

# **Assessing some aspects of managerial ethics within the South African business environment**

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Mini-dissertation submitted in partial fulfilment of the requirements for the degree ***Masters in Business Administration*** at the Potchefstroom campus of the North-West University

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November 2012

## **ABSTRACT**

Since the early 2000s there has been a growing awareness of the indivisible link between ethical conduct on the one hand and business practice on the other. A spate of corporate scandals, due to poor ethical management and deficient ethical decision making, has increased public scrutiny of organisational conduct. This indivisible link between ethics and management warranted investigation; consequently some aspects of managerial ethics in the corporate environment of South Africa were analysed and the role of training in sensitising managers to ethical decision making was examined.

Both a comprehensive literature review and an empirical investigation were conducted in order to satisfy the objectives of the research study. The literature review provided insight into some of major concepts relating to managerial ethics, while also providing an overview of the global and South African ethical situation. It also revealed some pertinent current issues regarding managerial ethics training and ethics training in general. The empirical investigation was based on a quantitative research approach and was conducted through a questionnaire. A diverse group of managers who are all furthering their managerial studies at an accredited South African business school formed the study population. A total of 108 respondents completed the questionnaires, which were then statistically analysed, by the North-West University's (NWU) Statistical Consultation Services.

Both the literature review and the empirical investigation indicated a growing perception that ethics and ethical leadership is deteriorating, while the prevalence of ethical conduct breach has been on the increase. On a positive note there are strong indications that a favourable climate is being created in South African organisations, by the establishment of formal ethical codes and the development of business values. However, further investigation revealed that while formal policies and codes are in place, the implementation of these policies is lacking. A lack of understanding of the importance of ethical management was also identified, along with indications that current managerial training does not provide managers with the practical tools for real world application of ethical codes.

Recommendations regarding possible action steps to start bridging the gap between the stated business values and ethics codes and the physical implementation of these guidelines are made, along with suggestions for further research.

Keywords: Ethics, managerial ethics, business ethics, ethical values and management training.

## **ACKNOWLEDGEMENTS**

I would like to express my sincere gratitude to the following persons who provided me with support and assistance in completing this study:

- To my Heavenly Father, for granting me the strength and wisdom to complete my studies successfully.
- To my wife, Inge, for her love, sacrifices and support during these last three years, I couldn't have done it without you.
- To my family, for their unwavering belief in me.
- To Prof Ronnie Lotriet for his guidance and leadership for the duration of my research study.
- To Wilma Pretorius, for her support and willingness to always lend a helping hand.
- To my work colleagues, for their support and help during this research study.
- To Jo Davies, for the professional manner in which she conducted the language editing.
- Finally, to my study group, for their friendship, support and for having my back when things got rough.

The author

November 2012

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## LIST OF ABBREVIATIONS

AA	Auction Alliance
BRICS	Brazil, Russia, India, China and South Africa
CEO	Chief Executive Officer
CGMA	Chartered Global Management Accountant
CPI	Corruption Perception Index
EBENI	European Business Ethics Network Ireland
EthicsSA	Ethics Institute of South Africa
GIBS	Gordon Institute of Business Science
GSB	Graduate School of Business
HBS	Harvard Business School
HKUST	Hong Kong UST Business School
IBE	Institute of Business Ethics
IIM	Indian Institute of Management
IOD	Institute of Directors South Africa
ISCT	Integrative Social Contract Theory
JBS	Judge Business School
JSE	Johannesburg Stock Exchange
King III	King Code of Governance for South Africa 2009
MBA	Master of Business Administration
NWU	North West University
PBS	Potchefstroom Business School

SACEI	South African Corporate Ethics Indicator
SBS	Saïd Business School
TI	Transparency International
US	United States of America
USB	University of Stellenbosch Business School
WBS	Wits Business School

# CHAPTER 1

## NATURE AND SCOPE OF THE STUDY

### 1.1 BACKGROUND

Globally, an increased awareness of the indivisible link between ethical or moral behaviour on the one hand, and business practice on the other, has become evident since the early 2000s. The highly publicised case regarding the collapse of ethical leadership on the part of Enron's management catapulted the importance and role of ethics within commercial activities and management into the public consciousness (Dembinski *et al.*, 2006). What the Enron case further illustrates is that the education of today's business managers may not instil them with the right ethical tools.

Since then a number of organisations have come under the spotlight due to poor ethical management and deficient ethical decision making, while public scrutiny of ethical conduct has intensified (Abiodun & Oyeniya, 2011: 36). In 2012 Barclays Bank was fined R3.8 billion for its involvement in a rate rigging scandal, raising serious questions about the regulation of the banking sector and the role of ethical behaviour in business management (Doward, 2012). Meanwhile, in South Africa media reports seem to be indicating an increasing prevalence of corrupt and unethical behaviour. In 2012 Auction Alliance (AA) (Anon., 2012a) came under the spotlight for unethical business dealings, while a corruption charge of US\$4.5 billion was brought against MTN (Anon., 2012b) over alleged bribery.

In the South African context, a recent report by Cynthia Schoeman (2012a), Chief Executive Officer (CEO) of the Ethics Monitor, stated that ethics has been on the decline in both the public and private sector. The report makes specific reference to the Transparency International (TI) Corruption Perceptions Index of 2011, which indicated a worsening perception of public sector corruption in South Africa. Schoeman (2012a) argues that countries, like business organisations, will come to a fall if ethical leadership is not improved. This sentiment is supported by TI (2011: 2), which indicated that 2011 saw mass demonstrations in several countries around the world, with members of society from diverse backgrounds calling for more transparency and accountability from their leaders.

Along with the growing prominence of managerial ethics and ethical leadership, a range of legislation and corporate codes of conduct such as the Sarbanes-Oxley Act (Rockness & Rockness, 2005: 31), which legislates ethical behaviour for both publicly traded companies and their auditing firms in the United States, and the South African King Report on Corporate Governance (IOD, 2009), have been developed. The King Report (Irwin, 2011: 11) places greater emphasis on the role of the boards of directors and the executive managements of South African organisations, and their obligation to take action based on *“ethical values of responsibility, accountability, fairness and transparency”*.

However, the extent to which managerial ethics and ethical decision making is applied in South African companies is unclear. A 2009 report from the Ethics Institute of South Africa (EthicsSA), the South African Corporate Ethics Indicator 2009 (Punt *et al.*, 2010: 2), aimed to benchmark ethical risks faced by companies listed on the Johannesburg Stock Exchange (JSE), and their ability to manage those risks by way of their ethical culture and management ethics structures. Some of the key findings indicate that while companies do have ethical management policies in place, employees are not sufficiently aware of them and the perceived level of the effective application of these policies is moderate (Punt *et al.*, 2010: 34). Therefore, while South African companies comply with the laws and guidelines provided by government, to the extent to which they have to, the actual reinforcement of a corporate ethical culture, and the application of ethical decision making processes, seem to be lacking. The study has as of yet not been repeated and does not, therefore, provide more recent comparative information to use for statistical analysis.

The enhanced prominence of corporate governance demands that companies refocus their efforts on managerial ethics and the manner in which moral decisions are integrated into business decision making. Ethics is no longer distinct from decision making and management but should be fully integrated into both.

Further, and especially applicable in a South African context, managers are routinely compelled to make decisions on issues with a social dimension, placing ethical decision making at the core of business and management. Business decisions cannot, therefore, be divorced from the environment in which they unfold. Members of society are an integral

part of public and private enterprises and are directly affected by the output of their processes (Abiodun & Oyeniyi, 2011: 36).

Regarding the value of the application of ethics in an organisation, Chauhan & Chauhan (2002: 371-372) contend that studies have shown a strong correlation between a high degree of ethical management and good business, and that ethical companies show the highest growth in profit. Given then that in a highly competitive environment, organisations cannot afford to be viewed as socially irresponsible, ethics is not peripheral to business, but is indeed at its very core.

Moreover, lacklustre global economic growth is creating an ever more challenging environment within which managerial ethics need to be practised. The demands of a shrinking economy increase the pressure to reach revenue targets, often conflicting with ethically based conduct (CGMA, 2012: 15). The value of ethics as an indivisible part of management within an increasingly challenging environment begs the question as to whether or not the state of managerial ethics has taken a turn for the worse and how the link between management and ethics could be enhanced through training. To this end the state of ethics in the South African business environment will be analysed and the role of training in sensitising managers to ethics in business dealings will be examined.

## **1.2 PROBLEM STATEMENT**

In a changing and complex global landscape, ethics and its role in shaping business decisions has become increasingly highlighted. Adapting to globally evolving circumstances dictates that managers assume their role as ethical leaders. Based on this mind-set, managers and how they interpret and implement ethical management principles, will shape the modern business environment. This indivisible link between ethics and management warrants investigation and should form a far greater part in the education and training of managers.

Taking the aforementioned into account, it is clear that assessing managerial ethics in the corporate environment of South Africa and providing recommendations for its improved application will be beneficial to all organisations.

## **1.3 RESEARCH OBJECTIVES**

### **1.3.1 Primary objective**

The primary objective of the research study is to analyse some aspects of managerial ethics in a South African business environment, specifically looking at a group of managers from diverse backgrounds.

### **1.3.2 Secondary objectives**

In order to accomplish the primary objective the following secondary objectives were identified:

- Gain an understanding of the main concepts related to business ethics, managerial ethics, individual values, corporate values, ethical leadership and responsible corporate citizenship, by conducting a literature review.
- Obtain insight into the global and South African situation in respect of ethics by means of an analysis of relevant literature and international reports.
- Obtain insight into some aspects of ethics training in management.
- Measure the opinions of a diverse group of managers that are currently furthering their management studies at an accredited South African business school.

## **1.4 RESEARCH METHODOLOGY**

The research conducted in this study consisted of two phases, namely a literature and theoretical review, and an empirical investigation.

### **1.4.1 Literature and theoretical review**

A comprehensive literature review was conducted by means of an analysis of relevant journal articles, books, dissertations, government publications, other relevant publications, internet sources, websites of international organisations, government websites and media articles. This will provide the theoretical foundation and backdrop for the assessment of managerial ethics and the empirical investigation of this research study.

The aim of the review was to obtain knowledge regarding the following:

- Ethics
- Business ethics
- Managerial ethics
- Individual values and corporate values
- Ethical leadership and responsible corporate citizenship
- Global overview of ethics
- South African overview of ethics
- An overview of training in ethics

#### **1.4.2 Empirical investigation**

The empirical investigation is based on a quantitative research approach, which enabled the researcher to remain objective, survey a diverse group of respondents and infer a number of descriptive statistics from the survey results (Welman *et al.*, 2005: 8-9). A number of frequency distributions and percentages were extracted from the results, while the relationship between certain variables was tested and reported on.

The survey was conducted through a questionnaire, which was designed as an opinion poll, in order to extract the opinions and attitudes of the respondents on a number of issues (Welman *et al.*, 2005: 100). The questionnaire was developed by the researcher in order to satisfy the specific research objectives of the study and consisted of both closed-ended questions which the respondents answered by marking the appropriate choice or category; and, open-ended questions used by the researcher to gain better insight into certain key topics. The questionnaire was also divided into three sections. Section A was used to determine demographic information relating to the respondents, section B was used to determine the current status of ethics in the respondents' organisations, and section C aimed to determine the individual respondents' views on ethics.

