THE AGE OF ACCOUNTABILITY
An opening address to the Delloite & Tottche Managenent and Clients
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"The age of accountability" is a term that refers to the time when children come of age and can be held responsible for their actions. The Age of Accountability has dawned for all of us. Like children, we are starting to grow up and face our responsibilities to society and our Earth.

One aspect of growing up is learning to be free, to handle responsibility. Those who demand a better life must also embrace good governance, and this cuts both ways.

Business cannot demand freedom for itself unless it is prepared to behave responsibly with regard to the use of resources, and to treat its stakeholders fairly. By the same token, those who demonstrate on issues like pollution and corruption must commit themselves to the development of sustainable enterprises rather than their destruction.

We live in one world, a highly diverse world, but what unites us is our personhood and humanness. And what we cry out for is ethical leadership to endow us all with the benefits of freedom and development.

All too often, our institutions have been run as dictatorships. The Arab Spring has reminded us forcefully that citizens will not tolerate dictatorship forever but will network with each other to demand their rights and gain the recognition they deserve. The events have relevance particularly for African states and for the corporations that do business in Africa.

It may take time for the tsunami to gather force and break across Africa south of the Sahara but it probably will. Demagogues will take advantage unless there is thought leadership and positive pre-emptive steps are taken to deliver what the people demand. As transformation occurs, we can expect Africa to become a powerhouse of sustainable development and progress with human dignity.

This is all background. Today I want to speak about corporate accountability. There are people who still look backwards and believe that corporations are accountable only to their owners, or in the case of publicly traded companies, to their shareholders. The aim of a company, in this view, is simply profit maximisation. This makes company managers, in effect, self-serving dictators, beholden only to themselves and shareholders.

The leading proponent of profit maximisation in our era was Milton Friedman, who famously said: "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition without deception or fraud."

Compelling as this may seem in support of rugged capitalism or classical old style free enterprise, it flies in the face of contemporary business reality. The global meltdown of 2008 and 2009 has proven beyond debate that preoccupation with profit is unsustainable. The Exxon Valdez Incident and the more recent BP oil disaster prove that undue disregard for the environment can wipe out profit and possibly bankrupt a corporation.

The notion of profit maximisation must give way to the forward-looking principle of value optimisation. Private enterprise does exist to deliver profits to its owners, but this is not the whole story. It must also, in the modem age, take its social responsibilities seriously and deliver value to communities. Without it a company may not survive.

Caring for people and planet while achieving profit is the basis of what is called stakeholder capitalism. A chorus of critics say that stakeholder capitalism hinders business and undermines the system of free enterprise.

I am a proponent of the African philosophy of Ubuntu in business - that is, the values of sharing and mutual dependence which lead to an ethical and humane way of doing business. South Africa's admirable Constitution rests on the spirit of Ubuntu which urged us to reconcile with each other after the disaster of apartheid and build a new country together.

Ubuntu can make businesses both responsible and accountable. It is forward-looking and progressive. It endorses individual liberty while insisting that we all owe duties to the community. Our individual creativity strengthens the community - be it the community of the corporate organisation, or the political community of the nation.

We owe each other a duty of care: to ensure that business is ethical and that stakeholders can exercise influence for the better.

Stakeholders in business include the shareholders, employees, customers, suppliers, trading partners, even competitors, along with families and communities, local and national authorities, and others, all of whom stand to gain from the successful business or lose out when it fails. The watchdogs for these stakeholders are shareholder activists, academics, the media, NGOs and government regulators.

They bark and they bite. They bark when companies stray from acceptable standards of performance and bite when disinvestments , customer boycotts, media campaigns and government intervention take place.

It may surprise you to hear me repeat that responsibility and accountability should be actively pursued in corporate life today. Everyone repeats these words; they are as worthy as motherhood. But the constant exposure of corporate ill-doing by various stakeholder watchdogs suggests that we have a long way to go.

Is this because corporate governance and social responsibility are woolly ideas that can be dismissed with a few token gestures?

One of Milton Friedman's side-swipes at social responsibility theorists was to allege that there was no rigour in their arguments. Others have parroted this view, charging that stakeholder theories of the firm are both illogical and impractical. I beg to differ.

Two key problems are usually raised by critics of stakeholder theory. The first is that the managements of companies, as principle agents of the owners (the stockholders) are there for no other purpose than to maximize profit. The Board of Directors is there to see that executives do this. As Friedman put it, if senior company officials want to exercise social responsibility they do so in their personal capacities because it has nothing to do with their prime functions in the firm.

The second problem Is that directors may not effectively direct if they are drawn away into representing the broader society rather than the owners. The problem of director representation comes down to whether directors can distance themselves from the sponsors who put them on the board and really carry out their fiduciary duties with respect to the company itself. They are not there to serve outsiders but to ensure that the business remains a sustainable and well led venture.

The principle agent problem and the director representation problem are age-old issues having to do with the relationship between owners and those who ran the business. The problems have been accentuated and complicated by stakeholder theory in terms of which other groups outside the business are entitled to have a voice in how the business is run.

I do not think that the essential relationship between directors and managements has changed. . Management accounts to stockholders whilst taking full account of the needs of stakeholders and the environment. Stakeholders may and do influence the way a company behaves but shareholders continue to be central to decision making In that they appoint the board which in turn employs management.

I believe that Friedman's Ideas, repeated by his latter-day disciples, are simply not logical or practical for the modern firm. They fly in the face of reality. Firms must pay attention to their stakeholders or run the risk of alienating whole communities.

