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THE BUSINESS END OF BUSINESS

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Think about it

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Opinion: Corporate Governance

The nexus of private and public morality was at the centre of the most memorable line of the HIH Royal Commission Report, when Justice Neville Owen challenged whether HIH board members had ever asked themselves, 'Is this right?'

Ethics is a system of moral principles, by which human conduct is judged to be good or bad, right or wrong, courageous or cowardly, harmful or beneficial.

Unlike the rest of the philosophical canon, however, the study of ethics has not been undermined by secularisation, and therefore, moral philosophy is discussed in language based on the Judaeo-Christian tradition.

The pervading mood of the Australian boardroom post-HIH is one of struggling to find an appropriate response to accusations of widespread malfeasance or potential wrongdoing.

To protect the reputation of their boards and themselves, company directors are using words such as "transparency", "disclosure" and "integrity" and are exploring the meaning of this newly acquired lexicon in "ethics seminars" for audiences of company directors, senior executives and students of management.

Unfortunately, none of these events has been, to use the management jargon, "framed" (or more popularly "reframed") by a definition of ethics, and the discussion has predictably turned solely on the Judaeo-Christian ideal of "do unto others as you would have them do to you".

If Aristotle, Hegel or the Cambridge philosopher, GE Moore, were the chair, the discussion would offer more useful insights into ethical behavior in business.

Each of these thinkers would ask panel members to examine whether their actions mirrored their private and public selves. "Do you act as you should act?" would query Aristotle. "If you do not," would say Hegel, "you are empty and hollow." "Do you judge by fact or value?" would counter Moore.

Board members tell me that sound judgment is a critical attribute of directorship (and especially of chairmanship), yet even a man as erudite as Justice Owen does not distinguish between private and public judgment, and how this affects group decision-making.

A private ethic concerns decisions made in love, in friendship, for reasons of

self-sacrifice, or motivations of hatred, vengeance, anger or shame. Such decisions, therefore, have the propensity to be seen as irrational.

Thus iconoclast Gore Vidal writes: "Each of us contains a private self and a public self. When the selves wrangle and neither is for long dominant, the host is more a man of conscience than of action. When the two are in total conflict, the host is a lunatic, or saint."

Public morality, by comparison, must be acknowledged as rational, principled and steady, and decisions shown to be made after the collation of all facts.

"In the sphere of public morality it is not enough to simply say, 'I feel I must do this or that', except in the case where the public and the private conflict," writes English philosopher Mary Warnock.

"A public figure who resigns over a conscience issue is entitled to say, 'I can do no other'. But public morality as such must be explained, and explained with reference to the common good."

Moral acts in the public domain require that all the facts have been gathered. Chairmen and other board members need to know whether they have all the information required to make a proper consideration. Are the board papers being delivered on time and in an appropriate manner? Is the chief executive withholding information? Do the non-executive directors understand the business and are they given an opportunity to do so?

The Corporations Act allows for any difficulties faced by board members in making decisions by permitting the board to seek independent advice. This is acknowledged in the corporate governance statement in annual reports but companies rarely say whether this option has been explored.

The onus is on board members to distinguish the difference between their public and private selves in forming conclusions, and how this difference is manifested in boardroom decision-making. The chairman's role is crucial in ensuring that board members do not conform to "group think" in these instances.

Board members, in considering the ethical considerations of their actions, must ask whether decisions are ethical in the context of employees, suppliers, stakeholders, and the shareholders to whom they have ultimate responsibility. Ideally, this should be done by a show of hands, not a secret ballot.

US management writer Peter Drucker famously related the story of Alfred P Sloan, who once asked whether General Motors board members were in agreement over a certain matter. The "corporate nod" (as coined by writer Susan Scott) was unanimous. "Then," said Sloan, "I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about."

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