

[Introduction]

With the rapid behavior changing disruption of recent years, and the ongoing stream of corporate governance failures. ACCA has been digging deep into how interconnected risks such as climate change and geopolitical issues are influencing the way we approach risk management. This podcast series will look at what risk culture means and to what extent risk and accountancy professionals understand its impact on performance.

[Voiceover]

The accountancy professions role in reconciling ethics with profits is becoming increasingly challenging in today's volatile and complex business environment. As organizations try to embed risk into strategic decision making across all their activities, they need to ask themselves what makes sense and what adds value. To start, they should be reviewing any conflicts with values and deciding whether opportunities are in line with the desired organizational ethics. But what do we mean by organizational ethics?

[David Rodin]

Organizational ethics is the capacity of an organization to manage itself responsibly, and so as to fulfill the obligations that it has to all of its stakeholders.

[Voiceover]

David Rodin, the founder and chair of Principia advisory.

[David Rodin]

We think of it as very much a capacity or capability. And it really has two different components that we think of as the hardware or software of the organization's ethics so the hardware, or the systems processes, compliance, risk, and so forth, that organizations use to manage conduct and behavior. And the software is really the culture, the norms and the values that people within the organization bring to those decisions. And an organization has strong organizational ethics, when the software and the hardware really work together in the right way.

[Voiceover]

Organizational ethics has had to evolve in this time of ongoing change and new challenges.

[David Rodin]

I think the ethics agenda has become a lot more complex. There was a time when we used to all believe, as Milton Friedman said that the only obligations of businesses were to create profits within the law. And I think that's no longer sufficient anymore. There are a broader set of expectations that customers, clients and society have on business. And we've certainly seen that through the perma crisis. So questions like how businesses deal with their operations in Russia after the invasion of Ukraine, how you manage employee vaccination expectations, through the COVID crisis, how you think about diversity and inclusion after Black Lives Matter. These have all been features that have placed ethics at the top of the agenda for many businesses, including accounting,

[Voiceover]

Companies need to start viewing their stance on ethics as a competitive advantage. David sees a number of driving forces for this,

[David Rodin]

I think we can think of this in terms of push and pull components. So the push components are very much around mitigating risk. And we do a lot of work with organizations that have had really significant ethics or conduct crises. And we've seen how this can really destroy brand value, destroy trust, and in the worst cases really create an existential crisis for the

organization. So that's on the push side. But I think there's also increasingly a very strong pull side, which comes from the realization that having strong ethics being able to communicate those clearly, and being able to really align business practices around that is a real differentiator in the market. It's increasingly expected by clients and customers. And it's increasingly required by regulators and other stakeholders within society.

[Voiceover]

Leaders with accountancy backgrounds can play a part and doing the right thing today. David explains,

[David Rodin]

Accounting as a profession has a really critical role to play in the ethics agenda, partly because accountants are crucial to guaranteeing trust in a capitalist system. And that in itself is an extremely important ethical moral function. So accountants are able to fulfill that function appropriately, that obviously means that they need to manage themselves with very, very high standards of ethics. Part of that means making sure that the firm's and the profession is managed to the highest degrees of integrity. But then I think turning outwards, it's really important for accounting firms to engage in some of these bigger issues, and to reflect on how the practice of accounting can help to solve some of the really big issues that the world is struggling with, including issues around ESG. And I know that a lot of firms are thinking very much about how the accounting skill set can be part of solutions for monitoring carbon emissions and other environmental impacts, but also thinking really seriously about the obligations that accounting firms have with respect to the clients that they work with and perhaps thinking carefully about who they would not want to work with for ethical reasons. So I think those are all ways in which accounting leaders can position themselves as part of the solution and equally to ensure that they avoiding becoming part of the problem.

[Voiceover]

David has a few words of advice for companies concerned about the ethical impact of new technology and AI tools.

[David Rodin]

There are a couple of ways in which they could provide a real benefit, but also produce risks. So if we think on the ethical benefits side is often been observed that there is a mismatch between what the public and society thinks audits do, or perhaps expects them to do in terms of providing security that, for example, firms are not involved in gross fraud, and what audit actually do. And that comes about because auditors obviously, operate with limited resources and a limited mandate. And you can imagine a world where these very powerful AI tools will be able to just do so much more and go so much deeper with the same human resources. And that might really allow accountants to get much closer to that socially important and valuable expectations that the public really has for them. So that's kind of on the plus side. On the other side, we do know that these systems have a tendency often to make mistakes sometimes to hallucinate data that's not there. And this clearly poses risks and challenges, most obviously, for its use in the audit profession. And I think there are some really interesting and difficult questions around how we deal with questions of responsibility and accountability, both from a legal and also from a broader ethical perspective, if something goes wrong with one of these intelligent agents, because looked at it from one perspective, they looked like tools, where you'd say the humans that use the tool are ultimately responsible for the outputs of that tool. So responsibility lies ultimately with the humans using it. But another way, these systems are not really just like tools, they have agency of their own, they operate in a way that we don't fully understand. So if something really goes wrong with a piece of accounting work with an audit that is heavily dependent on generative AI who will actually be held to account and how do we manage that as a profession, and as a society and from a regulatory and legal standpoint as well, I think there's a really, really difficult questions that will take some time to work out.

[Voiceover]

These brief insights about organizational ethics are just one aspect of risk culture. We will be talking to more experts in the coming weeks.

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