

## Ethical Champion towards Business Sustainability: Malaysian evidence

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### Abstract

Creating a sustainable business is not merely environmental protection; an organization needs to ensure a balance between the organization's economic, environmental and social goals. The competitive environment puts a pressure to organizational leaders to meet customer need and stakeholder interest. Since finance accountants are closely involved in planning and coordinating the organizational decision-making process, managers of an organization are commonly the 'customers' of the finance accountants. One of the challenges facing the accounting profession involves developing ethical leadership. Therefore, this study was conducted to examine role of the organizations' leaders including finance accountants in embedding ethical conduct into the organizational strategic management and the contributions of finance accountants towards sustainable success of the organizations. Case study method was employed in this study. Face-to-face interviews were conducted with key personnel from top management in two Malaysian property developers, who are very expert in the finance related matters. This study proved that the organizational leaders including the finance accountants of both organizations play a major role in the integration of ethics in the strategies for sustainability. They are the Ethical Champion, who needs to understand the model for delivering their projects and the risks attached to them.

*Keywords:* Finance Accountants, Leaders, Ethics, Sustainability, Malaysia

### Introduction

Directors' personal moral values are a powerful driver in ethical decision-making (Grant and McGhee 2017). Codes of ethics is seen to be effective to the extent that individuals have a strong moral compass; great value is placed on their personal moral code as being consistent

with it, defines who they are. Organizations need to adopt models of strategy that see the business of a business as realizing its potential for value creation, not fighting wars against competitors (Hansen and Smith 2006). The mindset within all businesses should be that ethical conduct is still be achieved without having to sacrifice accountability and shareholder return. According to Mohd Ghazali (2015), companies with higher ethical commitment are engaged in less earnings management, have higher market valuation, higher firm performance and are perceived to have higher corporate financial performance. One of the greatest challenges in incorporating ethics for international corporations is establishing a “set of tone” that involves more than the board of directors and senior management, but every stakeholder and employee within the corporation. The complex nature of organizational culture creates unique challenges for managers attempting to encourage awareness among employees that sustainability not only reduces the firm’s impact on the natural environment but it also can significantly affect the long-term health and success of the organization (Galpin et al. 2015). Alongside these difficulties, a key consistence challenge is making a worldwide corporate culture that endures and urges representatives to approach and report any improper conduct. In recent years, there have been many financial scandals amongst big corporations in Malaysia. The responsibility of any ethical misconduct should be on the shoulders of the directors, senior management team as well as the auditors, among others (Zakaria et al. 2010).

Due to the perceived benefits of ethics incorporated into businesses, organizations draw up a code of ethics document because they value the document as a signal of organizational behaviors and values (Whyatt et al. 2012). On the off chance that organizations do have this perspective of their codes, at that point without a doubt they ought to be focused on them, however its reality is not itself enough to guarantee moral conduct by staff, nor does a code ensure a moral corporate culture. Social pressure for greater corporate social responsibility would garner greater involvement of the accounting profession in implementing sustainability reporting for decision-making (Nga and Wai Mun 2013). Accounting is an important measurement system of businesses activities thus, there is a growing pressure on accounting and professional accountants to better integrate sustainability into corporations’ decision-making system to direct their behaviors toward sustainable development (Özsözgün Çalışkan, 2014). Özsözgün Çalışkan (2014) further emphasized accounting professionals would make a significant contribution to developing and monitoring substantial sustainability standards such as standardization of indicators using both within business units and among states, contribute in monetary equivalent methods, risk management, balancing the issues of governance and ethics standards within the political environment. Recent developments require external reporting to show financial, social and ecological effects of business operations in general thus, the new requirements would require new responsibilities from the accounting professionals concerning reporting systems (Özsözgün Çalışkan 2014). Diversity in the types of accounting system in existence means that it is not possible quickly for all accounting to be improved, but is a gradual process of trying to improve on conventional accounting in all its facets through sustainability accounting as a foundation for problem solving (Buritt and Schaltegger 2010). The key aspect highlighted in definitions of sustainability reporting is the importance of an organization’s performance in realizing the sustainable development goals (Joseph 2013).

Understanding the ethical basis of sustainability-oriented decision-making is a powerful partner to the technical expertise of applied professionals and can ensure the success of training future leaders for a more sustainable society (Biedenweg et al. 2013). Zahid

