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Foreword

Peter Fritz AO

When I started my career in information technology back in 1964, an army of highly trained computer operators, programmers and systems analysts was required to tend machines so massive they occupied whole rooms or floors.

Looking at them with our 21st century understanding, those early computers seem limited. And yet, the fastest 'supercomputer' at the time – the mighty CDC 6600 – could still perform an impressive 3 million operations per second. Computers were the province of governments, universities and major corporations. Crude as they now appear, those early behemoths heralded the start of a computing revolution.

Now we know, it was a slow start. We analysed manual systems, coded programs and processed data, fast. That was all.

Later, we set up databases and gave computers memory. But we still did no more than process data, only faster.

Over the last 60 years, computers have reshaped our lives as well as economies and societies, but their phenomenal data processing abilities remained a tool in human hands.

Then something new happened in 2023.

Artificial intelligence (AI), a development that slowly evolved in the background, suddenly birthed into the open.

Computers were no longer limited to faster processing and memory that never 'forgot' with total recall, but acquired a capacity to 'think'. That is, much like in human thinking, computers were now able to recognise patterns.

The exponential growth and ubiquitous deployment of AI may herald another revolution in man's relationship with machines, but this time as agents, and perhaps equals or more.

While traditional computers follow explicit, step-by-step instructions – algorithms – compiled by their programmers to perform specific tasks, AI systems use machine learning to recognise patterns and make decisions based on vast amounts of training data, often without explicit programming. The increasing complexity of these systems means they generate new and unexpected 'emergent properties', such as mastering tasks they have not been exposed to.

AI can interpret data, find hidden patterns, make predictions and potentially offer novel solutions to problems we could not anticipate. Furthermore, while present-day large language models may still have theoretical limits we can only incrementally improve, future AI systems may undergo 'phase transitions', in which their abilities increase unpredictably and exponentially in realms which remain unseen.

However, AI models have no concept of human empathy. Aligning their ultimate goals with human needs may prove a more difficult philosophical task than a software engineering problem. AI therefore introduces an important new factor at the nexus of behavioural economics and social sciences, as well as ethical concerns regarding bias, privacy and autonomy.

AI machines, much like humans, make mistakes. Hence for AI to be a tool to benefit society, humans will still need to have subject matter expertise. For humans to be up to the task, our education system will need to adapt to the new reality and embrace critical thinking.

As we cede ever more of our cognitive labour to machines, will we expand our imaginative horizons or let go of the very faculties that freed us from our caves? The ability to reason, to create, to empathise – these quintessentially human traits may wither or blossom on the vine of artificial augmentation.

For good or ill, this technology will not be constrained, as theoretical inquiry, commercial pressure and geopolitical imperatives will continue to accelerate its abilities beyond the grasp of policymakers, and perhaps its designers too. Creating AI in our image could see it inherit our biases, our cruelties, and our capacity for self-destruction, but giving birth to what amounts to a new form of life might have greater ramifications still.

It is therefore even more important that we discuss AI's ramifications in personal and social terms, as well as marvel at the technology or harness it for commercial gain.

BESS can become an important platform for these discussions, and I look forward to your views and contributions.

Peter Fritz AO

Sydney, July 2024

INTRODUCTION

Responsible management and the global grand challenges: a social systems perspective

Prof James Guthrie AM, Prof John Dumay & Prof Federica Ricceri

This edition of *BESS*® examines the empirical and theoretical aspects of social systems and individual behaviours, emphasising unethical conduct among individuals and organisations as a pressing issue.

The 2015 United Nations' endorsement of the 2030 Agenda for Sustainable Development marked a significant commitment by all member states to pursue 17 Global Sustainable Development Goals (SDGs) to 'end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity'.[1] The SDGs address grand challenges such as climate change and the interconnected dimensions of sustainability that encompass the environment, society and economy. The SDGs have a wide range of objectives, including the eradication of poverty (SDG 1), ensuring food security (SDG 2), promoting wellbeing and good health (SDG 3), advancing education quality (SDG 4), fostering gender equality (SDG 5) and improving access to clean water and sanitation (SDG 6), among others.

1. UN Sustainable Development Goals, https://www.undp.org/sustainable-development-goals

Despite their aims, progress in achieving the SDGs faces significant challenges. Meeting all, or even most, of the goals by 2030 now seems unlikely, if not impossible, given inequality, increasing poverty, difficulty in accessing health care, climate change impacts and biodiversity decline, all of which present formidable barriers to progress. While certain regions, like Asia, have faced more setbacks than others, achieving the SDGs globally requires a concerted focus on sustainability, acknowledging that the goals are interdependent and require synergies across diverse sectors.[2]

Over the last seven years, *BESS*® has published more than 50 articles, including academic papers, research notes, essays and summaries of conference proceedings that contribute to achieving the SDGs. *BESS*® champions researchers, practitioners, policymakers and organisations that aim to create a more ethical, responsible and sustainable way of working for global humanity.

We undertook a content analysis of the various articles published in *BESS*® to identify how they address individual SDGs as well as the SDGs' grand challenges (see Table 1).

TABLE 1: Sustainable Development Goals used for coding

- **Goal 4.** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all (6 articles)
- **Goal 6.** Ensure availability and sustainable management of water and sanitation for all (1 article)
- **Goal 8.** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (5 articles)
- **Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation (2 articles)
- **Goal 10.** Reduce inequality within and among countries (6 articles)
- **Goal 11.** Make cities and human settlements inclusive, safe, resilient and sustainable (4 articles)
- **Goal 12.** Ensure sustainable consumption and production patterns (2 articles)
- **Goal 13.** Take urgent action to combat climate change and its impacts (2 articles)
- **Goal 15.** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss (2 articles)
- **Goal 16.** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels (6 articles)
- **Goal 17.** Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development (15 articles)

2. UN Department of Economic and Social Affairs Sustainable Development, 'Do you know all 17 SDGs?', https://sdgs.un.org/goals

Known as grand challenges, the SDGs aim to address complex and multifaceted issues that transcend individual disciplines, social structures, institutions and organisational boundaries.[3] As outlined by Ferraro et al.,[4] grand challenges typically have three key features: (1) *complexity* – they involve and are influenced by numerous stakeholders, locations and time horizons; (2) *uncertainty, non-linearity and dynamism* – actors struggle to pinpoint root causes, predict the outcomes of their actions or anticipate future reactions; and (3) *incalculability* – indicating multiple evaluative criteria and the emergence of new concerns during problem-solving efforts. Given these features, recent research has underscored the need to deeply explore the relationships between organisational behaviours, decisions and accountabilities that reflect present and systemic social and environmental challenges, collectively termed global grand challenges. A recent report by the UK-based think tank InfluenceMap reveals that 57 companies are accountable for 80% of global greenhouse gas emissions. Nevertheless, these companies have increased their fossil fuel production in the seven years following the Paris Agreement.[5]

If current accounting and accountability methods were effective, there would be no need for additional regulations and standards to encourage organisations to be more socially and environmentally responsible. Holding an organisation's management to account is not enough. Instead, to fully grapple with grand challenges, accountability must be the responsibility of a broader range of stakeholders within the organisational ecosystem.[6] Thus, there is a pressing need to focus on interactions among governments, businesses, civil society and academia to solve the SDGs.[7]

After reading the various articles in this issue of *BESS*®, we realised that academics and practitioners need to ensure they are part of the Second Track process.[8] Academia with a social sciences connection is our most sensible critical voice. We academics must be a loud – yet measured – voice for social change. Our role is not simply to stand in front of chalkboards so that universities can make money and students can leave university job-ready. Instead, our job is to create critical thinkers in our students and use our academic freedom to address society's pressing issues.[9]

The seven articles featured in this issue of *BESS*® seek to address several of these critical issues.

We start with the article by **Neilson (2024)**, who explores the development of nudging in behavioural economics and management since the seminal work of Thaler and Sunstein,[10] which saw the adoption of nudging as a policy tool to influence citizens' behaviour.

Nudging aims to impact economic, social and political behaviour while respecting individual freedoms and avoiding collective costs.[11] However, there are concerns regarding the accuracy of research findings and the effectiveness of nudging outcomes. Neilson explores the ambitions, practical applications and uncertainties surrounding nudging, concluding that while nudging is not a universal solution, it has not entirely fallen short

3. Guthrie and Dumay, 2021
4. Ferraro et al., 2015
5. Lauder, 2024
6. Busco et al., 2024
7. Guthrie and Dumay, 2020
8. Massingham, 2019; Massingham et al., 2020
9. Guthrie et al., 2023; Guthrie and Dumay, 2020
10. Thaler and Sunstein, 2008
11. Thaler and Sunstein, 2021

of its envisioned potential. Rather than being a standalone remedy, nudging is considered part of a comprehensive set of interventions encompassing coercion, facilitation, information dissemination and persuasion of citizens.

In his *BESS*® publication, Neilson presents in-depth case studies highlighting instances where nudging has proven unsuccessful, leading to significant public financial losses in Australia and the UK.

Two well-known government projects are examples of the potential for negative consequences from nudging. The Robodebt scheme in Australia and the Post Office scandal in the UK illustrate the ethical dangers associated with initiatives driven by cost-cutting objectives and reliance on behavioural insights.

The Robodebt scheme has had a significant negative impact on many individuals. While it officially ended in May 2020, the emotional and financial distress caused by its inaccurate debt notifications lingers. Despite public outcry, the Australian government did not issue an apology but committed to reviewing and reimbursing all 470,000 wrongly demanded debts. A subsequent Royal Commission, concluding in July 2023, was instrumental in labelling the programme a costly public administration failure, characterised by deception and conspiracy to hide the absence of a legal foundation. The Commission's investigation also revealed the Department of Human Services' misuse of behavioural insights, showing disregard for advice from experts in the field. Hreha[12] argues that using behavioural theories in designing Robodebt led to significant failures. For instance, demand letters sent to 'debtors' intentionally omitted contact phone details, indicating recipients should resolve payments online rather than inundate call centres. Royal Commissioner Holmes identified the exclusion of phone information as a deliberate tactic to promote online responses.[13]

In the UK, denial remained the entrenched position of both the Post Office and Fujitsu in the face of criticism and questioning of the Horizon accounting program. Even after media coverage from 2009 (*Computer Weekly*) and 2011 (*BBC Inside Out South*), the Post Office claimed that its Horizon program was accurate and reliable. With the release of a television mini-series on ITV in 2024, *Mr Bates vs the Post Office*, the court publicly acknowledged the Post Office's guilt, and the Post Office offered compensation. However, as recently as December 2023, the Post Office was still fighting its case and halved the amount it had set aside for payments to wrongly convicted subpostmasters.

The second article by **Christ, Ikpor and Burritt (2024)** examines the significant global issue of modern slavery within supply chains. Their research scrutinises how Nigerian companies address the risks associated with modern slavery, and their findings include ways to enhance accounting and reporting practices to help eradicate modern slavery. Drawing on Crane's theoretical framework,[14] the article identifies various factors influencing modern slavery risk disclosure in Nigeria, encompassing industry dynamics, socioeconomic conditions, regulatory frameworks, cultural influences and geographical considerations.

Through cross-sectional content analysis and thematic exploration of annual reports, sustainability reports and corporate websites of firms listed on the Nigerian Stock Exchange, the study identifies supply chain codes of conduct and collaboration as potential initial steps to mitigate modern slavery in Nigeria. However, the absence of affordable micro-credit as a disclosed intervention and the ineffectiveness of private or civil regulators as a governmental alternative are notable findings.

12. Hreha, 2023
13. Martin, 2023
14. Crane, 2013

The study calls for further investigation into management capabilities as potential mediators to enhance transparency and combat modern slavery and proposes contextual, moderating and mediating variables that can inform policymaking and initiatives to eradicate modern slavery practices. In doing so, it builds on previous work published in *BESS*® on modern slavery practices.[15]

The third article by **Olesen (2024)** argues for investigating the overlap between economics and ethical behaviour. He scrutinises this behaviour through a conventional macroeconomic approach. By arguing that modern mainstream economies do not continuously operate smoothly in a state of intertemporal equilibrium as assumed, Olesen challenges whether the conventional macroeconomic approach can align with real-world dynamics, especially as the assumption that it can has frequently been disproven. Orthodox perceptions of economics are not impervious to diverse criticism, with critics highlighting that economics inherently connects to ethical and moral questions.

Olesen asks if there is an ethical foundation underpinning macroeconomics, highlighting that economics revolves around human behaviour. The article considers how households and businesses make plans and decisions based on expectations within an unpredictable environment and various imperfections. In addition, it discusses how individuals typically consider more than just price-related information when making economic decisions. Individuals consider ethical considerations and information based on norms and values. In reality, businesses and households operate as humans rather than robotic entities. Unfortunately, mainstream economists overlook these aspects, viewing economics as a discipline devoid of moral dimensions. Mainstream economists often argue that economics aligns more with natural sciences than social sciences.

Nonetheless, whether mainstream or otherwise, economists must recognise that moral guidelines are indispensable for our modern society. As Hodgson points out,[16] comprehending the moral motivations of individuals within social institutions is crucial for sustaining and perpetuating these moral sentiments. Therefore, a return to fundamentals is imperative. Keynes, the economics pioneer, was correct in asserting that economics is a moral science and economists should treat it as such.

The fourth article by **Turnbull (2024)** discusses several cases in which individuals with strong moral principles have supported and promoted unethical systems and organisational behaviours. This article explores the roots of dysfunctional ethical blindness arising from groupthink and intellectual dominance and how education and training about ethics will not eliminate such behaviours. Systems science clarifies the idea of decentralised decision-making in living beings, which acts as a tool to address ingrained thought patterns and uphold self-regulation in changing environments. Turnbull provides several Australian case studies, examples of colonisation and groupthink, where individuals with ethical integrity have supported and sustained unethical institutional practices.

Turnbull argues that biomimicry provides a basis for developing self-governing practices where citizen stakeholders can participate as co-regulators, reducing the need for government regulatory involvement. Self-governing practices pave the way for privatising regulation and improving democratic processes. Notably, corporations can transition into common pool resources, as described by Ostrom,[17]

15. Guthrie et al., 2022
16. Hodgson, 2014
17. Ostrom, 1990

benefiting all stakeholders within the bioregional framework. As a result, corporate entities can serve as local players in addressing global risks that threaten humanity. By simplifying the management of existential threats at the local level, the creation of grassroots bioregional circular economies can counter the extensive environmental deterioration of the planet and highlight the significance of society mimicking natural practices and harmonising with nature. This work builds on previous articles published in *BESS®*.[18]

Turnbull argues that humanity's wellbeing hinges on that of the bioregions it inhabits, requiring us to embrace the governance practices of Indigenous peoples. Modern society must adopt biomimicry in its governance approaches to align with nature, replacing rigid, all-encompassing property rights over land, buildings, businesses and currency with flexible, inclusive and time-limited rights. A complete overhaul is needed to replace toxic, isolating and undemocratic centralised power structures with decentralised, stakeholder-driven, community-based, self-governing entities. This transition introduces tensegrity, which educates individuals about the ethical implications of wielding power within social systems, fosters constructive conflicts to eliminate ethical blind spots and encourages diverse perspectives through distributed decision-making.

The fifth article by **Lucas**, **Guthrie and Dumay (2024)** provides a detailed history of the unfolding of the PwC scandal in Australia up to September 2023. There is a growing concern in Australia and internationally about the ever-increasing number of scandals surrounding the consulting operations of professional service firms, especially the Big Four accounting and Big Three consulting firms.[19] In Australia, PwC disclosed confidential information about an incoming tax avoidance law to help international clients dodge the new law.

The scandal has resulted in several public inquiries in Australia. It highlights how the influence of these consulting firms effectively privatises and hollows out the public sector, putting consulting firms' profits and big business interests before the public interest and ultimately threatening our democracy.[20] The authors argue that governments and businesses that outsource critical activities to consultancies cannot learn by doing because someone else is doing the doing. Our reliance on these partnerships stunts innovation, obfuscates corporate and political accountability, and impedes our collective mission of halting climate change.[21] The authors advocate for a Royal Commission into the consulting industry as a first step. However, more action is needed from international policymakers and regulators because the tentacles of the consulting companies and associated scandals go beyond Australia and threaten democracy as the rich and powerful seek to control the public sector internationally.[22]

Lucas et al. discuss how Mazzucato and Collington[23] debunk the myth that consultancies always add value to the economy. With a wealth of original research, they argue for investment and collective intelligence within all organisations and communities and a new system in which public and private sectors work innovatively for the common good. They point to the need for recalibration of the role of consultants and for rebuilding fit-for-purpose economies and governments.

18. Turnbull, 2022a, 2022b
19. Guthrie et al., 2023; Bognaditch and Forsythe, 2022; Guselli and Jaspan, 2023
20. Bortz, 2023
21. Mazzucato and Collington, 2023; Guthrie, forthcoming
22. Lucas and Guthrie, 2024d
23. Mazzucato and Collington, 2023

Mazzucato and Collington also highlight how the consulting industry has multiplied globally over the past 30 years. The use of consulting firms to provide public services is widespread, with Australia allocating significant taxpayer funds to consulting services without transparency and accountability.[24] The extensive impact of the consulting sector across Australia's public domain aligns with neoliberal principles and new public management strategies that gained increasing prominence since the 1980s.[25] These approaches favour management practices, methods and systems from the private sector in providing public services.[26]

In Australia, the Centre for Public Integrity[27] has brought attention to several recent environmental and social concerns and conflicts of interest related to Big Four accounting firms, demonstrating their involvement in conflicts of interest and their attempts to 'walk both sides of the street'. For example, between 2020 and 2021, the NSW Government engaged EY to assist in developing its Future of Gas Statement. Simultaneously, EY provided audit and financial services to Santos, a significant Australian oil and gas company with a market capitalisation of $24.74 billion as of January 2024. EY also offers advisory services to gas companies on governmental matters, such as regulatory changes. In the final version of the Future of Gas Statement, the state government expressed its backing for the Narrabri Gas Project managed by Santos. The government also outlined a strategy for obtaining roughly half of NSW's gas supply from the Narrabri Gas Project throughout its 25-year projected lifespan.

The sixth article by **Dumay, Ricceri and Guthrie (2024)** discusses recent events surrounding the PwC Australia controversy by reviewing Senate Finance and Public Administration References Committee (SFPARC) reports and evidence.[28] The article provides research to bring the narrative about the Australian PwC case up to date, focusing on an international perspective. In June 2023, the SFPARC published an initial report examining the oversight and maintenance of integrity in consulting services.[29] That report focused on the unauthorised release of confidential government information in 2013–2016 involving PwC Australia partners. It examined PwC Australia's actions during and following the breach, including attempts to hide the incident and the firm's public relations management afterwards.

In thoroughly examining the specifics of the PwC case, the SFPARC assessed evidence gathered during the investigation along with publicly accessible data, determining that PwC Australia had not adequately dealt with the matter internally or in terms of holding its partners responsible for their misconduct and subsequent concealment. In its June 2023 report,[30] the Committee made two recommendations: (1) for PwC to cooperate with any ensuing inquiries thoroughly, and (2) for PwC to provide accurate and comprehensive information regarding the involvement of its partners and staff in the government data breach.

The Committee has accused PwC of attempting to hide the tax leak scandal and has condemned leadership shortcomings among its top officials.[31] In a follow-up report titled *PwC: The Cover-up Worsens the Crime*,[32] the SFPARC has alleged

24. Guthrie et al., 2023; Centre for Public Integrity, 2023
25. Shore and Wright, 2024
26. Lapsley et al., 2013; Saint-Martin and Hurl, 2023
27. Centre for Public Integrity, 2023
28. Senate Finance and Public Administration References Committee (SFPARC), 2024
29. SFPARC, 2023
30. Ibid.
31. Ibid.
32. SFPARC, 2024

that PwC failed to reveal information regarding the conduct of its international partners. The report focuses on the scandal involving a partner whom the government prohibited from sharing confidential Treasury information through confidentiality agreements regarding multinational tax regulations with coworkers. Subsequently, these coworkers sold the information to American companies under the project codename 'Project North America'.

An article by Ravlic[33] reports concerns raised about widespread behavioural and commercial issues within the sector by Senator O'Neill, who has led several Australian Parliamentary investigations into the consulting industry. According to Ravlic, O'Neill noted that the PwC scandal revealed a pattern of longstanding moral and ethical failings among consulting firms and their leaders; these were not isolated incidents. O'Neill emphasised how these companies have prioritised their financial gains over public welfare and highlighted the significant role of large accounting firms in Australia, suggesting that, as a result, they must respond to calls for increased transparency and accountability from the community. In the same article, Associate Professor Andy Schmulow from the University of Wollongong was cited criticising multi-sector global consultancies as being 'parasitic'[34] and suggesting that they have infiltrated government agencies, leading to a decline in expertise within the public sector. Schmulow pointed out that the substantial profits these consultancies generate for themselves and significant tax evaders are in contrast to their limited contributions to society.[35] He expressed concerns about their unethical practices, including deception and fraud, indicating a lack of trustworthiness in self-regulation. Fels and Guthrie further argued that these consultancies are beyond redemption and the government should dismantle them.[36]

Guthrie's analysis[37] of Mazzucato and Collington's[38] perspectives on the consulting industry discusses the significant influence that consulting firms exert on corporations and governments. It provides relevant insights and solutions to tackle this issue. Guthrie outlines how the 'Big Con' phenomenon, in which consulting forms rely on extensive contracts and networks and serve as advisors, endorsers and contractors, weakens businesses, distorts economies and undermines governmental structures. He highlights how Mazzucato and Collington question whether consulting firms consistently bring value to the economy, presenting compelling research and promoting investment in collective intelligence across all sectors and communities. Ultimately, Mazzucato and Collington suggest a new approach where public and private entities collaborate creatively for the betterment of society as a whole.

The seventh article by **Nielsen and Brix (2024)** delves into the rise of Society 5.0, a societal framework centred on human-centred innovation as a response to challenges stemming from an excessive focus on technological progress, neglecting social advancement. It builds on work already published in *BESS*®.[39] They examine collaborative efforts guided by Society 5.0 principles within urban areas, regions or entities. The article underscores the necessity for a more in-depth exploration of interorganisational learning

33. Ravlic, 2024
34. Ibid.
35. Lucas and Guthrie, 2024a, b, c
36. Fels and Guthrie, 2023
37. Guthrie, forthcoming
38. Mazzucato and Collington, 2023
39. Nielsen and Brix, 2023

theory to translate the aims of Society 5.0 into tangible results. It introduces the idea of extra-organisational learning and suggests a transition towards a 6i framework within organisational learning theory to unleash the value-creating capacity of Society 5.0. The authors outline interorganisational and multi-level learning theories, specifically the 4i and 5i[40] models, and propose a new learning level, labelled 'inspiring', to foster collaboration and innovation in the context of Society 5.0.

In their research note, **Matthews and Hine (2024)** contend that many individuals who have been displaced for various reasons in recent years face challenges when seeking opportunities in host countries due to their lack of local experience or references. The authors propose online content to bridge the information and trust gap in such situations. They argue for a link between personality assessments made from online content and conventional psychometric evaluations to assess the potential of online content in approximating traditional psychometric analysis. Their findings indicate that text data from various online sources can provide insights into an individual's psychological traits in line with the IPIP 50[41] outcomes. Nonetheless, it is crucial to handle online content for personality evaluation ethically and cautiously, always respecting individuals' right to privacy and obtaining their consent before utilising their online content.

The final essay by **MacAuley (2024)** pays tribute to the late Daniel Kahneman, the grandfather of behavioural economics whose groundbreaking ideas have fundamentally changed our understanding of human decision making. Alongside Amos Tversky, Kahneman pioneered the study of how individuals make decisions, challenging traditional economic assumptions of rational self-interest. Their research revealed consistent patterns of irrational behaviour, such as biases in risk assessment and reliance on heuristics, which depart from economic models assuming perfect rationality. Their work, initially met with scepticism within economics, eventually gained recognition for its empirical rigor and practical implications, influencing fields from public policy to climate change economics. Kahneman's legacy extends beyond academia, illustrating that understanding human decision-making requires integrating psychological insights into economic theory.

In conclusion, this edition of *BESS*® examines both the empirical and theoretical aspects of social systems and individual behaviours. It also initiates a theoretical discourse on the ethical dimensions of economics as a discipline, pointing out how mainstream economics tends to overlook environmental and social concerns. The recent revelations regarding the unfolding PwC Australia scandal offer valuable insights into governmental and societal implications and reevaluating the influence and authority of consultants on a global scale.

In light of these formidable challenges, our latest articles on management, economics, decision making and accounting issues highlight the need to delve more deeply into the interplay between organisational behaviours, decision-making processes, and contemporary and systemic social and environmental dilemmas commonly referred to as global grand challenges.

40. A new i which stands for 'inspiring'
41. The International Personality Item Pool which consists of 50 items.

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Contents

ARTICLE

The Nudge agenda – possibly oversold and arguably underperforming

Fergus Neilson

In his second article for *BESS*®, Fergus Neilson explores whether nudging has delivered on its promise as a policy tool to influence citizens' behaviour since the concept was introduced by Thaler and Sunstein 16 years ago.

Introduction

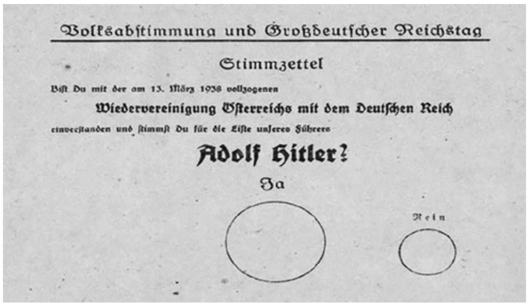
Building off the shoulders of giants,[1] the concept of nudging emerged as an influential policy driver after the publication of Thaler and Sunstein's well-received book.[2] Within a couple of years, the possibility of nudging citizen behaviour at minimal cost to government in directions thought to be of society-wide benefit was embraced enthusiastically around the world.

Yet, from the very beginning of modern government, what is now known as nudging has been a persistent component of the 'social messaging' aimed at modifying citizen behaviour at the lowest possible cost to government. In 2014–2015, the poster of Lord Kitchener barking 'YOUR COUNTRY NEEDS YOU' could not be considered a nudge, because the posters required considerable government expenditure. But individual self-righteous initiatives on the distribution of white feathers to men out of uniform in Britain in the early days of the First World War clearly was nudging. And

1. Tversky and Kahneman, 1974; Schneider and Ingram, 1990
2. Thaler and Sunstein, 2008

doubly cruel because it did not come with any announcement advising that justifiable exemptions might not be evident or apparent.

The voting paper handed out in 1938 to measure Austrian support for 'Anschluss' (the merging of Austria into Germany) included a crude nudge that involved making the 'Ja' (yes) tick-box more than twice the size of the 'Nein' (no) box[3]. Out of 4.3 million ballot papers recorded, just 11,281 were ticked 'Nein'.



I would also argue that the use of 'soft power', as first promulgated by Joseph Nye and Robert Keohane in the 1980s, is a classic antecedent to 21st century nudging. They defined soft power as 'the ability to get what you want through attraction, rather than coercion or payment', including amplifying America's cultural appeal from 'Harvard to Hollywood'. And Joseph Nye still promotes soft power as a way for the US to exert influence without resorting to military adventurism or economic coercion.[4] Choices are available, costs to government are minimal and, so far, American soft power outweighs that of China.

Which leads, sixteen years after the publication of *Nudge*, to four questions: a) what is 'nudging', and does it deliver anything different from what 'persuasion' did before it was called nudging?; b) does empirical evidence suggest that nudging has not lived up to expectations?; c) does the apparent failure record of many nudge initiatives leave any room for confident application?; and d) what might it take, therefore, for nudging to be assured of an ongoing, realistic and productive role in the pursuit of promised policy outcomes for the future?

In answering these four questions, it is argued that many proponents of nudging have both over-promised and under-delivered. And while acknowledging that there are cases in which nudging does play a role in effecting productive behavioural change, it is also emphasised that the actual impact of a stand-alone nudging program is both restricted in scope and limited in 'half-life'.[5]

This article concludes by emphatically acknowledging that 'in general, evidence supports the conclusion that non-regulatory *(nudging)* or regulatory measures *(compulsion)* used in isolation are often not likely to be effective and that usually the most productive means of changing behaviour at population level is to use a range of policy tools, both regulatory and non-regulatory'.[6]

Question (a): What is 'nudging', and does it deliver anything different from what 'persuasion' did before it was called nudging?

Thaler and Sunstein, the 'godfathers' of modern nudging, state that 'nudges are private or public initiatives that steer people in particular direction but also allow them to go their own way … (including) … any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding options or significantly changing economic incentives'.[7] Nudges can also entail a

3. Thaler and Sunstein, 2021, p109
4. Mance, 2024
5. Half-Life is the time taken for radioactivity of specified isotope to fall to half its original value; or, in the case of government programmes, time taken before programme impact is down to half what was achieved immediately following implementation.
6. House of Lords, 2011, p36
7. Thaler and Sunstein, 2008, p6; Thaler, 2015

spectrum of activity from a simple reminder or a warning, to a physical cue, the provision of dietary information, or even clarification of signage.

Thaler and Sunstein argue that most people can be influenced by small changes in the context (such as the placement of food in school cafeterias); that such small changes can be put in place by 'choice architects'; and are legitimated by what Thaler and Sunstein choose to define as 'libertarian paternalism'. That latter concept being described by the authors as 'a relatively weak, soft and nonintrusive type of paternalism … (in which) … choices are not blocked, fenced off or significantly burdened'. Paternalism by which, in turn, choice architects 'are self-consciously attempting to move people in directions that will make their lives better'. Thaler and Sunstein go on to suggest that choice architects have a wide-scale responsibility to 'make major improvements to the lives of others by designing user-friendly environments'. Where environments can be activity space (offices, canteen or airport toilets), or interfaces (questionnaires or option selection lists) or private households (energy efficiency labelling). It is emphasised that any nudge program should ensure that costs and options and policy justifications are fully transparent to the intended consumer. 'As choices become more numerous … (or complex) … good choice architecture will provide structure, and structure will affect outcomes'. Thaler and Sunstein categorically state that their bottom line is that people are nudge-able. And in that context, they stress a strong aversion to coercion, advising that policy makers should 'favour nudges over commands, requirements, and prohibitions' … (because) … for government, the risks of mistake, bias, and overreaching are real and sometimes serious'.[8]

Finally, central to nudging's appeal to government is that 'many of these policies cost little or nothing … (and should) … impose no burden on taxpayers at all'. Thus, application by governments allows 'nudges … (to) … replace requirements and bans … (thereby ensuring) … that government will be both smaller and more modest' … (and) … 'will benefit from costs imposed … (that) … are close to zero'.[9]

In simple terms, nudges are 'subtle hints towards more favourable options without forbidding fewer desirable outcomes'.[10] Or 'any initiative that does not impose significant material incentives'[11] on the consumers, or impose any significant material cost on the responsible government institution.

It is these two characteristics – assumptions of easy implementation and low costs – that drove the emergence of nudging or behavioural modification as a now-widespread government response to post-GFC austerity.[12] Initial successes in the UK (and the promotional vigour of David Halpern, CEO of BIT) inspired the start-up, by 2020, of an estimated 135 behavioural insights units worldwide (although in some reviews, this figure is thought to be closer to 500).

Popularity of the concept was enhanced by the belief that a lot of public policy would be facilitated by 'citizen behavioural commitment'[13] and that, if the right choices were made available, citizen behaviours could be changed. Sodha highlights the point that this promise has been hugely attractive to politicians who saw (and see) nudging as a way to both achieve positive change and generate savings through low-cost policy application.

A 2019 World Bank report, *Behavioural Science Around the World*, highlights ten countries that are pioneering the use of behavioural insights:

8. Thaler and Sunstein, 2008, pp. 1-12, 104
9. Thaler and Sunstein, 2008, pp. 14-15, 249
10. Bovens, 2009
11. Sunstein, 2018, p. 62
12. Sodha, 2020
13. de Ridder et al., 2020, p. 9

Australia, Canada, Denmark, France, Germany, the Netherlands, Peru, Singapore, the UK and US. The report also states an expectation that Behavioural Insights Units will provide enhanced benefits to these and other countries, as new developments emerge out of artificial intelligence (AI), machine learning and virtual reality.[14]

As noted, the first and best-known Behavioural Insights Team (BIT), or 'nudge unit', was founded by the UK government in 2010. BIT is now a wholly owned unit of the innovation charity Nesta. The current BIT website urges prospective clients to 'discover how giving your clients a gentle nudge using research and data focused on human behaviour can help your business to scale within your industry'. The BIT website also claims completion of over 1,000 projects to date and showcases a number of recent initiatives, including peace building in Nigeria, understanding panic buying, encouraging sustainable commuting, reducing dangerous driving, and improving hygiene behaviours in Rohingya settlements at Cox's Bazar.[15]

BIT claims to 'have run over 780 projects to date, including 500 randomised controlled trials in dozens of countries over the past nine years – more than the rest of the UK government combined in its history. We have a wealth of insights and results to build on in continuing to shape policy and practice'.[16] Highlights include references to (in the UK):

1. increasing tax payments to bring forward £200 million extra revenue in 12 months;
2. reducing days on benefits by between 5 and 10 million each year after improving online systems for jobseekers;
3. reducing antibiotic prescription by 3–4% amongst the highest prescribing GPs, resulting in over 70,000 fewer prescriptions over a six-month period;
4. using text messaging to reduce by 150,000 the number of repossession interventions by bailiffs and saving £30 million;
5. adding 100,000 people to the organ donation register;
6. persuading 20% more people to consider switching energy provider; and
7. doubling the number of applicants to the British Army.

BIT claim that, overall, independent academic analysis in the US found that BIT's interventions improved outcomes by an average of 10% compared to business as usual.

In the US itself, the White House Social and Behavioural Sciences Team, established in 2015 during Obama's second term, operated to apply behavioural science in the pursuit of improvements to federal policies and programs for the benefit of the American people. The Team's second Annual Report (2016) presented the results of completed projects and describes ongoing efforts in eight key policy areas: promoting retirement security, advancing economic opportunity, improving college access and affordability, responding to climate change, supporting criminal justice reform, assisting job seekers, helping families get health coverage and stay healthy, and improving the effectiveness and efficiency of government operations.[17] However, in 2017 the Team was disbanded and its members moved to other departments, agencies and organisations. A productive result that is entirely in line with the conclusions of this article.

14. Afif et al., 2019
15. Behavioural Insights Team, 2012, 2023
16. Behavioural Insights Team and University College London, 2021
17. Social and Behavioural Sciences Team, 2016

The United Nations Development Program (UNDP) website declares that 'research in behavioural science – regarding how people make decisions and act on them, how they think about, influence, and relate to one another, and how they develop beliefs and attitudes – can increase effectiveness of not only programmatic interventions, but also overall organizational performance'.[18] The UNDP draws attention to the use of behavioural insights in ameliorating extremism in Sudan and Yemen; and to designing low-cost initiatives to combat violence against women in Egypt.

The Organisation of Economic Co-operation and Development (OECD) remains at the forefront of supporting public institutions to apply behavioural insights to improve public policy, including in its design, implementation and evaluation.[19] The OECD website states that 'behavioural insight is an inductive approach to inform policy makers of the human behaviours driving economic and societal outcomes'. The OECD also claims that nudging, where enhanced with experimentation and piloting and merged with insights from psychology, cognitive science and social science, does reveal how humans actually make choices and enhances policy outcomes as a result.

The World Health Organization (WHO) website states that 'the objective of the Behavioural Sciences for Better Health Initiative at WHO is to promote and enable the systematic use of behavioural and social sciences in public health across the work of WHO and that of its partners'. A special edition of the organisation's bulletin published in 2021 focused on the application of behavioural sciences to delivery of better health outcomes and included articles on changing hygiene behaviours, overcoming vaccine hesitancy and on nudging adolescent uptake of family planning.[20]

In Canada, nudging commenced in 2013 with the inauguration of Ontario's Behavioural Insights Unit (OBIU), which now claims successes including:

1. increasing organ and tissue donor registrations by 143% by making registration simpler;
2. providing employers with clearer instructions on how, where and when to file overdue statements, thereby increasing the number of tax returns filed within 10 days by 40%; and
3. improving citizens' recycling behaviour by testing different types of bin labels (the highest performing label increased organics recycling by 82%).

In 2012 and in conjunction with the UK BIT group, a Behavioural Insights Unit was set up in the NSW Department of Premier and Cabinet. In 2016, the state government of Victoria followed suit. Later in 2016, the Behavioural Economics Team Australia (BETA) commenced operation within the federal Department of Prime Minister and Cabinet. 'Policy areas where Behavioural Insight approaches have been applied … (in Australia) … are broadly consistent with trends in other countries … (with an) … emphasis on identifying low-cost measures to influence behavioural change'.[21]

The Australian Government unit claims completion of 14 trials thus far, including de-identifying job applications to prevent unconscious bias and reducing credit card debt through reminder emails with positive motivational messages. The NSW Behavioural Insights Unit has applied its skills to improving court attendance rates by delivery of personalised reminders to accused domestic abusers and, by using goal-oriented approaches, helping injured police officers in getting back to work sooner. Nudges have also been applied in education, health, financial services, urban planning and housing.

18. United Nations Development Program, 2023
19. OECD, 2023
20. WHO, 2021
21. Australia and New Zealand School of Government, 2021

In spite of all this activity and claimed successes, there has been an emerging flurry of studies and commentary suggesting that nudging has not lived up to its early promise. That it is, indeed, oversold and underperforming.

Question (b): Does empirical evidence suggest that nudging has not lived up to expectations?

Even Sunstein acknowledges that for five reasons nudging might be ineffective or less effective than expected:[22]

1. some nudges produce confusion on the part of the target audience;
2. some nudges have only short-term effects;
3. some nudges produce 'reactance' (though this appears to be rare);[23]
4. some nudges are based on an inaccurate (though initially plausible) understanding of what kinds of choice architecture will move people in particular contexts; and
5. some nudges produce compensating behaviour, resulting in no net effect, or (as in the case with marketing of highly processed foods) effects that undermine nudges with their 'counter nudges'.

There is no shortage of work supporting these concerns. Research led by Queen Mary University (QMU) of London 'has shown that despite the widespread use of behavioural interventions across society, failed interventions are surprisingly common'.[24] Specifically, the QMU researchers looked at failed behavioural interventions across all areas that impact society, from healthy eating and organ donation, to tax compliance. They showed that whilst any type of behavioural intervention, applied in any type of setting, could be at risk of failure, certain types of intervention were more likely to fail. Analysis of 65 articles published between 2008 and 2019 showed the highest likelihood of failure occurring where the behaviour of others is used in attempt to change behaviours of their peers; and where letters and text messaging were used to provide information.

De Ridder and his co-authors provide a critical review of three assumptions that lie at the heart of government enthusiasm for nudging, as opposed to education and persuasion (or coercion). The authors point to three failure points:[25]

1. imposition – nudges can too easily can slip into coercion or manipulation (particularly if the 'nudger' is parsimonious with its provision of information to the 'nudgee');
2. implementation – nudges do not lend themselves to easy implementation in public policy; and
3. impact – nudges have not necessarily proven themselves to be an effective means for steering individual choice in the right direction (behaviour is harder to change than expected).

Furthermore, it can be argued that nudging is not about helping people make better choices, but actually about getting people to make the choices that 'policymakers want them to make'.[26] Although this is not necessarily a problem, particularly if nudges promote ethically consistent goals through social policies that are supported by the general populace, questions still linger:[27]

1. Do people really know what they want and can we really know any individual's true preferences?

22. Sunstein, 2017
23. Reactance is the unpleasant motivational arousal that emerges when people experience a threat to or loss of their free behaviours. - Steindl et al., 2015
24. Osman et al., 2020
25. De Ridder et al., 2020
26. White, 2013, p. 83
27. Quintana Medina, 2021

2. Do governments have any legitimate understanding of what is 'better' for the population as a whole? (energy conservation, organ donation, tax compliance, etc.), or how best to manage public good vs private cost (and inequalities of cost distribution)?
3. Is it fair to interfere with people's decision-making and diminish their ability to make their own choices'?

At best, nudging seems to have a mixed record. There may have been some success in pensions and tax payments, 'but in other areas it has been a bit of a damp squib and overall … (its practioners exhibit a tendency to) … 'overclaim and overly generalise'.[28] Sonia Sodha concludes by pointing to the 'optimism bias of the behavioural tsars that has led them to place too much stock in their own judgement in a world of limited evidence'.

Stephanie Mertens and her co-authors delivered in 2021 what is claimed to be 'the first comprehensive analysis of past research on techniques aimed at changing citizen behaviour'.[29] Their research covered 212 published articles involving more than two million participants. At the core of these articles was the belief that nudging could influence people to make better decisions. However, subsequent peer review suggests that this may not actually be the case. The authors' work revealed that there was only very moderate significance in difference between nudged and not-nudged groups, as well as evidence of some negative influence from publication bias (cherry-picking for results that support the starting hypothesis).[30]

A more recent study suggested that the effect of nudge across the 212 projects was not moderate – it was actually zero – with the authors declaring that, after correcting for publication bias, there is 'no evidence for the effectiveness of nudges',[31] and that across behavioural science research initial results have not always been replicable. A paper published in 2020 by a couple of researchers from UC Berkeley looked at the results of 126 randomised controlled trials run by two 'nudge units' in the US (The Behavioural Insights Team and The Office of Evaluation Sciences).[32] The study revealed that the nudge trials had, on average, only 1.4% of the expected impact. This is much lower than impact of 8.7% predicted in behavioural economics literature. In other words, nudges are one-sixth as impactful as would be expected from the academic research.