The study population consisted of 108 managers who are all currently furthering their managerial studies at an accredited South African business school. This is a purposive non-probability sample, which means that there is a low probability that the sample is representative of the entire population of South African managers (Welman *et al.*, 2005: 67-

69). However, the sample can be regarded as representative as the respondents come from a diverse range of industries, managerial experience, age groups, genders, qualifications and geographical areas.

The questionnaires were distributed to the study population during one of the respondents' lectures. The questionnaires were collected and then statistically analysed by the North-West University's (NWU) Statistical Consultation Services using SPSS software (SPSS, 2011). Chapter three contains a more comprehensive discussion of the research methodology, along with a presentation and discussion of the findings.

## **1.5 SCOPE**

The scope of the research study is limited to analysing the opinions and attitudes of a sample of managers in order to measure the status of management ethics in their organisations and gain some insight into their understanding of management ethics.

## **1.6 LIMITATIONS**

The following possible limitations in the research were identified:

- Identifying and gaining access to a sufficiently large and relevant target group that could be representative in order to achieve the study goals and to ensure the empirical validity of the results could be challenging.
- Due to the lack of literature looking at managerial ethics specifically, access to relevant information on managerial ethics, especially in the South African context, was seen as a limitation.
- The completion of the questionnaires was voluntary, which means that not all the questions within the questionnaire were completed.

## **1.7 CHAPTER DIVISION**

The following chapter division was used for the research study:

### **CHAPTER 1: Nature and scope of the study**

This chapter introduced the nature and scope of the study in which the problem statement, primary and secondary objectives, research methodology, as well as the scope and limitations of the research study were discussed.

### **CHAPTER 2: Ethics in a managerial environment**

Chapter two consists of a comprehensive literature review on the relevant major concepts pertaining to managerial ethics, such as ethics, business ethics, individual and corporate values, ethical leadership and responsible corporate citizenship. Also included was an overview of ethics globally and in South Africa, a discussion of certain ethical schools of thought and a brief look at managerial training.

### **CHAPTER 3: Empirical investigation**

Chapter three consisted of a comprehensive discussion on the research methodology followed by a presentation and discussion of the findings of the research study and additional statistical analysis.

### **CHAPTER 4: Conclusions and recommendations**

The final chapter of this research study contains the conclusions that could be drawn from the literature review and the empirical investigation. The chapter also provides a number of recommendations and presents some ideas for future research.

## **CHAPTER 2**

### **ETHICS IN A MANAGERIAL ENVIRONMENT**

#### **2.1 INTRODUCTION**

In this chapter a comprehensive literature review will be conducted on the topic of managerial ethics. Relevant major concepts pertaining to managerial ethics will be discussed, such as ethics, business ethics, managerial ethics, individual and corporate values, ethical leadership and responsible corporate citizenship. A brief overview of ethics globally and in South Africa will also be provided, along with a discussion of certain ethical schools of thought and their theories in respect of managerial ethics. The chapter will close with a brief look at managerial training.

#### **2.2 UNDERSTANDING THE MAJOR ETHICAL CONCEPTS**

This section aims to provide a brief overview and discussion of a number of ethical concepts that managers must understand in order to fulfil their ethical responsibility effectively.

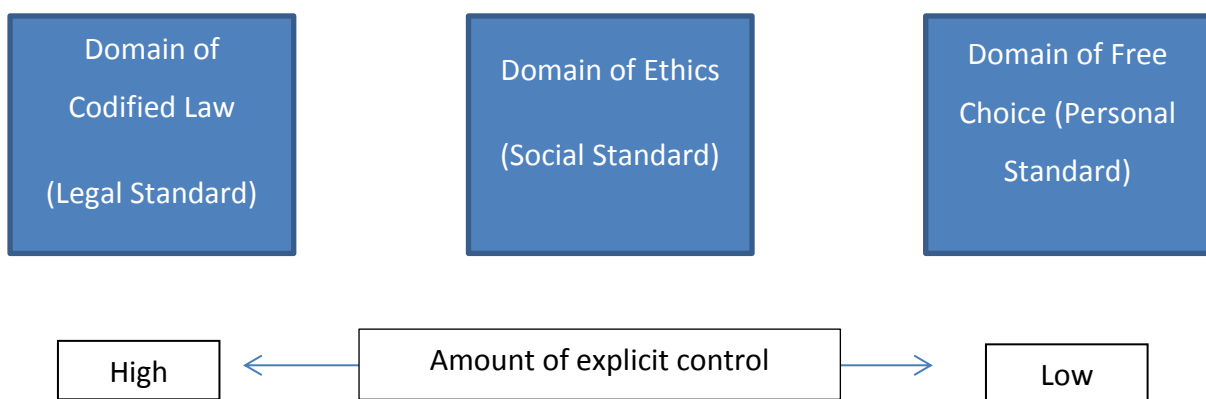
##### **2.2.1 The concept of ethics**

In general terms ethics can be defined as the rules and principles that define right and wrong conduct (Verma & Prakash, 2011: 1; Zgheib, 2005: 69). While this definition appears to be generally accepted, it does not adequately reflect the complexity of the subject, especially in terms of its practical application. As Baker (2007: 3) indicates that the study of ethics is not an exact science but requires an analysis of variable circumstances and facts.

According to Daft and Marcic (2011: 112), actions that are governed by ethics can be more clearly understood when compared to those that are directed by codified laws and those that are regulated by free choice. Daft and Marcic argue that human behaviour falls within three categories, namely the domain of codified law, the domain of ethics and the domain of free choice. These categories are distinguished by the amount of control a person has over a decision in terms of what action to take. As Figure 2.1 illustrates (see below), at the one end of the spectrum is codified law, which prescribes certain standards and behaviours

(legal standards) that should be followed, and is enforceable by laws, such as those that require the payment of corporate taxes. At the other end of the spectrum is the domain of free choice in which there are no prescribed standards or behaviours (personal standards) that must be followed and which includes actions such as deciding where to eat lunch. In the middle of these two domains lies the realm of ethics. Here there are no prescribed laws, but there are standards of moral conduct that are based on shared principles and values that guide the individual (Daft & Marcic, 2011: 113). In other words, while the domain of ethics is not enforceable as is the case with codified law, certain individual values and shared principles encourage individuals to make an ethical choice and to act in a morally responsible manner (according to the so-called social standard) when faced with an ethical dilemma.

**Figure 2.1: Three domains of human action**



Source: Daft & Marcic (2011: 112)

While some persist in the more simplistic view that if an action is not illegal it must be ethical “A better option is to recognize the domain of ethics and accept moral values as a powerful force for good that can regulate behaviours inside and outside corporations” (Daft & Marcic, 2011: 121). Chauhan & Chauhan (2002: 371) echo this sentiment by indicating that there are key problems of business that cannot be resolved by government and laws and that the institutionalisation of ethics is required in order to make it a way of life. In this context the next section looks at business ethics.

## 2.2.2 Business ethics defined

Most definitions of business ethics revolve around reference rules, standards and moral principles that indicate whether certain conduct is right or wrong in specific business

situations (Ferrell *et al*, 2011: 8). Business ethics, therefore, relates to the decisions and actions that people in an organisation have to make and whether these choices can be considered good or bad. Whether a decision or action is good or bad varies greatly according to the perspective from which the outcome is viewed (Polder, 2011). According to Gruble (2011) there are two ways organisations can approach and implement the concept of business ethics. Each of these approaches focuses on different groups, with each providing for a different application of the concept of business ethics.

The first approach is focused on the owners (or shareholders) of the organisation (Gruble, 2011). According to this approach, the decisions and actions taken by the members within the organisation should always aim to promote the interests of the owners. Businesses, and by extension their owners, are typically result orientated. In most cases this means that they are focused on performance measures such as expanding their customer base and increasing their profits. This focus on achieving results can, however, lead to an increased probability of inappropriate or unethical actions, especially when there is pressure on members within the organisation to achieve certain results (Micewski & Troy, 2007: 18). Therefore, the risk of applying this approach to business ethics is that it can sometimes be harmful to people who are not owners or shareholders in the organisation, such as customers, suppliers and the community in which the organisation operates (Polder, 2011).

The second approach focuses on the stakeholders within and outside of the organisation (Gruble, 2011). According to this approach the decisions and actions taken by the members within the organisation should not only promote the interests of the owners, but also the interests of all stakeholders of the organisation. The stakeholders include, but are not limited to, people such as shareholders, employees, customers, suppliers and sometimes even the community in which the organisation operates. This approach, therefore, promotes a more balanced method of decision making, taking all the stakeholders of the organisation into consideration before a course of action is chosen (Gruble, 2011). This is especially relevant in the South African context where new corporate codes of conduct and legislation, such as the King Report on Corporate Governance for South Africa 2009, place an even greater burden on an organisation's board of directors and senior management to take all stakeholders into account when making ethical decisions (IOD, 2009: 51). This in turn

places a greater responsibility on managers to develop, institutionalise and measure ethics within their respective organisations.

### **2.2.3 Managerial ethics**

Managers play a vital role in encouraging ethical values and applying ethics to decision making processes in their respective organisations (Griffin, 2012: 40-42). Abiodun and Oyeniya (2011: 36) argue that because organisations have control over considerable resources, and given that the mismanagement of these resources can have a negative impact on society, there is a burden on managers to behave responsibly and ensure ethical conduct in their business activities. Managers should ensure that their organisations behave like responsible corporate citizens that uphold human rights, make environmentally responsible choices and protect their own business interests (Griffin, 2012: 40-42; Abiodun & Oyeniya, 2011: 36).

In South Africa this role and responsibility of managers has been enshrined in King III, which places the burden of ensuring that organisations act as responsible corporate citizens and are managed ethically in the hands of board members (IOD, 2009: 20-21). The practical application of this mandate, however, will fall in the hands of an organisation's managers. Further, in order for managers to effectively take responsibility for ethics in their organisations they must understand the concepts of individual and corporate values, ethical leadership and good corporate citizenship alongside the likely outcome of their application. These concepts are discussed below.

### **2.2.4 Individual and corporate values**

Among the most important factors that influence managerial decision making are the values of the individual and those of the organisation. Values are the standards against which individuals and organisations measure their conduct, in order to determine whether a specific action or decision is “good” or “bad” (IOD, 2009: 52). Examples of ethical values are honesty, respect, responsibility, loyalty and fairness (IOD, 2009: 52).

There seems to be some broad consensus that individual values are in part based on what a person is taught during their upbringing (Chauhan & Chauhan, 2002: 372). These values are learned from parents, cultural interactions, education and training and even from religious

interactions. In some cultures, religion plays an especially important role in the development of people's values. Therefore, ensuring that individual values align with those of the organisation or vice versa, is critically important for the organisation to perform optimally and to enable managers to make ethical decisions.

At organisational level values play a central role in the development of an organisational culture, which in turn guides the behaviour of individual employees. The fit between individual values and those of the organisation is important for the management of conflict (Bilsky & Jehn, 2002: 211). If the organisational culture supports high ethical standards with which individual employees can identify, it helps to shape ethical management and leads to the successful management of an organisation (Meglino & Ravlin, 1998: 351). However, when there is a conflict between the values of the individual and those of the organisation, it can lead to an ethical dilemma. Chauhan & Chauhan (2002: 373) see an ethical dilemma in an organisation as a clash between an employee's personal values and those of the organisation. For instance, an employee may feel strongly about respect but the organisation for which he or she works does not have a strong culture of respect. This misalignment between the employee's individual values and those of the corporation can lead to an ethical dilemma for the employee, which could in turn lead to him/her becoming unproductive or even resigning from the organisation.

