



*Ethics*  
LIVING OUR VALUES



# Strategies to prevent ethical failure

**Mandie Wentzel**



# Ethics

LIVING OUR VALUES





# The need for an integrated strategy





# The need for an integrated strategy

Ethical  
Leadership



### *Social exchange theory:*

- Individuals feel obligated to return beneficial behaviours when they believe another has been good and fair to them

### *Social learning theory:*

- Followers learn about effect of decisions by observing their leaders. Followers' ethical decision making abilities are enhanced by ethical leadership.



# Outcomes of Ethical Leadership

Follower outcomes:

- Employees' job satisfaction
- Organizational commitment
- Willingness to report problems to supervisors
- Willingness to put in extra effort on the job
- Express constructive suggestions intended to improve standard procedures
- Ethical climate and culture
- Organizational citizenship behaviour
- Psychological safety



## Who are the leaders? Does KingIV apply to you?

### Ethical and Effective leadership

“The demonstration of normatively appropriate conduct through personal actions and interpersonal relationships and the promotion of such conduct to followers through two-way communication, reinforcement and decision-making”.

(Linda Trevino)

“Ethical leadership ... involves the anticipation and prevention, or otherwise amelioration {improve/ making it better or more tolerable}, of the negative consequences of the organization’s activities and outputs on the economy, society and the environment and the capitals that it uses and affects.” (KingIV)

“Effective leadership is results-driven. It is about achieving strategic objectives and positive outcomes. Effective leadership includes, but goes beyond, an internal focus on effective and efficient execution.” (KingIV)

“Leadership is action – not position”

– Donald H McGannon



# CA2025



## OUTCOME OF THE COMPETENCY FRAMEWORK

In achieving professional competence, CAs are expected to display professional values and attitudes, and for each area (inputs, business processes, outputs leading to outcomes) be able to integrate relevant acumens and technical competencies. In addition, such integration should be done within, between and across areas.

The outcome of effective integration of professional competencies manifests as CAs having the potential to be responsible leaders who behave ethically and create sustainable value for a wide range of stakeholders within an organisational context. With their ability to display integrated thinking, CAs are then able to interpret, analyse and evaluate financial and non-financial information, thus influencing others, and together making impactful decisions, and thereby contributing meaningfully to society.





# Leadership

## SAICA Strategy 2021 (extract)



### Legislation and regulatory environment

- Discussion on comprehensive regulation by IRBA
- Changes in legislation, such as the mining charter, health care insurance, minimum wage regulations, health and safety, will affect business confidence
- Corruption – and the growing public anger or intolerance for corruption
- Trust erosion and reputational harm for the profession arising from unethical and sometimes criminal conduct of member

### ➤ Chartered accountancy worldwide – repositioning the profession

While institutes should be managing the urgent and important issues of 'now', there is a once-in-a-generation opportunity to position chartered accountants as trust leaders of the future.

This opportunity is best described by the idea of 'Difference Makers' — the people that businesses and governments can trust to get businesses and economies moving again. As 'Difference Makers', SAICA members should be the trust leaders of business, finance and accounting through the education, support and opportunities SAICA provides.



## SAICA Strategy 2021 (extract)



While it is imperative in a crisis for businesses to first manage exposure and near-term issues, those that simultaneously plan for the future, ahead of the market, will have the greatest opportunity to establish (or re-establish) their leadership. It is therefore prudent to be thinking strategically about the future as well as the tactical reality of now.



# Modelling and Labelling

Constant and Consistent

	<b>Exposure to positive labelling</b>	<b>Exposure to negative labelling</b>
<b>Exposure to positive modelling</b>	I. This person will develop a strong personal code of conduct and will be honest most of the time. His/her personal code of conduct can be defined as absolute honesty and integrity.	II. This person receives conflicting and confusing messages and tends to be situationally honest — that is, he/she will be honest when it pays to be honest and dishonest when it pays to be dishonest.
<b>Exposure to negative modelling</b>	III. This person receives conflicting and confusing messages and tends to be situationally honest — that is, he/she will be honest when it pays to be honest and dishonest when it pays to be dishonest.	IV. This person will be mostly dishonest and will consistently rationalise unethical behaviour.