The case for nudging has not been helped by recent high-profile claims of fraudulent data use and manipulation. This being only 'the latest blow to a field that has risen to prominence over the past 15 years'. Nudging is being called into question and concerns raised because a 'lot of results can't be reproduced and some of the underlying data has found to be faked'.[33] Much of the attention has focused on studies published (and now withdrawn) by Francesca Gino of Harvard. Her work suggested that 'people were more likely to report their income honestly when they signed a declaration of honesty at the start, not at the end of their tax return'. Peer review of the paper found no such outcome as well as some evidence of data alterations. In its year-end wrap-up edition, *The Economist* pointed to the continuation, through 2023, of 'the long decline in the prestige of the once-faddish field of behavioural economics'.[34]

28. Sodha, 2020
29. Mertens et al., 2021
30. Osman et al., 2020
31. Maier et al., 2022
32. Della Vigna and Linos, 2020
33. Jack and Hill, 2023
34. The Economist, 2023/24

However, nudges do still retain their appeal to policy makers because 'they promise people easy, cookie-cutter solutions to complicated problems … (thus) … it's no surprise … (therefore) … that governments and companies have spent hundreds of millions of dollars on behavioural nudge units.[35] It is also worth noting that Jason Hreha's online article on *The Death of Behavioural Economics* does not receive any bouquets from his peer group commentary. Rather, respondents broadly conclude that although there may be examples of dubious empirical research, the basic positive instincts of nudging remain solid.

Question (c): Does the apparent failure record of many nudge initiatives leave any room for confident application?

As has been pointed out, not only have interventions appeared surprisingly weak in practice, but also that many core findings of behavioural modification research have proven to be non-replicable. Many of the programmes aimed at nudging individual behaviour down more socially appropriate pathways have not revealed outstanding success. A selection of such programmes from university course reading, each one containing a nudge intended to drive or enhance a public good, is listed below and more fully described in subsequent paragraphs: increase prevalence of organ donation; reduce consumption of sugar-rich soft drinks; ameliorate crime and school dropout in Chicago; improve voter turnout in Manchester; deal with a growing obesity problem in the UK; introduce the UK Green Deal; raise British military recruitment numbers; and lessen rush-hour travel pressures in Sydney.

It is not clear that these programmes would have looked any different in the era of government persuasion before the emergence of nudging. Regardless, two questions must be asked: do any of them pose ethical issues? And do any of these programmes actually demonstrate a successful process that, in isolation, initiated a significant and lasting change of behaviour at the population level?

The very concept of nudge as a form of libertarian paternalism poses the risk of a nudge becoming an unethical shove. This question is at the centre of organ donation programmes that propose mandated choice as the most practical nudge for increasing donation rates. That is, unless the citizen actively 'opts out' of the process, then that citizen's organs are automatically deemed to be available for donation. Given the average citizen's inattention to the details of defaulting, this recommendation edges very close to a mandatory shove.

Kyle Whyte and his co-authors also claim that Thaler and Sunstein fail 'to appreciate how perceptions of meaning can influence people's responses to nudges' and argue, instead, for a policy 'of default to donation that is subject to immediate family veto power'.[36] Thaler and Sunstein, however, do go on to defend their position in *Nudge: The Final Edition*[37] and in Sunstein's rebuttal to sceptics in 2023.[38] Of which, more later.

But the issue remains: the possibility that nudging is rarely free of an element of compulsion or of the possibility that it is just another (potentially low-cost) tool of government or corporate manipulation of individual behaviour and choices that is not necessarily to the benefit of the individual citizen or even the population as a whole.

Most 21st-century nudging is not as crude as the 1938 election papers seeking a 'yes/no' vote on German reunification with Austria, as illustrated at the start of this paper. However,

35. Hreha, 2023 (NB: Jason Hreha is former Global Head of Behavioral Sciences at Walmart.)
36. Whyte et al., 2012
37. Sunstein, 2021
38. Sunstein and Edwards, 2023

effective manipulation is still commonplace. The invisibility of 'unsubscribe' options on websites, automatic inclusion on subscription renewals, the use of ambiguous party names (e.g., Australia's and Russia's Liberal Democrats) to capture the 'donkey vote', the closure or restriction of toll-free options to force commuters onto routes subject to road toll charges (Sydney City Tunnel), or the implied threat of bureaucratic sloth in delivery of travel visas that, conveniently, can be overcome by payment of a 'fast track' fee. All of them are nudges; but none of them necessarily pass 'the pub test'.[39]

Lodge and Wegrich also warn against the probability of nudges being politically driven by a bureaucracy pressured to deliver results on a limited budget.[40] Caroline Huyard warns that the 'handling … (of any nudge) … is ethically tricky.[41] The House of Lords warns that the existence of behavioural biases and limited understanding of the target group will ensure 'ethical and practical challenges in applying nudges'.[42] While Whyte and his co-authors conclude by arguing that nudges can be introduced ethically and effectively 'only if nudge designers collaborate with in-house coordinators and stakeholders'.[43]

In the same way that graphic pictures on cigarette packages and obesity warnings on food packaging inform the user of possible lifestyle risks, the prospective user of nudging should be made aware that it also carries risks. Risks that include the unequal distribution of benefits, the invasion of privacy, and further build-up of antipathy towards the perceived condescending and under-hand behaviour of government.[44]

In spite of possible ethical risks, every one of the examples of nudging initiatives covered in this section can be seen to have had some beneficial impact. However, it is suggested that in every case, either nudging was not the primary driver of success, or that the nudge effect was short-lived and that any ongoing beneficial effect would not have occurred without the continued application of often costly facilitation programmes and incentives.

In regard to organ donation programmes, while BIT claim that their nudging initiatives added 100,000 people to the UK organ donation register, Whyte and his co-authors also argued convincingly that long-term success was dependent on the ongoing operation and (expense) of 'organ procurement programmes and in-house transplant donation coordinators creating better environments for increasing the supply of organs and tissues obtained from cadavers'[45] and of regular calls for organ donation on television to make good any threatened shortfall in supply.

A short-lived programme to reduce the consumption of sugar-rich soft drinks (SSBs) by applying a 10 pence surcharge in Jamie Oliver's restaurant chain over a 12-month period did deliver an 11% decrease in the mean sales number of on-menu SSBs.[46] But the study authors themselves admit to concerns as to the limited transferability and sustainability of first-round benefits. The nudge effect did not last.

The *Becoming a Man Program* to ameliorate crime and school dropout in Chicago showed only mixed results, with some persistence of positive school attendance rates, but a very quick drop-off in any beneficial influence on arrests.[47]

39. In Australian politics, a notional measure for public opinion
40. Lodge and Wegrich, 2014
41. Huyard, 2016
42. House of Lords, 2011
43. Whyte et al., 2012
44. Spiegelhalter, 2012
45. Whyte et al., 2012
46. Cornelsen et al., 2017
47. Heller et al., 2017

An exercise to improve voter turnout in Manchester did deliver a 3.5 to 3.6 percentage point uptick in voter turnout.[48] Corrections for treatment and control effects pushed this up to around 7.0 percentage points, much in line with research on nudging voter turnout in Michigan.[49] However, it should be noted that the programme was delivered in Manchester's Wythenshawe and Sale East, an electorate with a lower than (national) average turnout in the 2001 General Election (48.6% versus 59.4%). The improvement was off a very low base in a safe Labor seat. And, by the following election, about half of the first-round improvements in voter turnout had evaporated.

There is an obesity problem in virtually every developing and developed nation in the world. In the UK, 30% of children between 10 and 15 years of age are classified as either obese or overweight. Britain's Campaign for Life (C4L) commenced in 2009 with a full-spectrum policy approach including advertising, inter-departmental cooperation, calorie count and food labelling across Britain. But review of the C4L campaign revealed that although it achieved an increased awareness of childhood obesity, it delivered little impact on attitudes or nutritional behaviour.[50]

The evident failure of nudge, or any other behavioural modification programme, is writ large in a recent newspaper headline: 'Confronted with the spread of obesity, Brazil strives to embrace its heavier self'.[51] Even though the proportion of Brazilians over the age of 20 who are classified as obese increased from 15% in 2000 to 29% in 2020, the nation has given up trying to control the obesity epidemic, despite its inevitable and costly impost on health care delivery. Behavioural modification has failed and subsequent protections for the obese are now enshrined in law.

The UK Green Deal was introduced in 2012 by BIT to help people adopt energy efficiency measures in their homes at no upfront cost. But this is not a nudge. The sceptic might label it 'greenwashing' on a national scale, as it involved financial incentives (discounts) to the homeowner and financial cost the government (as much as £11 billion). In Australia, one-third of homes have solar panels, not because they were nudged, but because they initially received over 60-cents/kWh/day for any electricity sold back into the grid and because they believed that climate change was real. However, the take-up of solar panels has fallen now that the Retailer Solar Buy Back Rate has been reduced to 11-cents/kWh/day.[52]

Through 2015–2016, a military recruitment campaign on British television, which has been highlighted as a BIT success story (see previous), claims to have doubled the number of applicants to the British Army. However, it is necessary to ask whether an expensive TV advertising campaign ('the medium') aiming to tempt potential recruits into an army that is no longer dependent on 'boots and shoots' but on technology and cyber-skills, is just a complete misdirection of public monies. In contrast, an ongoing TV campaign in Australia seeking the same end, military recruitment, has at its core a nudge that promises technical training for a future career in civilian life. In either case, however, the cost of television advertising should automatically exclude the activity as having any compliance with what Thaler and Sunstein define as a nudge. UK Army recruitment has been below target every year for more than a decade. Data uncovered recently by the UK Labour Party showed that Army recruiters signed up 5,560 regular soldiers in 2023 as against a target of 8,220, leaving a shortfall of 2,660 personnel. Nudged or not, recruitment aims were not achieved.

48. John et al., 2019
49. Gerber et al., 2008
50. Croker et al., 2012
51. Nicas, 2022
52. Personal household billing at 26 January 2022

Therefore, it is argued that only one of these eight examples of nudging comes close to meeting the principles of nudging as espoused by its champions. That would be a Travel Choices programme aimed at shifting Sydney CBD commuter behaviour out of the traditional peak hour traffic periods. The programme used a multi-pronged approach and did include one element which was a classic nudge. That was to persuade Microsoft to change the default settings on its Outlook Calendars to subtly nudge people into avoiding early and late meetings and thereby travel at less congested times. However, this was only one component in a much more extensive multi-methods programme (and was subject to much public and media derision).[53]

These examples affirm the point made by the House of Lords report in 2011, and repeated in the conclusions to this article that 'nudging does not, when applied in isolation, deliver on promise'.[54] If sustained change is the aim of any programme, then nudging will need to be just one of possibly many elements working in mutually supporting ways to achieve the intended outcome.

This is a conclusion in stark contrast with the confident assertions from an interview with Thaler and Sunstein, in which they claim that as long as it is fun, achieves its aim (however modest), maintains freedom of choice, and is free of 'sludge' [55,56] … 'then nudging will have a growing and productive role in the way we live'.[57]

In a more recent interview, Sunstein states that regardless of questions of data tampering and replicability, he believes that most critics have misunderstood the core aims of nudging.[58] He defends the value of nudging by pointing out that much of the criticism is directed at the failure of nudging to deal with global issues such as climate change, obesity and poverty. Sunstein argues that global issues are not the point of nudging. What is the point, he emphasises, is the use of nudges to help individual citizens make better decisions without infringing on individual freedoms (at the personal level). And that, when properly applied, they do preserve freedom of choice and allow people to go their own way.

Sunstein also points to recent work by researchers at Imperial College London showing that health-related nudges were responsible of a 15.3% increase in healthier diet and nutritional choices. He reminds sceptics that Amsterdam's Schiphol international airport was able to use the theory of nudges to get men to aim better at the urinal. By placing fly-shaped stickers in urinals, men focused on more on where they were aiming, bringing down the costs of cleaning by 80%.

Nor is nudging deemed to be unethical way to encourage behaviour change. Sunstein states that 'providing information which might influence or extend choices is not illiberal … as long as the freedom to choose is maintained … (and that) … automatic enrolment can be a blessing, as long as opt-out remains possible'. He also remains adamant that 'all over the world, behavioural economics has led to massive economic savings, and also massive savings in terms of reduced deaths, accidents, and illnesses … (including) … road safety, smoking cessation, and poverty reduction, where just one automatic enrolment policy in the US is helping millions of poor children to receive free school meals'.[59]

53. Transport for NSW, 2018
54. House of Lords, 2011
55. Sludge - administrative barriers that stop us from getting things done.
56. Sunstein, 2021
57. Fusaro and Sperling-Magro, 2021
58. Sunstein and Edwards, 2023
59. Sunstein and Edwards, 2023

This, in a way, undermines the implied focus of nudging on individual level behaviour change, rather than global shifts. However, it does reinforce the perspective that affecting global or society-wide change requires longer-term application of a rich process of complementary initiatives, including compulsion, facilitation, and information/education as well as persuasion/nudging.

Question (d): What might it take, therefore, for nudging to be assured of an ongoing, realistic and productive role in the pursuit of promised policy outcomes for the future?

Tobacco smoking is the leading cause of preventable death in Australia, with an annual net cost to the nation in financial year 2015-2016 of around A$137 billion, comprising A$19.2 billion in tangible costs and A$117.7 billion in intangible costs. Intangible costs are the impact of lives lost and pain and suffering caused by smoking-attributable ill health (A$25.6 billion), and premature mortality (A$92.1 billion).[60] These costs significantly outweigh the tax revenues of around A$14.3 billion derived from cigarette and tobacco sales in tax year 2020-2021.

Reducing these costs to government, families and individuals has required more than thirty years of concerted effort. What is clear is that driving the change from 1991, when 25% of Australian smoked on a daily basis, down to the current rate of around 11%,[61] took more than the nudge that stashed cigarettes and tobacco products behind opaque cupboard doors in corner stores and groceries. It took increasing the price of a pack of Winfield Blue 30s from under A$5.00 in 1980 to A$54.95 in 2023. It took the prohibition on television and sports events advertising of cigarettes. It took the subsidised provision of nicotine patches and counselling, and it took thirty years of social opprobrium heaped on the habit through health messaging on cigarette packages and the prohibition on smoking outside government office buildings. And, in New Zealand, it might have taken the now reversed government ban on cigarette sales to anyone born after 2008, and the gradual extension of the 'born after' date to eventually cover the entire population.

The prevalence of drink-driving in road deaths in the UK has fallen over time. In 1979, 26% of road deaths occurred in accidents where at least one driver/rider was over the drink-drive limit. This had fallen to 16% in 1988 and, by 2018, to 13%. Over the same time period it is reported that drink-driving accidents fell from 8% to 5% of total reported accidents.[62] This important change was not driven by a nudge to self-administered breath-testing in the pub. Rather, it is the result of long-term social pressure, advertising on television, the ubiquity of random road-side breath testing, and the very real threat of fines, bans and jailing.

It should also be noted that the nudge-only 'Get-Out-To-Vote' programmes in Michigan[63] and Manchester[64] had limited and only short-term impacts on voter turnout. Evidence (and home team bias) from Australia suggests that democracy is enhanced by higher (compulsory) levels of voter turnout; but also acknowledges that it will require more than a nudge to move a complacent

60. Whetton et al., 2019
61. Australian Institute of Health and Welfare, 2021
62. Department of Transport, 2020
63. Gerber et al., 2008
64. John et al., 2019

electorate. It will require a comprehensive 'toolbox' of interventions and effective cooperation across a range of institutions.

By creating a matrix that combines the concepts of 'digital tools' and 'policy tools', it is possible to configure a 'toolbox' of practical interventions for increasing voter turnout that operationalises nudging in a supportive, but not central, role. However, it is emphasised that in a matrix of 20 possible tools, just three could be considered nudges:

1. The application of commitment devices (an acknowledgement that something will be done, often leads to it being done);
2. The careful framing of questions to be asked (wording, ordering, explanation); and
3. Use of peer group and/or social pressure (conformity can be contagious).

The remaining 17 initiatives involve compulsion (seven tools), facilitation (six tools) and information (four tools). See Table 1 below.

TABLE 1: Behaviour Modification Matrix – making a significant change to voter turnout*

	Digital Tools[65]			
Policy Tools[66]	**Authority**	**Treasury**	**Nodality**	**Organisation**
Authority	Mandatory voting[67]	Penalties[68]	On-line intervention	Electronic voting systems[69]
Incentives	Fines for incorrect ballot or voter details	Election expense funding	Electoral Commission independence	Mobile booths, access maps ad 'busing'
Capacity building	Gerrymander constituency boundaries	Saturday or national holiday voting	Absentee voting and extended early voting	Government marketing and advertising
Learning	Political Conduct Codes[70]	High school civics education	Door-to-door canvassing	Commitment devices**
Symbolics	PM and her husband voting together at the polling booth	Constituency mail shots and tele-marketing	Careful framing of the questions to be asked	Peer & social pressure/ neighbour knowledge

* Compulsion · Facilitation · Information · Persuasion (aka nudging)

** A commitment device is any action that requires a respondent to admit / commit to doing what comes next – vote, diet, revise pension plan, etc.

65. Hood and Margetts, 2007
66. Schneider and Ingram, 1990
67. Harvard, 2007
68. Balch, 1980
69. Rawat and Morris, 2022
70. Keane, 2009

Conclusion

Nudge has not failed to live up to deliver on its promise. It is just that its promise has been overblown by some of its champions in government, and the term 'nudging' has been taken to include activities and techniques that fall well outside the quite limited scope that is still supported and promoted by Thaler and Sunstein.

The Behaviour Modification Matrix (see Table 1) emphasises the point that, if nudging is seen as an adjunct to committed and multi-faceted programmes of behavioural modification, it may achieve its modest promise. Where broad policy is the primary aim, nudging can certainly be effective as one element in support of that aim. If, on the other hand, nudging is expected, in isolation, to deliver significant long-term population-wide change, then it has evidently failed, operationally and ethically. Nudging is not a 'silver bullet' and can only be effective as one component in a coordinated series of inter-institutional interventions across a spectrum of programmes that include compulsion, facilitation and information, as well as persuasion – the nudge itself – and which are all targeted at achieving the same socially supported change.

It might be rational, therefore, for governments to support 'nudging' skills across all government departments to ensure the integration of nudging with other policy tools, rather than having a standalone nudge unit seeking to make changes in isolation. Perhaps the break-up of the White House Social and Behavioural Sciences Team and the redistribution of its members into other departments, agencies and organisations is a model worth replicating elsewhere.

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ARTICLE

Accounting for modern slavery risk transparency in Nigerian businesses: Institutional context, disclosure and the way forward

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Building on previous work published in *BESS*® on modern slavery practices, an international team of Australian and Nigerian researchers argue that modern slavery must be investigated and tackled in the context of local developing country conditions, using Nigeria as a case study.

1. Introduction

Nigeria is a developing country that has faced many social, economic and environmental problems for years. As the most populous country in Africa, with 226 million people as of 31 December 2023 and an average age of 18 years, it also has 84 million people who live below the poverty line, representing the second-largest poor population of any country in the world.[1] Social services are inadequate and sometimes non-existent, and corruption presents a constant problem. For example, Transparency International (2022) gives Nigeria 24 out of 100 in its Corruption Index with an overall ranking of 150 out of 180 countries worldwide. Crime is high, and the abuse of human rights within the country is a daily occurrence. This has been exacerbated by events such as the COVID-19 pandemic[2] and ongoing internal conflicts with groups like Boko Haram and Islamic State West Africa Province (a splinter of Boko Haram).

1. World Bank, 2023a; Worldometer, 2024
2. Christ and Burritt, 2021

Human rights abuses have been documented in numerous areas, including at the hands of official security forces.[3] The authorities have curtailed free speech, freedom of expression, and the right to peaceful assembly. Censorship is a common way to protect the government and keep people in line. Set against such challenging content, sustainability, as currently viewed and debated in the West, is unlikely to be high on anyone's agenda. However, developing a better understanding of sustainability in countries like Nigeria is crucial if, as conceptualised by the United Nations (UN) Sustainable Development Goals (SDGs), it will ever be realised globally. Sustainability should not be a luxury only enjoyed by those fortunate enough to live in countries like the US, UK, Canada and Australia; it should be universal.

Although there are many environmental and social problems facing Nigeria, this study is primarily concerned with human rights, particularly work and modern slavery, one of the most abhorrent crimes against humanity.[4] SDG Goal 8 specifically addresses this issue, focusing on economic growth linked to decent work.[5] Target 8.7 takes SDG 8 further by urging all countries and organisations to: 'Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms'.

One way in which modern slavery can be addressed is via reporting and transparency, with this approach favoured by several Western countries, including Australia, the UK and Canada. Although the 2025 deadline set down by the UN will remain unmet, if this goal is to be eventually realised, even in the long run, it is not enough for Western governments to pass laws imposing transparency and, in some cases, due diligence on large companies in the hope of a trickle-down effect that might eventually benefit people in developing countries positioned at the beginning of the product and labour supply chains. Instead, modern slavery must be investigated in the context of local developing country conditions regarding cultural and economic challenges faced, and a local researcher must preferably be involved who understands conditions and customs on the ground. The current research is encouraged to do this in the context of accounting for modern slavery in Nigeria, as only six specific developing country studies have been identified – Argentina, Bangladesh, China, Ghana, Pakistan and Turkmenistan[6] – and they each only look at one industry.

Modern slavery in business operations and supply chains describes a set of human rights abuses that involve *controlling* a victim through means such as threats of or actual use of violence against victims or their families, deception, removal of documentation to stop mobility, imprisonment, sexual exploitation starvation and torture.[7] In comparison, traditional slavery was based on the *ownership* of another person as a chattel. Ownership, which provided the legal right to buy, sell and account for an enslaved person as property, existed on the African continent for years, but chattel slavery is now illegal in Nigeria.[8] Nonetheless, estimates suggest not only that modern slavery is rife in Nigeria, but that the government is doing very little to combat it. In addition, Nigerian businesses have no specific reporting obligations when it comes to human rights and modern slavery.

3. Amnesty International, 2022
4. Guthrie et al., 2022
5. Christ et al., 2020; Christ et al., 2022
6. Strand et al., 2023
7. International Labour Organization (ILO) and Walk Free Foundation, 2017; Pierce, 2011
8. Akor, 2011

The Nigerian Stock Exchange (NSE) does have a listing requirement that companies incorporate sustainability information as part of their annual reporting activities, which should include: 'ethical procurement practices which address transparency, confidentiality, fairness, child labour, corruption, conflict of interest, support for SME and women-owned businesses, forced labour, social responsibility and Health & Safety'[9] but a lack of clear prescription may limit its overall effectiveness. This means any modern slavery-related reporting occurs in a virtually voluntary setting. Thus, it is inappropriate to generalise from modern slavery studies conducted in the West against the backdrop of modern slavery legislation to the complicated context of Nigeria. Nigeria represents a unique setting that, along with other developing countries in Africa and beyond, needs to be separately investigated and theorised.

The purpose of this paper is to consider modern slavery disclosure as a sub-set of sustainability accounting in the Nigerian context. Drawing on Crane's theory of modern slavery,[10] the paper will theorise how the Nigerian setting allows modern slavery to perpetuate and how this might influence how Nigerian companies engage with modern slavery accounting and reporting. The discussion will then turn to the potential for 'circuit breakers' to disrupt the model presented by Crane[11] and improve action aimed at eradicating modern slavery in the Nigerian context. In doing so, the following research questions will be addressed:

RQ1: In what ways is the current setting in Nigeria likely to facilitate and perpetuate modern slavery in business operations?

RQ2: To what extent are Nigerian companies openly recognising and engaging with modern slavery through their corporate disclosures?

RQ3: What actions might be needed to overcome or minimise the impact of the complex Nigerian setting when addressing modern slavery risk in business?

The paper is structured as follows: In section 2, Crane's theory related to the Nigerian context is explained. Section 3 details the research method used and the source of evidence gathered. Section 4 provides results of a thematic content analysis of modern slavery practices of top Nigerian companies. Section 5 discusses the findings in the Nigerian setting. A brief conclusion and directions for future research are presented in Section 6.

2. Crane's theory and the Nigerian context

In a bibliometric study of meta-literature on modern slavery published between 1999 and 2021, Mehmood et al.[12] found and analysed 280 papers. Their results show that Andrew Crane has by far the highest number of citations, with 148, nearly 50% ahead of his nearest rival. As 134 of these citations relate to Crane,[13] they conclude that he has the most influential publication on the topic. Crane[14] provides a seminal theoretical management framework for understanding settings where modern slavery is practised within organisations. Conditions enabling slavery are captured in Figure 1 of Crane,[15] with five main contextual institutional conditions being identified: industry, socioeconomic, regulatory, cultural and geographic. A fundamental indirect basis for assessing these is through national statistics and international

9. NSE, 2018, p.18
10. Crane, 2013
11. Ibid.
12. Mehmood et al., 2023
13. Crane, 2013
14. Ibid.
15. Ibid.

government and non-government organisations. Modern slavery in Nigeria is systemic, with the 2023 Global Slavery Index suggesting that more than 1.6 million people are currently living in slavery conditions within the country.[16] Despite an increasing number of annual labour inspections conducted by the Ministry of Labour and Employment, the problem remains a pervasive part of life for many citizens.[17] This means it is necessary to understand the context in which modern slavery in Nigeria occurs. With this in mind, the five areas identified by Crane are now examined in the Nigerian setting to see how these contexts may facilitate and perpetuate modern slavery in business operations and supply chains in Nigeria. In doing so, research question 1 is addressed.

2.1 Industry Context

Literature indicates that the type of industry is an important consideration when examining the presence, facilitation, and perpetuation of modern slavery in business operations and supply chains.[18] Specific industries are observed to have a high risk of modern slavery. These are identified by Strand et al.[19] as 'non-technological, traditional work such as agriculture, mining, textile manufacture, construction and fishing', especially those that are labour-intensive and low-skilled. Recognition of the pervasiveness of modern slavery has also recently placed focus on the role of the finance industry in modern slavery.[20]

The industry context in Nigeria helps facilitate modern slavery in several ways. The Nigerian workforce is primarily focused on subsistence agriculture (farming, forestry and fishing comprise 30% of the workforce), services (52%) and other industries (13%), plus a small amount of manufacturing (5%).[21] Nevertheless, in terms of work, 88% of workers in Nigeria are self-employed in their businesses, with 93% working in the informal economy,[22] which locks low-cost labour into business models.[23]

Most informal workers work in micro, small and medium-sized businesses, petty trades and other forms of individual economic activity, and they mostly have no contractual arrangements,[24] thereby increasing their vulnerability. Only about 12% are wage employees, making them susceptible to modern slavery practices in these high-risk agricultural (e.g., cocoa beans and oil palm fruit) and services (e.g., retail, hospitality, transport, IT, financial services and communications) industries.[25] This is particularly the case when working in the upstream supply chains of large domestic and international companies.

2.2 Socioeconomic Context

The World Bank suggests that classifying countries as developing or developed using economic measures is insufficient as concern for sustainability issues, including social, environmental and governance aspects, grows in importance.[26] This has led to a combination of economic and human measures of development (life expectancy at birth, years of schooling, and Gross National Income per capita) coming into broader use, with developing

16. Walk Free, 2023
17. Ibid.
18. Crane, 2013; Gold et al., 2015
19. Strand et al., 2023, p. 10
20. United Nations University, 2019
21. Statista, 2023
22. National Bureau of Statistics, 2023
23. Crane, 2013
24. Folawewo and Orija, 2020
25. Adelakun, 2019; Statista, 2023
26. World Bank, 2023b

economies having low measures across these dimensions.[27] Nigeria has low human development (ranked 163 of 191 countries), even when adjusted for planetary pressures per capita, such as carbon dioxide emissions and its material footprint.[28] This is a long way from assessing all aspects of development over time, including governance, but it is a starting point. For example, countries with the highest human development index measures are now moving into the fourth industrial revolution (Industry 4.0).[29]

Nigeria has benefitted little from its vast mineral wealth as other national states and transnational nationals take the wealth away from the Nigerian people.[30] Also, few gains have eventuated from the previous industrial revolutions and seem to be being left behind again.[31] A specific indication of the applicability of this criterion for development is provided by IMD's World Digital Competitiveness Ranking (WDCR),[32] which measures the capacity and readiness of 64 economies to adopt and explore digital technologies as a critical driver for economic transformation in business, government and broader society. There is a high correlation between the WDCR and the classification of developing countries. A few African countries, such as Botswana (*#60*) and South Africa (*#58*), previously classified as having developing economies, are included. Nigeria has not progressed to the list, which looks bad for the prospects of human development, despite enthusiasm for lessons in sustainable entrepreneurship that could be learnt from the European Union and Australia.[33] Nevertheless, 91% of people in Nigeria are estimated to subscribe to a mobile cellular phone.[34]

2.3 Regulatory Context

Within Africa, the highest prevalence of modern slavery is in Nigeria,[35] pervading its industries and agriculture.[36] The Global Slavery Index estimates there to be 1,611,000 people being held in slavery in the country,[37] more than the total number of the 16 other West African countries together. Thus, it serves as a valuable case to examine.

Modern slavery, a form of criminal behaviour that is often hidden, is being addressed in Nigeria through legislative measures aimed at criminalising various types of human trafficking, including forced, child, and bonded labour, aligning the nation's laws with European standards.[38] Nigeria has also ratified international agreements such as the UN Slavery Convention of 1926, the Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Similar Institutions and Practices of 1956, as well as the International Labour Organization (ILO)'s Conventions on Forced Labor and Child Labor. Furthermore, Nigeria is dedicated to achieving the SDGs, particularly target 8.7, which focuses on ending modern slavery.[39] The country's Tier 2 classification, according to the US Trafficking Victims Protection Act, reflects considerable efforts in combating human trafficking.[40]

27. UN Development Program (UNDP), 2023
28. UNDP, 2023, Table 7
29. Burritt and Christ, 2016; Tiwari and Khan, 2020
30. Lucas et al., 2024, forthcoming
31. Adepetun, 2019
32. IMD, 2023
33. Ogunlela, 2023
34. Central Intelligence Agency, 2023
35. Walk Free, 2023
36. Obarisiagbon and Ijegbai, 2019
37. Walk Free 2023
38. Ibid.
39. UN, 2021
40. US Department of State, 2021a

Another possible indirect voluntary influence on modern slavery reporting practices is accounting standards. Formal, mandatory oversight has been established by the Financial Reporting Council of Nigeria under the Financial Reporting Council (FRC) Act No. 6 of 2011 as a governance mechanism to align accounting services with best international practices in the face of global financial scandals.[41] It is a disappointment but not unexpected to see that there has been little concern for social and environmental risks in the past, as the necessary focus on reducing corruption through improving the credibility of financial reporting supported by external audits has taken centre stage. Instead, through alignment with International Financial Reporting Standards (IFRS), there is an emphasis on helping smaller businesses build financial credibility to access credit and fit into the global finance markets to encourage investment in multinational companies. Although at COP27, a commitment has been made by the Financial Reporting Council of Nigeria to adopt the IFRS sustainability standards, these have yet to address modern slavery risks.[42]

2.4 Cultural Context

Crane[43] identifies traditions, entrenched inequalities and religious beliefs as cultural factors embedding modern slavery. The complicated history of slavery in Africa is such that the role of tradition should be considered first. Although the Transatlantic Slave Trade is often front of mind when people think about slavery in Africa, this is only a recent example of a problem that goes back generations. Quirk[44] provides a helpful historical window on modern slavery. He identifies that cult slavery has predominantly been concentrated in western Africa, which includes Nigeria. Slavery has existed for thousands of years and has been considered entirely legitimate, including by religious institutions, socially necessary and economically valuable. In this context, the legal movement against slavery as a historically entrenched institution appears as an anomaly. Anti-slavery proponents viewed ownership of human beings and extreme dominion and exploitation as an 'unconscionable evil',[45] but even though, legally, slavery is a crime, local cultural circumstances mean that extreme forms of exploitation persist in modern slavery.

Inequalities against women are entrenched in the democratic governance process in Nigeria. It has been the tradition under the Nigerian Constitution (1999) for women to be under-represented. Ongoing attempts to overcome this have been made but blocked.[46] Although women's rights are legally protected, inequalities in representation exist partly because women dominate the poor in Nigerian society and, as a result, are uneducated about political processes, have lower access to resources[47] and are more likely to fall victim to modern slavery practices.

For example, in the Nigerian context, there are entrenched inequalities between men, women and children. In Nigeria, the vast majority of people are young, with a median age of 18 years and 43% under the age of 15,[48] and as part of Nigerian culture, younger people are not expected to disrespect or challenge the authority of the elderly. This restricts young girls informally working in bars from confronting abusive customers. This cultural tradition fuels the vulnerability of underage

41. Herbert et al., 2016
42. IFRS, 2022
43. Crane, 2013
44. Quirk, 2006
45. Ibid.
46. Ogunniran, 2015; Omotoso, 2023
47. Omotoso, 2023
48. World Bank, 2021

waitresses as suitable targets for abuse, especially sexual harassment.[49]

The role of gender inequality within Nigeria also has implications related to wider employment opportunities. A report on gender barriers in the country published by Jobberman Nigeria[50] found that institutional and cultural barriers are forcing more women to accept work in the informal sector, as work in the formal sector is restricted. Although Western literature often describes informal work as being associated with an increased risk of becoming trapped in modern slavery (as described above), in the case of Nigeria it has also been argued that informal employment can provide a means for women to improve their situation in life and to foster innovation in ways that are not otherwise possible in discriminatory formal settings.[51] Nonetheless, the ILO[52] has put forward a Recommendation on the Transition from the Informal to the Formal Economy, 2015 (No. 204) in which they encourage countries to move towards more formalised forms of employment for all citizens. How this might work in a country like Nigeria, where gender discrimination is systemic, remains to be seen.

Religious institutions, which can be used to facilitate the faith of individuals and communities, are prominent in Nigeria and possess considerable power in reinforcing practices that subordinate women and provide higher authority to men.[53] The religious context for understanding modern slavery facilitation and perpetuation in Nigeria is complex, because over 300 ethnic groups and 500 languages and different religions were originally forcefully welded together 'for administrative convenience' by Britain.[54] Nigeria is dominated by African traditional, Christian and Islamic religions, each with different strands, sub-categories and interactions between them.[55] All have been involved with chattel slavery in the past, and these religious beliefs also have a strong influence over the perpetuation of modern slavery in Nigeria. For example, many trafficked Nigerian women participate in a traditional ceremony with a juju priest and some traffickers exploit this tradition and tell the women they must obey their traffickers, or a curse will harm them, which prevents victims from seeking assistance or cooperating with law enforcement.[56] Kitause and Achunike[57] argue for the importance of religion in every Nigerian's life and that 'All of these [religions] culminated in the fight against all forms of corruption, injustice, molestation of the girl child and the advocacy for women empowerment to enhance the dignity of the human person in Nigeria'. Nevertheless, they see success as limited as they paint a picture of the battles between the religions, which have led to 'immorality, homosexuality, lesbianism, incest, rape, armed robbery, terrorism, assassination, kidnapping, divorce, abortion, examination malpractices, *god-fatherism*, intolerant, tribalism, corruption, religious crisis and the like…with Christians and Muslims topping the lists as culprits'.[58] There is no specific mention of modern slavery, but in this context, its presence in the practices of business and engagement through trafficking is no surprise either.

49. Aborisade, 2022
50. TechCabal, 2022
51. Ibid.
52. ILO, 2015
53. Elabor-Idemudia, 2003
54. Ugbam, 2014, p. 66
55. Kitause and Achunike, 2013
56. US Department of State, 2021b
57. Kitause and Achunike, 2013, p. 53
58. Ibid., p. 51

2.5 Geographic Context

Nation states in Africa, Central and South America and Southeast Asia are recognised as the primary source of modern slavery in the world, mainly because relative economic poverty combined with poor education makes workers open to easy replaceability, job insecurity and exploitation.[59] The Walk Free[60] modern slavery vulnerability index for Nigeria is 76 in every 100 people, which, according to their Report, is the highest absolute number in Africa. According to UN Office on Drugs and Crime (UNODC),[61] women and children are the most vulnerable groups. They are trafficked internally and externally for economic and sexual exploitation, such as prostitution, forced labour, domestic servitude, alms begging, the drug trade, child soldiers, forced marriage, organ transplants, etc. In addition to all of these actions, Nigeria is not helped by the presence of armed conflict in some areas, particularly the Northeast, through the activities of Boko Harem, as this increases the trafficking of people. Up to one million people are trafficked annually in Nigeria, with 75% of this internally between Nigeria's 36 States and only 2% trafficked outside.[62]

Nonetheless, Nigeria is performing well relative to other African countries and, in recent years, has had the strongest response to modern slavery in Africa.[63] For example, the Ministry of Labor and Employment conducted 17,026 labour inspections found 2,274 violations of child labour laws and removed 475 children from potential trafficking conditions; this compared with removing 1,193 children from potential trafficking conditions during the previous reporting period.[64]

To research modern slavery in the Nigerian setting, it is first necessary to understand the context in which Nigerian businesses operate, which is different from the Western countries in which modern slavery-related legislation dominates. Based on Crane's[65] theory of modern slavery, it can be seen that Nigeria faces several contextual institutional conditions with the potential to contribute to and insulate companies and perpetrators from efforts designed to tackle the problem. To improve information for policy, it is now necessary to turn to what Nigerian businesses are actually doing or say they are doing in relation to this issue (RQ2). Even in such a complex setting, it can be argued that large corporations are likely to respond first to external pressures related to addressing and potentially reporting on modern slavery. Regardless of the actual response, collecting such evidence is to provide a first benchmark of the corporate response in Nigeria for the future. In conjunction with Crane,[66] this benchmark can then be used to identify potential circuit-breakers that can be utilised to mitigate the challenging social and institutional setting and moderate the impact of such conditions and how they contribute to the pervasiveness of modern slavery in Nigeria (RQ3).

Finally, the potential importance of the practices and disclosures of multinational companies operating across countries must be considered, as they can trickle down international practices to smaller businesses in the supply chain.

3. Research method

With general contextual information about modern slavery in Nigerian businesses emerging from available statistics, exploration of the core

59. Walk Free, 2023; WorldData.Info, 2023
60. Walk Free, 2023
61. UNODC, 2023
62. Ibid.
63. US Department of State, 2021b; Walk Free, 2023
64. US Department of State, 2021b
65. Crane, 2013
66. Ibid.

content and operationalisation in companies is needed to reveal more granular information.

With granularity in mind, this section discusses the data sources and methods used for the analysis of modern slavery disclosures made by big business in Nigeria, and addresses RQ2. The focus on large business organisations is pertinent, as large organisations often lead the way when it comes to the recognition of sustainability-related issues. They are also among the first to face regulation and public scrutiny within their home countries and beyond.

3.1 Data Source

To understand the landscape when it comes to identifying and addressing modern slavery risk in Nigeria, a baseline for current disclosure practices is needed. Crane[67] suggests certain factors can moderate the relationship between the conditions already described that enable slavery in the first place and the exploiting and insulating capabilities that allow it to continue. One of these relates to supply chain interventions and another to the deployment of private and civil regulation. An example of how this might be relevant in the Nigerian context relates to efforts exerted by large chocolate companies such as Mars and Kraft, who have used their supply chain power to fight forced labour and improve conditions in the West African cocoa industry.[68]

The problem of modern slavery in corporate supply chains has motivated some jurisdictions to require large entities to provide information on modern slavery-related activities and report data about actions taken to address modern slavery in their operations and supply chains.[69] Although such reporting is not a requirement in Nigeria to establish and maintain legitimacy with customers and other stakeholders, companies may be encouraged to adopt modern slavery reporting practices.[70] This study focuses on disclosures of the top 100 of 156 companies listed on the NSE, based on their market capitalisation.[71] Market capitalisation is the major measure used by stock exchanges to rank the top companies. It has been adopted in this research on the basis that where stock exchanges exist, marketplace size makes action on modern slavery consequential for corporate supply chains.[72] The stock market is highly concentrated, with the top 15 companies accounting for 90% of market value.[73] Reports for 2020 provide the latest comparable set of data available, which were selected for analysis. Nigeria has a low base and is one of only a few African countries where mandatory annual reporting is required for listing, with standalone reports being voluntary.

3.2 Data Collection and Method of Analysis

Data was collected for the top 100 companies listed on the NSE from three primary corporate sources – annual reports, sustainability reports or equivalent, company websites – and two other sources – supplier codes of conduct and human rights statements. The following sectors dominate the list: financials (45%), consumer goods and services (22%); industrials (12%), and oil and gas (8%). Oil and gas reserves are legally the property of the Nigerian Federal Government and account for 76% of federal government revenue and 40% of the country's GDP.[74]

Of the top 100 companies listed on the NSE, annual reports were only freely accessible for

67. Crane, 2013
68. Ibid.
69. Pinnington et al., 2023
70. Stevenson and Cole, 2018
71. https://ngxgroup.com/exchange/trade/equities/listed-companies
72. Flynn and Walker, 2020
73. Vanguard, 2020
74. Rainforest Rescue, 2024

85 of them. In addition, data was available in 26 sustainability reports and on 35 websites making sustainability-related disclosures. To some extent, this situation reflects the NSE listing rules, which allow sustainability reporting either in standalone reports or as a sub-section of annual reports. Where companies do not publish a separate sustainability report, discrete (albeit limited) sustainability sections are found within the Annual Report of 20 companies. However, the information is not presented in an integrated way. Ten companies disclosed a supplier code of conduct, and 18 produced a human rights statement. Only 42 companies included a search function on their website which greatly increased the time commitment needed to ensure every section of a website was reviewed and relevant information recorded.

