

ACCA



**Business and
Professional Ethics:
Restoring the Cutting
Edge**

**Dennis Yeates
President ACCA**

Areas to be covered

Why is ethics important to ACCA?

Ethics and the professional accountant

Framework for resolving ethical conflicts

Why is there so much interest in ethics?

Areas to be covered

How do we achieve culture change?

Does good ethics equal good business?

Conclusion

A photograph of a newspaper rack in a library or bookstore. The rack is filled with various international newspapers. The background shows bookshelves filled with books. A person's head and shoulder are visible on the right side of the frame. A black text box is overlaid on the right side of the image.

Why is ethics
important to
ACCA?

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Jürgen Habermas: Der
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Why is ethics important to ACCA?

Ethics doubly important for ACCA as a professional body

ACCA has a responsibility to act in the public interest

Ethics must be at the heart of professional life

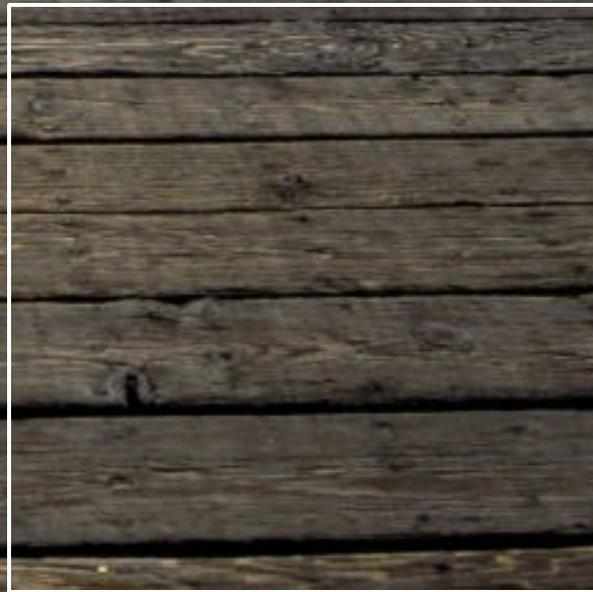
Why is ethics important to ACCA?

Ethics impacts directly on ACCA's reputation and influence

ACCA's ethical code must comply with the IFAC Code of Ethics for Professional Accountants



Ethics and the professional accountant



Ethics and the professional accountant

Accountancy profession accepts its responsibility to act in the public interest

A professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers

In acting in the public interest, professional accountants must comply with their professional body's ethical code

Ethics and the professional accountant

The fundamental principles of 'being an accountant' are common to all – ethics is indivisible

People are expected to act ethically – in line with the principles of 'correct' conduct

Professional ethics add layers to the acceptable level of behaviour

Ethics and the professional accountant

Acceptable behaviour already presents dilemmas

Rushworth Kidder, President of Institute for Global Ethics , wrote 'the really tough choices .. Involve right versus right, they are truth versus loyalty, individual versus community, short-term versus long term and justice versus mercy'

Ethics and the professional accountant

Their work as business 'interpreters' means puts the work of accountants in the public eye

Expectation that senior professional accountants will encourage an ethics-based culture



Framework for
resolving
ethical
conflicts

Framework for resolving ethical conflicts

Principles-based framework is best suited to a rapidly changing environment

Legalistic, rules-based codes encourage creative, loophole-based avoidance

A principles-based code provides a framework for 'doing the right thing', acting as a benchmark