Albrecht, W.S., Hill, N.C. & Albrecht, C.C. 2006. The ethics development model applied to declining ethics in accounting. *Australian Accounting Review*, 16(40):30-40.



# King IV Principle 1

Principle 1: The governing body should lead ethically and effectively.

## RECOMMENDED PRACTICES

1. Members of the governing body should individually and collectively cultivate the following characteristics and exhibit them in their conduct:

**a. Integrity:**

- i. Members of the governing body must act in good faith and in the best interests of the organisation.
- ii. Members of the governing body should avoid conflicts of interest. In cases where a conflict cannot be avoided, it should be disclosed to the governing body in full at the earliest opportunity, and then proactively managed as determined by the governing body and subject to legal provisions.
- iii. Members of the governing body should act ethically beyond mere legal compliance.
- iv. Members of the governing body should set the tone for an ethical organisational culture.



# Ethical Leadership



Moral Person

AND

Moral Manager



**Ethically Neutral Leadership:** Neither promote nor actively work against ethical conduct. Does not provide clear ethical guidance. People do not know the leader's ethical beliefs or whether the leader cares.



# Moral Manager

Role modelling  
through visible  
action



Rewards and  
Discipline

Communicating  
about ethics  
and values



# The concept of Unethical Leadership

Definition:

*“Behaviours conducted and decisions made by organizational leaders that are illegal and/or violate moral standards, and those that impose processes and structures that promote unethical conduct by followers.”*

Michael Brown and Marie Mitchell





# The concept of Unethical Leadership

- Illegal acts
- Acts that are morally inappropriate to larger society
- Terms
  - Abusive supervision
  - Supervisor undermining
  - Toxic leadership
  - Tyrannical leadership

(Oppressive, abusive, manipulative, and calculatingly undermining. Their actions are perceived as intentional and harmful. Therefore, destructive leader behaviour is unethical)



# The concept of Unethical Leadership

Transcends beyond the leaders' own behaviour

- Leaders can foster unethical behaviour unintentionally
  - What are you rewarding?
  - What are you condoning?
  - What are you ignoring?



# Outcomes based leadership

As per the King IV report the *outcomes of good corporate governance* are:

- **Ethical culture**
- Good performance
- Effective control
- Legitimacy



# The need for an integrated strategy

Ethical  
Culture



# Culture eats strategy for breakfast

Peter Drucker



# Workplace

- Organisational culture –  
Group norms/ peers
- Performance  
measurement (KPI)
- Organisational leaders/  
management
- Ethics strategy of the  
company
- Mentor - Moral courage





# Professional Body

- Training – CPD requirements
- Monitoring & Disciplining
- Ethical hotline (Advice & Whistleblowing)
- Code of Conduct



# King IV Definition

“

*Culture:*

In an organisational context, ‘the way in which members of an organisation relate to each other, their work and the outside world in comparison to other organisations’. It is generally described as ‘the way we do things around here, even when no one is watching’.

”





# Ethical Climate

“

*B Victor & JB Cullen:*

Ethical climate is usually defined as those aspects that determine what constitutes ethical conduct.

”


The Ethical Climate serves as a perceptual lens through which workers diagnose and assess situations



## Unconscious contribution

How we unknowingly contribute to unethical behavior?

- what is your attitude towards mistakes?
- Is there a culture of openness?
- Do your staff feel free to share mistakes?
- Things they feel unsure of?
- High performance culture?
- Culture of deference
- Lack of challenge



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The PwC Investigation identified, *inter alia*, that:

certain senior executives initiated or participated in undesirable accounting practices that resulted, amongst others, in revenue being recognised in earlier reporting periods than it should have been, and in expenses being inappropriately capitalised to assets. This resulted in profits in the respective years being overstated, and in the overstatement of certain assets in THL's financial statements;

there was a culture of deference and lack of challenge at THL that resulted in employees following instructions on accounting practices, without questioning the basis for those accounting practices; and

there were a number of governance failures pursuant to which internal policies, guidelines and frameworks were not followed, creating an environment in which senior executives could initiate or participate in the financial reporting misstatements.

The PwC Investigation identified major historical shortfalls in a number of important areas, including, *inter alia*, governance practices, delegation of authority, decision-making, oversight, financial discipline, record keeping, systems usage and financial reporting.



## Cultivate Culture

Cultivate an environment which enables your staff to make ethical decisions.