Based on themes extracted from the disclosure sources, content analysis provided the foundation for analysis. The metric used by Christ et al.[75] was adopted as the research instrument for assessing the main themes and sub-themes disclosed (see Table 1, Columns 1 and 2) and, as revealed by the literature, is generic for developed and developing countries. Content analysis is a prevalent method for analysing modern slavery reporting as an aspect of sustainability reporting.[76] It is a research technique for the inter-subjectively comparable description and analysis of the communicated content. Reports were downloaded, and each one searched for content about five main themes and 14 modern slavery sub-themes relating to modern slavery risks in corporate supply chains (see Table 1), through coding of 1 if disclosed and 0 otherwise. The search process involved two authors working with a protocol to interpret observations within the reports and websites. To further ensure there were no country or culturally specific areas that might be missed by using a disclosure index originally developed in a Western country context, both authors carefully considered the nature of all disclosures for areas that were not automatically covered. No such areas were found.

First, the top 100 companies on the NSE were identified and recorded on an Excel spreadsheet; then, their websites were identified, with author 1 locating the top 50 addresses and author 3 recording companies 51–100 sites. These websites were then confirmed in reverse, such that all websites were double-confirmed as correct. This first step was significant because of the problems associated with many online warnings that access to these sites would be insecure and was not advisable. The two researchers persevered, and finally, only one site was confirmed to be completely inaccessible, #38 Honeywell Flour Mills, despite many attempts to access the data over one month. A second step was for the two authors to check and countercheck how many companies had built-in search functions on their websites to assess the time involved in the interrogation of websites. This varied between 20 minutes for the well-developed sites and 90 minutes for the less user-friendly sites. Step three of the protocol was to agree on whether companies had published 2020 annual reports and sustainability reports on their websites. The top 50 companies were examined by author 1 and the second 50 by author 3. A crosscheck was then made to ensure that nothing was missed. In this process, a Krippendorff's alpha was initially calculated. However, as cross-checks between the authors confirmed where any reports had been missed or could not be found, this degree of sophistication was not considered necessary and abandoned.

75. Christ et al., 2019
76. Asuquo et al., 2018

TABLE 1: Content Analysis Themes, Sub-themes and Results – Supply Chain

Theme	Sub-Theme	Number of Disclosures: Annual Report	Sustainability Report	Website	Total	%	Ranking
1. Human rights in the Supply chain	a. Child Labour	14	9	10	33	10.28	=3
	b. Forced Labour	11	10	10	31	9.66	6
	c. Trafficking	5	2	4	11	3.43	=12
	d. Minimum Wage	5	3	4	12	3.74	11
	e. Human Rights	21	11	8	40	12.46	1
Total					**127**	**39.56**	
2. Health & Safety in the supply chain	a. Health & safety	19	10	6	35	10.90	2
	b. Abuse & Violence	4	2	5	11	3.43	=12
Total					**46**	**14.33**	
3. Supplier assessment	a. Screening	7	5	2	14	4.36	10
	b. Risk assessment	8	6	2	16	4.98	=8
Total					**30**	**9.35**	
4. Supplier code of conduct	a. Diversity & Equal opportunity	3	1	4	8	2.49	14
	b. Whistle Blowing	18	8	6	32	9.97	5
	c. Bribery & Corruption	17	9	7	33	10.28	=3
	d. Code of conduct	12	8	9	29	9.03	7
Total					**102**	**31.78**	
5. Modern slavery	a. General	7	5	4	16	4.98	=8
Total					**16**	**4.98**	
		151	**89**	**81**	**321**	**100.00**	

* Additional results concerning influence of other jurisdictions on disclosure and sector disclosure differences are available on request from the corresponding author.

The fourth step was for interrogation of the identified reports and websites, this time reversing the order with author 3 searching for the 14 search terms listed as sub-themes in Table 1, for each of the three sources for each company. A yes/no record was documented on the spreadsheet for each of these possible items. Where an observation was identified, the relevant sentences were recorded in a searchable word file, with the source and page number being recorded for each instance discovered. Authors 1 and 3 then checked each other's recordings in the file. Where there was disagreement, each instance was discussed, and an agreed classification was recorded. Two main issues were discovered and reconciled between the authors. Sometimes, a sentence was recorded in the Word file and noted as a Yes on the Excel spreadsheet when it did not specifically relate to modern slavery characteristics in supply chains. For example, bribery and corruption policies occasionally did not relate to suppliers. However, it may have been linked with partners, and a double check was made whether partners did or did not include suppliers. During this interrogation, modern slavery in supply chain disclosures were also classified on the spreadsheet based on whether they were qualitative or quantitative and whether a Supplier Code of Conduct and a Human Rights statement were available online. The data having been gathered was then available for analysis.

Further to the above, and as part of collecting the data, all relevant disclosures and any surrounding information required to understand them or put them into context were also collated, cut and pasted into a searchable Word document arranged by company and listing order. In order to supplement the content analysis, which was designed to provide a high-level overview of the current state of modern slavery supply chain reporting in Nigeria, these disclosures were then interrogated by two of the researchers, in total, in a thematic way based on induction with a focus on manifest or semantic meaning. The direct quotes for analysis amounted to 20,957 words, showing how limited disclosure on modern slavery currently is. Nonetheless, this did allow the researchers to review all the information in full and discuss potential themes and areas of interest.

4. Results for modern slavery disclosures

4.1 Content Analysis – Descriptive Statistics

Descriptive statistics provide the foundation for addressing RQ2: To what extent are Nigerian companies openly recognising and engaging with modern slavery through their corporate disclosures? Descriptive statistics reveal quantitatively how the top 100 listed companies in Nigeria make disclosures about modern slavery in their supply chains. The overall results indicate a low level of disclosure. Table 1 (Column 6) shows that of the 4,200 total technically possible disclosures that could have been made (i.e., three possible forms of media for disclosure X 14 possible sub-themes X 100 companies), only 321 (8%) could be identified for the sample. This can be compared with 832 (20%) disclosures for the top 100 Australian companies in 2015 using the same method when modern slavery reporting was voluntary.[77] One-third of the top 100 companies made no disclosures in the 14 sub-themes. Of the 67 companies making at least one disclosure, 64 made qualitative disclosures, and 16 made quantitative disclosures (with only 13 companies making both).

A detailed breakdown of the results by theme and sub-theme is shown in Table 1. The most prominent themes represented are 'Human rights in the supply chain' and 'Supplier code of conduct'. At the sub-theme level, disclosures about 'Human rights' and 'Health and safety' are the most prominent, followed equally by 'Bribery and corruption' and 'Child labour'. Of note is that even though the overall level of disclosures is low, where made, forced and child labour together dominate disclosures on human rights issues (approximately 20%). Although these two areas are critical aspects of modern slavery,[78] the exploratory content analysis reveals a lack of focus on trafficking.

77. Christ et al., 2019
78. Crane, 2013

TABLE 2: Mean Disclosures and multinational and local company comparisons

Ms Sub-Themes	Annual Reports				Standalone Reports				Website Reports			
	Mean	Std Dev.	Var.	Kurtosis	Mean	Std Dev.	Var.	Kurtosis	Mean	Std Dev.	Var.	Kurtosis
Child Labour	0.14	0.35	0.12	2.49	0.09	0.29	0.08	2.91	0.10	0.30	0.09	2.71
Forced Labour	0.11	0.31	0.10	4.50	0.10	0.30	0.09	2.71	0.10	0.30	0.09	2.71
Trafficking	0.05	0.22	0.05	15.90	0.02	0.14	0.02	6.96	0.04	0.20	0.04	4.77
Minimum Wage	0.05	0.22	0.05	15.90	0.03	0.17	0.03	5.59	0.04	0.20	0.04	4.77
Human Rights	0.21	0.41	0.17	0.09	0.11	0.31	0.10	2.53	0.08	0.27	0.07	3.14
Health & safety	0.19	0.39	0.16	0.59	0.10	0.30	0.09	2.71	0.06	0.24	0.06	3.76
Abuse & Violence	0.04	0.20	0.04	21.14	0.02	0.14	0.02	6.96	0.05	0.22	0.05	4.19
Screening	0.07	0.26	0.07	9.91	0.05	0.22	0.05	4.19	0.02	0.14	0.02	6.96
Risk assessment	0.08	0.27	0.07	8.04	0.06	0.24	0.06	3.76	0.02	0.14	0.02	6.96
Diversity & Equal opp	0.03	0.17	0.03	29.90	0.01	0.10	0.01	10.00	0.04	0.20	0.04	4.77
Whistle Blowing	0.18	0.39	0.15	0.88	0.08	0.27	0.07	3.14	0.06	0.24	0.06	3.76
Bribery & Corruption	0.17	0.38	0.14	1.21	0.09	0.29	0.08	2.91	0.07	0.26	0.07	3.42
Code of conduct	0.12	0.33	0.11	3.71	0.08	0.27	0.07	3.14	0.09	0.29	0.08	2.91
General	0.07	0.26	0.07	9.91	0.05	0.22	0.05	4.19	0.04	0.20	0.04	4.77

Multinational vs local companies; sector analysis		
No. of subsidiaries	13	0.54(0.46)
Local companies	87	0.14(0.86)
Financial & consumer	67	0.18(0.82)
Oil & gas	8	0.13(0.87)
Industrial sector	12	0.25(0.75)

Note: Number = 100 companies; Std Dev. = Standard Deviation; Var. = Variance

Two additional considerations related to the influence of others on the disclosures of top listed Nigerian companies – the possible geographic impact of multinationals and industry sectors.

Although the largest Nigerian companies appear more likely to disclose modern slavery supply chain information, with 29 of the largest 30 listed companies making such disclosures, 13 of the top 100 are subsidiaries of multinational companies listed on the NSE (see Table 2). Of these, six (46%) produced no information about modern slavery. For the remaining 87 companies, 75 (86%) made no disclosures about forced or child labour. On this basis, although the results are poor across the board, the subsidiaries of multinationals have a slightly better disclosure record. In addition, overseas regulations on modern slavery risk disclosures do not yet have an impact on Nigerian practice. Whereas multinational companies account for 54% of the total modern slavery-related disclosures, the 87 local companies in Nigeria contribute only 14%.[79]

Sectors represented in the top 100 listed companies are dominated by financials (45), consumer goods and services (22), industrials (12), and oil and gas (8), with basic materials, healthcare, technology and telecom having minor representation. These sectors represent the total make-up of the NSE. While attention to the financial sector as a hot spot industry for modern slavery is only recent,[80] consumer goods and services and industrials are well recognised as potential risk sectors. Nonetheless, 82% of both the financials and the consumer goods and services sectors produced no information about modern slavery, and there is little difference in other sectors, with 75% of industrials making no modern slavery disclosures. Furthermore, sectoral analysis indicates that mean disclosure stands at 25% for industrial goods, followed by financial and consumer goods and services, which account for 18% of disclosures.

4.2 Analysis of Disclosure Themes

In addition to the descriptive statistics, disclosures relating to how the sample companies report on modern slavery risk in their supply chains were analysed thematically and in greater depth to reveal more detailed and potentially meaningful qualitative information. The main themes identified, following individual and cross-checked searches of the derived database, relate to education and awareness, supply chain codes of conduct, incidents reported, and collaboration.

4.2.1 Education and Awareness

Given the high risk of modern slavery in Nigeria, to end the practice, education and training to build awareness is critical for businesses, workers and the general public.[81] Although the level of modern slavery disclosures in the reports examined is only about 8% of the possible instances, this mirrors Okpala's[82] review of social disclosures in annual reports, including education and training. Given this result, it is promising that several companies will voluntarily disclose information about educational aspects of modern slavery from different sources.

Reference to education and training is generally confined to disclosures by the largest companies in the sample. For example, MTN Nigeria Communications, the second largest company, conducts virtual supplier training, which reached 453 participants in December 2020.[83] The company also seeks to ensure staff complete ethical compliance training and 'Ethically Aware Supplier Induction', although the total number of senior managers is not disclosed. They report:

> **Across the Group, a total of 5 990 (37%) permanent full-time employees have completed a compliance training course. Ethics officers from nine operating companies participated in the Ethically Aware Supplier Induction (EASI) training programme that was rolled out to senior managers of 180 small to medium-sized suppliers of our operating companies.**[84]

79. Spreadsheet data is available on request.
80. KPMG and the Australian Human Rights Commission 2021, Walk Free 2023
81. Nolan and Bott, 2018
82. Okpala, 2019
83. MTN Group Limited, 2020a, p. 36
84. MTN Group Limited, 2020b, p. 51

Zenith Bank has developed human rights assessment courses, namely 'Introduction to Human Rights Framework and the Rights of the Child', 'Understanding the Implications of Human Rights Non-compliance', and 'Human Rights in Business Transactions', to train staff across all levels on the basics of human rights. These courses have been deployed on their Learning Management Portal and made 'mandatory for staff, from entry-level to executive management level' (Zenith Bank, Annual Report, p. 79).

MTN Nigeria Communications is notable for including quantitative information, which makes it easier to understand and holds them accountable for their policies' overall success and reach. Sterling Bank, number 32 in size, likewise offers supplier training on sustainable procedures in the supply chain. However, the figures provided, of 30 vendors trained in 2019 and a further 13 to be trained in 2021, do leave the question of commitment to the process fairly open (Sterling Bank, Annual Report, p. 77). Without figures detailing the number of suppliers the company deals with, it is impossible to ascertain if this represents a dedicated effort to addressing the problem of supply chain-related labour abuses or if it is merely paying lip service. GlaxoSmithKline Nigeria also report their involvement with training as follows:

> **…we supported the delivery of human rights and modern slavery training sessions for suppliers in India and China. We also engaged with stakeholders in Brazil to better understand the forced labour risks and certification schemes associated with carnauba wax – used for tablet coatings – and presented our findings to suppliers (Sterling Bank Annual Report, p. 64).**

These vague statements do not include details that would allow the context of these trainings to facilitate open accountability. Although these disclosures do indicate that information about some aspects of modern slavery is being shared with some stakeholders, the vast majority of top companies do not indicate that they are involved with educating and training suppliers about modern slavery.

4.2.2 Supply Chain Codes of Conduct

A key theme identified in the modern slavery-related disclosures explored is the presence and enforcement by focal companies of supplier codes of conduct. These internally derived codes of conduct contractually affect upstream and downstream suppliers and purchasers. Where disclosures are made, supplier codes of conduct are cross-referenced in sustainability and annual reports, recognising the potential for integrated information on the economic and social aspects of modern slavery.

In its Sustainability Report (p. 22), Lafarge Africa holds supplier and third-party contractors responsible through the group Supplier Code of Conduct. Suppliers are expected to demonstrate some principles related to forced and child labour, bribery and corruption, and good working conditions. Likewise, in its code of conduct, the largest company, Dangote Cement, states that it will not contract with suppliers that engage in child or forced labour. Also, Airtel Africa states:

> **We are committed to combatting any form of slavery, trafficking, child labour, forced labour, inhuman treatment or working conditions that are a threat to life or hinder the physical, emotional and/or mental wellbeing of a person (Airtel Africa, Annual Report, p. 55).**

Similar codes are disclosed by Seplat Energy, the only company with its modern slavery statement, while Guinness Nigeria uses an online disclosure to stamp its mark against forced, child and bonded labour:

> Child labour and forced labour. As part of our commitment to broader human rights, we are committed to protecting the rights of children. We do not permit exploitation of children or involuntary servitude for our employees, or within our suppliers or business partners. This includes the consideration of debt bondage and unacceptable financial costs forced upon workers (Guiness Nigeria, Online statement, Human Rights Global Policy, p. 5)

Unilever Nigeria, in its Responsible Sourcing Policy, strictly refers to the non-acceptance of supplier use of child labour (workers under a specified age) and to forced and bonded labour:

> Under no circumstances will a supplier use forced labour, whether in the form of compulsory or trafficked labour, indentured labour, bonded labour or other forms. Mental and physical coercion, slavery and human trafficking are prohibited (Unilever Nigeria, Responsible Sourcing Policy, referred to in Annual Report, p. 50).

In contrast, several companies, such as Access Bank and Ecobank, have generic codes that apply to vendors and suppliers but do not specifically mention modern slavery-related themes. Zenith Bank states:

> As part of efforts to comply with the principles of responsible consumption and production, we have integrated environmental and social conditions into our Code of Conduct for Suppliers, Vendors and Contractors. The aim is to promote sustainable business practices, and to ensure high quality products and services, value for money and responsible sourcing of raw materials in our supply chain. Consequently, in 2020, we administered our "Code of Conduct" on all major vendors, suppliers and contractors of the bank and periodically screened all third-party business partners to ensure their compliance with E&S guidelines (Zenith Bank Annual Report, p. 80).

In Zenith Bank's disclosures, there is a voluntary focus on downstream and upstream modern slavery risks.

4.2.3 Incidents Reported

Concerning customers, Guaranty Trust Holding specifies:

> All 895 transactions booked were assessed for human rights risks such as child labour and forced labour. Assessment comprises of initial screening with the Exclusion Checklist for all customers and Further Due Diligence Assessment for High Risk customers. (Guaranty Trust Holding, Annual Report p. 94).

In contrast to the above, in line with Stringer and Mikhailova (2018) and Stevenson and Cole's (2018) thoughts, other companies take an opaque approach to the disclosure of information, which, while promising to consider these issues, makes it difficult for the reader to understand the level of and success associated with engagement. For example, Stanbic IBTC Holdings states:

> We are transparent in selecting, evaluating, and monitoring suppliers and the evaluations' criteria. This improves suppliers' and vendors' compliance with environmental and social standards and ensures that quality goods and services are delivered at all times. We strive to be transparent in selecting, evaluating, and monitoring suppliers to encourage healthy competition and inventiveness on their part while ensuring compliance with environmental and social standards (Stanbic IBTC Holdings, Sustainability Report, p. 27).

However, given claims of 'transparency' within the disclosures, it is unclear how they achieve compliance and improved standards.

Access Bank and Union Bank of Nigeria provide similar statements. In their sustainability report, the latter suggests that they 'recorded zero incidents of human rights violations' (Union Bank of Nigeria Sustainability Report, p. 23). Flour Mills of Nigeria likewise testifies to no reports of human rights breaches in their operations, although they also state, 'our operations are currently not subject to human rights reviews or human rights assessments…nor was there a breach of human rights reported or observed' (Union Bank of Nigeria Sustainability Report, p. 54). Nascon Allied Industries also observed that: 'In the year under review, we did not record any reported case of child labour, forced or compulsory labour. We will remain vigilant in our operations to ensure that this status is maintained' (Nascon Allied Industries Annual Report p. 59).

4.2.4 Collaboration

Collaboration and partnerships between stakeholders can be seen, first, as a way to combine knowledge individual focal companies have gained about supplier practices and, second, to economise on resources.[85] In the context of disclosures made, International Breweries draws attention to collaboration with different industry and business groups, including AIM-Progress, a company peer collaboration group, and SEDEX, a data platform for supply chain assessment. GlaxoSmithKline Nigeria also mentions the role of industry partnerships via membership of the Pharmaceutical Supply Chains Initiative's Human Rights and Labour Sub-Committee. FBN Holdings has strategic vendor partnership programmes as part of a Nigerian banking initiative, and to achieve this, it uses the Oracle E-Business Suite platform. Nascon Allied Industries records that the relative interest of NGOs and external affiliations in sustainability issues is low, as is their influence (Nascon Allied Industries Annual Report, p. 67).

These types of collaboration are consistent with the need for independent validation of modern slavery risk management processes highlighted by Christ and Burritt[86] and indicate that these few companies might represent better examples of practice. Nevertheless, collaboration with NGOs by the top listed companies in Nigeria is not the norm.

An alternative way of considering collaboration would not be disclosed as it involves collusion by default. Rogerson et al.[87] draw attention to herding in the UK university sector about modern slavery statements, where the universities respond similarly in a way that subverts the spirit of the legislation. In the Nigerian context, herding could be attributed to the non-disclosure of information about modern slavery in supply chains, where most listed companies in the top 100 undoubtedly have atrophied accountability. Additional research would be needed to confirm or disconfirm the possibility of herding.

The following section discusses these results in the context of RQ3. What actions might be needed to overcome or minimise the impact of the complex Nigerian setting when addressing modern slavery risk in business?

5. Discussion and the way forward

The previous sections highlight two findings about research questions 1 and 2. First, based on Crane's[88] contextual conditions, it is clear from general statistical data that Nigeria is associated with a complicated institutional context that has allowed modern slavery to continue into the 21st

85. Guthrie and Parker, 1990
86. Christ and Burritt, 2021
87. Rogerson et al., 2020
88. Crane, 2013

century. Without consideration of these conditions, any attempt to address modern slavery in Nigeria is likely to be ineffective. Section 4 sought to further understand and reveal the Nigerian situation by undertaking a granular content analysis of disclosures made by large Nigerian businesses. This analysis is needed to provide a benchmark of corporate action and evaluate if evidence of a trickle-down effect from modern slavery legislation in the West is seen. As the first study to consider modern slavery disclosure in the Nigerian and African contexts, this research contributes to the literature on accounting for modern slavery risk.[89] The results present a disappointing, although not unexpected, picture of Nigeria. However, a state of inaction is not inevitable.

In his seminal article, Crane[90] identifies several moderators that he argues may be effective in reducing the impact of the institutional contexts on the prevalence of modern slavery via changes in the exploiting and insulating capabilities and sustaining and shaping capabilities that organisations can use to fight modern slavery or maintain the status quo. These include supply chain interventions, which he argues can moderate the impact of industry context, the availability of affordable credit, which can moderate the poor socioeconomic conditions, and private and civil regulation, which can moderate the role of poor governance. The discussion now shifts to how these moderators may be harnessed in the Nigerian context to act as 'circuit-breakers' to begin addressing the challenge the country faces on the modern slavery front. The discussion then shifts to consider other interventions that may be more challenging but can help address the key factors that allowed slavery to flourish in the first place.

The themes from the content and thematic analysis revealed two main areas consistent with Crane[91] that could provide a first step to addressing modern slavery, which remains endemic in Nigeria. These involve supply chain codes of conduct and collaboration. It can be argued that each of these areas has the potential to fill the role of a supply chain intervention moderator. In his article, for example, Crane[92] draws on research from Balch[93] to show how large multinational companies like Kraft and Mars have played a role in improving conditions in the cocoa supply chain in West Africa by assisting growers. Nevertheless, while the disclosures present evidence of an internal domestic focus via supplier codes of conduct, how downstream requirements impact or assist Nigerian businesses remains unclear. Evidence of collaboration between select companies does exist.[94] However, where relevant, this suggests horizontal collaboration with peer organisations instead of vertical engagement with parent companies or large buyers downstream.

Although collaboration with peers, sometimes referred to as coopetition or cooperating with competitors, can provide a valuable way to learn from other organisations and benchmark current activities, Nigeria is starting from a low base. Thus, it can be argued that large supply chain partners and parent companies are likely to have more power to bring about meaningful change via supply chain interventions in the medium term. Given that Nigeria is home to subsidiaries of multinational companies like Nestle, Guinness and Unilever, it would be interesting to undertake case study research in one or more of these settings at both the parent and subsidiary levels to ascertain how requirements relating to modern slavery and

89. Christ et al., 2023
90. Crane, 2013
91. Ibid.
92. Ibid.
93. Cited in Ibid.
94. European Cocoa Association, 2019

decent work are being encouraged and supported within the subsidiary. This could include an analysis of internal reporting practices and assurance and audit, which might be expected given that the parents operate in jurisdictions where modern slavery reporting and due diligence have been mandated.

The second moderator Crane[95] identified as potentially being able to disrupt modern slavery is the availability of affordable credit. Nigeria has a well-established banking sector; many organisations analysed in this study are associated with the financial sector. However, interestingly, there is no evidence in the reports and disclosures analysed concerning the provisions of microfinance to vulnerable members of the community. Microfinance, or microcredit, can also be a tool to help vulnerable people trapped in informal employment break into more formal arrangements. It can also provide a way for entrepreneurs to legitimise business activities, which could help them build and eventually access larger markets that require a formal structure. Previous research has shown that microfinance can be very effective as a key instrument in helping people avoid falling into modern slavery and, in some cases, escaping slavery if they have already become victims, for example, via debt-bondage.[96] However, suppose microfinance is to be used as a 'circuit-breaker' to disrupt patterns of modern slavery in Nigeria. In that case, care must be taken to ensure appropriate regulation or partner organisations so that the solution does not become another manifestation of the problem it is trying to solve, as has been seen in Cambodia.[97] This suggests there may be a need for collaboration with both local and international NGOs such as the Red Cross, or other organisations such as the ILO. Research will be needed regarding how microfinance can best be set up and regulated in the Nigerian context, which will differ from how it might operate in other locations such as Southeast Asia. Studies considering different ways of accounting for microfinance arrangements would also be beneficial as accounting has excellent potential to make the process of microfinance transparent and guard against the manipulation of debt. The need for accountability in this space is crucial and additional, context-specific research is needed to assist in designing a suitable microfinance agenda for Nigeria where vulnerable people are protected.[98]

The final moderator mentioned by Crane[99] relates to the role of private or civil regulation. Crane argues that in the presence of weak governance, companies may choose to engage in private actions that form pseudo-regulation for organisations they deal with. This can occur within individual organisations and may involve NGO collaborations or constitute industry-wide initiatives. Where such initiatives exist, they will usually involve the collection of data and, in some cases, greater transparency, both of which necessitate a well-developed internal sustainability accounting system.[100] However, little is known about how such systems can be developed and what support is needed to help companies better understand their risks in a non-regulated environment. Crane[101] also highlights a potential role for both the media and NGOs in this space. However, little is known about the existence and success of such initiatives in the Nigerian context. As stated by Nascon Allied Industries in their Annual Report, interest from NGOs and external affiliations in sustainability issues in Nigeria remains low, and they currently have little influence. Given the social problems

95. Crane, 2013
96. Daru et al., 2005
97. Natarajan et al., 2021; also see Carswell et al. 2021 for a discussion regarding the pros and cons of microfinance.
98. Akanga, 2017
99. Crane, 2013
100. Christ et al., 2023
101. Crane, 2013

related to modern slavery that the country faces, the question remains why NGOs are not having the desired impact and effect. Research in this area would be beneficial, given that large NGOs, in particular, have an international platform and could shine a light on the challenges facing Nigeria while also lobbying for change, which could involve improved accountability within and across supply chains to mandatory reporting for large Nigerian companies.

While the potential moderators mentioned above provide a start for addressing slavery in the Nigerian context, it is also necessary to consider what Crane[102] refers to as slavery management capabilities that mediate the relationship between the institutional or environmental context and the eventual prevalence of modern slavery. These include exploiting and insulating capabilities and sustaining and shaping capabilities.

Violence and the threat of violence are core to the exploitation of modern slavery by businesses, but they are at the end of a conveyor belt of violence that starts with poor attitudes and is enforced by traditions that remove the opportunity to be independent and walk away. Nestle Nigeria is one of the few companies that specifically recognise this continuum in its supplier code of conduct by requiring that suppliers 'Not make use of violence, threats of violence, punishment, confinement, or any methods of intimidation to discipline or control workers that contradicts their human rights'. Along with Seplat Energy, which espouses a similar provision in its code of conduct, it appears to be building reputational capital in the labour market, where illegality has been a contextual norm. Circuit breaker research into potential gaps between such de jure reputational tools and de facto practices is sorely needed in the Nigerian setting.

Concern over abuse of debt barely receives a mention by the top 100 companies. While microfinance can provide a form of good debt that, in a controlled setting, can reduce modern slavery and alleviate poverty, debt can also be manipulated in ways that exacerbate risk. In their global employment rights of workers, Guinness Nigeria does not accept debt bondage and unacceptable financial costs being forced upon workers. Is this declarative circuit breaker sufficient to stop the practice? Case studies of success and failure would be most instructive. Such research is needed into the pressures that socioeconomic and cultural considerations bring on the different parties, the focal company and its suppliers, the workers, and whether this is pushed underground through tools such as accounting opacity in supply chains.

Accounting, as an internal tool of management, can be used as a mediator to exploit the contexts supporting slavery and insulate the organisation from those wishing to end the practice.[103] For example, management accounting can be used in opaque financial ways to facilitate debt management, such as the charging of extortionate interest rates or accommodation costs, overstating monies due to employers by employees in debt bondage and holding workers in perpetual forced labour.[104] They may also use threats of violence to workers and their families in order to quash any suggestions of the need for transparency. Such accounting opacity is not easily overcome, as managers control the internal computations and workers have no contracts specifying these matters because of the large informal economy. In short, because of accounting opacity, neither workers nor downstream purchasers can scrutinise the calculations behind labour and product transactions, thereby allowing modern slavery practices to persist. Furthermore, in a largely

102. Crane, 2013
103. Ibid.
104. Christ et. al, 2023; Gold et al., 2015

informal economy, with micro and small businesses dominating, there is often no internal accounting system in place, and opacity is definitional.

Overcoming such opacity could be encouraged by introducing and enforcing formal contracts that include codes of conduct – a conversion from informal to formal activities in the economy. Nevertheless, achieving such an outcome is fraught with the difficulties associated with socioeconomic circumstances and the need to change existing gender inequalities, religious beliefs and traditions. Unilever Nigeria states, 'A key element of our ethical approach to business is to reduce inequality and promote fairness', and a handful of other companies specifically support equality (5) and no religious discrimination or discrimination based on tradition, such as tribal issues (6). Nevertheless, research is needed into whether modern slavery exists through a process of contextual osmosis.

Likewise, internal accounting can be used by managers controlling workers to sustain the supportive contexts and shape these over time.[105] A cynic could argue that some businesses seek the sustainability of modern slavery as a business practice and that accounting could help perpetuate this process. The challenge is to wed internal accounting mechanisms to market contracts and supplier codes of conduct as combined aspects of transparent, sustainable employment and sustainable procurement practices. For example, FBN Holdings, looking for sustainable banking practices in its annual and sustainability reports, repeats that it is 'Working on producing a supply-chain management code designed for minimum supplier compliance with sustainability practices', but this is at a level of information which does not address the issue of how this might be operationalised or measured. In contrast, TotalEnergies Marketing Nigeria commit to instituting and sustaining decent working conditions at their sites and high-risk suppliers, prohibiting forced labour and child labour, a commitment to freedom of association and non-discrimination.

Crane (2013) suggests labour supply chain management as a mediator that facilitates the exploitation and insulation of illegal practices. Where employees can be isolated geographically or through efficient and effective criminal trafficking networks, they become more vulnerable to stepping onto the conveyor belt, leading to modern slavery. While the top 100 do discuss supply chain networks and supplier codes of conduct positively, there is also a focus on value chains, and this could be a circuit breaker as it directly focuses on the financial rationale for modern slavery in business – lowering costs of labour.

Possible mediating variables of moral legitimisation and domain maintenance are introduced by Crane[106] as sustaining and shaping the operating capabilities of a business practicing modern slavery. Breaking the perceived moral legitimacy of modern slavery practice in Nigeria could be commenced through specific modern slavery risk disclosure legislation, compliance with which would be designed to facilitate enhanced reputations. However, the likelihood is that organisations with such criminal intent would continue unless the perceived and actual value were affected. Traditions and religious mores undoubtedly continue to socialise people into modern slavery, especially about gender-based modern slavery. It is here that education and awareness programs at all levels can act as crucial circuit breakers – for example, to reduce bribery and corruption and to recognise the interdependence between impacts on the vulnerable and the quality of life of the more favoured.

105. Crane, 2013
106. Ibid.

6. Conclusion

Although the UN has committed to ending all forms of modern slavery by 2025, the problem remains endemic, especially in developing countries like Nigeria. Several Western governments have committed to the use of accounting and transparency as a way to combat this problem by encouraging large companies to collect and analyse data on risks and take action to address these not only in their operations but in their supply chains. The optimistic view is that such legislation will trickle down and improve conditions at the beginning of supply chains in countries like Nigeria. The aim is to stop modern slavery in business from happening at its roots. The analysis presented here demonstrates that achieving such lofty ambitions is difficult. Nigeria is faced with a challenging institutional context that has allowed slavery to continue almost unabated into the 21st century. Although there is a role for large MNEs[107] operating in Nigeria to take meaningful action to begin addressing the problem, they need to do so with a ground-up understanding of why the issue continues. Attempting to retrofit solutions that work in North America, Europe or Australia, for example, is unlikely to provide the desired results in a country like Nigeria. More work is needed to understand whether such tools are appropriate or new; context-specific tools must be developed. In particular, the different contexts embedded in Nigeria over lengthy periods mean that change will not be quick and needs a strategy to change the system in the long term.

The analysis here represents a first attempt at applying the seminal work of Crane[108] in a developing country context to understand better the institutional conditions that need to be considered when designing appropriate interventions for addressing modern slavery. Hopefully, this study will encourage other researchers to use Crane's[109] framework in similarly challenging settings. While this study has allowed a much more in-depth understanding of the Nigerian context than was previously available, it is also not without limitations. As with previous studies on modern slavery risk management and accounting, this study used disclosures to establish the status quo about large businesses operating in Nigeria. Although it could be argued that the lack of disclosures observed was expected, it is also necessary to establish this to provide a benchmark for future dialogue and research on the issue. Future studies can use these results to provide an entrée into interview-based studies with business and government representatives, as well as NGOs, to ascertain their perspectives regarding Nigeria's current situation and how best to address the problem. It must also be remembered that disclosures do not necessarily represent actions. Instead, they represent only what the disclosing organisation wants readers to know. It is possible that select larger organisations with Western affiliations are doing more work in this area, but this is not being openly acknowledged. Case studies or interview-based research would be beneficial in this regard. In particular, an essential contribution to the literature on sustainability accounting would be a more detailed overview of the internal sustainability accounting systems and management controls that can be used to help manage expectations. If they are being used, how were they developed, and how successful have they been? If they are not being used, what types of information do businesses need access to, and how can sustainability management accounting systems be developed to help capture this information? These questions for future research should be developed

107. Ibid.
108. Crane, 2013
109. Ibid.

with reference to specific contextual settings to ensure recommendations are fit for purpose.

There has been much interest in recent years given to addressing the wicked problem of modern slavery. Policy and research in this regard have primarily focused on Western countries and adopted a Western country perspective concerned with disclosure and increased transparency, which it is argued will bring about top-down improvement and a trickle-down effect to locations where the issue is not assigned equal importance. While not seeking to disparage these initiatives, developing countries like Nigeria are not little Western countries. They face a complicated institutional context, and it is only when this context is understood from the ground up that progress might be made to finding solutions with the potential to make a difference in people's lives, both now and in the future. Furthermore, the need is for Nigerian governments, non-government and businesses to be committed to and to institute an independent approach to ending modern slavery practices. That should be their choice. Who will be the person in Nigeria committed to stopping modern slavery at its contextual sources? They have yet to emerge.

Supplementary material

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ARTICLE

Economics and ethics: Is economics a moral science?

Prof Finn Olesen

Some data-driven economists argue their discipline aligns with the natural rather than social sciences and is therefore devoid of moral dimensions. Prof Finn Olesen challenges this view and explores the ethical foundations of macroeconomics through the lens of the history of economic thought.

Introduction

This article discusses whether economics must include ethical aspects, focusing on a macroeconomic perspective. As such, does the modern macroeconomic mainstream – the *New Neoclassical Synthesis* (NNS), with its empirical Dynamic Stochastic General Equilibrium (DSGE) models – and other more heterodox schools of macroeconomics need to consider some aspects of morality?

Somehow, the troublesome economic years following the 2008 global financial crisis, often termed the Great Recession, operated as a kind of eye-opener concerning the theoretical and empirical validity of the macroeconomic mainstream. As such, it was argued that the NNS was too far away from the facts of reality. As we know, historically, modern economies do not always perform to perfection. They do not usually operate around an intertemporal equilibrium path of optimality. Sometimes, economics are hit hard by severe shocks, as illustrated recently by the COVID-19 pandemic and the Ukraine War.

In the real world, involuntary unemployment may be seriously present at times, as many non-mainstream economists of a Keynesian kind have repeatedly argued for years. However, the macroeconomic mainstream, and economics in general, may be exposed to a different kind of criticism. What about ethical aspects?

To some economists, the discipline of economics should not escape the fact that it is, at least to some extent, based on ethical and moral aspects. Historically, it was generally accepted that economics had to include ethical considerations, as Wittmer[1] and Best and Widmaier[2] argued. Later, in our modern time, it became acceptable to focus on primarily positive economic aspects only. Rooted in deductive logic, most probably inspired to a considerable degree by the work of Milton Friedman, who was one of the foremost proponents of positive economics, using almost only an approach of formal mathematical reasoning as the only acceptable way of doing relevant economics, the road towards the establishment of the modern macroeconomic understanding of NNS with its DSGE models was paved.

However, should modern macroeconomic mainstreamers and more heterodox-minded economists not concern themselves with ethical aspects? The answer to this question is affirmative from the present author's perspective. As behavioural economists have argued for many years, real human beings, not textbook-like robots, inhabit economies, and when they act economically, they often also include some ethical considerations. And so do governments, at least to some degree. Suffice it to mention that the concern for environmental sustainability is high on the public agenda nowadays.

More so, normative aspects in general colour human behaviour as their decision-making is "… well grounded in beneficial values and value systems … values are encoded in culture … [and] … habits influence actions that in turn reinforce habits".[3] Furthermore, when we act, we are at least somewhat motivated by ethical considerations. Primarily, of course, when we act as we often do with "… a desire to improve the well being of others".[4]

Although many economists might probably agree with the statement that economics "… is thought to rely on the hardheaded calculation of rational self-interest; ethics is often portrayed as mushy do-goodism",[5] this article aims to argue that economics must accept that it needs some form of ethical foundation. As such, it discusses why economics, with a particular focus on macroeconomics in modern times, needs such kind of anchorage. Economics should not try to escape the fact that it is a moral science. Also, including ethical considerations in economic reasoning goes a long way back.

Back then, in the early days of economics

In ancient times, to discuss economic matters, the Greeks, Romans and early Christian contributions included aspects of the quality and justice of life. To them, prices should be set so that they are seen to be both just and fair.[6] More so, when acting economically, market performance also had to include some aspects of trying to do good, thereby aiming to apply the ethics of love. Back then, dealing with economic matters was always contextualised within a given ethical framework.

1. Wittmer, 2017
2. Best and Widmaier, 2006
3. Stevenson, 2002, pp. 263, 265
4. Ibid., p. 268
5. Wight, 2015, p. 3
6. Normally, a just price might be defined as whatever amount that is traded voluntarily between a willing buyer and a willing seller.

However, a complete focus on the economic processes of a market economy had to await the publication of Adam Smith's *Wealth of Nations* in 1776. To many, Smith is seen as the founding father of economics, giving it status as a genuine scientific discipline. Furthermore, it must be remembered that Smith started by addressing ethical aspects when he wrote *Theory of Moral Sentiments*, published in 1759. Therefore, Smith is often seen as one who argued that society must have an ethical foundation. As Friedman[7] sees it, Smith somehow used the same guiding principles to analyse how individuals, as real humans being influenced by various motivations and personal psychological states, carried out their economic behaviour within a given social setting in both his books. When acting economically, it must be remembered that we all, in many respects, have very "… strong instincts for sociability".[8]

Smith wrote his visionary economic doctrine of future capitalism based on this understanding. A new kind of economic order would benefit many, as they could now live a better life without fighting fiercely for their basic needs, thereby transforming them into less selfish and more morally enriched human beings. Moreover, when society changes over time, such transformation processes always hinge on more than just pure economic aspects. Therefore, Smith argued the need to include political, historical and cultural aspects to understand the true nature of such transformation processes. More so, it was pivotal to him that such transformation processes had to respect and protect the individual's behaviour. No wonder Adam Smith is seen as one of the founders of liberalism. In sum, Adam Smith would characterise economics, as John Maynard Keynes later did, as a moral science as expressed by Montes,[9] who states: "Smith considers ethics to be a social phenomenon simply because a man [sic] without society cannot have a sense of good or bad".

Later, economics developed, primarily through the influence of David Ricardo, the Marginalists and the advocates of neoclassical economics, to become a discipline that focused more on pure economic aspects. Alternatively, as Crespo[10] points out: "Economics was born and thrived over many centuries as a moral science … it abandon its ethics-based quality under influences of an epistemological framework meant for natural sciences and an agnosticism about its ends, which has reigned over a significant part of modernity".

Given this development, ethical and moral aspects, perhaps with early contributions of welfare economics as an important exception, were no longer attractive to most economists, as pure deductive theorising hardly left any significant role for morality and ethical considerations in economics.

Modern mainstream macroeconomics

Mainstream macroeconomics generally relies heavily on the existence and strength of the market mechanism and is firmly grounded on a kind of neoliberal ideology.[11] Somehow, modern

7. Friedman, 2011
8. As Wight sees it, 'Feelings, rather than rational calculations, are the mechanism through which nature adapts humans for successful cooperation in society, according to Smith'. (Wight, 2015, p. 6)
9. Montes, 2019, p. 3
10. Crespo, 2013, p. 65
11. To some, this kind of market fetishism must be criticised. As an example, Nothelle-Wildfeuer (2018) argues that seen for a Catholic perspective, such an understanding is much too narrow. It lacks the most needed concerns for the poor, the deprived and the outcast. The happiness of the individual must not be seen in isolation. As a fact, we know that humans interact as social members of society. As pointed out by Nothelle-Wildfeuer (2018, p. 85), the economic game should basically be all about concerns "… of ineluctable standards of humanity and justice, of fundamental values of social and economic order that is ultimately implemented in the inner core of our culture and is constitutive of a viable relationship between the economy and social responsibility". That is, without some kind of morality and inclusion of ethical considerations, economics becomes empty – it becomes out of sync with facts of real life.

macroeconomics includes some, although often hidden, normative values. For instance, accepting and applying a neoliberal ideology has somewhat restrictive consequences concerning the design of economic policy, e.g., guidelines concerning formulating an optimal monetary and fiscal policy. However, applying such a neoliberal ideology includes more than just these economic policy aspects. It also generally colours how institutional changes in society are determined and which changes are taken to be desirable (and needed).

