

Trust, Reputation, Integrity and Professionalism

reflections on business relationships

by Julian Clarke, FCA



Would you do business with someone you don't trust? Most wouldn't. Yet although trust is fundamental to building long term relationships, it may not be the primary driver in evaluating and making business and other decisions. Indeed many of these decisions appear to be taken without fully assessing the likely impact on relationships with employees, customers, suppliers, investors, local communities and other 'stakeholders' – the very people who contribute to an organisation's reputation.

The rationale of this article is very straightforward:

- ▶ Organisations that conduct their affairs with integrity are trusted.
- ▶ Trusted organisations enjoy a good reputation.
- ▶ Organisations with a good reputation are consistently successful.
- ▶ The public expects higher standards of integrity from members of professions.

Trust

Trust is at the core of all good relationships – business and personal. It is the glue that holds the relationship together, particularly when times are difficult.

Few engage in business not caring whether people trust them or not. Yet when an opportunity to take unfair advantage of another arises, it is often grasped.

Businesses rarely survive on one-off situations. Many require not only a regular trading pattern with customers and suppliers, but also thrive on referrals from the satisfied.

The best decisions are taken when a 'win-win' outcome results; otherwise the gain to one party will not only

be at the expense of the other in that situation, but may also preclude any further opportunities. Short term gain may well be at the expense of any longer term relationship.

Should trust break down between two parties, it is likely the dissatisfied party will spread the word, with a detrimental effect on the reputation of the supposed 'winner' of the original transaction.

Firms and indeed entire industries can suffer a loss of reputation when the acts of some of their individuals are found out, leading to a breakdown in trust.

Shortly after his election, UK Conservative Party leader David Cameron launched a "Taskforce on Democracy" calling for fresh ideas to "help restore trust in politics and government".

He warned that there has been a "progressive and debilitating alienation of people from politics" with people believing voting "hardly makes any difference".

"Politicians all seem the same. They break their promises. And in any

case, the decisions affecting peoples lives are often made somewhere else, by someone else: quangos and bureaucrats. Judges. Europe. Anyone in fact other than the local and national politicians that people elect. No wonder electoral turnout is down and support for fringe parties is up".

Is there any evidence to confirm these opinions?

The UK's *Independent On Sunday* in February 2006 reported the results from three decades of UK MORI Opinion Polls. Trust in Parliament fell from 54% in 1983 to 14% in 2000. During the same period Trust in the Civil Service fell from 46% to 17%, seeming to confirm Cameron's assertion that "trust in our national institutions is draining away".

MORI's polls suggested very little trust in political leaders with only one in five agreeing that "people in charge know best".

Before those engaged in business get carried away with criticism of politicians, they could have a closer look at their own arena.

Consulting firm Watson Wyatt surveyed 13,000 US employees and found only 39% said they trusted the senior management of their companies. They reported that "there

Open Your Door to Ireland's Premier Business Professionals

Chartered Accountants are long-established as Ireland's premier accounting professionals. Today, 65% of CAs excel in a diverse range of dynamic management roles in all sectors of business or industry. In fact, 90 % of Top Ten ISEQ Companies now have a CA as Finance Director or Managing Director.



THE INSTITUTE OF
Chartered Accountants
IN IRELAND

HAVING A CHARTERED ACCOUNTANT TRAINING IN YOUR ORGANISATION PROVIDES REAL COMPETITIVE ADVANTAGE TO YOUR BUSINESS:

- Direct access to the most talented candidates from the Institute of Chartered Accountants in Ireland;
- Invaluable exposure to the latest education programmes and best practice in areas such as financial and management accounting, taxation, treasury and information systems.
- Attractive opportunities for the advancement and retention of existing personnel.



ICAI TAKE A FLEXIBLE APPROACH TO TAILORING TRAINING PROGRAMMES TO SUIT ORGANISATIONS' HUMAN RESOURCE REQUIREMENTS. TO DISCUSS HOW YOUR BUSINESS CAN BENEFIT FROM TRAINING A CHARTERED ACCOUNTANT, PLEASE CONTACT DIARMUID BREATHNACH ON (01) 637 7270

is a strong relationship between trust and employee commitment. Where there is no trust, people stop working extra hours and don't put their full effort into their projects".

