together with Embedding ethical values, this briefing supports CIMA’s Training and Development Partners and Quality Partners to develop and implement a Code of Ethics as per the foundation standards for the development of CIMA members and students.
Few owners and senior managers of small and medium-sized enterprises (SMEs) will deny the importance of good, trusting relationships with customers, employees, suppliers and the community. The success of their company depends on it.

Why think about business ethics?

Recent global focus on corporate misdeeds, such as garment factory disasters, environmental damage, banking scandals and health and safety issues in the food chain has increased public scrutiny. There is now an expectation of ethical and transparent practice from customers and civil society. Due to requirements higher up supply chains, smaller firms are increasingly asked during tendering processes with large corporations about their social and environmental credentials and ethical risk management.

SME owners and managers will also recognise the importance of trust and integrity in business after being on the ‘receiving end’ of unethical business practice; for example, when customers and suppliers deliberately do not meet agreed terms and conditions and especially regarding late payments by customers.

Owners and managers can often encounter ethical challenges. Examples include:

- Do I meet a deadline with my customer and ship out products even though I know there is a possibility they might be faulty, or do I openly discuss my difficulties with the customer?
- How do I ensure that my employees do their work properly and do the right thing?
- How do I deal with my employees’ desire to balance their work obligations with their personal ones?
- How do I respond when securing an important contract seems to require the payment of a kickback?
- Do I delay payment to suppliers and the Inland Revenue when my cash flow is currently limited?

The desire to build trusting internal and external relationships, as well as growing pressures from wider society, should lead SME owners and managers to consider the extent to which ethical values and principles guide their business decisions (see Figure 1). What does ‘doing the right thing’ mean for the organisation?
**ETHICAL VALUES IN SMEs**

SMEs are characterised by informal understandings and shared expectations among the workforce regarding how business is done. Any values and ethical principles will often be implicit rather than formally expressed through ethics policies, codes and programmes that are familiar in large companies.

The culture and working practices of a small organisation are typically influenced by the owner, manager or managing director. Through their very visible presence, their personal attitudes and behaviours will set the tone of the business and have the potential to signal to employees how seriously ethical behaviour is to be taken in the organisation.

SMEs are not usually able to devote as many resources to building an ethical workplace culture as larger organisations. However, there are advantages to having a formal ethics policy in place. It reinforces and makes explicit the values and principles that are part of the organisational culture, so allowing them to be communicated to stakeholders. A code of ethics or similar guidance will provide support to employees on how they are expected to conduct their business. Figure 1 sets out some benefits of an explicit ethics policy.

Importantly, a policy will provide a context and the vocabulary for employees to raise any concerns they have with their supervisors or the directors. This can be an early warning system that will reduce operational as well as integrity risks. It will form a framework for management and staff to decide what is the ‘right thing to do’.

CIMA members and students are bound by a professional Code of Ethics — [www.cimaglobal.com/ethics](http://www.cimaglobal.com/ethics). This can directly benefit the SME in which they work, as it requires them to uphold fundamental principles, ensuring objectivity and integrity throughout their working lives.

**FIGURE 1: SOME BENEFITS OF MAKING ETHICAL VALUES EXPLICIT**

- Increased employee loyalty, higher commitment and morale as well as lower staff turnover
- Attraction of ‘high-quality’ staff
- Reputational benefits (customers and suppliers)
- More open and innovative culture
- Decreased cost of borrowing and insurance
- Generation of goodwill in the communities in which the business operates
- Supports employees to act ethically and raise concerns which reduces integrity risks

from IBE: Developing a Code of Business Ethics guide, 2003
1. Identify and define core values of the business

An effective ethics policy will be based on a set of values or principles. Values express beliefs about the ‘good’ and the ‘right’ in the context of the organisation; they are commonly derived from wider cultural and societal value systems. When identifying the organisation’s core values, it may help to think of some values as business values and others as ethical values, although the distinction can be blurred and business and ethical values are often interrelated. Some commonly found values are shown in Figure 2.

In SMEs, these values will inevitably be influenced by the personal and professional values and principles of the owner and managers. However, it is considered good practice to consult employees about this, asking them what they think the values of the organisation are. Employee involvement can increase the buy-in and effectiveness of an ethics policy; it is the first stage in embedding values in the culture. Already being bound by a Code, CIMA members and students will join organisations already understanding the ‘value of values’ and importance of professionalism, and they can provide a positive support when embedding values in the SMEs in which they work.

