United Nations Global Compact
Case Study

Enterprise Governance within the Nedbank Group

Willem Punt
Business Ethics Manager
Ethics Institute of South Africa

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1. Introduction

1.1 The Nedbank Group profile

The Nedbank Group Limited (formerly Nedcor Limited) is a holding company for its principal banking subsidiary, Nedbank and other members of Nedbank Group Limited (hereafter the Group). It operates as one of the four largest banking groups in South Africa.

As a firmly established South African institution, it has with links to the oldest South African bank, the Cape of Good Hope Bank, established in 1831. However, more accurately the bank's history starts with the establishment of the *Nederlandsche Bank en Credietvereeniging* (NBCV*)* founded under Dutch royal charter in Amsterdam on 6 April 1888 - 236 years after Jan van Riebeeck, the first Dutch settler arrived in the Cape. On 1 August of that year the bank opened a branch in Church Street, Pretoria, with capital of R100 000 (50 000 pounds). The first year's profit was R11 706 and the dividend 3%.

While originally a foreign-owned bank, it became wholly South African over the course of a number of decades, starting when the NBCV took a far-reaching decision in 1940. With the Netherlands falling to Nazi invaders, all the NBCV assets was transferred to Pretoria. Thus, South Africa essentially became the NBCV world headquarters.

The company became wholly South African owned by 1969 and listed its ordinary shares on the Johannesburg Securities Exchange (JSE) that same year. By 1971 it adopted its current name, Nedbank, and appointed its first South African managing director.

Today the group offers a wide range of wholesale and retail banking services through three primary business clusters: Nedbank Corporate, Nedbank Capital, and Nedbank Retail. The principal services offered by the group comprise corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading. The Group also generates income from private equity, credit card acquiring and processing services, custodial services, unit trust and trust administration, asset management services and bancassurance.

With headquarters in Sandton, Johannesburg, it has large operational centers in Durban and Cape Town, which are complemented by a regional network throughout South Africa. The group has a small presence in other southern African countries. In addition, the bank is aligned with affiliate financial institutions and representative offices in certain global key financial centers that serve to meet the international banking requirements of the group's South African-based clients.

The Nedbank Group Limited biographical data

Sector:	Private
Organisation type:	Publicly listed holding company on the JSE
Industry:	Financial services (banking)
Population:	Approximately 22,000 employees
Leadership:	Mr. Tom Boardman (Chief Executive Officer)
Governance:	Compliant with the Second King Committee Report on Corporate Governance (King II) best practice guidelines. The board comprises 19 members of which 17 are non-executive. Eight of the 17 non-executive directors are independent.
Scope:	Principal services comprise corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading.
Last audited results:	2005
Headline earnings:	ZAR 3,167 million (approximately $ 22,169 million)
Total advances:	ZAR 248,408 million (approximately $ 1.7 billion)
Total assets:	ZAR 352,258 million (approximately $ 2.5 billion)

Box 1: **The Nedbank Group Biographical Data**

1.2 Ethics Institute of South Africa and Nedbank Group

The Group is a member of the Ethics Institute of South Africa (EthicSA) and the Group's Ethics Officer has attended the Ethics Officer Certification program and is awaiting certification. The Nedbank Code of Ethics (hereafter the Code) was developed in conjunction with EthicSA, with EthicSA also assisting the group in the rollout of its training programmes on the Code.

EthicSA's mission is to promote and advance ethical practices in South Africa in the private and public sectors, and in the professions.

1.3 The United Nations Global Compact and the Nedbank Group

The Group is committed to respecting human rights in all its activities through compliance with South Africa's Bill of Rights as enshrined in the Constitution, labour legislation and its support of the United Nations Global Compact principles.

The Group is a signatory of the Global Compact intending to support and advance those principles within its sphere of influence. It is further committed to making the Global Compact and its principles, part of the group's strategy, culture and day-to-day operations. The Group is a regular participant in the South African Global Compact Learning Forum and other related events.

1.4 Method of analysis

This case study is based on the knowledge that EthicSA gained of the Group over a two-year period. Special mention must also be made to a valuable source article, written by Mr Justin Smith of Nedbank Sustainability Services, on ethics management activities within the group.

1.4 Crisis

By the turn of the millennium, the once shining star of the South African banking establishment became tarnished by corporate governance scandals and falling revenue. A marked deterioration of business conditions cause crises that the Group is still to fully recover from.

This crisis saw the Group tumble from a premier bank position, in many cases that of market leader, to one that shed clients, slid in efficiency ratings and lost market share to its competitors. The reasons for these events are multiple and cannot fully discussed here. However, there are salient reasons that warrant brief elaboration.

