

How ethical is South Africa?



COUNTRIES ARE LIKE BUSINESSES, SAYS, CYNTHIA SCHOEMAN, AND, LIKE COMPANIES, CORRUPTION WILL ULTIMATELY END IN THEIR DOWNFALL

The benefit of being viewed as ethical applies not only to businesses, but also to countries. It is arguably even more important that government leaders know and understand the extent to which the country is perceived to be ethical or unethical, since its ethical status impacts many more people than a company does. It affects its citizens, its businesses and institutions, its neighbours, its trading partners, its visitors, and all who deal with it.

A country's ethical status translates into either a good or a bad reputation. For those with a bad reputation, the consequences range from the population's quality of life to the nation's access to international investment. There are, for example, countries whose ethical records are so poor, that others, on principle, decide to disinvest or refuse to trade with them.

The ethical status of the BRICS (Brazil, Russia, India, China and, recently, South Africa) countries and other emerging economies is especially pertinent in order to secure international financial support and maintain sound trading relationships. However, it is broadly acknowledged that the greatest

threat to the future of the BRICS countries and other emerging economies is corruption, and many examples support the claim that developing-market corruption has reached unacceptable levels.

Insight into the extent of global corruption is provided by Transparency International via their annual survey, The Corruption Perceptions Index. The survey measures the perceived level of public sector corruption on a scale of zero to 10, where 10 signifies "highly clean" and zero "highly corrupt".

The 2010 Index found that almost three-quarters of the 178 countries surveyed scored below five on the 10-point scale, which reflects a pretty poor situation. Denmark, New Zealand and Singapore tied with the highest scores (9.3); South Africa was approximately in the middle with a score of 4.5, and Somalia ranked lowest, scoring just 1.1.

A year later the Corruption Perceptions Index 2011 results were largely unchanged with 74% of the 183 countries surveyed scoring below five. New Zealand, Denmark, Finland, Sweden, Singapore and Norway all scored above nine, and North Korea now shares the worst score (one) with Somalia. South

Africa's score declined from 4.5 to 4.1, and it was ranked at 64th out of the 182 countries surveyed, narrowly missing being in the bottom third.

Ethics in South Africa – or rather a lack thereof – has certainly been in the news, from collusion and price-fixing findings by the South African Competition Commission to corruption cases in the public sector. The Special Investigating Unit (the state's only forensic investigative body) reported to parliament in March 2011 that the number of new cases revealed “staggering corruption in the police, the public broadcaster, the land reform and housing subsidy systems, state departments and municipalities”. The impact was such that “there is unanimity in the Union Buildings and parliament, and in the ranks of business and trade unions, that corruption is the biggest obstacle to achieving SA's social and economic goals”. This is also evident at a local level: the report released by Corruption Watch in April 2012 revealed that half of Johannesburg Metro Police officers have solicited bribes, and one in four of the city's motorists has paid a bribe.

Quantifying the comparative cost of fraud across regions, KPMG International conducted a survey in 2011 entitled, “Who is the typical fraudster?”, which was based on 348 actual fraud investigations conducted by KPMG member firms in 69 countries. The survey found that the average identified and investigated total fraud loss in 2011 was as follows: in Asia Pacific, R14.4 million; in the Americas, R8.8 million; and in EMA (Europe, Middle East, and Africa region), R7.2 million.

While the results for the EMA region are the lowest according to that cluster of fraud investigations, KPMG recently launched their “Africa Fraud Barometer”. This provides more current, detailed insight into the prevalence and cost of fraud on the African continent based on data compiled from all available news articles and on fraud from designated databases. For 2011 there were 875 reports and the value of reported fraud was a staggering R88 billion.

These results indicate that many countries – including South Africa – need to address their ethical status to avoid the many adverse consequences associated with widespread unethical conduct and to prevent the impact of ethical breaches downgrading the country as a whole.

The consequences can be dire. Extensive national fraud and corruption, which allow those in power to amass great personal wealth without benefiting their people, have the potential to lead to social protests – which has been an important, contributing factor to the ongoing unrest across North Africa and the Middle East that started in 2011. And when corruption is rife, the many transgressions of governance by public officials not only obscure what is good, but make the government and the country as a whole look unethical. Even worse, the longer an unethical reputation persists, the more entrenched it becomes – with the increasing potential to affect ethical and unethical businesses alike if investment in that country is reduced or diverted.

As far back as 2002 South African ethicist, Deon Rossouw, stated that “the greatest danger facing Africa is that the current absence of ethical values in business comes to be seen as the way business should be done”. This is arguably already the case in many parts of Africa where the stereotypical view is that bribery is virtually obligatory to do effective business in Africa.

A welcome positive – and contrary – view was recently put forward by BDO, who claim that it is possible to do business in Africa without paying bribes or being drawn into any other form of corruption. They suggest that companies should prepare properly, follow the correct procedures and comply with local tax laws. This includes having realistic expectations, for example, with regards to the prescribed time for companies to be registered.

This also implicitly recognizes an important factor, namely that actively working towards building a good reputation is a goal that is pertinent to the public sector and private sector alike. It would be ideal if governments took the lead to elevate ethics to a level of national importance and set the tone for its citizens and businesses. However, even if such support is absent or only demonstrated by sectors of government, businesses and other institutions should nonetheless still pursue improving their ethics and regularly measuring and monitoring their ethical status. They stand to gain both a reduced risk profile as regards breaches of ethics and the benefits of being seen to be ethical amid many more institutions that aren't. ✓

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