WHY ETHICS MATTER

Ethical transformation is critical. The first step is acknowledging ethics and values as important and making the decision to prioritise it above the bottom line. This has to come from the top

Words Monique Verduyn

With the Zondo Commission of Inquiry into State Capture unearthing staggering and significant news regarding corrupt activities involving the private and public sectors in South Africa, the disease of unethical behaviour has never been more widespread, thanks to a winner-takes-all, get-rich-quick culture.

In 2018, the country was rocked by auditing scandals that saw the closure of black-owned firm Nkonki after it was discovered that Mitesh Patel's R107-million buyout of Nkonki was funded by Gupta lieutenant Salim Essa, through his controversial consulting firm Trillian.

KPMG, meanwhile, shed clients and staff after several scandals, including publishing a misleading report on the South African Revenue Service (SARS) that led to a police probe of a former finance minister and acting as an auditor for a bank that collapsed due to alleged fraud.

Both firms were removed from the list of suppliers of audit services to the public sector amid damning allegations of unprofessional, unethical and possibly criminal activity linked to senior individuals at the firms.

With auditors accused of consistently contravening both professional standards and the law, South Africa's Auditor-General, Kimi Makwetu, said the credibility of the country's accounting profession is 'in the gutter'. Against this backdrop, the accounting profession needs to rescue itself and regain credibility, and solutions are being desperately sought after.

Ethics is the cornerstone of the chartered accountancy profession. It is the distinguishing characteristics that set the CA(SA) apart from other professionals and also holds individuals accountable for their actions and behaviour at all times. As responsible leaders, CAs(SA) have a duty to act in

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> **Heemal Bhaga Muljee CA(SA), national head of audit at BDO South Africa**

the best interest of the public and this is only possible by having high moral fibre ingrained in all chartered accountants. But corporate South Africa has to take responsibility too – everyone has a stake in ethical behaviour and moral reasoning.

Michael Dorfan CA(SA), Life Healthcare Group privacy officer, notes that the International Ethics Standards Board for Accountants sets robust, internationally appropriate ethical standards, including auditor independence requirements, for professional accountants worldwide, and lays down the fundamental principles for members of the profession. 'Broadly speaking, the standards refer to professionalism, expected behaviour, confidentiality, and the requirement to not bring yourself or the organisation into disrepute. These principles have to be built into every organisation's own code of ethics, but it must be stressed that ethical behaviour starts with the leadership.'

Corporate officers and directors are legally required to act in the best interests of the corporation. Contrary to popular belief, this does not mean maximising shareholder value without regard for the effect on employees,

ASK THE QUESTION

What will this proposed action do to my character or the character of my organisation? Many people believe that our decisions shape our character and vice versa. That is, we can't lie and cheat without becoming a fraudulent liar. Subsequently, if we're liars, we'll tend to lie more often. Think about whether your action is establishing a habit either for you or your organisation. Is it a good habit (virtue) or a bad one (vice)?

customers, suppliers, the environment, or the communities in which the corporation does business.

Heemal Bhaga Muljee CA(SA), national head of audit at BDO South Africa, says companies need to have a close look at their corporate cultures. 'Certain corporates have emphasised financial performance in their KPIs and in most instances, this drives employees and executives to achieve these targets above all other matters. I am not saying that financial performance should not be a KPI, but it should be equally balanced with non-financial KPIs. Boards also need to take a hard stance with employees who meet the financial metrics but transgress on other matters. The acceptance of unethical behaviour only contributes to an unhealthy culture.'

Muljee points out what he sees as a blurred line regarding what South Africans find ethical outside of the workplace, such as paying bribes and running red lights.

'We keep pointing fingers at one another, all the while influenced by the behaviour of others in justifying our compromised moral principles. If the masses are doing it, its acceptable. Except we downplay the effects of this thought process on future generations. Ethics cannot be taught but must be demonstrated. The 'do as I say, not as I do' mentality needs to end. It must start with the simplest of things, like accepting when we are wrong and learning from our mistakes.'

But therein lies a vexed question: Ethics is concerned with distinguishing between good and evil in the world, between right and wrong human actions, and between virtuous and non-virtuous characteristics of people. But culture and the expectations within cultures affect all business transactions. Two different ethical standards meeting in a business transaction can result in conflict. In some cultures, bribery is part of the fabric of life and no business can be transacted without it. In others, bribery is unacceptable. Yet a big problem in dealing with culture is that it is difficult to define universally. When considering the diverse cultural heritage of South Africans, the challenges can be even greater.