1. By the mid 90's top management came to see banking not as a service, but as a commodity. Therefore, the reasoning went, the bank that could cut its cost-per-client ratio the most, would be the one to come out on top. Well, banking is not selling baked beans, with the placing of

an inordinate amount of faith in information technology and embarking on a cost cutting programme, mainly in bank-to-client contact services, turning out to be costly mistakes. Banks should have clients not customers, with the changes made resulting in complex, less efficient and ultimately less satisfying client experiences. This led to a steady exodus of clients, in almost all divisions (in Capital Markets however, Nedbank retained its edge and continued to be highly valued by clients). With economic theory indicating lower levels of differentiation in product and service requiring lower margins (reduced client costs) to attract compensatory transaction volumes, the group failed to reduce their bank charges. Often being the most expensive in an expensive sector, the Group started hemorrhaging clients and sliding in market share. It was in an unappetizing situation of possessing low service differentiation, depressed transaction volumes and high operating costs. These being the business conditions, unless arrested, usually preceding a meltdown.

2. Around the same time, the group started modeling their individual business units on an internal competitive model. The theory indicated that in order to bring out the best in the various business units, the group should be viewed as a microcosm of a society subject to capitalistic market forces. It was believed that internal competitive drive within the Group would weed out the weak and induce better efficiencies within the units, and thus, the wider organization. It failed to take into account that banking efficiency demands co-operation *between* units as much as *within* units. With these units in competitive mode the Group turned into a confederacy at odds with itself. Soon silos developed, or where further entrenched, at great cost to the Group. These hyper differentiated business units tended to possess some of its own employee and client management systems. With differing systems, visions and objectives the Nedbank brand started to suffer, along with a further deterioration in client services. The cost savings in client service infrastructure brought about by the above mentioned “frugality” was neutralized by the costs inherent in a group consisting of silos containing mirrored machinery. So the Group ended up where it intended not to be, with reduced client services, greater costs and shrinking revenue.

3. Group leadership, accused by some analysts at the time to be out of touch with the precarious situation in the bank, attempted a hostile takeover of a close competitor. It was a move possibly driven more by hubris than business sense according to some commentators. Buoyed by a belief in their superior position, Group leadership did not anticipate the fierceness of the resistance. Rightly not believing it to be in the interest of shareholders, leadership of the takeover target fought back successfully, lobbying shareowners and competition watchdogs to bolster their intransigence. The takeover target could convincingly point to the already deteriorating position of the Group as an effective explanation for their resistance, thus shareowners supported their opposing position. With only four major banks active in South Africa competition watchdogs did the same. In the ultimate irony, the Group applied a competitive economic model among its units, with damaging effect, while failing to realize the consequences of not acting upon the market forces exerting its influence on the Group as a whole. While the crisis took shape, the focus was not were it should have been. Eventually forced to abandon it plans, the takeover bid resulted in top management being preoccupied with acquisitive growth rather than nurturing sustainable organic expansion in the business itself. Not appreciating the warning signs they failed to anticipate the wave, and floundered when it hit. Yet, leadership was intent on not backing away from some acquisitive strike, eventually settling for an expensive but far smaller prize, a niche business bank, whose leadership has since played a prominent role in more prudently assessing the situation in the bank and leading recovery efforts.

These three points, not valuing the client, organizational fragmentation and the distractive effect of a failed hostile takeover bid, made for a perfect storm that the bank only in 2004 started to emerge from. Appointing Tom Boardman as CEO, a no-nonsense entrepreneurial type, from the cadre of the recently acquired niche bank, he and his team engineered an ambitious recovery. If they pull it off, and recent results indicate very positive trends, it would be a major achievement in the annals of corporate South Africa - something worthy of an organization more than 100 years in the making. To turn a ship from the brink, with so much history in its slip, takes delicate skill, vision and bloody-minded courage.

Tom Boardman, has made the following comments about the Group's progress:

> *"Nedbank Group made significant progress during 2005. In 2004 the base was set and during 2005 we gained momentum as the group became more outwardly focused. The group's resources are now being directed to improving client service. This outward focus will enable us to meet the commitments we have made to our shareholders, clients and staff."*

2. Performance Analysis

2.1 Vision

Thus, 2004 became a watershed for the Group. In that year the strategy was to stabilize the situation and commence with major strategic and structural changes required to set the group on a recovery path.

In response to the poor the financial performance of preceding years the Group had to return to profitability and competitiveness by addressing:

- Client orientated banking;
- Efficient use of information and process in and among group units;
- Combating silos by promoting a common vision and set of values.

This resulted in the development of a "Deep Green" vision - to become Southern Africa's most highly rated and respected bank by its staff, clients, shareholders, regulators and communities.

Banking is a trust business if ever there was one. Without trust one can achieve nothing in the industry. Trust results from a proper organizational reputation and a proper reputation floats on a sea of good ethics. In this sense the CEO is not just the Chief Executive Officer, but also the Chief Ethics Officer.

Even well established institutions like Saambou, imploded in 2000 when depositors lost trust in top management – not so much in their technical capacity to run a bank but because of the perceived dishonest way they went about it. Trust can only be built from the ground up, instilling ethical values as the foundation of a commitment to responsible business conduct among management and employees alike.