Managers play a critical role in ensuring that these ethical dilemmas are minimised and that organisations have a strong ethical culture. In order to build a strong ethical culture, managers should know how to exercise ethical leadership and insist on good corporate citizenship for their organisations. These concepts are discussed below.

### **2.2.5 Ethical leadership and responsible corporate citizenship**

According to Brown and Trevino (2006: 597), an ethical leader is characterised by values such as honesty, caring and fairness. They also make balanced decisions, communicate with their employees about ethics, set clear ethical standards for the organisation and penalise employees if those standards are not followed. However, one of the most important traits of an ethical leader is that they "practice what they preach" (Brown & Trevino, 2006: 597). This implies that they apply the ethical standards they have set on a daily basis and provide their employees with a role model for ethical behaviour. This is taken even further by

Freeman and Stewart (2006: 2), who claim that having “the right values” and a “strong character” is not enough for an ethical leader. They must also embody the vision, strategy and values of the organisation and connect the goals of the organisation, the values of the internal employees and the stakeholders outside the organisation (Freeman & Stewart, 2006: 3). In other words they must ensure that the organisation’s corporate values align with those of its employees and stakeholders, thereby creating a socially acceptable corporate culture.

In terms of management levels, there seems to be a slight difference in how each level of management should approach the role of ethical leader. Lower level managers, such as supervisors, should focus more on relationships with employees and the internal ethical environment of the organisation (Brown & Trevino, 2006: 611). Higher level management, such as executive management, should focus more on the external ethical environment (Brown & Trevino, 2006: 611). While all managers remain responsible for ethical leadership within the organisation, this distinction between levels of management gives managers a better sense of how to focus their leadership role.

In their capacity as ethical leaders it becomes the responsibility of managers to develop their organisations into responsible corporate citizens. A responsible corporate citizen can be defined as an organisation that has an ethical relationship with the society in which it operates, and takes responsibility for its decisions and actions (IOD, 2009: 50). In the South African context, the King III report (IOD, 2009: 20-21) has formalised the responsibility of the board and managers of an organisation to ensure that the organisation is seen as a responsible corporate citizen.

### **2.2.6 Considering whether ethical conduct pays**

Research surrounding ethics, and especially managerial ethics, tends to focus on the negative costs associated with ethical misconduct by managers and their organisations. This is understandable, especially because unethical decisions and behaviour can be extremely costly for the organisation both in terms of actual costs and potential reputational damage, while they can also result in harm to members of society (Baker, 2007: 14-16). However, the application of ethics to leadership in an organisation, and especially to managerial

decision making processes, can have a number of positive outcomes that should not be overlooked.

According to Gruble (2011) managers who apply sound ethical practices to their decision making increase their organisation's chances of long-term success. Chauhan & Chauhan (2002: 371) contends that it has been proven that when ethics are applied within an organisation it produces balanced, pleasant, flexible and effective managers. Chauhan & Chauhan (2002: 372) also indicates that studies have shown a strong correlation between a good ethical business reputation and good business, and that ethical companies show the highest growth in profit. This statement is supported by Berrone *et al.* (2007: 14) who shows that a strong ethical identity not only leads to improved financial performance by the organisation but also has strong strategic value for the organisation.

The above statements support the idea that ethical conduct creates rewards for an organisation. However it should be recognised that the correlation with improved organisational performance should be seen from a long-term perspective (Gruble, 2011). This is due to the fact that as the organisation develops into a responsible corporate citizen, customers and other external stakeholders develop an appreciation for the organisation leading to greater support and eventually growth in sales.

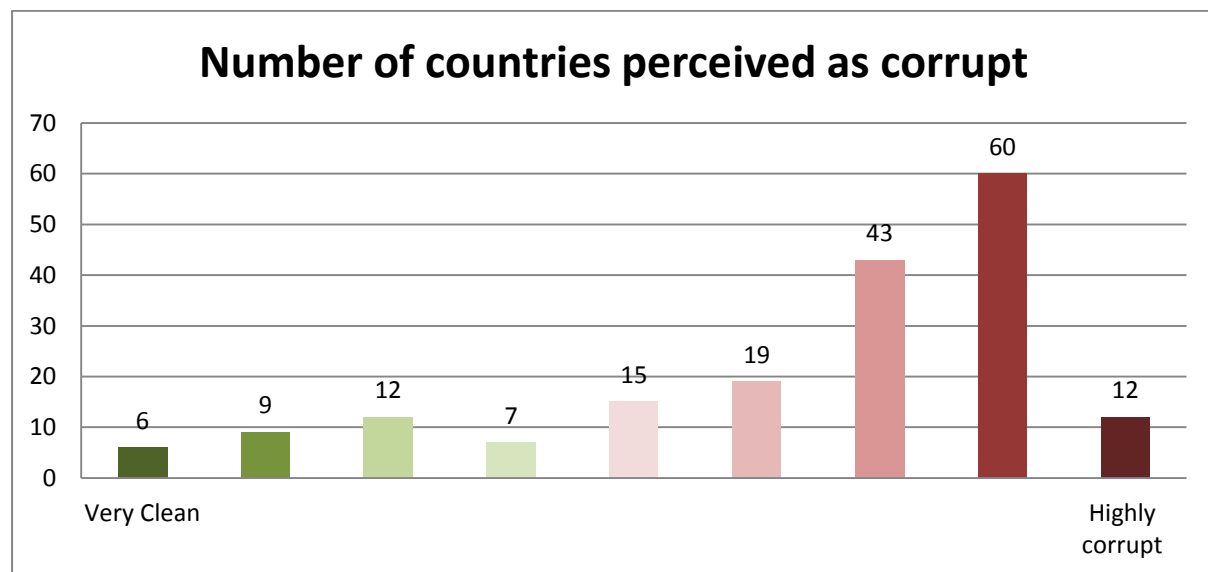
### **2.3 GLOBAL OVERVIEW**

This section aims to provide a brief overview of ethics globally, with reference to both the public and the private sector. It is difficult to identify and measure unethical behaviour as many instances thereof go unreported. However, several international organisations aim to monitor the global ethical situation, such as Transparency International (TI) (2011: 2), which ranks countries in terms of perceived public sector corruption; and international consulting firm Ernst & Young (2012a: 1), which monitors the prevalence of fraud, bribery and corruption in the private sector globally. In the following section their more recent findings will be highlighted and discussed.

Of 183 countries surveyed under TI's 2011 Corruption Perceptions Index (CPI), only 49 countries scored above five on a scale from zero (highly corrupt) to 10 (very clean) (TI, 2011:

5). The countries that had the highest scores were New Zealand, Denmark and Finland, while North Korea and Somalia were ranked as the most corrupt (TI, 2011: 3). As seen in Figure 2.2 below (compiled from information in TI's 2011 survey) corruption in the public sector remains a serious challenge for many countries. Further, according to the 2011 CPI the majority of countries that scored below five are found on the Asian, African and South American continents (TI, 2011: 3). Incidentally, these continents also house some of the fastest growing economies globally, such as Brazil, India and China.

**Figure 2.2: Corruption Perceptions Index scale**



Source: Transparency International (2011: 3)

Unfortunately the information provided by TI does not facilitate inferences about global public sector corruption over time, as TI does not survey the same number of countries each year. For instance with their 2010 CPI, 178 countries were surveyed of which only 47 countries scored above five on their scale (TI, 2010: 2).

In terms of the private sector, the 12<sup>th</sup> Global Fraud Survey (Ernst & Young, 2012a: 4-5), reveals cause for concern, as the findings indicate that bribery, corruption and fraud in the private sector remain widespread globally, while the acceptance of unethical business practices has increased. The report includes interviews with 1 700 people from 43 countries, from November 2011 to February 2012 (Ernst & Young, 2012a: 1). The report records that 39% of the respondents indicated that bribery and corrupt practices occur frequently in their countries; this is a marked increase from the previous report where only 16% agreed

with the statement (Ernst & Young, 2012a: 4; Ernst & Young, 2011: 4). The prevalence is even greater in “rapid-growth” countries, such as Brazil, where 84% of respondents indicated that corruption is widespread (Ernst & Young, 2012a: 4). According to a similar report from the organisation Chartered Global Management Accountants (CGMA), the number of employees that witnessed ethical conduct breach in their organisation grew to 23% in 2011 from 16% in 2008, with a higher prevalence of unethical conduct in emerging economies (CGMA, 2012: 16). The information above suggests a strong indication that unethical practices in the private sector are on the increase, especially in emerging economies. One of the reasons put forward for this phenomenon is that the current economic downturn is exerting pressure on organisations and their employees to act unethically (CGMA, 2012: 15; Ernst & Young, 2012: 5). This pressure is caused mainly by the owners and managers of organisations, and is motivated by efforts to retain business and keep organisations' revenues at acceptable levels (Ernst & Young, 2012a: 5).

According to the CGMA (2012: 15) report, during periods of economic downturn 20% of respondents experienced pressure to act unethically, while during an economic upturn only 12% experienced similar pressure. Therefore, despite increased government regulation globally, organisations view organisational growth and ethical business conduct as competing priorities. The 12<sup>th</sup> Global Fraud Survey (Ernst & Young, 2012a: 5), provides an indication of the types of unethical behaviour that organisations are involved in and how the incidence of such behaviour has grown since their 2011 report (see Table 2.1). According to Figure 2.3, the number of respondents that are willing to make improper cash payments to gain and retain business increased from 9% in 2011 to 15% in 2012. The number of respondents that are willing to use entertainment to win or retain business increased from 20% in 2011 to 30% in 2012. The number of respondents that are willing to use personal gifts to win or retain business increased from 6% in 2011 to 16% in 2012, while the number of respondents willing to misstate their organisation's financial performance rose from 3% in 2011 to 5% in 2012. This is in line with the findings of the CGMA report, which refers to the phenomenon as “*the ethics divide*” (CGMA, 2012: 17). This divide exists when employees feel pressured to act outside the stated ethical standards of the organisation.

**Table 2.1: Growth in unethical behaviour to retain business**

<b>Executives' willingness to use unethical measures to win/retain business</b>		
<b>Description</b>	<b>2010</b>	<b>2012</b>
Willing to make cash payments to win or retain business	9%	15%
Use entertainment to win or retain business	20%	30%
Use personal gifts to win or retain business	6%	16%
Willingness to misstate the company's financial performance	3%	5%

Source: Ernst & Young (2012a: 5)

On a positive note there has been a 10%-15% increase in the number of organisations that have introduced ethical values, codes, ethical training and hotlines, while the number of organisations that collect and report ethical information has increased by over 30% (CGMA, 2012: 4). However, in terms of implementation and enforcement there seems to be a lack of engagement from both directors and senior management of organisations, especially in terms of analysing and monitoring the ethical information that is reported (CGMA, 2012: 8). Without clear commitment from corporate managers many ethical issues will remain unidentified and unresolved, raising serious questions about responsibility for enforcing organisations' ethical values.

As Figure 2.3 indicates there has been a marked decline in the number of corporate leaders that hold a formal responsibility for applying ethical values; both the number of board members and Chief Executive Officers (CEOs) who held such a responsibility has dropped since 2008 (CGMA, 2012: 9). This supports the suggestion that corporate leaders are not sufficiently committed to the enforcement of ethical values in their organisations. In general only 41% of respondents felt that all employees are responsible for applying and enforcing ethical standards. (CGMA, 2012: 9). A similar occurrence was identified in the 12<sup>th</sup> Global Fraud Survey (Ernst & Young, 2012a: 6), where the authors pointed out that management is starting to show signs of fatigue in the implementation of anti-corruption compliance. According to the report, while 81% of the respondents indicated that management communicated a strong commitment to anti-corruption policies, only half believed that they would be punished for breaching those policies.