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ALIGNING INDIVIDUAL VALUES WITH ORGANISATIONAL VALUES

It's for this reason, says Muljee, that corporates should run ethics workshops and deal with real-world examples. 'We need to facilitate discussion and create awareness of some of the grey areas that we face when it comes to ethics. Corporates can then also define what is and is not acceptable ethical behaviour. As South Africans, we need to be more conscious of our behaviour in and out of the corporate world. Small things negatively impact our behaviour, like drinking and driving or tossing rubbish out of a car window, and this clouds our judgement and ethics when we have more complex decisions to make.'

'In a multicultural society that is part of a global environment it is not only possible that people have different interpretations of what constitutes ethical behaviour, it is probable,' says Cynthia Schoeman, MD Ethics Monitoring & Management Services. 'Upbringing, among other factors, can lead individuals to have different values and ethics. However, even though a person may have grown up in circumstances that did not embrace ethical values such as respect, it does not make their conduct – such as disrespectful or discriminatory behaviour – acceptable in the workplace.

Schoeman says this is why one of the key tasks that leadership should take on purposefully is the introduction of interventions that help to align individual values with organisational values.

'In the past, the way a person behaved outside of the office was a private matter and there was little chance that their behaviour would have an impact on their place of work. However, social media has significantly impacted the separation between personal and workplace conduct,' she explains. 'Look at the case of Adam Catzavelos, who posted a deeply offensive racist video that went viral. The fact that he was on holiday and that his statements can be construed as having been made in his personal capacity did not minimise the public outrage that followed at all. Leaders need to understand that this risk is no longer limited to executives. Instead, the organisation can be brought into disrepute by any employees, no matter how junior, when an offensive social media post goes viral – either via a personal post or a video by someone else, as was the case for the Vicki Momberg incident. A question that illustrates the damage that this situation can cause is to ask what the impact would have been on your organisation if Adam Catzavelos had been an employee at the time of his video. As a result, there is a greater burden on leaders to ensure that their organisations address this risk appropriately.'

BEYOND A CULTURE OF CORRUPTION

Muljee is rightfully concerned, saying that if the current situation is not remedied, this will lead to more employees and executives behaving unethically as they can get away with it because we are developing a culture of 'well if they are doing it and getting away with it, I can also, as it is accepted behaviour'. 'There are people out there with this mindset and it is dangerous to simply let them run loose and influence other people in corporate South Africa, as this may lead to the country achieving the undesirable status of having a corrupt business culture. In the long run, this would result in a downturn in the financial numbers and it is not a sustainable way of conducting business. Adhering to a code of ethics sends a message that universal compliance is expected of every employee.'

Corporate codes of ethics generally include trustworthiness, respect, responsibility, fairness, caring, and citizenship. But Muljee says not all companies adhere to a universal code of ethics. Some corporates may define certain behaviours as acceptable even though the code may deem it unacceptable.

'I believe the time has come for us to have a universal code with a few overarching principles, but that leaders should define their own code of ethics and then educate their employees about the behaviours that are acceptable and unacceptable to them. This, in turn, will drive recruitment and build a culture the leadership wants to create.'

Dorfan adds that it is the responsibility of every organisation to ensure quick and effective mechanisms are in place to address unethical activity. 'If people do not toe the line, there must be consequences, and these should be made known as a warning to others. The consequences of unethical behaviour are extremely damaging to business and society. Nkonki is a case in point; many people are out of work as the result of the unethical behaviour of a few. We simply cannot afford to turn a blind eye to this type of behaviour, or it will spread like a cancer.'

DOES ETHICS PAY?

Is there a relationship between doing good and doing well? It was Henry Ford who said, 'A business that makes nothing but money is a poor kind of business.' Michael Porter, the American academic known for his theories on economics, business strategy, and social causes, has long argued that doing right is the best long-term business strategy. His central premise is one of creating shared value: the competitiveness of a company and the health of the communities around it are mutually dependent. Recognising and capitalising on these connections between societal and economic progress, he says, has the power to unleash the next wave of global growth and to redefine capitalism.