So perhaps business people are not as well placed as they would like to imagine to criticise politicians knowingly making promises unlikely to be kept!

Irrespective of the arena, a breakdown in trust is likely to lead to a damaged reputation.

Reputation

Like trust damaged, a tarnished reputation can be very difficult to restore.

This was recognised over two millennia ago by Socrates who advised:

"Your good name is the richest jewel you can possibly possess. For reputation is like fire – when once you have kindled it you may easily preserve it, but if you once extinguish it, you will find it an arduous task to rekindle it again".

For those organisations with a 'good' reputation, being trusted by customers, suppliers, employees and others is of paramount importance, both for pride in the firm, its endeavours and for the resulting likelihood of continued business success.

For those whose reputation has suffered, sometimes through no fault of their own, how they attempt to rebuild their reputation may affect whether they survive in business or not.

There will always be another category – those organisations with a bad reputation that is fully warranted!

Unfortunately firms that treat their customers with contempt (perhaps from a market dominant position), don't pay their suppliers, short-change or take advantage of their employees, or have scant regard for the environment or local communities in which they operate, can also be very "successful" in business – at least in the short term if not always in the medium or longer term. They may also enjoy success in terms of profitability, but maybe not by other measures.

The "success" of such firms can be hard to explain, especially as they are likely to be more stressful places in which to work and with higher staff turnover. Employees who have not worked elsewhere may not realise, though, that business practices which result in unnecessary aggravation for all involved are less than ideal and generally do not produce the best outcomes.

In a truly competitive market, people will choose not to deal with such firms again and are likely to 'bad mouth' them, resulting in a further erosion of their reputation, with fewer customers, suppliers and potentially also future employees electing to choose them.

Fortunately such errant firms make us appreciate the vast majority of firms for whom "exceeding the customer's expectations" or "dealing fairly with all involved" is the mantra.

The smart organisation recognises that all 'stakeholders' contribute to a good reputation. Indeed a good reputation has been likened to an insurance policy – a modest annual investment against the possibility of a significant loss.

A good reputation is worth a great deal in the marketplace. Although the Pentium microchip, for instance, is a well established brand, substantial amounts were still wiped off Intel's market capitalisation in the 1990s when it was discovered that its then latest Pentium chip failed to perform some basic mathematical functions.

Some firms recover from a crisis more quickly than others. Indeed firms and sometimes entire industries don't recover their reputation at all.

Can we learn from the experiences of those who have managed to maintain a strong reputation?

The critical success (or failure) factors appear to include:

- ▶ The strength of the reputation prior to the crisis
- ▶ How the crisis is managed.

The leader of a very large and long established organisation, whose

reputation has suffered severe damage following a long series of cover-ups, spoke to his management team during its recent visit to headquarters:

"It is an urgent task to rebuild confidence and trust where these have been eroded ... In your continuing efforts to deal effectively with this problem, it is important to establish the truth of what happened in the past, to take whatever steps are necessary to prevent it from occurring again, to ensure that the principles of justice are fully respected and, above all, to bring healing to all those affected."

These were not actually the words of the CEO of a listed multinational. Rather they were those chosen by Benedict XVI in addressing visiting Irish bishops in Rome in October 2006!

You mess up, you own up!

The advice from the experts is that owning up is far more likely to be successful than covering up.

Seven people died in 1982 from cyanide laced Tylenol Extra Strength capsules. The manufacturer, a division of Johnson & Johnson, alerted the public to the potential danger and recalled the product worldwide at a then cost of \$100m.

Following a similar incident and fatality in 1986 it also replaced the product with caplets in more tamper-evident packaging.

The (applauded) decision to be so open was strongly challenged internally with opponents suggesting it signalled guilt and was likely to open up a Pandora's Box of legal restitution.

Then President & CEO Jim Burke said "I'm leading the company and I have responsibility to persuade others that we have to do what is in the interest of the long-term values of the company". Burke later stated "I think the outcome of that decision was that people increased their trust in Johnson & Johnson. Long term the brand could only survive through open & honest disclosure".