The Group certainly lost reputational capital during the above-mentioned crisis, with recovery requiring a formal programme to mend and strengthen fences.The strong focus on building trust is the strength of the Deep Green vision. While good ethics cannot fix a technically defective business plan, it was in the case of the Group impossible to attempt to fix technical aspects of the business process without building trust in the process in itself.

Stressed organizations are more prone to major ethical lapses. Reputationally and financially stressed, the Group could ill-afford the financial losses caused by preventable fraud and corruption, or some other corporate governance scandal. Sustaining further financial and reputational damage at such a fragile period in the Group's history could be very damaging.

Therefore, it was essential that the Deep Green vision incorporate a proactive drive to detect and root out unethical activities like fraud, not just through forensics, but also through good governance.

This meant that the Deep Green vision required the conciliation of two seemingly opposing forces, improved financial performance with increased accountability to stakeholders while doing so.

To navigate between these tensions organizational beacons had to be developed to define the recovery path towards accountable value creation.

Therefore, the Deep Green Vision, indeed the entire recovery strategic framework (see *Box 2*, below) is underpinned by Group's values:

1. *Integrity*: Honest, trustworthy, truthful, consistent, open. Act according to the highest ethical standards. We communicate openly, directly and ethically.

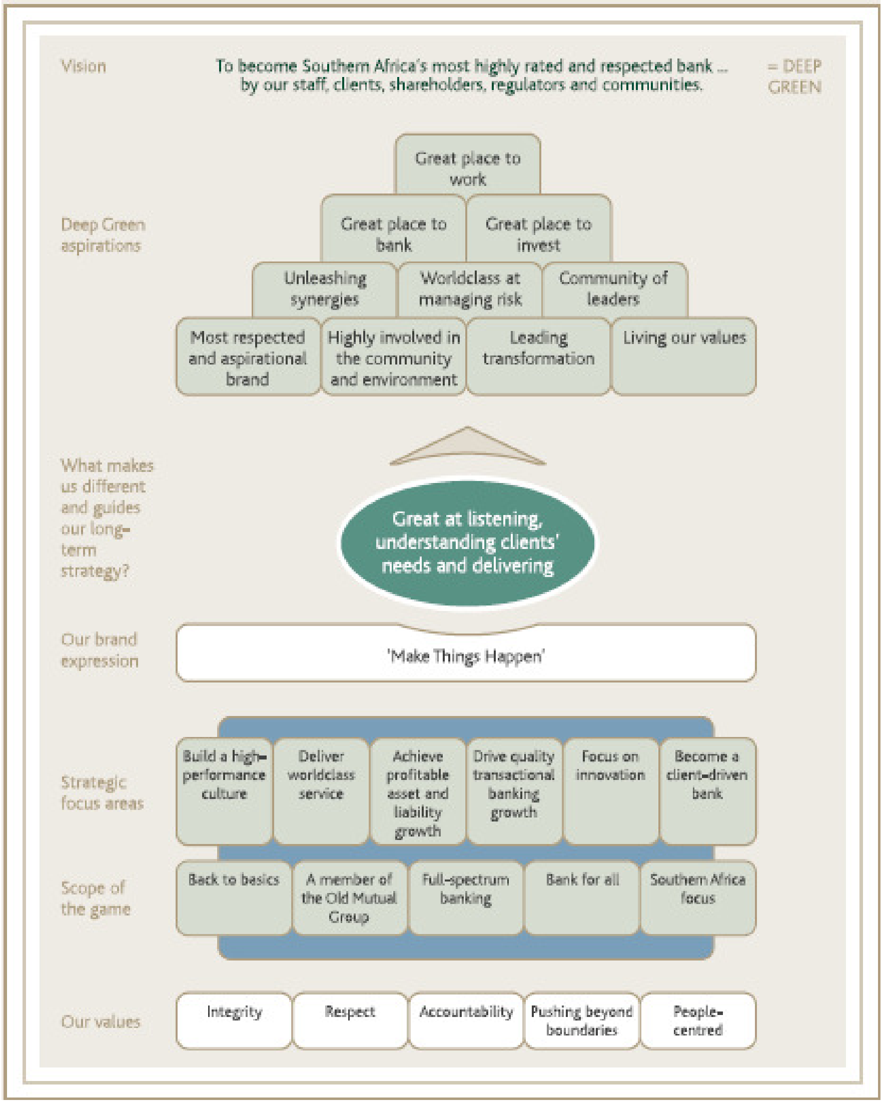
2. *Respect*: Treat others as you would have them treat you. Use diversity as a strength. Listen to other and treat people with dignity. Provide individuals with fertile ground on which to grow. Treat everyone in the organization as important. Foster individual strength to build the whole.

3. *Accountability*: Be prepared to make commitments and be judged against your commitments. Deliver on commitments. Be responsible for your actions.

4. *Pushing beyond boundaries*: Play to the maximum of your abilities, as individuals, as teams and as an organization, across boundaries.

5. *People-centered*: We invest in our people. We create empowering environments through development, support, mentoring, coaching, recognition and reward. People are the source of our strength.