Based on this ideology, the vision has been to set the forces of the market free to ensure that efficiency and optimality are bound to be the twin outcomes of markets that work to perfection. Therefore, to most economists, there is no alternative, at least not a relevant one, to a free market economy. To them, more markets are far better than fewer markets, as there must be less regulation. The price vector and relative price relationship changes constitute the rules of the game of economics. Such a mechanism ensures that the macroeconomic outcome always benefits society and its citizens.

Such an implicit moral dimension has been termed a kind of mundane morality described as one that obeys "… the generally accepted rules and norms of engaging in impersonal exchange, such as being honest, keeping our promises and contractual obligations, respecting the property rights of others, and not intentionally harming others".[12]

Although such a description might be correct in normal economic circumstances, we know at times it is not, for instance, documented in the years up to the Great Recession, as pointed out by Galbraith:[13]

> **"The general model of bank-financed, credit market-financed activity in the run-up to the Great Crisis was suffused with criminal behaviour. When it became clear that all of the major institutions with which one has to deal – the commercial banks; the investment banks; the rating agencies; the regulators – are part of, complicit in, or accessories to a vast criminal conspiracy, then there is a tendency to lose trust in such people and the system as a whole."**

That is, as Rodrik[14] points out, the neoliberal paradigm has its shortcomings, as it has "… widened inequality within nations" that "did little to promote the climate transition, and created blind spots ranging from global public health to supply-chain resilience". In short, the neoliberal ideology is too much out of sync with critical real-life phenomena. Therefore, Rodrik advises economists to be more humble and not acting as first-best purists, focusing only on gaining efficiency and optimality. They need to accept the validity of second-best solutions and political constraints when advising politicians on economic policy matters.

Furthermore, the macroeconomic mainstream might have inhabited the economy with economic agents modelled as rational 'economic men' capable of being transformed in the aggregate to become representative agents. His quest to gain intertemporal optimality makes every market clear and ensures a macroeconomic output of full employment in the long run. To some (most) economists, the rational economic man – the *homo economicus* – follows the methodological rules of doing pure positive economics.

12. Lee and Schug, 2011, p. 75
13. Galbraith, 2016, p. 16
14. Rodrik, 2024, p. 10

Furthermore, such a 'model man' is typically equipped with extreme superpowers that allow him to know everything of interest.[15] To him, situations of bounded rationality are not a matter to consider seriously. However, households and firms act under bounded rational conditions in real life. That has been known to economists for years. It all somehow began with the pioneering work of Herbert Simon, studying firms' behaviour in the late 1940s. Later on, in more modern times, Daniel McFadden and Daniel Kahneman focused on the behaviour of households. Together, they and many other economists laid the theoretical foundation for modern behavioural economics, which has a view on economics that is much more in accordance with real-life empirical facts.[16]

Furthermore, as was the case for firms, households seemed to behave the same way as firms did; they also conducted their economic life using a 'rules-of-thumb' strategy when unfolding their economic behaviour to perform in the best way possible. They ran out of obvious reasons for something less than optimality in an uncertain economic environment. They accepted second-best solutions and were happy with a behaviour characterised by satisficing.

Accepting that macroeconomics can be modelled using a representative agent is to accept that macroeconomics should be seen as a positive science (probably also due to the influence of Milton Friedman's advocacy of instrumentalism as a valuable methodology for economics). Macroeconomics should not focus on normative considerations. Therefore, modern mainstream macroeconomics generally skips moral dimensions besides discussing the mundane morality mentioned above. However, it has to be remembered that the concept of *homo economicus* is normative-flavoured. It is value-laden and thus a postulate of a specific scientific model illuminating a particular kind of a set of economic and social relations as explained by Ballor:[17]

> **"Social scientific models such as *homo economicus* give us a picture of the human person. In this way, they presuppose and represent an anthropology, an understand of the human person."**

Ballor argues that scientific, social models are not solely descriptive. They, at least to some degree, are prescriptive.[18] So, choosing a particular social model to implement is vital for how theory should be constructed and analysis should be conducted.

However, economics is not only about normative statements. To a considerable degree, economics deals with positive economic aspects. Throughout history, many economists have participated in the quest to formulate fundamental economic law-like relations or statements.[19] As Richards[20] emphasised, one should be very careful to suggest that these relations – or laws-like tendencies – are equivalent to laws of physics. Those are not in the

15. Within the field of microeconomics in general, the understanding of the concept of the economic agent is much broader – take behavioural economics as an example – in this respect, microeconomics has developed to become a game of economics that better comports with the facts of real life, compared to that of most mainstream macroeconomics. More so, one should probably separate the ontology of microeconomics from that of macroeconomics as they describe fundamentally different economic universes. Basically, microeconomics uses an atomistic ontology whereas macroeconomics of a Keynesian type uses a broader ontology as it includes social entities and forces combined with some kind of microeconomic foundation. To a true Keynesian, macroeconomics is in general more than just the sum of individual actions. Therefore, they argue that microeconomic optimality does not necessarily lead to optimal macroeconomic outcomes.
16. See, e.g., Thaler, 2016
17. Ballor, 2022, p. 18
18. Therefore, it matters what we teach and learn about economics as models "… are means of teaching us about ourselves and can become literal models for us to emulate". – Ballor, 2022, p. 18
19. As such, Richards (2020, pp. 122–124) presents a list of 'thirty truths' that economists might agree about that they know as facts or law-like statements.
20. Richards, 2020, p. 120

same category. Instead, these tendencies could be "… discoveries, regularities and principles". Furthermore, it must be remembered that economics is embedded in a normative – value-laden – framework and contextualised in a given societal, institutional set-up. Also, Richards[21] somewhat ironically points out, in economics, "… moral and philosophical questions tend to surface faster than they can be buried".

However, from the Friedman-like perspective on methodology, mentioned above, economic theories and models may be built on unrealistic assumptions. These could be acceptable if the theories and models could produce excellent predictions. Unfortunately for the modern macroeconomic mainstream, many would argue that empirical evidence does not support most of its predictions. On the contrary, many mainstream macroeconomic statements are proven wrong by historical facts. This is exactly what Katarina Juselius, a renown Danish economist, has argued for years.[22] So much so that she[23] concludes that "My best guess for an empirically relevant theory in macroeconomics would be Keynesian macroeconomics with a fully incorporated financial sector and with expectations based on uncertainty, loss aversion, and imperfect/incomplete knowledge".

Furthermore, modern mainstreamers try to apply a unique approach to macroeconomics, which is in good accordance with the strategy implemented by Robert Lucas in the 1970s when he sounded the trumpets of the rational expectations revolution and the need to give macroeconomic theory an explicit traditional choice-theoretic microeconomic foundation. He claimed that if his efforts were crowned by success, one would no longer need to distinguish between macro- and microeconomics. The two would coincide with the term economics. Furthermore, success indeed was achieved in the following years. We know this from the history of economic thought.

Many (most) mainstream macroeconomic textbooks present a world of perfection to their readers. Economics students typically learn only to be concerned with studying the economy's supply side, as demand-side effects are generally of no importance except minor disturbances to the economy in the short run. These textbooks present a macroeconomic understanding to students that is out of sync with real-life facts. It does not depict the kind of complexities that we find in empirical data. No wonder economics students worldwide have recently demanded more realism in the mainstream macroeconomic curriculum.

Be that as it may, we know that normative aspects are essential for human beings. Norms and values are determinants of human behaviour, and humans have many social relations to perform as they primarily interact with one another. Furthermore, human behaviour is, of course, purposeful. Therefore, highlighting the consequences of focusing on norms and values should be included in textbooks in economics (micro- as well as macroeconomics), as *homo economicus* do not inhabit our economies. It is people who shape culture, and patterns of cultural change over time, thereby somehow continuously transforming the minds of human beings. As Wight[24] sees it, economists should accept that *homo economicus* has a twin brother named *homo empathicus* as humans live in socially embedded societies and as such, they engage with others in crucial ways. Thus, "Human nature is … complex and contradictory: sometimes selfish, sometimes altruistic, and sometimes just".[25] As economists, we need to

21. Ibid., p. 119
22. See, e.g., Juselius, 2009, 2011
23. Juselius, 2023, pp. 312–313
24. Wight, 2015, p. 19
25. Ibid., p. 5

acknowledge this. To Raworth,[26] we should aim for an "… ambitious and holistic goal: human flourishing on a thriving, living planet". And as Deaton[27] points out, focusing only on quantitative variables is too one-sided a strategy – the wellbeing of humans has to do with more than just money and consumption. Such a strategy misses qualitative aspects of human life. Unfortunately, economists have "… largely stopped thinking about ethics and about what constitutes human well-being".[28]

To sum up, modern democratic societies change by the people's will, and the way people act is coloured, to a certain degree, by ethical and moral considerations.

John Maynard Keynes: Economics is a moral science

To Keynes, economics was a discipline that had to include ethical considerations that he understood early on as a young student in Cambridge. As Mitchell[29] writes, "… a concern for ethics permeated Keynes's thinking throughout his life". Keynes, *the philosopher*, inspired Keynes, *the economist*, throughout his life when he wrote on economics. Therefore, from his perspective, economics had to be a moral science.

Keynes argued his point of view in his correspondence with Roy Harrod in 1938, reviewing the pioneering econometric work of Jan Tinbergen:

> "Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. It is compelled to be this, because, unlike the typical natural science, the material to which it is applied is, in too many respects, not homogeneous through time … **Progress in economics consists almost entirely in a progressive improvement in the choice of models** … I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, and psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogeneous."[30]

As Keynes understood economics, no unique model can be applied to all relevant economic problems. Contrary to what many modern mainstreamers might believe, the quest for finding such one model is a futile task. To Keynes and the post-Keynesians, economics is 'the art of choosing' the suitable model for analysing the problem. Which model to choose for analysis is, to some degree, also context-dependent, as the macroeconomic landscape changes over time. Such changes over time are, of course, determined by various factors. For apparent reasons, economic and political aspects play a significant role in such transformation processes. However, development over time is sometimes also dependent on some ethical considerations, as human beings who interact with one another in such processes act based on various motives, of which ethical and moral concerns colour some.

The core elements of Keynes's view on the nature of economics were probably formed as a youngster under the influence of the philosophy of G.E. Moore,[31] who influenced his decision to

26. Raworth, 2024, p. 13
27. Deaton, 2024, p. 21
28. Ibid.
29. Mitchell, 2017, p. 29
30. CW, XIV, pp. 296, 300; bold is in the original.
31. See Mittchell (2017) on reflections about Keynes's ethics, especially concerning various aspects of economics, and the influence of Moore on Keynes's understanding of ethics and morality in general.

break with Benthamite utilitarianism.[32] As stated by Craufurd Goodwin, from Moore Keynes understood that it was necessary to focus on the philosophical aspects of the purpose of human life when working as an economist. As such, Keynes advocated that the essential values in human life "… lay in states of mind resulting from the pursuit of truth, beauty, and love".[33] Therefore to Keynes, the crucial political problem was how to combine "… three things: economic efficiency, social justice, and individual liberty",[34] the right way.

Skidelsky[35] points out: "Philosophy provided the foundation of Keynes's life. It came before economics; and the philosophy of ends came before the philosophy of means … It was an outlook which also enabled Keynes to exert moral authority. His calculations and actions were in the service of ends he believed to be true".

Seen from the perspective of Skidelsky, it therefore makes sense to assume that "Keynes took his moral philosophy seriously; that he felt a need for 'true beliefs'; that he needed to justify his actions by reference to his beliefs; that his actions were in fact influenced by his beliefs".[36]

Although Keynes had traces of the mainstream thinking of his time included in his *The General Theory*, his understanding of economics in general and the conduct of individual behaviour was much richer and more broadminded than a typical mainstreamer in the 1930s. He knew that households and firms had to act economically in an environment of uncertainty and various imperfections. They did, in general, not behave as postulated by mainstream economic theory. They acted imperfectly, making the outcome of their behaviour less than perfect. In many important ways, they were somehow restricted from gaining optimality. With this understanding of individual behaviour, one could argue that Keynes has traces of being an early behavioural economist.

To most modern post-Keynesians and many other non-mainstreamers, the view mentioned above on economics being a moral science still applies to modern economics. To post-Keynesians and others, the economic system is seen as a non-repetitive (non-ergodic) system. They describe it as an open, socially dependent and changeable system characterised by various path dependencies. As such, the macroeconomic landscape changes over time. At times, even of a significant magnitude. Mainstreamers, however, see things differently. They instead understand the economic system as a repetitive (ergodic) system, thereby arguing that it is a closed system that, to a certain degree, is deterministic.

The two camps hold and advocate different kinds of methodologies. Methodological aspects matter, as most non-mainstream economists argue. Methodology governs as a paradigmatic frame in the structure and content of a given theoretical understanding. Alternatively, as the most influential post-Keynesian economist Victoria Chick repeatedly argued throughout her life, methodology should be taken seriously: 'You cannot just do economics. It would be best if you considered ***how*** to do economics'.[37]

32. As Keynes himself stated in 'My early beliefs' in 1938, "The influence … [from Moore's book] … was not only overwhelming … it was exciting, exhilarating, the beginning of a renaissance, the opening of a new heaven on a new earth, we were the forerunners of a new dispensation, we were not afraid of anything" (CW, X, p. 435). As such, to Keynes, conducting a good human life was all about the need of acknowledging that "… one's prime objectives in life were love, the creation and enjoyment of aesthetic experience and the pursuit of knowledge" (Ibid., pp. 436–437).
33. Goodwin et al., 2009, p. 3
34. Ibid., p. 9
35. Skidelsky, 1992, p.133
36. Ibid., p. 147
37. As Victoria Chick stated in an interview with Armstrong (2020, p. 22), "I think methodology is terribly important, because people who don't look at that level do ridiculous things". On the economic and methodological understanding of Victoria Chick, see Olesen (2023).

Conclusion

In essence, economics is about human behaviour. It is about how households and firms plan and act on expectations in an uncertain environment with various imperfections when deciding what to do. Furthermore, people generally use more information than just knowledge about prices and price relationships when they act economically, and they use information, some of which concerns ethical aspects. It also covers, to some degree, information based on norms and values. In real life, firms and households act as human beings and not as how robots are supposed to do.

Even in our modern time, we must acknowledge that ethics somehow provides "… the institutional framework within which economic activity unfolds … Ethical beliefs and practices make up the formal and informal rules that generate trust, promote interdependencies, and spur work productivity in a myriad of ways".[38] Furthermore, such a view on economics has severe practical consequences, as Wight argues: "An economist who ignores larger moral road signs in making policy choices is thinking incompletely and thus failing to think critically about the issue".[39] Note that intergenerational aspects are often somewhat suppressed in political debates on economic matters. Take environmental sustainability as an example. For years, a necessary unequivocal agreement has been lacking among some politicians regarding the severity of this problem. Only recently has it seemed that more or less all now understand the urgency of finding the right strategy for coping with this paramount issue.

As argued by O'Hara,[40] to deal with environmental sustainability aspects in economics the right way – for instance, by formulating a social welfare function – demands that you include ethical concerns, as ethical norms determine what is desirable and socially acceptable, because "… conceptions of ethical behaviour shape our interactions as well as our assessment of these interactions as appropriate/inappropriate … right/wrong". Although utilitarianism might be the most used principle among economists, there are alternatives such as discursive ethics and ethics of care, which are more broadminded and inclusive ethical principles, as O'Hara points out. Likewise, to focus on environmental sustainability aspects calls for policy action of some kind. As discussed by Mazzucato,[41] when substituting a public good perspective with one of global public goods, it is important to address the following five pillars: 1) purpose and directionality, 2) co-creation and participation, 3) collective learning and knowledge-sharing, 4) access for all and reward-sharing, and 5) transparency and accountability. The gains of doing so are noticeable:

> **"By fostering a collaborative approach, where knowledge is shared, rewards are socialised, and accountability and transparency are at the forefront, the common good can effectively guide societal actors towards creating public value that is not only shared, but also sustainable."**[42]

Rowthorn[43] states that moral behaviour has to do with a concern for considering the interests of others when acting, for instance, economically. As such, moral behaviour is, to a certain extent, coloured by some elements of "… sympathy, benevolence, fairness, duty and commitment … [therefore] … Morality can be seen as a form of social capital".[44]

38. Wight, 2015, pp. 8, 7
39. Ibid., p. 21
40. O'Hara, 1998)
41. Mazzucato, 2024
42. Mazzucato, 2024, p. 17–18
43. Rowthorn, 1996
44. Ibid., pp. 16, 22

The late Pope Benedict XVI stated that morality is fundamentally theologically grounded and that there are limits to the advantages of running for too much determinism in economics. As such, one must acknowledge that:

> **"A morality that believes itself able to dispense with the technical knowledge of economic laws is not morality but moralism. As such, it is the antithesis of morality. A scientific approach that believes itself capable of managing without an ethos misunderstands the reality of man. Therefore it is not scientific".**[45, 46]

Unfortunately, modern economists, in general, do not emphasise these matters. To them, economics is not a moral science. Economics, as they often argue, is much more natural science-like than a purely social science discipline is commonly supposed to be. However, we as economists – mainstreamers as well as others – must acknowledge that neither our modern society nor the economy can function properly without some moral guidelines:

> **"Our understanding of social institutions and organisations is inadequate unless we appreciate the moral motivations of individuals within them, and how those institutions help to sustain and replicate these moral sentiments."**[47]

Although perhaps most macroeconomists traditionally believed that they could work theoretically very satisfactory without having to include core elements of an ethical and moral framework in their understanding, Dutt and Wilber[48] argue that this could change in the future as "… it is increasingly being recognised that ethics and economics cannot be kept separate".

So, we need to go back to basics. Adam Smith, the founder of economics, and Keynes got it right from the beginning. Economics is (and *ought* to be) a moral science.

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45. Ratzinger, 1986, p. 204
46. To Ratzinger, accepting the normative dimension in economics is straightforward. It should be evident even to economists that "Today we need a maximum of specialized economic understanding, but also a maximum of ethos so that specialized economic understanding may enter the service of the right goals. Only in this way will its knowledge be both politically practicable and socially tolerable" (Ibid.).
47. Hodgson, 2014, p. 84
48. Dutt and Wilber, 2010, p. 4

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ARTICLE

Why do virtuous individuals accept and promote unethical institutions?

Dr Shann Turnbull

Governance scholar Dr Shann Turnbull explores the roots of dysfunctional ethical blindness arising from groupthink and intellectual dominance and argues that educating people about ethics is not enough to eliminate unethical behaviour.

1. Introduction

History provides countless examples of otherwise virtuous individuals accepting and promoting unethical institutions and practices. Consider army chaplains, otherwise virtuous civic leaders who in the past enslaved people, medieval bishops executing non-believers, and chairpersons of a public company who also chair and so control the meetings of members whose purpose is to hold the directors to account. There are also modern examples of individuals who may possess few virtues, introducing groupthink to support wars and terrorism.[1]

Motivation for this article

The motivation for this article arose from the February 2024 initiative of the Sydney-based Ethics Centre to establish the Australian Institute of Applied Ethics, supported by many potentially virtuous individuals.[2, 3] This article provides case studies to show how ethical blindness arises from

1. Keane, 2024; Ross, 2024; Pilon, 2024
2. *The economic case for ethics*, https://ethicsinstitute.au/#read-the-proposal
3. Henry, 2024, p. 39

groupthink and intellectual colonisation and how such outcomes could be avoided.

Ethical blindness may not be identified if ethics is defined in general terms like being honest, fair, equitable or acting according to social norms. For this reason, this article will focus on the morality of those possessing power over others to promote their self-interests so as to inhibit or deny promoting the common good. This is consistent with the concern of Martin Wolf, the Chief Economic Commentator of the London-based *Financial Times*, who stated: "Corruption – the abuse of power for private gain – is an eternal feature of organized societies".[4]

Economic benefits of good ethics

The Ethics Centre supported their initiative with a report "that a 10% improvement in ethics in Australia would lead to an improvement of $45 billion per annum in the nation's GDP. This research also shows that improving a business's ethical reputation can lead to a 7% increase in return on investment. And a 10% improvement in ethical behaviour is linked with a 2.7–6.6% increase in wages".[5] These estimates might well increase if the ethical blindness identified in this article was recognised.

The Centre has partnered with two Sydney-based universities, requesting the government to make a one-time payment of $33.3 million to establish an Australian Institute of Applied Ethics. This partnership suggests that the education of individuals can mitigate ethical problems. However, education can also become indoctrination and legitimising groupthink to perpetuate ethical blindness.

Financial support for the Ethics Centre has been provided over the last thirty years by organisations and individuals who support and promote the Australian Securities Exchange's (ASX) unethical and dysfunctional Principles of its Corporate Governance Council.[6]

Sources of ethical blindness

The ASX has created the problem of unethical practices being promoted as good governance. As a result, governments and their regulators accept and enforce unethical business relationships.[7] As pointed out Monks and Sykes, when the overall system is flawed, "best practice" comparisons have no place.[8] Unethical business relationships become a role model throughout society.[9] Also, the public loses the ability to know what is right and what is wrong.[10] Ethical failures become endemic because a demand is created to teach ethics instead of removing institutionally unethical relationships that benefit a minority of influential stakeholders.[11]

Colin Mayer, the former Dean of the Oxford Business School, points out that the UK provides an illustration of how conventional views on economic, business and finance can be profoundly wrong and have disastrous consequences for the performance of economies, nations and societies as well as firms and their investors.[12]

4. Wolf, 2023, p. 298
5. *The economic case for ethics*, https://ethicsinstitute.au/#read-the-proposal
6. https://www.asx.com.au/about/regulation/asx-corporate-governance-council
7. Turnbull, 2023
8. Monks and Sykes, 2002, p. 19
9. Charles and Williams, 2022
10. Owens, 2003; Hayne, 2019
11. https://ethicsinstitute.au/#read-the-proposal
12. Mayer, 2024, p. 316

The above problems lead to the concern that establishing an Institute of Applied Ethics could lead to:

a. Continued acceptance of existing unethical institutional relationships;
b. Continued acceptance of unethical behaviour;
c. Continued ethical blindness;
d. Further legitimising unethical groupthink;
e. Inefficiency, inequities[13] and lack of competitiveness in the economy.[14]

Objectives of this article

To inform the public and policy advisers that:

- The most direct, efficient, simple and sustainable way to raise ethical awareness is for the Treasurer of Australia to require financial regulators and the ASX to eliminate the unethical institutional practices identified in this article.
- Otherwise, virtuous individuals will become ethically compromised by being involved in what some authors described as "toxic",[15] dysfunctional and inefficient institutions. This will make many otherwise virtuous leaders role models for institutionalising groupthink in accepting and promoting unethical practices.

Toxic governance is described as good

It could shock many readers that such a crucial institution like the ASX could misrepresent systemic unethical conflicts of interest as good governance. However, this should not become a surprise by noting the lessons of history identified in the introductory paragraph. There have been countless other examples of otherwise virtuous individuals who have accepted and practised what is later considered unethical behaviour. In Australia, this situation now exists for government regulators, Treasury Officials, other advisers to the government, and elected members of parliaments.[16]

The pervasiveness of ethical blindness in modern societies may be compared to the unanimous groupthink views raised by the 2009 Nobel Prize committee. In awarding the first economic prize to a political scientist, they explained:

> **'It was long unanimously held among economists that natural resources that were collectively used by their users would be over-exploited and destroyed in the long-term. Elinor Ostrom disproved this idea by conducting field studies on how people in small, local communities manage shared natural resources, such as pastures, fishing waters, and forests. She showed that when natural resources are jointly used by their users, in time, rules are established for how these are to be cared for and used in a way that is both economically and ecologically sustainable.'**[17]

Consistent with Ostrom's research and system science, Indigenous Australians practised distributed bottom-up 'user' stakeholder self-governance[18] to sustain their society longer than any other living culture. Notably, this was achieved without 'Markets or States'.[19] Distributed decision-making, which Ostrom described as polycentric self-governance, 'mitigates or removes 20 toxic behavioural problems identified in hierarchies'.[20]

13. Turnbull, 2011a, 2021c
14. https://ethicsinstitute.au/#read-the-proposal
15. Carucci, 2018; Daniel, 2024
16. Turnbull, 2023
17. https://www.nobelprize.org/prizes/economic-sciences/2009/ostrom/facts
18. Turnbull and Poelina, 2022; Turnbull, Stoianoff and Poelina, 2023
19. Ostrom, 2009
20. Turnbull and Poelina, 2022, p. 27

Intellectual colonisation

Physical colonisation of Australia introduced modern intellectual colonisation of a belief system shared by capitalists, socialists and dictatorships. A belief that the natural order of modern management is a dictatorship. As a result, modern humans are the only species on the planet dominated by centralised command-and-control, alienating, exploitive, dysfunctional and therefore toxic hierarchies. These are incapable of simplifying complexity comprehensively,[21] reliably and expediently.[22]

Even when a hierarchy is not involved, a unitary board of directors typically provides directors with absolute power to identify and manage their conflicts of interest to allow absolute corruption of the directors, their organisation and society. As stated by Peter Drucker, 'whenever an institution malfunctions as consistently as boards of directors have in nearly every major fiasco of the last forty or fifty years it is futile to blame men. It is the institution that malfunctions'.[23]

There is no compelling commercial reason why directors should obtain the power to manage an organisation and the corporate entity to which they are accountable. It is as unethical as setting and marking your exam papers. The solution is no secret. Political scientists have long promoted the division of power.[24]

Universities neglect stakeholder governance

While no known university now provides education on introducing polycentric self-governance, it commonly arises from federations of self-governing lower organisational components. This typically occurs in local sporting clubs that compete against each other but cooperate to generate nested self-governing federations that terminate globally with the self-governing Olympic Committee. This has been achieved without necessarily evoking 'Markets or States'.[25]

For example, I wrote the self-governing constitutions for two Australian non-profit organisations. One was the controlling body of skiing that federated the self-governing State bodies. These were, in turn, formed by federating self-governing local ski clubs. The other example was the progenitor organisation of the Australian Institute of Company Directors. I established a federation of State Divisions in the progenitor organisations to decentralise power on a bottom-up basis. Each state has its own elected member on the national federated body to provide independent sources of checks and balances.

Such politically independent checks and balances are not typically found in business organisations. As a result, virtuous individuals can become compromised by becoming directors of institutions that provide excessive or inappropriate powers.[26]

The following section presents an Australian case study of colonisation and groupthink by the otherwise virtuous Sir Adrian Cadbury. The third section introduces systems science to evaluate solutions based on distributed decision-making. The fourth section presents two other Australian case studies of ethical blindness. The penultimate section identifies the opportunity to purify capitalism by reducing its inequalities to create a compelling incentive to act. This process is outlined in the concluding section.

21. Turnbull and Guthrie, 2019
22. Turnbull and Poelina, 2022, p. 27
23. Monks and Sykes, 2002, p. 15
24. Persson, Roland and Tabellini, 1996
25. Ostrom, 2009
26. Monks and Sykes, 2002, p. 9

2. How can otherwise virtuous individuals act unethically?

There are several ways this question can be answered. It could simply arise from groupthink. Everyone is doing it, so it must be an acceptable cultural norm. This could be the dominant reason for Australians who are influenced by adopting overseas practices. Especially the practices of their former colonising country. This has led one author to state that Australia has developed a dependent personality disorder.[27]

However, there is another possible reason why otherwise virtuous individuals do bad things.

Cadbury provides a critical case study

Cadbury established the first UK corporate governance code[28] in 1992. Cadbury was a practising Quaker who was chairman of his mainly family-owned publicly traded chocolate business in the UK. His board colleagues would no doubt also be virtuous individuals who would not misuse their powers to nominate and remunerate their auditor to convince their auditors to accept any questionable financial practices that their managers might undertake. Nevertheless, not all directors are potentially so virtuous.

However, extending their virtues to other public corporations is at least naïve and could be considered irresponsible. Monks and Sykes point out that ‘Corporations are ultimately a system of power’.[29] US legal scholar Lyn Dallas used a ‘Power model’ of a firm to conclude that many directors seek to maximise their autonomy and discretion.[30] Many other scholars have identified why unethical audit relationships do not work.[31]

In 1990, a year before Cadbury was appointed to lead a committee to make recommendations on the integrity of financial reporting,[32] the UK House of Lords had defined the purpose of an audit.[33] Lord Justice Oliver stated that the auditor’s purpose was to ‘provide shareholders with reliable intelligence to enable them to scrutinise the conduct of the company’s affairs and to exercise their collective powers to reward or control or remove’ their directors. Lord Bridge, who quoted an 1896 judgment on the auditor’s role, stated that he acted antagonistically to the directors because the shareholders appointed him to check upon them.

Director audit committees corrupt[34]

In other words, auditors and directors have a fundamental conflict of interest. This is quite different from the perspective of Cadbury, who considered the auditor to be only *a check on management*, not himself and his fellow otherwise virtuous directors.

Before the Securities and Exchange Commission was created in 1934, US directors employed outside accountants to provide them with *a check on management*.[35] The purpose of US auditors was to protect directors, not to inform shareholders on how to control directors, as in the UK.

In 1978, the New York Stock Exchange required all listed corporations to establish a director audit committee of so-called independent directors.[36]

27. Tewo Loono Ti, 2024
28. FACG, 1992
29. Monks and Sykes 2002, p. 37
30. Dallas, 1988, p. 114
31. Bazerman, Morgan and Loewenstein,1997; Bazerman, Loewenstein and Moore, 2002; Dallas, 1997; Hatherly, 1995; Hayward, 2003; Monks and Sykes, 2002; Romano, 2005; Shapiro, 2005; Turnbull, 2000c, p. 114, 2011a, b, 2017; Wolf, 2023, p. 293
32. Tewo Loono Ti, 2024
33. Caparo, 1990
34. Wolf, 2023, p. 293
35. O’Connor, 2004, p. 14; Turnbull, 2008c
36. Clarke, 2006

This was consistent with the different purposes of US audits: to protect directors from being sued when managers did not meet the conditions for borrowing money supported by negative pledges made by directors.

The Cadbury Committee was sponsored by London Stock Exchange, the Financial Reporting Council, and accounting trade bodies.[37] It was in the commercial interest of each of these sponsors that UK practices were competitive with those in the US. The result was consistent with Cadbury's naïve, uninformed and ethically blinded perspective. He failed to understand the systemic conflict of interest between directors and their auditors, which resulted in conflict between auditors and shareholders.[38] This ethical blindness was not just overlooked but promoted by the recommendations of the Cadbury committee that directors should form an audit committee to control the auditors judging their accounts for shareholders more closely.

The otherwise virtuous Cadbury became responsible for ethically blinding and poisoning the business cultures of the UK and the many other countries that followed the UK's toxic practices.

Cadbury was unaware of the UK history of audit relationships that institutionalised auditors' independence from directors. For example, the UK Joint Stock Companies Act of 1844 promoted auditor independence by the auditor being paid by Commissioners of the Treasury.[39] Another example was the UK 1862 Companies Act, which included an optional model corporate constitution with a shareholder committee that controlled the auditor.[40] This removed unethical relationships, as pointed out by Hatherly,[41] who was a member of the Auditing Practices Board for the UK and Ireland for a decade. The Bank of New South Wales Act of 1923 also removed the conflict in Australia. It required two shareholders to act as auditors.

Shareholder audit committees a step towards polycentric governance

The separation of powers introduced by the shareholder-elected audit committee was proposed for all publicly traded companies in Australia in a minority report to the Australian Parliament by Senator Andrew Murray.[42] US Scholars have identified several reasons why unethical audit relationships do not work.[43] Other authors have identified the 'inappropriate powers of management'.[44]

3. Why not simplify directors' duties with a separation of powers?

Benefits of divided power

Many benefits can arise from separating the power of directors to manage an organisation from the conflicting role of managing the corporate entity to which they are legally accountable. Venture Capital investors have proven the efficacy of a separation of powers. They typically invest on condition that they have a shareholder's agreement to give them the power to appoint and retire directors, determine their remuneration and control the auditor.

There is no commercial reason for directors to retain these powers that introduce systemic conflicts of interest. The separation of powers is also introduced by financiers of management

37. Rinaldo, 2013
38. Shapiro, 2005
39. Caparo, 1990
40. O'Connor, 2004, p. 17
41. Hatherly, 1995
42. Murray, 1998
43. Bazerman, Loewenstein and Moore, 2002
44. Monks and Sykes, 2002, p. 9; Turnbull, 2000c, p.114

Leverage Buyouts (LBOs). It is a proven governance structure.[45] The author has twice proven these benefits when funding new businesses as a promoting shareholder. It facilitates raising funds in high-risk situations while protecting the reputation of the promoters.

A benefit is to remove systemic unethical conflicts of interest. Without a separation of powers, virtuous directors become systemically and ethically compromised by being in positions like setting and marking their exam papers.

Tensegrity[46] **is another critical benefit** hidden from scholars who research hierarchies, because hierarchies deny or even punish differences of opinion. Distributed decision-making allows different viewpoints to emerge, be considered and negotiated. DNA hardwires contrary behaviour into all living things, generating various responses to survive complexity. Tensegrity describes the flight ~ fight, approach ~ avoidance, cooperate ~ compete, altruistic ~ selfish behaviours. These contrary behaviours are not tolerated in command-and-control hierarchies or welcomed in a unitary board.

Constructive conflicts

Tensegrity is a phenomenon found in all living things' physical and behavioural architecture. Cell biologist Donald Ingber describes it as the architecture of life.[47] It is a defining feature of self-governing systems. Tensegrity arises when distributed decision-making introduces different stakeholder voices for each stakeholder constituency, with distributed decision-making. In this way, polycentric governance makes conflicts between stakeholder interests explicit and negotiable in devising win-win solutions. Conflicts of interest become constructive instead of becoming unethical. Tensegrity removes groupthink. It generates variety, adaptation and therefore survival, as well as evolution. These features are inhibited, denied or penalised in unitary boards and hierarchies.

Simplifying complexity is a crucial benefit of distributed decision-making.[48] It can introduce a 'prodigious'[49] reduction in data density required in communication and control channels in living things. Data is measured in bits or bytes.[50] Bits involve perturbations in energy and matter that make a difference. This is one reason biotas universally use distributed decision-making to economise the energy and material required to become self-regulating and self-governing. Self-regulation and self-governance depend upon distributed decision-making.

Modernity has infected humans with centralised, top-down decision-making that introduces data overload, described as bounded rationality.[51] This explains why centralised decision-making facilitates unethical behaviour and is operationally dysfunctional. Indigenous societies avoided bounded rationality by using distributed decision-making, as documented by Ostrom, and noted in Indigenous Australians.[52]

The separation of powers introduces a variety of human capabilities. It allows the introduction of different and specialised experiences and skill sets. Individuals elected by shareholders to become governors of a corporate entity require quite different skills from directors separately elected by members to become responsible for managing company operations, be it a business or a non-profit organisation.

45. Jensen, 1993, p. 869
46. Turnbull, 2022b
47. Ingber, 1998
48. Turnbull and Guthrie, 2019
49. Mathews, 1996, p. 30
50. Eight bits make a byte.
51. Simon, 1957, p. 198
52. Turnbull, Stoianoff and Poelina, 2023

It should be noted that (a) the separation of powers described here differs from the European two-tiered board, where shareholders only elect a supervisory board that appoints a management board, and (b) no separation of powers is introduced in the so-called For Benefit or B Corporations. This means their directors are ethically conflicted with absolute powers.

Contested specialised superior decisions

The author introduced a separation of powers when establishing two public Australian companies he founded and then funded in 1980 and 1988.[53] He was inspired to do so by the watchdog boards established by the stakeholder cooperatives around the town of Mondragon in 1956.[54] The operating advantages for non-executive (independent) directors, auditors, management, stakeholders and regulators are set out in a monthly newsletter published by a US-based corporate governance adviser.[55] However, their most important advantage was to improve the ability to attract investors with a more compelling basis to trust the promoters and managers of a new venture.

The point that absolute power can corrupt is illustrated by the failure of the Italian-based company Parmalat in 2003.[56] The CEO of Parmalat was a significant shareholder in control of the Supervisory Board and its management board. Parmalat also had a third board, as required in some European jurisdictions, to provide separate control of the auditor. However, the Parmalat CEO also controlled the Statutory Audit Board. This could not have occurred with the Australian watchdog boards, because shareholders elected the board of governors on the democratic basis of one vote per investor, instead of electing directors on the plutocratic basis of one vote per share.

As the powers of Australian watchdog boards were limited to vetoing any director conflict of interest, the conflict would need to be made public if a significant shareholder wished to overturn a veto. A 75% vote of issued shares was required to overturn conflicts arising from auditor control, director remuneration, nomination or retirement. The watchdog board also controlled the conduct of AGMs, with one of their number being the chairperson.

In several European jurisdictions, no director would control a meeting of members as they believe this is unethical. However, in Australia, ethical blindness in our culture has allowed corporate constitutions to give directors priority in controlling meetings at which they are held accountable. It is an example of unethical groupthink accepted and practised by otherwise virtuous Australians. Two additional case studies are next considered.

4. Examples of Australian unethical infrastructure

This section introduces additional Australian case studies of systemic institutional ethical blindness. Some unethical behaviour has been so long running and egregious that the blindness of Australian regulators was eventually lost. An example is the PwC[57] accounting partner who in 2015:

> **'emailed classified information obtained from a confidential briefing by the *Australian Tax Office (ATO)* to associates with the message, "For your eyes only", knowing they would subsequently exploit this information to benefit clients and profit handsomely.'**[58]

53. Guthrie and Turnbull 1995; Turnbull, 2002
54. Turnbull, 1998
55. Turnbull, 2012, p. 4
56. Melis, 2004
57. Lucas, Guthrie and Dumay, 2024; Lucas, Guthrie and Ricceri, 2024
58. Ratnatunga, 2023

It took nine years for an Australian Senate inquiry to report: 'The cover-up worsens the crime'.[59]

A quicker loss of ethical blindness and the exposure of remedial incapability of Australian regulators occurred in 2022. This was when the US Public Company Accounting Oversight Board (PCAOB) fined the Australian division of the KPMG global accounting firm. Over 1,100 of their staff had cheated when undertaking mandatory professional standards exams. It included 250 auditors and several partners. This highlights the futility and lack of relevance of promoting ethical education by the proposal to establish an Australian Institute of Applied Ethics. It is an example of how the concentration of power in organisations needs to be changed to build systemic checks and balances.

Ethically blind case studies

The first case study of ethical blindness by regulators and the government is based on the ASX. Our second case study of unadmitted ethical blindness is by regulators and others involved with the Westpac Banking Corporation.

Even though the bank incurred the most significant fine in Australian corporate history of $1.3 billion, ethical blindness meant it was only seen as a management problem, not one of ethics. Neither was it considered a governance problem because its governance was following the ASX's corporate governance code.[60] Regulators accept the corrupt conflicts of unitary boards and their auditors inherent in the ASX code as good governance.[61] Many scholars have identified the intrinsic conflicts of unitary boards,[62] with some describing them as corrupt or toxic.[63]

The ASX case study of ethical blindness

The most important reason for having a public marketplace for buying and selling securities is what economists describe as price discovery.[64] Comprehensive and immediate price discovery is impossible unless all market participants' identities are always publicly available. This is impossible with the ASX because its 'Operating Rules, Guidance note 6' section 7 allows[65] anonymity and pseudonymity unless otherwise authorised by law.

This makes it practical for the ASX to become a more convenient, covert process for money laundering, financing terrorists, bribery and corrupt practices than a legal casino where all operators should be routinely identified. Anonymity and pseudonymity also protect insider traders and brokers who covertly trade ahead of their clients, undisclosed and naked short selling. Naked short selling describes a situation when the seller does not own or have the option to own what is being offered for sale. It is unethical, deceptive conduct that rarely gets discovered or reported. One exception was when an Australian Senate committee discovered that members of the Sydney Stock Exchange committee had sold short a company known as Antimony Nickel in 1971.[66] Naked short selling was still reported over half a century later in 2020.[67]

Australia has two exchange-integrated public dark pools: ASX Centre Point and Chi-X Hidden Liquidity. Together, they account for around 12% of continuous on-market trading in Australia.[68] Dark pools are where institutional shareholders trade shares privately between themselves, with

59. SFPARC, 2024
60. ASX Release, 2020: 4
61. https://www.asx.com.au/about/regulation/asx-corporate-governance-council
62. Caparo, 1990; Clarke, 2006; Dallas, 1988, 1997; Hatherly, 1995; O'Connor, 2004; Turnbull, 2000c, 2009a, b, 2011b
63. Carucci, 2018; Daniel, 2024; Turnbull, 2017, 2023; Wolf, 2023, p. 293
64. Turnbull, 2021a
65. https://www.asx.com.au/documents/rules/asx_or_guidance_note_06.pdf
66. Parliamentary Paper 1974, p. 476
67. Keho, 2020
68. Budovsky, 2021

or without a broker. The public is not informed of either the volume of share trading or the nature of the beneficial owners selling or buying securities.

