Beyond Reasonable Greed:
From Accounting to Accountability

By Wayne Visser

In our recently launched book entitled Beyond Reasonable Greed (Visser & Sunter 2002), we attributed the phenomenon of unreasonable corporate greed to boards "being collectively swept along by the prevailing paradigm of success which is purely financial." However, we added the following rider: "In light of Enron's failure, this judgment may be overly kind and more cases of dodgy accounting, inflated profits and insider trading by the board may pop up in Corporate America and Corporate Europe."

Well, since publication of the first impression of the book, they have popped up! Starting with WorldCom, but extending to other corporate heavyweights as well. Big business is under the whip like never before from the public and politicians alike. And the accounting profession, in particular, is feeling very uncomfortable under the harsh interrogative spotlight. However, if the response to all the accounting irregularities and other misdemeanours is merely to throw a few CEOs in jail and threaten the rest with a long prison sentence unless they check the figures personally, a great opportunity for real transformation will be lost.

Corporate Governance Under Fire

As business and the accounting profession begins to respond to the rising tide of international scrutiny, the word "corporate governance" is on everybody's lips. Even more so in South Africa, where the revised King Report on Corporate Governance is hot off the press. But the critics remain skeptical, maybe justifiably so. If the Enron and Worldcom sagas are revealing anything, it is that corporate governance is sometimes not worth the paper it is written on. Should the people involved in implementing corporate governance not have their hearts in the right place and just be going through the motions, the process becomes a charade.

You can have all the non-executive chairpersons, non-executive directors, board committees and external auditors you like, but things will go hideously wrong if ceremony has replaced substance and cynicism is the order of the day. Some non-executive directors sit on so many boards that it is physically impossible for them to exercise their fiduciary responsibilities properly. Worse still is a situation where the Chairman and CEO are one and the same person and he (it still almost always is a "he") has managed to load the board with his buddies. If things go right, they are the first to congratulate him and approve a handsome bonus. If things go wrong, they are the last to ask the tough questions needed to expose malpractice. They would prefer to have the wool pulled firmly over their eyes even though ignorance is no excuse in terms of the law.

Seeking a Reformation in Business

Rather than implementing a smattering of short-term corporate governance fixes (which are necessary, but not sufficient), what is required is nothing short of a Reformation in business, along the same lines as the one precipitated by Martin Luther in 1517. On October 31 of that year, he wrote an attack on the sale of indulgences (remissions of punishment for sin) in 95 theses which he nailed to a church door. His basic point was that the Church had become too interested in enriching itself at the expense of its true mission of providing spiritual leadership. It had lost the support of the population at large with its mercenary practices and obsession with grandeur and wealth.

In exactly the same way, the modern corporate world has lost the confidence of the person in the street. The high priests of business – the board of directors – are perceived as just another example of a group of privileged people driven by unreasonable greed and feathering their own nests. The customers and shareholders come a poor second and other stakeholders trail even further behind. The modern equivalent of indulgences is an astronomical salary, a large wad of share options and a corporate jet. And the modern equivalent of the flowery and unintelligible prayers which the Church used to recite in order to extract its indulgences from the peasantry is the purple prose and lofty sentiments expressed by companies in their mission statement, combined with a set of accounts that only the initiated can understand.

The Catalyst for Shapeshifting

So reform is critical for business to restore its reputation, particularly as its presence in society rivals that of the Church in the sixteenth century. Hence, we see business as establishing a new and broader role model, in keeping with modern times, rather than going back to the old one. Another word for this type of change is shapeshifting – liberating ourselves from the old form that defined and constrained us in the past and morphing into a completely new being, with new characteristics and potential for the future. The catalyst which will assist us in the process of shapeshifting is sustainability.

Unfortunately, sustainability is almost a cliché now, and much maligned in the build-up to the World Summit on Sustainable Development being held in Johannesburg during August and September this year. But the idea behind it remains a powerful source of inspiration and is responsible for an umbrella movement encompassing as diverse a group as you can imagine. They all share one thing in common: an interest in improving human well-being by seeking a proper balance between social, economic and environmental change. Of course, the position of the fulcrum on which these three fields should be balanced differs considerably from person to person.

A Formula for Un-sustainable Development

Sustainability is about surviving and thriving, by finding a proper balance between economic, social and environmental development. No one of these three elements of the so-called "triple bottom line" can be pursued relentlessly at the expense of the others, or else the whole system collapses. Sadly, at the moment, there is widespread evidence that the we are out of balance and that, despite economic advances (and sometimes because of them), our ecological and social systems are breaking down. We are pursuing unsustainable development.

Impacts by humans and industry have already destroyed over 10 percent of the Earth's biological species in just 100 years and scientists are predicting that we will lose up to 50 percent of all species by the end of this century, should current rates of habitat destruction continue. This is ecologically unsustainable. At the same time, the gaps between rich and poor, between CEO packages and workers wages, between developed and developing countries, have all widened in the past 50 years. This is socially unsustainable.

