CGMA® REPORT

MANAGING RESPONSIBLE BUSINESS 2015 EDITION

The ethical challenges organisations must navigate to succeed in a connected world

CGMA
Chartered Global Management Accountant®

Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant (CGMA®) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMA designation holders are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

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INTRODUCTION

Charting organisations' ethical momentum

Ours is an increasingly interconnected world, with an unprecedented rise in data and information flows and ever-more complex and extended global supply chains. As a result, companies are facing more risk than ever, whilst under public scrutiny, to manage their business responsibly.

In 2012 we reported on how corporates worldwide were increasingly addressing a range of ethical issues across their businesses, with the proportion of organisations having a code of ethics jumping from 72% to 80%. The financial crisis of 2008 first evidenced a marked increase in focus on this area. While slowing, this has continued to grow in momentum, with 82% of organisations today stating that they have such a code. This rises to 93% among the largest companies.

How this is put into practice, however, is variable. Our findings show some organisations' rhetoric does not reflect the reality of day-to-day operations. In the UK, for example, more respondents report feeling under pressure from managers or colleagues to compromise their organisation's ethical standards than in 2012 (rising from 18% to 30%). In India, this pressure, whilst remaining high, has lessened from 51% to 45%. Both findings, however, point to a higher awareness of ethical practice.

Looking to the wider value chain

Four in five organisations view ethical issues concerning the supply chain as relevant to their business. In the last few years, regulation and legislation, media attention and public demand for greater transparency have all grown significantly. Today, this means that companies need to consider carefully not only their own business strategies and activities, but also those of the organisations who work with them and even those whom they supply.

The global economic landscape has also progressed, with some mature markets moving into recovery and many emerging economies experiencing a mixture of stagnation and rapid development. We note the efforts underway in these markets in advancing corporate ethics.

The importance of creating an operating environment that promotes good practice, through a combination of processes and related value-led behaviours, is clearly now the remit of the leadership team and board. Embedding an ethical culture can be a challenge – despite the rises in ethical policies, only 36% of organisations are known to collect ethical management information that enables them to assess and address risk. There is a gap in implementation that needs filling.

The external environment demands businesses' attention with an increase in policy frameworks and regulations related to issues such as corruption, corporate governance and, fast rising up the agenda, human rights.

The impact of non-compliance

There have continued to be high-level cases of ethical transgressions since 2012. These include ongoing scandals in London's financial services arena and 2013's tragic Rana Plaza garment factory disaster in Bangladesh, as well as record fines being enforced under the US Foreign Corrupt Practices Act (FCPA). Corrupt corporate activities and the fallout from human rights abuses not only make headline news but also have a long-term impact on the company and the communities in which it operates.

Reputation is high on the global agenda, and boards are being called on to be accountable for their company's actions. We are seeing a rise in attention to corruption. While an awareness of the importance of human rights and business is growing, there is less understanding of how this may be both assessed and addressed. While 68% of respondents recognise human rights as a relevant business issue, only 13% are aware that their organisation has carried out human rights risk assessments.

The Edelman Trust barometer 2015 reports that trust levels in business are now below 50% for the majority of countries surveyed.[1] A recent CIMA study found that companies' use of the word 'trust' has risen by a factor of eight in the past decade, reducing it to a corporate buzzword. So it is not surprising that the need to strengthen relationships with wider stakeholders and increase understanding between business, government and wider society is high on leadership agendas – not least for reputation sake. Trust is at the heart of the matter. To achieve it, a sense of ethics needs to be reflected throughout the corporate culture, evidenced and believed in by all stakeholders.

This CGMA report draws on insight from nearly 2,500 Chartered Global Management Accountant (CGMA) designation holders and CIMA students working in both private and public sectors to review how the landscape has changed since 2012. It highlights three clusters of critical questions that organisations should address to manage responsible business.

CGMA Better Business questions:

Crowded demands:

- With multiple business concerns vying for attention, how are different demands and policies prioritised and actioned?

- With a growing focus on anti-corruption and human rights, how are associated risks assessed and addressed, both within the organisation and in the wider value chain?

Ethical management information:

- With the rising demand for non-financial and narrative reporting – such as integrated reporting – what ethical data should be collected, what is being collected and how is it being used?

- What value can be extracted to better manage the organisation, and who is using this information?

Corporate culture:

- Embedding a corporate culture entails an organisation-wide approach. What ethical architecture and internal controls are in place, and how do these translate into management style and the working environment?

- What role do professional management accountants have?

DEFINITIONS (as used in the survey)

Responsible business:

- is about an organisation's commitment to operating in a way that is economically, socially and environmentally sustainable;

- means ensuring this commitment prevails while still upholding the interests of various stakeholder groups.

Business ethics:

- is the application of values such as integrity, fairness, respect and openness to organisational behaviour;

- apply to all strategic and operational aspects of business conduct, including sales and marketing techniques, accounting practices and the treatment of suppliers, employees and customers;

- may also be termed "business principles", and are usually set out in a code of ethics or similar policy document.

Ethical performance:

- is the extent to which an organisation's behaviour aligns with its stated ethical values and commitments.

Ethical management information:

- allows an assessment of the organisation's ethical performance, such as the efficacy of relevant policies and procedures, occurrence of breaches of relevant policies or codes, stakeholder opinion and other metrics;

- may include specific ethics information, such as the number of employees attending ethics training or calls to an ethics helpline, as well as routine management and risk information;

- will often originate from multiple sources within the business, and can be either quantitative or qualitative.

Integrated reporting:

- describes an approach to corporate reporting. It is based on both financial and non-financial information that demonstrates the linkages between an organisation's strategy, governance and financial performance as well as the social, environmental and economic context within which it operates.

1. CROWDED DEMANDS

What do we focus on?

The demands of operating a business today can at times seem onerous. They often involve multiple geographies and multiple players in both the supply and relationship chains. Add to that the exponential rise of data and information, together with the requirements of corporate regulation and sustainability policies.

We have moved beyond the core business objectives of getting a product or service to market and ensuring the viability of the business model. Managing a responsible business today entails ensuring that the journey to market does not undermine accepted ethical norms. For example, despite differing national legislation and practice, different countries are still bound by the Organisation for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises. These set out requirements relating to human rights, environmental matters, employment conditions and industrial relations.
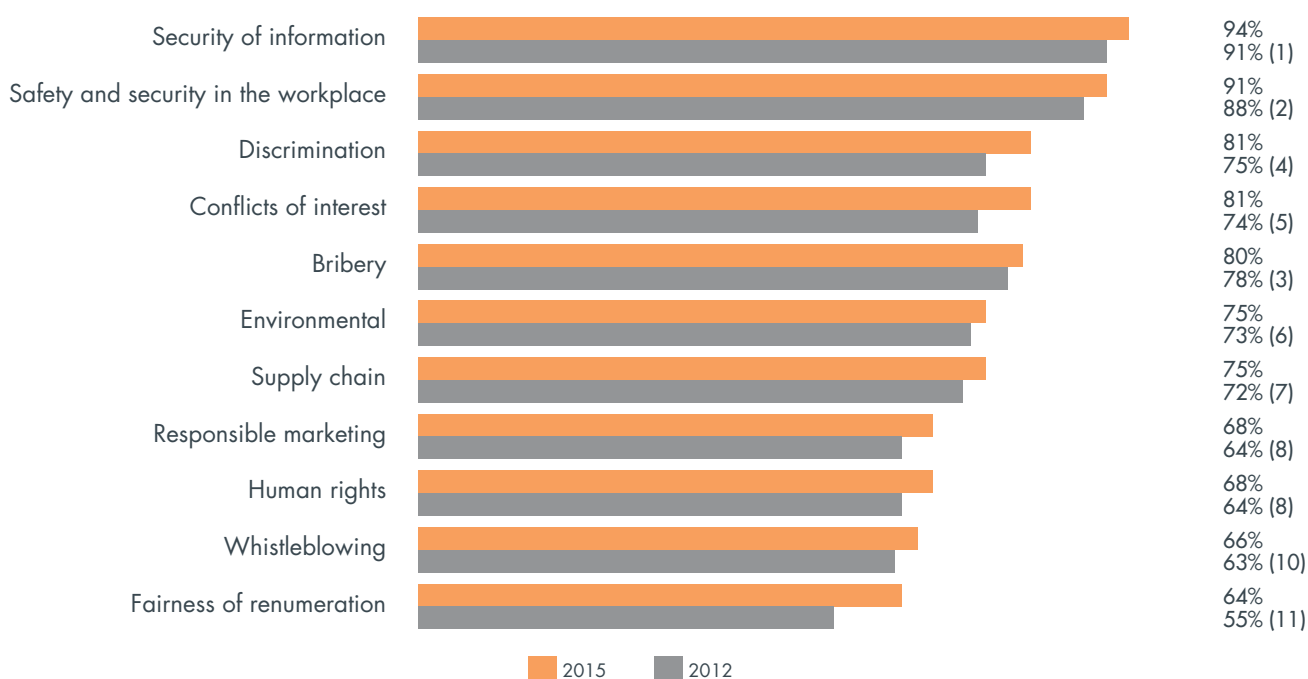
As a recent CGMA report showed, reputation is a key driver for all businesses,[2] a finding that is replicated across a multitude of studies. Business issues with an ethical dimension need to be addressed early on in business planning, and staff need a clear understanding of how and why to operate.