Burke said he took the decision to pursue a policy of open and honest disclosure "because of the company's strong credo and history of integrity".

Integrity

Integrity is a characteristic that is much admired and valued, not just in business and politics, but also in education, religion, sport and amongst family and friends.

Classical scholars will be aware the word derives from the same Latin root as “Integer” – a sense of “wholeness”.

A person of integrity, like a whole number, is a whole person, a person somehow undivided.

Whilst integrity in business is far more prevalent than many critics would like to believe, common barriers that can get in the way of integrity include: power, pride, pressure and profit.

Power

Of course leaders of organisations need power – they need it to galvanise the troops and make progress in attaining the organisation’s strategy and goals. Like money, power itself is neutral – it can be used and abused.

With all power comes responsibility and most power is used responsibly. But many scandals – reported and unreported – arise from the abuse of corporate power.

The abuse of power often occurs when those entrusted with it make its preservation their primary concern. They don’t appreciate it is bestowed on them for the purpose of service. Those who want to keep it most are most likely to compromise their integrity.

Political leaders such as Robert Mugabe in Zimbabwe spring to mind but many of the high profile business scandals arose when the executives developed a sense of ‘entitlement’. Leadership expert Abraham Zaleznik says such a leader “comes to believe he and the firm are one ... so he can take what he wants, when he wants”.

Experts advise that the best test for a leader to ascertain whether he or she is guarding power too much is to examine whether there have been instances of breaches of integrity arising from the desire to maintain power. Fortunately even if this is the

case they conclude that it is never too late to alter direction.

Inevitably people who abuse power, lose power. Abusive CEOs, like dictators, live on borrowed time. When their lack of integrity is found out, their personal reputation and that of the organisation suffer.

Pride

Pride is an odd characteristic – it may create difficulties but it has many positives!

It is undoubtedly good to have pride in one’s work, achievements and family. It is also helpful to have a sense of self-worth and confidence in what one does. Nevertheless an exaggerated sense of self-worth can create difficulties. Pride has been described as the excessive liking of one’s own excellence.

“Pride leads to every other vice ... because it is competitive by nature ... being better at something than someone else. Each person’s pride is in competition with everyone else’s pride. Pride gets no pleasure out of having something, only out of having more than the next person.”

CS Lewis

Pride can blind people to their own faults, other people’s needs and integrity pitfalls lying in their path. If one’s goal is to be richer, smarter or better, the focus will be entirely on self and own interests.

A common denominator among failed high profile entrepreneurs would appear to be excessive pride, allied to a lack of scruples.

Benjamin Franklin said “the hardest of our natural passions to subdue is pride” and the fact that it may require “subduing” shows what a challenge this is!

Subduing pride may require good managerial skills combined with a touch of humility. The self-interest that results from excessive pride is less likely to be an issue in an

organisation that has a strong set of core values and lives by them.

Pressure

Breaches of integrity can be brought about by corporate culture and pressure from peers or management.

Pressure can be internally or externally generated – the pressure to appear to outperform a colleague may be solely driven by an internal urge to do better (pride again?) or because of an external factor – such as a competitive corporate culture.

By breeding excessive levels of competition between its employees, such a culture may actually foster an environment where little genuine co-operation between colleagues results. This surely is contrary to the whole concept of forming a corporation to achieve common goals!

The pressure arising in companies unable to live up to financial forecasts or expectations has led to many of the business scandals.

In such situations finance and accounting professionals, particularly those in managerial positions, may be put under extreme pressure to use (or abuse) their judgement to take decisions and ensure results meet market or board expectations.

This situation is exacerbated when a short-term focus arises from quarterly reporting pressures.

With pressure comes the temptation to cut corners, distort the truth and compromise personal integrity.

The expert advice for coping with such pressures includes reviewing whether one has been or might be tempted to compromise personal integrity. The experts suggest asking oneself some tough questions – whether pressure has led or is likely to lead to taking shortcuts, breaking commitments, making promises unlikely to be kept or making poorly advised decisions.

Profit

Ask anyone involved in business, and particularly those experienced in corporate recovery, about profit and they will tell you that it is critical for both business survival and business success.