and Ghazali (2015) indicated that most of the Malaysian property and REITs listed companies investigated in their study have their social, environmental and economic practices been embedded in their operations. Education for sustainability in higher education prepares future professionals to be effective citizens in a more sustainable society. If accountants perceived to be incompetent in providing organizational leadership, promoting ethical values and professionalism, this will affect the confidence level of shareholders and potential investors (Nga and Wai Mun 2013). The obligation of an organization is to work ethically, and guarantee that products and operations are safe for consumers and the earth (White 2009). This is because consumers and stakeholders nowadays are more aware and keep track of the impact and importance on the environmental and social effects of the goods and services they consume, and they want to know how these products contribute to the community. Moore and Wen (2008) in their study proved that good business ethics and a sustainable approach lead to long-term value creation in a range of areas. Accountants not only just have fiduciary roles toward the shareholders, but also need to execute stewardship roles toward the society and the environment. Therefore, this study contributes from the ethical perspectives by examining the role of organizational leaders including finance accountants in embedding ethical conduct into the organizational strategic management. The study also examines contributions of finance accountants towards sustainable success of the organizations. Case study method was employed in the study. Face-to-face interviews were conducted with key personnel from top management from two Malaysian property developers, who are very expert in finance related matters. Next section addresses the research method employed in this study. The remainder of the paper is the main findings of the study. Lastly, a concluding section provide the contribution, limitation and recommendation for future research. This initiative hopes to provide new insights on growing importance on the role of finance accountants in embedding ethical conduct in an organization.

### **Research Method**

Case study method was employed to address the perceptions of the interviewees on the role of finance accountants in the integration of ethics in the sustainability strategies. A series of semi-structured interviews were conducted on two Malaysian construction organisations. These organisations were selected based on their correlation with environmental issues, which is part of sustainability strategies. Face-to-face interviews with the key personnel formed important sources of information for this study. The companies were identified as Company A and Company B for confidentiality reason.

TABLE 1:  
Background of companies

	<b>Company A</b>	<b>Company B</b>
Size	Large listed	Large listed
Type of industry	Real Estate Management, Property Development	Property Development
Core activities	A strategic developer and a key player in the transformation of an attractive investment destination and a vibrant livable region in Malaysia. The company is very determined to cultivate a dynamic and sustainable ecosystem.	One of the largest property developers in Malaysia and has become the developer of few populated townships in the Klang Valley area. The company is committed in delivering sustainable value to all its stakeholders through its embedded vision.
Mission	To deliver sustainable value to the stakeholders as the company transforms into a strong, sustainable conurbation of international standing. To realise the above mission, the company welcomes challenges and delivers excellence in the entire realm of real estate management and disciplined investment by incorporating best practice industry standards. The company also strives to create long-term sustainable value for its stakeholders through new investments by capturing value-added opportunities, asset growth and increased profitability.	The company's philosophy is founded on the premise that customer satisfaction is a central driver for success and that we exist because of our customers, and we are therefore here to serve them. All company's developments are unique and designed to offer different lifestyles, facilities and price range, catering to diverse needs and expectations of our valuable customers. The company builds and enables sustainable communities.

The interview questions were developed and divided into two parts and addressed under the following key themes:

- First section explores on role of the organizations' leaders including finance accountants in embedding ethical conduct into the organizational strategic management.
- Second part requesting the interviewees to identify contributions made by finance accountants towards sustainable success of the organizations.

## **Results and Discussion**

In Company A, the managers will discuss the strategic issues of the organizations every three months. As part of the board package, the top management is furnished with information pertaining to KPIs and indicators as well as the short term and long-term sustainability strategies. The board will discuss at length on pertinent ethical issues that may arise as reported by the Audit and Risk Committee (ARC). Constructive challenges will be provided during the discussion. The management has so far demonstrated healthy, ethical and thoughtful culture in tackling issues pertaining to ethics. The ethical issues are embedded as part of the rational risks.

The finance manager of Company A is required to focus not only on cutting costs and on compliance, but also to include reputational risks as part of its KPIs. Reputational risks affect the ability of the organization to continue its business as usual and effect the organization's branding. In addition, the management accountant chairs the Audit Compliance Committee that look into the execution of the audit findings that may include the ethical issues. Management is responsible to value and quantify the reputational risks. The risks are rated as high, medium and low. The managers are committed to improve the risk level of the organizations.

In Company B, the President of the company takes the responsibility to demonstrate an ethical approach within the company. The management is committed to behaving professionally, fairly, and with integrity in all their business dealings throughout their operating areas. The management spends most of the time discussing strategic issues even before the budget is presented. Budget is normally based on the financial year-end starting July and end in June every year. The management also discusses it throughout the year in September, October or November.

In order to ensure the company has a healthy, ethical and thoughtful culture, the management has to report any risk on quarterly basis as well as any updates on the identified risk. Risk of the organization can be bettered assessed and addressed if more information is made available. The management in the recent years is trying to build its competency level through diversifying its business. At present Company B has plantation, engineering including mechanical, processes, oil and gas, power. The managers need to acquire better understanding of the industry, and thus the risk profile. This will contribute effectively in delivering the organization's projects.

Ethical information is collected and analyzed by the compliance team. The information normally used during staff trainings. However, more sensitive and severe ethical information not being shared widely within the organization especially if it involves CBT cases. The compliance committee consists of those managers that set the policies and regulations. The management will resolve all the ethical issues and risks that arose before going to the board.