Ethical issues growing in importance

When reviewing the relevance of a range of ethical issues to organisations globally, there have been some changes since our 2012 research in ranking of importance. These include an across-the-board increase in the perceived relevance of most issues, highlighting the year-on-year growth in importance of most ethical concerns. Most are all still clustered closely together in terms of perceived importance, indicating a crowded demand for attention.

FIGURE 1

Currently how relevant are the following ethical issues to your organisation?

Issue	2015	2012
Security of information	94%	91% (1)
Safety and security in the workplace	91%	88% (2)
Discrimination	81%	75% (4)
Conflicts of interest	81%	74% (5)
Bribery	80%	78% (3)
Environmental	75%	73% (6)
Supply chain	75%	72% (7)
Responsible marketing	68%	64% (8)
Human rights	68%	64% (8)
Whistleblowing	66%	63% (10)
Fairness of renumeration	64%	55% (11)

■ 2015 ■ 2012

(Base 2015: 2,395 / 2012: 1,760)

The core priorities of professional management accountants reside within their technical specialty, and are headed by the need to safeguard the organisation through security of information and safety within the business. The rise of the internet of things,[3] cybercrimes including cyber fraud and many issues related to big data all mean there is more need than ever for additional specialist input to ensure security of information.

Many organisations are facing dilemmas that exist between an understanding of the need to take action on specific issues and ensuring they have the right impetus, resources and leadership to embed a range of issues into their day-to-day operations.

The complexity of implementation

This is illustrated in the findings by the higher ranking of environmental issues, with 75% of respondents agreeing that they are a very relevant business issue. Only 14% reported that their organisation is taking no action to reduce its impact on the environment. Figure 2 illustrates specific actions that respondents knew their companies were undertaking. While there is a perception of the need for action, how to actually implement change may often be complex and not as yet understood or mandated across the business.

Such areas of concern run the risk of then becoming siloed, although best practice concurs that they should instead be widely understood, "top-table" concerns. Unilever exemplifies this through its

Sustainable Living Plan.[4] As reported in recent research: "The resounding reason for not reporting on sustainability is a lack of corporate mandate, with 60% saying there is a lack of demand from decision makers and a third stating that it is not part of their role or job remit."[5]
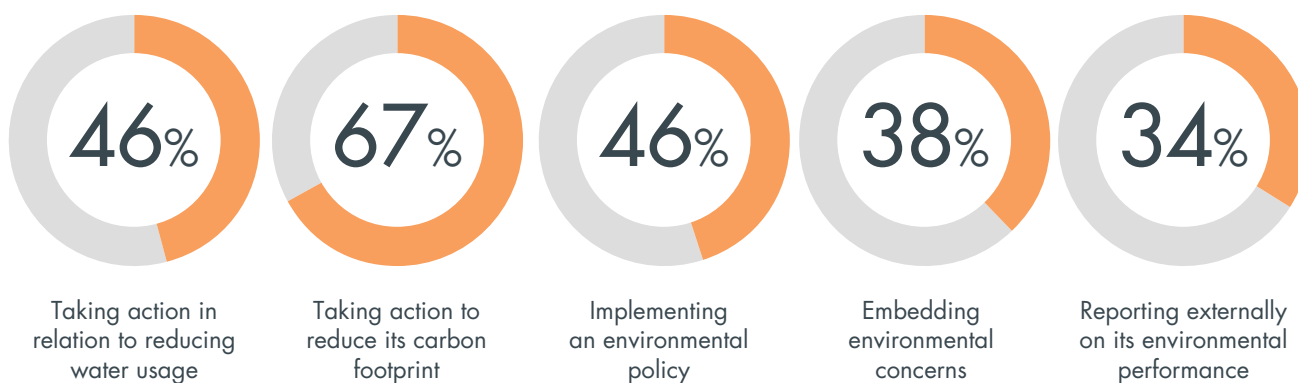
The relevance of the supply chain to organisations across all markets has also increased. In a world where outsourcing is increasingly common, global supply chains are becoming more complex. Today's extended supply chain has significant implications for organisations' ethical, governance and risk-management policies and practices. Factoring in both opportunity and risk is a key function of the management accountant.[6]

Fairness of remuneration also rates higher than three years ago. Inequality, across all markets, has become a global policy issue. Not only has there been wide media coverage and public debate about spiralling leadership pay deals, including protest from shareholders, there is also a growing awareness of exploitation in the supply chain and related living-wage issues.

With so many concerns, every business unit needs to consider both the relevance and the materiality of each issue to the business. Having clarity on what is business critical will help them prioritise where to direct their attention. The reasons why can then be articulated, both internally and externally. Significantly, for traction to build, this articulation has to come from the leadership.

FIGURE 2

What is your organisation doing to reduce its impact on the environment?

46%	67%	46%	38%	34%
Taking action in relation to reducing water usage	Taking action to reduce its carbon footprint	Implementing an environmental policy	Embedding environmental concerns	Reporting externally on its environmental performance

(Base 2015: 2,428)

ANTI-CORRUPTION AND HUMAN RIGHTS – how clean is your business?

Two of the ethical business issues that continue to rise in importance are bribery and human rights.

Anti-corruption

The last two decades have seen major growth in awareness and stated commitment to fighting corruption at international, national and corporate levels. Corruption depletes national wealth, hinders the development of fair market structures and distorts competition, which in turn deters investment. This has been coupled with an increase in and strengthening of national legislation. This includes law with global reach such as the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act 2010.

> 66 99
>
> The World Economic Forum estimates corruption adds up to 10% of the total cost of doing business globally, and up to 25% of the cost of procurement contracts in developing countries.

Guidelines and due diligence

Respondents confirmed that 57% of their organisations have specific anti-corruption guidelines, rising to 78% among the largest organisations. Given that 80% stated bribery was an ethical issue of relevance to their organisation, a clearer understanding of the company's reporting and risk routes may need to be stated more explicitly. Depending on an organisation's activity and location, risk can vary greatly. So organisations should ask questions like: "What is the top-level commitment to fighting bribery and what resources do we have to support this?" "How can we identify the red flags in our wider supply chain or partner network?" "How are our people equipped to manage sensitive negotiations and to escalate as necessary?" Our findings showed that there is a wide variation in organisations' preparedness to deal with corruption risk. As the EY Fraud Survey of 2014 also showed, there is a need for organisations to reinforce their commitment to ethical growth.[7]

Management accountants have an important role in ensuring business is conducted in an ethical manner. They particularly need to be aware of the global demand for increased transparency. In turn, they need to communicate this to colleagues and those in the

supply chain alike, both to prevent corruption and to improve fair and competitive conditions for business.

Nearly half (44%) of respondents had a well-understood process for conducting corruption-risk assessments when entering new regions, markets or projects. However, 28% were unsure of what processes were in place, highlighting the continuing need for wider communication around anti-corruption – even if a specific role isn't affected. Such due diligence is critical, particularly in relation to third parties.

FIGURE 3

57%

% of organisations providing specific guidelines relating to anti-corruption

The FCPA and UK Bribery Act highlight the need for such processes; should corruption occur, omission to undertake them would be viewed unfavourably by prosecutors with penal implications. As outlined in the CGMA 2014 briefing on Combating Corruption across the Value Chain,[8] resources are available to help companies establish strong anti-corruption programmes.