The first four of the values were inherited from a controlling shareowner, Old Mutual Plc, while the fifth value, *People-centred*, was chosen by employee ballot. It reflects where the group suffered most in terms of investment in clients and employees, both heavily commodified and neglected.



Box 2: Nedbank Group strategic framework

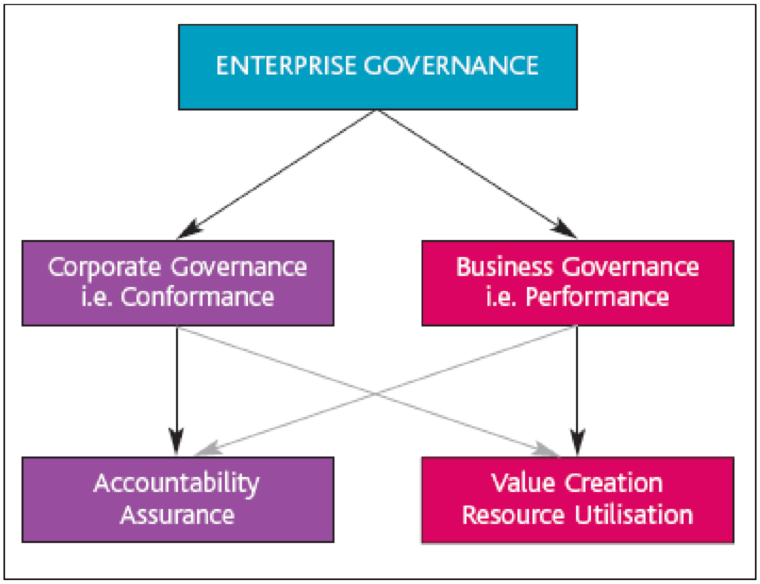
2.2 Leadership

There is no miracle moment. Small incremental wins in one common direction will restore the Nedbank Group to a highly rated and respected financial institution.

Tom Boardman, Chief executive

Building upon the need to strike a balance between conformance to good ethics and performance driven management, Leadership adopted an approach that took corporate governance out of the boardroom and into the wider enterprise.

While much has been written about corporate governance, both before and after the high-profile corporate collapses, the term enterprise governance is an emerging term. The International Federation of Accountants' (IFAC) Professional Accountants in Business Committee's publication "Enterprise Governance: Getting the balance right" publication defines enterprise governance as "the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization's resources are used responsibly".



Box 3: The enterprise governance framework

The risk that all organizations face is that conformance and performance operate separately with a legal silo seeking conformance and operational silo seeking maximum performance. Both these elements need to be in balance. If conformance is too dominant the organization becomes overly bureaucratic and ultimately ineffective. If performance considerations are too dominant, at the expense of conformance considerations, the organization tends to run the reputation risks associated with charging after every, and any opportunity for short-term profit.

In an IFAC' research piece they list 27 international case studies detailing causes of corporate successes and failures. In 16 of the cases, it was apparent that the inability of the board to balance conformance with performance led to major corporate failures. In the remaining 11 cases, the Board managed to get the balance right, taking a conscious decision to take good governance seriously, because it was good for the corporation, financially, and not only because of legal requirements.

Enterprise governance proposed that a board evaluate conformance and performance differently. While conventional wisdom would indicate that business performance be evaluated using its ability to create value, and corporate governance through its ability to provide accountability to leadership, enterprise governance allows for a different view of the role of both.

Conformance need to evaluate in the context of value creation and resource utilization, not in the context of considering what ensures accountability. In turn, performance should be evaluated in terms of accountability providing assurance of responsible business conduct. With accountability intertwined with value creation this represent a marked departure from convention thinking of the subject.

The Group supports this view of enterprise governance with the board's stated objectives reflecting their dual role in both monitoring (conformance) and strategy (performance):

Board objective	Conformance	Performance
1. Maximization of levels of efficiency and profitability of the group within an acceptable risk profile and appetite	☒	☑
2. Implementation of the group's strategy and compliance within the strategic framework of the group.	☑	☑
3. Commitment by executive officers of the group to adhere to corporate behaviour that is universally recognized and accepted as correct and proper.	☑	☒

4. Balancing the interest of shareholders and other stakeholders who may be affected by the conduct of directors or executive officers of the group, within a framework of effective accountability.	☑	☑
5. Mechanisms established and maintained to minimise or avoid potential conflicts of interest between the business interests of the group and the personal interests of directors or executive officers.	☑	☒
6. Timely and accurate disclosure of matters that are material to the business of the group or the interests of stakeholders.	☑	☒
7. Finding the correct balance between conforming to governance constraints and performing in an entrepreneurial way.	☑	☑
8. Achievement of a balanced and integrated economic, social and environmental performance (triple bottom-line) and implementation of a best-practice corporate citizenship framework.	☑	☑
9. Efficient and effective functioning of the Enterprise-wide Risk Management Framework.	☑	☑
10. Compliance in substance, not just in form, with the provisions of the Code of Corporate Practices and Conduct of the King Report on Corporate Governance 2002 (King II), the Banks Act and regulations, other sources of corporate governance best practice and requirements of Nedbank's holding company, Old Mutual plc.	☑	☒

It obviously demands a board knowledgably engaging with top management who in turn is required to integrate this new approach in the performance and evaluation systems of business units and individuals. This is no easy task and requires the systematic re-engineering of major components of the business.