Even though the finance accountants guarantee the most relevant management information on which base decisions, the company also need information on projection, assumptions and market trends rather than rely solely on historical financial data. In order to implement a good strategy, the company also engaged a business consultant in order to study the market. The finance managers will evaluate and quantify reputational and other ethical risks in the organization. Every staff is regarded as an Ethical Champion in the organizations. The finding is summarized based on the interviewees' quotes in Table 2.

TABLE 2:  
Interviewees' Quotes

Company A	Company B
<b>Does the finance come to problems with 'prepared minds', looking at ways in which an organization can benefit from an ethical approach rather than one that relies narrowly on cost cutting or compliance?</b>	
<p>Cost cutting is not always being the case. Chief Financial Officer (CFO) always looks into the whole picture of business. Reputational risk is crucial and ethics is part of this. Inappropriate dealing with ethical issues will expose the company to negative branding impact. Issues pertaining to the community will affect the brand name and the continuity of the company's generating sales and indirectly contribute to the goodwill.</p>	<p>The finance needs to look on sustainable and ethical issues in assisting the company to survive.</p>
<b>Play an active role as ethical champions by challenging the assumptions upon which business decisions are made?</b>	
<p>The Chief Financial Officer (CFO) himself chairs the audit compliance committee of the company. This audit compliance committee's responsibility includes monitoring the audit findings including ethical issues. It does not just on financial related issues.</p>	<p>There is no specific person to be the ethical champion. Everyone in the company needs to be ethical champion by knowing about ethics. Once they know their job description, they are accountable to it. However, being finance accountants, there is stricter compliance to be follow. Due to sole responsibility in safeguarding the assets, the finance accountants need to ensure good control is in place. At the point when there is conflict of interest, it is important to disclose it.</p>
<b>Do the finance accountants assist the management in evaluating and quantifying reputational and other ethical risks?</b>	
<p>The finance accountants assist the management in evaluating and quantifying reputational and other ethical risks. Besides having Key Performance Indicators (KPIs), evaluation continuously conducted on the different level of rating: High risk; Medium risk; Low risk. The level may need to change if it show continuous improvement for an at least two quarters. Continuous improvement is crucial to the company and part of its sustainability strategy and not a one off activity.</p>	<p>The finance accountants are normally assist the management in evaluating and quantifying reputational and other ethical risks in the company.</p>

<b>Do the finance accountants guarantee the most relevant management information on which base decisions?</b>	
The finance accountants will try to guarantee the most relevant management information on decisions.	Even though the finance accountants guarantee the most relevant management information on which base decisions, the company also need information on projection, assumptions and market trends rather than rely solely on historical financial data. In order to implement a good strategy, the company also engaged a business consultant in order to study the market.
<b>Do the finance accountants are encouraged to help to ensure their business are measuring performance on an appropriate time scale that will deliver sustained and sustainable success?</b>	
The measuring of delivery ethical target of sustainability is not set as specific target. However, they are embedded in the whole project or plan. Once the projects are implemented and monitored, both related sustainability and ethical are included too. The company has set KPIs for risks and ethics are part of the company's reputational risk. This is conducted every quarterly or every three months.	The finance accountants are encouraged to help, to ensure their business is measuring performance on an appropriate time scale that will deliver sustained and sustainable success. It is part of their challenges to face.

### Conclusion

Ethics can be described as moral principles that govern a person or group's behavior (Hansen and Smith 2006). This proves the importance of ethics to be incorporated within business cultures to combat from potential business collapses to happen. Globalization has also caused an increase in business competition, which is one of the factors in the increased concern over ethics in businesses. There is a growing pressure on accounting and professional accountants' role to better integrate sustainability into organizational decision-making to direct the behaviors toward sustainable development. Sustainable development is not merely environmental protection, but also involves quality of life, the distribution of resources and benefits, interactions between the environment and development, and provisions for the future (Department of The Environment and Local Government 1995). Managers must therefore ensure that their corporate portfolio achieve a balance between the organization's economic, environmental and social goals (Bonn and Fisher 2011). The importance of creating a sustainable business is not just due to external pressures such as regulations and legislations, but also meeting customer and stakeholder needs and interest (Benn and Dunphy 2007). Williams and O'Donovan (2015) proved that accountants turned to provide business advice due to these reasons; accountants being known and trusted source for business advice, their perceived competency levels, geographical proximity, timeliness and cost competitiveness. Environmental sustainability is an example of business advice that accountants are taking on more active role in providing to organizations.

Based on the case study findings, it proved that finance accountants are no longer presenting numbers in their report, but they have to play proactive role in embedding ethical conduct into the organizational strategic management. The findings from the case study also brought up additional perception on the contributions of finance accountants towards sustainable success of the organizations. The finance accountants in Company A and B are not only safeguarding the companies' assets, they also need to ensure good control is in place. They are expected to be able to convey their opinion in decision making especially when dealing with sustainability strategies of the organizations, which is a broader task rather than finance matter. They also must be an 'Ethical Champion' in the organizations as they have thorough understanding of the organizations; uniquely placed to contribute to sustainable business success.

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