> 66 99
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> Finance and accounting is the language of business transactions, and accountants have long been interpreters of this language. Ensuring that information is accurate and transparent has never been more important.
>
> Jeff Kaye, FMCA, CGMA Trustee, Transparency International UK

Collective action

It is encouraging that over a quarter (26%) state that their organisations participate in a collective action alliance or arrangement, rising to 34% of the largest companies. Such alliances are growing rapidly, particularly in higher-risk markets. They often bring competitors within sectors together, as well as other key stakeholders such as regulators, government and representatives of civil society. Their shared role is to level the playing field by agreeing to push back jointly against pressures to bribe. This reflects recent work by Massachusetts Institute of Technology (MIT)[9] which showed that half of the 48% of those organisations engaged in sustainability-related collaborations were also addressing governance (e.g. corruption) issues to a moderate or great extent.

High-risk markets

A great majority of respondents (77%) would consider advising an employer not to invest in or engage with a market that shows evidence of a high risk of corrupt practices; 11%, meanwhile, do not know whether or not they would. This is not necessarily a red flag, after all there are sectors that have a need to operate in a difficult environment. Examples include:

- the extractive industries, where raw materials are often to be found in fragile environments;

- pharmaceutical companies, whose products may be required for health delivery;

- humanitarian groups, that need to operate in conflicted societies in order to offer relief.

In such situations, it is imperative that careful due diligence and clear guidance to the local operation is in place, not least for the safety of those associated with the organisation. There is even potential for enlightened organisations to bring local communities a range of benefits beyond employment alone, including education and expertise.

Human rights – business at what cost?

Forced labour, child labour, dangerous working environments, land clearance, environmental degradation and misuse of data are all issues with a high human cost. They are also areas in which business can be implicated and charged with abuse.

It has taken several decades for anti-corruption to be a widely understood business issue. This is illustrated in part by the increase in FCPA enforcement actions, which rose from a handful a decade in the 1970s and 1980s to a high of 73 actions in 2010[10] alone.

Addressing human rights abuses in business is forecast to become a similarly business-critical issue, but far more quickly. Through our ongoing research, it has risen as an ethical issue of relevance from 55% of organisations in 2008 to 68% today.

> **Human rights has risen as an ethical issue of relevance from 55% of organisations in 2008 to 68% today.**

The organisations that recognise this tend to be concentrated among respondents from emerging markets and from larger organisations with global reach. Abuses are most likely to take place in emerging economies that have less developed health and safety regulations, labour rights and related legal protection in place. Similarly, risks are high in those markets where the extractive industries or large infrastructure projects are likely to displace local populations or impact land rights.

The growing significance of human rights also reflects the rising focus on risks in the supply chain. These issues may have first come to the public consciousness in the Levi Jeans child labour-related cases of the early 1990s. Labour issues are still headline news, such as the 2013 Rana Plaza disaster in Bangladesh[11] where a garment factory collapse killed over 1,100 people and injured more than 2,500. Child labour is still the focus of recent stories about Samsung's and Lenovo's supply chains, while Apple faced a global outcry over reportedly high suicide rates in the factories of its supplier Foxconn.[12]

As the FIFA scandal unfolds further, with the spotlight on endemic corruption, global political demand will intensify for action to address labour issues in Qatar, where workers may be paying for the 2022 World Cup Finals with their lives.[13] The International Trade Union Confederation (ITUC) estimates that 4,000 may die by the time the project is complete. It is not just the Qatari Government and FIFA in the frame – the companies and brands engaged with infrastructure development and sponsorship of the World Cup are also affected.

The Guiding Principles

It was only in 2011 that the Guiding Principles on Business and Human Rights were introduced. These are also known as the Ruggie Principles, after the UN Special Rapporteur and Harvard professor John Ruggie

who formulated them. They provide an authoritative global standard for addressing adverse impacts on human rights linked to business activity, wherever such impacts occur. To abide by the Guiding Principles, companies are required to have a policy commitment to respect human rights, and proactively take steps to prevent, mitigate and, where appropriate, remediate, their adverse human rights impacts.[14] Just as organisations now routinely conduct corruption due diligence (as our survey shows) the need for human rights due diligence in higher-risk markets and sectors is likely to become widespread. Indeed, in late 2013 the United Kingdom became the first government to set out guidance to companies on integrating human rights into their operations.[15] The Netherlands, Denmark and Italy have also set national action plans and more governments are due to follow.

Awareness of the Guiding Principles – and indeed of human-rights risk – is still low among the general business community. Over 86% of respondents were not aware of the Guiding Principles. Positively, of the 14% that were familiar, 43% were actively implementing the guidelines. Interestingly, this number was approximately the same across all organisations regardless of size, reflecting different players in the global value chain.

FIGURE 4

One to watch

86% not aware of UN Guiding Principles on Business and Human Rights

Of those that were aware of the Guiding Principles, almost half were implementing them

Just 13% of all respondents had conducted due diligence on human rights when entering new contracts, reflecting the proportion with awareness of the Guiding Principles; 47% did not know if they had and 6% recognised it was not applicable to their organisation. Such low awareness is not surprising – this is a topic that is only just starting to climb on to the board's agenda. Yet the significance of their introduction to the agenda needs to be understood.

International best practice

Not only governments but finance providers and corporations as well are facing pressures to observe international best-practice standards, even where there is no regulatory requirement or national legal framework to do so. The Guiding Principles comprehensively reinforce areas already highlighted in both the OECD guidelines and the principles of the United Nations Global Compact (UNGC), to which many major global corporates and thousands of smaller companies are signatories. Such "soft law" – voluntary, non-legally binding rules of conduct – is derived from international law, which could result in breaches of obligations by states if companies under their legislature ignore it.

As a financier that engages with numerous sectors across all continents, Australia and New Zealand Banking Group Limited (ANZ) aims to promote the responsibility to respect human rights in all its business relationships. It is therefore implementing its human rights standards in its values, strategy, governance, policies, systems and processes. For the Bank, "the most compelling view was the one that articulated a business case for human rights. ANZ appreciates that a failure to respect human rights and to adequately manage human rights-related risks could have negative reputational, financial, legal, and operational consequences."[16]

As stated in a recent MIT Sloan review on the rising importance of human rights in business: "You may or may not agree, but what counts is that others do. …What matters is the traction they have gained and how they will shape regulation in the future."[17]

For high-risk sectors, there are clear benefits to applying the Guiding Principles. A breach will have high costs, not only in the ultimate currency of lives, but also directly on the bottom line through operational costs, access to financing, stakeholder relations and reputation. Organisations everywhere need to consider how such developments are likely to impact on their corporate activities and value chain. It is imperative not only to have risk assessment but also routes to remedy in place.

2. ETHICAL MANAGEMENT INFORMATION

There has been a marked increase in demand for ethical management information – ethical, social and governance data – from investors, regulators and wider stakeholders. Recent findings by PWC show that up to 70% of institutional investors are turning projects down due to related risks.[18]

Organisations need to have not only the right data but also the ability to analyse it, a culture where the use of data is expected and the assurance that insights are applied to create value. Yet nearly 90% of organisations are struggling to get valuable insight from data.[19]

What is ethical information?

Our findings show that organisations are still not routinely collecting and using what we would define as ethical information or data. Ethical data covers a range of information from within an organisation, as outlined in the definitions on page 4. It is also what organisations derive from their governance, environmental and social activities. The challenge is not only what to collect, but to know what is already collected, and then how to extract value from it.

Data, which should be available within the organisation, can lend valuable insight into both threats and opportunities. Given the major rise in ethical architecture within organisations, it is important that they should monitor and assess how their codes and programmes function. Often this may entail using an ethical "lens" to explore information that is already available.