2.3 Empowerment

In order to determine value creation in the context of performance and business performance in the context of accountability, the Group positioned the Nedbank Values (see Box 2, above) as an evaluative filter. Simple put, any conformance element within the bank's control, like a policy, not conforming to the Nedbank Values, will not create value in the Group and has to be changed or scrapped. Also any transaction or deal not compatible with the Nedbank Values will not amount to responsible business conduct and therefore should not be considered.

Those operating within the conformance sphere of the organization would be responsible for determining, though the Nedbank Values, whether their conformance objectives are contributing to the Group's goal of financial recovery.

All those operating within these domains of business are required to use the Nedbank Values to determine if they remained committed to responsible business conduct in their dealings. The Nedbank values become the foundation for an organizational constitution. Leadership in both domains of business, conformance and performance, are the custodians of the Nedbank Values because through these values the enterprise, that is the Group, can be responsible governed

In this sense the CEO, while not tasked with the managerial functions, is also the Chief Ethics Officer, spearheading enterprise governance within the Group.

This was a visionary and very empowering move, to understand the relationship between values and the urgent need to return to profitability within a context of trust creation, between employee and clients alike.

The commitment to the Nedbank Values, at the heart of the enterprise governance model, forms the basis of Group decision-making. In order to break down silos, one cannot just declare a vision; one needs to manage such a visio into fractured business systems and culture. The empowering potential of institutionalizing the Deep Green vision, is that the Group gains operational beacons, Nedbank Values common to all, guiding conduct in all business units.

2.4 Policies and strategies

This drive towards responsible business conduct culminated in the creation of the Nedbank Enterprise Governance and Compliance division. Responsible for directing and advising enterprise governance in all business units it is a major tool for use by top management in combating the debilitating silo mentalities prevalent in Nedbank before the onset of the recovery plan launched in 2004. Aptly headed by the former national Public Protector, the Enterprise Governance Unit comprises a multidisciplinary team complimenting the various conformance functions within the Group.

Located within the Nedbank Enterprise Governance and Compliance division, is the Nedbank Ethics Office. The first Nedbank Ethics Officer was trained in 2006. The Nedbank Ethics Officer is responsible for the management of all the ethics promotion interventions within the Group.

Central to this initiative is a Code of Ethics for the Group. The Nedbank Group's Code of Ethics (the Code) was first approved in November of 2004. EthicSA reviewed the Code in 2004 with the final document approved by the board in February of 2006.

The purpose of the Code is to give operational meaning to the Nedbank Values, for use throughout the group, among all employee hierarchies. It provides the framework for an additional ethics statement adopted by the board. This statement is displayed at head office, and has been communicated to head office staff.

The Code format consists of the Nedbank Values explained through key conduct provisions, further supported by a pledge of adherence by the CEO and instructions for reporting unethical conduct. The Code is also a reference point for the various detailed policies in the Group. Importantly, the explanatory conduct provisions supporting the Nedbank Values form best practice guidelines for future policy development and existing policy evaluation.

It highlights the strength of having both ethics and compliance components of enterprise governance under one roof. The Code references the policies, and sets the parameters for what they should contained and how they should be engaged with in the Group. Salient examples are a Conflicts of Interest Policy and a Gifts Policy, both critical in prevention inappropriate influence and undue benefit – corruption – arising within the Group.

These policies are being reviewed to ensure that they are consistent with the Code of Ethics. A Fraud and Corrupt Activities Policy has also been formulated and the policy takes into account the requirements of the Prevention and Combating of Corrupt Activities Act (12 of 2002). The group has reported a total of 1335 matters to the South Africa Police Service of which 1055 reports were made in 2005.

In this way the Code is effectively a bridge between the Deep Green containing the Nedbank Values, and detailed compliance objectives.

2.5 Resources

As mentioned, the responsibility for ethics resides in the Enterprise Governance and Compliance division. The Chief Governance and Compliance Officer, serves on the Group Executive Committee and reports directly to the Chief Executive. He also has direct access to the Chairman of the Board, and attends board and board committee meetings as an invitee.

The division is responsible for corporate governance, compliance and sustainability aspects throughout the group. It is a conscious attempt to ensure that the group moves beyond a mere compliance approach to one that addresses compliance in terms of value creation for the Group.

While technical compliance with law and industry regulation is a huge aspect of modern banking the Nedbank Ethics Officer, located within the Enterprise Goverance and Compliance Division is a major resource.

The mission of the Ethics Office is formulated as follows:

> "To create and embed an ethical culture in the Nedbank Group by designing an Ethics Program that will enable the group to identify, assess, manage and monitor ethical risk of the group. The Ethic Officer will also provide guidance and clarity on the Code of Ethics, the organizational policies and procedures and provide advice and action in the case of a potential ethical dilemma or breach to any employee."

