

The Ethics of Value Creation

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Integrated thinking & value creation: the concepts

Setting the scene



Megatrends

- ❑ Demographics (population growth/migration, etc.)
- ❑ Climate change
- ❑ Biodiversity loss
- ❑ Widening inequalities Technology innovation
- ❑ Speed and amplification of change
- ❑ Coronavirus pandemic (2020)

Company and industry drivers

- ❑ Changes driven by stakeholders:
E.g. Evolving investor behaviour, especially in the context of ESG/SDG preferences and longer term value creation
- ❑ Changes driven by societal changes:
E.g. A license to operate based on the impacts a business makes across its entire value chain and trust and accountability driven by corporate scandals and failures, as well as the global financial crisis, have resulted in low scores for many businesses on these matters
- ❑ Internal changes:
E.g. New innovations driving change, as well as intensifying other trends and a shift in horizon expectations with the need to plan for the medium and long term.

Integrated thinking: the concept

THE INTERNATIONAL
<IR> FRAMEWORK



Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.



Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

Integrated thinking: the concept



Management goal	Maximizing profit	>	Optimizing value
Capital focus	Financial capital	>	Multi-capital
Timing considered	Short term	>	Short term & Long term
Company behaviour	Reactive	>	Proactive

Value creation: the concept

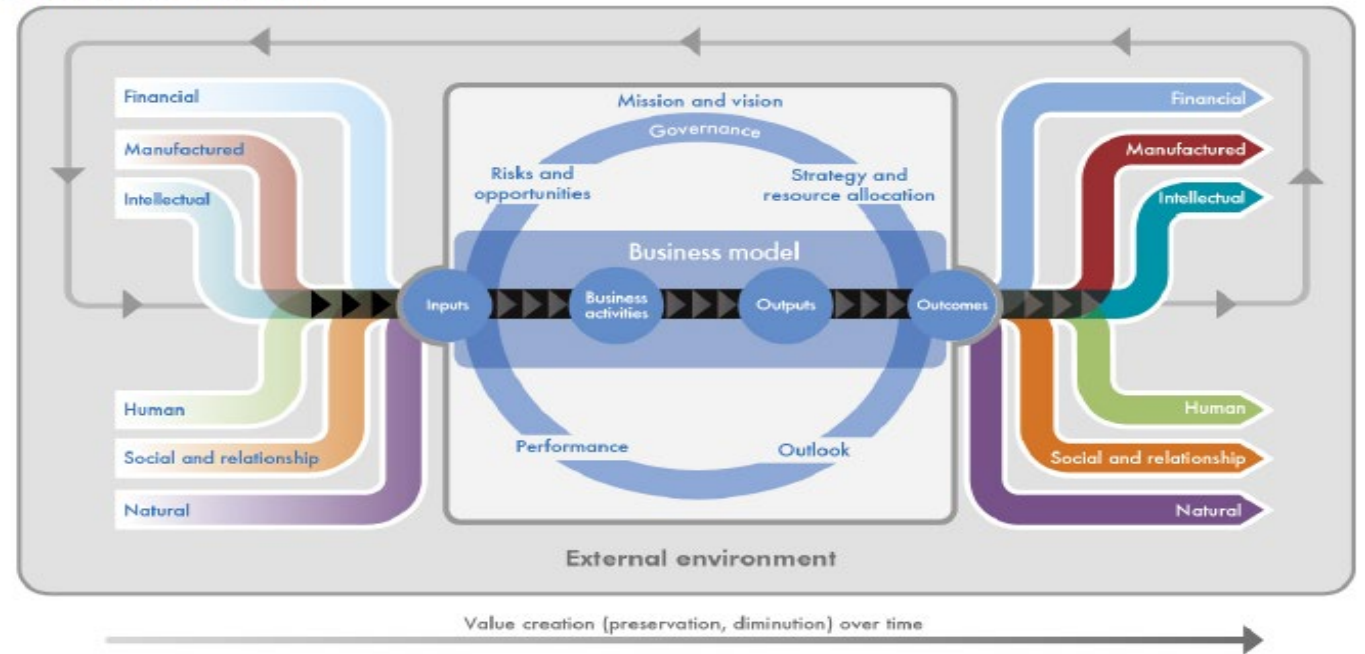
THE INTERNATIONAL
<IR> FRAMEWORK



Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs. That value has two interrelated aspects – value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large).