Demand for information and insight

Senior management were identified as the main users of ethical data (see figure 5). Among external stakeholders, investors are identified by almost a third of respondents as users of such information. This is a growing trend. Banks, insurance companies, private equity funds and other institutional investors are now considering the sustainability rankings of the companies in which they invest.[20] The year-on-year growth of the Principles for Responsible Investment (PRI) Initiative (an international network of investors) also illustrates this, with over US$45 trillion in assets under management. Recent global research by academics has also shown a positive link between Corporate Responsibility reporting and stock-price increases; such information could therefore be seen to enhance the value-relevance of the organisation.[21]
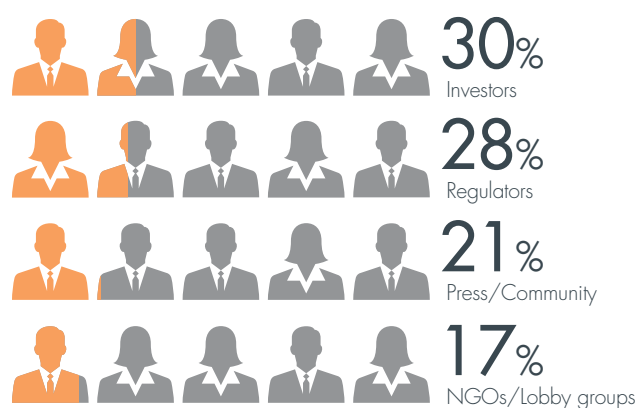
Trust and reputation

Other stakeholders such as regulators, the media and non-governmental organisations (NGOs) use public ethical data to gain a clearer picture of an organisation's activities. This ties back directly to issues of reputation. Enlightened organisations will ensure they can display evidence, backed up by data and qualitative information, that they know what is going on across their operations and how they are managing risks. It is far better for disclosures to come from the organisation than a whistle-blower, which is why there is a real demand for transparency. Considering the estimate that the combined reputational value of all S&P 500 companies is US$3 trillion (22% of total market capitalisation)[22] it is no wonder that investors show such keen interest in this area. It also underlines how critical this issue should be for management.

While management has overall responsibility for safeguarding an organisation, it is the board that must take an active role. Ultimately, the board must hold the management to account – for this, they need insight through access to strong management information related to ethical risk.
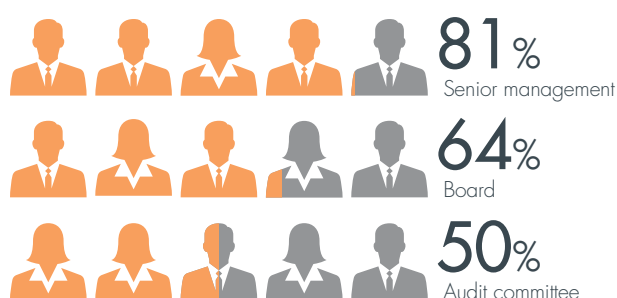
Demand for ethical management information – who uses it?

FIGURE 5

external users of data

30% Investors

28% Regulators

21% Press/Community

17% NGOs/Lobby groups

internal users of data

81% Senior management

64% Board

50% Audit committee

Examples of information sources

As far as behaviours are concerned, it is most likely that data from areas such as Human Resources can be tracked, such as: what formal codes and policies are in place and adhered to; how many staff have had specific training courses related to ethical issues; how many conduct cases have been raised; what is the level of staff turnover?

Such data can give important insight into culture. If conduct cases, or indeed dismissals or resignations, are clustered in certain teams or markets there is clearly an issue that needs addressing beyond blaming an individual.

Similarly, from a governance angle there will be areas related to regulation breaches, hotline reporting, litigation cases and other sources which may relate to security and safety issues. If collected and reviewed systematically (and where possible openly) red flags can be identified.

Business data on areas such as marketing, procurement and sales can also inform the business of customers' engagement levels and their views of ethical products and actions. Increasingly customers engage with a company based upon trust. In the UK financial sector, for example, as it continued to be mired in scandal, thousands of customers left the leading banks for smaller, more "trusted" financial institutions. Similarly, charges of complexity and overpricing in the utility sectors opened the space for new smaller competitors as customers sought alternative providers.

All such data – if selected carefully and provided it is material to the organisation – has great value both in highlighting risks and in identifying opportunities and even enabling innovation. There is potential to gain insight into ethical issues by mining particular areas of data analytics. These can include using forensic data analytics tools to improve compliance investigations, or customer data to identify preferences for ethical products. The challenge is to decide what information will best inform the business strategy and day-to-day operation of a specific organisation.

Collection and reporting

Over a third (36%, the same as in 2012) of respondents are aware that their organisations gather ethical information, with 28% unsure. Yet, as in our previous survey, 41% were aware that their organisations publicly report on ethical information.

Status of collecting and reporting on ethical management information

FIGURE 6

% of organisations collecting and reporting on ethical management information

36% collecting

41% reporting
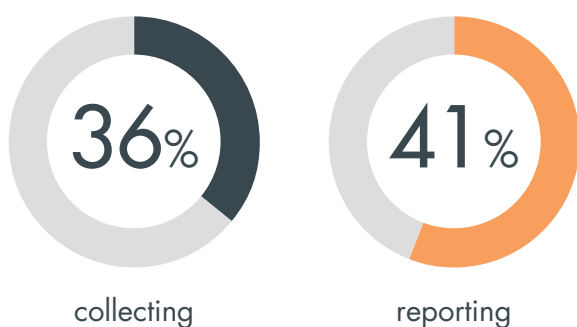
As in 2012 this highlights a disconnect with more being reported on than collected. What exactly, then, is being reported on? It is common for values and programmes to be outlined in annual reports, often in the CEO or Chairman's narratives. However, these are only meaningful when there is analysis of their impact and outcomes, as opposed to just being worthy aims and statements. Of the 41% who were reporting, 8% were using integrated reporting. This means using both financial and non-financial information, such as ethical management information, is a trend that is set to increase. We can conclude that nearly two thirds of organisations, the majority of which have publicly-stated ethical policies and values, are still not investing resources to understand impact or risk.

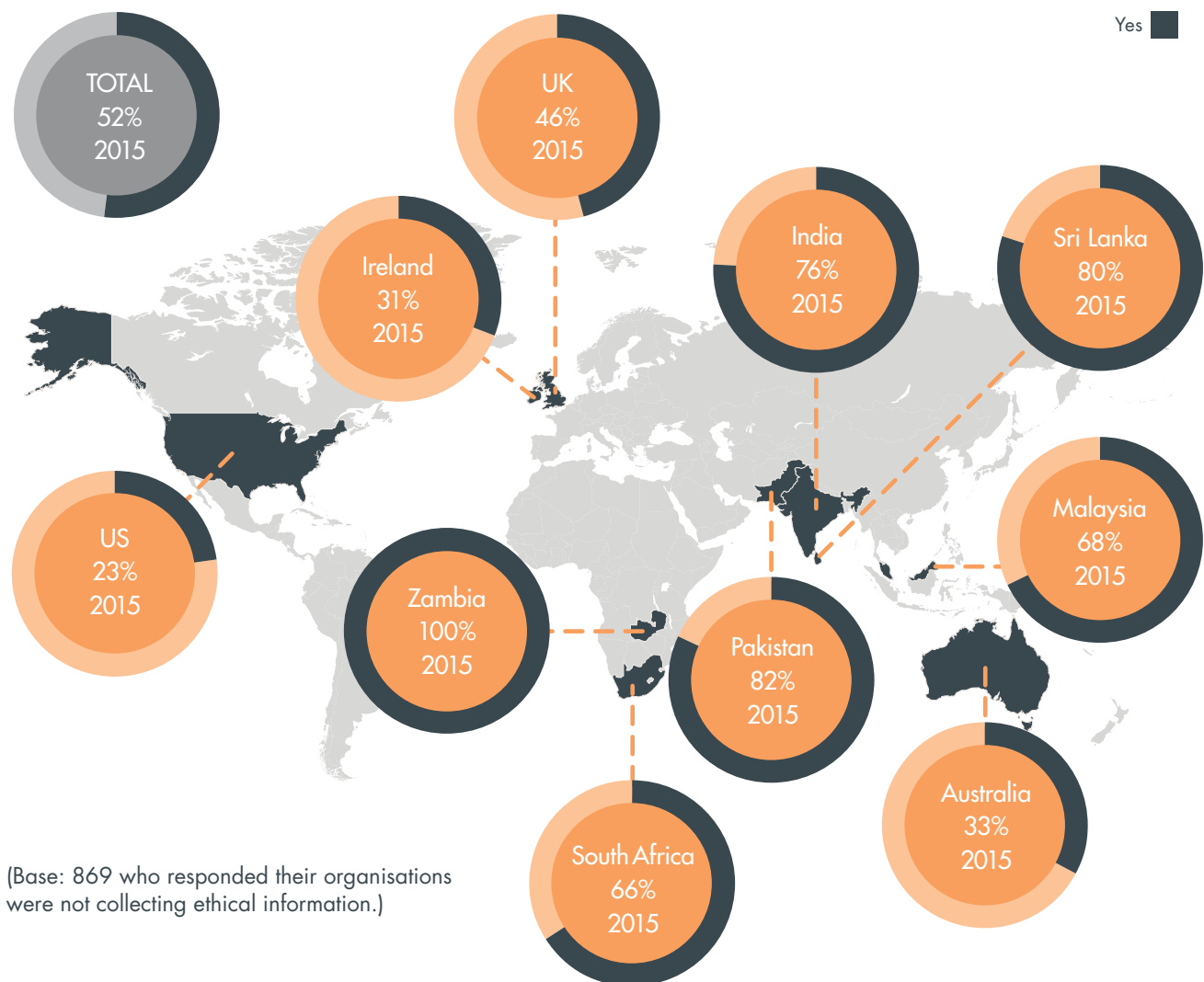The means of collecting such information was stated to be through a range of methods:

- part of regular management information gathering (50%);

- surveys (41%);

- analysing hotline/speak-up line data (33%);

- performance reviews (45%);

- the use of external assurance providers (18%).