When beneficial ownership is not revealed, describing a company as public is misleading and deceptive, just like describing ASX governance principles as good. The ultimate owners can include those with loyalties and interests foreign to those of the host jurisdiction. It also means that reference to publicly traded companies is misleading when the identities of those trading shares are kept secret. Likewise, the ASX does not meet the test of being a public exchange when covert trading is required by its rules. Such doublespeak creates false comfort even with a financially literate public.

In 1998, the ASX increased its conflicts of interest by allowing covert or unreported share trades by trading its shares. Since then, some of the largest overseas exchanges have introduced this conflicting practice.[69] As they also do not require beneficial ownership disclosure, Australia has exported its ethical blindness internationally. The ASX operations are subject to the approval of the Australian Investment and Securities Commission (ASIC) and the personal discretion of the Minister, who is the Federal Treasurer. So, both are accountable for allowing non-disclosed unethical, inefficient and potentially deceptive share trading.

Ethical blindness by the government has allowed it to introduce counterproductive unethical conflicts through the action of the Australian Prudential Regulatory Authority (APRA). APRA requires otherwise virtuous company directors to become members of director audit committees of the financial institutions it regulates. The fact that directors possess power over the auditors judging the integrity of their accounts should be an ethical embarrassment to virtuous directors. APRA is acting against the purpose of its existence and even its name, promoting prudence—another example of doublespeak.

By mandating audit committees, APRA is corrupting: (a) the independence of auditors with the directors whose accounts they are judging, (b) the loyalty of auditors to shareholders to whom they report, and (c) the directors who obtain the ability to seek favours, and in effect bribe their auditors. In short, director auditor committees introduce unethical dysfunctional relationships that undermine the reason for appointing auditors. In this way, the government has become responsible for (a) reinforcing ethical blindness, (b) allowing unethical toxic governance to be described as good, and (c) poisoning the Australian business culture to such an extent that commissioners of inquiry into the financial system have noted that executives cannot tell what is wrong and what is good.[70]

Technology has removed the need for central stock exchanges. There is a rich proliferation of trading platforms for trading goods and services. Such trading platforms compete for business by the extent of their disclosure of trading data, such as the nature and identities of those trading. In addition, clients continuously post feedback on any shortcomings and problems in the services or goods transacted.

So instead of the government only licensing stock exchanges to trade their shares covertly, the government should licence any company to trade its shares on any internet platform subject to full disclosure of any change in beneficial ownership of any shares in the company. This creates sunlight trading.[71] Each self-listed company, or anyone else, could then identify undisclosed or illegal transactions. A self-regulating[72] regime is then established for share trading.

69. Turnbull, 2021a
70. Hayne, 2019; Owens, 2003
71. Turnbull, 2005
72. Turnbull, 2001

Crucially, sunlight trading would disinfect public share trades to improve the integrity of price discovery and seriously inhibit unethical activities. As a result, it could also seriously limit share trading volume and stockbrokers' fees. However, it would reduce costs for self-listed firms while allowing their directors to know who they represent. It could purify capitalism and improve the accountability of the owners of capital to the society that supports their operations.

The ASX argues that the non-disclosure of beneficial interests is required to protect investor privacy. More realistically, it protects insider trading and other corrupt activities. If investors wish privacy, then there are now extensive private equity opportunities. Public markets cannot carry out their purpose of providing integrity in price discovery, if the nature and relationships of those participating are not disclosed. Knowing whom you are dealing with has been a condition for business in many contexts. However, the ASX rejected evidence submitted to the Australian Senate in 2002.[73] Technology and the internet have made centralised exchanges an anachronism of an earlier society.[74] Unethical centralised securities trading is not efficient, acceptable, or needed.

A condition for the government to license self-listed corporations would need to include changes in corporate charters to create virtuous corporations[75] that would frustrate, inhibit and disclose unethical relationships or behaviour. This would introduce self-regulation[76] to reduce government costs and intrusiveness.[77] Unethical central so-called public exchanges would become extinct.

Westpac case study of ethical blindness

Westpac is the oldest bank in Australia. It was incorporated under the laws of the New South Wales colony in 1817 as The Bank of New South Wales. It is now one of the four largest banks in Australia. In 2020, it incurred the largest fine in Australian corporate history of $1.3 billion.[78]

The bank appointed an advisory panel of three prominent company directors to assess how the board handled the matters the regulator raised that led to the fine. Their 8 May 2020 report was made public in an ASX Release on 4 June.[79] The three prominent directors revealed they were also subject to dysfunctional groupthink by stating: "How the Westpac Board has organised its governance responsibilities is mainstream and 'fit for purpose'".[80] How can this be so after Westpac had agreed to pay a record fine? It proved that the advisory panel was also subject to groupthink, supporting the myth that the ASX corporate governance principles were satisfactory. The evidence they provided was that all three recognised levels of risk management had failed.[81] Again, this illustrates the futility of ethics education in solving systemic problems created by centralised governance regimes without checks and balances introduced by distributed decision-making to allow tensegrity to emerge.

Likewise, dysfunctional groupthink caused the global financial crisis in 2008. At that time, evidence of misleading good governance groupthink was contained in the US Financial Crisis Inquiry Commission (FCIC) report.[82] It stated

73. Senate Economic Reference Committee 2002, pp. 33, 36, 37, 38, 66
74. Turnbull, 2021a
75. Pirson and Turnbull, 2023; Turnbull, 2000a, 2016, 2019a, b
76. Turnbull, 2001
77. Turnbull, 2021b
78. https://www.abc.net.au/news/2020-09-24/westpac-money-laundering-austrac-fine-explained/12696746
79. ASX Release, 2020
80. ASX Release, 2020, p. 4
81. ASX Release, 2020, p. 14
82. FCIC, 2011, p. 11

that 'all 56 U.S. banks that required government support during the crisis from 2008 to 2009 possessed higher compliance to what is considered good governance'. However, according to the report, the crisis was 'avoidable' as it arose from 'widespread failures in financial regulation; dramatic breakdowns in corporate governance'.[83]

The last two paragraphs illustrate the power of groupthink to ignore inconvenient facts in Australia and the US.

Westpac provided another example of groupthink in 2024. An article was published to announce that 'Westpac ditches PwC as auditor for KPMG'.[84] PwC had been the auditor for the previous five decades. The article quoted the Chair of Westpac stating: 'Good governance supports the change of auditors at this time'. However, how can the situation be accepted as good governance unless there is ethical blindness to conflicts of interest, as discussed above and noted below?

First, the directors took the initiative to change the auditor, not the shareholders, who appoint, pay or dismiss the directors according to the audited report directors present to shareholders. Second, two directors of Westpac had been partners of KPMG, providing a basis for institutional loyalty between the two firms that, according to Lord Bridge cited earlier, should be acting antagonistically to each other. Third, at an individual level, the audit partners of KPMG could become ethically compromised when judging the integrity of their former audit partner colleagues who were now Westpac directors. Fourth, KPMG possessed an 'excruciating closeness to Westpac', its banker and prestigious major consulting client.[85]

As noted above, the misleadingly named prudential regulator mandates the systemic unethical relationship arising from directors nominating and paying their judges. The government should initiate immediate, direct corrective action. The initiative of the Sydney-based Ethics Centre to establish an Australian Institute of Applied Ethics is, therefore, an irrelevant, expensive distraction.

5. Purifying capitalism

The case studies presented above demonstrate the existence and extent of how deeply ingrained ethical blindness is built into Australian corporate culture. The existence of ethical blindness in the UK and the US has also been noted. The insights of systems science and the practices of self-governing biotas were introduced to support the need to introduce distributed decision-making and the self-governing Design Principles identified by Ostrom.

The biggest challenge is obtaining public and government support to purify capitalism. Some suggestions in this regard will be considered next.

Introduce sunlight share trading

In theory, the purification of capitalism could begin immediately. The Australian Treasurer and ASIC could begin licencing any public company to trade its shares on condition of continuous disclosure of beneficial ownership. Insider trading, dark pool trading, money laundering, terrorist financing and other illegal activities would become subject to continuous widespread public scrutiny.

Immediate correction could be initiated by opportunistic legal firms pre-empting government regulators. Regulation could begin to become privatised and decentralised.[86] Company directors, the public and the government would become informed of the identity of the owners of public companies.

83. https://cybercemetery.unt.edu/archive/fcic/20110310173535/http://www.fcic.gov/report/conclusions
84. Professional Services 2024
85. Robin and Di Stefano, 2024, p. 32
86. Turnbull, 2008b, 2019a

The degree of local or alien ownership and control of public firms would become disclosed to the public. The challenge of establishing self-reliant bioregional, eternally sustainable circular economies could be identified. Inequitable opportunistic high-speed share trading could be controlled by the firms concerned to safeguard the best interest of all shareholders.

Government regulators' concerns over the reliability of the ASX computer technology would be overcome.[87] The problem arose when the ASX failed to update its centralised computer share trading technology after spending seven years and $250 million.[88] If any public company could trade its shares in the sunlight, there would be no need for the ASX. Superior market efficiency and integrity would be achieved on a highly resilient, decentralised basis.

Changing the role of regulators

The role and cost of regulators could change from being slow, impotent and costly reactive to only a minority of indiscretions. Instead, their role would be to ensure that all corporate stakeholders possess the intelligence, incentive and resources to protect and promote their interests immediately and comprehensively.

In other words, the regulation would become bottom-up with various checks and balances to control the wide variety of misdeeds, mismanagement and malfeasance that can arise from complex business operations. This would make the complexity regulation consistent with the laws of nature identified by systems science.[89] Australia could establish a role model for regulators around the world.

However, the transfer of government regulation to citizens would need to be subject to testing and refinements by trial and error in regulatory 'sandboxes'. So, this process could take some years. A bigger problem is to motivate the government to initiate a vision and obtain the will to act. Government-employed advisors could resist the reduction of the role of government. Elected members of Parliaments could have more pressing agendas than even exposing ethical blindness, let alone running the risks of initiating corrective measures.

Political imperatives to purify capitalism

Improving ethics is not likely to be a top political agenda for many politicians, except for minority parties and independents. Accepting a request from the Ethics Centre for a one-time government allocation of $33 million to underwrite its succession with an Australian Institute of Applied Ethics is not likely to jeopardise voter loyalty to elect politicians. The estimated economic incentives appear significant but not compelling.

Gifting a wellbeing income to all citizens creates a compelling incentive to act

Such an opportunity arises because shareholders get overpaid in a way that accountants cannot report. Overpayments cannot be reported because accounting doctrines do not require investor time horizons to be identified. Overpayments described as 'surplus profits' cannot be reported if time horizons are not identified.

Surplus profits that cannot be reported cannot be taxed. However, sharing surplus profits with all resident citizens can be introduced with a self-financing tax incentive for shareholders who create and endow stakeholder shares and dividends. This would introduce a shareholder-led stakeholder economy that would reduce inequality and enrich democracy. An irresistible incentive is created for politicians or any political party to support.

87. ASIC, 2023; Eyres, 2024
88. Sadler, 2022
89. Turnbull and Guthrie, 2019; Turnbull, 2021b

The purifying of capitalism can then be extended to include reducing inequality with lifelong wellbeing support for all citizens. The self-funding tax incentive creates win-win outcomes for the wealthy minority and all other voting citizens.

The universal citizen dividend[90] could replace the need for employed citizens to sacrifice their salaries to fund their pensions compulsorily. After 2025, this would increase the income of employed citizens in Australia by 12%, increasing their spending or savings and investment to boost economic activity significantly.

The view that there is no limit to human greed may be widespread. This view can lead to the conclusion that it is impossible for investors to get overpaid. However, no investor can be confident about the future. So, even the greediest investor will select opportunities that will provide more significant profits sooner in the foreseeable future. In this way, all investors implicitly or explicitly establish their investment in time horizons.

Time horizons identify when an investor will not rely on obtaining any cash back to obtain the incentive to invest. This makes cash received after their time horizon surplus to obtain the investment incentive. It represents a windfall, unnecessary overpayment, or a surplus investment incentive.

Such surplus profits should not be confused with profits that are excessive, super or are described as economic rent.[91] Accountants can report these because they do not require identifying a time horizon. This difference makes it necessary to adopt a new word to communicate a different concept that could be unfamiliar to many.

Time horizons are not a theoretical social construct. I discovered investor time horizons when working in New York City as a financial analyst for a multinational business with global projects. Cashflow projections for new prospective investment opportunities worldwide could extend to thirty years. However, in deciding to invest in different countries the directors would set different time horizons for each country according to their perceived risks.

No time horizon accepted for any country longer than ten years. Time horizons were established for five or fewer years for some perceived high-risk countries. This meant that surplus profits could arise for at least 25 years. Surplus profits can become hundreds of times the cost of the initial investment.[92] The time horizons for venture capitalists can be as short as three or four years.[93] The average time horizon for US institutional investors in real estate is 7.6 years.[94]

To demonstrate the practicality of raising millions of dollars from hundreds of investors for high-risk start-up new ventures, the author has twice funded public corporations where he limited shareholder time horizons to 15 years.[95] We limited investor returns to seven years in a film financing business to avoid indefinite administration costs.

Corporate charters issued by State Governments in the US had a 20-year time horizon during the 17th and early 18th century.[96] All intellectual property possesses time horizons, with patents initially limited to 20 years. Government projects funded privately with Build, Owned Operated and Transferred (BOOT) contracts demonstrate the use of time horizons and ownership endowment.[97]

90. Described as a community dividend (Turnbull, 1975, p. 83)
91. Morehouse, 1997, p. 142
92. Penrose, 1956; Turnbull, 1973
93. Chladek, 2021
94. Fisher and Young, 2000
95. Saxonvale Wines Limited founded 1969 publicly traded 1975, and Barwon Cotton Limited, founded 1979, publicly traded 1984.
96. Grossman and Adams, 1993
97. https://www.wallstreetmojo.com/build-own-operate-and-transfer/

Surplus profits answer a question that Piketty could not. Piketty asked why the return on capital has been at least 10 to 20 times greater than the growth of output and incomes.[98] Surplus profits help explain that the inequality in people's living conditions across the world is 'tremendous',[99] and that 'eight men are wealthier than half the globe'.[100]

The Piketty solution to reduce inequality was to introduce taxes. The solution suggested in this article is counterintuitive. It proposes tax reductions to incentivise shareholders to support more efficient, equitable and eternally sustainable stakeholder capitalism. This is similar to the tax incentive proposed by Martin Wolf for the government 'to promote private investment', and also 'to change corporate governance'.[101]

6. Democratising purified capitalism

The tax incentive for shareholders to agree to amend corporate constitutions to endow a fraction of their equity each year to stakeholder shares can become self-funding. This arises from stakeholder tax payments increasing from their endowed dividends, with the cost of welfare being replaced with dividends from endowed stakeholder shares.

With the incentive becoming self-financing, it can be made sufficient to provide shareholders with a bigger, quicker and less risky profit. Institutional investors with a legal obligation to maximise returns would be obliged to vote in favour of corporations amending their constitutions to become endowment firms. The amendments would include reformatting[102] Ostrom's self-governing design principles to introduce distributed decision-making.

Endowment firms would greatly magnify and simplify the share ownership distribution achieved by US Employee Share Ownership Plans (ESOPs). Non-self-funding tax incentives were used by Senator Russel Long 50 years ago to introduce ESOP to the US Today, around 5% of voters are members of ESOPs.[103] Endowment firms could immediately make contributions to 100% of voters. This highlights the compelling political arithmetic of extending share ownership to all voting citizens.[104]

In addition, the process is greatly simplified.[105] US ESOPs involve the complications of securing bank loans to finance newly issued shares to employees via a trust.[106] This involves collateral, loan agreements, trust deeds, trustees, valuations, etc. Endowment firms achieve ownership transfer by simple book entries each year to transfer equity from the shareholder account to the stakeholder equity account. New stakeholder shares can be endowed to voting citizens each tax year. Their selection should make sense in developing bioregional, self-reliant, self-governing circular economies within 20 years.

It is worth noting that in 2022, Alaska distributed a non-ESOP dividend of $US3,284 from a single pipeline business to every resident voter and to every child resident of 12 months[107] If another four similar enterprises distributed similar dividends, every family with two children in Alaska would receive more than the US basic wage.[108]

98. Piketty, 2017, p. 353
99. Roser, 2017
100. Picchi, 2017
101. Wolf, 2023, p. 249
102. Turnbull, 2022a, p. 97
103. https://www.nceo.org/articles/employee-ownership-by-the-numbers
104. Turnbull, 1975
105. This is why Jeff Gates, who drafted the ESOP tax incentives for Senator Long, invited the author to join him in Beijing in 1991 as a guest of the State Commission for Reforming the National Economy.
106. Jeff Gates visited Russia in 1990 to introduce ESOPs, but the financial infrastructure was not available.
107. https://pfd.alaska.gov/docs/permanentfunddividendlibraries/annual-reports/2022-pfd-annual-report---final.pdf?sfvrsn=7cd131a2_3
108. Around 15% of US families hold shares directly while about 55% of US citizens hold shares indirectly through mutual funds and retirement funds; https://www.fool.com/research/how-many-americans-own-stock/

Investor-led stakeholder bioregional circular economies

Endowment firms grow by mimicking living things and creating new offspring businesses funded by dividend-redirected-investment plans. The new offspring firms provide a succession planning process for local and alien investors, as well as for employees, executives, customers, suppliers and other critical stakeholders on whom firms depend for their existence. This re-direction process would remove local or foreign ownership and control held in alien tax havens to enrich host economies. More citizens receive more taxable income to increase domestic savings and investment to build more self-reliant circular bioregional economies.

Firms would be kept to human scale.[109] Competition could emerge between sibling firms endowed with competing generations of technology, product and service innovations. Independently elected stakeholder associations would appoint qualified individuals as advocates to protect and further the interests of their different constituent stakeholders.

Ostrom's case studies[110] illustrated how competition between stakeholders resulted in cooperation and self-governance without 'Markets or States'. As a result, corporations could be transformed into becoming what Ostrom describes as 'Common Pool Resources', providing benefits for all stakeholders (a 2019 objective of the US Business Roundtable).[111]

Introducing competing feedback channels corrects biased, incomplete or missing data. Directors obtain superior scope and accuracy of intelligence on their organisations' strengths, weaknesses, opportunities and threats (SWOT).

Unlike government laws and regulators protecting stakeholder interests, independently elected stakeholder advocates can mentor management to discover and negotiate win-win solutions. Regulation becomes privatised, delivering bottom-up immediate and comprehensive responses.[112]

Superior stakeholder protection is achieved in a much more credible way than firms employing internal ombudspersons. Employees or contractors must be subject to systemic conflicts of interest. Growth of this less creditable way of promoting stakeholder care is revealed by fthe Association of Ombudsperson in many countries being formed, with an International Association[113] promoting their activities.

Enriching democracy for eternal wellbeing

The localisation of enterprise ownership and control into their host bioregions enriches democracy by helping to self-determine the population size that mainly locally available, eternally renewable resources can sustain. This is how Indigenous Australians sustained their existence for 65,000 years through the last Ice Age. During this time, sea levels increased by over 130 meters, shrinking Australia's size by 20%. This process of rising sea levels is expected to continue but with more significant degradation of the atmosphere, oceans, land, biodiversity, and so the wellbeing of humans. The 'ghastly'[114] future for humans expected by scientists requires both a reduction in population and inequality.

109. When Mondragon stakeholder cooperatives grow beyond human scale, they divide into two like an Amoeba with one firm becoming a supplier or customer of the other (Turnbull, 2000b: 218)
110. Ostrom, 1990
111. BRT, 2019
112. Turnbull 2019a, b; 2021c
113. https://www.ombudsassociation.org/
114. Bradshaw et al., 2021

As wellbeing reduces, the imperative for politicians to use tax incentives to improve a much more equal distribution of wellbeing will become increasingly compelling.

Humanity's wellbeing will depend upon the wellbeing of their host bioregions. This requires humanity to be governed by the nature of the bioregions as undertaken by Indigenous peoples. Modern society needs to become consistent with and become part of nature by adopting the governing practices of nature. Such biomimicry would replace exclusive, static, unlimited life property rights to land, buildings, enterprises, and money with dynamic, inclusive, and time-limited ones.[115]

In other words, modern society requires a Total Reset.[116] It must replace its toxic, alienating, undemocratic centralised, top-down hierarchical institutional power structures with stakeholder-driven bottom-up local polycentric self-governed organisations. In this way, tensegrity is introduced to remove ethical blindness.

Distributed decision-making is required to introduce tensegrity into social organisations. It also introduces a wide variety of contrary viewpoints. In this way, individuals get real-time practical education on right or wrong. The constructive conflicts introduced by tensegrity educate individuals without morals on how exercising organisational power can introduce harms or lack of wellbeing to others.

The take-home message is that education in ethics is best provided by replacing toxic institutions with virtuous institutions that reveal, restrict and control either good or bad people from doing bad things.

115. Turnbull, 2018
116. Campbell, 2023

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ARTICLE

The Australian public sector and the PwC affair: A social systems perspective

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Concern about the operations and motives of major consulting firms has been stoked by a succession of scandals in Australia and abroad. Analysis of the PwC affair by researchers from the University of Wollongong and Macquarie University shows how these firms have effectively privatised and hollowed out the public sector, putting private profit before the public interest and undermining democracy.

1. Introduction

Daily revelations in the Australian media continue to highlight a growing scandal around the role of consultancies in Australia, which is more broadly described as the professional services industry and includes financial audits, tax and advisory services. Attention so far has focused chiefly on one of the 'Big Four', PwC, embroiled in an ugly tax scandal involving severe conflicts of interest concerning confidential negotiations with the Australian Government about multinational tax avoidance.[1] PwC is also linked to the notorious Robodebt scheme,[2] having failed to provide a 100-page report contracted to deliver to the government despite being paid nearly $1 million. Instead, it provided government bureaucrats with an eight-slide PowerPoint presentation.[3] PwC's then acting CEO, Kristin Stubbins, confirmed the firm would repay $853,859 it received from the Department of Human Services to review the scheme deemed to be 'neither fair nor legal' by a recent royal commission.[4]

1. Chenoweth, 2023b
2. Mitchell, 2023
3. Bucci, 2023
4. Ibid.; Mao, 2023

Emerging evidence suggests the PwC revelations are the tip of a much larger iceberg of systemic failures in how big consulting firms in Australia respond to their broader obligations to provide accountability and transparency regarding their work. Those systemic failures relate to various issues, from poor value for money and overcharging to ethical concerns relating to conflicts of interest and undermining professional standards.[5] The extent to which PwC and other major consultancies provide genuinely independent advice and expertise on critical issues has also been questioned.[6] A royal commission into these firms has been called for by one former partner and one of Australia's most senior economics journalists. Several former employees have also blown the whistle on unethical and illegal activities they allegedly witnessed, were requested to perform, or for which they were targeted for retribution.[7] Pressure is mounting for significant reform of government regulation and the internal processes of these firms. Much of this pressure has arisen due to an Australian Senate inquiry that has revealed the extent to which consulting firms have been allowed to police their own behaviour while earning billions of dollars from governments.

There are three parliamentary inquiries into the consulting industry and its relationship with the Commonwealth Government of Australia. The first, the Parliamentary Joint Committee on Corporations and Financial Services Inquiry has heard recent allegations of and responses to misconduct in the Australian operations of the big accounting, audit and consultancy firms (including but not exclusive to the Big Four). The inquiry has conducted a detailed investigation and analysis of the regulatory, technical and legal background to the growth in government reliance on consultancies, including the broader cultural factors and their implications.[8] The Senate Economics References Committee is undertaking a second inquiry into the Australian Securities and Investments Commission (ASIC) investigation and enforcement activities. The third inquiry is run by the Senate Standing Committee on Finance and the Public Administration References Committee into the management and assurance of integrity by consulting services.[9] None of these parliamentary inquiries is due to be reported publicly until 2024. However, the evidence presented in public submissions and hearings to date, together with a substantial amount of information that has emerged since the beginning of 2023 through the work of investigative journalists and whistleblowers, provides researchers with sufficient material to determine the extent to which the major consultancies have contributed to the hollowing out of public sector expertise in Australia and a loss of public confidence and trust in government and democratic norms more generally.

Although PwC may not be the only bad apple in the global consultancy barrel, it has received considerable negative publicity and critical attention in the Australian media. PwC Australia most recently entered the media's crosshairs after it initially downplayed as an isolated incident its involvement in a breach of confidentiality relating to multinational tax disclosure information it received as a consultant to the Australian Government. This scandal became public knowledge when the *Australian Financial Review* (AFR) reported in January 2023 that the Tax Practitioners Board had sanctioned a PwC partner.[10] However, the extent of the scandal continues to grow, with 144 pages of redacted internal PwC emails released in May 2023 showing communication chains implicating

5. Knapp, 2021; Centre for Public Integrity, 2023; Belot, 2023a, 2023a; Nilsson, 2023; Gow and Kells, 2023
6. West, 2019a; Knapp, 2020; Sadler, 2023
7. Belot, 2023a; Kohler, 2023; ABC TV, 2023
8. Guthrie et al., 2023c
9. Guthrie et al., 2023a
10. Chenoweth, 2023a

several senior partners.[11] That discovery has raised questions about whether others shared confidential tax information worldwide.

The emails suggest PwC was using the confidential information received by its partner as part of a plan to market its services to large multinational corporations that would be subject to Australia's new tax avoidance laws, the most significant of which is the Multinational Anti-Avoidance Law (MAAL). In the same breaking story by Neil Chenoweth on the scandal, the former Deputy Commissioner of the Australian Tax Office Mark Konza is reported to have first discovered the breach of confidentiality in 2016, telling the reporter, 'Some firms are saying, "We've got the MAAL inoculation, come to us"'.[12] Konza's comment implies that this behaviour was neither isolated nor restricted to a single firm.

To understand the PwC scandal and the unethical and possibly illegal behaviour it has revealed, we present an analysis of six months of parliamentary inquiries and investigative journalism to understand better whether this scandal exemplifies broader problems in the oversight of consultancy operations in Australia and subsequent government overreliance upon them for a wide range of professional services previously conducted in-house. Given that similar scandals involving PwC and other large consultancy firms have regularly arisen over many years in Australia and the other countries in which they operate, the Australian situation arguably represents a microcosm of how the global consulting industry routinely conducts itself. We develop insights into how it has managed to capture significant access to shaping the legal and regulatory environment in Australia and internationally and what this means for effective governance and government. We find that scandals associated with the consulting industry are both pervasive and systemic. The industry faces a legitimacy and legitimation crisis concerning government confidence and public trust.

Consequently, it is under increasing pressure for reform. It is currently at a crossroads, with several pathways that could be followed. These pathways can be broadly defined as international, national and internal to PwC and other consulting firms. Our findings have implications for the future of the consulting industry and are aimed at helping to inform policymakers grappling with this rapidly changing landscape. The evidence we have compiled, analysed and interrogated demonstrates that governments should be doing far more to regulate the industry.

The paper is structured as follows. Section 2 provides some consulting industry background. Section 3 outlines the research methods used. Section 4 provides a detailed analysis of publicly available information, including newspaper articles, evidence from parliamentary inquiries and other sources. Section 6 concludes.

2. The consulting industry: Context and impact

This section explores several issues associated with the global consulting industry. Given the topical nature of this work, it relies on relevant academic and NGO research, the findings of investigative journalists, submissions to the aforementioned parliamentary inquiries and two recent books, Mazzucato and Collington's (2023) *The Big Con* and Bognaditch and Forsythe's *When McKinsey Comes to Town* (2022).

The development of the global economy over the last half-century has created an ideal context in which consulting firms have flourished. The neoliberal economic orthodoxy underpinning their growth has enshrined the contentious principle that private markets are the most efficient system

11. Chenoweth, 2023b
12. Ibid.

for allocating society's resources.[13] Thus, when business corporations or government agencies have problems, they turn to consultants. Whether the problem is financial, organisational or strategic, they draw on consultants' presumed independent expertise and experience to find solutions. As a result, the number of firms globally in the management consulting industry has expanded rapidly. In 2021, the global consulting services market was valued at between $US700 billion ($1.06 trillion) and $US900 billion ($1.37 trillion).[14]

Following a series of acquisitions during the early 2000s, the so-called Big Four accounting and auditing firms, KPMG, PwC (PricewaterhouseCoopers), Deloitte and EY (Ernst & Young), expanded their businesses into consulting. They currently employ nearly 1.5 million staff in more than 100 jurisdictions and have an estimated annual revenue of $US190 billion in 2022, of which $US76 billion was for advisory and consulting and $US63 billion for auditing and assurance.[15] Ten years earlier, the combined annual revenue for the Big Four was $US110 billion.[16] These figures indicate that all four firms can earn significantly more from consulting than auditing.

The fact that the Big Four are responsible for auditing 98% of global corporations with annual revenue of $US1 billion or more has enabled them to leverage their virtual monopoly on providing tax advice to the world's most powerful corporations to build their consulting and advisory businesses. The austerity measures imposed by numerous governments since the 2008 global financial crisis enabled them to move into and dominate both of these lucrative service sectors, from which they have further benefited as their recommendations to reduce the size of the public sector have directly resulted in more employment for their staff. All four firms have been accused and, in some cases, convicted of enabling their corporate clients to engage in global tax avoidance in multiple jurisdictions.[17] Consequently, they are subjected to increased scrutiny in those countries where they operate, with one recent study by the Tax Justice Network finding that their client services cost governments and taxpayers $US480 billion in annual revenue.[18] Although providing advice to their corporate clients on global tax avoidance is not the only dubious activity involving the Big Four, it is precisely that issue that has revealed to the Australian public how extensive and ethically questionable their influence has become.

In Australia, the leading players offering consulting services include the Big Four accountancy and Big Three consulting firms, Accenture (formerly Arthur Andersen), McKinsey and Company and Boston Consulting Group. There are numerous small and specialised consulting companies in Australia – just as in other jurisdictions – but the Big Four firms with branches worldwide dominate the market. This paper mainly focuses on the activities of the Big Four in Australia and the negative consequences of unregulated consulting services growth in multiple jurisdictions.

To illustrate how significantly the Big Four's Australian earnings have grown over the last fifteen years, the Joint Committee of Public Accounts and Audit found in 2018 that they had drawn $2.6 billion over ten years in Federal Government consultancy fees.[19] The Centre for Public Integrity found in their July 2023 report on the Big Four that over the ten years from 2012/13 to 2021/22,

13. Guthrie et al., 2023b, d
14. Fels and Guthrie, 2023
15. Gow and Kells, 2023
16. Christensen and Murphy, 2012: 23
17. Ibid.: 23–25; Sikka, 2015: 157–167; Dell and McDevitt, 2018: 67, 114–115
18. West, 2016a, https://taxjustice.net/reports/the-state-of-tax-justice-2023/
19. West, 2018b

they received over $7 billion in contracts from the Federal Government.[20] This was roughly one-third of the $20.8 billion the Australian National Audit Office (ANAO) found the Morrison Government spent on consultants and outsourcing of public services in its final year. Of that spending, nearly 70% was on outsourcing service provision, with the remainder spent on contractors and consultants.[21] These figures reveal the Coalition Government's growing reliance on consultancies. Its expenditure on consultants grew by an astonishing 1,270% over a decade,[22] creating a shadow public service that has hollowed out the public sector.[23] According to the ANAO, the Coalition's expenditure on consultants and outsourcing during its last year in office constituted 53,900 full-time staff in 2021/22, or 37% of the actual workforce.[24]

Finance commentator Alan Kohler pointed out that the Federal Coalition Government was responsible for sacking 19,000 public servants under three prime ministers over ten years. He also noted that the average charge-out rates for the Big Four are between $250 and $500 per hour. In contrast, the highest-paid federal public servants receive $260 per hour.[25] Regarding value for money, it is difficult to see how paying the lowest-cost consultants at the same rate as the highest-paid public servants makes any economic or policy sense.

Although some may insist that Australia represents an extreme case, the almost universal reliance by most of the world's governments and large corporations on consulting firms to provide policy advice and strategic guidance illustrates what Mazzucato and Collington call 'The Big Con'.[26] Highlighting how consulting firms are structured to maximise partner returns, they argue that the larger firms engage in unethical behaviour, which continues to go unchecked because the only regulation they are subject to is self-regulation.

One of the primary rules of consultants advising the boards and management of private corporations is that the client's interests come first. It does not matter if the client is producing harmful products like cigarettes or is engaged in environmentally unsound practices; a management consultant can advise on how to do it more efficiently. Although some consultants may try to help corporate clients meet social responsibility obligations or offer advice on dealing with ethical constraints, the bottom line is always the economic indicators of profit, executive remuneration and shareholder value.

Mazzucato and Collington (2023) highlight that the big consultancies often operate on both sides of the street – advising, for example, both the leading fossil fuel polluters and the government mandated to reduce national emissions or auditing a sizeable prime contractor while bidding for similar contracts, or writing federal tax legislation at the same time as advising clients on how to sidestep it. The authors argue for mandated transparency and conflict of interest disclosure to fully understand how a consulting firm's clientele might affect its advice and to lift the veil of secrecy under which these firms routinely operate.

As an example of how consulting firms work on both sides of the street, Guthrie and Lucas (2022a) point to data from the 2020–2021 Corporate Tax Transparency Report (CTTR) and historical data from the Australian Tax Office (ATO) from

20. Centre for Public Integrity, 2023
21. Convery, 2023
22. Belot, 2023b
23. Cosoleto, 2023
24. ANAO, 2023; Convery, 2023
25. Kohler, 2023
26. Mazzucato and Collington, 2023

2013 to 2021, which recorded extraordinarily high levels of tax avoidance by major fossil fuel companies operating in Australia.[27] The ATO tax data demonstrate that several companies, including ExxonMobil Australia, Chevron, Santos, Peabody Coal, Yancoal Australia and QGC Upstream (a subsidiary of Shell), paid zero income tax over eight years. These companies are amongst a larger group of energy and resource companies with significant financial and political interests in fossil fuels that disclosed revenue of about $1.43 trillion and paid an average of less than 1% income tax on that revenue. All of these companies receive taxation and strategic advice from the Big Four.[28] They also regularly engage in obfuscation regarding their tax contribution to Australia by conflating their royalty payments with their tax payments.[29]

It is mainly owing to the tireless work of one of Australia's top investigative journalists and financial commentators, Michael West, that the role of the Big Four in these and many other controversial practices have come to light. West has been a persistent and dogged critic of the Big Four in reporting for mainstream and independent news outlets over many years.[30] Along with a growing number of academics and other journalists, he has repeatedly argued that the Big Four routinely advise not only those transnational corporations engaged in tax avoidance but many government departments, including the treasury, finance and auditing bodies that are supposed to regulate and monitor them – an apparent conflict of interest which these firms and government departments repeatedly claim to have resolved through internal processes.[31]

Fossil fuel companies and other transnational corporations could not pursue the accounting and legal practices associated with tax avoidance without the services of the Big Four. Their successful and self-interested campaign to lobby for the creation of limited liability partnerships (LLPs) in multiple jurisdictions between the early 1990s and mid-2000s has enabled them to legally insulate themselves from taking any responsibility for wrongdoing while retaining the lower disclosure provisions of legal partnerships.[32] Prem Sikka and Nicholas Shaxson have documented how, in the early 2000s, UK firms Price Waterhouse and Ernst & Young were involved in financing and developing legislation to create LLPs in Jersey, a UK Crown dependency, as a stalking horse to introduce similar legislation into the UK and other countries after more than half the US states and Canada had adopted them by the late 1990s.[33]

Historically, the law in most countries has held that each partner in a business partnership is jointly and severally responsible for any debts, wrongdoing or negligence attributable to other partners in the business. LLPs dispense with this legal responsibility and give partnerships all the benefits of a public company without the financial disclosure and transparency provisions. In the words of tax expert David Cay Johnston, the widespread adoption of LLPs in the US, Canada, UK, Australia, New Zealand, Singapore and Japan 'took away the most powerful incentive for self-policing by the corporate professions of law and accounting … [and] help explain the wave of corporate cheating that swept the country [in the 1990s and 2000s]'.[34] The role of the Big Four in weakening

27. Guthrie and Lucas, 2022a
28. West, 2014, 2016b, 2017a, 2018a, 2018b
29. Khadem, 2017; West, 2017b, 2018b
30. See, for example, West, 2016a, 2018c, 2018d, 2019a, 2019b, 2021a, 2021b
31. Khadem, 2016, 2017; Knapp, 2020; Tran, 2021; Chenoweth, 2022; Lucas, 2022; Guthrie and Lucas, 2022b; Sadler, 2023; Gow and Kells, 2023; Tadros, 2023; Nilsson, 2023
32. Lucas, 2021, 2022; Kruger, 2023
33. Sikka, 2008; Shaxson, 2011, pp. 203-210
34. Shaxson, 2011, p. 204

these provisions sheds light on the strategies these firms habitually deploy to secure the conditions necessary for the smooth accumulation of private wealth and power.

It is not only transnational corporations that have come to rely on the services of the consulting industry. It is also governments: ministries, departments, agencies and other functionaries of public administration. The ideology of neoliberalism that has profoundly affected economic policymaking in most Western countries has resulted in a relentless transfer of power from public to private hands and a hollowing out of the capability of public instrumentalities to do their job effectively.[35] As a result, governments have increasingly turned to consultants to provide them with a range of services they may once have provided in-house, including research, data collection, project evaluation, strategy advice, operational planning and more.

These developments have occurred as politicians have progressively adopted a new public management paradigm and new public financial management, which asserts that public institutions should function more like businesses, where performance is evaluated based on efficiency, cost-effectiveness and customer satisfaction.[36] These indicators of a successful operation are familiar territory to management consultants, so it is hardly surprising that they have been called in to implement public service reform, often becoming not just advisors but active participants. In doing so, they have assured themselves of continuing government contracts, an essential element in their business model. Mazzucato and Collington[37] argue that the financial costs of these trends to the public purse have greatly outweighed the value of any benefit produced, and they highlight adverse impacts on the public interest concerning a wide range of issues, from health, education and aged care to transport, energy and communications, with numerous examples from the UK, the US, France, Australia and Sweden. The negative outcome of these trends is a reduction in the depth and breadth of expertise within government, an erosion of trust in public institutions, and the normalisation of attitudes hostile to democratic values of accountability, transparency, equity and justice.

In their final chapter, Mazzucato and Collington propose liberating public and private organisations from an over-reliance on the consulting industry. They recommend reforming the civil service, investing in internal capacity building and mandating transparency.[38] The Centre for Public Integrity makes similar recommendations. It also goes further, calling for a recentring of the civil service as the primary policy advisory body in government, imposing caps on the use of consultants and using them only when there is a demonstrated and acute need, broadening the application of existing rules around procurement and tendering, and strengthening integrity regulation concerning lobbying and revolving door appointments.[39]

To rebuild capability in the public sector, organisations must begin by recognising the government as a value creator in the economy rather than a wasteful and inefficient value extractor or a market fixer at best. It must implement processes and investments that allow it to learn and adapt for this to happen. It is also critical that public sector organisations

35. Rundle, 2023
36. Guthrie and Parker, 1998
37. Mazzucato and Collington, 2023
38. Ibid., pp. 239, 242
39. Centre for Public Integrity, 2023, pp. 10–11

are empowered to take risks. In practical terms, recognising the state as a value creator – and a risk taker – requires policymakers and the media to change the narratives they use when describing the role of government in the economy. A substantial investment must be made in internal capacity and capability creation.[40] Ensuring that public sector careers attract competent, purpose-oriented and curious individuals is critical. Digital infrastructure can also be a valuable dimension of public sector capacity; governments can seek to re-establish the in-house IT expertise necessary for managing digital infrastructural and procurement contracts. For genuine partnerships, governments can work with research institutions, organisations can learn through networks (like MOIN), and local governments can apply Community Wealth Building principles.[41]

The unsavoury characteristics of the industry that Mazzucato and Collington describe are exemplified in the story of the McKinsey Corporation. Bognaditch and Forsythe's (2022) book *When McKinsey Comes to Town*[42] chronicles the history of this sprawling global giant, emphasising how its past and present behaviour can be seen as questionable. The content concerns case studies describing McKinsey's dealings with various private and public sector clients. The authors highlight that it is not only workers but also consumers who suffer. Describing McKinsey's dealings with the tobacco and pharmaceutical industries, the authors point to wide-ranging unethical behaviour that was so extreme as to prompt a US judge in 1992 to observe that in the choice between the physical health of consumers and the financial well-being of the business, McKinsey chose concealment over disclosure, sales over safety, and money over morality.[43]

In February 2021, McKinsey agreed to pay US$573 million to US authorities as part of a settlement for its role in the opioid crisis, which has killed hundreds of thousands of Americans. The action was taken against McKinsey because of its conflict of interest in failing to disclose its work with Purdue Pharma corporation while also working for the US Government's medicine regulatory body, the Food and Drug Administration (FDA). McKinsey continued advising Purdue after it pleaded guilty to charges in 2007 that it misled regulators over the drug's risks, leading to the company's bankruptcy.[44] These examples indicate the potential for action against consulting firms if the appropriate mechanisms exist.