Figure 2: The value creation process:



Ethics and ethical culture as a
building block of integrated thinking

Integrated thinking: the building blocks



Multi capital and multi stakeholder mindset

Collaborative management culture

Business model understanding

Outcomes based corporate governance

Ethical Culture

A red arrow points from the 'Ethical Culture' box towards the 'Collaborative management culture' box, indicating a relationship or influence.

Role of leadership in support of integrated thinking



What is Responsible Leadership?

“... values-based and thorough **ethical** principles-driven relationship between leaders and stakeholders who are connected through a shared sense of meaning and purpose through which they raise higher levels of motivation and commitment for achieving sustainable values creation and social change.”

(Pless, 2007)

Stakeholder
perspective

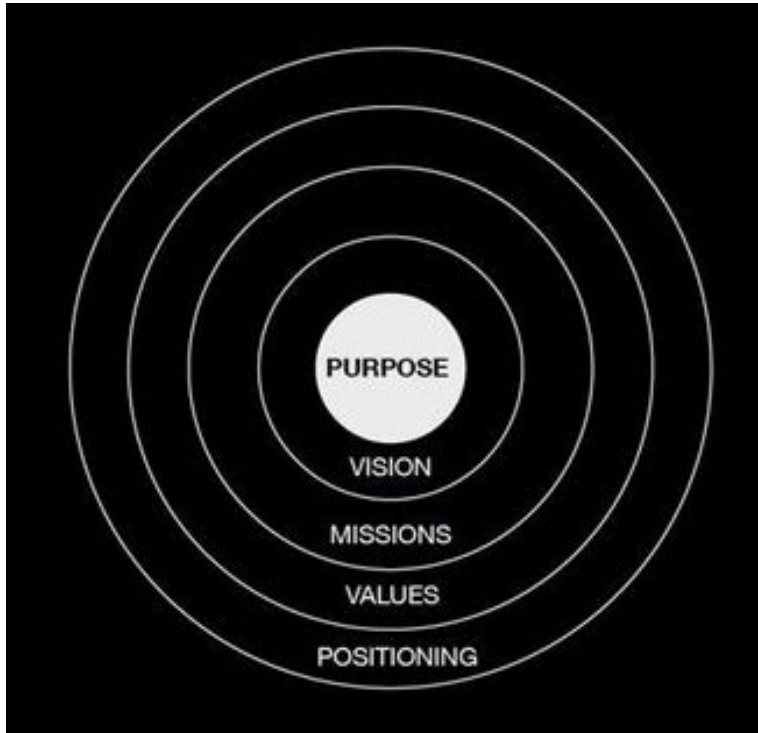
Long term lens

Ethical – do no
harm and
sense of duty

Responsible