Each employee is required to make a personal commitment to comply with the Code, and to report violations of the code. To ensure that staff (and clients) can report issues such as, non-compliance with the law, non-conformity to company policies and procedures, abuse or misuse of company assets, bribery and/or corruption, sensitive issues and financial misstatements anonymously the group has a contract with an external hotline service provider.

In addition, as a network supportive of the Ethics Office, compliance officers throughout the group have been trained as Ethics Champions, using a programme provided by EthicSA. These compliance officers are given the opportunity to not just ensure technical compliance, but contribute towards enterprise wide culture change. This is certainly not an easy tasks, generally requiring years of sustained effort.

Although there were setbacks to date, the foundation, in terms of setting up the correct ethical culture change infrastructure has almost been laid. The next step would be active implmentation, dovetailing with the concomitant phase in the financial recovery plan.

The intention is for a Help line, a confidential advisory service, managed by Enterprise Governance and Compliance, to also be available for use by employees. Enterprise Governance and Compliance are supposed to respond to all queries within 24 hours, with the resolution of the query being dependant on the complexity thereof.

2.6 Innovation and process

Coupling the Group recovery plan with an values process is in itself innovative since it is tempting for those that generally lead such recoveries, lawyers and accountants, to only approach such recoveries from a legal, regulatory or financial systems perspective. Of course, these elements are absolutely integral to the Groups recovery, but in addition the enormous influence of organizational culture needs to be factored into the overall strategy.

Organisational culture is a powerful determinant of behaviour. In the workplace its influence may cause a middle-class and loving parent to be behave criminally contrary when at his workstation. It can of course also have a good affect, deterring inclinations towards deviant behaviour through a system of positive role modeling, threats of sanctions and the promise of rewards for responsible conduct.

Returning to the most salient obstacles the Group faces on its road to recovery, it becomes clear that organizational culture will play a central role in removing these barriers to success.

Valuing the client, not as a human being with a free will, but rather as a commodity, purchasing commodities in the form of banking products, has been the raison d'etre for the recovery plan in the first place. Banking is a relationship that requires mutual integrity and respect to be nurtured. A return to the Nedbank Values, as foundational to the way business is approached, will ensure the success of more technical interventions to return the Group to its winning ways.

Yet, the Group still needs to do a lot of work in this respect. With the recovery plan focused on ensuring internal reorganization it must now enter a new phase, comprising an assertive roll-out of the Nedbank Values, in the form of the Code and supportive business polices and systems, throughout the Group.

Organisational fragmentation, made visible in insular business silos or disruptive cliques are the products of politics – office politics on a grander scale. It always remains a failure of leadership it such silos comes to dominate the organizational landscape. The technical business systems associated with these silos may have contributed to their development but are not the sole reason for their existence. People pursuing conflicting objectives are the reasons why silos exist.

The development of a single set of Nedbank Values forming the basis for performance evaluation is a powerful tool to combat the debilitating effects of silos. Consistently applied it models behaviour consistent with a common vision. This will require the Code to be fully integrated into the performance evaluation system of all units.

Hubris, that descriptive Greek word denoting pride and ignorance, conspires, in the manner of the ancient tragedies, to bring about the usually chaotic entry of a crushing humbling event – pride coming to a fall. Success coupled with humility breed success but success with arrogance breed ignorance – usually witnessed as leadership becoming removed from the organizational realities impacting organizations.

The Nedbank Enterprise Governance approach, using the Deep Green vision and Nedbank Values, are beacons to leadership, keeping them focused on the strategic intent of the Group while remaining involved as positive role models for the benefit of those in all hierarchies. Leaders shape organizational culture. If well managed, and not meeting particular resistance, it becomes a trickle down effect where the influence of leadership extends throughout the Group. Nedbank is well advanced in driving organizational culture change though positive roll modeling through the Group. It needs however to regularly conduct a Group wide ethics audit to identify possible resistance to the ethical role-modelling efforts of leadership.