**Figure 2.3: Formal responsibility for enforcing ethical standards in an organisation**



Source: CGMA (2012: 9)

The last section of this global overview will look at two examples of ethical misconduct in the private sector. The first example entails the 2002 Enron scandal and the second the 2012 Barclays scandal. To some extent 2002 is regarded as a turning point in the renewed focus on ethics in an organisation. According to article published by McKinsey in 2007, public trust in organisations to “do the right thing” decreased from 36% in 2002, to 31% in 2004 and finally to 28% in 2006 (Yankelovich cited by Mendonca & Miller, 2007).

- In December 2001, a United States (US) firm, Enron, filed for bankruptcy. The company’s demise was marred by numerous allegations of deceit, questionable business practices, incorrect financial dealings and inappropriate accounting practices that inflated financial earnings and hid debt (Daft & Marcic, 2006: 120). The decisions that led to Enron’s downfall did not derive from an isolated case of bad judgement, but a pattern of unethical behaviour that was widespread, persistent and systemic (Dembinski *et al.*, 2006: 206). “While perhaps they did not always disobey the letter of the law, Enron’s executives quite deliberately and cleverly violated the spirit of the law, to say nothing of their fiduciary duties as professionals. They engaged in many acts of deception and manipulation, enriched themselves at

*the expense of their shareholders and employees, and corrupted or intimidated the people who might have prevented these abuses.”* (Dembinski *et al.*, 2006: 206). This pattern of unethical behaviour and decision making is not limited to Enron, but can be found in a number of organisations, and highlights that the focus of managers and business professionals is more on the bottom-line of their organisations and less on the ethical implications of their decisions.

What the Enron case further illustrates is that the education of present-day business managers may not instil them with the right ethical tools. Up until August 2000, Enron’s management team was seen as one of the best in the world, and their executive management team held a number of business degrees among them. The two individuals who were seen as instrumental in Enron's success, Jeffrey Skilling and Andrew Fastow, held MBA degrees from two of the most prestigious business schools in America, Harvard and Northwestern (Dembinski *et al.*, 2006: 193). The company’s downfall, therefore, begs the question of whether corporate managers are instilled with the correct ethical foundations.

- In June 2012 Barclays Bank was fined R3.8 billion for its involvement in a rate rigging scandal (Doward, 2012). After the scandal became public there was once again renewed focus on ethics and the regulation of world financial institutions (Anon., 2012c). The scandal revolved around Barclays’ attempts to manipulate and falsify two global interest rates in order to benefit the bank’s derivative deals. The London Interbank Offered Rate (Libor) and Euribor, the Eurozone equivalent, are financial instruments used globally to determine what banks, businesses and individuals pay to borrow money (Anon., 2012c). According to reports, the lawsuits levelled against Barclays and a number of other banks claimed that the under-reporting of the Libor rate meant that an amount of R600 billion was not paid to investors by the banks (Doward, 2012). Although Barclays denies that senior management was aware of the actions, the scandal raises serious questions about the regulation of the banking sector and the ethical role of management (Doward, 2012).

In a related development Barclays has also been in the spotlight because of the sizable profits it made on food commodities speculation. According to reports, Barclays Capital, the bank's investment arm, made R6.7 billion in food commodity speculation during 2010 and 2011 (Edwards, 2012). This has led a number of organisations, such as Foodwatch and Oxfam, to question whether it is ethical to profit from food speculation when millions of people globally are going hungry (Collinson, 2012). While the debate on whether food commodity speculation increases global food prices continues, the example above highlights the dynamic nature of ethical values and how a global crisis such as the current food price increases can influence a company's ethical values. Therefore, organisations, especially multinational organisations, should be aware of shifting societal values in order to ensure that they manage and act ethically.

In summary the global outlook in terms of ethics, in both the public sector and the private sector, is not positive. According to Transparency International's (TI) 2011 Corruption Perceptions Index (CPI) almost three quarters of the countries surveyed are still perceived as highly corrupt, with the majority of these found in Africa, Asia and South America. In terms of the private sector, unethical behaviour remains widespread; management's commitment to ethical enforcement seems to be waning; and, fewer corporate leaders hold a formal responsibility for applying ethical standards. The current global economic turndown is also placing pressure on organisations and their members to act unethically in order to retain business. This appears more prominent in rapidly growing economies, such as Brazil, and is especially relevant in the South African context. South Africa recently joined the ranks of China, India, Russia and Brazil as part of BRICS and will, therefore, be increasingly involved in business dealings with these countries. The following section provides an overview of the South African ethical context.

## 2.4 SOUTH AFRICAN OVERVIEW

This section aims to provide a brief overview of ethics in the South African context. As in the previous section both the public and the private sectors of South Africa will be discussed in order to evaluate the current status of the South African ethical reality and whether it follows the international trends discussed above.

According to the TI CPI 2011, which measures the perception of corruption in the public sector, South Africa ranks 64th out of 183 countries measured, with a score of 4.1 out of 10, (1 being highly corrupt and 10 being very clean) (TI, 2011: 4). While TI does not make comparisons between the results of different years of the index, it is interesting to note that South Africa has deteriorated in both rank and score since 2010, when it ranked 54th out of 178 countries with a score of 4.5 (TI, 2010: 2).

A 2011 report from the Institute of Business Ethics (IBE) Irwin (2011: 9) refers to a Transparency International (TI) 2010 survey that indicated that 24% of the South African public felt that corruption had decreased in the last three years, while 14% felt that it had stayed the same, and 62% felt it had increased. The survey indicated that people perceived the public sector as more corrupt than the private sector, but the private sector nonetheless received a score of 2.8 on a scale from one (not corrupt) to five (extremely corrupt) (Irwin, 2011: 10).

According to the 12<sup>th</sup> Global Fraud Survey, 64% of South African respondents felt that corruption is widespread in South Africa, underscoring one of the survey's key conclusions, namely that *"the pressure to meet revenue targets is undermining executives' commitment to compliance with policies and the law"* (Ernst & Young, 2012b). What is more worrying is that the number of South African respondents that feel that unethical behaviour intended to help a business survive in an economic downturn cannot be justified fell from 64% in 2010 to 36% in 2012 (Ernst & Young, 2012b). As Table 2.2 indicates the number of South African executives that are prepared to use entertainment to win/retain business has increased from 18% in 2010 to 42% in 2012. The number of executives willing to use personal gifts to win/retain business has grown from 6% in 2010 to 14% in 2012. In contrast, the number of business executives that are willing to pay cash to win or retain business has declined from 16% in 2010 to 2% in 2012.

**Table 2.2: South African executives' willingness to use unethical measures to win or retain business**

South African executives' willingness to use unethical measures to win/retain business		
Description	2010	2012
Willing to pay cash to win or retain business	16%	2%
Use entertainment to win or retain business	18%	42%
Use personal gifts to win or retain business	6%	14%

Source: Ernst & Young (2012b)

According to Sharon van Rooyen (Ernst & Young, 2012b), the director of Fraud Investigation & Dispute services at Ernst & Young, *“In the fight against fraud and corruption, South Africa faces a specific challenge: while 60% of respondents believed that authorities were relatively willing to prosecute bribery and corruption cases, only 16% saw these prosecution efforts as effective. These perceptions are mirrored across the African region as a whole, but are significantly at variance with the rest of the world.”* She added that *“Our belief is that businesses with major operations in Africa would be likely to benefit from participation in initiatives for collective action that are beginning to show potential for combating fraud, bribery and corruption”*.

South Africa has made enormous strides in terms of preventing corruption and implementing corporate governance by introducing several new acts and codes of conduct, such the Prevention and Combating of Corruption Act (12 of 2004), the new Companies Act (71 of 2008) and the King Report on Corporate Governance (IOD, 2009), of which the latest is the King III.

According to Deloitte (2009), the King III report *“provides a list of best practice principles to assist and guide directors to make the right choice for their company”*. Similarly Irwin (2011: 11) emphasises that the board and executive management of South African organisations should make decisions and take action based on *“ethical values of responsibility, accountability, fairness and transparency.”* It is, therefore, the responsibility of the directors and the managers of a company to build a sustainable ethical corporate culture, to apply this culture throughout the company in terms of internal and external decisions, and to ensure that the application is measured, reported and disclosed (IOD, 2009: 21).

However, the extent to which managerial ethics and ethical decision making is applied in South African companies is unclear. A report from the Ethics Institute of South Africa (EthicsSA), the South African Corporate Ethics Indicator 2009 (Punt *et al.*, 2010: 2), aimed to benchmark ethical risks faced by companies listed on the Johannesburg Stock Exchange (JSE) and their ability to manage those risks via their ethical culture and management structures. The SACEI report surveyed 20 prominent companies listed on the JSE and used an index score of between zero and a hundred to display their findings (and not percentages), with a score closer to a hundred indicating a positive outcome (Punt *et al.*, 2010: vii). Some of the key findings are presented in table 2.3 below.

**Table 2.3: Key findings of the SACEI report**

Compliance		
Indicators	Rating	Findings/Comments
Ethical leadership	38.95	Inadequate commitment from senior management to formal ethics management
Ethics assessment	39.74	Assessment procedures are poorly established
Ethics policy framework	86.26	The policy framework is well established
Institutionalisation of ethics in the organisation	46.16	Formal ethics institutionalisation is not in place
Overall ethics management score	53.44	Formal ethics management is poorly established

Source: South African Corporate Ethics Indicator (2010: ix)

According to Table 2.3 the formal ethical policy frameworks of the companies surveyed are well established. However, in terms of ethical leadership the table indicates inadequate commitment from senior management to formal ethical management. It also indicates that ethical assessment procedures are poorly established and that formal ethics is not properly established within the surveyed organisations. Overall the table indicates that ethics management is poorly established within the surveyed organisations.

The SACEI report also aimed to measure employees' awareness of their company's ethical programme. It found that there is a high awareness among employees of a formal Code of Ethics within their organisation, but employee awareness of training programmes relating to

their organisation's ethical code, of how and where to report ethical misconduct, and of the existence of an ethical officer, is inadequate (Punt *et al.*, 2010: 19).

Therefore, while South African companies comply with the laws and guidelines provided by government to the extent to which they are obliged, the actual enforcement of a corporate ethical culture and formal ethical management are lacking.

Some recent examples of unethical behaviour in the South African private sector are the following:

- The Auction Alliance (AA) scandal – In February 2012 one of the most respected auction houses in South Africa, with a 20 year history, came under the spotlight for engaging in unethical dealings to attain business (Anon, 2012a). AA reportedly made improper cash payments to a number of liquidators, attorneys and bank staff in order to obtain business (Anon, 2012a). Interestingly, AA paid more in times of market downturns, up to 75% of potential commission amounts, which to an extent supports the international trend that companies are more willing to make unethical decisions in times of economic turndown (Anon, 2012a). Elaborating on AA's possible motivations, Cynthia Schoeman, CEO of the Ethics Monitor, indicated that AA's unethical behaviour was used to preserve and maintain the company's competitive advantage (Schoeman, 2012b). Schoeman added that behaviour, leadership and management practices exposed a major ethical failure in AA, and described AA's leadership as "extremely reckless" and "unethical" (Schoeman, 2012b). Therefore, the AA scandal is a prime example of unethical leadership and management, in terms of both AA and the banks and liquidators implicated in the scandal.
- MTN – In June 2012 the Hawks announced that they would be investigating claims of corruption levelled against the South African telecommunications firm MTN (Anon, 2012b). According to reports, Turkcell (a Turkish telecommunications firm) filed a civil claim of US\$4.2 billion against MTN, accusing the company of bribing Iranian and South African officials in order to secure an Iranian telecommunications operating licence (Anon, 2012b). A related report reveals indications that MTN has also been actively trying to circumvent United States (US) sanctions against Iran, by

using outside vendors to procure US technology products for the Iranian market (Anon, 2012d). While the merits of the US sanctions may be debatable, the fact that MTN is pursuing ways to circumvent the sanctions suggests ethical shortcomings within the organisation.

