Ethics, Business & Reputation: From Panama Papers to Tax Morality

Audit Committee Forum: Windhoek
The new expectation: ethics

Starbucks suffers reputation slump over tax 'avoidance'

Consumer goodwill drains away over coffee chain's failure to pay tax as more politicians call for boycott

HOW STARBUCKS AVOIDS PROFIT IN THE UK

Starbucks uses a host of measures to whittle down the profitability of its UK division.

The practices, which have been branded 'immoral' by MPs, mean that it has not reported a profit in the UK since landing here in 1998.

The most controversial measure involves registering the rights to its brand and logo to a holding company based in the Netherlands.

For every cup of coffee sold on the UK high street, the company pays a 5 per cent royalty fee to its Dutch counterpart.

A second way of pushing money away from Britain relates to how the firm buys its coffee. The beans are purchased by an outfit based in low-tax Switzerland.

Despite never actually landing on Swiss soil, they are sold on at a mark-up to the Netherlands, which until recently was Starbucks' European HQ.

In the Netherlands the beans are roasted in its giant plant in Amsterdam before being sold on—again at a mark-up—to all of its other European operations.
The new expectation: ethics

Drug companies pay doctors £40m for travel and expenses

Total spend on consultancy fees and junkets by 35 suppliers revealed by trade body in move to greater transparency

Is Your Doctor On Big Pharma's Payroll?

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The new expectation: ethics

Questions:

- What is the link between organisation reputation and ethics (or "moral failures")?
- How do ethical leaders respond to scandal?
- What is an organisation's responsibility regarding its association with clients, supplier, business partners?
- Can your Code of Ethics and your clients be a risk to you? (KYC, UKBA, AML, Reputation)
1. What is ethics?
2. When are we unethical?
3. Implications for ethics in organisations
4. Implications 2: Tax Morality
What is ethics?
Most honest city:
- Helsinki, Finland
- Mumbai, India

Least honest city:
- Lisbon, Portugal
- returned by Dutch couple

Conclusions:
- 90/192 wallets returned (47%)
- Age, gender, comparative wealth no guarantee of honesty
What is ethics? The Wallet Experiment

**Responses**

- **Mumbai:**
  - "My conscience wouldn't allow me. A wallet is a big thing and it has important documents in it."
  - "I teach my children to be honest like my parents taught me."

- **Moscow:**
  - Officer of Emergency Situations: "I am an officer and I am bound by an officer’s ethical code."
  - "I am convinced that people should help one another, and if I can make someone a little happier, I will."
What is ethics? The Wallet Experiment

**Responses**

- Amsterdam: "My wife once lost her wallet. It was found and returned. Isn't honesty wonderful?"

- Berlin: "I saw the photo of the mother with her child. Whatever else is important, a photo like that means something to the owner."

- Warsaw, Poland: Consulted coworkers – "There were some that advised me not to bother looking for the owner."
Leveraging "the moral law within"

"A man without ethics is a wild beast loosed upon the world."

Albert Camus (1913 – 1960)

"Two things fill me with wonder: the starry firmament above, and the moral law within."

Immanuel Kant (1724 – 1804)
Experiments in Ethics: When do we cheat?
Experiments in Ethics: Behavioural Economics

Experiment 1: When do people cheat?

20 math questions, on average 4 right answers

Test conditions:
- Insufficient time
- Scenario 1: shred answers, report results
- Scenario 2: payment for each correct answer
- Scenario 3: self payment
- Scenario 4: pre-activity – name 10 books
- Scenario 5: pre-activity – name as many Commandments as possible

Conclusions:
"Everyone cheats, but just a little."
"Just the act of contemplating morality eliminated cheating."
Example 2: Milgram experiments

Experimenter, volunteer (teacher), subject

Test conditions:

- **Complete the word pairs**
- **Incorrect answers = increasing electric shocks**
  - Pre-recorded sounds, complaints of heart condition, bang wall
  - Verbal prods:
    - "Please continue."
    - "The experiment requires that you continue."
    - "It is absolutely essential that you continue."
    - "You have no other choice, you must go on."

- **Percentage who continued? 65% (26 or 40)**

“The extreme willingness of adults to go to almost any lengths on the command of an authority constitutes the chief finding of the study.”

“Ordinary people, simply doing their jobs, and without any particular hostility on their part, can become agents in a terrible destructive process. Moreover, even when the destructive effects of their work become patently clear, and they are asked to carry out actions incompatible with fundamental standards of morality, relatively few people have the resources needed to resist authority.”
Experiments in Ethics: Behavioural Economics

Experiment 3: Latecomers at daycare

Parents arriving late to pick up children from school

- Parents used to arrive late to collect their children, forcing a teacher to stay after closing time.
- We introduced a monetary fine for late-coming parents.
- As a result, the number of late-coming parents increased significantly.
- After the fine was removed no reduction occurred.

Interpretation:
Guilt and shame disappear when a generous act is viewed as a commodity.

Conclusion:
- Monitoring and punishment not always the best deterrent.
- Punishments and rewards have unintended consequences.