Whilst 36% knew their organisation collected ethical management information, 28% didn't know. Of the remaining 36% whose organisation's didn't collect, over half agreed their organisation would benefit, a quarter unsure. There may not be clarity on what such information could be or the linkages on how best to use it, and there may be little demand or support from the leadership. Those in emerging markets were, however, more likely to recognise its importance.

Organisations need to review how best such information can be used and its materiality. The key is to identify the information that can highlight red flags within the organisation, track improvements and identify opportunities and innovation in products and services. Given that reputation is so tied up with a company's success it is important to factor in how "good" business can benefit the bottom line in the long term. Companies also need to be confident in explaining decisions to a wide range of stakeholders, supported by metrics that justify their decisions.

FIGURE 7

Do you think your organisation would benefit from collecting ethical management information?
(those not currently collecting).

Yes ■

TOTAL
52%
2015

UK
46%
2015

Ireland
31%
2015

India
76%
2015

Sri Lanka
80%
2015

US
23%
2015

Malaysia
68%
2015

Zambia
100%
2015

Pakistan
82%
2015

Australia
33%
2015

South Africa
66%
2015

(Base: 869 who responded their organisations
were not collecting ethical information.)

3. CORPORATE CULTURE

"The way we do things around here"

Ethical architecture

An organisation's culture encompasses the values and principles of all those engaged with it. The first step for any responsible business is to ensure that it has the ethical architecture in place to support and embed the ethical culture and the "way things are done". The range of internal codes and policies that frame this are increasing every year; 82% of all organisations provide a Code of Ethics, rising to 93% in organisations with more than 5,000 people.

The provision of internal hotlines and helplines to help report ethical issues, also known as speak-up lines, has risen significantly – from 49% in 2012 to 59%. In larger corporates, 83% have such a service, reflecting the global growth in their use. There are two primary reasons for this: firstly, greater global attention on ethics and compliance issues and the need to engage staff in speaking up. Second, an increasing number of businesses have expanded into fast-growing but risk-laden markets, meaning regulatory scrutiny has tightened.[23]

The increase in activities engaging staff in upholding standards is also reflected in the rising number of organisations that provide incentives for staff to uphold the organisation's standards from 25% to 46% in the last three years. Part of this rise may be attributed to the fact that our survey specified an example of incentive, such as performance review. However, given that 40% of even the smaller organisations of under 250 employees have such incentives – rising to 54% in companies employing over 5,000 – there does seem to be a positive effort underway to both encourage and monitor individuals' ethical behaviour.
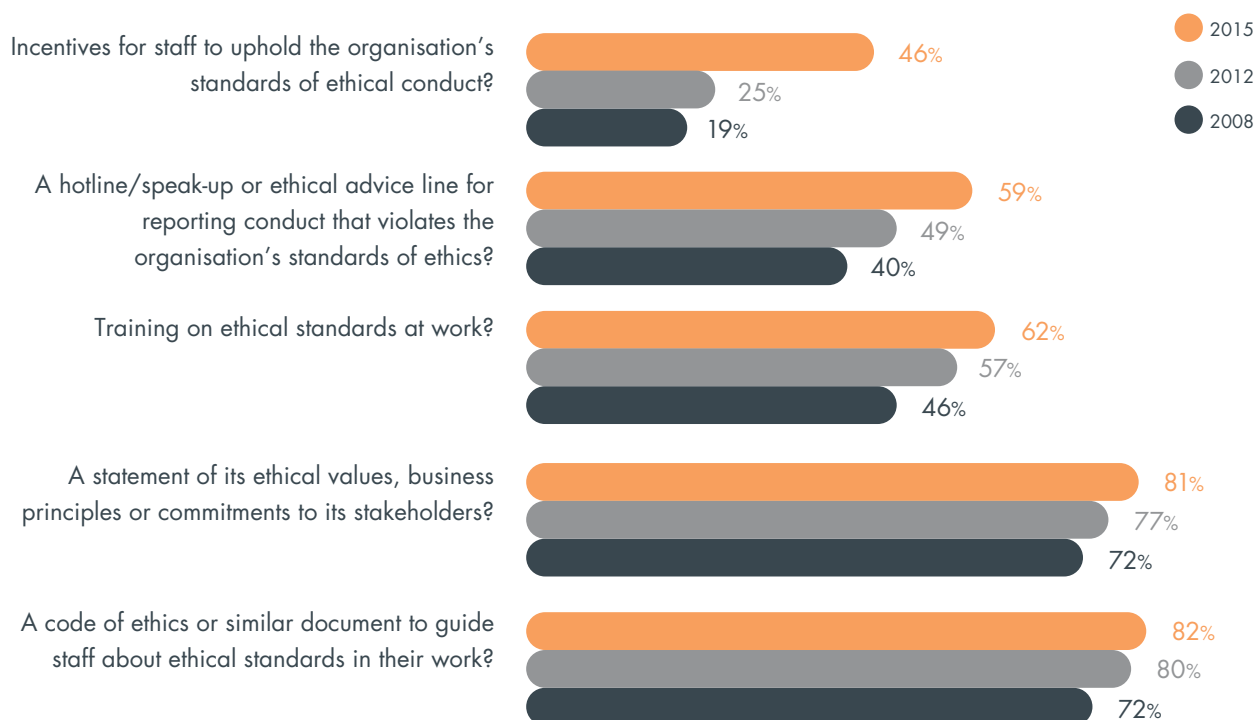
Wilson Wong, Head of Futures and Innovation, at the Chartered Institute of Personnel and Development (CIPD)[24], reflects that: "An appreciation of the values of the organisation and how they are played out as behaviours in day-to-day activity requires a closer relationship between managers and their reports. Increasingly employees (and their managers) are accountable not only by what objectives have been met, but 'how' they met them. Did they work collegiately with other functions, did they challenge appropriately – i.e. are espoused values reflected in the way they work? The values of the organisation, often supported by the ethical architecture, can be important to employees. The manner organisations serve their purpose (ethically or otherwise) is a key part of employees' sense-making when they reflect on the meaning work brings to their identity and their lives. On a larger canvas, the values organisations live out impact their employer brand. One need only look at Glassdoor[25] to realise that spin only goes so far with the socially-networked, media-savvy workforce of today."

In the last three years there has been a five point increase in training on ethical issues, to 62%. While this is positive, it remains that over a third of organisations may not be providing training on ethics. This undermines both awareness and understanding of an organisation's ethical objectives.

In relation to a growing open workforce attention needs to be paid to embedding ethical culture beyond the boundaries of their organisations. Given that talent and resources are spread across a complex mix of in-house teams, freelancers, contractor and external business partners there is a need to unite such groups around a common ethical purpose.

FIGURE 8

Does your organisation provide:

Incentives for staff to uphold the organisation's standards of ethical conduct?
- 2015: 46%
- 2012: 25%
- 2008: 19%

A hotline/speak-up or ethical advice line for reporting conduct that violates the organisation's standards of ethics?
- 2015: 59%
- 2012: 49%
- 2008: 40%

Training on ethical standards at work?
- 2015: 62%
- 2012: 57%
- 2008: 46%

A statement of its ethical values, business principles or commitments to its stakeholders?
- 2015: 81%
- 2012: 77%
- 2008: 72%

A code of ethics or similar document to guide staff about ethical standards in their work?
- 2015: 82%
- 2012: 80%
- 2008: 72%

Legend: 2015, 2012, 2008

(Base 2015: 2,387 / 2012: 1,966 / 2008: 1,300)

How is it for you?

Encouragingly, we found that most respondents globally feel they work in ethical organisations and hold respect for their leadership. They also recognise the important role management accountants have in supporting ethical performance.

