Have you ever been asked to do something at work that made you feel uncomfortable – something that you thought might have been intended to mislead, or something that seemed to make sense at the time but which you realised could have undesirable long-term effects? Most ethical dilemmas don’t involve a clear-cut case of fraud. Obvious fraud should not create a dilemma for any CIMA member. The problems occur when you find yourself in a situation that seems to fall into a grey ethical area. You may not like what you’ve been asked to do, but how should you respond? What are your options?

The institute’s ethical guidelines may not provide an answer for every eventuality, but they should raise awareness of the issues and suggest ways in which you can analyse your situation and decide what to do. The four scenarios on the following pages recount situations that real members have found themselves in around the world. The first was used as a case study at CIMA’s ethics roadshows in Sri Lanka, Singapore, Malaysia and South Africa last autumn.

Some of the solutions provided were suggested by CIMA members at these events, but do you agree with their recommendations? Which of the suggested courses of action might you have taken if you were to find yourself in such a situation? Let us know what you think by visiting www.cimaglobal.com, logging on to “My CIMA” and posting your reply; by e-mailing Neil Cole at nc1@caspianpublishing.co.uk; or by writing to Financial Management at Caspian Publishing, 198 King’s Road, London SW3 5XP. Your answers may be published in a future issue of the magazine.
Dilemma 1

CI has been the finance director of his company – a clothing retailer – for ten years. He’s responsible for the financial accounts and has identified some slow-moving stock that’s over nine months old, which would usually be written down.

The shareholders are trying to sell the firm and the managing director (the majority shareholder) has told him that it’s not necessary to write down the stock this time. CI is sure that this is because the managing director wants to inflate the stock valuation.

The managing director has found a prospective buyer and has indicated to CI that, if the deal is done, all employees will keep their jobs and CI will receive a pay rise.

Solutions suggested by members at the ethics roadshows

“Talk to the managing director and explain why this might not be a good long-term plan. It’s only a quick fix.”

“When signing the company accounts, add a note which states in your opinion that this is not a true reflection of the stock valuation.”

“Leave it in the hands of the auditors.”

“The prospective buyers will perform checks and due diligence before buying the company. Leave it to them – it’s a case of buyer beware.”

“The inventory write-down might not be relevant in this situation. Perhaps the company is being bought according to fixed-asset value.”

“CI should resign.”

“Talk to the other directors or minority shareholders, especially those close to the managing director.”

“Look at what the company’s value is as a going concern and assist the managing director in ways of putting the best case forward.”

“Get an independent adviser to evaluate the stock.”

“CI should do as he’s been asked.”

“CI should use the fact that what the managing director is asking him to do goes against his professional codes of conduct – and perhaps even the company’s own code of ethics – in order to dissuade him from this course of action.”

Dilemma 2

AC has been recruited by a young, successful and fast-growing company as its finance director. The business started trading a few years ago with a handful of employees and now has a workforce of 200.

Staff purchases of goods manufactured by the company are agreed by production managers on an individual basis and then processed outside the accounting system. The proceeds of these sales are used to fund the firm’s Christmas party.

How should AC deal with this issue without alienating the rest of the organisation?

Possible solutions

AC could:

a. Introduce a staff sales policy and ensure that sales of goods to employees go through the company’s accounting system in future.

b. Inform the tax authorities that the company owes tax from these sales.

c. Explain to the managing director that this practice is wrong and that employees will have to fund the Christmas party themselves from now on.

d. Ask the management to agree that the firm will contribute financially towards the staff Christmas party each year.

e. Allow the practice to continue – after all, staff sales constitute only a tiny proportion of the company’s overall sales.
MA works for a large group – a shared-services provider that serves UK companies. In the UK it has two businesses, X and Y, which were historically separate but have recently merged. X is loss-making and was given £1m by the parent group to turn itself around, based on agreed performance targets. MA works in the finance department of what used to be Y and has been asked to move money from this part of the business to the part that was X to give the impression that the latter’s losses are a quarter of their real value. MA knows that this will affect a major business decision.

MA’s new line manager worked in X before the merger and, when MA challenged her, she said that this matter had nothing to do with ethics because it didn’t concern the shareholders.

Possible solutions
MA could:

- Do as the line manager has asked. This is an internal company matter and so is not really an ethical dilemma.
- Do as she has asked, on the condition that she puts her request for the transaction in writing.
- Talk to an appropriate director of the parent group about the issue.
- Refuse to comply with her request.
- Resign.
- Discuss the issue with the group’s auditors.
Possible solutions
FC could:
  a. Report the charity and the individuals concerned to the national regulator.
  b. Report their conduct as a potential case of money-laundering.
  c. Reiterate her concerns to the charity’s current trustees in writing and stress the importance of implementing the recommendations in her report.
  d. Do nothing further. Her concerns are already in the report, along with recommendations for safeguards to prevent the same thing from happening again. FM

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FURTHER INFORMATION
To see the institute’s code of ethics, visit www.cimaglobal.com/codeofethics. Articles on ethics have also appeared in CIMA’s e-mail newsletter, Insight, from April to July 2006, issues of which can be found at www.cimaglobal.com/insight. A Harvard ManageMentor Plus module, “Managing ethical conflicts”, can be accessed via the Harvard ManageMentor home page in the CPD Solutions area of CIMA’s web site.