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Review

The Board and Ethics: Tone at the Top

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This document is targeted at internal auditors. It looks at the usual issues of controls, risk management and governance from philosophical perspectives and applauds the organisers for going beyond these usual items to the board room and to the ethical realm. The author uses ancient wisdom of Aristotelian ethics to make sense of the responsibilities of internal auditors, board of directors and senior management. The main claim here is that human nature and human institutions by nature need auditors who inform the board about the state of the company and if the board is properly informed then it will be in a good position to guide the company morally and morality is in fact the foundation of good business.

Keywords: Board Management, Ethics, Governance, Business Organisation.

INTRODUCTION

I would like to begin by thanking the organisers of this *Indaba* for inviting me to participate in these deliberations. Above all I want to thank them for identifying issues that go beyond the familiar items to internal auditors such as 'risk management' and the usual but significant question of whether 'internal controls are working' to the issues of **ethics**. While issues of risk management, internal controls and governance are traditionally accepted as natural for a gathering of auditors such as this one, currently the issue of ethics has acquired a very significant place in business experience and thinking. This is unlike in the 1980s, when I started teaching business ethics to over 200 undergraduates Georgetown University in Washington DC, to huge MBA classes at the University of Zimbabwe and to business studies college students at the Christian College of Southern Africa (COSSA). Then topics dealing with ethics were treated by students as "too theoretical to be of business value." The students were eager to deal with what they termed "practical problems." The MBA students generally, were not teen agers who were coming to the university straight from high schools. Most

of them were adults working in Corporate Zimbabwe and using their university time to think of solutions to 'real' problems left behind in the factories and in the offices.

METHODOLOGY

With my students then, I decided to conduct an investigation over the, *Perception of Ethics in General* because that was a serious problem in business schools especially in departments of management. I started my investigation by defining and analysing **the idea of a problem** from the perspective of John Dewey's instrumentalism. When students understood and appreciated this idea of 'problem,' I proceeded by requesting each of them to list **10 real problems** they experienced at work and in real life situations. Most of the respondents listed at least 8 to 10 problems. A problem was defined as a researchable difficulty or puzzle. Dr Paul Mupa characterizes problem as "a pathetic case that triggers feelings of compassion and pity." The problems on top of the charts (1 through 10) are listed below but

they were other problems, also listed below in numbers 11 through 25 that were impossible to ignore. The investigation is still in progress. The investigation is still in progress with the assistance of 15 former students at the Christian College in Southern Africa (CCOSA), 5 from Houghton College, New York, 5 from Georgetown University in Washington DC, 15 former students from UZ, 10 other participants are informal sources just eager to talk about ethical issues most of these are youth at church. I defined a problem as an experienced difficulty that vexes the mind or a puzzle which Dr Paul Mupa characterises as 'pathetic.' The following items emerge as real problems or issues of concern to these participants.

1. lack of institutional commitment,
2. Corruption,
3. abuse of organisational recourses,
4. queues for almost everything ,
5. abuse of authority,
6. sexual harassment,
7. resource mobilisation,
8. Mull-administration,
9. tribalism,
10. leadership
11. public transportation,
12. products of poor quality,
13. capital flight,
14. lack of maintenance of property,
15. lack of strategic planning,
16. terrible rural infrastructure,
17. animal diseases,
18. time keeping,
19. incompetent supervisors,
20. abuses of domestic workers – long hours and poor salaries.
21. The list goes on to include bribery,
22. cheating custom officers at international crossing points,
23. exploitation of unsuspecting people by political and religious leadership,
24. money,
25. culture and gender

156 submissions were made by students during a period of 3 years and the 25 items listed above were the most commonly cited problems. This list indicated that 90% of the problems in Zimbabwe, especially in companies, were neither scientific, technical nor financial *but moral*. Of the 10 most cited matters of concern (listed above), problem 7 (resource mobilisation) is the only non moral puzzle. Therefore this inventory demonstrates beyond doubt that **ethics is the mega difficulty in Zimbabwe and beyond**. Studies done elsewhere indicate that moral problems are a universal phenomenon and the source of many other problems. Kurasha Jameson, (1999)'The

Challenge of Ideology' in *Chiedza lighting Africa*, Journal of Arrupe College Vol. 2 No. 2 , pages 81 – 86.