Framework for resolving ethical conflicts

Professional accountants must observe five fundamental principles

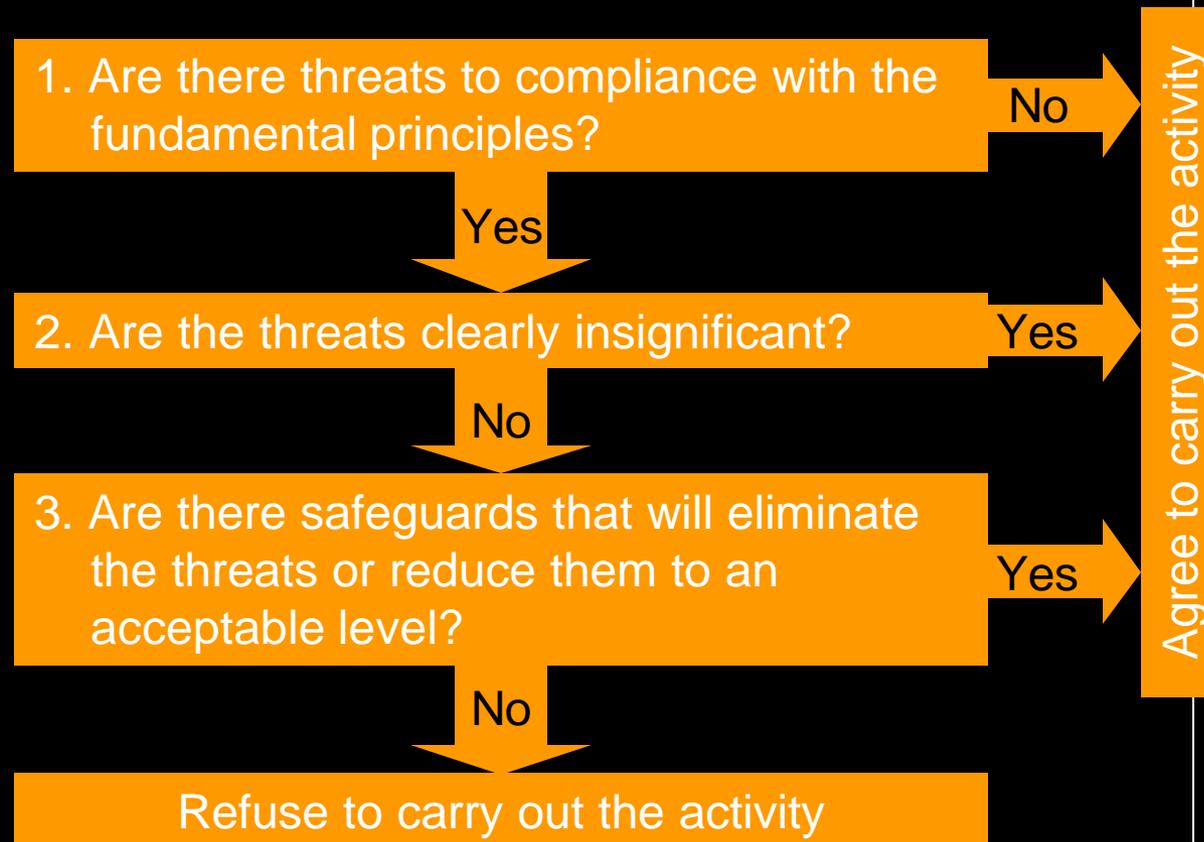
- Objectivity
- Integrity
- Professional competence and due care
- Confidentiality
- Professional behaviour

Framework for resolving ethical conflicts

Threats to compliance

- Self-interest threats
- Self-review threats
- Advocacy threats
- Familiarity threats
- Intimidation threats

Framework for resolving ethical conflicts



A photograph of a newspaper rack in a library or bookstore. The rack is filled with various international newspapers. The background shows bookshelves filled with books. A person's head and shoulder are visible on the right side of the frame. A black text box with orange text is overlaid on the right side of the image.

Why is there
so much
interest in
ethics?

Fears of
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Why is there so much interest in ethics?

Enron and WorldCom!

Key lesson from the scandals is need for a 'top to bottom' ethics-based culture

The values of integrity, transparency and expertise in the ACCA and IFAC Codes should be followed by all those in the financial reporting supply chain

Why is there so much interest in ethics?

What happened at Enron?

Trial revealed how former CFO was asked to structure deals to hide huge losses

CFO was asked to get 'as much of that juice as you can' and 'help Enron make its numbers look the way it wanted to look'

Why is there so much interest in ethics?

What happened at Enron?

CFO stood to benefit financially but claimed other reasons - 'I would look like a hero' and 'make income targets Wall Street was expecting'

Trial told warnings of whistleblower and Enron vice president Sherron Watkins were ignored

Why is there so much interest in ethics?

And at WorldCom?

Professional accountants were placed under intense pressure by domineering senior executives to publish acceptable quarterly business performance figures

The result – a financial hole no-one could fill and the collapse of a world leader in telecommunications.

A close-up photograph of a white plastic bag with yellow straps. The bag features a blue recycling symbol and the text "PLEASE RECYCLE" printed in blue. A black rectangular box is overlaid on the right side of the image, containing the text "Culture change – a new idea?".

Culture
change – a
new idea?

PLEASE
RECYCLE

Culture change – a new idea?

‘Codes of conduct must be transformed into powers for good, not primarily toothless forms of chastisement. The codes must become active documents which aim to encourage the professional to accept that ‘not everything has a price’, that the professional’s actions should be founded on a strong premise.’

Elizabeth Alexander – former CPAA
national president

Culture change – a new idea?

In 1987, the Treadway Report – National Commission on Fraudulent Financial Reporting in the US – stressed the need for an organisation's ethical tone, including financial reporting, to be established by top management:

‘The responsibility for reliable financial reporting resides first and foremost at the corporate level. Top management – starting with the chief executive officer – set the tone and establish the financial reporting environment.’

Culture change – a new idea?

The 1992 Committee of Sponsoring Organisations of the Treadway Commission (COSO) report 'Internal Controls – Integrated Framework'

Emphasised that the control environment sets the tone of an organisation and includes the integrity, ethical values and competence of the entity's people

Culture change – a new idea?