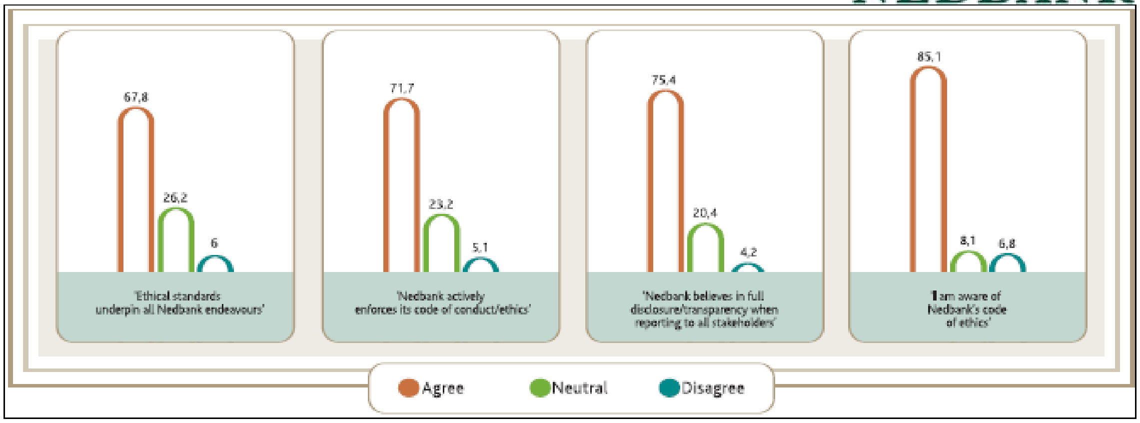
2.7 Impact on people

As mentioned before, lack of clear guidelines in resolving the tension between conformance and performance is often the cause of unethical conduct like fraud or corruption occurring within the work environment.

A high level of awareness of the Code of Ethics will be meaningless in an environment where the annual review system measures performance to the exclusion of values – enforcing the silo's the recovery plan needs to combat.

Another challenge is to educate staff that the Code of Ethics is also (perhaps, especially) applicable in the routine and mundane daily decisions, and not only in circumstances surrounding fraud and corruption. The conditions increase the likelihood of fraud and corruption occurring and are mostly in the traditional human resources domain. Indications of widely experienced work pressure, discontent and lack of faith in grievance procedures may cultivate a culture of entitlement leading even those of stronger moral character in temptation.

Corruption is investigated in the forensic domains but has its origins in the human resources domain. The inconsistent application of performance reviews strengthens this negative dynamic, especially if employees known to be unethical are positively rewarded through promotions and the like.



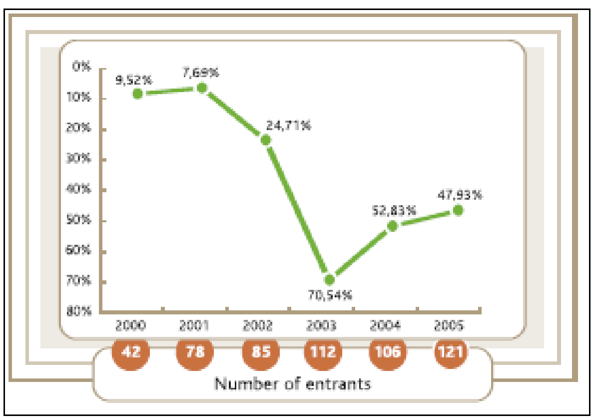
Box 4: Results from staff survey (ethics questions)

In order to surface these issues, the Group regularly conducts staff surveys, measuring among others perceptions of ethical conduct. (see *Box 4,* above). In 2006 the Group Ethics Officer also conducted a small-scale organizational ethics assessment, which specifically brought to light unhappiness with annual performance reviews.

If the organization does not ensure that their values underpin all their activities this has the potential to become a serious problem, given the fact that one of the strategic focus areas for 2006 – 2008 is "Building a high-performance culture to achieve targets and improve client service"

2.8 Impact on the value chain

The direct impact on the value chain brought about by enterprise governance within the Group is yet to be fully felt. Forming part of the Group recovery plan it may be measured in the results of the Deloitte Best Company to Work for Survey (see *Box 5*, below),



Box 5: Nedbank's rating among the entrants in the Deloitte Best Company to Work for Survey

While the Group has apparently succeeded in reversing the negative trends in its ratings, the survey, in addition to other data, highlighted the area of rewards, recognition and performance management requiring attention.

One cannot sustainable provide for a positive impact on the value chain if one cannot attract and retain the best people. Charity begins at home the saying goes, with the graph indicating just how steep the slide from 2001 was, as well as the positive effect of the recovery plan instituted in 2004.

One example of conduct directly affecting the value chain is the significant progress made in setting up a fast supplier payment mechanism. Large organizations possess significant power over their suppliers in terms of dictating terms of payment. For small and medium-sized suppliers (SMEs) this can (and has resulted) in financial ruin, as they do not have the ability to carry debtors for an extended period of time.

To this effect the Nedbank Group has improved their systems to facilitate a seven-day payment turnaround, if a supplier requires this. It is telling that most of their suppliers make use of the facility. This has a major impact in relieving pressure to present false or inflated invoices from suppliers.

The group also provides for skills transfers – consumer education programs are run for the group's SME clients, and suppliers were invited to attend.

In addition to the imperatives of the Financial Sector Charter, the group has also adopted the Procurement Policy of The Old Mutual Group SA, which requires evaluating suppliers' ethical, labor and environmental standards in the choice of suppliers.

2.9 Impact on society

The obvious impact of banks on society is the manner in which, and to whom, it provides credit facilities and other financial services. It has been said that behind every corrupt transaction these is a bank facilitating payments and transferring ill-begotten gains. Group leadership cannot demand with credibility ethical conduct and intolerance of fraud and corruption among employees but not practice it in the client or partner domain.