After the list of problems was compiled, the question was: "Have you ever committed or been part to any of the problems/offences listed?" The response from everyone was: "Yes." In fact, most (if not all) of us have been or partly offenders. The major problems (90%) in the world at the end of the last millennium were ethical. St Paul would say: "all of us have sinned and fall short of the glory of God." (Romans 3:23)

Real Issue and Issue are Moral

The Indian philosopher, Sarvepalli Radhakrishnan (2013 edition) rightly observed that...

"The world has changed considerably in its outward material aspect, means of communication, scientific inventions, ect. However, there has not been any great change in its inner spiritual side. The old forces of hunger and love, and simple joys and fears of the heart belong to the permanent stuff of human nature."

My point is that, more than ever before, ethical issues are relevant today as they were during slave trade and as they were during colonialism. More than ever, ethical issues are relevant today as culture, even our own indigenous culture, has remained static. Ethically speaking, there has not been a cultural revolution. Males still dominate at home and at work. Even women whose promotion is based on merit are expected to be thankful to men of 'charity,' as if they (women) have been promoted by favour than by fitness. Entering corporate environment today, at whatever level including the board room; most of the issues are ethical. Man has failed to appreciate that, morality or ethics has to do with altruism or concern for the other person's feelings and welfare.

Ethics and Board

A board is a collective noun which signifies a group of people with managerial, supervisory and advisory power e.g. board of directors. The board oversees, on behalf of shareholders, the running of the organization by senior management. The board even advises senior management on how to deal with issues relating to finance, risk, and internal controls and as established above, the board cannot escape issues of ethics or issues of values. What every potential board member needs to be aware of is that the foundations of ideal business ventures are ethical. I once heard a bus owner, Mr C. Dzimiri of Karoi, saying that he went into transport because people in his neighbourhood desperately needed transport to travel into town to sale their products or to see doctors in referral hospitals. Hence the foundation of his transport business was altruism or

concern for other people i.e. ethical.

However, in Columbia Pablo Escobar's drug trading business started because he wanted to make a lot of money. The point here was to make money for himself i.e. for Pablo Escobar. The effects of drugs on other people were not an issue he bothered about. Hence the foundation of his exceptionally profitable business was not altruistic. Pablo's foundation was unethical. Therefore the familiar folk wisdom which claims that, "I am in business to make money I am not a charity." There is some truth in the folk tale because there is a remarkable difference between a business concern and a charitable organisation which calls its purpose as, 'not for profit.' No one would really accept the Pablo model above as a good model even though the objective of handsome profits is self evident. Pablo's model is one which the former British Conservative Party Prime Minister, Edward Heath, characterised as the, "Ugly face of capitalism."

The Must Preliminaries for Board Members

To go back to the definition of a board; as a collective noun which signifies a group of people with..., supervisory and advisory power over the senior management of a given organisation; real concrete examples that one feels confident to illustrate with are Zimpost and educational institutions such as universities. If I were invited to serve on the respective boards of these two organisations, my first question would be: "What is the mission The word 'mission' is used here from a technical linguistic perspective. In Greek the term *apostelo* means one who has been literally sent on an assignment. God was a great sender as He sent, Moses and Jesus to liberate humanity from oppression and death towards freedom and salvation. St. Paul and Barnabas were sent by Jesus to preach good news to the people in Asia, Rome and even Spain. An apostle is one who has been sent. A disciple is one who is a follower for example; Matthew, Mark and Luke were disciples just as Cher GU Vera was a follower of Karl Marx. Apostles are great leaders, teachers, advisors and communicators whereas disciples are good listeners without messages to give but with ears to hear and to learn. of the organisation in question?" In other words what was Zimpost sent by the nation to do? What was Zimbabwe Open University (ZOU) sent to do by the parliament of the nation? As board of directors what have we been sent by the shareholders to do? Moses had a moral mission. He was sent by God to tell Pharaoh to, "let my people go." The leadership of the liberation struggle in Africa were sent by the supernatural to let the people of Africa free. *Inhume Dzakatumwa kuzosunungura Zimbabwe*. The mission of liberating Africans was as ethical the Dzimiri transport operation.

The mission of Zimpost as a postal company is to facilitate, "communication between people." But Tel/One

is also facilitating communication between people. What is distinct of the communication that Zimpost facilitates is that it is written communication. Tel/one facilitates verbal communication between interested parties. Communication is necessary and God given. The mission of ZOU as an educational institution is to conduct processes in which desirable states of awareness happen.