Over three quarters (76%) state that their senior managers set a good example of ethical business behaviour. A similar number, 73%, feel their organisation lives up to its stated policy of corporate behaviour.

A strong majority (72%) also agree that their employer disciplines unethical behaviour. They believe that taking such action and having an awareness that penalties are to be paid are strong and important messages to give out. Companies such as BP, Siemens and Diageo are now externally reporting on staff dismissals and terminated suppliers' contracts related to non-compliance.[26]

Establishing a corporate culture that promotes ethical and responsible behaviour continues to be a challenge for some organisations. In the UK, for example, a number of banks caught up in scandals from the financial crisis and beyond have explicitly spoken about the need to "change culture". They are investing much time and resource in order to do so. The larger and more complex the organisation the bigger challenge such change can be. In their day-to-day work, 69% of respondents felt their line manager explains honesty and ethics in work; this is evidence of the importance of role-modelling within a team, particularly for those who work in finance.

In regard to their own views, 78% of respondents felt that business has a moral imperative to help address global issues such as climate change and poverty. There was a much stronger agreement in emerging economies such as South Africa (92%) and Zambia (96%), where such issues are realities that impact upon working and private lives alike.
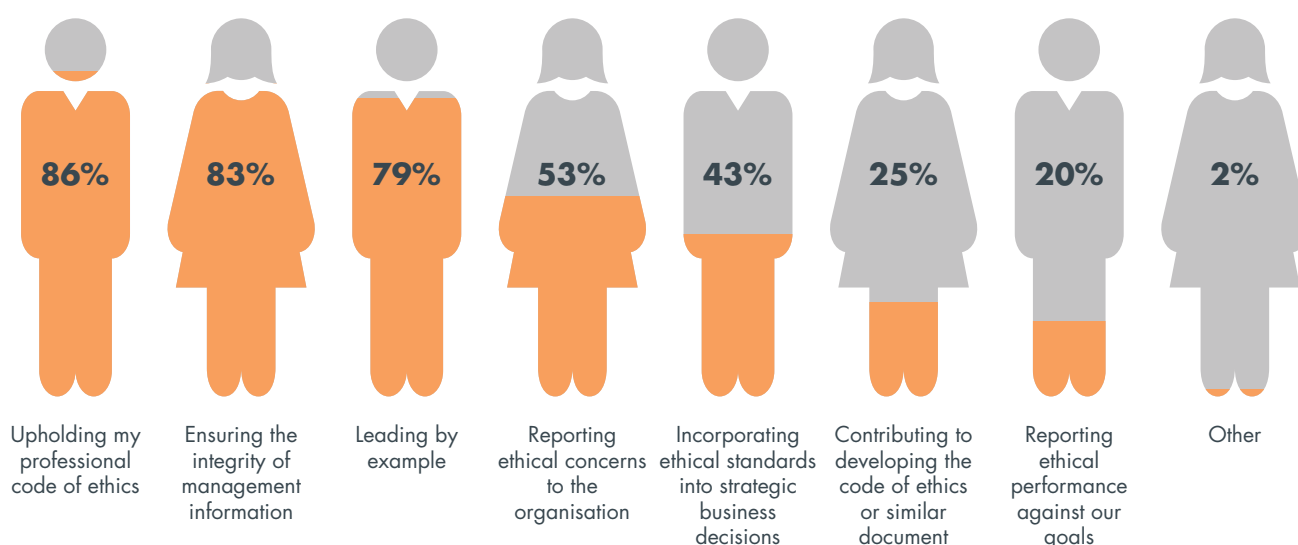
Ethical stewardship

As professional management accountants, the respondents recognise the particular role they have in managing ethical performance. Precisely 25% identify this as a major aspect of their role, and another 55% state that it is part of their role. All CGMA designation holders and CIMA students have obligations to uphold their professional codes[27], breaches of which come with sanctions. As emphasised in the Global Management Accounting Principles (the Principles), they should be trusted to be ethical, accountable and mindful of their organisation's values, governance requirements and social responsibilities.[28] For them to do so effectively, the corporate culture needs to be an enabling factor – it is in the execution of strategy that management accountants align their actions with the organisation's values, and they need to follow not only the letter but also the spirit of laws, codes and regulations. Nothing is as important in ensuring responsible business operations as the working environment, backed by a strong tone from the top that resonates the full length of the reporting line. We found in 2014 that 76% of CGMA designation holders felt they were "extremely valued" or "valued" by their employers for their professional standing and commitment to a code of ethics.[29]

Respondents see they contribute to managing ethical performance in a number of ways. Ensuring the integrity of management information remains the most specific role, together with upholding their code of ethics, as well as role-modelling behaviours and escalating issues when necessary. These are all areas of stewardship that are encompassed in the Principles, and the survey shows they are being acted upon.

FIGURE 9

In what ways do you contribute to managing the ethical performance of your organisation?
(Base 2015: 1,853)

86%	83%	79%	53%	43%	25%	20%	2%
Upholding my professional code of ethics	Ensuring the integrity of management information	Leading by example	Reporting ethical concerns to the organisation	Incorporating ethical standards into strategic business decisions	Contributing to developing the code of ethics or similar document	Reporting ethical performance against our goals	Other

Pressures remain

While the majority of organisations report themselves to be ethical and continuing to embed ethical architecture, there has been little change to the pressures that remain within the business. Even with strong leadership and exemplary processes, complacency about the risks that are ever-present cannot be ignored.

As stated above, over a third (37%) of respondents feel under pressure from colleagues to compromise their standards of ethical performance. However, their particular behaviours and professional codes contribute directly both to enhancing corporate culture and their ability to push back. This includes being alert to a number of issues:

- the need to avoid potential conflicts of interest;

- the danger of putting personal or short-term commercial considerations before the longer-term interests of the organisation or its stakeholders;

- the need to perform in accordance with their code and to constructively challenge any decision that does not align to corporate values.[30]

A quarter of respondents globally had observed conduct that violated their organisational ethical standards, policy or law during the last year, with a higher proportion of reports from the emerging economies.

The survey shows a great disparity from market to market in instances of respondents observing violations or feeling under pressure. This picture contrasts with the roughly 80% of organisations across all markets that have a code of ethics.

FIGURE 10

In your current/most recent role, have you personally observed conduct that violated organisational ethics standards, policy, or the law in the past 12 months?

Yes ■

TOTAL: 22% 2012, 25% 2015
UK: 12% 2012, 16% 2015
Ireland: 14% 2012, 14% 2015
India: 30% 2012, 30% 2015
Sri Lanka: 22% 2012, 31% 2015
US: 14% 2012, 20% 2015
Zambia: 67% 2012, 60% 2015
Pakistan: 30% 2012, 35% 2015
Malaysia: 17% 2012, 31% 2015
South Africa: 27% 2012, 30% 2015
Australia: 18% 2012, 22% 2015
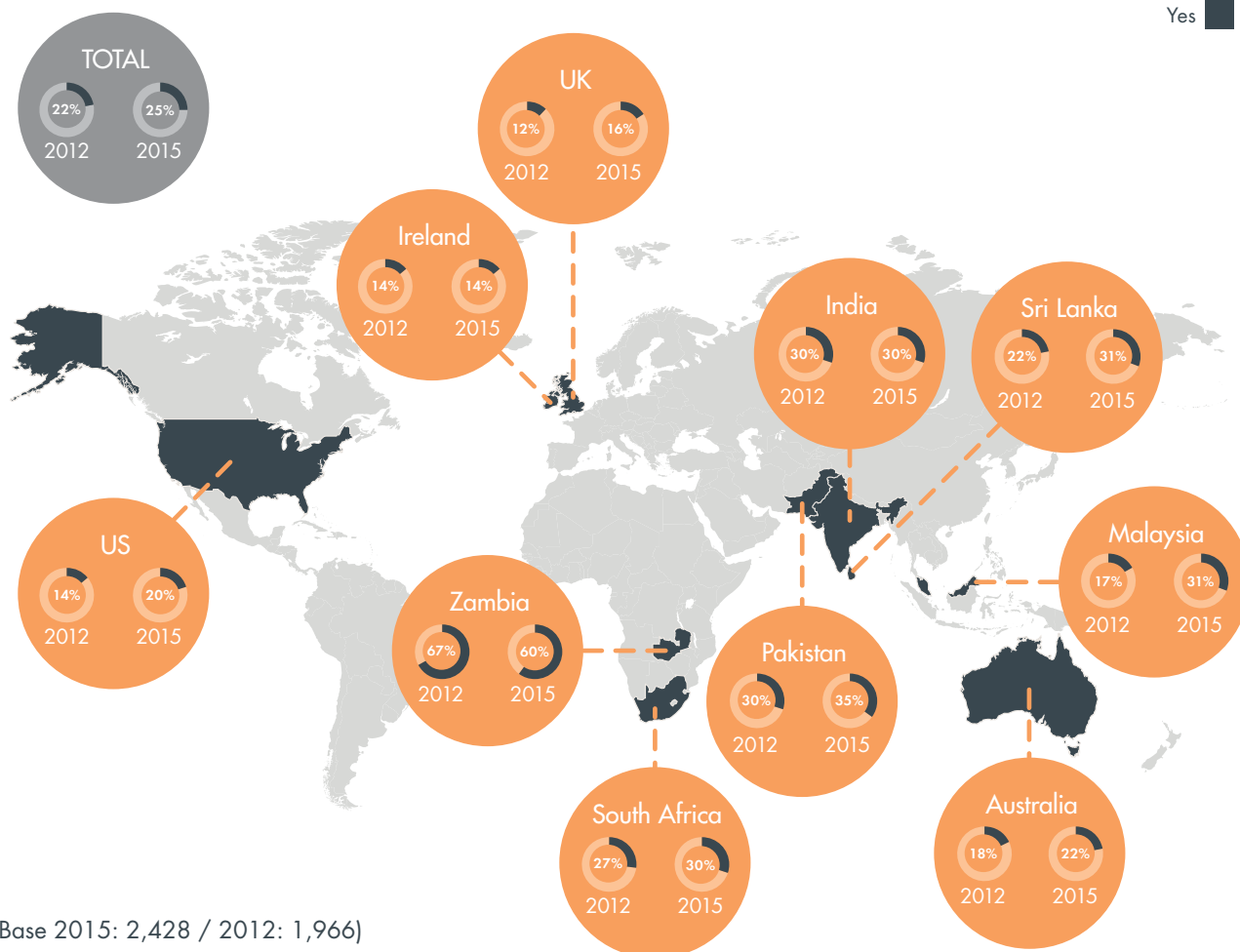
(Base 2015: 2,428 / 2012: 1,966)