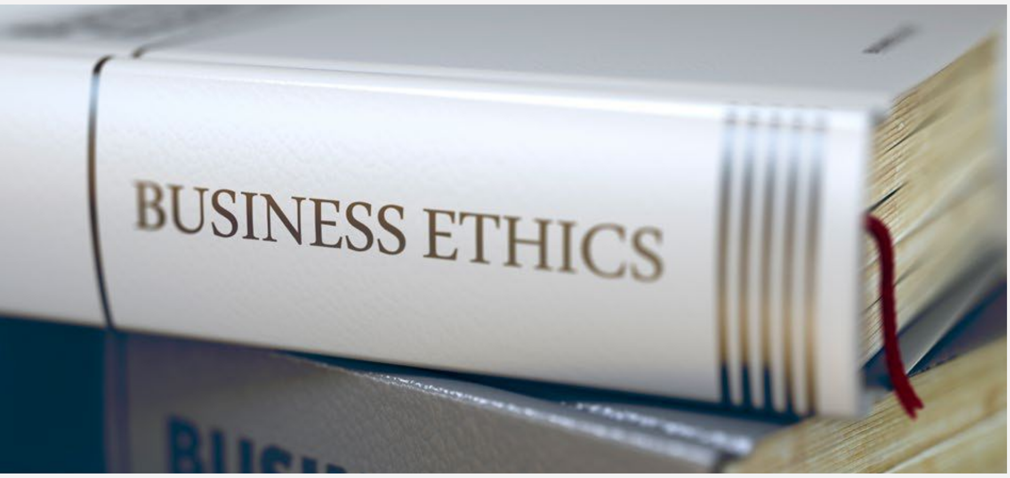
An article in *The Guardian* newspaper, 'Ethics and profits do mix', states that 'it's the way the values represented by the code are embedded in the organisation which makes the difference. The more the values are lived, the better and more consistent the decision-making at every level, the greater the amount of trust, the more confident and motivated the employees and the less the chance of costly damage to the company's reputation. The virtuous circle can be expected to embrace customers, suppliers and other stakeholders.'

Yet despite the increasing significance of corporate ethics, few studies have explored the relationship between corporate ethics and financial

WHAT QUALIFIES AS ETHICAL BEHAVIOUR?

Behaving ethically means acting in ways consistent with what society and citizens typically think are good values. Ethical behaviour is good for business and involves demonstrating respect for key moral principles that include honesty, fairness, equality, dignity, diversity and individual rights.

- **Refraining from shady practices** This is obvious. Ethical companies don't engage in manipulative financial practices such as fraud, bribery, or insider trading. Because individual actions are often associated with the company as a whole, any individual within your company who behaves in an unethical way could compromise the reputation of your company. Setting strict no-tolerance policies and taking proper disciplinary action can mitigate these effects.
- **Sustainability** Sustainability refers to practices that respect the environment. Choosing renewable forms of energy, such as solar and wind, and decreasing pollutants are examples of this, as is the considerate use of other natural resources, such as water.
- **Diversity and inclusion** Diversity and inclusion are seen as responsible, ethical business practices. These include programmes to hire people from more diverse backgrounds, including different ethnicities and genders, as well as differently abled people.
- **Exploitation** Large companies can make greater profits by exploiting local communities, or by exploiting tax loopholes to the disadvantage of individuals and other businesses around them. These practices may yield short-term benefits, but they will also win you disapproval from the public.
- **Donations and contributions** Donations and volunteer contributions to charitable organisations, local groups, and good causes can also be considered an ethical and/or benevolent practice.



performance. 'I believe that there is a positive correlation between ethics and financial performance,' says Muljee. 'The topic would make for a fascinating dissertation, if it has not been done already. Most people have good intentions and by creating and nurturing an ethical culture, employees are more likely to engage and perform, which in turn will lead to improved financial performance.'

In fact, a study by the UK's Institute of Business Ethics (IBE) found that 'ethical' companies outperformed those which made no such claims on three out of four financial measures – market value added (MVA), economic value added (EVA) and price/earnings ratio.

'King IV focuses on the concept of stakeholder inclusivity and highlights that organisations are not merely responsible for the financial bottom line but also need to consider the societal and environmental impacts and outcomes of their operations,' says Schoeman. 'The code highlights the role of ethical and effective leadership.'

According to King IV, the leadership role today encompasses:

- Providing direction to organisations through strategy
- Giving effect to that strategy through the development of appropriate policies
- Providing oversight over management's implementation of the strategy
- Demonstrating accountability and transparency through disclosure

'Adopting the King IV code provides an organisation with the building blocks for a sound foundation of good corporate governance,' she adds. 'The code explains the role of the governing body in ensuring that the ethical culture within the organisation is aligned to the tone set by the governing body through the implementation of appropriate policies and practices. By combining profit and ethics, it is possible to achieve the desired results for all stakeholders in an organisation – from customers to employees, partners, shareholders and industry regulators. This is how true, lasting value is created.'

Shareholders play a critical role. It's important to remember that King IV is a voluntary code intended as a guide to help organisations achieve good governance principles. 'The behaviour of shareholders, as well as their expectations, will determine the way management behave,' says Muljee. 'Shareholders are the principles and they hire agents (directors) to run their business. If they wish to establish and run a profitable and sustainable business, they will incentivise the agents towards a more balanced scorecard rather than one weighted in favour of financial performance only.'

HOW TO MANAGE ETHICAL RISK

To foster an environment of trust and respect with workers and executives, ethical leadership should be implemented by every person in a management position. Financial leaders need to manage the standard of ethics maintained in their company. This means that marketing, sales, operations, finance, manufacturing, and all other areas of the business need to adhere to a strict code of ethics to gain value. If one leg of the company falls short of these standards, the whole company falls. It is not enough to exhort managers and directors to be ethical. First, a consensus needs to be reached concerning what it means to be ethical in business.