Ethics Workshop

My point is that when one is invited to join a board of directors, it is imperative to investigate the moral foundations of the organization. It is also important to have a moral torch or moral theory that guides you in the challenges of the boardroom. It is also important to do internal short courses to promote moral consciousness in the company community. You do not have to invent a moral theory. All you need is to read about ethical theories from the biblical time, Socratic era to modernity. Ethics is a discipline just like mathematics which has been re-discovered as a necessity since the 1970s after the Water Gate break into the offices of the Democratic Party in Washington DC. Universities rushed to promote applied ethics education in business, management, and medical studies in institutions like; The Kennedy Institute of Ethics at my own alma mater, Georgetown University. The Institute of internal Auditor has apparently realised the reality of moral challenges in daily business in Zimbabwe. I am suggesting that ancient wisdom from: Plato, to Aristotle, to Jesus Christ, to Emmanuel Kant and to Samkange's *Hunhuism*. Must be part of short workshops designed to promote moral consciousness in the board room and throughout the organisation.

400 years before Christ, the Greek philosopher Plato argued that leaders must be educated and that leadership is not everyone's business. (Lavine T. Z. (1984:50) Capacity matters or ability to do the job is important. Jesus Christ has a moral touch which directs him into action by preaching to the poor, liberty to captive, restoration of sight to the blind, setting free the oppressed, to announce the year of salvation Luke (4:18) The ethical lesson from Jesus is: concern for the disadvantaged which seem to imply that in one way or other we are all victims because among us are the poor (70%) in Africa, to captives 70% of the prison population is black, the blind population is large, the oppressed are all over the world. This statement in Luke chapter 4:18 suggests that we all need moral services and Christ gives those. St Paul in 1 Corinthians' 13 identifies many human virtues but love being the greatest. Emanuel Kant says that autonomy is important in human relations and people must be treated as ends in themselves and not as means to other people's ends, Professor Samkange's teaches that your worthiness is determined by your conduct which

must fit into the ubuntu definition of a person rather than that of a dog.

322 years ago another Greek philosopher Aristotle argued that a good man or a good person is judged 'good' because he/she is doing what a person is made for and made of. For example, a good knife does what a good knife does i.e. cutting well and effectively. A good radio does what a radio is made for i.e. capturing distant sounds and transmitting them on the air effectively. A good worm does what good worms are made of i.e. wiggling towards humus and moisture. By analogy a good man does what a good man/person was made for. To determine the purpose for which a thing is made is determined by what makes the thing different from other things that are almost similar to it in character, for example what makes a knife different from other metallic hand tools is the capacity to cut well. What makes a hammer good is not the same as to what makes a knife good but to pounding and knocking nails into a piece of wood? Pounding is what that piece of hand metal was made for while cutting is what a knife is made for. Now living things have many aspects in common just as metallic hand tools mentioned above have many aspects in common. For example, all living things share nutrition/nourishment in common i.e. all plants and all animals and all humans share nourishment as a common denominator. But all animals and human are different from plant because they have emotions i.e. sentiments, sensations and passions which plants don't have. So both men and dogs have the capacity to feel happy and angry to fall in love and to have intimate sexual relationship. The emotions of animal are managed through instinct or nature but the emotions of human beings are managed through deliberation or thoughtfulness. The capacity to think or to weigh up matters is what makes human beings distinct. The other thing that makes humans distinct is the **capacity to choose between comparable alternatives** using reflective resources given to them by nature or by God. The French Philosopher, Jean Paul Sartre, said that man was condemned to the freedom of choice. A dog does not have to control his sexual conduct through reason. In fact a dog can make love to his mother in law and make it repeatedly in public and we say that's what dogs do. A human being is expected to use his/her reasoning powers and conducts himself/herself as a human being (*somunhu*). When a man excels in using his deliberative powers we call him a good man.

Human institutions are establishments similar in nature to humans themselves. They are not like beehives in which the systems are natural or controlled mechanically by instinct. The nectar storages need no guards to protect them because a bee does not intentionally abuse what nature gave him. Compare that with fuel storage that institutions run. Because of the capacity to choose and to be self centered man invariably takes more than he is

entitled to hence creating the need for control mechanism.

1. The treasury is where the funds of the institution are kept and distributed as needed. If bees had a treasury they would not need a treasurer or a finance director to control the abuse of funds by a man who has no respect for the purpose of the treasury.

2. Company vehicles make the institution efficient in doing its tasks and managers are invariably issued vehicles to do company jobs efficiently. If bees had company vehicles to transport nectar, they would just use them for that task but human managers invariably vary the purpose by using, even a funeral van, to transport passengers for 'a fee!'