## 2.5 SOME SCHOOLS OF THOUGHT ON ETHICS

This section presents a high-level overview of some of the most relevant ethical theories as they pertain to managerial ethics. There are a vast number of ethical theories and schools of thought pertinent to discussions of managerial ethics, but for the purposes of this study the discussion is limited to the following:

- Ethical Utilitarianism
- Ethical Relativism
- Ethical Universalism
- Virtue Ethics
- Integrative Social Contract Theory

These theories were chosen due to the vast amount of literature available on them.

### 2.5.1 Ethical utilitarianism

Utilitarian ethics is a consequentialist ethical theory which states that the *“morally right action is the action that produces the most good”* (Driver, 2009). Developed by Jeremy Bentham (1748 – 1832), the theory evaluates all actions in terms of the utility they create and pain/unhappiness they prevent, and also holds that the utility should be maximised in order to produce the *“greatest good for the greatest number of people”* (Cohen, 2001: 582).

Therefore, when an action or decision creates more utility for a greater number of people than its alternative, the decision is deemed ethical. If the action or decision results in harm/unhappiness to others, it can still be deemed ethical as long as the benefit/utility created by the action outweighs the harm when everyone affected is taken into account (Collett, 2010: 364).

According to a report from the European Business Ethics Network Ireland (EBENI, 2011a), the utilitarian approach is commonly embraced by business executives when making management decisions because it is compatible with traditional business thinking. EBENI (2011) refers to the “*cost to benefit character*” of the utilitarian approach that managers use to weigh the pros and cons of alternative economic and managerial actions, in order to see whether these options maximise profit, increase return on investment or increase the share price. Managers generally take these considerations into account when making business decisions already and this approach would, therefore, be a natural fit with usual business practice.

Another reason management is eager to utilise the utilitarian approach lies in the flexibility of the criteria used to determine the utility created. The criteria can vary from short-term, long-term, to financial and non-financial, depending on the decision that has to be made.

However, the approach does have some flaws. Cohen (2001: 582) highlights the following three shortcomings of the utilitarian approach. The first and most logical shortcoming is that it does not take into account the “*greatest bad for the smallest number*”. This means that while the approach recognises that some people may be harmed by a certain action, or not gain any benefit from a certain action, the decision may still be ethical. For instance, certain types of medication could be beneficial to the majority of its users, while a limited number of recipients could be severely and negatively affected. Using this approach, the end could sometimes justify the means despite the negative consequences for a few (EBENI, 2011a).

Secondly, predicting the outcome of a certain decision or action, and whether it will create utility or harm, can be difficult (Cohen, 2001: 582). Before managers make a decision they have to gauge the potential benefit and harm attendant on each alternative, and identify the affected parties.

A third flaw is the lack of an historic perspective when making a decision (Cohen, 2001: 583). Cohen contends that managers often overlook historical facts when making decisions, such as a relationship with an employee, loyalty and why certain decisions were taken in the first place.

Finally, EBENI (2011a) recognizes an additional shortcoming in the utilitarian approach in that the question of who determines the “greatest good” significantly impacts on the results of the decision — the greatest good from a senior manager’s perspective will differ significantly from the way it is perceived from the perspective of the customer.

In short, the utilitarian approach has several shortcomings but can be a useful tool, especially because it complies with the logic of business thinking and has a practical application.

### **2.5.2 Ethical relativism**

Velasquez (as cited by Hyo-Sook, 2005: 335) defines ethical relativism as “the theory that because different societies have different ethical beliefs, there is no rational way of determining whether an action is morally right or wrong other than by asking whether the people of this or that society believe it is morally right or wrong”. Van Dijk (2007:35) expands this definition to the business realm by stating that there are no universal ethical standards that apply to the decisions that companies and managers make and that decisions should rather be seen as ethically acceptable if they are in accordance with the moral standards of the particular society.

Due to the diversity of cultures within which many organisations operate, and the diverse cultural backgrounds of the employees who work and manage those organisations, numerous difficulties have developed for business managers who are required to make decisions that have moral and ethical implications.

There is, however, conflict in the application of ethical relativism in that it affords organisations and their managers the opportunity to excuse unethical behaviour on the grounds that it is acceptable in the local society (Mahoney, 2012:12). For instance, in some countries the payment of bribes may be acceptable while in the organisation's country of origin it may not be. This creates an opportunity for organisations to misuse local ethical standards in order to win or retain business although it goes against the ethical principles and culture of the organisations as a whole. Thompson *et al* (2012: 344) emphasises that when a company adopts the theory of ethical relativism it necessarily assumes that the local ethical standard is an “adequate guide for ethical behaviour”. According to Thompson this is

ethically hazardous if the local ethical standards are lower than those of the organisation itself.

Thompson *et al* (2012: 345) also highlights the fact that multinational organisations face a maze of ethical standards, due to the varying ethical standards across different cultures, and argues that such ethical diversity, without a higher order moral compass, can create numerous problems for international organisations. Therefore, ethical relativism has a place in managerial ethics but should be applied with caution due to shortcomings discussed above.

### **2.5.3 Virtue ethics**

While many decisions affect more than one person, the decision on which course of action to take usually resides with an individual. The two ethical theories discussed above are rule based and, therefore, present the individual with a number of considerations to enable him or her to make an ethical choice. The utilitarian approach advises the individual to take into account the “greatest good, for the greatest number”, while the relativist approach recommends that the individual take into account the moral standards of a particular society. Neither of these approaches considers the character and morals of the individual decision maker, nor do they take into account the underlying motivation.

In contrast, virtue ethics look to the character of the individual and apply those virtues as a motivation for making an ethical decision. Therefore, virtues supply their possessors with both the motivation to take the right course of action and the ability to distinguish between the ethically right and wrong options (Audi, 2012: 288). An individual should be able to distinguish and decide on the most just course of action and be motivated by his/her natural tendency to justice. Put another way virtue is not only the capacity to do good deeds, but a predisposition to act correctly for the appropriate reason (Audi, 2012: 288).

It should be noted that virtues are not necessarily inherent in an individual but can and should be developed through learning and practise. Aristotle believed that a virtuous character could be cultivated much like learning to play a musical instrument and should be made part of the individual in the same way as a tradition or language (as cited by Beauchamp & Bowie, 2004: 31). In terms of ethical decision making this point has powerful

implications for managers, such as developing organisations into more virtuous entities by engaging in ethical activities, and suggesting that managers can be taught the appropriate virtues to enable ethical decision making (EBENI, 2011b).

Some of the virtues listed by EBENI (2011b) are:

- Truthfulness
- Justice
- Generosity
- Self-control

In terms of its managerial application it is argued that due to the current social, political and economic turmoil, the theory of virtue ethics provides managers with a way to make the right ethical choices consistently. The theory especially appeals to members of society who want managers to make more transparent and ethical choices on a more consistent basis (Mahoney, 2012).

The problem with this theory is that virtue ethics is grounded in individual ethics and individual cultures and would, therefore, make a weak tool for developing ethical policies for the organisation (Mahoney, 2012). It also raises the question of whether organisations will actually help employees and managers develop the tools to enable them to make ethical decisions.

#### **2.5.4 Ethical universalism**

Despite the fact that different societies have diverse cultural beliefs and morals, some believe that there are inherent universal ethical and moral codes by which people live. The school of ethical universalism maintains that the concepts of what decisions and actions are right and wrong are universal and transcend culture, society, and religion (Thompson *et al.*, 2012: 340). Swartz (2002: 30), in an initial study of several different sources, proposes the following six universal moral standards, found in Table 2.4 below.

**Table 2.4: Universal values and principles**

Values, principles and examples of expected behaviour		
Values	Principles	Examples
<b>Trustworthiness</b> (including notions of honesty, integrity, reliability, and loyalty)	Be honest to stakeholders  Stick to values despite financial loss	Avoid misleading advertising  Avoid bribery even if contract is lost  Fulfil all contractual obligations
<b>Respect</b> (including notions of respect for human rights)	Respect the rights of others	Do not engage in sexual harassment
<b>Responsibility</b> (including notions of accountability)	Take responsibility for actions	When misconduct takes place, take steps to ensure it is not repeated
<b>Fairness</b> (including notions of process, impartiality, and equity)	Treat stakeholders fairly	Avoid anti-competitive activities
<b>Caring</b> (including notion of avoiding unnecessary harm)	Avoid unnecessary harm  Act benevolently	Downsize in a responsible manner  Employee community involvement
<b>Citizenship</b> (including notions of obeying laws and protecting the environment)	Obey the law  Protect the environment	Follow the law in foreign countries  Recycle materials

Source: Swartz (2002: 30)

While universal ethical standards are intended to aid managers in their decision making process, narrowing down the options available does not remove the need for judgement (Maclagan, 2012: 185). Maclagan (2012: 194) argues that universal and rule based theories

do not speak to the character, self-knowledge and well-integrated value set that other theories presume to be central in motivating ethical behaviour. Others claim that ethics vary across cultures and that even if the underlying universal values are the same, they still lead to different interpretations due to differing historical and societal development (Clark & Aram, 1997: 561).

### **2.5.5 Integrative social contracts theory**

Due to the opposing views of universalism and relativism on whether there are universally accepted moral standards or whether each culture has a set of unique moral standards that should be applied, the concept of integrated social contract theory (ISCT) developed. ISCT can be defined as follows: “universal ethical principles or norms based on the collective views of multiple cultures and societies combine to form a *social contract* that all individuals, groups, organisations and businesses in all situations have a duty to observe. Within the boundaries of this social contract, local cultures and groups can specify what other actions may or may not be ethically permissible.” (Thompson *et al.*, 2012: 345).

This means that while organisations and managers are obliged to observe certain universal moral standards when making a decision or taking action, they may also consider local moral standards if they are deemed applicable. However, it is important to note that in the event of a conflict between the two, universal ethical standards should take precedence (Mahoney, 2012: 12). Thompson *et al* (2012: 345) takes this further by indicating that while ISCT provides some “moral free space” for the people in a particular country to make specific interpretations, local ethical standards apply only if they are more stringent than the universal ethical standards.

The strength of ISCT is that it accommodates the best parts of ethical universalism and ethical relativism. It provides business managers with “first order” ethical norms that take precedence over local or “second order” ethical norms in situations where the local ethical norms are lower than universal standards (Thompson *et al*, 2012: 346). For example, bribery or the payment of kickbacks is an acceptable practice in some countries, but first order ethical norms will override this.

One of the criticisms levelled against ISCT is that the universal standards used to form the social contract are not always recognised by foreign countries or different cultures (developing countries especially do not share the western outlook on universal ethical values) and should not, therefore, take precedence over local ethical norms (Mahoney, 2012: 12). In terms of management decisions, this means that managers will have difficulty using universal standards if the local culture does not accept them.