Some have argued that a bank is just a morally neutral facilitator of financial transactions. We do not consider this position to be morally defensible. For example, in the early 1990's the number of banks in Liberia trebled, as the economy was imploding, ostensibly to take advantage of the profits to be made from channeling the spoils of kleptocratic rulers to foreign bank accounts. In essence, banks profited at the expense of civilians subjected to acts of unspeakable barbarity perpetrated in the name of these unscrupulous rulers.

This may a case, *in extremis,* yet the principle of a moral position applies throughout, also in less severe circumstances. We acknowledge that the moral position of bank is a major dilemma for most responsible banks, as ethics advocacy among clients is easier said than done. Apart from the tension to create short-term profit while remaining accountable it is not always easy to identify these ethically suspect transactions. However, considerable effort, driven by compliance to money-laundering legislation, has been undertaken in the last few years to identify and report suspicious transactions to the authorities.

Although the Group has adopted a position of ethical advocacy among clients and partners there are limits to the extent that the Group should police its clients. Again the centrality of the Code comes into question. Based on an organisational reputation derived from complete adherence to the Code, clients should recognize the Group as an ethical bank with those clients lacking in integrity preferably banking elsewhere.

In terms of suppliers, the Group should demand conformance to the Nedbank Values, as these values are reasonable, have universal appeal and are well defined in terms of explanatory principles. Among clients and partners, obvious criminal activity presents no problem in terms of the Group acting against these individuals or institutions. It is dealing with activities that are not necessarily unlawful but may be unethical that require more careful consideration.

The environmental field is a case in point. Known as a "green" bank, the Group realizes that the projects that it finances could potentially have a significant environmental impact. The group's credit, legal and risk teams have undergone training in this regard, credit policies take the environmental impact into account. While clients are required to complete environmental impact assessments that group goes beyond the requirements of the host country or the standards of Multilateral Development Banks (MDBs).

Where there is funding from MDBs or the group works in partnership with MDBs, the group does the following to ensure compliance with MDB requirements regarding environmental and social risk management:

- screening and categorizing subprojects according to potential environmental risk;

- ensuring appropriate environmental and social assessment studies are carried out by the borrowers;
- verifying that the borrowers implement and monitor environmental and social risk management programs; and
- submitting periodic reports on the implementation of environmental and social procedures and performance of the investments to the MDB concerned.

The Group is the first South African bank to adopt the Equator Principles. The purpose of the Equator Principles (which is supported by banks that represent 80% – 90% of the global project finance market) is to ensure that the projects that are financed are developed in a socially responsible and environmentally sound manner. Becoming a signatory to the principles is in line with the group's relationships with the United Nations Environment Program, the World Wildlife Fund South Africa and African Development Bank, among others.

2.10 Reporting and communication on progress

In addition to the Ethics and Compliance officers who were trained as Ethics Champions, the majority of clusters have started with some form of awareness training. Enterprise Governance and Compliance are also in the process of including information about the Ethics Officer on various information platforms.

This includes the CEO's and the head of the Enterprise Governance and Compliance division, undertaking road shows, making presentations at Governance and Compliance Forums, as well as making use of existing internal communication channels.

Yet, like all large organizations, communication can always be done better. The Deloitte Best Company to Work for Survey identified communication as an area requiring development. "Although some very positive scores were received in certain questions under this dimension, people indicated that they did not feel informed about what other departments were doing and did not necessarily feel free to communicate with top management." There are obvious ethical risks associated with such perceptions, especially in terms of reporting on fraud and corruption.

Apart from continuing the process of rebuilding trust with clients and investors much of the remaining challenge, on an organisational culture front, lies in implementing a successful Group wide awareness programme of the Code. This will need to take the form of integrating provisions of the Code in all measurement and evaluation systems and to conduct training sessions customized for the various divisions.

3. Conclusion

This case study illustrates that successful financial recovery is dependent on the re-establishment of trust in the business. The technical reorganisation of the enterprise is critical but needs to be complemented by a formal programme to build trust among employees, clients and investors.

In the case of the Group, this meant the establishment of an Enterprise Governance and Compliance division. This division is tasked to ensure that performance pressures are accountably relieved and conformance requirements enacted in a way that ensure maximum value add to the Group and its stakeholders. It is a break from more traditional governance models equating performance solely with financial value add and conformance, mostly of a legal nature, with accountability.

While there is no doubt that financial performance as well as full legal compliance is critical to the future of the Group, the aim is towards ethical excellence complimenting financial achievement. This would be a sound foundation upon which trust can be rebuilt, from inside among employees, towards external stakeholders like clients and investors.

In order to build the trust required for the recovery of the Group it had to embark on a process of creating and strengthening a culture intolerant of fraud and corruption. It forms a vital part of the reputation enhancement and risk management drives associated with recovery efforts. It highlights that fraud and corruption prevention programmes cannot successfully be initiated in organizations that do not enjoy trust.

When employees do not have faith in the ethical intentions of leadership and management, and when standards of conduct are inconsistently applied, it creates a culture conduce to abuse. Ethical culture change, correcting these disruptive practices, is a process and in large organizations takes years of dedicated application. The Group is well advanced on that road.

4. Bibliography

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