I am sure most of my audience is aware of the three King Reports on Corporate Governance and I need not go into detail here. The King reports, coming out of newly democratic South Africa, have led the world in the development of triple bottom line behaviour and reporting. Public companies must now account in the open for their financial, social and environmental performance. I co-chaired the ethics committee section of King III, and the report overall said that corporate governance is grounded on an ethical foundation.

King III is zealous on the protection of shareholder rights. This is in spite of the fact that the King III report identifies owners as just one of the stakeholders in business. The interests of all stakeholders, including owners, must be met by ensuring that the business survives and thrives. The only change, if it is a change, is that ethics, social responsibility and due regard for the environment are now at the forefront of the directors' minds along with profitability.

In a recent address on corporate governance Professor Mervyn King used a mnemonic device, Raft — R. A. F. T. — to stand for Responsibility, Accountability, Fairness and Transparency. It's an admirable set of concepts. But there are some elements I would like to add - particularly compassion for one's fellow humans and the sense of authenticity or genuineness that avoids pure PR spin in corporate affairs.

I have played around with this anagram and come up with one of my own that, I think, covers these additional thoughts while including Prof King's original foursome: Take the word THRIVE as the goal of any business, and you get -

T for Transparency - being truthful and open

H for Humanness - demonstrating empathy and fairness

R for Responsibility - performing duties honourably

I for Integrity — displaying probity and morality

V for Validity - being genuinely responsive and accountable

E for Efficacy - achieving practical and worthwhile outcomes

On the last point, corporate governance must be practical and not promise what cannot be delivered to stakeholders. This, of course, also implies that we must strive to run morally sound businesses. We seek legitimacy for their our operations by building trust among stakeholders.

In my book, Attuned Leadership, I make the case that Africa can offer a unique contribution to the culture of responsibility, compassion, honesty and real effectivness. The key additional ingredient is trust - the trust of stakeholders -which is won not just through material rewards but by helping overcome social needs and acting with decency. Here the philosophy of African humanism, or Ubuntu, offers fresh insight.

Let me explain. In much Western business literature, corporate social responsibility (CSR) is treated as a strategy to improve the public image of a company. It is seen as a way to reduce the risk of doing business in communities, an approach that makes CSR a form of marketing: it is instrumental in "selling" the company to the communities around it.

In my view, CSR is not just a marketing ploy. To try to buy loyalty by doing good works smacks of insincerity and can be perceived as driven by ulterior motives. It will not establish the legitimacy of the company. Legitimacy implies that one has the quality of being credible and trustworthy. Africa provides direction on this issue. Ubuntu does not regard people and their communities as mere targets of marketing or tools of enrichment. A leadership imbued with the values of Ubuntu will genuinely care about people and the environments that they live in because we are all human beings who derive our very existence from each other.

We are mutually dependent as people and we all depend on the largesse of Mother Earth. Urnuntu ngumuntu ngabantu - "I am because you are; you are because we are" - is not just a feelgood sentiment: it is an operating principle that should be at the core of good governance.

The corporation with Ubuntu at heart draws its legitimacy from the community and does not impose itself on the community. It does not rip-off: It renders value. It identifies with the needs, history and destiny of the people who work for it, supply it with labour and services, buy from it and essentially support Its longterm survival.

Rather than just wanting something in return for granting favours through CSR programmes, the company operates with social and environmental principles always in mind because it feels itself to be part of community life. Corporate leaders need not fear the bark and bite of stakeholders if they genuinely apply CSR.

The first responsibility of any company is to stay in business and remain profitable for its owners; otherwise it can make no contribution to the wellbeing of all. The stockholders are also stakeholders, and in the final analysis they too depend on planet Earth and all of us to exist at all. No-one is exempt from the shared responsibilities of our common humanity.

My definition of good governance is that it is attuned leadership in action, and ultimately it is a human rights issue. We in South Africa should understand this better than most, because the majority were exposed to human rights abuses under the appalling mis-governance of apartheid. It is from this cauldron of human suffering that many positive ideas of governance have emerged today.

The leaders of any institution are responsible to ensure that the rights of stakeholders are protected and enhanced. This responsibility, however, is mutual: for it is up to stakeholders to defend their rights and hold the management and board accountable.

For instance, when there is gender discrimination in pay and working conditions, this is a human rights issue. Those at the top of the organisation must demonstrate leadership by stating the principle of equity and acting to eliminate disparities.

In many organisations little may be done until pressure is brought to bear from below. Attuned leaders hear the complaints of the followership and respond with empathy; together, leaders, managers and stakeholders should uphold human rights.

In conclusion, then, I suggest that accountability equates with legitimacy and human rights. If you fail the tests of responsibility and accountability - RAFT -you will also fall the tests of trust, morality and efficacy - THRIVE . Accountability means keeping check and delivering reports. If you can't do that with integrity and commitment and empathy for people, and you just pay lip service, you will not be believed and your attitude will undermine trust in your operations.

Corporate governance is not a soft issue but one at the hard core of doing business in the modern world. From being children in business - with profit maximisation as our only goal - we have grown up to understand that optimisation, not maximisation, must be our goal.

The role of leadership in a corporation falls to the Board of Directors, and their goal should be to achieve long-term value through ethical business practices that achieve profits, meet the needs of communities, and conserve the environment.

Critics of this position say business has become politicised and indeed socialised. I can only remind them that in order to save banks and major industries in 2008, governments applied multibillions of taxpayer dollars in bail-outs. This was capitalism coming to the rescue of itself. If another desperate crisis is to be avoided, corporations will require regulation and must also voluntarily commit themselves to being answerable to the people. We are all riding on the same raft in the Age of Accountability.

This we must do in order to thrive.