use of
resources

Engages with
question of
purpose

Tone at the top: Leadership and purpose

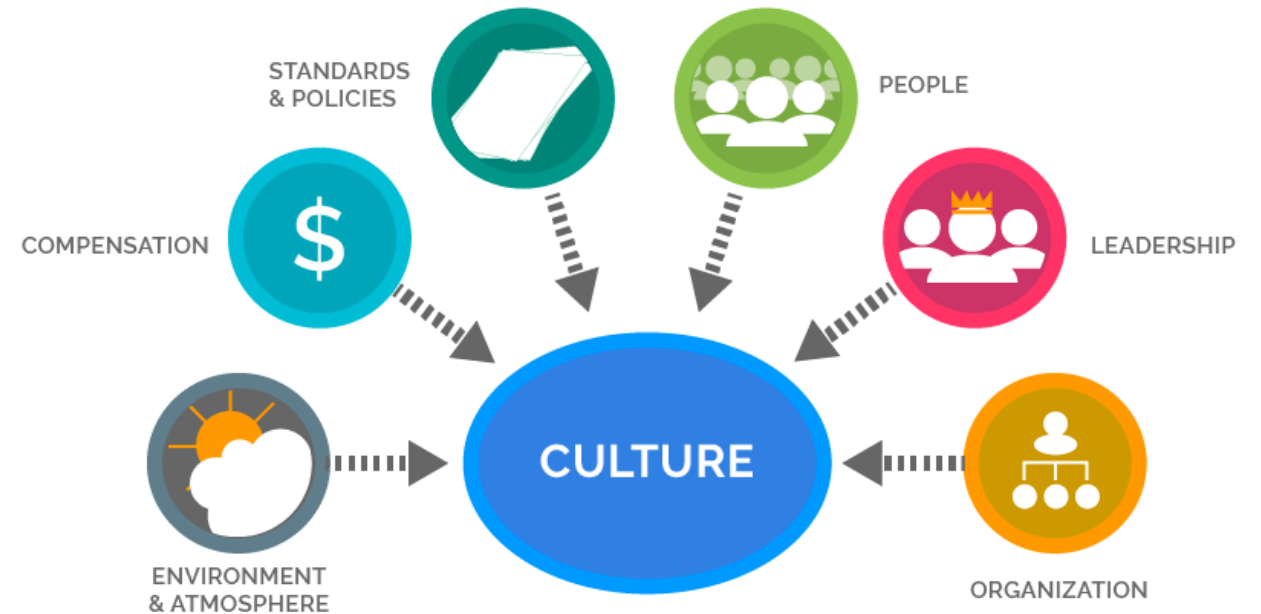
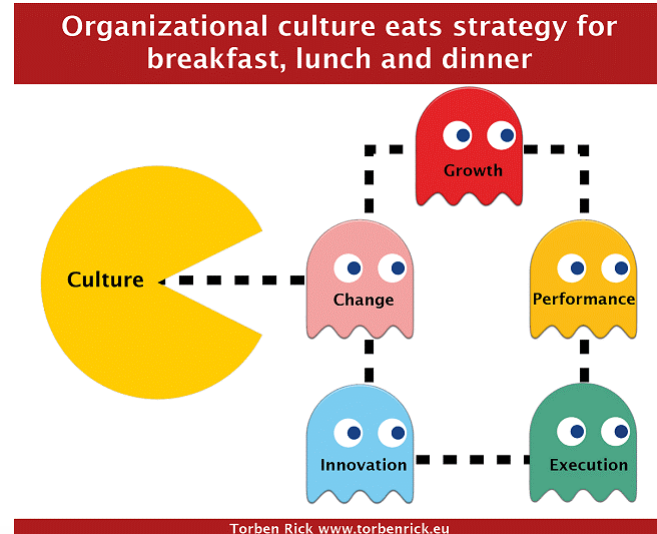


- ❖ The **tone at the top** sets an organization's guiding values and ethical climate.
- ❖ **Purpose** is at the heart of a company and **leadership** is responsible for instilling this sense of company purpose across the organisation.
- ❖ **Good leadership** means the board can meaningfully **influence** the **purpose, culture and strategy** of the organisation.

Role of culture in support of integrated thinking



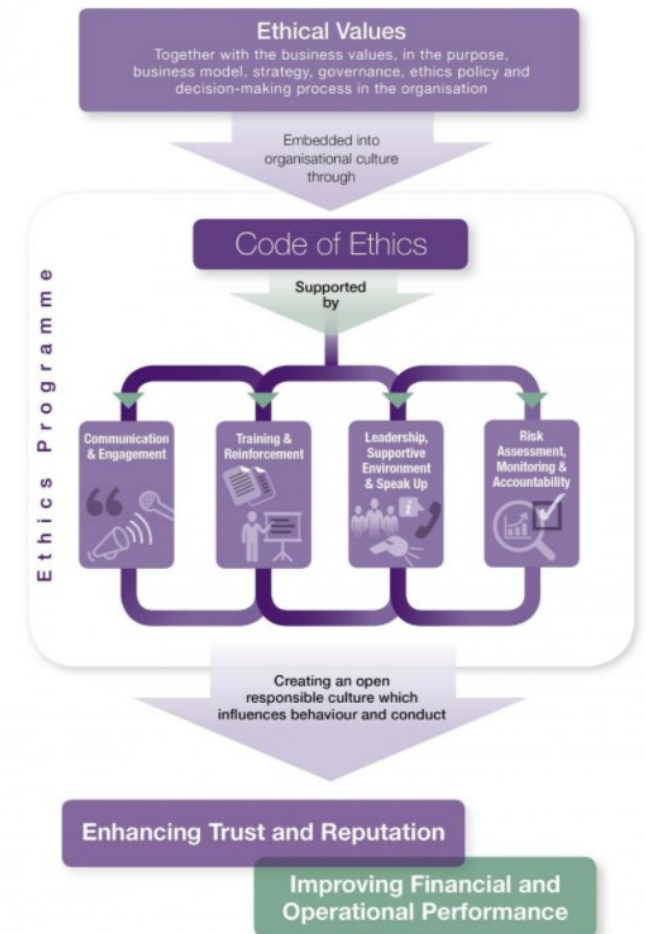
The culture of the company should facilitate and stimulate long term thinking



Role of ethics in support of integrated thinking



Ethical leadership is defined as "leadership that is directed by respect for ethical beliefs and values and for the dignity and rights of others." It is mainly concerned with moral development and virtuous behaviour.