The book's final chapter discusses McKinsey's role in reshaping the UK's National Health Service. From the 1970s onwards, the company has recommended widescale privatisation, staff reductions and the pursuit of efficiency with little apparent concern for citizens' health or the quality or range of services provided. Their analysis implies that many of the current difficulties of the NHS can be traced back to the long-lasting impacts of the strategies for change that the consulting organisation has recommended over the years.[45]

Nevertheless, despite documented negative impacts outlined by Mazzucato and Collington and Bognaditch and Forsythe, there seems to be little appetite for government action against these consulting firms. Guthrie et al.'s (2023a) submission to the Senate inquiry (Consulting services) highlights that consulting in Australia is

40. Mazzucato and Collington, 2023, pp, 242–247
41. Ibid.
42. Bognaditch and Forsythe, 2022
43. Ibid.
44. BBC News, 2021
45. Bognaditch and Forsythe, 2022

an unregulated industry because the unique LLP structure of consulting firms means that regulation is focused on the individual via their membership in a professional accounting body or as a registered auditor or tax agent.[46] This regulation relies heavily on voluntary codes of ethical practice that encourage individuals to conform to them rather than subjecting them to external regulation.

Currently, few enforcement measures are available to Australian authorities to pursue integrity breaches and unethical behaviour by consultants and firms. Professional bodies, such as the accounting and legal professional associations, take limited action in the event of misdemeanours by their members who are partners at the Big Four consulting firms. It is primarily whistleblowers and investigative journalists who have revealed information about these firms' failures of transparency, conflicts of interest and unethical behaviour. However, the consequences have been minimal for anyone in these firms engaged in misconduct or malfeasance.

In response to the recent scandals, the Federal Treasurer recently announced that the government would oversee the biggest crackdown on tax adviser misconduct in Australian history: "The PwC scandal exposed severe shortcomings in our regulatory frameworks that the Coalition largely ignored, and today we're taking significant steps to clean up the mess, we're cracking down on misconduct to rebuild people's faith in the systems and structures that keep our tax system and capital markets strong".[47] If the government's crackdown intends to rely on professional associations to punish misconduct by tax agents, it will almost certainly result in no enforceable action against any individuals. The partners of the Big Four are mainly members of Chartered Accountants in Australia and New Zealand (CAANZ). The PwC scandal and evidence at the Senate inquiry and New South Wales Parliamentary inquiry into using consultants in the public sector have highlighted the lack of enforceable regulatory frameworks for the Big Four partnerships and their work.[48]

In the recent inquiries into consulting by the Big Four, the accounting profession has traded on its professional status and ethical codes. The Big Four and CAANZ have extensively appealed to ethical codes and disciplinary arrangements as part of their professional status. However, as the investigations of journalists and the testimony of whistleblowers and parliamentary inquiries have revealed, the unprofessional and allegedly illegal conduct of accountancy firms and their partners in Australia cannot be resolved through self-regulation. We conclude that the rhetoric of professional status claims is empty in the face of the failure or inability of the professional accountancy bodies to take effective action against the offending firms and their partners.

3. Methodology

We examine the broader cultural and political context within which the PwC Australia crisis unfolded through the prism of mainstream and independent media coverage since the beginning of 2023. The rapidly emerging events surrounding the crisis are shown in the reporting timeline in Table 1.

We use media articles and suggest that critical actors' changing beliefs, expectations or information may be associated with policy outcomes and output changes. Mobilising support for substantive political and policy reform often depends on generating media attention and public concern. Media accounts provide insight into how these variables change over time in different political jurisdictions and institutional cultures.

46. Guthrie et al., 2023a
47. https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/government-taking-decisive-action-response-pwc-tax-leaks
48. Guthrie et al., 2023

TABLE 1: Timeline of reporting on the PwC tax scandal[49]

Date	Report
22 January 2023	Former PwC partner deregistered for two years for sharing confidential government briefings with PwC partners and clients.
16 February 2023	Senate Economics References Committee hears evidence that up to 30 PwC staff were involved in leaking confidential government.
8 March 2023	Then PwC CEO describes conflict of interest and breaches of confidentiality as a 'perception' issue.
9 March 2023	Senate approves an inquiry by the Finance and Public Administration Committee into the management and assurance of integrity by consulting services.
3 May 2023	A cache of emails showing that PwC used confidential information to brief clients on tax avoidance measures released by the Senate Committee.
8 May 2023	PwC CEO steps down after acknowledging his part in the email cache.
24 May 2023	Sharing of government information reported to the Australian Federal Police.
25 May 2023	PwC is excluded from future government contracts.
23 June 2023	A joint parliamentary inquiry into the partnership models of the Big Four consulting firms was announced.
25 June 2023	Allegro Funds purchased the government consulting arm of PwC for $1, although some say it was worth $ 1 billion.
25 June 2023	The global arm of PwC takes control to try and save its consulting business and worldwide reputation.
4 July 2023	Eight partners involved in the leaking of tax information named by PwC.
6 August 2023	The government announces reforms to regulating professional firms, including improved power for regulators and significantly higher penalties for promoting tax exploitation schemes.

Our basic assumption is that some underlying social process generates actual events. The sources for analysis, whether media reports, government documents, private papers, or prior scholarly work, provide the means for coding these events. Compared to the universe of actual events, every record is, of course, necessarily incomplete. Each coding of actual events involves more or less explicit selection rules that may be biased and involve some error. Coding rules and error rates may be unstable over time.

We can rarely confidently assert that we know the universe of events. Scholars extract information from and further reduce and simplify the universe of events through data coding the selected data sources. To the extent that this data coding is subject to scholarly control, record-coding bias

49. Adopted source Barrett, J.

and error can be avoided. While data coding may be biased and introduce errors, the process must be well documented and scrutinised for bias to reduce errors. Commonly, another coding layer exists between the original record and scholarly data coding. This coding layer involves the creation of periodic indexes for non-scholarly purposes. Index record coding is another source of bias, error and instability.[50]

In this study, the researchers have approached the coding with the understanding that there could be bias and errors in interpretation within the documents. We used a simple form of content analysis to read and analyse relevant texts for our analysis. Our approach is similar to that used by scholars such as Baskerville et al. (2014)[51] and Guthrie et al. (1994),[52] who have previously used content analysis to investigate corporate social and environmental narrative disclosures. We developed 9 codes, as shown in Table 2.

TABLE 2: Codes used for analysis

1. The public exposure of the inner workings of PwC.
2. PwC and RoboDebt.
3. PwC emails reveal unethical behaviour.
4. EY global split fails.
5. Privatisation of the public sector by stealth.
6. Lack of regulation of the Big Four partnerships.
7. The global reach of the consulting industry.
8. Global implications.
9. Hollowing out of the public sector.

50. Woolley, 2000
51. Baskerville et al., 2014
52. Guthrie et al., 1994
53. McCombs, 2005
54. https://www.icij.org/about/
55. Bacon, 2011
56. Hunter, 2011

The data for our analysis consists of coverage of issues in newspapers and other media. As newspapers are considered better than broadcast (television) services in covering some issues,[53] we selected print media from the *Australian Financial Review*, *The Guardian*, *The Saturday Paper*, *The Conversation*, *Michael West Media*, the *Financial Times*, *The Sydney Morning Herald*, *The New Daily, The Canberra Times*, *The Mandarin*, *Crikey*, other newspapers, and the online platform *ABC News*.

We focus on newspapers and other media because, given the recent and emerging nature of the revelations about consulting firms, much of the available information has been uncovered by investigative journalists. This work is of a high standard, given that the International Consortium of Investigative Journalists describes its work as:

> **… driven by the belief that citizens have the right to be better informed, that access to independently-sourced facts is not only essential for democracy but is also a fundamental human right. Transparency is at the centre of everything we do. We are operating at a time when investigative journalism has never been more important or more challenged … Vital public interest reporting must compete against a flood of misinformation that confuses, alienates and divides.**[54]

At the heart of investigative reporting is collecting, analysing and verifying evidence from primary sources. Investigative journalists spend considerable time researching, consulting sources, formulating pointed questions, new approaches, and conducting thorough and critical investigations.[55] An investigative story does not leave a news desk until a legal benchmark is passed.[56]

4. Analysis

This section outlines the findings of our content analysis of media reports and information from the parliamentary inquiries to map the unfolding events of the PwC tax scandal and the consulting industry more broadly, following the themes identified in Table 2. The narrative starts in late January 2023 when it was discovered that the Taxation Practitioners Board (TPB) deregistered Peter-John Collins for two years over alleged insider trading.

4.1 Public exposure: PWC and MAAL

The public was first exposed to the PwC scandal by the AFR's Neil Chenoweth. When perusing the Tax Practitioners Board (TPB) website, he happened upon the banning of former corporate tax advisor of the year (as named by the Tax Institute of Australia) Peter-John Collins for sharing confidential government briefings with PwC partners and clients.

Chenoweth's report in the AFR in January 2023 reveals the details of Collins' ban.[57] The story begins in 2013, when the ATO asked Australia's largest accounting firm, PwC, to provide advice on its new Base Erosion Profit Shifting (BEPS) measures to combat international tax avoidance through what would become the Multinational Anti-Avoidance Law (MAAL). MAAL was enacted in 2015, by which time Collins had circulated confidential information from consultations with Treasury to PwC partners to form new schemes to allow clients to circumvent the intention of MAAL. Collins was in breach of multiple confidentiality agreements while shaping legislation, and he was also using that information to prepare new schemes for clients to minimise the impact of MAAL as soon as it was enacted. In 2016 the ATO expressed surprise and concern at the speed with which multinationals had been able to avoid MAAL. It is now known that Collins had been working against MAAL, the Australian Government and the public in sharing this confidential information with other partners, staff and clients.

The ATO likely became aware of this breach in early 2018, when Collins signed his final confidentiality agreement. They also learned that PwC used tactics to disguise their deceit, such as claiming 'legal privilege' to halt any efforts to gather emails or other incriminating information to prove the breach. The matter was referred to the TPB for sanctioning – the eight-person board includes two former PwC partners. With the only alternatives available being shutting down PwC or deregistering Collins, they chose to deregister Collins and ensure PwC held six-monthly training on handling conflicts of interest.

When the Australian Government began to conduct its senate inquiry into consulting services, the PwC tax scandal became a fresh controversy. It became apparent that contrary to PwC's assertion that its conflict of interest and breaches of confidentiality were confined to one 'bad apple', or as the CEO famously said, 'a perception issue',[58] up to 70 PwC personnel had been named in a cache of 144 emails relating to the scandal. The revelations have generated significant public interest and concern about using consultants, coupled with the knowledge that the Australian Government had spent over $20 billion in the 2021/22 FY on consulting and contracting out services. Public exposure has gone beyond focusing on PwC to investigating other consultants, triggering a new parliamentary inquiry into partnerships and the Big Four.

57. Chenoweth, 2023a
58. Tadros and Chenoweth, 2023

4.2 More bad exposure: PwC and Robodebt

PwC was also embroiled in the disastrous Robodebt scheme that sought to automate the process of reclaiming alleged welfare overpayments to Australian citizens, at times erroneously, leading to financial stress, mental health anguish and, in some cases, suicide. Following a royal commission into the practice, it was found that despite an almost $1 million advisory fee, PwC's final report on Robodebt was not delivered. This report allegedly divulged that the scheme was not fit for purpose. The PwC report was delivered as a short PowerPoint presentation. It was also marked for cabinet consideration to keep it private and outside public scrutiny. As the general manager overseeing debt recovery at the then Human Services department, Jason McNamara testified during the Royal Commission:

> **The one thing that was happening internally, that was very apparent from the minister to the minister's office, to the secretary, [was that] this report that they were doing – whether it's in this form or a PowerPoint report – was never to become public … That was a very clear direction. This was never to become public under any circumstances.**[59]

Despite not delivering the report, PwC was still paid because it had produced it. In emails, PwC claimed it was confident in securing a future pipeline of work as 'budget won't be a problem, and we will be there for the next three years and will take on the outsourcing of the data analytics function'. This came following further commissioned work to build a better prediction model to target those who owed debts. The burying of documents and the role of PwC further ignited Senate attempts to interrogate the relationships between Big Four consulting firms and the Australian Government. The recommendations from the Royal Commission include instigating civil and criminal proceedings against those involved, including government ministers.

After publicly accusing PwC's leadership of failing to cooperate with the inquiry to minimize the damage to its reputation, the Australian Senate's Finance and Public Administration References Committee tabled its final report on 12 June 2024. It made 12 recommendations, all of which are sound, although it is continuing to allow consultancies to self-regulate, and stopped well short of recommending that either a royal commission or criminal proceedings should be instigated against any of those involved.

4.3 PwC emails reveal unethical behaviour

Following revelations that it was not just one partner at PwC orchestrating tax schemes to circumvent MAAL while simultaneously providing advice to Treasury on anti-avoidance legislation, Senator Deborah O'Neill asked that the emails the TPB held during its investigations be released as part of a question on notice to the Senate inquiry (consulting services). The emails gave greater context to the official findings from the TPB, with distinct contrasts between what PwC had said publicly and what the emails showed. PwC publicly stated: 'We acknowledge the TPB found that a partner of the firm did not comply with confidentiality agreements concerning a consultation process with Treasury, which occurred in 2014'.[60] This attempted to shift the blame onto one individual, 'bad apple'. The emails, however, show that leaks of government information extended from October 2014 to January 2017. Other partners who shared Collins' documents cautioned that they were confidential: 'Don't circulate it beyond us or discuss it outside

59. Morton, 2022
60. Chenoweth, 2023a

PwC – it would really put PwC Australia and me in a real bind'. On 8 March 2023, PwC CEO Tom Seymour persisted in attributing the scandal to one individual:

> **The actual TPB findings say one partner shared information ... The representative from the TPB said 20 to 30 people were involved in giving advice around this, I can't say whether they were involved or not in this leak. But actually, there was no findings at all that they were. The issue for us is there's a perception issue…**[61]

However, emails related to leaked information were sent to at least 53 redacted PwC email addresses in Australia, the UK, the US and Ireland. Some recipients may have used multiple addresses. Some emails were addressed to all tax partners and tax directors. The bad apples were neither low-lying nor located in the one orchard.

In January 2023, PwC publicly stated there was no finding that it could have used advanced knowledge of new laws to prepare ways to minimise their effect and 'no structures were changed in relation to this matter'.[62] However, emails dated 6 January 2014 said: 'We are assisting 14 clients with their efforts to comply with the MAAL [multinational anti-avoidance laws]' in part because 'we were aggressive in telling these relationships they needed to act early (heavily helped by the accuracy of the intelligence that Peter Collins was able to supply us)'. The emails say: 'In total, we expect (based on fee estimates that we have agreed with clients) that revenue from this first stage of the MAAL projects will be approximately $2.5 million'. In May 2016, PwC held a conference call to brief global tax partners on the proposed Diverted Profits Tax 'leveraging Peter Collins's insights'. On 25 January 2017, a PwC partner emailed Collins: 'Can you send me the draft leg' pls. Can you also send me a note on the mtg yesterday. I have so many clients interested in this that we need to be at the front of the pack. Thanks'.

The revelations in these emails – what they contain and the apparent discrepancies between that content and what PwC said publicly – are shocking and point to deeply unethical behaviour and a significant failure of transparency and accountability. Not only were multiple partners aware that Collins was leaking secret government documents (some of which were marked confidential), but they praised him for doing so and were providing estimates to one another of the revenue that would flow from their misconduct.

The emails detail a wilful intention to breach the confidentiality agreements and cover up these actions, with Collins writing, 'please don't circulate this note and please treat as rumour and expectation', 'for your eyes only', and:

> **I spent three payneful [sic] hours today. BoT [Board of Tax] has zero idea. The only thing they get (now) is that it is complicated and perhaps we should not rush. No need to share this because all supposed to be secret …The imported mismatch formulas will blow our mind but be easy to sidestep.**

In the wake of these emails, PwC's CEO stood down, and the global arms swooped in to undertake damage control to save their consulting business and worldwide reputation. Since then, many developments have been outlined in Table 1 and recorded in the AFR.[63] What will be the ultimate consequences for Collins and the other partners and staff involved in this scandal remains to be seen.

61. https://www.afr.com/rear-window/tom-seymour-conducts-pwc-s-cluster-fiasco-20230507-p5d6g4
62. Chenoweth, 2023a
63. https://www.afr.com/topic/pwc-tax-scandal-6g22

4.4 EY global split fails

In the late spring of 2022, Carmine Di Sibio, the global chair and chief executive of EY, set forth an ambitious strategy to disrupt and transform the prominent accounting and consulting firm and the auditing and consulting industries. This initiative, known as 'Project Everest', involved splitting the Big Four firm into two distinct entities: a traditional network of partnerships focused on auditing and a newly established publicly held consulting corporation called NewCo. The firm's third primary line of service, tax compliance and consulting, would be divided between these entities. The audit firm would retain the EY brand name, while the consultants transitioning to the new consulting firm would be granted equity in NewCo. Once approved and implemented, this groundbreaking plan held the potential for substantial financial rewards, as partners remaining with the audit firm were poised to receive multimillion-dollar payouts.

This undertaking was complex, given that the Big Four firms are networks of separately owned partnerships within each country. The break-up would require partner approval in EYs significant territories and approval from various independent regulators. In addition, an equity IPO and bank borrowings would be required to raise $30 billion to establish NewCo.

By late 2022, retired partners and US management began to voice their objections, and audit partners became concerned that technical and expert resources would be siphoned from the audit firm post-split. The idea to publicly list the advisory business, load it with debt and pay off audit partners was attractive in 2021 when there were lower interest rates and a healthier share market. By early April 2023, Project Everest was abandoned, the failed split costing $US600 million, and by June 2023, Carmine Di Sibio announced his imminent departure.[64]

Given the prominence of consulting in the Big Four's traditional audit functions, it is unsurprising that EY sought to divorce the two functions. Consulting generates far more revenue and is a more lucrative and expansive work division. Furthermore, there were widespread concerns about conflicts of interest at the Big Four given their work in consulting, auditing and taxation – conflicts that have become blindingly apparent during the recent parliamentary inquiries in Australia.

4.5 Privatisation of the public sector by stealth

At the same time as the conflicts of interest in consulting, government and the Big Four were coming to light in Australia, corollary questions of why the public sector is not performing this work were asked, including how the country is governed and how taxpayer dollars are spent. While boasting of cost savings through cuts and caps on public service employment, the Australian Government paid $21 billion for external labour in a year – similar to annual government spending on secondary education. This public sector outsourcing could be seen as government by private enterprise whereby the Big Four and Big 3 firms have privatised government by stealth.

One possible explanation for this situation is that these firms hold the expertise, skills and experience to provide specialist advice. However, the extent to which they genuinely possess these qualities has repeatedly proven questionable in several areas of professional service provision

64. Maurer, 2023

over many years. Their ability to win government contracts to provide such services has been facilitated not simply by a lack of investment in public sector capability but by a deliberate downsizing of the public sector in favour of private sector service provision. This was achieved by the former federal Coalition government through mass retrenchments, suspending new hires and capping salaries, with similar policies instituted by state and territory governments led by both major parties. Because public servants' expertise and networks in the public sector are valuable commodities to these firms, the more lucrative jobs offered by the consulting firms create a revolving door whereby prospective employees are poached from the public sector after they have acquired sufficient helpful knowledge for the firm and are then reinserted on secondments or as preferred internal appointments. Australian citizens are thus being forced to pay more to these firms to provide services than if they were performed in-house.

Rebuilding capacity in the public sector will take years – if not decades – during which time government reliance on consultants must be maintained to ensure core service functions, leading to continued use of external contractors. Evidence at the Senate Parliamentary Inquiry (Consulting Services) by Guthrie et al. (2023) called for significant reform, including a whole-of-government approach to the appointment, administration and oversight of consulting services in the Australian public sector. Privatisation by stealth enables, according to Guthrie, 'insider trading to make a profit for the partnership',[65] eroding the ability of these external consultants to give independent advice. This can continue to the point where, as Podger argues, consultants' may tailor their work in order to ensure that they get future business'.[66]

4.6 Lack of regulation of the Big Four partnerships

It is apparent from the parliamentary inquiries that the partnership structure under which the Big Four and other consultancies operate eludes the corporate regulatory frameworks and watchdogs that oversee most other companies. There are few deterrents for poor behaviour and minimal punishment for proven misbehaviour, as evident from the PwC tax scandal.

Unlike partnerships, companies must seek growth and profits for their shareholders. At the same time, they are accountable to those shareholders and ASIC. These accountability measures require them to conform to rules and regulations, produce comparable financial reports and pay company tax. Partnerships are only accountable to the partners. They do not need to produce financial reports or pay taxes beyond individual returns. Their profit growth feeds back directly to partners' earnings, such that a culture of growth at any cost becomes pervasive and, as we have witnessed, perverse.

The size, scale and drive for growth in the Big Four and the breathtaking lack of regulation create an environment fertile for unethical decision-making and behaviour. The government must establish a framework to regulate partnerships and abolish LLPs. Further, we must question why, under Reg 2A.1.01 of the *Corporations Regulations Act (2001)*, accountants alone can have 1000 partners while legal practitioners are limited to 400, architects, pharmacists and veterinary surgeons to 100, actuaries, medical practitioners and sharebrokers to 50, and all else 20. What makes the accounting profession so unique (or consequential) that 1000 partners in the factual and legal sense of the term (which, on some accounts, is a farce) are acceptable, but no other profession is afforded this privilege?

65. Tadros, 2023a
66. Ibid.

This also speaks to the protections afforded to consultants versus public servants, which are grossly imbalanced. Consultants routinely work in the capacity of public servants under contract to the government or work on projects to deliver public services and are even seconded to the public sector from the Big Four firms. However, a public servant who blows the whistle, such as Richard Boyle, the former ATO employee who spoke publicly about his claims of unethical tactics by his former employer to collect debts, is facing a prison sentence. At the same time, Peter-John Collins, who shared detailed insider knowledge of government intentions to regulate his firm's clients, was only deregistered as a practising tax agent for two years. An impervious corporate veil shrouds Collins' self-serving behaviour, whereas Boyle's attempts to act in the public interest see him treated as a criminal. Apart from the apparent injustice of Boyle's treatment under current Australian law, this again speaks to the inconsistencies in regulating the Big Four. When these firms and their employees work as public servants with money provided by taxpayers, they should be subjected to the same standards and rules as that of the public service.

4.7 The global reach of the consulting industry

The PwC scandal began to receive international media attention as PwC Global stepped in to manage the developing crisis in Australia. Because the scandal has demonstrated the social and economic benefits of breaking up the Big Four consulting firms to resolve conflicts of interest between auditors, accountants and consultants, the global partnership has an understandable interest in damage control. The fallout is anticipated to stretch beyond Australia to envelop other PwC offerings in other countries and the other Big Four firms. Questions surrounding conflicts of interest, unregulated business structures and privatisation by stealth are not endemic within Australia but in Western nations worldwide. Rather than the operational split devised by EY, a structural split may mitigate the issues rife within the Big Four and their consulting arms.

Following the fallout from the tax scandal, widespread reputational damage and fears of losing government consulting contracts worth 30% of its revenue, PwC sought to sever its government consulting staff and operations from the rest of PwC. On 7 July 2023, Allegro Funds (including a founder who used to work for Arthur Andersen) purchased the government consulting arm of PwC for $1. The newly acquired Scyne Advisory was devised as a new entity onto which PwC could offload its government work and the estimated 130 partners and 1,750 other staff to run it.

While this deal has been struck ostensibly to do 'the right thing for our public sector clients and to protect the jobs of the circa 1,750 talented people in our government business', Senator Deborah O'Neill has termed this a 'phoenix operation',[67] where the problematic elements of PwC have been siphoned off to another company in an attempt to avoid continued association with PwC and thus safeguard its government work for the benefit of PwC staff and partners. The same people will undertake the same business activity populated by a board of ex-public servants and politicians who will use their networks to continue to procure work for Scyne Advisory.

The attempt to 'ringfence' government business and the speed at which this was operationalised starkly contrasts with the protestations of innocence, lack of transparency and absence of accountability displayed by PwC at every stage of the unfolding scandal. The responses of governments to date will do nothing to solve

67. Seccombe, 2023

issues of conflicts of interest or 'walking both sides of the street'. Governments nationwide seem extraordinarily reluctant to punish PwC substantially for poor behaviour. As Guthrie argues, 'Public sector experts and politicians remain sceptical about the firm's claim this marks a new direction … the new entity will have to rely upon PwC Australia systems and processes and pay a substantial fee for these'.[68]

4.8 Global Implications

It is not only the global brand of PwC that has been affected by the Australian tax scandal but also several large multinationals named in the emails submitted to the TPB. Several of them have been named publicly. One such client was Google, although PwC vehemently denied that Google was aware the information used was leaked from confidential documents.[69]

Despite PwC's public denial, the emails show that, in August 2015, a colleague of Collins contacted a Google employee to confirm the start date for the Government's MAAL, designed to stop tax avoidance – information gathered from confidential government briefings. Google has asserted that its compliance with MAAL occurred after the enactment date and in consultation with the ATO. The emails further show attempts by PwC to influence the ATO as to which companies would be affected by the new law by making arguments around the definition of revenue to exclude PwC clients expressly.

Following PwC's evasive responses to legitimate questions concerning the tax scandal in Australia, it could face further scrutiny in the US after belatedly reporting details of the official investigation to its audit watchdog. Such scrutiny could drastically widen the risk to PwC's global operations. PwC Australia has also missed a statutory deadline to self-declare reportable events to the US Public Company Accounting Oversight Board, which could lead to more punitive enforcement actions. Guthrie outlined that 'PwC had to report the leaks matter because it affected the global partners of PwC and especially partners in the US … it'll have an effect upon the reputation of PwC in the US'.[70] The Public Company Accounting Oversight Board had already handed down punishments to Australian operations of the Big Four, including in 2021, when it fined KPMG Australia US$450,000 over widespread cheating on integrity tests.[71]

Predictably, the breadth and depth of the irregularities and questionable practices revealed through the various inquiries have prompted calls for further action, with one former KPMG partner pushing for a royal commission. Professor Brendan Lyon, a former KPMG partner, has spoken of being pressured to amend his work by KPMG senior partners while he was a partner at the firm. During evidence given before the NSW Public Accounts Committee in November 2021, Lyon described how KPMG was advising both NSW Treasury and Transport for NSW during a dispute between the two departments over the financial viability of creating a new multibillion-dollar rail asset agency. Lyon was terminated from his employment at KPMG. Lyon argues that self-regulation is failing and that a royal commission would allow clear identification of problems within the profession and highlight potential risks for the economy and broader society created by the accounting profession's role, regulation and performance.[72]

Lyon has also called for a ban on political donations from major consultancy firms. Last financial year,

68. Barrett, 2023
69. Jackson and Koehn, 2023
70. Tadros, 2023b
71. Cassidy, 2021
72. Belot, 2023a

PwC donated nearly $250,000 to the major political parties. Guthrie echoes this call, claiming the scandal at the firm should force a rethink on whether that money is accepted, 'The major political parties should not accept donations from the Big Four, especially when they have previously received significant annual money for consulting activities'.[73] The ability to make donations entrenches perceptions of conflicts of interest; banning them could help restore public confidence and transparency. This becomes evident when it is noted that the Big Four donated $4.3 million to the major parties over the past decade. At the same time, the value of their government contracts increased by 400 per cent. Geoffrey Watson SC, a board member for the Centre for Public Integrity, argues that 'The Big Four's largely party-indiscriminate donations appear designed to curry favour with whoever may be in power and remind us yet again that the absence of donations caps allows well-resourced players to have an undue influence on the exercise of public power'.[74]

4.9 Hollowing out of the public sector

The rise of consultants has occurred over the same period that hefty fines and punishments have been meted out to public servants for publicly criticising government policies or blowing the whistle on internal malfeasance while the discrepancies in pay between the public and private sectors for similar work have grown substantially. With prospects of significantly higher pay and less scrutiny of performance and behaviour, experienced public officials face the constant temptation of a far more lucrative career in the private sector. These developments have contributed to a hollowing out of the public sector. They have also been aided by political rhetoric from ruling political parties boasting reduced costs and salary caps while simultaneously spending exorbitant amounts to have consultants perform the same work.

Australian Greens Senator Barbara Pocock, who is part of the parliamentary committee scrutinising consulting firms, recently argued that the government should instead cap spending public money on outsourced work: 'Consulting has eaten into the public sector's capability … The increasing evidence about conflicts of interest in big consulting firms only strengthens the argument that we need to cut back really dramatically'.[75]

5. Conclusion

We find that scandals associated with the consulting industry are widespread and cut across the boundaries of the relevant firms and international borders. In Australia, the scandals surrounding the Big Four and the consulting industry are regular topics at pubs, clubs, barbeques and the dinner table, meaning public sentiment is growing at a fever pitch. Soon, the government's hand will be forced to act. The current sentiment in Australia is similar to before the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. That royal commission was established after the media exposed excessive greed within several major financial institutions. All we have to do today is replace 'several financial institutions' with 'the Big Four and Big Three firms', and the need for a royal commission is again firmly established.[76] However, the call goes beyond Australia's shores as these are international firms with tentacles spreading across numerous Western democracies, undermining the independence of the public sector while promoting the dismantling of the very institutions, regulations and laws that enable citizens to hold these firms and their clients to account.

73. Belot, 2023c
74. Belot, 2023c
75. Belot, 2023d
76. https://www.royalcommission.gov.au/banking

5.1 Australian implications

PwC's announcement that it would cease most of its political donations as part of a plan to rehabilitate its public image surprised its Big Four rivals. Deloitte, EY, and KPMG could do little but lamely point out that most of their donations were in-kind instead of cash. The move came after the fire sale of PwC's public consulting area to private equity investor Allegro Funds for $1, valued at about $1 billion. The newly formed Scyne Advisory will only provide services to the public sector.

Furthermore, questions about why regulators took so long to act over the scandal have yet to be answered. One such question surrounds the Tax Commissioner Chris Jordan (previously Chair of KPMG New South Wales), who accused the Tax Practitioners Board of 'serious overreach' when initiating an inquiry into a PwC partner. He pressured the agency to stop investigating 26 tech companies as part of its probe of the PwC tax leaks. More national impacts are likely to be felt when findings of the current Senate inquiry into consulting are handed down. Given that the scandal has triggered an Australian Federal Police investigation, a Tax Practitioners Board inquiry, a joint parliamentary inquiry into the partnership models of the Big Four consulting firms and a NSW parliamentary inquiry into the use of consultants by the public sector, it may be that a royal commission is the most effective way to tackle what seems to be evolving scandals and an entrenched culture of greed.

The systematic failure of the ATO, ASIC, Treasury and Department of Finance to oversee and make accountable the Big Four and other prominent consultants is now the subject of another parliamentary enquiry.[77] However, an excellent first step would be a Royal Commission into the consulting industry in Australia. Based on our analysis of what has emerged to date, the focus of a royal commission should be on better government regulation and rebuilding the public sector.

5.2 International implications

Several high-profile international organisations are caught up in the tax scandal, including Uber and Facebook. They set up new company structures to sidestep Australia's multinational tax avoidance law using PwC advice days before the legislation took effect in January 2016.[78] In addition, Reuters confirmed that PwC provided Google with confidential information about the start date of a new tax law leaked from Australian Government tax briefings. In particular, given that PwC Australia belatedly reported the details of an official investigation into its tax leaks scandal to the US Public Company Accounting Oversight Board (PCAOB), the powerful US audit watchdog, there is likely to be a significant impact on PwC's reputation in the US, widening the risk associated with its activities in Australia to the firm's global operations.

Are we witnessing what could be PwC's Arthur Andersen moment and a move to a Big Three in auditing? We hope not because that would consolidate even more power in the hands of a few. We hope that the US and international regulators look at how to reduce the power of these big firms and make them more accountable by subjecting them to the same rules and regulations to which other publicly listed companies must adhere.

Consulting firms should not be able to profit at the taxpayer's expense and shirk firm responsibility and punishment just because they belong to an LLP partnership. Better regulation is essential to shift the balance from profit-making towards public

77. Guthrie et al., 2023d
78. Chenoweth, 2023c

interest. As revealed by our analysis, a significant imbalance also lies in the different experiences of management consultants and public servants. Who would work for less money and more personal risk as a public servant? Reinvesting in the public sector will mean a massive commitment from successive governments, and rebuilding capacity will take years after a decade of destruction. In the meantime, we must rely on consultants to deliver core services. However, as we move away from consulting in the public sector, money saved must be reinvested to benefit the public. We must ensure consistency in treatment for breaches of confidentiality between those who work in and for the public sector against those who work in the private sector and are contracted to perform public sector work.

5.3 Implications for democracy

Democracy is the foundation of Western society – people have fought and died for this right. Nevertheless, our governments have been infiltrated by powerful business interests concerned with filling their pockets with profits, usually at odds with the public interest. The ability of the Big Four and Big Three to contribute to political parties, to provide public services based on the ideology of market efficiency rather than public benefit, and to have a revolving door on public and private sector roles is an attack on democracy. At the heart of our democracy is a government that serves the people who have given it a mandate to govern in their interest, not the interest of the rich and powerful or a select few political ideologists, left or right.

To serve the public interest, no matter what political party governs, democracies also require an independent and professional executive government that stabilises the transition of power and establishes experience and expertise on complex issues. It is part of the national knowledge on which any political party and government must rely. However, the hollowing out of the public sector based on neoliberal ideology is at odds with democratic principles because it forces the executive government to rely on profit-seeking entities to give advice. Even worse is that when the advice serves the interests of profit-seeking entities and their other rich and powerful clients, democracy is further compromised because that advice rarely conforms with the public interest.

Furthermore, whenever unethical and corrupt behaviour is publicly exposed about these firms, they are not held accountable like ordinary people. The very opposite generally prevails, whereby they are permitted by complicit government oversight bodies to self-regulate and hold inquiries behind closed doors, while any punishment is, at best, a mere slap on the wrist. How many of these firms have admitted to wrongdoing? History tells us that the usual punishment for these firms is a fine that is a mere drop in the bucket compared to their profits, and no one goes to jail. If a member of the public were found guilty of similar behaviour, the result would be the opposite.

Ultimately, changes to the status quo will significantly impact all our lives, given that the consulting industry is a network with deep and influential reach into all aspects of society. Because it has been subject to minimal scrutiny and allowed to regulate itself, it has become a threat to the public interest and democracy. There is much more to come. Hopefully, with sufficient public scrutiny and political will on the part of our leaders, the tide will turn, and the checks and balances that democracy needs will be restored.

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ARTICLE

Australian PwC affair: An international perspective

Prof John Dumay, Prof Federica Ricceri & Prof James Guthrie AM

A team of Australian and Italian researchers continues to investigate the PwC Australia tax scandal and its global implications, by reviewing reports and evidence from the Senate Finance and Public Administration References Committee (SFPARC).

1. Introduction

In this issue of *BESS*®, Dumay, Ricceri and Guthrie explore the PwC Australia tax issue to September 2023. The current paper updates and reviews what we have learned from the Senate Finance and Public Administration References Committee (SFPARC) inquiry reports and evidence.[1] In doing so, it brings the narrative about aspects of the Australian PwC case up to date, focusing on the possible implications for PwC.

The Senate Committee's first report centres on the scandal when former partners shared confidential Treasury details on multinational tax laws with colleagues, who then sold the information to American companies under 'Project North America'.[2] The first report reveals that PwC intentionally engaged in a prolonged strategy to conceal the tax leak scandal and criticises significant leadership failures by its executives.[3] Through the 12 months of Senate inquiry into the consulting industry, it has come to light that PwC's choice

1. Senate Finance and Public Administration References Committee (SFPARC) inquiry reports 1 (2023) and 2 (2024); hereafter referred to as Report 1 and Report 2
2. Lucas and Guthrie, 2024
3. SFPARC Report 1

to withhold a report on the global aspects of the tax leaks scandal may be considered a continuation of the firm's efforts to bury the scandal,[4] with the second report questioning whether PwC effectively addressed the scandal's root causes.[5] For example, the second report states that PwC's use of legal professional privilege[6] reflects its problematic interaction with the Senate Committee, which has not yet proved it has substantially changed its operations. The evidence for this refers to the Senate Committee's demand that PwC release a report from the law firm Linklaters[7] regarding overseas PwC partners associated with the leaked tax details, which they refused to do, claiming professional privileges.

The implications of the controversy are widespread. It has raised questions about the sources of government advice and whether reliance on the private sector has severely compromised public services and public policy choices.[8] It also prompts concerns about the role of the Big Four in auditing large global corporations, given that these consulting firms are involved in auditing 98% of global corporations with revenues exceeding US$1 billion and a wide range of companies listed on the FTSE 100 Index in the UK and the Fortune 500 in the US. Moreover, they handle audits for 97% of Australia's ASX 300 companies.[9]

Other concerns relate to multinational corporations engaging in cross-border tax avoidance, with the Tax Justice Network revealing in July 2023 that governments annually lose about US$480 billion due to global tax avoidance, totalling US$4.8 trillion over the upcoming decade.[10] Within this total, US$311 billion stems from multinational corporations engaging in cross-border tax avoidance, while US$169 billion arises from affluent individuals participating in offshore tax avoidance. Cross-border tax avoidance involves declaring profits in a low-tax jurisdiction with lenient regulations to avoid taxes in a high-tax jurisdiction with stringent regulations.

Despite repeated allegations of conflicts of interest against the Big Four, empirical data indicates substantial concerns about their involvement in these activities that warrant investigation.[11] For example, the International Consortium of Investigative Journalists (ICIJ), in its report on the LuxLeaks scandal, revealed the involvement of PwC. In 2014, the ICIJ released 47,000 pages detailing 548 advanced tax rulings created for 343 global companies by PwC Lux and endorsed by Luxembourg's tax authorities. The documents revealed that income transfer practices within company groups resulted in significantly lower tax rates than the official ones in Luxembourg. The LuxLeaks' disclosures attracted international attention and comment about tax avoidance schemes in Luxembourg and elsewhere. This scandal contributed to implementing measures to reduce tax and regulate tax avoidance schemes beneficial to multinational companies. The ICIJ's inquiry revealed that IKEA, AIG, Deutsche Bank and numerous other global brands were granted confidential agreements in Luxembourg, enabling them to lower their worldwide tax obligations significantly. PwC assisted multinational corporations in obtaining over 500 tax rulings in

4. Tadros, 2024a
5. SFPARC Report 2
6. A legal concept safeguarding the confidentiality of documents and communications between lawyers and clients produced to deliver legal counsel
7. Hereafter Linklater report
8. Lapsley et al., 2013
9. Guthrie et al., 2023a
10. Lucas and Guthrie, 2024
11. McKenzie-Murray, 2023

Luxembourg between 2002 and 2010, utilising arrangements to decrease their tax liabilities significantly.[12, 13]

To try and combat multinational tax avoidance, the Australian Government used PwC's head of international tax, Peter Collins, to assist in preparing legislation. However, the allegations are that Collins used confidential tax information from the engagement to share it with colleagues. The scandal emerged from allegations that PwC partners used confidential information to market tax avoidance schemes worldwide.[14]

Because of the tax scandal in Australia, PwC was penalised by the Public Company Accounting Oversight Board (PCAOB) in the US for its failure to report the Australian Tax Practitioners Board's (TPB) sanctions against it. The term 'failure' is featured in the PCAOB's official order and press release. In Australia, despite action by the TPB, professional accounting associations have not acted on PwC's behaviour, underscoring the urgent need for intervention by the government before trust in the accounting industry is further damaged.[15] The inadequate intervention raises questions about where PwC's behaviour falls on the professional conduct spectrum within the Australian ethical framework and who should assess any violations.

This paper presents a case study on what has led to the current situation for PwC and what it means for PwC and other Big Four firms in Australia. It does so by first providing background to the tax scandal involving PwC Australia from 2013–2016. The research methods employed in the case study use investigative journalism as a data source to explore the international implications of the tax issue. We develop insight into the relationship between PwC Global and PwC Australia and examine the actions taken by the PCAOB against PwC Australia. We then outline how the Big Four are regulated in Australia, relying on submissions made by critical stakeholders to the Senate inquiry. Before concluding, we discuss the way forward for PwC, including a comprehensive analysis of the separation of audit and consulting.

2. Background to PwC Australia, 2013–2016

In November 2013, Peter Collins attended the first meeting of the Australian Treasury's Base Erosion and Profit Shifting Tax Advisory Group (BEPSTAG), signing confidentiality agreements about his involvement in December 2013.[16] Collins forwarded the unsigned confidentiality agreements to Seymour, then leader of PwC Australia's tax practice. Nobody in PwC Australia identified or reported the apparent conflict of interest 'that arose from having client-facing partners participating in confidential government consultations.[17]

In April 2015, Collins communicated via email with unidentified PwC Australia and international colleagues about the Australian Government's potential implementation of a Diverted Profits Tax similar to that of the UK. In May 2015, PwC began promoting client structures that comply with the anticipated multinational anti-avoidance laws (MAAL). On 5 August 2015, Collins emailed internal distribution lists to confirm the MAAL's effective date of 1 January 2016. Additionally, on the same day, partners corresponded with at least one multinational corporation, indicating that January 2016 was likely the starting date, given

12. Shiel, 2023
13. Ouriemmi, 2023
14. Turner-Cohen, 2024
15. Lucas, Guthrie and Dumay, 2024
16. PwC Australia, Review of Tax Confidentiality Breaches and Related Questions, 27 September 2023, p. 3
17. Ibid.

pressure from the Treasury for the law to pass through Parliament by October.[18] PwC Australia, in its review of the tax scandal,[19] acknowledged that:

> **Since confirmation of the start date of the MAAL was confidential information provided to Collins in his role as a BEPSTAG consultant, Collins should not have disclosed that information internally. Further, McNab's use of that information to market tax services to clients was a conflict of interest and an additional breach of confidentiality.**

The Treasury referred the PwC incident in May 2023 to the Australian Federal Police (AFP), and it is an ongoing investigation, so we will refrain from providing additional comments on the individuals implicated. Instead, we rely on previous research,[20] which reveals that PwC's actions involved disclosing confidential information regarding an upcoming tax avoidance legislation to international clients to circumvent its impact. The scandal has led to various public inquiries in Australia.