Est. 1892

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### Remedial measures to be taken by the Board

- a culture change programme is continuing to drive a culture of ownership, excellence, trust, responsibility and the right behaviour.



# SASOL – SENS 28/10/2019

The Board has made the following key conclusions:

- The primary responsibility for shortcomings in relation to LCCP lies with the former leadership of the LCCP's Project Management Team (PMT), which engaged in conduct that was inappropriate, demonstrated a lack of competence, and was not transparent. However, on balance, the Board finds that there is not sufficient evidence to conclude that these individuals acted with an intent to defraud.
- In addition, certain governance shortcomings relating to the LCCP also contributed, including a culture of excess deference within the control environment and governance structures that oversaw the LCCP.

In light of these findings, the Board has concluded that appropriate steps need to be taken to ensure appropriate accountability, to re-establish trust in the Company and its leadership, and to assist in promoting a culture of “constructive dialogue” across the organisation.



The causal factors include:

- Competence - Insufficient experience within the LCCP leadership team in executing mega projects.
- Conduct - Inappropriate conduct and an improper tone at the top of the LCCP, including an excessive focus on maintaining cost and schedule estimates at the expense of providing accurate cost and schedule estimation to oversight bodies (including Joint Presidents and Chief Executive Officers (Joint CEOs)) within the Company.
- Segregation of duties - Insufficient segregation of duties of the LCCP project controls environment from the LCCP project execution environment, which prevented the identification of certain potential errors in cost and schedule estimation.
- Control procedures - Inadequate control procedures within the LCCP control environment that allowed erroneous and/or unsupported reporting by the LCCP leadership to go unchallenged without proper escalation of potential red flags.
- Ethics process - Inadequate procedures to ensure that internal ethics complaints as to the LCCP were escalated appropriately.
- Project-related Control Environment - A culture of excess deference within the control environment that oversaw the LCCP caused certain individuals with control responsibilities and in oversight committees, including but not limited to the Steering Committee created to oversee the LCCP, to exhibit insufficient scepticism toward reporting by the LCCP leadership team.



# Consequence Management

- Engaged in consequence management, including initiating disciplinary action against the Executive Vice President previously in charge of the LCCP and removing him from all work responsibilities, and effected the negotiated separation from the Company of the three Senior Vice Presidents with roles in the project.
- For FY2019, the Joint CEOs were awarded zero as the value of their short-term incentive.
- For FY2019, all members of the Group Executive Committee (GEC) were awarded zero as the value of their short-term incentive.
- Reduced incentives awards for individuals company-wide based on relation and/or proximity to LCCP.
- Requiring that various employees involved in the LCCP and/or its oversight engage in additional training, including on reporting obligations.



# Culture Change Programme

- Continuing with the roll-out of the Aspirational Culture programme within the entire Group and reconfirming critical leadership behaviours on a Group-wide basis.
- Revising the Company's procedures regarding the escalation of ethics complaints and internal investigation findings.

The Board believes, however, that further remedial steps are required to embed a new culture at all levels in the Company. At the leadership level, there needs to be more robust challenge of key decision making. At the LCCP, the Company's executive leadership placed too much trust in the PMT leadership. A spirit of "constructive dialogue" which includes empowering challenge and avoiding conformity, needs to extend though the Company so that people always feel able and free to speak up without fear for their prospects.

To address this, in addition to ongoing culture transformation initiatives, the Company intends to focus on promoting leaders who have demonstrated their ability to promote transparency and constructive dialogue.



## “ A culture of accountability and consequence management”

The Board has resolved to ensure that the Company lives its values and to ensure that there is a culture of accountability and consequence management. It is also the judgment of the Board that, for trust to be restored in the Company, a leadership reset is required.





# 2021 ECI Global Business Ethics Survey

ECI research has also shown that organizations with high-quality E&C programs (HQPs) are not only more likely to have strong ethics cultures, they also have an impact on the four major ethics outcomes in the following ways:

- Less **pressure** to compromise ethics standards;
- Less observed **misconduct**;
- More **reporting of misconduct** observed; and,
- Less **retaliation** for reporting.



