

## Australians hold directors and executives accountable for corporate ethics

Australians view big business, the banks and their politicians as unethical, a far-reaching new study of the nation's ethics and corporate culture has found.

Governance Institute of Australia's inaugural **Ethics Index** — the first survey of its kind conducted in Australia — also found that more people see company chairs, CEOs and senior executives as being unethical than not, despite playing a key role in setting standards within companies.

The survey of more than 1000 people found that while Australian society overall was seen as 'somewhat ethical' with an index rating of 39, large corporations, the banking finance and insurance sector, every level of government and political representatives all had significantly negative ratings on ethics.

Perceptions of ethical standards in the health and education sectors, charities and small business were strongly positive, however.

The survey found that Australians rate chief executives and directors as the most important 'gatekeepers' influencing ethics in organisations. Board chairs and senior management are also seen as important drivers of ethical conduct, showing that these roles are perceived to wield considerable influence over this aspect of corporate culture.

Government laws, regulations and financial penalties are seen to influence ethical behaviour, but are not considered as important a factor as the 'tone from the top' set by directors and C-suite executives.

However, overall, these corporate leaders do not rate well. While company secretaries, directors of Australian companies and chief financial officers are rated positively, with more respondents viewing them as ethical than unethical, board chairs, foreign company directors, chief executives and senior executives are all seen as unethical on balance.

"The message from the index is clear," said Governance Institute chief executive Steven Burrell. "Boards and the C-suite need to lift their game. The role of leadership in promoting ethical conduct in the business sector is viewed as crucial by 82 per cent of Australians, and these leaders are seen to have the key role in influencing ethical behaviour, but neither they nor their organisations are perceived to be very ethical."

"It explains why ASIC is so keen to get the message out to these gatekeepers that they have an essential role to play in setting the tone from the top and ensuring it cascades throughout the entire organisation," Mr Burrell added.

Whistleblowers also have an important role to play in corporate Australia, with 80 per cent of respondents believing they are an essential element in driving ethical behaviour. This underlines the importance of the world-leading whistleblowing research currently being undertaken by Griffith University with the support of 21 industry and professional associations, including Governance Institute and ASIC.

The survey found that professional and business associations, including the Governance Institute Australia, Australian Medical Association, Farmers' Federation of Australia, Engineers Australia, Chartered

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Accountants Australia and New Zealand and CPA Australia, are considered strongly ethical. However, some are rated poorly, with the Real Estate Institute of Australia, the Financial Planning Association and the Australian Institute of Company Directors (AICD) receiving very low or negative ratings.

The Index also suggests that the greater scrutiny placed on companies listed on the stock exchange encourages higher perceived standards of corporate ethics.

“Interestingly, listed companies are seen to be relatively more ethical compared to private companies and foreign companies operating in Australia,” noted Mr Burrell.

“This suggests that the transparency and accountability obligations they are subject to allow for greater insight into their behaviours and conduct than is possible for private and foreign companies that are not subject to the same disclosure requirements. Regulatory oversight, financial penalties and scrutiny by activists groups are not seen to have the same degree of importance in relation to ethical conduct as corporate leadership and those accountability and transparency frameworks.”

“Given that corruption, tax avoidance, misleading and deceptive advertising, bullying and discrimination in that order are seen as the top five ethical issues for business — ahead of issues like executive pay — the survey results suggest that companies should also pay attention to how transparent and accountable they are on these issues,” Mr Burrell said.

“However, executive salaries and bonuses are considered more important factors influencing ethical conduct in the banking, finance and insurance sectors than leadership by boards and senior executives. From the public’s point of view, these findings are a call to action for leaders in banking and finance to address remuneration structures as a matter of priority,” he added.

“This new annual gauge of public perceptions of corporate ethics will for the first time provide a measure of how successful they are in meeting that challenge.”

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## **About Governance Institute of Australia**

Governance Institute of Australia is the only independent professional association with a sole focus on whole-of-organisation governance. Our education, support and networking opportunities for directors, company secretaries, governance professionals and risk managers are unrivalled.

## **About the Governance Institute Ethics Index**

The Governance Institute Ethics Index studies Australians’ attitudes and perceptions of ethics across a variety of organisations, occupations and situations. The research is conducted by independent global market research firm Ipsos. With a sample size of 1000, statistically it is robust. The data is a valuable resource highlighting the value of ethics and good governance in Australia. The research will be conducted annually, providing a yearly benchmark for organisations against which to measure their performance.

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