Steinhoff mess offers lessons for profit-greedy firms

By Nadine Mayers, Eckard Smuts and Ralph Hamann

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Unless companies move away from a slavish devotion to the pursuit of profit and learn to act in the interests of the communities that sustain them, the Steinhoff collapse won't be the last corporate disaster.

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Investors are still reeling from the dramatic decline of Steinhoff International, which by December 9 had lost 90% of its value as a result of concerns over accounting irregularities and possible fraud at the furniture and household goods retailer.

The Steinhoff story is yet another in a string of corporate meltdowns caused by unethical - or even downright criminal - behaviour, locally and abroad.

Whether it is questionable contracts, lack of due diligence in the detection of fraud, inflated payments to individuals or failing to publicise that their customers' data has been hacked, it appears there is no shortage of companies doing whatever they can to serve their profit-driven interests, no matter how much damage it does to society.

According to Charles Wookey, CEO and co-founder of A Blueprint for Better Business, an independent charity that acts as a catalyst for change in business, many people believe that companies are somehow institutionally obliged to seek profit above all else. But it turns out this is a false notion.

The widespread popularity of the belief, said Wookey at a recent seminar hosted by the University of Cape Town's Graduate School of Business, can be traced to an article by Milton Friedman that appeared in the *New York Times Magazine* in 1970. In it, the Nobel-winning economist argued that the only social responsibility of businesses is to increase profits within the law. While Friedman's belief has proven to be popular, his creed is not a legal mandate.

"Lots of people think the legal obligation of a company's directors is to maximise profit, but it isn't " it's to promote the success of the company," said Wookey. "The law - in the UK and many other countries - does not say directors should maximise shareholder value. In fact, what directors should actually be focusing on is to make the most balanced decisions in pursuit of the company's purpose, not necessarily those that bring in the most short-term profit."

But of course it is no simple matter to persuade companies that making balanced, purposedriven decisions, based on respect for people and contributing to a better society, is in their best interest when profit is so much shinier and easier to measure. Changing an entrenched business culture, as Alan Murray has written, may be one of the hardest challenges the leader of an organisation can face.

And even when the harmful consequences of unethical behaviour are vivid (the Steinhoff debacle, for instance, will have a direct effect on the wellbeing of millions of members of the Government Employees Pension Fund who could lose about R12.5bn in investments and investors who have already lost more than R100bn in value), it is not always clear how to bring about fundamental, positive changes in the practical day-to-day running of a company.

At a recent leadership seminar for top executives from one of SA's mining giants, there was a discussion about how the company's business culture needed to reflect the importance of having a worthy purpose, recognising that the success of a mining venture depended to a large degree on the approval of communities.

But while it sounds fine in principle to commit to the endeavour of benefiting the community, it is not evident how this purpose translates into corporate action, or what steps need to be taken to achieve it.

Often high-powered executives want to tackle challenges head-on by leaping straight into action. However, when changing something as systemic as a company's culture, this may not be the best way to proceed. Instead, they need to take the time to reflect on the processes that drive their decision-making.

Becoming a purpose-driven business is not something that can be outsourced to marketing, relegated to corporate social responsibility or actioned away to someone else. The change needs to start at the top: a "command-andcontrol" mentality has to shift towards more collective forms of organisation.

A fundamental change in business culture would involve companies beginning to think of themselves as collectives of social relationships rather than an interlocking set of contractual and individualistic processes. One step towards achieving such a transformation is the realisation that people are motivated not only by profit but also by meaningful work and the quality of their relationships.

Everyone knows that money motivates people to do all sorts of things, including working harder at their jobs.

However, research indicates that when processes become more complex, money motivates less than expected, and sometimes it may even demotivate. So business principles should not be ejected for the sake of charity, but rather to realise that social relationships - within an organisation and between the organisation and society - are fundamentally integral to business success, compelling organisations to rethink and, in some cases, restructure their decision-making frameworks.

A fair bit of scepticism about the prospect of success in transforming large firms to purpose-driven organisations is probably healthy, especially in the current climate where examples of gross misconduct in business practice abound.

There are a number of factors in contemporary society that make the case for ethical business more compelling. One of them is the increasingly ubiquitous gaze of social and online media, making it harder for companies to get away with ethical transgressions or criminal behaviour.

Another is the apparent failure of contemporary politics in tackling many of the challenges facing society.

In the wake of the financial crash of 2008, many people who may not have a taste for socialism have nevertheless grown sick of "tooth-and-claw" capitalism and there is a growing call for business to play a stronger role in creating better societies. The millennial generation seems to be asking harder questions of firms, demanding employers show commitment to social change.

A structural shift seems to be taking place in the expectations the public has of big business. While it is not conceivable that the profit drive will disappear from business culture, purposeful companies - unless state-owned - will need to learn to navigate the tension between fulfilling their purpose and making a profit.

At mining companies, for example, this would mean that an integral part of measuring their success would be the wellbeing of the communities in which they operate.

Is there any hope that such a state of affairs may come to pass in SA? Will large multinational companies not only take an active part in the welfare of society through corporate social investment, but make it an integral part of their decision-making processes by embracing the tension between the often competing priorities of profit and purpose?

Given the precarious reputation of many large businesses that appear to have had a hand in the impoverishment of society, we can only hope.

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