# 2021 ECI Global Business Ethics Survey

**Percentage of Employees Experiencing Pressure—U.S.**

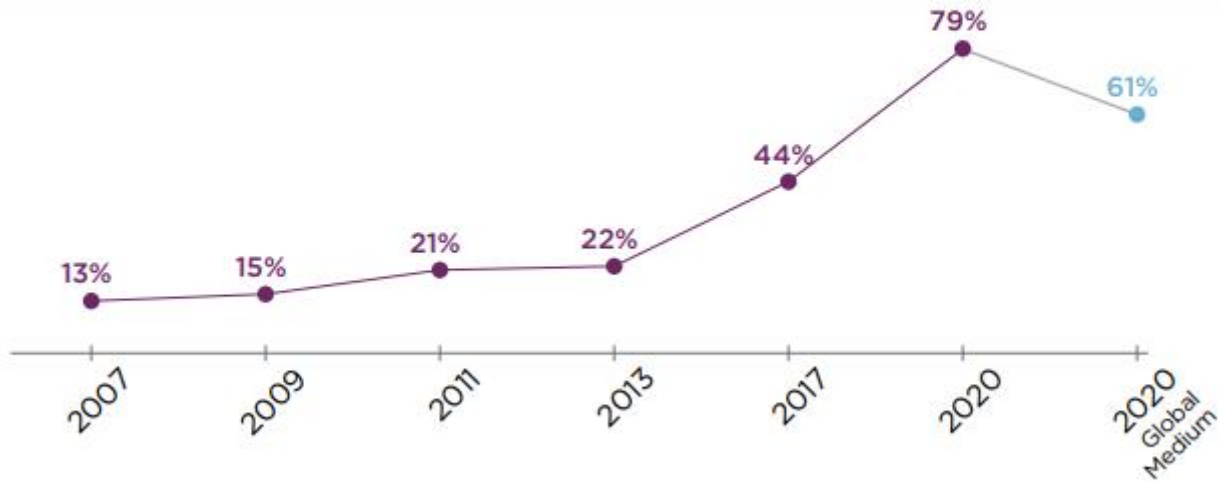


Source: *The State of Ethics & Compliance in the Workplace: A Look at Global Trends (ECI, 2021)*



# 2021 ECI Global Business Ethics Survey

**Percentage of Employees Experiencing Retaliation After Reporting—U.S.**



Source: *The State of Ethics & Compliance in the Workplace: A Look at Global Trends (ECI, 2021)*



# 2021 ECI Global Business Ethics Survey

“

The workplace is a pressure cooker right now for employees in the U.S. and around the world. While employees seem to be withstanding the pressure and reporting more than ever before, the situation is tenuous with increasing rates of misconduct and very high rates of retaliation. There may be a breaking point.

”



## The Ethics Progress Report—Global

### STRENGTHS

- Mirroring the U.S. finding, employees around the world are reporting misconduct at historic highs. Since ECI began collecting global data in 2015, the global median for rates of reporting has increased by 23 percentage points.

### OPPORTUNITIES

- The global data shows that fewer than one in seven employees are working in strong ethical cultures. Furthermore, the rate of observed misconduct is increasing again following a decrease in 2019. Lastly, the global median for pressure to compromise standards and the rate of retaliation are both at their highest levels ever.



# KingIV 17 Principles

## *Principle 2:*

“The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.”



## ~~TO DO list for the governing body:~~

*Leader*

- ✓ *Design an ethics management plan*
- ✓ *Get a robust code of conduct and ethics policies in place*
- ✓ *The board should perform a rigorous ethical risk assessment*
- ✓ *Design a comprehensive communication plan wrt ethics programme roll out*
- ✓ *Review all supplier and employee contracts*
- ✓ *Review induction training and ethics training programmes*
- ✓ *Train management to equip them to roll out ethics management plan*
- ✓ *Review recruitment policies*
- ✓ *Review performance measurement plan*
- ✓ *Review sourcing of supplier policies*
- ✓ *Design contingency plan to address ethical breaches*
- ✓ *Get whistle blower mechanisms in place*
- ✓ *Perform independent assessments to ensure adherence*
- ✓ *Ensure Integrated report has sufficient disclosure*