## **2.6 TRAINING IN ETHICS**

The spate of ethical misconduct by managers globally has once again raised awareness among business schools about the importance of educating managers in ethics (Ho & Lin, 2006: 33). However, as various business schools already provide business ethics courses as part of their curriculum, scandals such as those at Enron raise questions about the efficacy of this type of education and whether managers can be taught to be more ethical.

While the majority of research indicates that ethics can be taught and that studying ethics increases people's ethical attitude, some experts contend that studying ethics has no significant impact on an individual's ethical attitude (Ho & Lin, 2006: 34; Ryan & Bisson, 2011: 45). Ryan & Bisson (2011: 45) maintain that one of the main reasons people believe that managers cannot be taught to be more ethical, is because most of an individual's "character development" takes place before they reach adulthood. This implies that an individual's core values and ethical attitude are formed during their upbringing and are fully developed by the time they become managers. Therefore, the argument is made that studying ethics at tertiary level or as part of a management training course will not influence the individual manager's core values.

Ho & Lin (2006: 35-36) argue that individual values and ethics continue to develop over time (through education, work experience and a number of other factors) and agree that the study of ethics will do little to affect an individual's ethical values and ethical behaviour. They aver that this type of ethical development is best left to an individual's peers, parents and religious organisations. However, while rejecting the notion that an individual's ethical values can be influenced by study, they maintain that a business ethics education can

provide managers with background, models, approaches and examples that will prove useful in the recognition and resolution of ethical dilemmas. This idea is supported by Churchill (as cited by Ryan & Bisson, 2011: 46), who stated that individuals should not be taught moral standards of behaviour, but should instead be taught a method of moral reasoning that the individual can apply to an ethical dilemma. Therefore, while there is recognition that individual values and ethical behaviour develop over time and cannot be easily influenced, there is also strong support for ethics education, especially in terms of the development of the managers' analytical skills.

Looking at the current status of ethics in education, the Global Survey on Business Ethics in Teaching, Training and Research (Rossouw & Stükelberger, 2012: 379-380) aimed to provide a global and comparative overview of the development of business ethics as a field of teaching, training and research between 1995 and 2010. The world was divided into nine regions in order to include each country. The regions were identified as Central Asia, East Asia, Europe, Latin America, Middle East and North Africa, North America, Oceania, South and South East Asia, and sub-Saharan Africa. However, the survey of the Middle East and North Africa region could not be completed, due to the limited availability of and access to information pertaining to business ethics (Rossouw & Stükelberger, 2012: 394).

The report found evidence of growth in terms of teaching, training and research in the field of business ethics in the remaining eight regions identified (Rossouw & Stükelberger, 2012: 394). It also found that business ethics is fairly well institutionalised in at least some of the countries in each region, with the exception of Central Asia, where the development of business ethics in terms of training, teaching and research was described as rudimentary.

Both in terms of training (which refers to business ethics training programmes) and teaching (which refers to tertiary education on undergraduate and post-graduate level) all eight regions revealed a strong focus on governance, the management of ethics within an organisation and responsible corporate citizenship, with less focus on ethical dilemmas, decision making and the theories behind business ethics (Rossouw & Stükelberger, 2012: 386). In terms of research evidence suggest that the Northern hemisphere dominates, but that the Southern hemisphere is improving in terms of business ethics research, especially

with the emergence of journals of publication which are stimulating academic research (Rossouw & Stükelberger, 2012: 395).

In the South African context the report (Rossouw & Stükelberger, 2012: 169-176) indicated that training follows the global trend, with the majority of the training programmes focused on organisational ethics (such as managing and developing ethics) and good corporate citizenship. In terms of teaching, a distinction should be made between undergraduate and post-graduate teaching. The report indicates that business ethics modules at undergraduate level are more evenly balanced between ethics, business ethics and applied ethics. At post-graduate level it found less focus on business ethics and especially on the theory behind ethics, raising concern about future business ethics research. In terms of research, South Africa produces the most research in the sub-Saharan region, with the majority of research focused on corporate social responsibility, corporate governance, social business issues and corporate citizenship.

In order to ascertain how ethics is incorporated into managerial training, a quick internet search was conducted in respect of five South African and five international business schools. The purpose of the research was not to provide an exhaustive overview of ethics in managerial training courses, but rather to ascertain to what extent the selected business schools incorporate ethics into their full time Master of Business Administration (MBA) course. The business schools were selected based on the convenience of access to their information.

In South Africa the University of Stellenbosch Business School (USB), the Gordon Institute of Business Science (GIBS) (part of the University of Pretoria), the Graduate School of Business (GSB) (part of the University of Cape Town), the Wits Business School (WBS) and the Potchefstroom Business School (PBS), were identified. The search revealed that three of the five business schools had standalone courses that looked at ethics specifically. The PBS has a course called business law and business ethics (NWU, 2012), USB has a course called business in society (USB, 2012) and WBS has a course called ethics, sustainability and governance (WBS, 2012). GIBS (2012) does not have a course specifically looking at ethics or business ethics, while GSB (2012) indicates that ethics and business ethics are integrated into other subject matter.

Internationally, the Saïd Business School (SBS) (part of Oxford University), Harvard Business School (HBS), University of Cambridge Judge Business School (JBS), the Hong Kong UST Business School (HKUST) and the Indian Institute of Management (IIM), were identified. Three of the five international business schools had standalone courses that looked at ethics. The JBS (2012) has a course called corporate governance and ethics, HKUST (2012) has a course called responsible leadership and ethics and IIM (2012) has a course called managing ethically. The SBS (2012) shows no indication of a course in ethics either as a core course or an elective. The HBS (2012) only has ethics as a course elective.

This indicates that there is no clear guideline for the incorporation of ethics into managerial training courses. While the majority of the business schools (identified above) have standalone courses that look at certain aspects of ethics, others have integrated ethics into other subject matter or provide it as a course elective. While the debate on how to incorporate ethics into training courses continues, Ryan & Bisson (2011: 47-50) contend that ethics should be integrated into other course material in order to make it more practically applicable, but can be presented as a standalone course if the instruction is at the necessary level.

In summary, it seems that training, teaching and research in ethics are on an upward trend globally. This comes amid an increased awareness of ethical issues, reflected in media coverage of a number of public and private sector scandals. Both the question on whether ethics can be taught and the debate on how it should be incorporated into training courses seem to be on-going. However, there is some agreement on the idea that individuals, especially managers, can be sensitised to the practical application of the concepts of ethics, and be taught to incorporate ethics into their decision making. In order to achieve this, ethics should be integrated into training courses in a manner that enables managers to see its practical application in a number of fields and instances.

## **2.7 SUMMARY**

Chapter two provided a literature review of the major concepts that pertain to managerial ethics, such as ethics, business ethics, individual and corporate values, ethical leadership, responsible corporate citizenship and the value of ethical conduct. The overview of ethics globally and in South Africa, indicated an increasing global and local prevalence of ethical misconduct. One of the main reasons put forward for this phenomenon, was the increased pressure on organisations to retain and win business, due to the economic turndown.

The chapter also provided a discussion on certain ethical schools of thought, and a brief look at managerial training in ethics. While indications are that training, teaching and research in ethics are on an upward trend globally, the debate on how ethics should be integrated into training courses seems to be on-going. However, it was argued that managers can be sensitized to the practical application of the concepts of ethics, and be taught to incorporate ethics into their decision making. In order to achieve this, ethics should be integrated into training courses in a manner that enables managers to see its practical application in a number of fields and instances.

Chapter three will constitute the empirical investigation of the research study. The research methodology will be discussed along with a presentation of the findings of the study.

## CHAPTER 3

### EMPIRICAL INVESTIGATION

#### 3.1 INTRODUCTION

In the previous chapter a comprehensive literature review was conducted on some of the major concepts that pertain to managerial ethics. An overview of ethics globally and in South Africa, along with a discussion of certain ethical schools of thought and their theories, was provided. Finally, chapter two provided a brief look at certain issues related to managerial ethics training and ethics training in general.

The following section constitutes the empirical study of the research paper. It contains a comprehensive explanation of the research methodology that was followed in order to complete the empirical study. The findings of the research study will also be presented here, along with additional statistical analysis of the data. A limited discussion of the findings will take place in this section, with a more comprehensive discussion of some of the major findings reserved for chapter four of the research paper.

#### 3.2 RESEARCH METHODOLOGY

##### 3.2.1 Research design

The primary objective of this research study is to analyse certain aspects of managerial ethics in the South African business environment. Therefore, it was decided to follow a quantitative research approach, to enable the researcher to remain objective, survey a diverse group of respondents, and express their opinions numerically (Welman *et al.*, 2005: 8-9).

According to Welman *et al* (2005: 93) a non-experimental research design, in the form of a survey, allows the researcher to measure the casual relationship between a number of variables (such as managerial experience, qualification, training and perceptions on ethics) and is especially useful in research on the business and administrative sciences. Therefore, the research study took the form of a survey that was conducted through a questionnaire. The questionnaire was designed as an opinion poll, in order to extract the opinions of the

respondents on a number of issues (Welman *et al.*, 2005: 100). The research instrument is discussed below.

### **3.2.2 The research instrument**

A questionnaire was developed by the researcher in order to satisfy the specific research objectives of the study (see appendix A for an example of the questionnaire). The questionnaire comprised both closed-ended questions, which the respondents answered by marking the appropriate choice or category; and, open-ended questions used by the researcher to gain better insight into certain key topics. The questionnaire was also divided into three sections, which are discussed below.

#### **Section A: Demographic information**

The purpose of section A was to gather demographic information on the respondents. Information such as gender, managerial experience, highest academic qualification, age group, current managerial studies and management level was gathered.

#### **Section B: The status of ethics**

Section B aimed to determine the current status of ethics in the respondents' organisations. This entailed ascertaining whether the respondents' organisations have ethical codes, if the respondents had recently experienced any ethical transgressions, whether the transgressions were remedied and, if the respondents' organisations have integrated ethical values into their business practices.

#### **Section C: Individual managers' views on ethics**

Section C aimed to determine the individual respondents' (in their role as managers) views on ethics. Information was gathered on the respondents' ethical training, their perception of the importance of ethical behaviour and their perception of the current status of ethics in South Africa.

### **3.2.3 Study population**

In order to measure the opinions of South African business managers on managerial ethics, a group of managers currently furthering their managerial studies at an accredited South

African business school was targeted. This is a purposive non-probability sample, which means that there is a low probability that the sample is representative of the entire population of South African managers (Welman *et al.*, 2005: 67-69). However, the sample may be regarded as representative as the respondents come from a diverse range of industries, managerial experience, age groups, genders, qualifications and geographical areas.

As the objective of the research study relates to issues relevant at managerial level, the selected respondents fall into this particular category. The respondents represent a cross-section of managers from the South African private and public sectors as well as parastatals. The target group comprises undergraduate and post-graduate managers who are currently furthering their career development in management. The undergraduate managers are involved in an executive education programme, while the post-graduate managers are involved in Master of Business Administration (MBA) studies. The respondents also include members from top, middle and lower management.

A total of 108 respondents were asked to complete the questionnaire during one of their lectures. All 108 questionnaires were completed and returned to the researcher, indicating a response rate of 100%.