What influences ‘unethical behaviour’?

Pressure on employees to be ‘successful’
- ‘success’ is almost always measured in
monetary terms

Promotion of a ‘doing whatever it takes’
culture

Culture change – a new idea?

What influences ‘unethical behaviour’?

Michael G Daigneault – in ‘Ethics & Professionalism: Why Good People Do Bad Things’ – noted the following ‘rationalisations for ethical compromise’:

- ‘I have to cut corners to meet my goals’
- ‘My superiors want results, not excuses’
- ‘No one will ever know the difference’
- ‘I am afraid to do what I know is right’

How do we
achieve
culture
change?



How do we achieve culture change?

Through regulation?

Has Sarbanes-Oxley helped?

Madhav Mehra, President of the World Council on Corporate Governance; –
'Making a difference through corporate governance' – 'The message of regulation such as SOX is clear; breach the rules and you go to jail. Such legislation is really negative enforcement rather than a positive incentive to change perspective and reinforce sound corporate governance practices'

How do we achieve culture change?

Through a code of ethics?

Articulates the application of ethical values to business practices

Provides the means to measure behaviour

Having a code is not in itself enough -
Enron had a code of ethics, unopened
copies of which can be purchased on e-
bay

How do we achieve culture change?

Through top management?

Leaderships must be active and highly visible if ethical leadership is to mean anything.

Organisations need to have measures of 'success' which are non-monetary

Need to have rewards structures which promote 'ethical' behaviour

How do we achieve culture change?

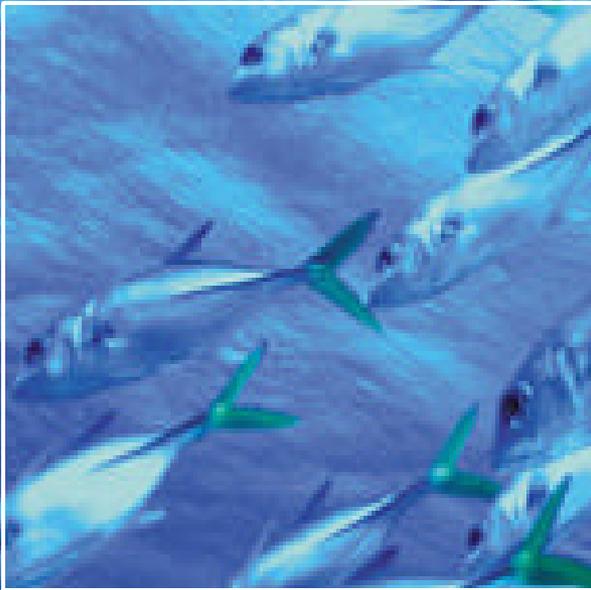
Top management must 'champion' an ethics-based culture

Provide a framework for 'doing the right thing'

Ethics is much more than simply blind compliance; it is about an attitude of mind

The background of the entire slide is a school of silver fish swimming in clear blue water. The fish are oriented in various directions, creating a sense of movement. In the center-right of the image, there is a solid black rectangular box containing the text "Does good ethics equal good business?".

Does good ethics equal good business?



Does good ethics equal good business?

Just how successful are organisations with a strong –and used - code of ethics?

Or is this yet more marketing spin; a means by which to ‘tick the governance box’?

Should the business case behind having an ethical approach to work exist?

Should we do the right thing just because it is the right thing to do?

Does good ethics equal good business?

Is the public's increasing suspicion and mistrust reason enough for companies to do what is rightfully required?

Research carried out by the UK Institute of Business Ethics asked 'who would you generally trust to tell the truth?'

Business leaders scored 24% just ahead of politicians (20%) and journalists (16%)

Does good ethics equal good business?

Research by UK's Institute of Business Ethics shows that companies with a clear commitment to ethical conduct outperform those which do not

Findings show that those with an explicit commitment to doing business ethically produced profit / turnover ratios 18% higher than those which do not

Does good ethics equal good business?

The IBE noted 'The general conclusion from this study is that there is strong evidence to indicate that larger UK companies with codes of ethics, outperform those companies who do not have a code.'

Having a code of business ethics might, therefore, be said to be one hallmark of a well-managed company.'

Does good ethics equal good business?