# ETHICS CAN



Managing Workplace Ethics

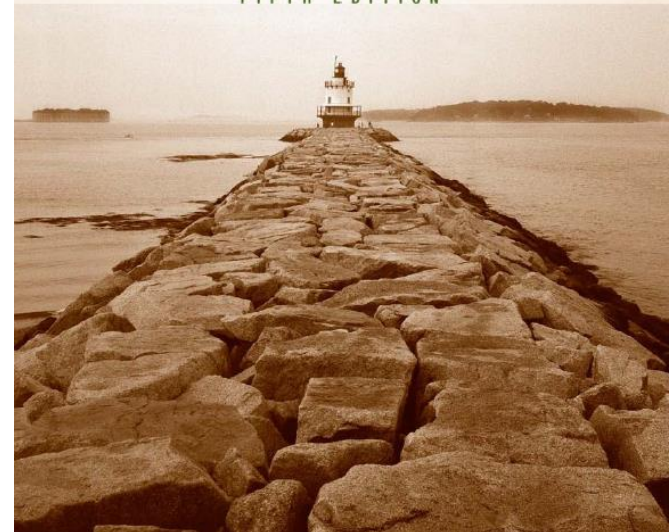
CYNTHIA SCHOEMAN

LINDA K. TREVIÑO | KATHERINE A. NELSON

# MANAGING BUSINESS ETHICS

*Straight Talk About How To Do It Right*

FIFTH EDITION





# Ethical Climate Questionnaire



**The ethical climate questionnaire: An assessment of its development and validity**

[PDF] [academia.edu](#)

[JB Cullen](#), [B Victor](#), [JW Bronson](#) - *Psychological reports*, 1993 - [journals.sagepub.com](#)

... KOHLBERG, L. (1981) **The** philosophy of moral development. New York: Harper & Row ...

SCHNEIDER, B. (1983) Work **climates: an** interaccionist perspective ... SCHNEIDER, B., & SNYDER,

R. A. (1975) Some relationships between job satisfaction and orga- nizational **climate** ...

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# The need for an integrated strategy

Ethics  
Training



# Accounting Ethics Education

“ Accounting ethics education could be narrowly defined as compliance with regulations and strict codes of ethical conduct; whereas we believe it should be broadly viewed as a responsibility to serve the greater good. ”

Kidwell, L.A., Fisher, D.G., Braun, R.L. & Swanson, D.L. 2013. Developing learning objectives for accounting ethics using Bloom's taxonomy. *Accounting Education: an international journal*, 22(1):44-65.



# Ethics Competence





# So what CAN be taught?

1. Sensitivity to ethical issues (recognition)
2. Ability to judge different moral options by imagining different outcomes and effects of the decision
3. Moral motivation (intent)
4. Moral character/ courage (action)



# Kohlberg's model of moral development





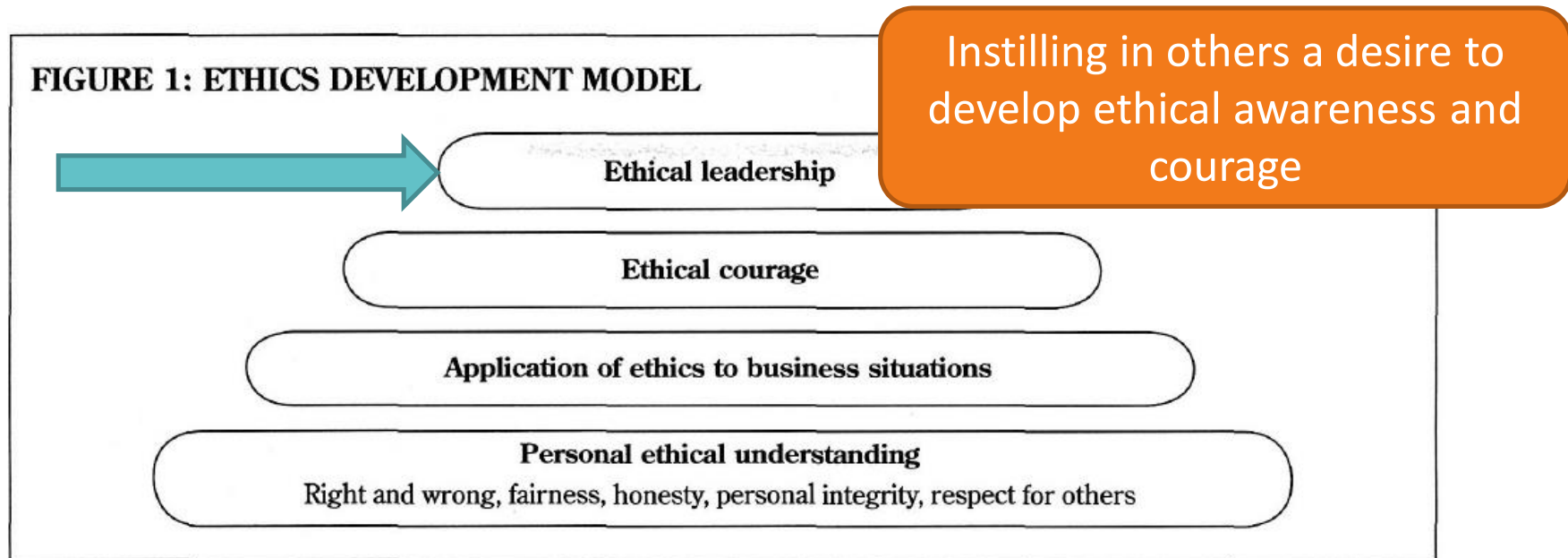
# Developing the resolve to have moral courage