Trading in Fangs for Tusks

In the light of these unsustainable trends, many of them perpetuated by business, it can be argued that the very mode of modern business and the economy lies at the heart of the problem. To use an analogy, today, the majority of business embodies the characteristics of a lion – an impressive predator. Think about it: companies in general have insatiable appetites for growing larger and boosting their share price, because it means more power and wealth to the board of directors. Accordingly, these factors are automatically given a higher priority than impacts on local communities or the natural environment. Lion-like boards will argue that turning themselves into fat cats will somehow miraculously "trickle down" to benefit society as a whole, despite growing evidence to the contrary. All the other animals of the bushveld are not convinced!

By contrast, the future calls for different strengths, such as those displayed by the mighty elephant – a wise leader. They are masters of survival and adaptation, and live in cooperative harmony with their fellow creatures. Elephants are organised in matriarchal herds, which display highly developed social tendencies and sophisticated communication abilities (including the use of infrasound). They are extremely intelligent creatures, but also display sensitive emotions like affection and grief. Most of all, these gentle giants inspire all who encounter them.

Elements of a Sustainable Company

In our book (Visser & Sunter 2002), we explore seven critical dimensions in which shapeshifting needs to occur in order to create sustainable companies. These deal with values, vision, work, governance, relationships, communication and services. To pick up on one of these here, in terms of our analogy, governance is a word that lions don't like much. It smacks too much of giving away power. Or sharing supper. Lion directors prefer the freedom of making all their decisions in secret councils or while they're on the run, with no justification needed and no recourse back to them. In other words, if the lion king has his way, business is a monarchy, not a democracy.

Shapeshifting should go beyond putting corporate governance ticks into boxes. At the end of the day, it is about values and behaviour. Companies that perpetuate the widening gap between rich and poor in their own payroll profile are always going to fall into the lions' camp. Companies that persist in managing from the top down will never turn their fangs into tusks. And companies that only create partnerships that benefit themselves may learn to purr, but they will never lose their roar. Elephant companies, on the other hand, embrace the principles and practices of good governance with passion. They implement governance at a practical level, including shapeshifting in at least three areas: company incentive systems, decision-making processes and communication methods.

From Shareholders to Stakeholders

To survive in the sustainability era, we believe that companies have to move beyond their aggressive, competitive tendencies. They need to learn to be not only sociable, but genuinely concerned about the perspectives and well-being of all of their stakeholders. Barry Nalebuff and Adam Brandenburger, in their book of the same title, call this transition Co-opetition, while David Wheeler and Maria Sillanpaa talk about The Stakeholder Corporation and Paul Hawken, Amory B. Lovins and L. Hunter Lovins refer to Natural Capitalism as the "next industrial revolution".

Companies ignore this friendly advice at their own peril. Stakeholders, if maltreated, can bite back and even the most macho multinational lions can find themselves bleeding. Encouragingly, however, the list of branded stakeholder-oriented shapeshifters is growing, including the likes of 3M, AT&T, the Body Shop, Canon, Electrolux, Hewlett Packard, Levi Strauss, Reebok, Unilever, Volkswagen and Volvo.

From Accounting to Accountability

Transparency is key. However, lions don't communicate much except to roar to intimidate others or to purr with self-satisfaction. Likewise, modern companies have grown accustomed to speaking to stakeholders only on a "need to know" basis – telling whom they want, what they want, when they want. Usually, this "communication" coincides with a time when the company needs something from its stakeholders, such as support (or the absence of visible protest) to proceed with a new development. There are no shortage of lion companies who mistake "telling" for "dialogue" and get backchat from angry stakeholders as a result.

Fortunately, the next generation of elephant wannabes can choose the easier route of following in the footsteps of the elephant pioneers that have gone before them – like learning from the Body Shop's Values reporting, Sbn Bank's ethical accounting process, Skandia's Intellectual Capital reporting, or Electrolux's environmental reporting. There are also numerous do-it-yourself guides that have emerged in recent years, such as the Accountability 1000 standard on Social and Ethical Accounting, Auditing and Reporting and the Global Reporting Initiative's Sustainability Reporting Guidelines, both strongly endorsed by South Africa's King Code. Beyond these basic frameworks, technology-enabled interactive stakeholder feedback and real-time public reporting on the web are already looming large on the horizon.

Scenarios for the Future of Business

Our comparison of lion versus elephant companies offers a glimpse of the alternative landscapes for business that may emerge over the coming decades. These are encapsulated in two contrasting scenarios: Oases in the Desert and Plains of the Serengeti.

Oases in the Desert is where the corporate lions continue to rule, but their kingdoms are increasingly restricted by their own destructive behaviour and popular discontent. Plains of the Serengeti, on the other hand, is where companies shapeshift into elephants which strive for a proper balance between cooperation and competition and a continuing diversity of species, large and small, strong and weak. These scenarios and the other themes contained in this article are dealt with in more detail in our book, Beyond Reasonable Greed. What is certain is that the accounting profession, along with business as a whole, is being forced to shapeshift, whether it likes it or not. And those that have the foresight to change fundamentally, from our symbolic lions into elephants, are more likely to remain a “going concern”, which is, ultimately, what sustainability means.

References

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