'This calls for the leadership of an organisation to appoint an ethics officer who, together with the leadership team, devises a strategy around ethical risk management,' says Muljee. 'However, for this to work, ethics has to be taken seriously by the leadership team and this initiative driven and supported by those at the top.'

Ethics Monitor runs surveys for organisations to measure their ethical status. The survey assesses the degree of ethical performance and ethical behaviour within the organisation as practised, experienced and perceived by all employees, including management and executives. The results quantify the organisation's ethics, allow for accurate reporting of ethics, and provide meaningful management information to address any areas of concern. Subsequent surveys enable an organisation to monitor its ethical progress over time. The survey is based on a model comprising two key ethical concepts: behaviour, ranging from very ethical to extremely unethical, and an ethical boundary, which measures inclusiveness or exclusiveness relative to stakeholders and corporate citizenship or the 'triple bottom line'.

The survey questions explore the primary ethical issues in the workplace, for example to assess employees' commitment to values and the extent to which leaders live the organisation's values, to identify the factors that best promote ethical behaviour and those that best reduce unethical behaviour, and to assess the extent of specific incidences of unethical conduct.

'To manage ethical risk, you first have to assess it,' Schoeman says. 'A sound, credible and representative survey is an invaluable tool. You may think risk lies in procurement and then discover that actually the biggest risk factor is sexual harassment or racism. Anonymity gives every employee the ability to speak freely so that you know what people are experiencing and what they are being exposed to.'

EMBRACING ETHICS AS THE NORM

Globally, ethical behaviour is seen as a performance standard of world-class companies. What can be done to encourage South African companies to embrace this standard as the norm?

'Shareholders of South African companies need to make ethical behaviour a performance standard of their agents,' says Muljee. If the directors of a corporate are driven in this way, their behaviours will filter down to the rest of the organisation. I think South Africa can also come up with an ethical rating system which could form part of a procurement process. For up and coming managers and leaders still at university, the current corporate mishaps should be discussed and debated as case studies so as to raise awareness of the importance of ethical behaviour, its impact on business and culture and ethics as a performance standard.'

The reputation of our public and private sectors creates an ethical profile of the country, adds Schoeman. 'Having regard for the Gupta and Bosasa scandals, would investors in Washington, Paris or Tokyo invest real money in this country? What is important to note is that we tend to focus on public sector ethics, but there are two parties involved in unethical behaviours and transactions: the person who pays the bribe is generally from the private sector, while the person on the receiving end is usually from the public sector. It must be stressed that we need both sectors to stamp out dishonesty and to adhere to acceptable standards of ethical behaviour. Failing that we risk tarring the entire country with the stigma of corruption.'

Globally, observers say we are entering an era in which every single company has to move from self-protective, compliance to a long-term focus on ethics, values and compliance. A company's culture is perhaps the best insurance against corporate misconduct – South African professionals need to embrace a culture of ethics that will create sustainability and an environment in which companies can increase profitability.

'The current state of South Africa could not be a more apposite case study of the effects of unethical behaviour,' says Dorfman. 'From our debt-laden power utility to our unemployment rate, one of the highest in the world, there is no better lesson on the fruits of corruption than our situation.

'We need to go back to the basics. What type of world do we want to for our children? What can we do differently? How can we hold people accountable for decisions that have a horrific impact on our economy, and greater society? The Zondo Commission of Inquiry into State Capture is exactly what is needed right now. Looking ahead, we need to instil the understanding that ethics makes good business sense for all.'

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THE 2018 ETHICAL PRACTICES SURVEY

Ethics is not prioritised enough in corporate South Africa and according to a survey conducted in both the private and public sectors, the country's leaders are failing us

The 2018 AEPF Ethical Practices Survey reveals how unethical behaviour is perceived by professionals in the governance, auditing, risk management, fraud management and ethical practices domain in South Africa.

Key findings include:

- 36% agree that doing the right thing is more important than financial success while 25% disagree. In the public sector 23% of the respondents agree compared to 42% in the private sector.
- Leaders in the public sector are perceived as a lot less ethical than those in the private sector. Only 10% of respondents in both the public and private sectors agreed that leaders in the public sector are ethical.
- 17% of respondents in the public sector agree that leaders in the private sector are ethical – a significant decline from 60% in 2017.
- Only 32% of respondents in the private sector agree that leaders in their sector are ethical, representing another sharp decline from 70% the previous year.
- 32% of those in the public sector agree that ethics is a priority compared to 43% previously.
- Professionals in both sectors say they have been intimidated for doing the right thing (26% in the public sector and 17% in the private sector) and that they feared losing their job for doing the right thing (26% in the public sector and 20% in the private sector).