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Corporate Expenses: the ethical challenges

This IBE briefing examines the ethical challenges that can arise in corporate expense systems and provides guidance on how to strengthen the process.

The ethics of employee expenses

It has been estimated that UK businesses paid out approximately £5.8bn in employee expenses, with as much as £1.02bn estimated to be false or 'out-of-policy' claims,¹ and a fifth of UK employees admit to having exaggerated expense claims with 13% saying that they are likely to exaggerate their expenses in the future if they find themselves in economic difficulty and think they can get away with it.²

In further research conducted by Travelodge, a survey of 3,000 British employees found that the typical worker pocketed an extra £17 each month in claims, citing the top three expense 'scams' as:

- Claiming false taxi transport
- Adding mileage to a claim
- Entertaining clients in cheap restaurants whilst using an expensive one for personal use and claiming for the latter.³

In recent months numerous allegations of the abuse of expense systems in both the public sector and the corporate world have been made in the media. Excessive expense claims by Members of Parliament have raised public perceptions of the issue. Where a company demonstrates a lenient attitude to employee expenses, fiddling claims is likely to become considered as 'acceptable behaviour'. This can damage the reputation of the organisation and the individuals involved, and also undermine the building of an ethical culture.

Motivations of abuse

Whilst the majority of employees do submit accurate claims, those that don't may justify the abuse with a number of reasons:

- A perception that their manager abuses the expense system
- A belief that the expense policy is not applied fairly or consistently to all employees
- Expense allowances are deemed unfair e.g. the mileage rate doesn't cover the actual car and fuel cost
- If pay does not rise in line with inflation or an employee feels they are not paid a fair salary
- The employer is slow at paying back expenses
- The employee is unaware of the expense policy.

Managers in charge of approving claims may use the expense system as an unofficial way of rewarding hard-working staff. Although this may seem innocuous, such behaviour sets a bad example to fellow employees, and can compound an expense-fiddling culture. In turn, this may lead to more serious and systematic fraud. Similarly, if a manager does not agree with a company's expense policy, they may not enforce it.

Addressing the challenges

Setting the '**tone from the top**' is imperative in creating a corporate culture where expense fiddling is unacceptable. Leading by example, being transparent and accountable at the highest level encourages honesty and ethical behaviour in staff.

Guidelines on expense limits, constraints and reimbursement procedures, are normally set out in a formal **expenses policy**. This may form part of the organisation's code of ethics and be integrated into the ethics training programme. Box 1 contains examples of guidance provided by organisations on expenses.

Box 1: Examples of guidance on expenses provided by organisations

‘The company will reimburse the reasonable costs of travel for staff provided the travel is for purposes that are principally business related. To that effect, the invitation of spouses to travel to the location of a business meeting at the company’s expense is generally incompatible with the business purpose of the meeting and is not permitted without prior written approval of relevant management.’

GSK Employee Guide to Business Conduct (2009)

‘Expenditure for which reimbursement is claimed...should be wholly, exclusively and necessarily incurred for the performance of a Member’s parliamentary duties...’

House of Commons

The Green Book: A guide to Member’s allowances (July 2009)

‘Always protect BP’s funds as you would your own: guarding against misuse, loss, fraud or theft. This includes company monies advanced to you and any company travel and entertainment, procurement or credit cards you may hold. Make sure that all claims, vouchers, bills and invoices are accurate and submitted in a timely manner.’

BP Code of Conduct (2009)

Communicating the expense policy to all staff at all levels and ensuring everyone is aware of the policy (e.g. posters on staff notice boards) helps to ensure that employees know what they can and cannot claim for. It is also good practice to include the expense policy and reimbursement system in the contract of employment.

In many organisations the accuracy of expense claims is rarely checked. Even where electronic systems are in place, claims that are deemed ‘out-of-policy’ can often still be approved by an authorised manager. This can make it difficult to identify expense fiddling. However, to tighten up on this area, some companies are beginning to use data mining techniques to expose questionable claims. As with other company policies, **regularly**

reviewing the expense policy and assessing its effectiveness, is advisable.

Training those that authorise expenses (usually line managers) with guidance on how to proceed when challenging a claim can help to ensure that the expense policy is enforced. The expense policy is worthless unless authorisers know how to apply it. Outlining disciplinary procedures for staff found to be abusing the expense system is also important in demonstrating to employees that the abuse of expenses is taken seriously.

Reimbursing expenses **promptly** so employees are not resentful of being ‘out of pocket’ and fostering a culture of consistency and fairness can also help to avoid abuses of the expense system.

Further Reading

- Fraudulent Expense Claims: Q&A, 17th March 2008: <http://www.personneltoday.com/articles/2008/03/17/44963/fraudulent-expenses-claims-legal-q.html>
- IBE Good Practice Guide: Speak-up Procedures, 2007. Available from: <http://www.ibe.org.uk/publications/listofpublications.htm>
- HM Revenue and Customs (HMRC) guidance on expenses: <http://www.hmrc.gov.uk/payex/exb/>

This and other Business Ethics Briefings are available to download free of charge from the IBE website: www.ibe.org.uk/publications/briefings

1. Research conducted in 2007 by expense management company, GlobalExpense, and research and consulting organisation, YouGov. See ‘False expense claims cost UK employers more than £1bn a year’ Personnel Today, 18th February 2008:

<http://www.personneltoday.com/articles/2008/02/18/44485/false-expense-claims-cost-uk-employers-more-than-1bn-a-year.html>

2. ‘Not just MPs on the fiddle’ Director of Finance Online, 29th June 2009: <http://www.dofonline.co.uk/content/view/full/3719/118/>

3. ‘Outrageous expense claims cost UK businesses £1bn a year’ Personnel Today, 1st April 2008: <http://www.personneltoday.com/articles/2008/04/01/45178/outrageous-expense-claims-cost-uk-businesses-1bn-a.html>