Taking the initiative on the credibility crisis

GlaxoSmithKline

Code of conduct lays out the principles that the company values

It is the employee's responsibility to implement the code

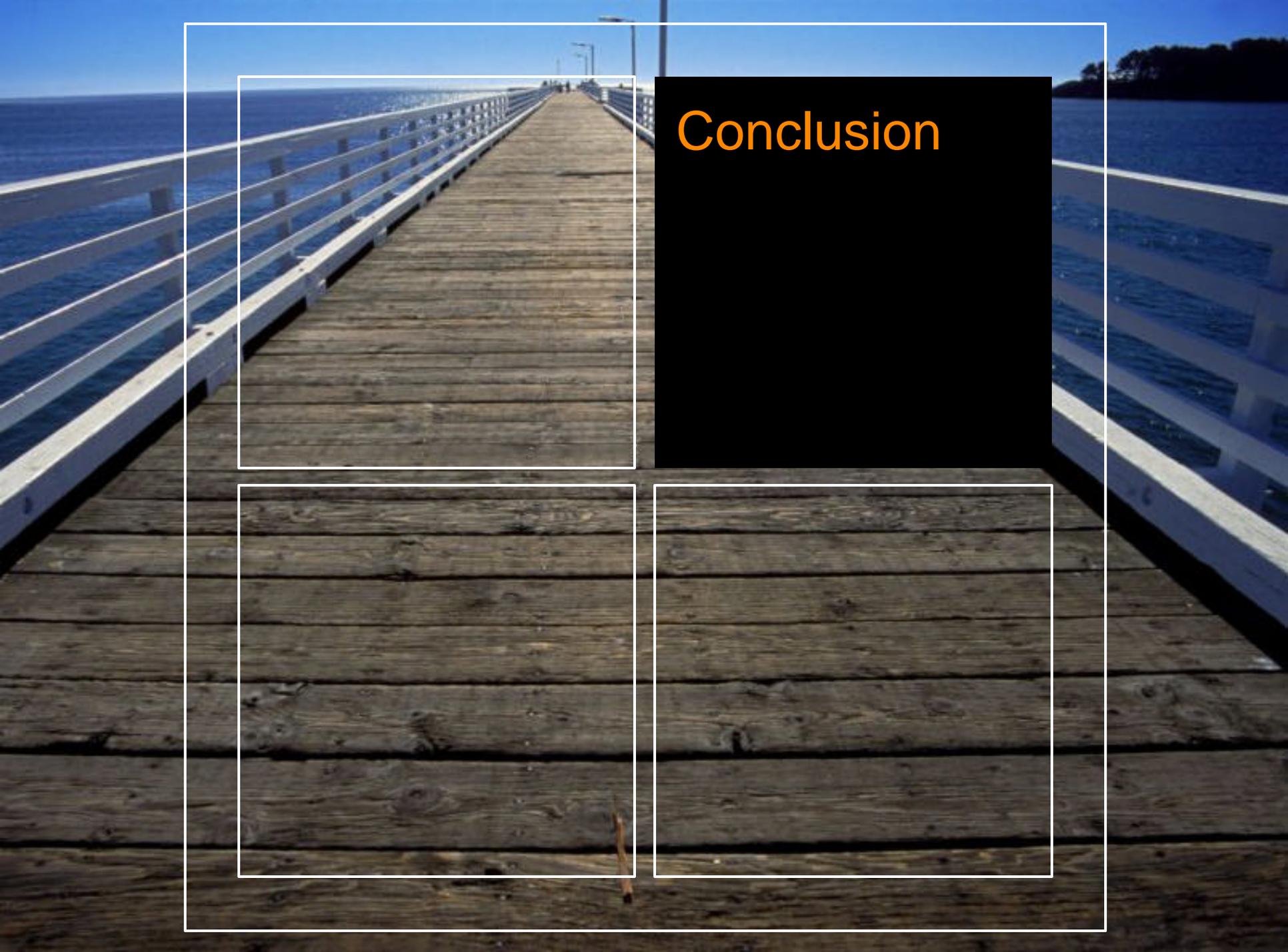
Senior managers are expected to lead by example

Does good ethics equal good business?

Taking the initiative on the credibility crisis

Cadbury Schweppes - 'Good ethics and good business go together naturally to provide the best long-term results for all our stakeholders.'

Kwek Leng Joo – MD of City Developments 'A socially responsible corporation will earn goodwill and higher regard among its customers and the community it operates in. This will .. add value to the business and the brand.'



Conclusion

To conclude

Confidence of stakeholders is key for financial systems and economies to operate effectively and efficiently

Fundamental to building credibility in financial systems and to the development of sound economies

Threats of government intervention and repeated calls from stakeholders have put companies under pressure to solve the problem of corporate ethics themselves

To conclude

Having a code of ethics is 'one hallmark of a well managed company' (IBE)

Having a code is not in itself sufficient for ethics to be taken seriously

To achieve a cultural change needs a 'champion'- it is essential that that the CEO and the senior management team are fully committed to creating an ethics-based culture

To conclude

Top management must act to make the code a 'living and breathing' document

Organisations must monitor, review, educate, keep up the awareness and report on performance

Sir Christopher Hogg, Chair, UK FRC -
Presentation to IFAC Board in February
2006 - noted 'Ethics is the soul of
governance'

But as business leaders, are we prepared
to 'walk the talk'?



Thank you