Results show that traditional, reflection, moral exemplar methods increased the resolve to have moral courage and that the reflection and moral exemplar methods were more effective than the other methods

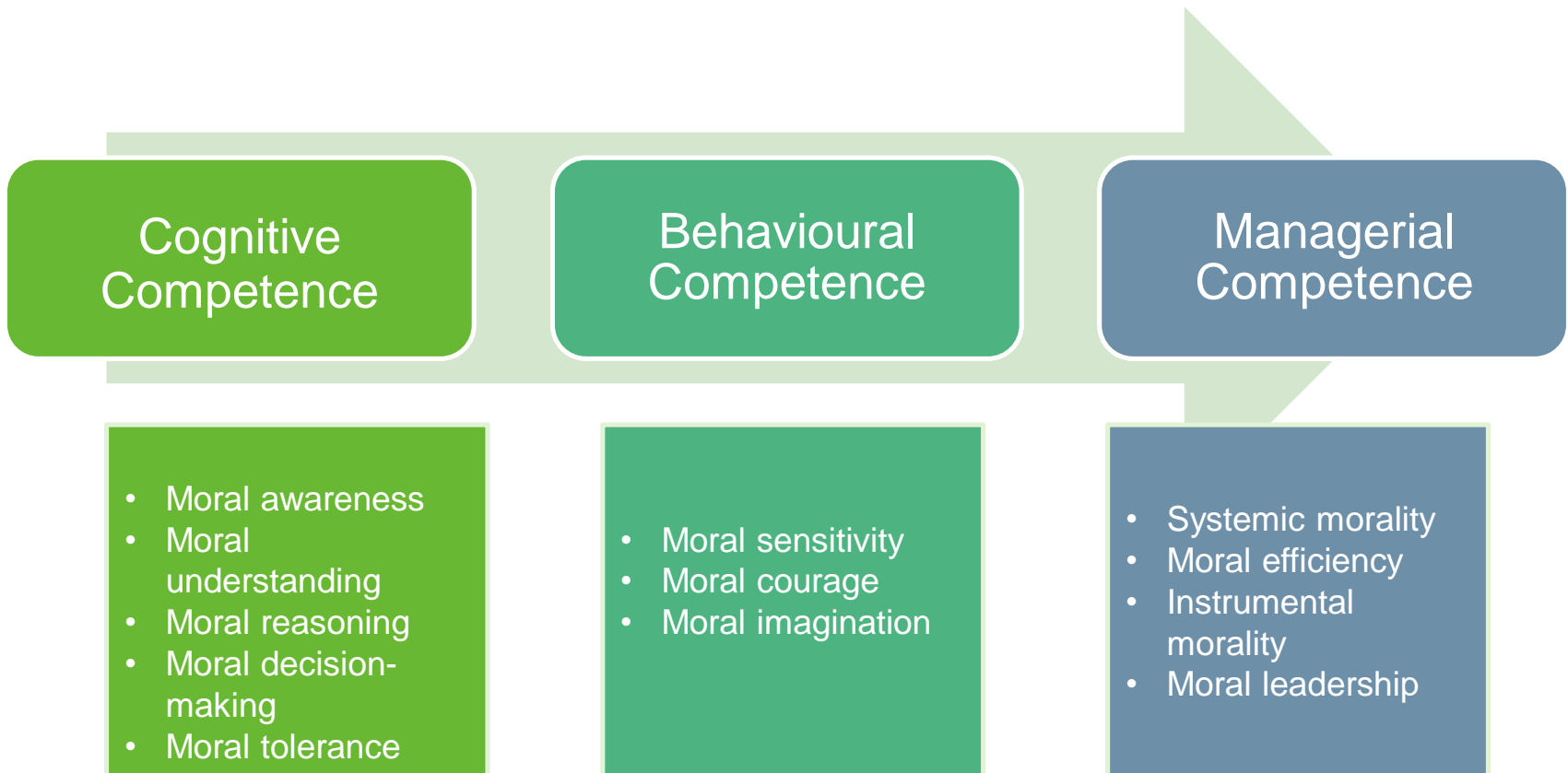
Christensen, D., Barnes, J. & Rees, D. 2007. Developing resolve to have moral courage: a field comparison of teaching methods. *Journal of Business Ethics Education*, 4:79-96.  
Comer, D.R. & Schwartz, M. 2017. Highlighting moral courage in the business ethics course. *Journal of Business Ethics*, 146:703-723.