Given the variable regulatory and legal operating environments, this disparity highlights the mismatch between the aspiration to build an ethical culture (which in itself takes time) and external operating realities, which can be very hard to influence. However, there have been shifts in the different markets since 2012, with India and South Africa reporting less pressure and, conversely, the UK and US admitting to more. Given the increased attention paid to "responsible business", this may reflect a growing awareness of the importance of ethical standards. There might also be a heightened sensitivity as to when a wide range of standards and policies within the organisation are compromised.

The Siemens approach

Global giant Siemens, for example, has focused on bridging the communication gap between top management and lower-level employees via middle management. They have implemented so-called "integrity dialogues", where their business leaders and top management speak on integrity and "walk the talk" in terms of doing business. The dialogues are also built into every sales meeting, to bring about an open discussion on ethical issues and ways of handling them from the floor.

Siemens case study, Value Chain CGMA, 2014

FIGURE 11

Do you ever feel under pressure from your colleagues or manager to compromise your organisation's standards of ethical business conduct?

Bar chart legend:
- Always/sometimes 2012 (dark)
- Always/sometimes 2015 (orange)

Country	Always/sometimes 2012	Always/sometimes 2015
TOTAL	35%	37%
Australia	27%	27%
India	51%	45%
Ireland	20%	25%
Malaysia	54%	59%
Pakistan	51%	54%
South Africa	37%	32%
Sri Lanka	52%	61%
UK	18%	30%
US	18%	25%
Zambia	60%	60%
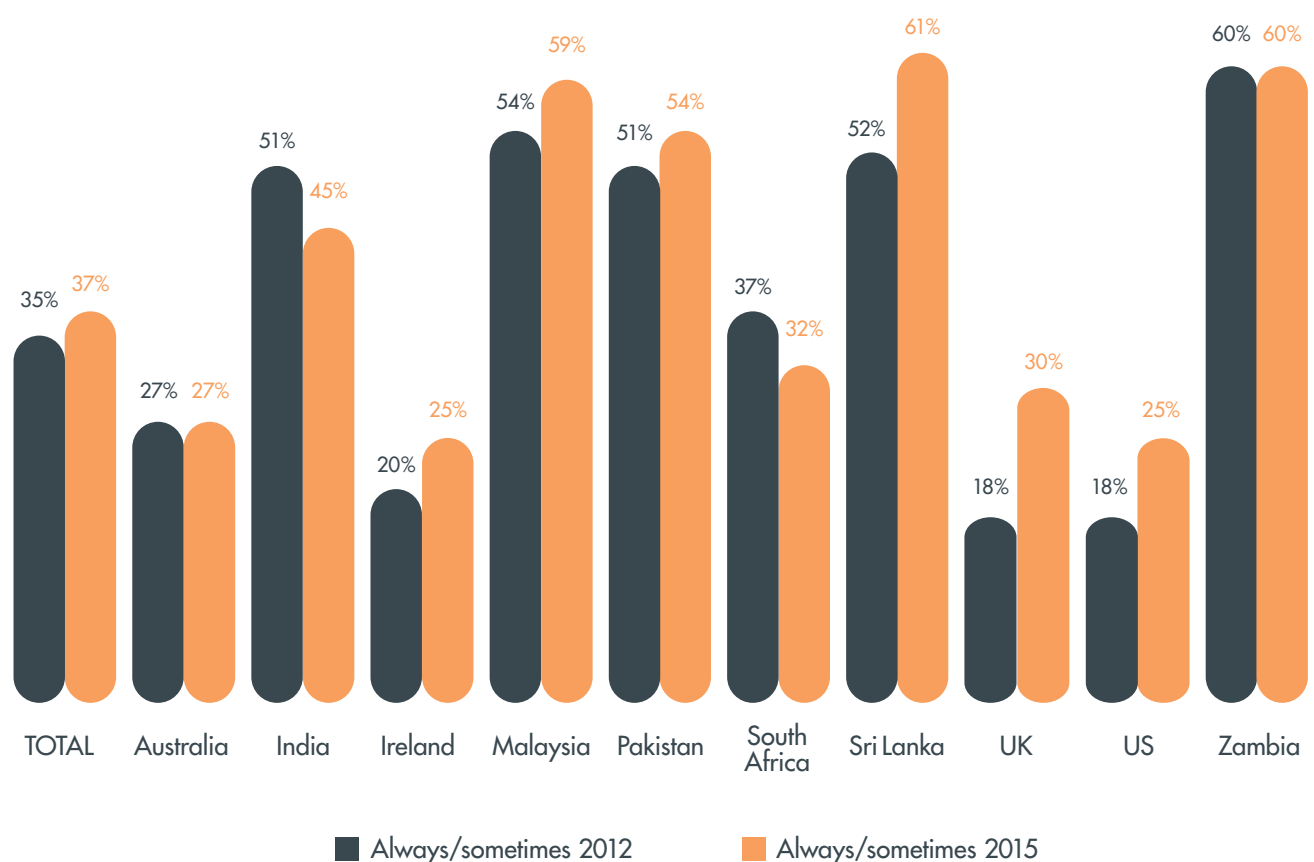
(Base 2015: 2,428 / 2012: 1,966)

Speak up

Around a quarter of all respondents (26%) agreed that management sees those who report concerns about unethical or dishonest behaviour as trouble-makers. CIMA students were twice as likely to feel this, particularly in emerging economies.

This further emphasises the need for a strong corporate culture that enables employees to speak up. There is also a role for those more experienced CGMA designation holders to create lines of support, mentoring and encouraging those new to the profession to question openly. This might be a more challenging issue for employees in certain cultures that are still adapting corporately to encourage dissent. It has been shown that in certain markets within Asia, for example, a younger generation is entering work expecting more open-ness and with a growing ability to speak up.[31] Given that a third disagree and 17% strongly disagree that those who speak up are trouble-makers, there is evidence that speaking up is welcomed and encouraged in half the organisations surveyed. Qualitative discussions and an open environment that enables questioning are most likely to reinforce positive behaviours. These should extend beyond the induction period when company policies are most likely to be shared with staff.