#### **3.2.4 Gathering of the data**

Questionnaires were distributed among the selected study population during one of the respondents' lectures. The respondents were asked to complete the questionnaires by marking their answers with an "X" in the appropriate box provided, along with completing the open-ended questions. The questionnaires were collected from the participants and statistically analysed in order to make inferences from the information provided.

#### **3.2.5 Confidentiality**

To encourage participation in the research process and to promote open and honest responses the objectives of the research were disclosed and the anonymity of the respondents was assured.

### 3.2.6 Statistical analysis of the data

The data collected was analysed by the North-West University's (NWU) Statistical Consultation Services using SPSS software (SPSS, 2008). The frequency distributions and percentages will be displayed graphically in the form of tables and bar charts.

The relationships between certain variables were tested and are presented in the form of contingency tables below. In these cases the phi or Cramer's V, which measures the practical significance of the relationship between variables (Ellis & Steyn, 2003: 51-53), will be reported and discussed. However, because a non-probability sample was used the p-values will be reported for completeness, but will not be discussed.

It must be noted that two questions (A10 and C11) of the questionnaire will not be discussed. Question A10 was not applicable to all of the respondents and will therefore not be discussed, while question C11 was not answered by a sufficient number of respondents.

## 3.3 FINDINGS OF THE STUDY

### 3.3.1 Section A: Demographic information

#### Gender of respondents

The respondents indicated their gender by selecting a block termed "Male" or "Female" in section A of the questionnaire. The results are presented in Table 3.1.

**Table 3.1: Gender of respondents**

Gender	Frequency	Percentage
Male	73	67.6%
Female	35	32.4%
Total	108	100%

(Source: Own Compilation)

Of the 108 respondents 73 (67.6%) were male and 35 (32.4%) were female. Therefore the majority of the respondents are male and this could possibly lead to the data being more indicative of a male perspective.

### Age group classification of respondents

The purpose of this question was to determine the age distribution of the respondents, and to determine whether their age affected their interpretations of certain key aspects of the questionnaire. The respondents were requested to indicate their age group in one of the predetermined categories. The results of the age group classification are presented in Table 3.2.

**Table 3.2: Age of respondents**

Age group	Frequency	Percentage
20-25	23	21.3%
26-30	20	18.5%
31-35	20	18.5%
36-40	27	25.0%
41-50	14	13.0%
Older than 50	3	2.8%
Missing	1	0.9%
Total	108	100%

(Source: Own Compilation)

According to the questionnaire the majority of the respondents fell in the age group of 36 to 40 (25%). The second biggest group fell between 20 and 25 (21.3%), while the age groups of 26 to 30 and 31 to 35, had an equal number of respondents (18.5%). Therefore, 83.3% of participating respondents are between 20 and 40. Only 13% of the respondents fell in the age group 41 to 50, and only 3 (2.8%) respondents were older than 50. The median age of respondents was between 31 and 35.

All of the respondents are involved in management training. Therefore, the fact that 83.3% of the respondents are between the ages of 20 and 40, and only 15.8% are older than 40, indicates that individuals older than 40 are less likely to partake in management training. This may be due to various reasons, such as a lack of willingness to further their studies after a certain age, or the fact that they have reached their desired managerial level and do not perceive additional training as valuable.

### Respondents' work experience in years

The purpose of this question was to determine the work experience (in years) of the respondents, and to see whether their experience influenced their views and how they answered certain questions. The respondents were asked to indicate their work experience in one of the predetermined categories. The results of the work experience classification are presented in Table 3.3.

**Table 3.3: Work experience of respondents**

Work experience (years)	Frequency	Percentage
0-5	30	27.8%
6-10	29	26.9%
11-15	23	21.3%
16-20	16	14.8%
21-30	9	8.3%
More than 30 years	1	0.9%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents had between 0 and 5 years' working experience (27.8%), while the second biggest group had 6 to 10 years' experience (26.9%). The third largest group (21.3%) had between 11 and 15 years' experience. Therefore, 76% of the participants had between 0 and 15 years' experience. Only 9 respondents (8.3%) had between 21 and 30 years of experience, and only one respondent had more than 30 years of experience.

### Managerial experience of the respondents

The previous question indicated that the majority of the respondents (27.8%) have between 0 and 5 years working experience and that 76% of the respondents have between 0 and 15 years working experience. However, in order to analyse the respondents' understanding of managerial ethics, it is important to also determine their years of managerial experience in order to see how this influences their answers. The respondents were requested to indicate their managerial experience in one of the predetermined categories. The results of the managerial experience classification are presented in Table 3.4.

**Table 3.4: Managerial experience of respondents**

Managerial experience (years)	Frequency	Percentage
0 – 5	67	62%
6 – 10	31	28.7%
11 – 15	7	6.5%
16 – 20	2	1.9%
More than 20 years	0	0%
Missing	1	0.9%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (62%) have 0 to 5 years' managerial experience, while the second biggest group (28.7%) had between 6 and 10 years of managerial experience. Seven (6.5%) of the respondents indicated that they had 11 – 15 years of managerial experience, while only two respondents indicated that they had more than 15 years' managerial experience. No respondents indicated that they had more than 20 years of experience.

A contingency table was developed (see section 3.4 below) in order to measure the relationship between the respondents' managerial experience and their perception of whether virtuous actions pay.

### **Management level**

The purpose of this question was to determine the respondents' distribution across managerial levels. The respondents were asked to indicate their managerial position in one of the predetermined categories. The results of the managerial position classification are presented in Table 3.5

**Table 3.5: Managerial level of respondents**

Managerial position	Frequency	Percentage
First line (supervisors)	34	31.5%
Middle level management	48	44.4%
Top level management	13	12%
Other	10	9.3%
Missing	3	2.8%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (44.4%) indicated that they form part of middle-level management. The second biggest group (31.5%) form part of the first-line officers, while only 12% of the respondents indicated that they form part of top-level management.

Several respondents (9.3%) also indicated that they are involved in other managerial levels. According to some of these respondents their businesses were too small to have different levels of management and they are the overall managers. Others have indicated that they are currently between managerial levels as they are changing jobs. Three respondents did not indicate their managerial position.

The abovementioned indicates that the majority (75.9%) of the findings will be based on the perceptions of middle and lower management.

### **Career orientation**

The purpose of this question was to determine in what field the respondents specialised. The respondents were requested to indicate their career orientation in one of the predetermined categories. The results of the career orientation classification are presented in Table 3.6.

**Table 3.6: Career orientation of respondents**

Career orientation	Frequency	Percentage
Education	13	12%
Marketing	3	2.8%
Production	9	8.3%
Operations	17	15.7%
Finances	21	19.4%
General Management	8	7.4%
Health Care	3	2.8%
Safety	1	0.9%
Human Resources	8	7.4%
Administration	0	0%
Other	13	12%
Missing	12	11.1%
<b>Total</b>	<b>108</b>	<b>100%</b>

(Source: Own Compilation)

The majority of the respondents (19.4%) indicated that they specialise in finances, with the second biggest number (15.7%) of the respondents indicating that they are involved in operations. The third biggest group (12%) are involved in education. If the respondents who are involved in production (8.3%) are added to the respondents who are involved in operations (15.7%), due to the similar nature of both fields, then the majority of the respondents (24%) are involved in this area. None of the respondents indicated that they are involved in administration, while 12 respondents did not complete this question. This indicates that the respondents represent a wide range of professions.

#### **Public sector, private sector or parastatal**

The purpose of this question was to determine whether the respondents worked in the private sector, public sector or for a parastatal (a utility such as Eskom), in order to see whether this affected some of the key questions of the questionnaire. The respondents were requested to indicate in which sector they work by marking the correct block. The results are presented in Table 3.7.

**Table 3.7: Public Sector, Private Sector or Parastatal**

Sector	Frequency	Percentage
Public sector	24	22.2%
Private sector	75	69.4%
Parastatal	9	8.3%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (69.4%) indicated that they work in the private sector, with 22.2% working in the public sector and 8.3% working for a parastatal. This does, to some extent, indicate a perceived lack of willingness from the public sector to enrol managers in management training courses.

## Economic sectors

The following question was aimed at determining the sector in which the respondents work, such as construction or marketing. The respondents were asked to indicate in which industry they work by selecting one of the predetermined categories. The results are presented in Table 3.8.

**Table 3.8: Economic sectors or industries**

Industry	Frequency	Percentage
Agriculture, hunting, forestry & fishing	10	9.3%
Mining & quarrying	8	7.4%
Manufacturing	18	16.7%
Electricity, gas and water	11	10.2%
Construction	4	3.7%
Wholesale & retail trade; Catering & accommodation services	5	4.6%
Transport, storage & communication	4	3.7%
Finance, insurance, real estate & business services	18	16.7%
Community, social & personal services	17	15.7%
Other	12	11.1%
Missing	1	0.9%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents indicated that they worked either in manufacturing (16.7%) or finance, insurance, real estate and business services (16.7%). A further 15.7% of respondents indicated that they worked in community, social and personal services. The respondents who indicated that they are involved in other economic sectors are involved in

education, local government and the health sector. This indicates that the respondents are representative of a wide range of economic industries.

### Highest academic qualification received by respondents

The purpose of the following question was to ascertain the academic background of the respondents and whether it influences their views on management and ethical values. The respondents were asked to indicate their highest qualification by selecting one of the predetermined categories. The results are presented in Table 3.9.

**Table 3.9: Highest qualification of respondents**

Highest qualification	Frequency	Percentage
Matric (Grade 12)	22	20.4%
Post-school certificate	2	1.9%
Post-school diploma	8	7.4%
Post-school higher diploma	2	1.9%
B-Degree	36	33.3%
Post-graduate Honours degree	25	23.1%
Post-graduate Masters degree	8	7.4%
PhD (Doctoral)	0	0%
Other	2	1.9%
Missing	3	2.8%
<b>Total</b>	<b>108</b>	<b>100%</b>

(Source: Own Compilation)

The majority of the respondents (33.3%) have a B-Degree, while 25 respondents (23.1%) have a post-graduate Honours degree. The third highest number of respondents (20.4%) indicated that they have a matric qualification. In order to gain insight into certain groups' opinions about ethics and for ease of reference, the respondents will be divided into undergraduates (31.4%) and post-graduates (63.8%). The undergraduates are involved in an executive education course in management, while the post-graduates are involved in MBA studies.

Three additional contingency tables were developed in order to ascertain — what percentage of undergraduate and post-graduate respondents had received management training on ethics; their respective opinions on whether virtuous actions pay; and, their perception of whether studying ethics makes one more ethical. The findings are presented and discussed in section 3.4 below.

### 3.3.2 Section B: The status of ethics

#### Formal ethical code

The following question asked respondents to indicate whether their organisation had a formal ethical code. The purpose of the question was to determine how many of the respondents' places of work had a formal ethical code. The results are presented in Table 3.10.

**Table 3.10: How many of the respondents' organisations have a formal ethical code?**

Formal ethical code	Frequency	Percentage
Does have a formal code	86	79.6%
Does not have a formal code	14	13%
Don't know	8	7.4%
Total	108	100%

(Source: Own Compilation)

A significant number of respondents (79.6%) indicated that their organisation does have a formal ethical code. Only 13% indicated that their organisation did not have a formal ethical code and 7.4% indicated that they did not know whether such a code existed.

These findings are in line with the findings of section 2.3 that looked at the ethical status in South Africa. According to section 2.3, formal ethical codes and policies are well established in the majority of organisations in South Africa, highlighted by the 79.6% of respondents who indicated that their organisations have formal ethical codes. However, the extent to which they are implemented remains uncertain.

