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The Business Ethics Collaborative in conjunction with the
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Student Ethics Essay Prize 2018 **(undergraduate)**

This certificate is awarded to

Nicholas Jones

in recognition of the best essay submitted by an
undergraduate student.

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Category 1: Undergraduate students

The category 1 essay contest is open to any student currently studying a business degree or unit at undergraduate level within the University of Sydney Business School. The best essay will be chosen for a \$1,000 cash prize.

Reputations: Slowly built and quickly lost - You are part of #lithium history here

Nicholas Jones

Whether due to the fallout from the Banking Royal Commission in the case of AMP and the big four banks, or journalistic investigations raising questions regarding the questionable operations of Retail Food Group, Get Swift and Big Un, the 2017-18 financial year was undoubtedly characterised by numerous ethical issues for Australian companies listed on the ASX. With numerous trading suspensions, regulatory fines, pending class actions and billions in value written off companies' books, the recent financial devastation alone has thrust the importance of ethical corporate governance into the spotlight. While a definition of ethics can be subjective and often illusory, Crane and Matten (2015) define business ethics as the consideration of an organisation's actions or activities having incorporated moral concerns into the decision-making process. Pimple (2012, p. 765) notes that given overlap between ethics and appropriate corporate governance and corporate responsibility, "Business ethics are important because they help maintain a clean reputation and ultimately benefit everyone involved". This paper will critically analyse an ethical issue in which market sensitive information was indirectly leaked involving junior Congo-focused lithium explorer AVZ Minerals.

AVZ Minerals appointed Singapore based strategic advisor, Airguide International to facilitate and advise the company in dealings with relationships involving counter-parties in China on the 2nd of June 2017 (O'Hara, M. 2018). Ethical issues emerged on the 28th of March 2018 however, when Airguide International's Michael Langford circulated photos of cores from ongoing drilling activity at AVZ Minerals' Manono mine site in two separate posts on his Twitter account (Nicholas, 2018). The controversy had not concluded however as Michael Langford continued to tweet to an audience of over 5,500 followers, often generating hundreds of re-tweets in the process (Twitter, 2018). On the 13th of April and 29th of June respectively, tweets involving "Confidential MOUs" and a table with what one would have presumed to be proprietary mineral resources estimates and production costs led to further questions being asked by the ASX (O'Hara, 2018; Ferguson, 2018). The commentary provided by AVZ Minerals in explaining these events has been muddled and ultimately achieved little in the way restoring trust in the company and alleviating shareholder concern regarding their ability to properly manage the Manono mine project. This has no doubt contributed to the value of AVZ Minerals dropping in value by AUD\$261.8M between the 28th of March and 29th of June (ASX, 2018).

On the 6th of April 2018 AVZ Minerals released drilling results and their response to the first ASX price query, however both announcements were not mutually consistent. AVZ Minerals later corrected themselves, having mistaken and confused the drill holes Michael Langford tweeted about as being from already released geological results, when in fact they had not yet been released (Whyte, 2018). Talk about a mining company digging themselves into a hole.

Child and Rodrigues (2004) discuss the double agency relationship, the second agency relationship between corporate management and employees of a firm relates to the corporate structures of AVZ

Minerals and Airguide International. A theoretical framework proposed by Child and Rodrigues (2004) features a more inclusive approach to ethically managing a firm, whereby centralisation and control, mutual monitoring and most importantly, effective measures to enforce ethical behaviour exist.

On the 5th of July 2018, O'Hara (2018) stated that AVZ Minerals formally requested Mr Langford to refrain from tweeting potentially market sensitive information and that any communication regarding AVZ not cleared by the company could result in the contact agreement with Airguide being immediately terminated. These actions relate to the measures of centralisation and ability to enforce ethical behaviour as part of the theoretical framework provided by Child and Rodrigues (2004).

AVZ Minerals' implementation of these new rules were unfortunately nothing but a case of too little too late however. Before this announcement occurred, Michael Langford had already tweeted information that had prompted past price queries from the ASX on not one but two separate occasions, the 13th of April and 29th of April as discussed previously. Even assuming a complete absence of malicious intent on the part of Michael Langford, it was grossly negligent for AVZ Minerals to have repeatedly not taken earlier action. Appropriate internal controls and mandatory clearing of information should have been implemented immediately as part of the first market announcements on the 6th of April concerning the initial tweets of the drill cores.

According to the resource-based view of a firm, the corporate reputation of a firm contributes to sustainable competitive advantage and can be considered a valuable strategic resource (Capozzi, 2005). Unlike an established firm whereby investors largely update their expectations based upon changes in earnings, there is no such proxy for junior exploration mining companies such as AVZ Minerals. Analysing such a firm's financial statements reveals little of use in forecasting the success of these firms, which instead are largely dictated by drilling results. It is for this reason that this ethical issue which shattered shareholder trust and tarnished AVZ Minerals' reputation was of such importance. AVZ Minerals' corporate image and reputation if arguably not damaged by Michael Langford's tweets most certainly was from management's backtracking, inconsistent reporting and subsequent inaction.

Warren Buffett states "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently". What an over-eager Twitter personality and a junior Congo-focused lithium explorer demonstrate however is while it may still take years to build a reputation, it can in cases only take mere seconds to ruin it. Improper market disclosure practises originating in the Twittersphere is an ethical issue that regulators and shareholders alike could not have imaged decades ago. The perceived disconnect to real world consequences that the internet and social media platforms can provide is indeed illusory. While Michael Langford's tweets were deleted, the reputational damage to AVZ Minerals and destruction of shareholder wealth will remain.

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