The inside risks

Risks are ever-present within the organisation. As in 2012, working with colleagues from different functional areas within the organisation and meeting reporting deadlines continue to be the situations most likely to result in pressure, chosen by 24% of respondents. However, there are several areas that are likely to result in pressure for the management accountant. These are particularly prevalent in relation to activities related to integrity of information, such as compiling the accounts, reporting performance to external stakeholders and awarding contracts to suppliers. It is these areas that are fundamental to the management accountant's role of ensuring the integrity of data and sustaining objectivity and accountability in all they influence.

FIGURE 12

How likely are the following situations to result in pressure on you to compromise your organisation's standards of ethical business conduct?

Working with colleagues from different functional areas within the organisation	Meeting reporting deadlines	Dealing with customers	Compiling management accounts	Managing staff	Awarding contracts to suppliers	Working with partners internationally from different cultures	Reporting performance to external stakeholders	Compiling year end accounts	Allocating bonuses
24%	23%	21%	20%	20%	19%	19%	19%	18%	15%

(Base 2015: 2,371)

CONCLUSION

With economic upturn in many Western economies and contrasting fortunes, from stagnation to rapid development, in many emerging economies, the ways in which corporates address ethical, regulatory and legal issues may change.

There is now no argument against factoring into business operation issues that relate to governance, the environment and wider society. There are clear signs that those enlightened organisations that are already doing this understand the longer-term value and return from such action. Key actors such as investors, regulators, enforcement agencies, governments, non-governmental organisations (NGOs) and significantly, society at large as both customers and protestors, all have expectations for responsible business.

Management accountants have an important role to play in identifying risks and safeguarding the organisation. They also, with the confidence and trust placed in them, have the potential to influence their employers, helping them to build and retain trust and level the business playing field. However, pressures remain. It is for employers to create the organisational culture and for governments to shape the wider environment in ways that truly encourage more responsible business.

CGMA Better Business Practices:

Crowded demands:

- Ensure that concerns are prioritised on the basis of their impact on the company and related stakeholders, and that there is regular monitoring and evaluation.

- Consider what is material, and also have clear policy on what is not addressed and why.

- The board and leadership team should ensure there is top-level commitment to addressing wider business issues of relevance – in both understanding and allocating resources.

- Follow up and address red flags. Lack of action can encourage bad practices.

- Anti-corruption and applicable human rights risk assessment procedures should be clearly understood across the organisation, together with due diligence for third parties, communication and training for the board, employees, volunteers and relevant stakeholders.

- Consider collective action alliances with like-minded organisations, and enhance transparency in the business. Collective action can cover not only issues such as anti-corruption, but a range of environmental and societal impacts and innovations as well.

Ethical management information:

- Assess what information is available and how it can be used to increase insight for both addressing risk and creating opportunity in relation to ethical performance and reputation.

- Measure effectiveness and revisit regularly. Monitor and analyse relevant information and data. Critically, act on red flags that appear, revising processes, highlighting and sharing good practice and taking immediate action on areas of concern.

- Red flags can appear from reporting lines, HR insights such as grievances or performance issues, as well as engagement surveys. Sustainability reporting, governance reporting, PR and social-media tracking as well as customer and product feedback can also offer valuable data to inform ethical performance.

- Include updates on ethical performance on the board agenda – this drives collection and action.

Corporate culture:

- Make it a strategic priority, set the tone from the top, with regular two-way communication with employees. Show how business can add value by embedding an ethical culture.

- The board should seek to engage pro-actively with ethical issues and hold the leadership team accountable.

- Ensure ethical architecture is in place, with optimum organisational design and support mechanisms, developing and providing relevant processes and tools to support employees and partners. Policies and processes are safeguards that are only as effective as the ways in which they are communicated and utilised.

- Encourage transparency and speaking up. Act on transgressions, ensuring a zero-tolerance on unethical behaviour that places the company and its stakeholders at risk.

- Acting as ethical stewards, CGMAs can help others gain insight and value from the globally-applicable CIMA and AICPA codes of ethics and conduct.

RESOURCES

For further information on CGMA reports and tools on ethics:
http://www.cgma.org/responsiblebusiness

To access the CGMA Code of Ethics:
www.cgma.org/ethicscode

For reports on sustainability:
www.cimaglobal.com/sustainability

For more information on CIMA's ethical tools, webcasts and guidance on ethics:
www.cimaglobal.com/ethics

DEMOGRAPHICS

A quantitative online survey was undertaken in January to February 2015 to investigate attitudes to ethical standards. A total of 2,498 responses were collected among CGMA designation holders and CIMA students working in business globally. The survey, as in previous years, draws on methodology from the Institute of Business Ethics (www.ibe.org.uk).

- 78% are from the private sector and listed companies.

- 20% were in leadership positions (CEO, CFO, directors and heads), 29% in other management positions, and the remainder in analyst, consultant or staff positions.

- The highest number of respondents came from the 10 countries shown in the box below and have been featured in the report.

TABLE 1: RESPONDENTS BY COUNTRY WHERE THEY ARE BASED

Country	Count	%
United States of America	408	17%
South Africa	268	11%
Sri Lanka	259	11%
United Kingdom	223	9%
India	111	5%
Ireland	111	5%
Malaysia	108	4%
Pakistan	84	3%
Zambia	78	3%
Australia	72	3%
Others	706	29%
Total	2,428	100%

TABLE 2: COMPANY SIZE

Company size	Count	%
Up to 250 employees	740	38%
251-5,000 employees	760	39%
5,000+ employees	405	21%
Don't know	25	1%
Total*	1,930	100%

TABLE 3: RESPONDENTS BY SECTOR

Sector	Count	%
Accountancy	144	7%
Banking	109	6%
Business services (B2B)	50	3%
Construction and property	86	4%
Education	69	4%
Business management	23	1%
Financial services	177	9%
Healthcare and pharmaceuticals	109	6%
ICT, technology and telecoms	138	7%
Manufacturing and engineering	270	14%
Media, marketing, advertising and PR	25	1%
Natural resources, energy/fuel and utilities	78	4%
Non-profit or charity	50	3%
Oil, gas and alternative energy	102	5%
Public sector	70	4%
Retail, consumer, FMCG, food and drink	144	7%
Sales, purchasing and supply chain	32	2%
Transport, distribution and storage	69	4%
Travel, leisure and tourism	44	2%
Other	141	7%
Total	1,930	100%

TABLE 4: JOB TITLE OF RESPONDENTS

Job title	Total	%
Accountant	150	8%
Accounts assistant/Accounts executive	47	2%
Assistant management accountant	42	2%
CEO/Managing director	42	2%
CFO	150	8%
Chairman/Non-executive director	3	0%
Director (other than finance)/COO/Partner	27	1%
Finance analyst/Business analyst	169	9%
Finance assistant	28	1%
Finance manager	246	13%
Financial accountant	65	3%
Financial controller	213	11%
Finance director	78	4%
Head/Chief/VP of accounting or finance	69	4%
Head/Chief/VP, other than accounting or finance	26	1%
Management accountant	128	7%
Manager, other than finance	95	5%
Other accountant	7	0%
Other assistant accountant	9	0%
Other financial role	40	2%
Project accountant/project manager	42	2%
Self-employed practitioner/consultant	27	1%
Tax practitioner	20	1%
Other, please specify	207	11%
Total	1930	100%

FOOTNOTES

1. Edelman.com

2. CGMA, Ethical Performance, 2014

3. "Internet of things" is a term describing any objects that contain networking and computing elements and communicate with other objects over a network http://www.cgma.org/magazine/news/pages/201511705.aspx

4. http://www.unilever.co.uk/sustainable-living-2015/

5. CGMA, Redressing the Balance, 2014 http://www.cgma.org/Resources/Reports/DownloadableDocuments/Redressing-the-balance-Infographic.pdf

6. For more on the extended value chain see CGMA, Ethics, risk and governance in the extended value chain 2014

7. EY 2014 Global Fraud Survey, Overcoming compliance fatigue: reinforcing the commitment to ethical growth

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9. Joining Forces. Collaboration and Leadership for Sustainability, MIT Sloan Management Review, 2015

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17. Human rights the Next Frontier, Jaeggi, O MITSloan Management Review 2014.

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23. CGMA Magazine, How to interpret the increase in corporate whistleblower reports, 2014 http://www.cgma.org/Magazine/News/Pages/201411276.aspx

24. Telephone interview, London May 2015

25. Glassdoor is an American site where employees and former employees anonymously review companies and their management.

26. CGMA, Ethical Performance, 2014

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28. CGMA, Global Management Accounting Principles©, 2014

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31. Fact or Fiction? The independent business partner, CIMA 2012

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