The Senate inquiry's first report focused on the unauthorised disclosure of sensitive government data by PwC Australia partners.[21] The report scrutinised the actions of PwC Australia during and after the breach, including efforts to conceal and fail to report the incident. The Senate Committee reviewed the evidence collected during the inquiry alongside publicly available information, finding that PwC Australia had not adequately addressed the issue internally or held its partners accountable for their avoidance. In its first report, the Senate Committee recommended that PwC disclose accurate and comprehensive information regarding the involvement of its partners and staff in the breach of government data and that it cooperate fully with any investigations.[22] PwC Global has refused to waive legal professional privilege regarding the report, indicating the systematic nature of its problematic engagement with Parliament.

Through our scrutiny of the investigations and scandals outlined above, we have become aware of how the influence of the Big Four partnerships leads to the privatisation and erosion of the public sector. Prioritising the profits of consulting firms and the interests of large corporations over the public good threatens our democracy.[23] Table 1 provides a brief public timeline and several key issues, which we outline below.

TABLE 1: Timeline and key issues

1.	2015–2022, PwC marketing aggressive tax strategies.
2.	September 20 2023, Switkowski review uncovers PwC shadow culture.
3.	September 26 2023, PwC releases commitment to change.
4.	June 20 2024, PwC Global imposes a new CEO of PwC Australia.
5.	March 14 2024, PwC Global refused to waive legal professional privilege concerning the Linklater report, which indicates its problematic engagement with Parliament and suggests a systemic issue.
6.	March 17 2024, the Federal Parliament stated that PwC's internal reforms are superficial.

The first key issue in Table 1 is PwC's aggressive marketing tax strategies from at least 2015. Asked in 2024 to what extent PwC marketed aggressive tax strategies and how that squared with repairing the brand, Burrowes, recently appointed CEO of PwC Australia, rejected the premise of the

18. PwC Australia, Review of Tax Confidentiality Breaches and Related Questions, 27 September 2023, p. 6
19. Ibid.
20. Lucas, Guthrie and Dumay, 2024
21. Tadros, 2023a
22. Report 1, pp. 18–19
23. Mazzucato and Collington, 2023

question: "What evidence do you have that we market aggressive tax schemes today? … Our tax business is predominantly a compliance tax business; we help businesses gather data from their systems, comply and submit tax returns." Burrowes was asked if that meant he was confident no PwC tax advisers were engaging in marketing aggressive tax strategies, even if legal, but he declined to provide a direct answer.[24]

The second issue is the exposure of a shadow culture at PwC in a review commissioned by PwC and undertaken by corporate veteran Switkowski. His alarming report noted a 'shadow' culture at PwC that accepted avoidance in the quest for financial gain, promoting growth at any expense and a governance deficiency that remained unchecked and unresolved for many years, ultimately contributing to the company's tax scandal leaks.[25]

The third issue from Table 1 is PwC's pledge to transform, made in September 2023. This pledge is one of many and includes appointing impartial directors to the board and adopting ASX corporate governance guidelines.[26] 'Our Pledge to Innovate' proposes a more streamlined PwC, with a reduction in partners from approximately 900 in mid-2023 to an anticipated 650 by the end of 2024. Moreover, with around 680 staff members made redundant the previous year, the company highlighted its aim to concentrate on expertise in auditing, tax consultancy and transactions. Additionally, PwC pointed to the potential for expansion in four key focus areas: artificial intelligence, prioritising trust in critical aspects, the shift towards achieving net zero and revamping business models.[27]

The fourth issue is the abrupt arrival of a new Australian CEO for PwC, Burrowes – a seasoned executive with three decades of PwC experience – to lead the Australian partnership and shift focus beyond revelations in the Senate inquiry.[28]

The fifth issue is PwC Global's refusal to waive legal professional privilege on the Linklater report, highlighting the pattern of its challenging relationship with the Parliament. PwC Global hired Linklaters in May 2023 to investigate allegations of sharing confidential information from PwC Australia with non-Australians. Although Linklaters stated, in a carefully crafted press announcement, that no avoidance occurred, PwC has refused to release the full report, claiming legal professional privilege. The Senate Committee insists on accessing the full report. When questioned about PwC Global's choice not to reveal the contents of the Linklater report regarding the global aspects of the scandal, the Australian CEO explained that the decision was not within his authority. When asked how PwC Global's actions reflected the fundamental value of 'conducting with integrity', the CEO – whose leadership was imposed on the local division by the influential global headquarters – stated: 'We have the discretion to retain it if we do so'. The decision not to waive privilege has prompted the Senate to criticise PwC's approach as illustrative of its challenging interaction.

The sixth issue is ongoing opposition in the federal Parliament, which can compel and penalise witnesses for contempt. The media's heightened influence further complicates matters, as the Parliament denounces PwC Australia's ongoing reform efforts as superficial gestures without dedication to transformation.[29]

24. Mizen and Shanahan, 2024
25. Tadros and Chenoweth, 2023a
26. Tadros and Chenoweth, 2023b
27. Smith and Tadros, 2024
28. Tadros, 2024b
29. Tadros, 2024a

The CEO of PwC has emphasised the significance of addressing the ongoing ramifications of the tax scandal that has impacted these prominent Big Four partnerships. He acknowledges that rebuilding its tarnished image will be lengthy: 'We are confident that we are now in a strong position to embark on a new phase, concentrate on the future, and drive the company forward with a new strategy'.[30]

The AFP is conducting an inquiry, while the Tax Practitioners Board has initiated up to nine investigations, and Chartered Accountants Australia and New Zealand state they are conducting investigations. Any of these investigations could potentially draw PwC Australia back into the scandal.[31]

We now turn to the research methods and the case study aspect of our paper, which draws on the PwC experience to discuss organisational responses and so-called ethical improvements following the disclosure of damaging information.

3. Research methods

This article employs a qualitative research design based on a case study of PwC Australia to shed light on organisational responses and ethical improvements following the disclosure of damaging information. We apply content analysis to data drawn from investigative journalists' work, academic research and the reports from the Senate inquiries. Unlike scientists, theories, techniques, literature or presentation styles do not constrain investigative journalists. Meyer suggests that investigative journalism is a discipline encouraging journalists to apply principles to their news-gathering and reporting practices.[32] Investigative journalists have embraced this concept and are devoted to uncovering lesser-known facts with significant social and economic implications that academic researchers might have overlooked.[33] Journalists invest substantial time in research, consulting diverse sources, formulating precise questions, adopting new methods and conducting thorough investigations.[34] Investigative reporting involves gathering, analysing and confirming evidence from primary and secondary sources. Like academics, investigative journalists seek to uncover facts, although their approaches to achieving this goal differ. Investigative journalists actively pursue groundbreaking stories that reveal previously unknown social and economic consequences by undertaking thorough research, consulting with various sources, making comprehensive and targeted inquiries and employing innovative methodologies. Central to investigative journalism is collecting, analysing and validating evidence from primary sources. Investigative reports are not published until they have passed legal scrutiny.

The case under study is the PwC Australia scandal (2013–2024). It is an exceptional case due to the many issues involved and the significant media attention it received. According to Stolowy et al.,[35] examining extreme cases like that of PwC Australia, similar to the LuxLeaks scandal, can provide deeper insights into underlying mechanisms that may not be as apparent in more common, less publicised contexts. This scandal sheds light on the organisation's response strategies. We focus on newspapers and other public media because, given the recent and emerging nature of the revelations about consulting firms, much of the available information that investigative journalists and a parliamentary inquiry under parliamentary privileges have uncovered.

We use three code levels to analyse the data outlined in following Table 2.

30. Mizen and Shanahan, 2024
31. Ibid.
32. Meyer, 2022
33. www.ICIJ.org
34. Pupovac et al. 2024
35. Stolowy et al., 2014, p. 360

TABLE 2: Levels of code used to analyse data

A	First-order code
A.1	International dimensions of the tax affair
A.2	Relationship between PwC Global and PwC Australia
A.3	PCAOB imposed penalty on PwC Australia
B	Second-order code
B.1	Regulation of the Big Four in Australia
B.2	PwC and structural split
C	Aggregated dimensions
C.1	Why is this important?

The following sections provides an empirical analysis of the PwC tax affair, focusing on an international dimension.

4. Results

4.1 International dimensions of the PwC tax affair

The first level of the First-order code, theme *A.1 International dimensions of the tax affair*, examines the involvement of overseas PwC partners as determined from the emails released with names retracted. PwC has tried to neutralise any links to PwC partners outside Australia. The ambiguity regarding the Australian partners implicated in the unauthorised sharing and profiting from confidential government data extends to the involvement of overseas PwC partners. Despite the limited disclosure, as indicated by the redacted emails, it is evident that numerous email addresses of PwC personnel located abroad were part of the communications.[36]

In June 2023, the Senate Committee had limited information about the persons responsible for misusing confidential government information beyond Collins. The limitation was due to the opaque information that PwC Australia itself was willing to provide – they relied on the 'one bad apple' narrative. Indeed, PwC Australia provided the Senate Committee and the media with several names but not with any related information about the nature or extent of these individuals' involvement in the PwC tax matter. At the time, PwC Australia indicated that this approach intended to protect the reputation of other PwC employees. However, the Clerk of the Senate noted in his advice to Senator O'Neill on June 6 2023, that

> **'It seems that PwC is best placed to minimise the reputational damage likely to flow to staff it says were only peripherally involved, by publishing accurate information about their involvement, rather than leaving it to the Senate Committee or others to pick through available information.'**[37]

At the Senate Committee's public hearing in October 2023, it was noted that PwC Global commissioned law firm Linklaters to investigate the flow of emails from Australia to various countries worldwide. Linklaters issued a legal summary press release report but not the full report. The Linklater report determined that the PwC Australia partners' actions did not align with PwC's Global Tax Code of Conduct. The report summary also criticises PwC's interpretation of legal professional privilege, evidenced when it sought to use the concept to block the ATO from accessing specific documents concerning its MAAL advice in 2016. PwC contended that legal professionals oversaw the relevant projects outlined in PwC's engagement letters, potentially enabling clients to assert legal professional privilege over their correspondence. PwC Global also relies on legal professional privilege to stop the release of Linklater reports in Australia. Despite demands from the Senate to release the report, the law firm and PwC Australia have chosen not to disclose it.

36. Lucas and Guthrie, 2024
37. SFPARC Report 2, 1.10

CEO Burrowes confirmed that the Linklater report indicated that six PwC partners overseas should have questioned the origin and potential confidentiality of the information they received. At the time, Burrowes could not advise those partners' locations nor whether they had been disciplined or penalised. In answer to questions on notice, PwC Australia suggested that it had sought a copy of the legal advice. However, it had not received the document. PwC Australia also noted that advice received by PwC Global is privileged and confidential, and PwC Global does not intend to release that advice.

Additionally, Senator O'Neill remarked that by disseminating the tax information, PwC's objective was not solely to benefit its Australian clientele but also to exert influence on global policy formation concerning these issues:

> **'It does appear to us that the communications from PwC Australia to PwC internationally blended issues around the private and the public consultation so that the firm could internationally have a significant influence on the shape and size of the base erosion and profit-shifting reforms that the G20 and the OECD were leading.'**[38]

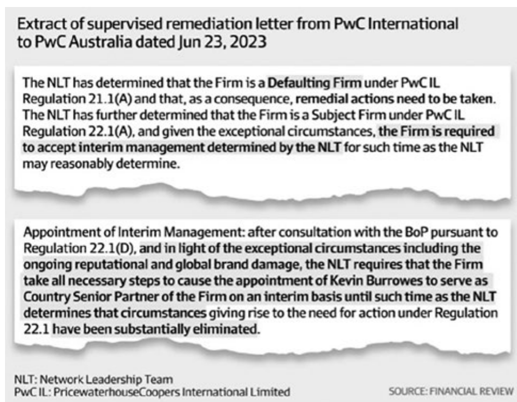
The AFP further verified that its inquiry into the PwC incident, which the Treasury forwarded in May 2023 and identified as Operation Alesia, had national and global dimensions.

4.2 Relationship between PwC Global and PwC Australia

This section explores the *A.2 Relationship between PwC Global and PwC Australia*, focusing on PwC Global's efforts to manage its reputation and rebuild confidence in PwC Australia. PwC Global is a private company in England and Wales limited by guarantee. According to its financial records, the company had no revenue or expenses after reimbursement, resulting in a neutral financial outcome. Without any employees, member firms cover PwC Global's operational costs. As specified in its Memorandum of Association, the organisation significantly controls and influences network firms. Notably, an Australian PwC partner serves as a director of PwC Global.

PwC Global classified PwC Australia as a defaulting firm under its regulations in June 2023. Consequently, PwC Australia was placed under supervised remediation and directed to appoint Burrowes as CEO. Burrowes assumed the role on 25 June 2023, extending his tenure until 2026.[39] Burrowes assumed the position of CEO at PwC Australia, reporting to the board of partners at PwC Australia rather than directly to PwC Global, shortly after receiving a letter from PwC Global in June. He resigned from his previous role as the firm's global client and industry leader. PwC continues to be under the 'supervised remediation' of the global firm.[40] Figure 1 indicates extracts from the supervised remediation letter from PwC Global dated 12 June 2023.

FIGURE 1



Extract of supervised remediation letter from PwC International to PwC Australia dated Jun 23, 2023

The NLT has determined that the Firm is a **Defaulting Firm** under PwC IL Regulation 21.1(A) and that, as a consequence, **remedial actions need to be taken.** The NLT has further determined that the Firm is a Subject Firm under PwC IL Regulation 22.1(A), and given the exceptional circumstances, **the Firm is required to accept interim management determined by the NLT** for such time as the NLT may reasonably determine.

Appointment of Interim Management: after consultation with the BoP pursuant to Regulation 22.1(D), and in light of the exceptional circumstances including the ongoing reputational and global brand damage, the NLT requires that the Firm take all necessary steps to cause the appointment of Kevin Burrowes to serve as Country Senior Partner of the Firm on an interim basis until such time as the NLT determines that circumstances giving rise to the need for action under Regulation 22.1 have been substantially eliminated.

NLT: Network Leadership Team
PwC IL: PricewaterhouseCoopers International Limited

SOURCE: FINANCIAL REVIEW

Source: AFR[41]

38. SFPARC Report 2, 1
39. Tadros, 2024b
40. Tadros, 2024b
41. Ibid.

According to PwC Australia Chairman Carroll, it is entirely suitable for the local firm to collaborate with PwC Global:

> **'Being part of the PwC global network, it is appropriate for us to cooperate with our global counterparts on our remediation efforts and trust rebuilding … We are diligently focusing on the essential measures required to enhance our governance, culture, and accountability to regain trust in our firm for the benefit of our employees and partners.'**[42]

Acting interim CEO of PwC Australia from May to July 2023, Stubbins confirmed that she received a call from the Chair of PwC Global. During the conversation, he expressed his intention to recommend Burrowes as the appointment by PwC Australia, to replace her.[43]

4.3 The US PCAOB penalty imposed on PwC Australia

This section explores the *A.3 PCAOB imposed penalty on PwC Australia*. Guthrie et al.[44] argues that PwC Australia had to report the leaks because they affected PwC's global partners, especially partners in the US: 'This is a big deal because it'll affect the reputation of PwC in the US'. It took PwC over 12 months to report this event, which led to PwC being fined A$1 million by the PCAOB.

Established by the US Congress in 2002 in response to the inadequacy of self-regulation within the auditing industry, the PCAOB oversees auditing firms and has the authority to impose penalties for avoidance, including significant monetary fines and restrictions on a firm's capacity to audit publicly traded companies. Additionally, the board has substantial enforcement capabilities, enabling it to compel firms to provide documentation and data as needed.

The PCAOB fine marks the first time a foreign regulator has taken any action on this issue and is part of the ongoing fallout from the tax leaks scandal. The PCAOB's disciplinary order stated that PwC Australia violated rules and quality control standards by not promptly reporting proceedings initiated by the TPB. Failure to disclose required information is unacceptable, and the PCAOB will hold firms accountable, according to the PCAOB chair.[45] PwC Australia and other major auditing firms have various reporting obligations to the PCAOB due to their auditing responsibilities for US-based companies like Westpac and Woodside Energy Group. The PCAOB instructed PwC Australia to improve compliance with regulatory standards.

The fact that a US auditing regulator examined PwC Australia's tax leak scandal is significant in several ways.[46] First, an order issued by the PCAOB against the Australian network firm sheds details on the TPB process. PwC Australia's failure to report to the PCAOB and clarify the situation to the Senate processes holds a series of lessons for public and private sector entities. Second, the second Senate Committee report[47] condemns PwC Global for its refusal to cooperate with an Australian parliamentary request to provide a copy of an investigation conducted to address the tax leaks controversy in Australia. PwC has invoked legal professional privilege regarding the report, which exonerated international partners of any avoidance

42. Tadros, 2024b
43. Kristin Stubbins, private capacity, Parliamentary Joint Committee on Corporations and Financial Services, Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry. *Proof Committee Hansard*, 5 March 2024, p. 24
44. Guthrie et al., 2023a
45. PCAOB, 2024
46. PCAOB, 2024; Ravlic, 2024b
47. SFPARC Report 2, 1

while asserting that they shared all pertinent details from the report with the authorities:[48]

> **'The failure of PwC to be completely open and honest as per the Senate Committee's recommendations in its first report is reflective of PwC's failure to change genuinely. The Senate Committee does not see how PwC can recover its reputation while it continues to cover up because the two are incompatible.'**

Indeed, as Senator O'Neill emphasised in the title of Report 2 from the Senate enquiry, 'the cover-up worsens the crime'.[49]

In Report 2, Senator O'Neill expressed disappointment that much is still unknown about the actual avoidance by PwC and its partners amid the efforts by the firm's domestic and global leadership to minimise their reputational damage:

> **'The report highlights the immense failures of leadership, professionalism and ethics that enabled the tax leaks scandal to occur in the first place and the gross failures of professional accountability, which saw it go unacknowledged and unpunished for so long. It will not be easy for PwC to erase the reputational and financial damage that the firm has deservedly suffered due to its avoidance is not easily erased despite the firm's attempts to cauterise its Australian operations from its global network.'**[50]

Report 2 found that PwC Australia's leadership consistently failed to take responsibility for the problems within the organisation that led to this situation.[51] The Senate Committee acknowledged that PwC Australia leaders appeared for questioning but was 'disappointed at the lack of substantive answers'. Another inquiry member, Senator Pocock, said the firm's refusal to share the report remains a stain on the firm's reputation in Australia and globally:

> **'What we are looking at here is institutional failure that requires root-and-branch reform. Australian taxpayers deserve better from their government, and I hope that when our final report comes out, the recommendations will be acted upon for the benefit of all Australians.'**[52]

In March 2024, PwC Australia rejected claims that it was not cooperating with parliamentary inquiries and multiple investigations:

> **'While we note the desire for the Senate to have access to legal advice received by others in the PwC network, we are mindful of the basic legal right of legal professional privilege that operates in many jurisdictions, including in Australia.'**[53]

Other fallouts include the Australian Department of Finance no longer using PwC for government advisory work. The repercussions have been far-reaching, ultimately leading to a fire sale of the entire public sector consulting business to private equity investor Allegro Funds for A$1, destroying a business previously earning A$250 million in revenue. Allegro Funds intends to inject A$100 million into the new consulting firm, rebranded Scyne Advisory. The potential worth of this venture was estimated to be as high as A$1 billion.[54]

48. SFPARC Report 2, 1
49. SFPARC Report 2, 1
50. Belot, 2024b
51. SFPARC Report 2, 1
52. Belot, 2024b
53. Belot, 2024a
54. Tadros, 2023b

4.4 Regulating the Big Four in Australia

This section explores *B.1 Regulation of the Big Four in Australia*. Here, we analyse submissions to the Senate Committee inquiry. Table 3 provides the number of submissions and the name of the person or body submitting, which we then categorise according to the regulatory theme of 'carrots and sticks'.

The phrase 'carrots and sticks' is a metaphor for using a combination of carrot reward (e.g., self-managed ethics and accountability issues) and stick punishment (e.g., regulation, fines and imprisonment) to induce a desired behaviour. In politics, 'carrots or sticks' sometimes refers to soft and hard power. The 'carrots and sticks' philosophy that undergirds the organisational guidelines rests on the realisation that corporations can, and should, be incentivised to self-police. Concerning compliance and ethics, the organisational guidelines have ushered in an unprecedented era of so-called corporate responsibility. 'Carrot or stick' involves utilising rewards and penalties to shape behaviour. When applied in politics, it signifies employing soft power (carrot) and hard power (stick) to attain specific goals or results. This strategy is commonly used across scenarios to encourage preferred actions or discourage undesirable behaviours.

The discussion analysis below elaborates on using the 'carrot and stick' approach as a metaphor for combining incentives and penalties to influence behaviour, particularly in the Big Four responsibility and ethics. It also highlights the application of this concept in politics, where it signifies the use of soft power (carrot) and hard power (stick) to achieve desired outcomes. Governments can employ this versatile strategy to promote positive actions or deter negative behaviours in various scenarios.

Given the varied risks, doing so helps address whether the current regulatory approach is sufficient for these Big Four partnerships. It also weighs the costs of regulation and the benefits of quality audit and consulting services.

TABLE 3: Submissions to the Senate Committee inquiry

No. of submissions	Type	Name of person/ body submitting
1	A	Samuel (2023)
6	XA	Bant (2023a, b)
10	A	The Institute of Internal Auditors Australia (2023)
13	XA	Larson (2023)
25	A	KPMG Australia (2023)
28	X	Tax Justice Network (2023)
29	A	Australian Shareholders' Association (2023)
30	A	Chartered Accountants Australia and New Zealand (2023)
38	A	BDO Group Holdings Limited (2023)
48	X	Community and Public Sector Union (2023)
49	A	ASIC (2023)
50	A	Treasury (2023)
52	X	Fels (2023)

X = sticks A= carrots

Organisations or individuals that support a carrot approach (i.e., A) are primarily involved in the self-regulation of the Big Four. For instance, the Treasury believes regulation should be the basis of the behavioural regulatory framework:

> **'For instance, a well-targeted approach to regulation would consider the drivers of behaviour for the affected population. For these firms, some drivers include governance and internal oversight of firms' operations and the degree to which conflicts of interest can be managed effectively'.**[55]

The Treasury provided principles for evaluating audit, accounting and consulting industry regulations in their submission. They use these principles to assess the need for intervention in this sector. These principles include transparency, accountability, integrity and the ability to monitor and sanction avoidance and poor performance in professional services firms. These principles aim to ensure that the industry operates in a manner that is ethical, accountable and in the public interest. They also emphasise the importance of accountability mechanisms in monitoring and sanctioning avoidance and poor performance. The overarching goal is to ensure that professional services firms adhere to ethical standards and provide high-quality services.[56]

Bant[57] and others take a hybrid approach, suggesting a combination of carrots and sticks to address organisational issues, advocating for a cultural shift, including regulatory oversight to identify an organisation's intentions. The emphasis is on implementing accountability measures to oversee and rectify avoidance and poor performance in professional service firms. By introducing the concept of systems intentionality, which involves interpreting an organisation's intentions through actions rather than mere statements, Bant underscores the necessity of finding a balance between regulatory objectives and businesses' operational freedom.[58]

The discussion also touches on the Treasury's criteria for evaluating the regulation of the audit, accounting and consulting sectors, aiming to weigh the pros and cons of regulation while managing different risks. Bant[59] takes a stick approach, stressing the need for governmental intervention and regulation in these sectors to ensure accountability and prevent avoidance and underperformance. Similarly, a stick approach is taken by others, including the Community and Public Sector Union,[60] Fels[61] and Guthrie et al.,[62] who advocate for separating audit from consulting to remove the possibility of actual or perceived conflict of interest by the Big Four accounting partnerships.

4.5 PwC and a structural split

This section explores the theme *B.2 PwC and a structural split*. It focuses on the conflict of interest between the auditing arm and consulting inherent in these Big Four accounting partnerships.

As outlined above, PwC Australia divested its entire government consulting division for a nominal fee of $1. Additionally, the Treasury referred the scandal to the AFP and the National Anti-Corruption Commission for investigation in May 2023. Evidence presented during the Senate Committee inquiry in October 2023, as documented in various publications and parliamentary records, indicated the existence of various conflicts of interest within the organisation. For instance, the plan to sell off the consulting arm in 2018, known as Project Kookaburra, points to PwC's awareness of the significant conflicts

55. Treasury, 2023, p. 50
56. Treasury, 2023, p. 50
57. Bant, 2023a, b
58. Bant, 2023a, b
59. Bant, 2023a
60. Union, 2023
61. Fels, 2023
62. Guthrie et al., 2023b

between its auditing and consulting practices. Former CEO of PwC Australia, Luke Sayers, stated he was troubled by these conflicts and concerned about audit quality, thus spearheaded the covert Project Kookaburra initiative to offload the consulting division for $1 billion.[63] However, during this period, the partnership was advocating for the effectiveness of a multidisciplinary accounting and consulting firm in ensuring audit quality in Australia, a stance shared during the 2019 joint inquiry into audit quality.[64] Sayers stated that the firm's executive spent about 12 months working through Project Kookaburra.[65]

The proposal, dismissed by PwC's Global leadership in 2019, aimed to utilise a portion of the funds raised to settle the firm's retired partner payment scheme, thus resolving the conflict arising from former PwC partners receiving continuous payments while holding roles in corporate and public sectors, including regulatory positions.

Guthrie et al.'s submission to the inquiry stated:

> **'Our central proposition was simple: The Big Four partnerships are not adequately regulated. The regulations in place pertain to the individual members of a professional organisation (such as a registered accountant, auditor, or tax agent). Therefore, Australian audit practitioners are severely over-reliant on self-regulation regarding their codes of conduct and ethical practices. Our principal recommendation is that the Big Four accounting partnerships in Australia use a structural split at the start of 2025 in the audit and consulting parts of the firm. Instead of an operational split, a "structural split" is needed. Under this, audit firms would do audit only, and neither the firms nor their associates would be permitted to sell any consultancy to audit clients.'**[66]

The Senate Committee's second report acknowledged that PwC Australia had overhauled its internal governance structures but described the changes as largely symbolic. It accused the firm of making no genuine effort to thoroughly investigate and address the issues.

5. Postscript at the time of going to press

The Australian Government and the Treasury released a consulting paper for public discussion. The consultation paper on regulating accounting, auditing and consulting firms in Australia, given the government's response to overseeing the Big Four firms and consultants following a year of parliamentary investigations and journal scrutiny.[67]

In summary, the consultation paper outlines several key points. First, the significant accounting firms known as the Big Four might face requirements to reduce the number of partners and integrate their consulting divisions in response to heightened governance standards following the PwC tax leaks controversy. In a consultation document released by the Treasury, potential issues were highlighted regarding the sharing of profits between audit and consulting partners, creating a risk of auditors prioritising client satisfaction over the quality of audits, which could impact market trust. Second, the proposal to enforce lower limits on partnership numbers or transition to corporate status would represent a substantial transformation for the Big Four firms, potentially setting a global example in holding these firms accountable. The Treasury raised doubts about the Big Four's ability to self-regulate, suggesting that the current self-regulatory mechanisms reliant on professional bodies may lack the necessary authority to compel compliance. The government outlined 17 critical areas for input and

63. Tadros, 2023c
64. https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/RegulationofAuditing
65. Tadros, 2023c
66. Guthrie et al., 2023b
67. Treasury, 2024

assessment, including evaluating whether PwC, KPMG, EY and Deloitte partnership structures are adequate for self-governance. A critical aspect of this evaluation is whether the current partnership ceiling of 1,000 for accounting firms is excessive and if the partnership model is still suitable, given the 'economic significance' of these major firms. EY has 760 partners, KPMG around 713, PwC approximately 650 (having lost around 300 partners in the last two years), and Deloitte surpasses 1,000 partners, with only about 537 holding equity stakes.

6. Conclusion

Now we discuss the third theme, *C.1 Why is this important?*

The primary global audit market had essentially halved through consolidation since the mid-1980s when eight large international audit firms existed. In the wake of the Enron scandal, its auditor, Arthur Andersen, was charged with shredding documents relevant to the investigations into the energy company. The revelation decimated the company's books and wound up in 2002. Since then, the market has had four global majors: Deloitte, PwC, Ernst & Young and KPMG. Between them, these firms have almost complete control of the market for audits of major companies worldwide. In the recent Senate Committee inquiry, Fels provided evidence that audit plays a critical role in the economy and should not be unnecessarily compromised.[68] The fact that the Big Four provide consultancy, advisory, taxation and other services threatens to compromise the quality of audits, and legislation should prohibit this situation.

The PwC Australa scandal illustrates that relying on the Big Four for self-regulation is not viable. Legislation also falls short due to loopholes and enforcement challenges, mainly when regulators are not proactive. The conflict of interest, both real and perceived, arises when an auditing firm also engages in consulting services for itself or others. In a previous 2019 audit firms inquiry, Guthrie noted that conflicts of interest are inherent in providing independent auditing services while being paid consistently by the audited firm.[69] Legislation is needed to help avoid additional conflicts and prevent auditors from compromising their independence. Guthrie highlighted the complexities, risks, expenses and obstacles associated with suggested compromise strategies, such as internal function separation within a single firm.[70] Legislation may never eliminate conflicts of interest, and even when minimised, they incur high operational costs, requiring substantial external oversight for compliance assurance.[71]

The Big Four, as secretive partnerships rather than companies, operate without the obligation to disclose the sources of their revenue, despite being among the world's most influential private entities. They generate most of their revenue growth from government contracts and services to large multinational corporations. In addition to offering consulting services, these firms assist multinational corporations in minimising their tax obligations and act as auditors overseeing the same companies.[72] The recent PwC Australian tax scandal has revived discussions surrounding the potential breakup of such massive partnerships, aiming to address the conflicts of interest between auditors, accountants and consultants. This longstanding debate has persisted for decades.

Elected officials and decision-makers have been privy to various viewpoints regarding the potential

68. Fels, 2023
69. Guthrie, 2019
70. Ibid.
71. Fels and Guthrie, 2023
72. Lucas and Guthrie, 2024

separation of the Big Four accounting firms. Despite this, they have proceeded cautiously, finding the arguments in favour of such a significant change lacking. The primary rationale for advocating a split is the belief that audits should play a crucial role in upholding market integrity and that conflicts of interest that stem from audit firms also providing consulting services should not compromise audit quality. It is paradoxical that while we expect audits to adhere to stringent standards, conduct thorough examinations and identify conflicts of interest for those under audit, auditors encounter integrity challenges due to potential conflicts of interest. The balance between these conflicting arguments supporting the current status quo may shift in light of recent scandals involving PwC and other players in the consulting industry. Trust in the Big Four firms is dwindling, as they are perceived to prioritise profits over integrity. Confidence in the integrity of audit procedures may diminish if these scandals further erode trust in the Big Four. Financial information is crucial for the market system that relies on auditors carrying out their responsibilities impartially, even if it means risking losing consulting business if their audit findings are unwelcome.

However, Ravlic[73] reports that Senator O'Neill, heading several Australian Parliamentary inquiries into the consulting industry, said there are signs of sector-wide behavioural and business issues that need addressing:

> **'What we've learned in the time since the PwC scandal emerged is that this is not just one isolated incident but the result of years of moral and ethical myopia on the part of consulting firms and their leaders […] These companies have placed their own profitability and lucrative financial returns ahead of the public good.'**

O'Neill emphasised the crucial role that major accounting firms hold in Australia's financial markets. We expect these firms, especially those that derive significant profits from government contracts, to anticipate calls from the public for transparency and accountability. Given their substantial influence, regulatory bodies, the public and the Parliament must hold these partnerships accountable for their actions.

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73. Ravlic, 2024a

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ARTICLE

Do we need a 6i Framework? Discussing the implications of Society 5.0 for the multi-level understanding of organisational learning

Prof Christian Nielsen & Prof Jacob Brix

Our regular contributors Prof Christian Nielsen and Prof Jacob Brix from Denmark continue to explore the concept of Society 5.0 – a sustainable, inclusive and human-centered 'society of the future'. They discuss how a city, region or group of organisations can initiate a collaboration built on Society 5.0 principles, and propose a new level in the theory of organisational learning – a 6i framework, where 'i' stands for 'inspiration'.

1. Introduction

Society 5.0 is a policy movement envisioned as a proactive response to the grand challenges we are currently facing. It is "(…) a human-centred society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space".[1] At its core, Society 5.0 aims to balance out economic development and solve societal issues by emphasising a change of mindset from 'only' having a financial line of thought towards an inclusive, socially responsible and ecosystem line of thought.[2] In Society 5.0, with its focus on exploring and exploiting the integration of the physical space and cyberspace, "(…) advanced IT technologies, Internet of Things, robots, artificial intelligence and augmented reality are actively used in everyday life, industry, healthcare and other spheres of activity, not primarily for economic advantage but for the benefit and convenience of each citizen".[3]

We are witnessing a paradigm shift in societal development. Some organisations have already

1. Japan Cabinet Office, 2016
2. E.g., Huang et al., 2022
3. Breque et al., 2021, p.9

started this transition by adopting their strategies and ways of working, for example, by incorporating the ten principles of the UN Global Compact[4] and the 17 UN Sustainable Development Goals (SDGs).[5] Also, policy tendencies point in this direction. The European Commission published a policy brief in 2021 on Industry 5.0 that is similar to Society 5.0.[6] New reporting legislation will affect all European small and medium-sized enterprises (SMEs) from 2023, requiring them to report their Corporate Social Responsibility impacts based on their business models and strategies.[7] A reflection is, therefore, whether established organisations can opt out of including Society 5.0 mechanisms in their strategies in the long run if they want to remain relevant.[8]

Embarking explicitly towards Society 5.0 is not done by an organisation alone. The premise for realising this paradigm-shifting vision is *collaboration* across organisational and sectoral boundaries[9] and those different organisations renewing their strategies[10]. The Society 5.0 agenda challenges our organisational and management theories as these are typically created, tested and elaborated within one sector.[11] Therefore, the definitions and the outcome differs, if we talk about strategic innovation from the standpoint of either a public organisation or private company. From a private sector perspective, examples of strategic innovation could be the creation of new markets, commercialisation of new technology or business model innovation,[12] and from a public and third sector perspective, examples of strategic innovation could be new partnerships with organisations from other sectors, and the introduction of co-production of public services that traditionally have been defined top-down.[13]

In this paper, we use the theory of organisational learning and inter-organisational learning because this stream of literature argues that strategic management (and strategic innovation) is about striking a balance between *exploration* and *exploitation*,[14] which represents a logic already used by organisations.[15] Larger cities and municipal regions can respond to the 'bottom-up' processes of the new 6i paradigm. Our logic is that a joint innovation strategy that takes the point of departure in the Society 5.0 framework would have to be defined among organisational stakeholders in a local region that includes a shared vision that can unite public, private and third-sector organisations.

In this conceptual research paper, we discuss the following question to help realise the promises made by the Society 5.0 paradigm: *How can a city, a region, or a group of organisations initiate and develop a collaboration that is built on the principles of Society 5.0, and what would be vital for them to consider regarding such collaboration?* The purpose is to understand better how the transition from the current society level towards Society 5.0 can be supported by providing reflections on and advice to Society 5.0 as an emerging field of research. Our paper aims to initiate a dialogue in the research community on how we, as scholars, can help and advise practitioners in this critical transition.

4. https://unglobalcompact.org/what-is-gc/mission/principles
5. https://sdgs.un.org/goals
6. Breque et al., 2021
7. European Commission, 2023
8. Huber, 2004; Nielsen and Brix, 2023
9. Carayannis and Morawska-Jancelewicz, 2022; Klitgaard, 2023
10. Nielsen and Brix, 2023
11. E.g., Colquitt and Zapata-Phelan, 2007
12. E.g., O'Connor et al., 2018; Taran et al., 2021
13. Bovaird et al., 2019; Brix et al., 2021; McMullin, 2022
14. March, 1991; Huber, 2004; Brix, 2019
15. Choi and Chandler, 2015; Anand et al., 2019; Anand and Brix, 2022

In the following, we start by explaining what Society 5.0 is. Then, we introduce and unfold the theoretical background of inter-organisational learning. Finally, we discuss and conclude the study.

2. Explaining Society 5.0

Section 2 explains the evolution from the hunter-gatherer society towards Society 5.0 and what is understood by this.

2.1 The development from Society 1.0 onwards

What characterises the development from one societal stage to the next is that the new stage seeks to solve the problems created by the 'old model'.[16] Thousands of years ago, the development went from the hunter-gatherer society (Society 1.0) to the agricultural society (Society 2.0) because there was no longer enough food for increasing population numbers and because new knowledge and technology made it possible to move forward. In the later stages of Society 2.0, investments started to build critical infrastructure that could be used to move goods over longer distances. The transition to the industrial society (Society 3.0) occurred as knowledge accumulated and new, more advanced technology emerged. At the beginning of Society 3.0, workers were regarded as machines without rights, and when the development of automation accelerated, we started talking about working hours, labour rights, etc. Around five decades ago, we saw the transition to an information society (Society 4.0).[17] The Society 4.0 is characterised by mass globalisation, consumption of scarce resources, profit maximisation, efficiency, standardisations of production, etc., which has created grand challenges.[18]

2.2 Society 5.0

The Society 5.0 is defined as "(…) a human-centred society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space".[19] Society 5.0 assumes that development must be human-centred.[20] New digital technology and platforms such as the metaverse – a seamless connection between people's physical and digital lives – will play a role in future societal development. The shift in the new policies is that social innovation is equated with technological innovation.[21] The latter has so far had the status of golden standard in national and international policies. However, human-centred development does not mean that technology must necessarily be attributed a lower value: "Industry is an integral part of society. The revolution of the industry will push the development of society. Also, the transformation of society will promote the next industrial revolution".[22]

In Society 5.0, a prioritised integration of cyberspace and physical space brings value for the public in this integration.[23] In Society 5.0, the logic is that critical actors at international, national, regional and local levels must start by finding common visions that matter to them and then examine how technology, economy and experts can be used and mobilised to create these changes.[24]

16. Huang et al., 2022
17. Ibid.
18. Defined by the UN SDGs such as 'Affordable and clean energy' (SDG7) and 'Sustainable cities and communities' (SDG 11)
19. Japan Cabinet Office, 2016
20. Huang et al., 2022
21. Gershenfeld et al., 2017
22. Huang et al., 2022, p. 427
23. Nielsen and Brix, 2023
24. Japan Cabinet Office, 2016

2.3 Society 5.0 Agenda

The logic is that society has not utilised current technologies to their fullest potential because there is a gap between technological development and social development. Hence, we see the consequence of having used more resources in our production than the planet has been able to regenerate.[25] In short, the Society 5.0 agenda is to create a resilient, sustainable, and human-centred development focusing on all people's well-being, whether they are citizens, users, customers, employees or managers. The premise for success is that a framework must be created for a system of systems across sectoral boundaries, cyberspace, and the physical world to be resolved, and where loosely coupled partnerships collaborate to resolve societal problems. Boemenburg and Gassmann[26] provide a less abstract and exciting connection to the societal development trends denoted by the Society 5.0 movement. The underlying mechanisms in a Society 5.0 perspective rest on a Penta-Helix mindset where human and artificial intelligence enrich one another, and stakeholders collaborate across traditional boundaries. According to Huang et al.,[27] there are six characteristics of a Society 5.0. These are presented in Table 1 below.

The mindset here is akin to collaborative thinking regarding ecosystems, and the requirements for collaborative learning and value creation are eminent.[28] Therefore, doing business and competing based on collaborative ecosystems is expected to be increasingly applied. The barriers associated with these ways of collaboration and working are highlighted by Nagasato et al.[29] as 'walls' that need to be broken down, and these are the five walls of 1) social acceptance, 2) human resources, 3) technologies, 4) the legal system, and 5) ministries and agencies.

Society 5.0 can serve as a lever for strategic innovation in a local context where various organisational actors from different sectors

TABLE 1: Society 5.0 characteristics

• Innovation often occurs across sectors and disciplines and can be transferred from one area to another.
• Initiatives are open and collaborative and constantly include a wide range of actors.
• Ideas and implementation are often bottom-up processes, although usually with support from the public system or companies and characterised by co-production.
• Innovation often creates formal communities of interest, such as associations and organisations.
• Innovation focuses on discovering, using, and coordinating the mobilisation of both physical and human resources.
• Innovation often results in new partnerships (among public actors, companies, associations, individual citizens, etc.) or new distribution roles in existing partnerships.

25. Gershenfeld et al., 2017
26. Boemenburg and Gassmann, 2022
27. Huang et al., 2022
28. Es-Sajjade, 2019
29. Nagasato et al., 2018

can collaborate to start realising the promises made by the Society 5.0 vision. This, however, is not problem-free, since many dilemmas and paradoxes will arise.[30] At the organisational level, the transition, e.g., to more or new digitalisation, requires executives "to look carefully at all aspects of their operations, and in many cases to embark on an integrative programme of digital transformation (…) which involves re-examining the cognitive dimension of the business model (how managers seek to create and capture value), the routines, and the operating model (how internal activities are structured and managed)".[31] In our article, we are particularly interested in the style of collaboration required to realise the Society 5.0 vision and, hence, the need for both organisational – and inter-organisational learning to take place. In the definition by the Japanese Cabinet Office,[32] the premise is that the balance is created by "(…) **a system** that highly integrates cyberspace and physical space". In the following, we will elaborate on how such a 'system' can be understood, built and elaborated from a theoretical perspective.