FIGURE 2:

<table>
<thead>
<tr>
<th>Business values may include</th>
<th>Ethical values may include</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer service</td>
<td>Integrity</td>
</tr>
<tr>
<td>Quality</td>
<td>Honesty</td>
</tr>
<tr>
<td>Innovation</td>
<td>Openness</td>
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<td>Reliability</td>
<td>Respect</td>
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<tr>
<td>Efficiency</td>
<td>Fairness</td>
</tr>
<tr>
<td>Value for money</td>
<td>Responsibility</td>
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from IBE: Developing a Code of Business Ethics guide, 2003
2. Draw up a code of ethics

A code of ethics is the main tool for implementing an ethics policy. Its purpose is two-fold: a) to provide practical guidance to staff and b) to make a public statement.

It translates core values into specific commitments and expected behaviours in relation to the organisation’s key stakeholder groups (i.e. customers, employees, suppliers and contractors, providers of finance and community). A code will also be a good place to address environmental responsibilities and to state how the company seeks to relate to its competitors.

When drawing up a code it is helpful to ask employees and other stakeholders about ethical issues that concern them and on which they would like guidance (see Figure 3).

The code may be given an accessible title such as ‘The way we work’ or ‘Our values and principles’.

A code of ethics cannot cover every situation but should make clear the ‘spirit’ in which business should be done and point employees in the direction of further support.

3. Embedding the code

The code needs to be communicated throughout the company. All employees should be made aware of the code, the commitments the organisation has made and the ethical behaviours that are expected of them and how they can get support. It’s good practice for the owners and managers themselves to introduce the code to new employees and remind existing staff of the importance of responsible behaviour on a regular basis, e.g. in staff meetings. Reminder communications could include examples of ‘right action’, consequences of ‘wrong actions’, and ethical dilemmas.

Employees should be encouraged to speak to their line managers or the directors if they are unsure about the ‘right’ response in specific situations or if they have concerns over certain decisions and behaviours.

Appointing a designated ‘ethics champion’ should also be considered. This may be the board secretary or HR manager or, depending on the size and set-up of the business, a non-executive director or even a person outside the organisation. Such persons may discuss ethical issues and concerns with the directors and be a contact if an employee wishes to raise concerns or seek guidance outside the line management framework. The effectiveness of the ethics policy should be monitored through confidential staff, customer and supplier surveys which can assess if the company is living up to its values.

Owners or senior managers need to be aware that their behaviour sets an example to their employees. For a policy to be effective, it is important that they are regarded as people of integrity, adhering to high ethical standards. The same applies for supervisors and line managers, who should be reminded on a regular basis of this responsibility.
EXTERNAL STANDARDS AND GUIDELINES

External codes and standards, such as the CIMA Code of Ethics, will complement and strengthen the ethics policy and culture of an SME. Recognition of informal and formal professional codes of practice may inform general business practice and greatly enhance the business’s reputation.

Some business sectors have launched initiatives that seek to target specific ethical issues endemic in that industry – such as fighting corruption or creating fairer employment practices. Finally, there is an array of external ethics standards and guidelines available to companies which can help identify their ethical commitments, and against which they can measure their ethical performance and make themselves accountable.

Most of these are primarily designed for large corporations, but some can be easily adjusted to fit the needs of smaller business organisations. An example is the GoodCorporation Standard, which sets out a corporate responsibility framework using a stakeholder approach, and Investing in Integrity which focuses on internal standards and employees experience.

FURTHER READING AND WEBSITES

• Business Ethics for SMEs, IBE Briefing No 6, London, 2007.
• Small Business Journey
  http://www.smallbusinessjourney.com/page1.asp
  Contains a section on ‘policy’ (business principles, purpose etc).
• Better Business Journey - Helping small and medium sized businesses to increase their profitability and responsibility
  Focuses on social, environmental and community responsibilities.
• Anti-Corruption Portal for SMEs
  www.business-anti-corruption.com
• European Commission ‘Enterprise and Industry’: Corporate Social Responsibility for SMEs Toolkit
• GoodCorporation Standard
  http://www.goodcorporation.com/

CIMA is a subscriber to the IBE. For a copy of ‘Developing a Code of Business Ethics’, by the IBE, please visit www.ibe.org.uk. Quote ‘CIMA’ and your membership number to obtain a subscriber price.

• Investing in Integrity
  www.investinginintegrity.org.uk
• Global Reporting Initiative
  http://www.globalreporting.org/WhoAreYou/SME/
• CIMA Code of Ethics and ethics resources
  www.cimaglobal.com/ethics

Also see ‘Embedding ethical values: A guide for CIMA partners’.