3. Animals do not have alternatives to cut off this choice over that choice which is where the prefix 'de' (cut off) cision as opposed to prefix 'in' (cut into) cision comes from. Because of this freedom to make decisions between this or that only man is expected to explain and give the reasons for his choice i.e. to justify what he decided to do by giving an account for his choice. And anyone in management should always be prepared to respond by giving a convincing account for his/her actions because there are very few things people do where there are no sceptics to challenge the given account. Accountability and responsibility are principles of management inherent in the activities of the Board and Auditors internal or external.

Human institutions are establishments whose behaviour is similar to their makers. In animal organisations things happen according to plans of nature and an animal organisation cannot do much about what nature has given?

1. Birds will build their nests where it's secure from the threat of predators.

2. Bees will build their hive where the most convenient settlement is on the day of inhabiting the hive. Neither of the species mentioned learns from experience of a veldfire having destroyed similar settlements. Instinct does not allow them to think like that i.e. risk management is not in their DNA. Animals do not deliberate about the possibility of something going wrong. Humans do because deliberation is what makes them unique. In human organizations most things are contingent or conditional not necessary. Even during extended peace epochs people use imagination to think of possible problems and to map out strategies that will mitigate the danger. Internal auditors are specially trained to think ahead and to educate the board and senior management about the possibility of dangers or risks. **Internal auditors motivate the board to be proactive.**

3. The most trusted steward will do things most contrary to what was expected of him. The internal auditor is an independent disciplined and objective professional guided by the principle of value addition to

improve organisational operations.

4. Joseph ended up in Potiphar's prison because neither Potiphar's wife nor him, were ever suspected that they could deviate or digress from their character – yet all humans have that potential. He was a lone operator without a single witness to defend him. Internal auditors would have thought of this possibility and would have advised the royal household or Joseph of the danger of false accusations in that kind of environment where trust alone was not enough. Internal auditors are the ideal witnesses needed by people in senior management. They help the members of the board by assuring and educating them of **the state of the company**. Recently a CEO of a university was reported as having used \$95 000 of the institution to fly her husband to South Africa for medical attention. Auditors were sent to the institution and they discovered that the claims were false. The point is that auditors are professional witnesses of special value to the Board, to senior management and to all stakeholders.

5. De George (2006:211) says Enron was the *Fortune 500* number 1 company for years but within days things fell apart because of faulty board and management. The lesson from this tragedy is that institutions are not managed by perfect people and disasters are real and possible. Auditors are professionals trained to detect risks and work with the Board and with senior management to ward off such risks. **Internal auditors are agents of moral sanity within any organisation. In animal organisations instinct is the natural auditor with many advantages and many disadvantages.**

FINDINGS, CONCLUSION AND RECOMMENDATIONS

It follows from this that human institutions need control systems, risk management just in case a trusted CEO abscond or take off with millions of dollars or unexpected event happens were investors would lose life savings because of poor governance. To go back to the case of a good knife above; the knife is made to cut and to cut well or excellently. If it's a good knife it would be made of the right stuff i.e. of good metal not of plastic synthetic material. So a good internal auditor does what internal auditors do and he/she ought to do it well or excellently? They ought to be clear about their mission as internal auditors only and ought not to be drowning into other activities that could be political or religious or drawn into sectarian battles. They are governed by public rules and clear goals only. With their special skills, internal auditors continuously assess the affairs of the company and

consentencing all stakeholders about the necessity of effective controls and the possibilities of disasters even in companies like Enron on top of Fortune 500.

Internal auditors must go beyond the usual issues to issues of moral climate in the organisation. Ethics education ought to be part of internal auditors' continuing education. Ethics education is a dimension of your professional development which will ensure that you are not only doing the right staff but you are also made of the right staff – much like the knife that cuts well and is made of good metal including stainless steel.

Issues of safety and the environment ought to be the substance of their thinking and discourse so are issues about conduct within the organisation and matters about the possibility of whistle Blowing. Metaphorically, auditors are professionals with sensitive ears and eyes to see that institutional commitment is decreasing, to see fraudulent culture rising *within the organisation*, to see *that company's information is thrown around recklessly*. Internal Auditors have information and skills that are valuable to members of the Board who in fact should report to them directly. Members of the board should use the information they get from internal auditor to build a morally sound company whose responsibility and accountability are part of their cooperate culture. We must recapture ancient wisdom from the Aristotelian ethics which would define the internal auditor; as a person whose eyes and ears identify data that is used by the Board and by the senior Management to create a moral and aesthetic atmosphere.

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