The governance outcome of ethical culture & responsible leadership

Outcomes-based governance: the Concept



Ethical Culture

Establishment of an ethical culture within the organization, so that interactions with stakeholders are undertaken in an ethical manner.



Good Performance

Well governed organisations should be run for the purpose of and in a manner that is intent on delivering value and they should report or disclose results to stakeholders.



Effective Control

Well governed organisations have appropriate governance structures and processes in place to ensure that the organization is effectively controlled.



Legitimacy

Well governed organisation's attempt to balance the legitimate expectations of its stakeholders by adopting a stakeholder- inclusive approach to governance. This builds trust, legitimacy and a good reputation.



Characteristics of outcomes-based governance



Governing
Purpose

Quality of
governing
body

Stakeholder
engagement

Ethical
behaviour

Risk and
opportunity
oversight

Ethical culture and leadership



Let's listen to the YouTube clip on the 2020 Edelman Trust Barometer report and while listening, please reflect on...

- What are the biggest factors giving rise to the so-called “trust paradox” mentioned?
- Do you agree that ethical behaviour is far more important than competence in today's business context?

<https://www.youtube.com/watch?v=IXp7ciGs08A>

Ethical culture and leadership



Responsible leaders understand that culture eats strategy for breakfast.

King IV has re-emphasised ethical leadership and the need for Boards to take an interest in embedding ethical culture in the organisations they govern.

Questions for directors to ask

- Are the Board and Senior Management adequately focused on understanding the culture that exists and seeing adherence to organisational values and conduct as a strategic imperative? Is this evidenced in practices such as transparency for material transgressions, and owning the responsibility for identifying and dealing with problems?
- Does the Board focus adequately on embedding values and conduct by devoting adequate time to these issues, receiving regular comprehensive reporting on these issues and participating in internal communication about the desired behaviours?
- Do the CEO and executive team objectives include conduct, values and cultural matters?
- Does the CEO and executive team incentive regime have material financial consequences for managers whose oversight of desired values and conduct is weak?
- Do the organisation's promotion and hiring processes place material weight on compatibility with the desired values?
- Do the organisation's supply chain and outsource relationships consider and reflect the desired values and behaviours?
- Does the Board consider the ethical business culture of suppliers, clients and customers to ensure an ethical supply chain?
- Is there evidence of a culture of welcoming escalation or self-identification of issues, including the expectation of such conduct, and are there sanctions for wilful blindness?
- Is the Board able to disclose the effectiveness of ethics management and the outcomes thereof?

Ethics Reporting

International Integrated Reporting Framework

"4.8. An integrated report should answer the question: How does the organization's governance structure support its ability to create value in the short, medium and long term?"

For example:

"Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues."

International Integrated Reporting Council, 2013, p12

Our ethics management system rests on our six pillars:



The following table outlines our objectives, focus areas and progress in the 2020 reporting year:

Principal	Objective	Progress	Focus area	
Leadership				
1	Lead to empower others	Develop sustainable stakeholder relationships and demonstrate responsible corporate citizenship	Ongoing ethics awareness training and leadership development. For more information, refer to the governance report on page 88.	Continual promotion of ethics awareness within Redefine
Ethics goals and strategy				
2	Create and maintain a culture characterised by trust and accountability	Ethics is a primary organisational commitment	Ongoing	Implement a holistic strategy to improve and embed ethics throughout the organisation
Ethical standards and enforcement				
3	We 'walk the talk'	<ul style="list-style-type: none">Improve transparency in strategic decisions and operating activitiesStrengthen governance mechanisms and system of internal controls	<ul style="list-style-type: none">Revised integrated risk and compliance framework as well as a corporate governance frameworkFraud and corrupt activities framework and policy tabled for approvalProcurement policy reviewedEmployee code of business conduct reviewed to ensure it gives effect to the company's commitment to ethicsImplemented a conflict of interest policy supported by communication, training and ongoing awarenessReviewed whistleblower policy supported by awareness campaignsSupplier code of conduct introduced to ensure that suppliers uphold our commitment to ethicsOur values form part of performance management and serve as a guide during our recruitment process	<ul style="list-style-type: none">Supplier risk assessmentImplement an annual letter of representation
Ethics awareness and understanding				
4	We are serious about ethics	Promote adherence to integrity, ethical behaviour and conduct management through consequence management for non-compliance	Platforms used to entrench our culture and values include: <ul style="list-style-type: none">Onboarding and induction processInternal communicationsImproved employee ethics disclosure, compliance and awareness	Ongoing reinforcement of organisational values to enhance ethical culture further
Ethics assessment				
5	We understand our ethical status	Monitor ethical quality and performance of the company to identify interventions timeously	<ul style="list-style-type: none">Achieved a 76th percentile advanced ethical maturity score from the Ethics Institute in ethics risk survey conducted among employeesEthics measured as part of the external board evaluation process	Conduct annual assessments
Operational ethics: ethics in practice				
6	Our values are the driving force in our organisation, to be authentic to who we are and where we want to go	Support and empower all Redefine employees in the fight against unethical behaviour, financial crime, and bribery and corruption, including increased support for whistle-blowers	<ul style="list-style-type: none">Ongoing ethics awareness training and leadership developmentDisciplinary action instituted against transgressors	Ongoing incorporation of ethics into key areas of the company's processes and functions

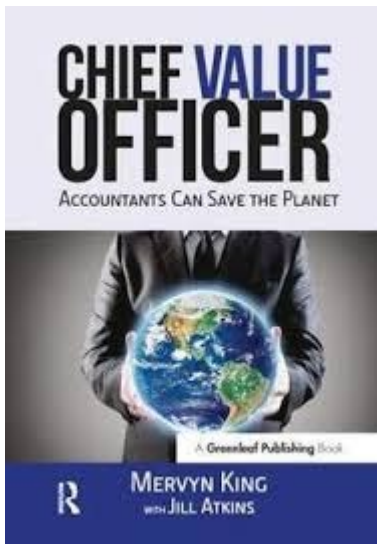
We as
to date

Redefine ESG Report – example

achieved

Chief Value Officer: an emerging role

Emerging role of the Chief Value Officer

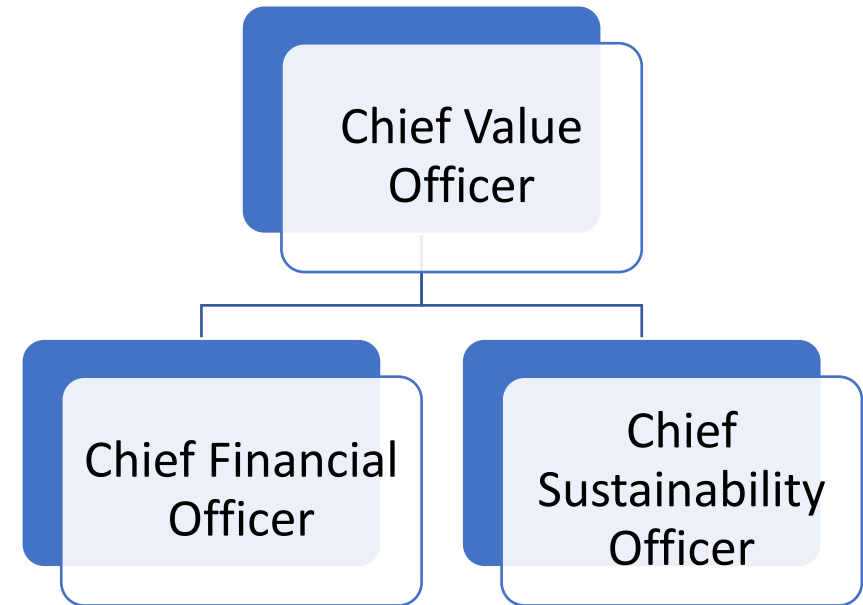


“The CVO role must ensure that all relevant aspects of value creation and destruction are accounted for and communicated to boards, management, and external stakeholders. To achieve this, the CVO will require deep knowledge and insights about the business to inform discussion on purpose, values and strategy, risks and opportunities, the business model and relevant sources or capitals that the business depends on or affects”.