**FIGURE 1: ETHICS DEVELOPMENT MODEL**



Albrecht, W.S., Hill, N.C. & Albrecht, C.C. 2006. The ethics development model applied to declining ethics in accounting. *Australian Accounting Review*, 16(40):30-40.



Teaching Learning Competency (TLC) by Prof GJ Rossouw (Rossouw, 2002)





# SAICA report Recommendations

1. Universities should balance practical application with theory
2. Ethics should not only be taught as stand-alone courses
3. Role play of ethical dilemmas should be included
4. Consequences for unethical conduct such as cheating in exams

<https://www.saica.org.za/about/general/ethics/ethics-research-reports>



# SAICA report Recommendations

5. Workplace ethics training should not be limited to several hours training – regular discussions are required where potential and actual ethical dilemmas are analysed and discussed
6. Continuous self-awareness and discussion of ethical situations are required during training contract

<https://www.saica.org.za/about/general/ethics/ethics-research-reports>



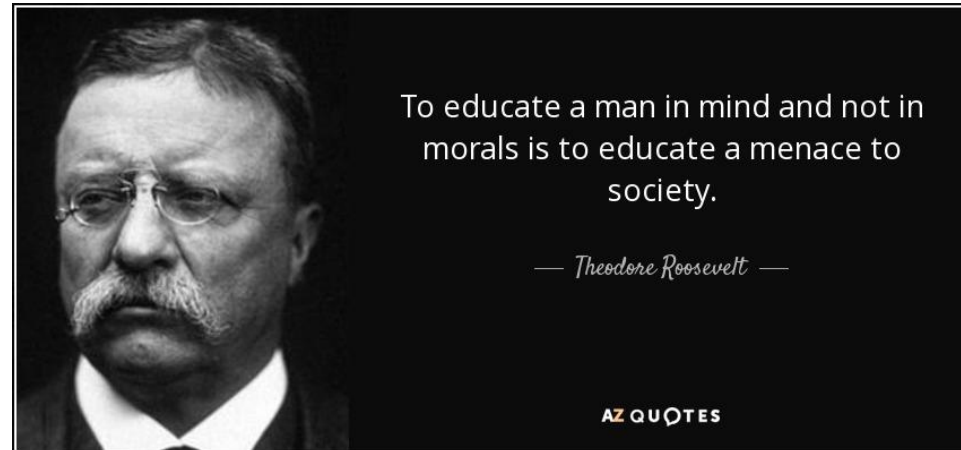
# SAICA report Recommendations

7. Ethical climate should be demonstrated
8. Consequence management of unethical behaviour like arriving late, lack of professional judgement etc.
9. Guidance training and mentoring – mentoring programme including qualified CA's
10. Ethics hotline



# Accounting Education

- A call to “Rehumanise Accounting Education”
- McPail (2001) “accounting dehumanises individuals and makes it easier for some people to treat other individuals in a cruel way”
- “It’s only a company” – can’t see the people’s faces
- Capitalism mindset promoted during accounting tertiary education
- Focus on profit maximisation





# The need for an integrated strategy

Professional  
Identity



# Professional Status

- Self-regulation of members through a Code of Conduct (by a professional body)
- Formal qualification framework – applied during qualification and post-qualification – ensuring professional competence and due care
- **Service to the public**



# What does it mean to be a registered professional?

Code of Conduct Par 100.1

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organisation.

Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.

- Public interest
- Loyal employee
- Client service



# 1

## Serving Public Interest

- Our reason for existence.
- De-professionalisation of the profession?
- Legal obligation.

# 2

## Serving my Client

- Contractual obligation.
- Service provide in order to keep my client.
- This is my bread and butter.

# 3

## Serving my Employer

- Maximising profits.
- Sustainability.
- How can I give financial advice if my own business is failing?







# The Letter of the Law

“

That which you have a right to do – is not always the right thing to do.

”

What is the Right thing to do?

VS

What is legal?



# The Letter of the Law



Professor Robert R. Sterling stated in a January 1973 *Journal of Accountancy* article:

“The courts are telling us that we can no longer defend ourselves on the basis of accepted accounting theory and practice. Instead, we must assure ourselves that the statements are true, **correct and understandable to non-accountants.**”





# The Letter of the Law

“

IAS 1 acknowledges that, in extremely rare circumstances, management may conclude that compliance with an IFRS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the IFRS requirement, with detailed disclosure of the nature, reasons, and impact of the departure. [IAS 1.19-21].”



# The Letter of the Law

“

- 111.2 A *professional accountant* shall not knowingly be associated with reports, returns, communications or other information where the *professional accountant* believes that the information:
  - (a) Contains a .... misleading statement; ....
  - (c) Omits ... information required to be included where such omission ...would be misleading.

”



# Rules vs Principles

“

In April 2003, PricewaterhouseCoopers placed a full-page advertisement in the *Wall Street Journal*. The advertisement—actually more of a statement of the firm’s support of principles-based accounting—said: “Rules-based systems encourage creativity (and not the good kind) in financial reporting. They allow some to stretch the limits of what is permissible under the law, even though it may not be ethically or morally acceptable. A principles-based system requires companies to report and auditors to audit the substance or business purpose of transactions; not merely whether they can qualify as acceptable under incredibly complex or overly technical rules.” It went on to say: “A rules-based system allows managers to ignore the substance and, instead ask, “Where in the rules does it say I can’t do this?”” It appears that, even after more than three decades, PricewaterhouseCoopers has not forgotten about *Continental Vending*.

”



# Professional judgement

“ *The desire for understanding through systematic enquiry is the source of a profession’s judgement and therefore its accountability.*

*Jack Flanagan and Kevin Clarke* ”



# Compliance vs Virtue

Internalise the spirit of the code of conduct  
The PURPOSE Of the code of conduct

Not simply focussing on the WHAT to do and WHAT not to do. But WHY should or should I not do it?

Engender a sense of moral commitment towards other individuals



# Critical Thinking

“

Critical thinking is reasonable reflective thinking that is focused on deciding what to believe or do.

Ennis (1987) A taxonomy of critical thinking dispositions and abilities. In Baron and Sternberg (Eds.) *Teaching thinking skills: Theory and practice*. NY: W.H. Freeman, pp. 9-26.

”





# Critical Thinking

“

The ideal critical thinker is habitually inquisitive, well-informed, trustful of reason, open-minded, flexible, fairminded in evaluation, honest in facing personal biases, prudent in making judgments, willing to reconsider, clear about issues, orderly in complex matters, diligent in seeking relevant information, reasonable in the selection of criteria, focused in inquiry, and persistent in seeking results which are as precise as the subject and the circumstances of inquiry permit. Thus, educating good critical thinkers means working toward this ideal.

”

Peter A. Facione (1990) "Critical Thinking: A Statement of Expert Consensus for Purposes of Educational Assessment and Instruction",



# Critical Thinking

“ Actually, the essence of critical thinking lies in asking questions and to keep asking them until you are satisfied with the answer.

Ho Lok-sang, Director of the Centre for Public Policy Studies at Lingnan University. [China Daily, Tuesday, December 30, 2014](#)

”



# Thank you!