Figure 1.—Average number of late-coming parents, per week
When do we cheat?

**Figure 1.** Forces That Shape Dishonesty

- Ability to Rationalize
- Conflicts of Interest
- Creativity
- One Immoral Act
- Being Depleted
- Others Benefiting From Our Dishonesty
- Watching Others Behave Dishonestly
- Culture That Gives Examples of Dishonesty
- Amount of Money to Be Gained
- Probability of Being Caught
- Moral Reminders
- Pledge
- Signatures
- Supervision

<table>
<thead>
<tr>
<th>Increase Dishonesty</th>
<th>No Effect</th>
<th>Decrease Dishonesty</th>
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<tbody>
<tr>
<td>LOW ENERGY, LOW ETHICS</td>
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In an experiment involving die rolls, night owls were more likely to cheat in the morning. Early birds cheated more in the evening.

<table>
<thead>
<tr>
<th>REPORTED DIE-ROLL</th>
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<tbody>
<tr>
<td>5 -</td>
</tr>
<tr>
<td>4 -</td>
</tr>
<tr>
<td>3 -</td>
</tr>
<tr>
<td>2 -</td>
</tr>
<tr>
<td>1 -</td>
</tr>
<tr>
<td>0 -</td>
</tr>
<tr>
<td>MORNING 7-8:30 a.m.</td>
</tr>
<tr>
<td>EVENING 12-1:30 a.m.</td>
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Above 3.5 = indication a participant lied

**SOURCE** Christoper Barnes, Brian Gunia, and Sunita Sah

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Moral disengagement: Broadening "rationalisation"
Broadening "rationalisation"

Fig. 1. Mechanism through which moral self-sanctions are selectively activated and disengaged from detrimental behaviour at different points in the self-regulatory process (Bandura, 1986).

Broadening "rationalisation"

Propensity to Disengage
Changing the nature of the conduct

Mechanism 1: Moral justification

Killing / torturing / terrorism VS Fighting for freedom
Broadening "rationalisation"

Propensity to Disengage
Changing the nature of the conduct

Mechanism 2: *Euphemistic labelling*

*Killing your own compatriots*  **vs**  *Friendly Fire*
Broadening "rationalisation"

Propensity to Disengage
Changing the nature of the conduct

Mechanism 3: Advantageous comparison

Bribery / Corruption VS Tipping
Broadening "rationalisation"

Propensity to Disengage
Changing the agent of the conduct

Mechanism 4: Displacement of Responsibility

I WAS JUST FOLLOWING ORDERS
-- Adolf Eichmann
Broadening "rationalisation"

Propensity to Disengage

Changing the consequences of the conduct

Mechanism 6: Distorting consequences
**Broadening “rationalisation”**

**Propensity to Disengage**

**Changing the victim**

**Mechanism & Dehumanisation**

<table>
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<tr>
<th><strong>Ford “Fatalities” Report</strong></th>
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<tbody>
<tr>
<td><strong>Benefits</strong></td>
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<tr>
<td>Savings:</td>
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<tr>
<td>180 deaths, 180 injuries, 2100 vehicles</td>
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<tr>
<td>Unit cost:</td>
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<tr>
<td>$200 000 per death, $67 000 per injury, $700 per vehicle</td>
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<td>Total benefit:</td>
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<td>$49.5 million</td>
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<table>
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<th><strong>Costs</strong></th>
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<tbody>
<tr>
<td>Sales:</td>
</tr>
<tr>
<td>11 million cars, 1.5 million trucks</td>
</tr>
<tr>
<td>Unit cost:</td>
</tr>
<tr>
<td>$11 per car, $11 per truck</td>
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<tr>
<td>Total cost:</td>
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<tr>
<td>$137.5 million</td>
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Implications
Implications: A science of integrity?

**Implications**

- Hence: the moral impulse can be "activated" (moral self-sanction); moral and immoral behaviour can be "predicted"
- Taken up in regulation, e.g. the King III Report (and King IV; IIA Standard 2110).
Implications: Tax Morality

Why worry?
- Social expectation
- Long term view of business & sustainability
- Realisation of the power / impact of business (beyond abilities of state)
- Poverty & Inequality

How? (or: Getting to Good)
- Tax planning practices
- Public transparency and reporting
- Non-public disclosure
- Relationships with tax authorities
- Tax function management and governance
- Impact evaluation of tax policy and practice
- Tax lobbying / advocacy
- Tax incentives

2015. Discussion paper: Getting to good – Towards Responsible Corporate Tax Behaviour
The neglected ethics

"For Aristotle, virtuous living also required a different kind of wisdom, one that was ... "is the ability to do the right thing, at the right time, for the right reason. ... for finding the mean and actually doing the best thing"

"A good will is good not because of what it effects, or accomplishes... but good just by its willing, i.e. in itself; and, considered by itself, it is to be esteemed beyond compare much higher than anything that could ever be brought about by it in favor of some inclinations, and indeed, if you will, the sum of all inclinations."

- Immanuel Kant, Groundwork of the Metaphysics of Morals
Thank you

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