Think about...

where would
the CVO fit
into the C-
Suite?

It is a separate
role?



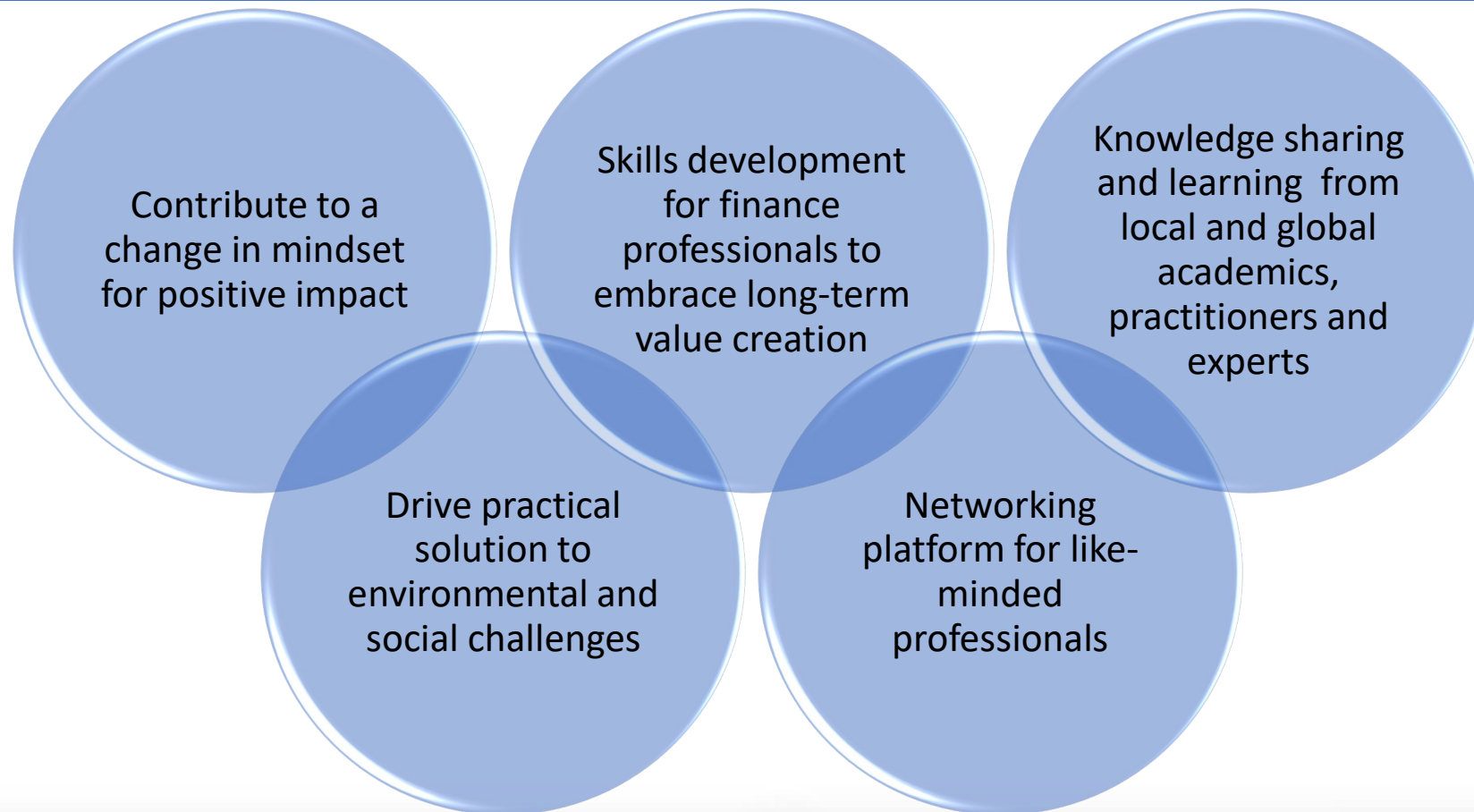
Wits CVO Programme

CVO Programme Outline

- ❑ Three inter-connected short courses
- ❑ Designed to enable the transition from “chief financial officer” to “chief value officer”



Programme Benefits and Goals



Thank you...



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