Around 1910 a Cadbury's director recognised that they would be incapable of providing for their employees (including houses for their factory workers) if they did not generate sufficient profits.

However the pursuit of profit and wealth without the critical counterbalance of integrity can blind individuals – and entire organisations – to the incorrectness of their actions.

Henry Ford wasn't known to be short of a bob or two yet he said: "Money doesn't change men, It merely unmasks them. If a man is naturally selfish or arrogant or greedy, the money brings that out. That's all."

Of course we all need money to survive and provide for our personal and family lives, present and future, but pursuit of short-term personal gain as one's highest and most urgent priority is risky as it may result in loss of integrity and reputation which can not only be embarrassing and difficult to recover from, but may even result in business failure.

If a person of integrity, like a whole number, is a 'whole person, a person somehow undivided', an excessive focus on wealth generation is less likely to result in a person continuing to be a 'whole, well-rounded person, a person of integrity'.

Professionalism

Integrity and trust are the foundation stones on which many professions have been built.

If the public cannot trust professional advisors, whom can they trust? *Caveat emptor* may be appropriate elsewhere in business but certainly not when a client – professional relationship is involved.

This public expectation creates a far greater onus on members of professions and the professions themselves than on non-professionals.

Classically, there were only three professions: medicine, law and religious ministry. In the modern

world, though, many services are now provided by professionals.

Despite the diversity of their roles, today's professionals have many characteristics in common.

- ▶ They are well trained, dedicated and competent experts in a specialist area which provides a valuable (perhaps 'vocational') service to society.
- ▶ Typically, admission requirements are demanding, educational standards are high and professional development opportunities are ongoing.
- ▶ Members of professions are generally held accountable for what they do. Codes of conduct emphasising concepts such as confidentiality, competence, courtesy, independence, objectivity and integrity are designed to guide consistently 'professional' behaviour.
- ▶ Some professions also still place great emphasis on what used be called 'apprenticeship'. Indeed the International Federation of Accountants (IFAC) in a September 2006 document emphasised the critical role that 'experience gained in real work environments' has to play in the development of professional standards and character.
- ▶ One generation of professionals is tasked with passing on its standards to the next.

Increasingly, professions face the challenge of balancing the dual roles of supporting as well as licencing/regulating their professionals.

Most recognise that for society to continue trusting and respecting professions, their own self-regulation has not only to be seen to exist but must be effective.

Professionals by and large take great pride in their work and are dedicated to ensuring clients benefit from their skills and experience. They often have a considerable degree of independence and autonomy. Consequently they are in a position to use their own judgement and experience in assisting or advising their clients.

Society expects that professionals will use this judgement and their special relationship with clients to strive to

service their needs without self-interest.

The public are entitled to expect that a professional will put other's affairs first. Avoiding self-interest includes ensuring that conflicts of interest do not interfere with client (or employer) service.

If a potential conflict of interest exists, it is far better to be up-front about it. Should the work still proceed, by being open and honest about the situation, the client (or colleague in industry) can also assess its impact on the situation and the ensuing advice, which may in fact be all the more appreciated.

Indeed trust and reputation are likely to be augmented by such disclosure, even if the conflict prevents the work being performed.

Nobody pretends that being a professional is easy. We face challenges like anyone else but are expected to have a higher 'duty of care' and perhaps also 'serve the public interest'.

Whilst there are now many professions, members of the accountancy profession have a particular responsibility to society because accountancy is the 'language of business'.

Conclusion

Trust, Reputation and Integrity, whatever the environment, are not just lofty ideals. The opportunity to put the ideals into practise manifests itself at times of key decision making. Common sense suggests they lead to business success. Action and endeavour, tailored to the challenging and differing interests of all stakeholders, is required if their achievement is to be more than an aspiration.

The journey towards greater Trust, Reputation, Integrity and Professionalism in your organisation is likely to be an ongoing one, but driven successfully from the top it can result in an interesting and rewarding 'TRIP' for all.

Julian Clarke FCA is MD of SME Financial Modelling and a member of ICAI Council. He would welcome feedback on these personal opinions to julian.clarke@sme.ie