3. Theoretical background

Theories of organisational and inter-organisational learning[33] are now applied to frame a discussion for how a collaborative context can be initiated and elaborated with the point of departure in the Society 5.0 vision. The proposed logic is that understanding the value creation co-produced across organisational and sectoral boundaries is imperative and that Society 5.0 introduces new dimensions of connectedness, a term applied by Gassmann and Ferrandina.[34] Society 5.0 introduces new types of connections, for example, using advanced technologies to enhance value for citizens by creating efficiencies and new business models through digitalisation and data. In addition, Society 5.0 introduces the merging of the natural world with the metaverse. Applying a systems perspective, looking at the collaborative processes and the value added to all stakeholders, enables us to provide tentative advice on the preliminary "dos and don'ts" in the remainder of the paper.

3.1 Inter-Organisational Learning: Definition and Key Components

Inter-organisational learning is defined by Larsson et al.[35] as "achieved by transferring existing knowledge from one organisation [to another organisation], as well as by creating completely new knowledge through interacting among organisations". We argue that the theory of inter-organisational learning (and organisational learning) represents a relevant framing for this paper, since the exploration-exploitation division applies to understanding strategic renewal in all organisations. In addition, this literature is well-developed in explaining 1) the nestedness of learning,[36] 2) the 'together-we-stand-stronger' argument,[37] and 3) the processes of creating new knowledge and putting it into play.[38]

The *first* explains how learning takes place at different levels, ranging from the individual to the group/team, to the organisational and inter-organisational, and back again.[39] The *second* logic

30. Schmitt et al., 2018
31. Volberda et al., 2021, p. 3
32. Japanese Cabinet Office, 2016
33. Larsson et al., 1998; Holmqvist, 2003; Brix, 2021
34. Gassmann and Ferrandina, 2021
35. Larsson et al.,1998
36. Crossan et al., 1999
37. Larsson et al., 1998
38. Argote, 2011
39. Crossan et al., 1999; 2011; Holmqvist, 2003; Jones and MacPherson, 2006; van Winkelen, 2010; Brix, 2017; 2021

is that the theory of inter-organisational learning emphasises that organisations in collaboration can create better results together than if they were not collaborating with other actors.[40] The *third* logic is that the processes of working with knowledge and its links to learning are well established and help explain how knowledge creation, retention and transfer can be performed.[41]

A premise for inter-organisational learning is that collaborating organisations have to focus on the dual processing of learning (the two-level game) that takes place at different paces because new collaborators have to learn to collaborate before they can achieve performance-improving outcomes of their collaboration.[42] This implies that organisations that collaborate need to understand the critical components. First, collaborating organisations need to agree on the purpose and goal of the collaboration. Collaborators must also be aware of 'if and how they are interdependent' in the collaboration, understanding how, where and when their *complementary resources and capabilities* must be put into play to create value.[43] To enable this, collaborators must develop well-functioning knowledge-sharing routines and create *effective governance structures* so that the minimum amount of resources are used for coordination and communication. Unnecessary bottlenecks in information processing are created.[44] In the following, we briefly elaborate on the nestedness of learning and the links between knowledge and learning.

3.2 The nestedness of learning

The ground-breaking work of Crossan et al.[45] sparked a stream of literature in the organisational learning community on the multi-level approach to learning, compared to the previous distinction between individual and organisational learning.[46] The publication by Crossan et al.[47] introduced the '4i framework' also took traction in the literature on inter-organisational levels of learning, which allowed the creation of a '5i framework' and hence linked these two strands together explicitly.[48] Table 2 summarises the nestedness of learning and how learning flows from one level to another and back again.

The five sub-processes (the 5i's) mentioned in Table 1 represent organisational members' actions to learn at different levels, both internally and externally. The logic is that individuals can learn without the group learning and that a group can learn without the organisation learning, etc. Table 2 also highlights the agency that is important in organisational learning, that members engage in the sub-processes at different levels to secure the creation and use of new knowledge to make the organisation continuously relevant by striking a balance between exploration and exploitation.[49] For inter-organisational learning curves, the collaborating organisations must be *receptive* and *transparent*.[50] 'Transparent' implies that organisational actors are willing to open up and share knowledge with collaborators, and 'receptive' refers to the ability and motivation of

40. Larsson et al., 1998; Jones and Macpherson, 2006; Anand et al., 2021
41. Argote, 2011; Brix et al., 2021
42. E.g., Holmqvist, 2003
43. Brix et al., 2021
44. Dyer et al., 2018
45. Crossan et al., 1999
46. E.g., Crossan et al., 2011; Brix, 2017; Morland et al., 2019
47. Crossan et al., 1999
48. Holmqvist, 2003; Jones and Macpherson, 2006; Brix, 2019; Brix et al., 2021
49. Huber, 2004
50. Larsson et al., 1998

TABLE 2: The Nestedness of Learning

Level of learning	Sub-process The 5i's	Explanation
Individual learning	**Intuiting** (individual)	Is a preconscious recognition of a pattern and/or possibilities inherent in a personal stream of experience, e.g., when confronted with new stimuli.
	Interpreting (individual)	It is the explaining, through words and/or actions, of an insight or idea to oneself and others. A process that goes from pre-verbal to verbal.
Group/Team learning	**Interpreting** (team)	As above but when a language is created or being created that enables the framing of a problem or an opportunity.
	Integrating (team)	It is the process of developing a shared understanding among individuals and taking coordinated actions and elaborate opportunities together. This work can be done, e.g., as ad hoc actions or via established ways of working.
Organisational learning	**Integrating** (organisational)	Is the process of preparing the new knowledge (and the organisation) for implementing/realising.
	Institutionalising (organisational)	Is the process of ensuring that routinised actions occur. Tasks are defined, actions specified, and organisational mechanisms put into place to ensure that certain actions occur.
Inter-organisational learning	**Intertwining** (inter-organisational)	Is the process of active engagement between an organisation and its knowledge network. For intertwining to work, there is a need to have an active feedforward loop (within out) and feedback loop (outside in) to learn from experiences of others and to create new knowledge in collaboration.

Source: Authors' summary of Crossan et al.,[51] Jones and Macpherson[52] and Brix[53]

an organisation to use new knowledge that has been created (or shared) with or by partners. It is hence essential that collaborating organisations "(…) develop their collective knowledge by constructing and modifying their inter-organisational environment, working rules, and options"[54] in such a way that the collaboration they experience makes sense and creates the value that is expected to materialise.[55]

3.3 Linking Knowledge and Learning

The learning processes above represent the logic on which knowledge is created and elaborated. More specifically, the processes of *knowledge creation*, *retention* and *transfer* are well-established in organisational learning theory.[56] Knowledge creation occurs when new knowledge is created (RandD activities) absorbing it from external

51. Crossan et al., 1999
52. Jones and Macpherson, 2006
53. Brix, 2017
54. Ibid., p. 287
55. See also, e.g., Bjurström et al., 2020
56. Argote, 2013; Lyles, 2014; Brix, 2017

sources, employing new talents, and handling situations in new ways, hence building intellectual capital that leads to value creation.[57] Knowledge retention is among some of the processes of using knowledge and building routines, so it gets institutionalised into the company's intellectual capital.[58] Knowledge transfer is when knowledge created in one organisation can be used to create value in another organisation.[59]

The same constructs can be applied in inter-organisational learning theory, although different constructs with similar meanings are also used. Es-Sajjade,[60] for example, utilises the three constructs of *knowledge articulation*, *codification* and *transfer*. Knowledge articulation is the process of making (individual) tacit knowledge into explicit knowledge so that individuals can engage in dialogue about the subject. Knowledge codification can, for example, create knowledge objects such as guidelines, checklists, etc. Knowledge transfer is sharing knowledge objects with individuals to whom the (new) knowledge would be helpful, e.g., to create new or better practices.[61]

The knowledge that has the characteristics of being codifiable and stored can respond to simple and technical problems. Knowledge such as step-by-step approaches will work no matter the context – for changing a car battery, installing new software, etc. The knowledge codification and transfer become much more complex and more difficult when the issues at hand represent complex phenomena, such as, for example, responding to grand challenges.[62] This leads to a discussion in organisational learning theory: that 'best practices' no longer represent 'the golden standard' to achieve successful learning across organisational boundaries.[63] The logic is that best practices represent 'false generalisations' because best practices "(…) depend on the predictability and stability for the environment, and it is well known that the environment of alliances lacks both criteria".[64] In inter-organisational learning, there is also a distinction between different learning processes that, in different ways, support knowledge creation and transfer. These are *passive*, *active* and *interactive learning*.[65] The passive and active approaches to learning represent the sharing and use of explicit knowledge, such as technical process specifications, journals (passive learning) and consultancy where advice is given in a set-up that could look like a 'student-teacher relationship' (active learning). When organisations collaborate to create new knowledge in more equal partnerships, they go through the process of interactive learning.

4. Discussion and conclusion

The discussion and concluding section provides a critique of the applied theory and the context of Society 5.0 and offers a novel development to the literature.

4.1 Inter-organisational Learning and Applicability to Society 5.0

This section examines the applicability of the current state of the literature on inter-organisational learning and its ability to explain how organisations can collaborate towards a Society 5.0 agenda. This is done by stating three general points of critique.

57. Dane-Nielsen and Nielsen, 2018
58. Guthrie et al., 2018; Dumay et al., 2018
59. Edvinsson, 2018
60. Es-Sajjade, 2019
61. Ibid., p.245
62. Mortensen et al., 2020
63. Kringelum and Brix, 2020
64. Es-Sajjade, 2019, p. 247
65. Lane and Lubatkin, 1998

Critique 1: The literature is based on the premise that knowledge that has been shared or created in inter-organisational collaborations has to be institutionalised in the individual organisation before it can create value.[66] This view has a particular 'capitalistic bias' in the context of Society 5.0, where the focus is on a human-centric approach and the creation of value also for the public.[67] This implies that current theory must add a perspective to our current understanding of inter-organisational learning that explains how to value 'for the greater good' is enabled, thus pointing outside of the 'traditional view'.

Critique 2: Research on inter-organisational learning has strong growth agendas and focuses on arguments related to wealth creation, such as efficiency, better and faster RandD, etc.[68] We do not know much about how public, private and third-sector organisations initiate collaborations to define a united vision and strategy for a city, region or alike with a balanced outcome priority of 'both economic and social outcomes', because multiple agendas will be present. Meaning needs to be negotiated.[69] In practice, scholars can learn from Brainport Eindhoven, for example, which is a Dutch initiative in the metropolitan region of Eindhoven, where organisations from different sectors have worked for years to build a unified brand for the region to create a 'home for pioneers'.[70]

Critique 3: While the Society 5.0 agenda and similar concepts are gaining traction politically,[71] we have yet to see actual outcomes. The promise is that social problems can be mitigated by integrating physical space and cyberspace.[72] However, we do not know much about how this high degree of integration can be adopted in practice and how collaborating organisations can think about the seamless integration of physical and digital lives in the metaverse.

4.2 Building a new model for inter-organisational Learning in Society 5.0

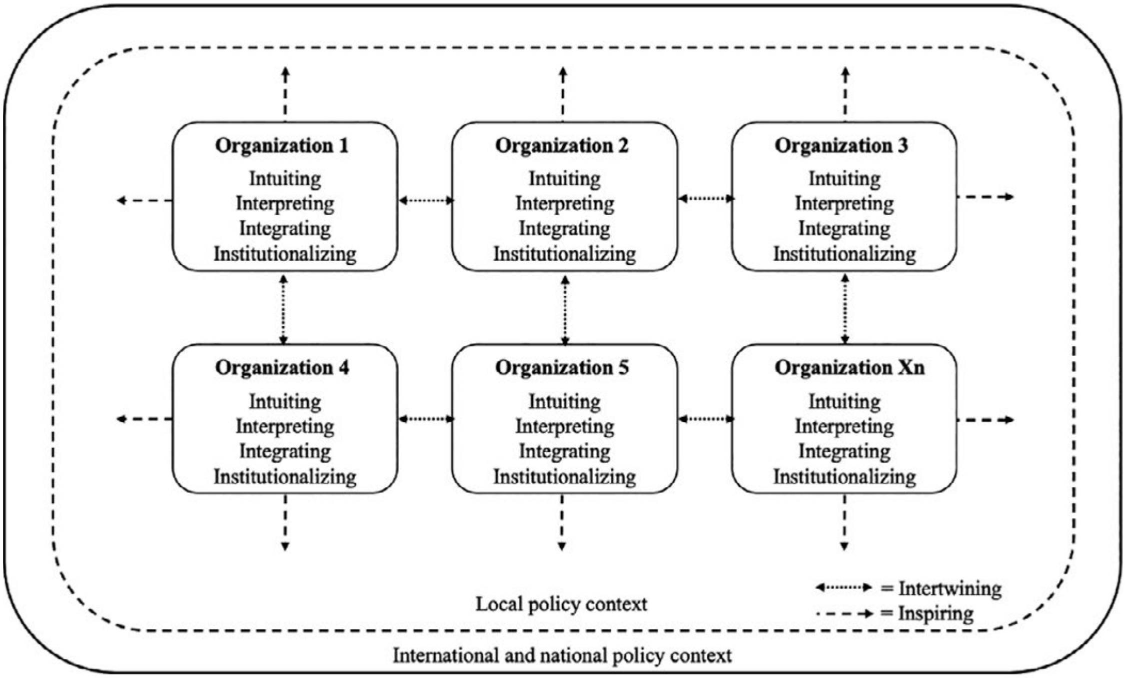
Considering critique points 1 and 3, we propose a model for inter-organisational learning that can act as a first attempt to prescribe how organisations can collaborate to operationalise a Society 5.0 agenda in a local setting. The model provides an example of a system responsible for operationalising the new paradigm cf. the definition.[73]

Based on the Society 5.0 agenda, we suggest that a new level of learning is added to the literature: *extra-organisational learning*. The sub-process related to extra-organisational learning is inspiring. Inspiring is "The process of making new knowledge valuable to other organisations (and the broader public) available as open source". See Figure 1.

The extra-organisational level of learning and the associated sub-process of inspiring represent new additions to the literature on 4i and 5i multi-level models in organisational learning.[74] See also Table 3 below – an updated version relating a sixth phase, the 6i, to the multi-level models for a Society 5.0 context. The extra-organisational level of learning becomes relevant because of the Society 5.0 vision, where value is created and extended beyond

66. Holmqvist, 2003; Jones and Macpherson, 2006; Anand et al., 2019
67. Nielsen and Brix, 2023
68. Mariotti, 2012; Anand et al., 2021
69. Nielsen and Brix, 2023
70. https://brainporteindhoven.com/int/
71. Japan Cabinet Office, 2016; Breque et al., 2021
72. Japan Cabinet Office, 2016; Huang et al., 2022
73. Japanese Cabinet Office, 2016
74. Crossan et al., 1999; 2011; Holmqvist, 2003; Jones and Macpherson, 2006; Brix, 2017; 2019; Anand et al., 2021

FIGURE 1



Source: Authors' development

organisational boundaries, and not only for the organisations who are part of the collaboration[75] and not only for organisations in the real world, but also for organisations and actors in the metaverse. This implies a new way of thinking about inter-organisational learning.

Traditionally, research regarding value creation and appropriation has been isolated within organisations that collaborate.[76] An excellent example of this 'closed loop' way of thinking is found in the following quote: "As long as the size of the joint pie is constant, the interaction becomes a zero-sum game in which only competitive efforts are rewarded (…) most socio-economic interaction involves the individual trade-off decisions of each actor regarding how much of his/her limited efforts are to be spent on collaborating and internally competing, respectively."[77]

75. Japan Cabinet Office, 2016; Breque et al., 2021; Huang et al., 2022; Nielsen and Brix, 2023
76. E.g., Anand et al., 2021
77. Larsson et al., 1998, p. 288

TABLE 3: The Nestedness of Learning by adding 6i for Society 5.0

Level of learning	Sub-process	Explanation
Individual learning	**Intuiting** (individual)	Is a preconscious recognition of a pattern and/or possibilities inherent in a personal stream of experience e.g., when confronted with new stimuli
	Interpreting (individual)	Is the explaining, through words and/or actions, of an insight or idea to oneself and to others. A process that goes from pre-verbal to verbal
Group/Team learning	**Interpreting** (team)	As above but when a language is created or being created that enables the framing of a problem or an opportunity
	Integrating (team)	Is the process of developing shared understanding among individuals and taking coordinated actions and to elaborate opportunities together. This work can be done, e.g., as ad hoc actions or via established ways of working
Organisational learning	**Integrating** (organisational)	Is the process of preparing the new knowledge (and the organisation) for implementing/realising
	Institutionalising (organisational)	Is the process of ensuring that routinised actions occur. Tasks are defined, actions specified, and organisational mechanisms put into place to ensure that certain actions occur.
Inter-organisational learning	**Intertwining** (inter-organisational)	Is the process of active engagement between an organisation and its knowledge network. For intertwining to work there is a need to have an active feedforward loop (within out) and feedback loop (outside in) to learn from experiences of others and to create new knowledge in collaboration.
Extra-organisational learning	**Inspiring** (extra-organisational)	Is the process of making new knowledge which is considered to have value to other organisations and the public domain within the real world and the Metaverse available as open source.

Source: Figure 1 updated with the extra-organisational learning level

With the extra-organisational level of learning and the sub-process of inspiring, we argue for the relevancy of 'opening the learning loop' when possible for the broader benefit of people and society.[78] The idea is that actors in local contexts can start bottom-up on building relationships – e.g., cf. the suggestions made by Nielsen and Brix[79] – and engage in the process of defining a shared vision for how they would like to help solve one or more grand challenges from the point of departure in their local setting.

We hope this paper will inspire scholars and practitioners to engage in the Society 5.0 agenda.

78. Japan Cabinet Office, 2016; Breque et al., 2021; Huang et al., 2022; Nielsen and Brix, 2023
79. Nielsen and Brix, 2023

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RESEARCH NOTE

Can online content indicate an individual's 'real-life' personality?

Alice Matthews & Andrew Hine

A study by data analyst Alice Matthews and entrepreneur Andrew Hine suggests that text data from a range of online sources can provide insights into an individual's psychological traits in line with the IPIP 50[1] outcomes.

Introduction

In 2015, a seminal study by Youyou, Kosinski and Stillwell found that computers can judge personality more accurately than humans.[2] There are some other relevant academic studies[3] about inferring personality through online content, such as *Explainable personality prediction using answers to open-ended interview questions* by Dai et al.[4] and *Deep personality trait recognition: A survey* by Zhao et al.[5]

In our study, we conducted a data-driven investigation into the correlations between online content-based personality inference and psychometric survey-reported personality measurements. Our goal was to determine whether online content can better approximate more traditional psychometric surveys. To do this, we used several significant tools to assess personality. These included the Big 5 OCEAN traits model, which measures five

1. The International Personality Item Pool which consists of 50 items.
2. Youyou et al., 2015
3. Christian et al, 2021; Clarke, 2016; Gill et al., 2009; Golbeck et al., 2011; Möllering and Guenther, 2010; Hirsh and Peterson, 2009; Mehta et al., 2020; Novikov et al., 2021; Schwartz et al., 2013; Yarkoni, 2010; Fast and Funder, 2008
4. Dai et al., 2020
5. Zhao et al., 2022

broad dimensions of personality: openness, conscientiousness, extraversion, agreeableness and neuroticism. We also used the IPIP 50 item personality questionnaire, a widely used measure of the Big Five personality traits. Finally, we used IBM Watson's Personality Insights, which uses linguistic analytics to infer personality characteristics from text.

Our results indicate that text content from a range of online sources can indeed reliably estimate the results of the IPIP 50 item psychometric survey.

Individuals who take the initiative to claim ownership of their online content for non-conventional uses, such as using it as part of a personality assessment process, may gain an advantage over others. This is because organisations that allow individuals to submit their online content as part of the assessment process may be able to save time and money by not having to administer traditional psychometric surveys. Additionally, analysing online content may offer a means of assessing candidates that is blind and impartial. This means the assessment process would be unbiased and not influenced by factors such as the candidate's appearance or background.

Methodology

We experimented with 348 volunteers who completed a standard 50 item Big 5 OCEAN questionnaire and were open to supplying their public profile handles on LinkedIn, Twitter, Stack Overflow and Reddit. Our volunteers were a diverse group from 41 countries aged between 18 and 65.

Volunteers applied from various online forums, groups and newsletters to receive a free multi-page report on how they may appear to others based on their written online content. After reading and signing a detailed description, disclaimer and ethics approval, they opted to provide links to all or none of their online profiles. If they chose to provide their email and at least one profile, they were sent a BIG 5 report generated just from their online profile(s) content. They also took a 50-question IPIP BIG 5 test to study the accuracy of their report. They could not provide any information they did not want (incomplete submissions were removed from our dataset).

We used our proprietary algorithm to collect each volunteer's public content only on LinkedIn, Twitter, Stack Overflow and Reddit. The IBM Watson Personality Insights tool was used to parse this content and assign trait scores to each user. While Personality Insights was trained on tweets only, we looked at various formal and informal online contexts.

Deriving insights from natural language processing (NLP) generally requires a large body of text to return significant results. Therefore, respondents with less than 1,000 words of content were removed from the analysis, and our final count (n) was 101. We then checked for a correlation between the NLP prediction of personality and the Big 5 OCEAN model prediction, using Spearman's rank correlation rs as our correlation coefficient.

We finally performed Ordinary Least Squares (OLS) regressions using the Stats Models Python package to determine the nature of the relationships between survey trait scores and the online content trait scores. An OLS regression can tell us how a variable of interest (the dependent variable) may be affected by changes in another variable (the independent variable).

In our OLS regressions, we set the dependent variables as IPIP 50-item survey results and the independent variables as 'Online content-based results'. First, we ran multivariate regressions with demographic variables to determine whether age, gender or country might influence the results. We then ran simple linear regressions on the five IPIP 50-item trait variables, using only the online content-derived personality scores as the independent variable.

Results

Our data models suggest that IBM's Personality Insights model, which analyses online content such as text from social media posts, can accurately estimate an individual's scores on three Big Five personality traits as measured by the IPIP 50-item psychometric survey. This relationship holds even when controlling for demographic factors such as age, gender and country.

Additionally, we found a moderate to strong correlation (Spearman's ratio of 50%-58%) between online content and psychometric survey measures of extraversion and conscientiousness. This suggests that an individual's online behaviour and communication can provide valuable insights into their personality traits.

In other words, it is possible to infer certain aspects of their personality by analysing the language used in an individual's online content, as well as the topics they discuss and the way they interact with others online. For example, an individual who frequently uses positive language and discusses social activities in their online content may score high on extraversion, while an individual who frequently discusses topics related to organisation and responsibility may score high on conscientiousness.

Discussion

Our results indicate that analysing online content may be a reasonable proxy for traditional psychometric survey methods to reveal Big Five personality traits. Continued research and development will deliver more sophisticated tools to allow individuals to leverage their online content to derive tangible benefits by improving their life situation. Individuals and organisations who move first to leverage this opportunity will gain a first-mover advantage in increasing the number of applicants they can assess, especially those from more diverse backgrounds, often lacking conventional references and reducing human biases. What is more, as governments and organisations roll out digital IDs, trust frameworks and metaverses, establishing trust and proof of reputation online will only become more critical for all members of digital society to function effectively.

Automated, accurate and cheap personality assessment tools could affect society in many ways: marketing messages could be tailored to users' personalities; recruiters could better match candidates with jobs based on their personality; products and services could adjust their behaviour to match their users' characters best and changing moods; and scientists could collect personality data without burdening participants with lengthy questionnaires. Furthermore, in the future, people might abandon their psychological judgments and rely on computers when making important life decisions, such as choosing activities, career paths, or even romantic partners. Such data-driven decisions may improve people's lives.

Last but not least, there are a few questions that we should be asking. For example, how do different platforms (e.g., social media, blogs, online forums) affect how people express their personalities online? Does the context of the platform influence people's behaviour and the content they share? How do cultural and linguistic differences affect the way people present themselves online and the content they share? Are specific cultural or linguistic markers more indicative of certain personality traits? Is it easier to game only content or hypothetical psychometric test answers via preference falsification to portray desired attributes? Or is revealed preference shown via tens, hundreds or even thousands of real-world online human-to-human interactions more accurate than conventional testing?

Theoretical and managerial implications

Online content can be used as a reliable source of information for inferring an individual's personality traits. This suggests that online behaviour and communication can provide valuable insights into an individual's personality, which can be helpful for researchers and practitioners in personality assessment.

From a managerial perspective, this finding could have practical applications in various domains such as recruitment, marketing and social media management. For example, employers could use online content to screen job applicants for certain personality traits relevant to the position. Marketers could use online content to tailor their advertising campaigns to target specific personality types. Social media managers could use online content to understand their audience better and create more engaging content.

Here are some use cases. The 2019 Global Talent Trends survey of 5,165 talent and managers from LinkedIn[6] found that soft skills are the top concern for employers, as are overwork flexibility, anti-harassment, and pay transparency. Ninety-two percent of respondents said that soft skills matter more than technical skills, and 89% reported that bad hires typically lack suitable soft skills. Complicating the issue is that soft skills are notoriously difficult to identify in candidates: only 41% of companies had a formal process to assess soft skills in job candidates, and 68% of respondents said that they rely mainly on social cues to judge candidates' soft skills. Unfortunately, these perceptions are not predictive; worse, they are often unconsciously biased.

This situation illustrates a significant gap in current recruitment processes: assessing soft skills is vital in finding the right talent, but we lack the means to do so quickly, easily and accurately. Online content analysis may offer a solution. For example, if a tech candidate has a 'Gold' reputation on Stack Overflow (a technical question and answer platform) and is in the top 2% of most active users on GitHub (a code hosting and sharing site), indeed, this indicates a passion for their field and an enthusiasm to participate in communities that many employers must value. As our research has shown, there is a link between an individual's online activity and their real-life personality traits.

The recruitment process is often impacted by the unconscious biases of those involved in the hiring process, which are hard to identify. These unconscious biases negatively affect many groups in society, including the LGBTQ+ community, recent migrants, religious minorities and international students. A study by the International Education Association of Australia[7] found that international students are a segment of the market that many employers do not fully understand or hesitate to recruit. A 2019 ABC investigation found that

6. https://business.linkedin.com/content/dam/me/business/en-us/talent-solutions/resources/pdfs/global-talent-trends-2019-old.pdf
7. Tran and Bui, 2019

Asian Australians face a bamboo ceiling in the job market,[8] while a Monash University study found that 'One in four permanent skilled migrants work in a job beneath their skill level', costing the economy up to $1.25 billion annually.[9] This is a particular problem, as it has been found that cognitively diverse teams perform better.[10] The solution is to design the decision-making process to minimise the influence of human bias.

Without references or ratings, engaging the first client who can give you a reference or rating is challenging. This is a classic catch-22, coined the 'cold start problem'[11] that many gig economy workers are sadly familiar with. A way of leveraging online presence and content to prove conscientiousness, reliability and other social and technical skills would help workers in the gig economy get their businesses off the ground.

However, it is essential to note that the use of online content for personality assessment should be done with caution and in an ethical manner. Individuals have the right to privacy, and their online content should not be used without consent.

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8. Xiao and Handley, 2019
9. Bogoda Arachchige, 2021
10. Reynolds and Lewis, 2017
11. Chen, 2022

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ESSAY

Vale Daniel Kahneman, the philosopher who put economics on a new path

Ian McAuley

Policy commentator Ian McAuley reflects on the legacy of Daniel Kahneman, the grandfather of behavioural economics whose groundbreaking ideas have fundamentally changed our understanding of human decision making.

Daniel Kahneman, one of a handful of non-economists to win the Nobel Memorial Prize in Economics, died earlier this year, just three weeks after his ninetieth birthday.

He and his colleague Amos Tversky are acknowledged as the founders of behavioural economics. Had Tversky not died in 1996, he would certainly have been a joint recipient of the prize. Both served as psychologists in Israel's defence forces before furthering psychology studies at the Hebrew University of Jerusalem and working on how people make decisions. There was already a great deal of published work about how people *should* make decisions and plenty of awareness that people often make bad decisions, but little systematic work on how people make decisions. Tversky and Kahneman set out to find patterns in how people make decisions and see if there were rules guiding those patterns.

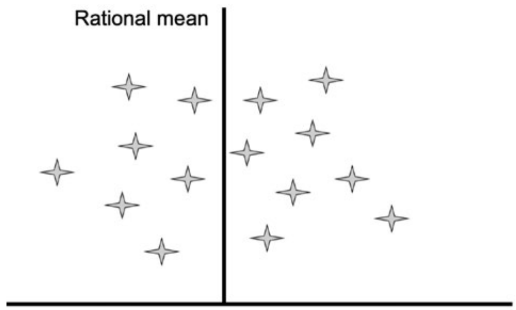
By now, behavioural economics is familiar to economists and non-economists. We know that people will not save enough for retirement without some ‘nudge’ or perhaps compulsion, because we are biased to disregard or discount long-term benefits excessively. We know that people make poor decisions in situations involving risk, paying too much attention to outcomes with low probability. These come quickly to mind – highly elevated fear of air crashes and terrorist attacks being two of the best-known examples. We also know that people are guided by simple rules of thumb ('heuristics' in the language of behavioural economics) when they make decisions, focusing on readily available information rather than on information more relevant to the situation.

One interpretation of the work of Tversky and Kahneman is that they broke from economists' assumption that people are guided by rational self-interest in making decisions.

That does not do justice to their work or the philosophers who laid the foundations of economics, however. Adam Smith, for example, argued that behaviour was driven by a struggle between people's 'passions' and the 'impartial spectator',[1] a classification that aligns with Kahneman's differentiation between 'fast' and 'slow' thinking.[2] The advertising industry is built on the hope that people do not spend too much time or mental effort thinking about their choices. Advertisers' knowledge has been largely insulated from the knowledge base of economics. If everyone made slow, deliberate financial decisions, scammers would be out of business.

Economists have always known that people behave irrationally. That is why they spend much effort urging individuals and policymakers to act rationally. In some regards, it does not matter to economists that people are irrational, because while individuals' decisions may be sub-optimal, economists believe their decisions will generally be clustered around some rational means, as shown in the diagram below (Figure 1). Over time, as individuals gain more market experience, they will learn and become more rational in their decision making. That idea is captured in the economic concept known as 'rational expectations theory'.

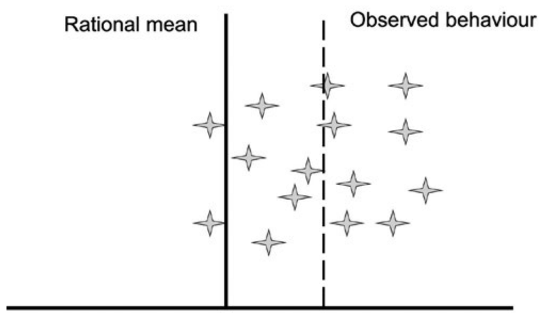
FIGURE 1



Behaviour clustered around "rational" mean

The contribution of Tversky and Kahneman, and those who have followed in their footsteps, studying how people make decisions, has been to illustrate that there are consistencies in how people's behaviour departs from the rational mean. To return to that same diagram, there is often an observed bias away from the rational mean (Figure 2).

FIGURE 2



Behaviour clustered around some other point –- biased

1. Ashraf et al., 2005
2. Kahneman, 2011

As Peter Fritz pointed out in this journal:

> **'Tversky and Kahneman's research into "heuristics and biases" offered traditional economists a rigorous methodological framework to investigate and understand the psychological drivers of economic decision-making.'**[3]

Applying that diagram to retirement savings, for example, a few people may be rationally saving enough for retirement, but most people are not. As Fritz's words show, that departure from rationality can be observed, studied and built into a rigorous methodological framework.

Behavioural economics has contributed empiricism to a discipline short of well-conducted behaviour studies in the real world, but its acceptance has not followed an easy path. It has been a strong assumption of economics, in some dominant schools even an axiom, that decision makers equipped with adequate information tend to make rational decisions. If people are making poor decisions, all they need is more information. For example, this idea has generated lengthy product disclosure statements and advice for consumers to 'shop around' for their best electricity offer.

Some branches of economics have been akin to pure mathematics, built on a limited set of axioms and uncontaminated by empiricism. This contrasts with disciplines such as engineering, which has always involved a blend of deductive logic based on the laws of physics and empirical observations based on laboratory tests and the study of physical systems.

Of course, people are rarely presented with adequate information to make decisions. In 1947, Herbert Simon developed a model of decision making that neatly dovetailed with the pure rational model and the real-world reality of inadequate and costly information. We rationally go on searching until the marginal cost of extra search closes in on the marginal benefit of extra search. It is not an entirely reliable process, but it is sensible, explaining reasonably well how we succeed in shopping, mating and finding employment.[4]

Behavioural economists follow a different path, however. They point out that the quick decisions we make, which we have become habituated to, are functional and usually lead to sound outcomes. That is the essence of Kahneman's Nobel Lecture[5] and of his book *Thinking, Fast and Slow.*[6] We rarely follow a 'rational' decision-making process in the economists' sense, and it is as well that we do not, because we could be frozen into indecision in situations where our wellbeing, perhaps our very survival, is at stake. Hence, the common reference to evolutionary learning involving humans and sabre-toothed tigers, and our learned behaviour is to stop suddenly when we see another driver running a red light.

There are times, however, when the use of those same quick processes leads to poor outcomes: when we buy a car with $8,000 of extra features that we do not need, when we are over-impressed by the glibly articulate candidate for a job, when we buy a stock because we have been impressed by its rapid price rise.

We do these things not because we are stupid or lazy. We do them because they are based on behaviour that, when defined in terms of successful evolutionary adaptation rather than the axioms of economics, is 'rational'.

3. Fritz, 2019
4. Simon, 1947
5. Kahneman, 2002
6. Kahneman, 2011

That does not mean we must accept these outcomes. Policymakers are concerned about ensuring we save enough for retirement, wear seatbelts, avoid overeating sugar and not fall victim to scams. Apart from a small minority of extreme libertarians, most people agree that there is some need for policy intervention. However, some fear behavioural economists are paving the way for a new paternalism – an expanded 'nanny state' in common parlance.

Perhaps that concern about paternalism explains the popularity of the book *Nudge*,[7] by Richard Thaler and Cass Sunstein, both colleagues of Kahneman. A nudge is a gentle way of helping people make decisions that will benefit their individual or collective good while retaining their autonomy. It can involve changing default mechanisms, such as whether we 'opt in' to offer our organs on our death or 'opt out' of a universal scheme of organ donation. It can involve setting norms, such as the message in our hotel rooms: 'Most guests re-use their towels, but if you would like them cleaned …'. The encouragement of behaviour change through nudges has earned the name 'libertarian paternalism'.[8]

Slightly more challenging than the idea of nudges is the work of Thomas Schelling, who complemented the ideas of Tversky and Kahneman. He, too, was awarded the Nobel Memorial Prize in Economics, but he described himself as an 'errant economist', because his work was outside the mainstream. While Tversky and Kahneman approached behaviour from the discipline of psychology, Schelling did so from the discipline of game theory, leading to a fusion of ideas about decision making from both disciplines. What brought their ideas together was their concern about paternalism. If nudges fail, can people be required to do things in their self-interest? Schelling developed the concept of the 'I', which you will be some years down the track, being grateful that the 'I' many years ago was required to contribute to superannuation or to stop smoking. It is a framing entirely within the theories of rational self-interest, but it is outside economists' usual framework.

Tversky and Kahneman were no iconoclasts. They did not set out to undermine the established discipline of economics. They were psychologists curious about the way people make decisions. Understandably, that is of vital interest in a military situation. For soldiers, the laws of supply and demand are a long way from their minds when making tactical or strategic decisions. When Tversky and Kahneman turned their studies to civilian life, they discovered and questioned the assumptions of economics because those did not align with their findings, and they were able to find many others asking the same questions.

They did not find a welcoming reception. For a long time, their work was published only in psychological journals. Even by 1990, behavioural economics was seen as a tangential distraction, lacking a home. In part, this is because of the compartmentalisation of disciplines. But it is also about the threat to a discipline when outsiders like Tversky, Kahneman and Schelling generate findings that challenge the foundations of a discipline – foundations on which elaborate theories have been developed and careers have been forged. In the case of economics, public policy has been created on that base. As Thomas Kuhn pointed out, the caretakers of any discipline are likely to resist the challenge,

7. Thaler and Sunstein, 2008
8. Thaler and Sunstein, 2003

not out of greed or political ideology but because there has been so much invested in that discipline.[9] Ironically, our tendency to invest in what we have already invested in is one of the dysfunctional behavioural biases – the 'sunk cost' bias – identified by behavioural economists.

Economics, however, is a living, developing discipline, and behavioural economics is particularly relevant in dealing with climate change, a problem in which many biases Kahneman and Tversky identified conspire against wise public policy. It is about something that is going to happen in the future, it is hard to envisage, dealing with it requires immediate sacrifices, and we have 300 years of sunk investment in fossil fuels – not only the physical infrastructure but also and more entrenched, an energy-intensive way of life. In their later years, Kahneman and Schelling devoted much of their work to climate change.

Kahneman knew that what he and Tversky started had a long way to go in contributing empiricism to economics – an empiricism that is forcing a change in how we think about economics and how economic theories are applied to public policy. He was always delving into areas of economics that lacked empirical confirmation. His last significant work, in association with two colleagues, published just last year, examined the relationship between income and happiness. There was something for the 'right' – happiness rises with income – and something for the 'left' – happiness flattens out at a moderately high income, about $75,000.[10]

That is typical of his life's work – constantly testing assumptions and finding that our behaviour defies partisan generalisations. Instead, it is guided by rules that can be described in a rigorous methodological framework.

9. Kuhn, 1962
10. Killingsworth et al., 2013

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If you are considering a paper idea, try to answer these questions for yourself:

1. What is your central message?
2. Would your paper best fit as an academic article, a research note, or an essay? (see above guidelines)
3. What is important, useful, new, or counterintuitive about your idea?
4. Why do decision-makers need to know about it? How can your idea be applied in the real world?
5. What previous work or experience (either your own or others') does this idea build on?

This should help you design the structure of the proposed article. This will help you understand the logic of your argument and how it should flow. Please illustrate your points with real-world examples or provide one extended, detailed example, if possible.

General notes on process

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BESS® Style Guide

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Submit manuscripts to the editor at
editor@globalaccesspartners.org

Please use Times Roman 12-point font. The document should be double spaced throughout; place page numbers in the bottom-right corner; and leave top and side margins of at least 2.5cm.

Publication of Accepted Articles

Accepted papers are not copy-edited.
Authors must edit final proofs.

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Under the title of your work, list authors' names, university affiliations or organisation, and complete addresses. Example:

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If you wish to acknowledge financial support or other assistance, add a note at the bottom of your title page.

Abstract

An abstract of no more than 200 words and the title of the work go on page 2. The abstract should address the five *BESS*® qualities

1. Topic
2. Evidence
3. Originality
4. Usefulness
5. Persuasiveness

Back Pages

Group any references and appendixes, tables, and figures at the end of your manuscript. Continue your page numbering.

Headings and Sections

BESS® uses only three levels of headings.
Use Word-heading 1, 2 & 3 function.

Don't skip steps: no second-level headings before you use a first-level heading, for instance.

Examples:

Methods [1st level]

Data and Sample [2nd level]

Measures [2nd level]

Independent variable [3rd level]

Dependent variables [3rd level]

Length

Articles should be a maximum of 9,000 words.

Research notes should be a maximum of 4,000 words

Essays should be a maximum of 2,000 words.

Structure

Articles should follow this paper structure (1st level headings only listed here):

1. Introduction
2. Literature review
3. Methodology
4. Findings
5. Discussion
6. Conclusion
7. References

Research notes should follow this paper structure (1st level headings only listed here):

1. Topic: what is the idea?
2. Significance: why is this important?
3. Innovation: what is new?
4. Relevance: why do managers need to know about it?
5. Application: how can this idea be applied?
6. Credibility: what should we trust this idea? (build on previous knowledge or experience)
7. Track record: where is the evidence? (case study or other)

While this structure is recommended, it is not essential. Authors may still submit papers if they do not wish to follow this structure.

Essays do not have to follow any particular structure. If in doubt, follow the structure of the research notes.

Referencing

BESS® adheres to the Harvard Referencing Style Guide.

Footnotes

Use footnotes placed on their respective pages (not endnotes).

Tables and Figures

The preferred format for regular tables is Microsoft Word; however, Acrobat PDF is also acceptable. Note that a straight Excel file is not currently an acceptable format. Excel files should be converted to a Word or PDF document before being uploaded.

Tables should be formatted as follows. Arrange the data so that columns of like material read down, not across. The headings should be sufficiently clear so that the meaning of the data is understandable without reference to the text. Tables should have titles and sufficient experimental detail in a legend immediately following the title to be understandable without reference to the text.

Each column in a table must have a heading, and abbreviations, when necessary, should be defined in the legend or footnote.

Number tables and figures consecutively (one series for tables, one for figures). Place them at the end of your manuscript, but indicate the position of each in the text as follows:

Insert Table 2 about here

Each table or figure needs an introductory sentence in your text.

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Each author of an accepted article is asked to submit a biographical sketch of about 70–150 words.

Your sketch should identify where you earned your highest degree, your present affiliation and position, and your current research or business interests. Authors should include an e-mail address.

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