#### Ethical transgressions

The following question aims to determine the number of respondents that experienced an ethical transgression in the last few years. The results are presented in Table 3.11.

**Table 3.11: The number of respondents that experienced ethical transgressions**

Experience ethical transgression	Frequency	Percentage
Yes	57	52.8%
No	48	44.4%
Don't know	3	2.8%
<b>Total</b>	<b>108</b>	<b>100%</b>

(Source: Own Compilation)

According to the statistics more than half (52.8%) of the respondents have experienced ethical transgressions in the past few years, while 48 respondents (44.4%) indicated that they had not experienced any ethical transgressions in the past few years. Three respondents indicated that they were not aware of any such transgression taking place.

Two additional contingency tables were developed, to ascertain firstly whether organisations that have ethical codes are more or less likely to experience ethical transgressions, and secondly, whether organisations that claim to have an ethical value set in place are more or less likely to experience ethical transgressions. The findings are presented and discussed in section 3.4 below.

### Remedial action

The purpose of this question was to determine whether any remedial action was taken to resolve the ethical transgressions referred to above. According to Table 3.12, in 75.5% of the cases where an ethical transgression was experienced, remedial action was taken. This is a positive indication that organisations are willing to resolve ethical transgressions.

**Table 3.12: Was remedial action taken?**

Was remedial action taken?	Frequency	Percentage
Yes	43	75.5%
No	12	21%
Don't know	2	3.5%
<b>Total</b>	<b>57</b>	<b>100%</b>

(Source: Own Compilation)

### Values integrated with revenue generation

The following question was aimed at determining whether the respondents felt that their organisations integrated ethical values with revenue generation. In other words the respondents had to indicate whether their organisation incorporated ethical values while making money. The results of the question are presented in Table 3.13.

**Table 3.13: Values integrated into revenue generation**

Business values integrated with revenue generation	Frequency	Percentage
Yes	83	76.9%
No	13	12%
Don't know	11	10.3%
Missing	1	0.9%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (76.9%) indicated that their organisations did indeed integrate ethical values into the process of making money. Only 12% felt that their organisation did not and 10.3% were unsure whether their organisation had integrated ethical values into their revenue generation process. This is a positive indication that organisations take ethical values into consideration when doing business. However, the extent to which this is done is uncertain.

### **Business has a value set in place**

The purpose of this question was to determine whether the respondents felt that their organisation had a value set in place. The results are presented in Table 3.14.

**Table 3.14: Business has a value set in place**

<b>Business value set in place</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Yes</b>	95	88%
<b>No</b>	4	3.7%
<b>Don't know</b>	8	7.4%
<b>Missing</b>	1	0.9%
<b>Total</b>	108	100%

(Source: Own Compilation)

The majority of the respondents (88%) felt that their organisation did have a value set in place. 3.7 % of the respondents felt that their organisation did not have a value set in place, while 7.4% were unsure whether their organisation had a value set in place. This is a positive indication that organisations have value sets in place, but the extent to which they are implemented is uncertain.

### **3.3.3 Section C: Individual managers' views on ethics**

#### **Ethics officer**

The following question required the respondents to indicate whether their organisation had an ethics officer. The purpose of the question was to determine how many of the respondents' places of work had an ethics officer. It must be noted that the data presented below may be biased due to the varying sizes of the organisations for which the respondents work. Small organisations do not usually have an ethics officer. The results are presented in Table 3.15.

**Table 3.15: Ethics officer**

Does your company have an ethics officer?	Frequency	Percentage
Yes	38	35.2%
No	52	48.1%
Don't know	18	16.7%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (48.1%) indicated that their organisation does not have an ethics officer. Only 35.2% of the respondents indicated that their organisations have an ethics officer, while 16.7% were unsure whether their organisations had an ethics officer.

A contingency table was developed to ascertain whether the organisations that have an ethics code in place also have an ethics officer. The findings are presented and discussed in section 3.4 below.

### Does virtue pay?

This question aimed to determine whether the respondents attached value to ethical conduct or acting virtuously. In other words is there some reward for acting virtuously, such as improved brand awareness for the organisation or a higher salary for the individual. The results are presented in Table 3.16.

**Table 3.16: Does virtue pay?**

Does virtue pay?	Frequency	Percentage
Yes	64	59.3%
No	13	12%
Don't know	28	25.9%
Missing	3	2.8%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (59.3%) indicated that they felt that acting virtuously did indeed pay or was rewarded. However, over a quarter (25.9%) of the respondents did not

know whether acting ethically was rewarded, while 12% indicated that they did not attach value to acting virtuously.

Interestingly, nearly 40% of the respondents did not feel that ethical conduct or acting virtuously pays. In section 2.2.6 above, it was found that ethical conduct did indeed pay, both in terms of reducing the cost associated with ethical conduct (such as legal fees) and in terms of long-range positive returns (through increased customer loyalty). This indicates a lack of understanding by the respondents about the importance and consequences of acting ethically.

Two contingency tables were developed to determine whether managerial experience influenced the respondents' opinion on whether ethics pays, and to measure whether there was a difference in undergraduate and post-graduate perceptions of whether virtuous conduct pays. The results are presented and discussed in section 3.4 below.

### Management training

The purpose of this question was to ascertain what number of respondents received any form of management training on the topic of ethics. The results are presented in Table 3.17.

**Table 3.17: How many respondents received management training on the topic of ethics?**

Did you receive any management training on ethics?	Frequency	Percentage
Yes	62	57.4%
No	39	36.1%
Don't know	7	6.5%
Total	108	100%

(Source: Own Compilation)

The majority of the respondents (57.4%) indicated that they did receive some form of management training on the topic of ethics, while 36.1% indicated that they had not received any management training on ethics, and 6.5% indicated that they were unaware of receiving such training. The fact that only 57.4% of respondents have received management

training on ethics, to some extent indicates a lack of commitment to the creation of more ethical organisations.

### **Type of training received**

A majority of the respondents above (57.4%) indicated that they received management training on ethics. The following question aimed to determine what type of management training the respondents received. The respondents were asked to indicate what type of training they received by selecting one of the predetermined categories. The results of the question are presented in Table 3.18.

**Table 3.18: Type of management training**

Which training did you receive?	Frequency	Percentage
A course elective	17	27.4%
A module on its own	19	30.6%
Integrated into other subject matter	17	27.4%
Other	9	14.5%
<b>Total</b>	<b>62</b>	<b>100%</b>

(Source: Own Compilation)

The majority of the respondents (30.6%), who indicated that they received management training on ethics, specified that their training was a module on its own. An equal number of respondents (27.4%) indicated that they received training on ethics as part of a course elective or as an integrated part of another subject matter. Further, 14.5% of the respondents indicated that they received other forms of management training as specified here.

These findings support the results of section 2.6 above that indicated that both globally and in South Africa there is no clear guideline for the incorporation of ethics into managerial training courses.

## Studying ethics

This question consisted of two parts. The first part aimed to ascertain whether the respondents believed that studying ethics would make them more ethical. The second part of the question was a qualitative section that asked the respondents to motivate their answer. The purpose of the qualitative question was to gain a deeper understanding of why the respondents believed that ethics could be taught or not.

The results of the first part of the question are presented in Table 3.19.

**Table 3.19: Does studying ethics make you more ethical?**

Does studying ethics make you ethical?	Frequency	Percentage
Yes	54	50%
No	42	38.9%
Don't know	11	10.2%
Missing	1	0.9%
Total	108	100%

(Source: Own Compilation)

Only half of the respondents (50%) believed that they could become more ethical by studying ethics. A number of respondents (38.9%) felt that studying ethics would not contribute to them becoming more ethical, while 10.2% indicated that they were unsure whether studying ethics would make them more ethical.

The qualitative part of the question highlighted some interesting rationales for the respondents' views that studying ethics would or would not help them become more ethical. The majority of respondents who felt that ethics could be taught, indicated that studying ethics would increase a manager's awareness of the ethical dilemmas, give them a better understanding of and background to ethical issues, and improve their ability to deal with situations in which ethical issues arose.

Where respondents felt that ethics could not be improved by study, their motivations produced a variety of interesting results. Some respondents felt that ethics was part of a person's character and could not, therefore, be studied. Others felt that a person's lifestyle

and their interactions with others shaped their ethical behaviour. Many respondents also believed that the way you were raised shaped your ethical behaviour and could not, therefore, be studied.

### **Model of management ethics that best describes the organisation**

The purpose of this question was to measure the perception of the respondents about the type of management model that best describes their organisation, in order to see whether the respondents would describe their organisation’s management style as immoral, moral or amoral. The respondents were requested to indicate what type of management model their organisation followed, by selecting one of the predetermined categories. The results are presented in Table 3.20.

**Table 3.20: Management model of the organisation**

Model of management that describes your organisation	Frequency	Percentage
Immoral management	7	6.5%
Moral management	78	72.2%
Amoral management – intentional	4	3.7%
Amoral management – unintentional	11	10.2%
Don’t know	7	6.5%
Missing	1	0.9%
<b>Total</b>	<b>108</b>	<b>100%</b>

(Source: Own Compilation)

The majority of the respondents (72.2%) indicated that they felt that their organisation conformed to high standards of ethical behaviour and, therefore, had a moral management model. A number of respondents (10.2%) felt that their organisation had an unintentional amoral management model, which means they perceive their organisation as careless and casual when it comes to ethical considerations. Other respondents (6.5%) believed that their organisations had an immoral management style, which means they believe their organisation does not take any ethical considerations into account when making a decision

and actively makes unethical choices. Finally, 3.7% of the respondents felt that their organisations' management model was intentionally amoral, meaning that they intentionally did not take ethical considerations into account.

### **Responsibility of ethics in the organisation**

The purpose of this question was to determine who the respondents felt should take responsibility for ethics in their respective organisations. The question was asked in an open-ended form. The majority of the respondents (63.5%) who answered the question indicated that they felt that every single employee was responsible for ethics in the organisation. Other responses indicated that the following people should be held responsible: the Chief Executive Officer (CEO), senior managers, middle managers, supervisors and heads of department.

### **Making moral management actionable**

The purpose of this question was to ascertain who the respondents believed should be responsible for making moral management actionable in the organisation. Should it be made actionable through a specific management level of the organisation, through the employees themselves or via ethics training? The results are presented in Table 3.21.

**Table 3.21: Who should make moral management actionable?**

Who should make moral management actionable?	Frequency	Percentage
Senior management	57	52.8%
Middle management	7	6.5%
Supervisors	4	3.7%
Self-analysis	19	17.6%
Ethics training	6	5.6%
Other	2	1.9%
Missing	13	12%
<b>Total</b>	<b>108</b>	<b>100%</b>

(Source: Own Compilation)

More than half (52.8%) of the respondents felt that it was the responsibility of the senior management of the organisation to make moral management actionable, while only 6.5% indicated that it was the responsibility of middle management and 3.7% felt that it was the responsibility of supervisors. A number of respondents (17.6%) felt that moral management could be made actionable through self-analysis, and 5.6% felt it could be made actionable by training employees.

This indicates that the majority (52.8%) of respondents felt that senior management should take the leading role in developing and implementing ethical codes and culture in their respective organisations.

### **Motivation for acting ethically**

The purpose of this question was to obtain the opinions of individual respondents on what motivated them to act ethically. This question was in the form of an open-ended question, and provided a wide variety of answers. Some of the most recurrent answers indicated that:

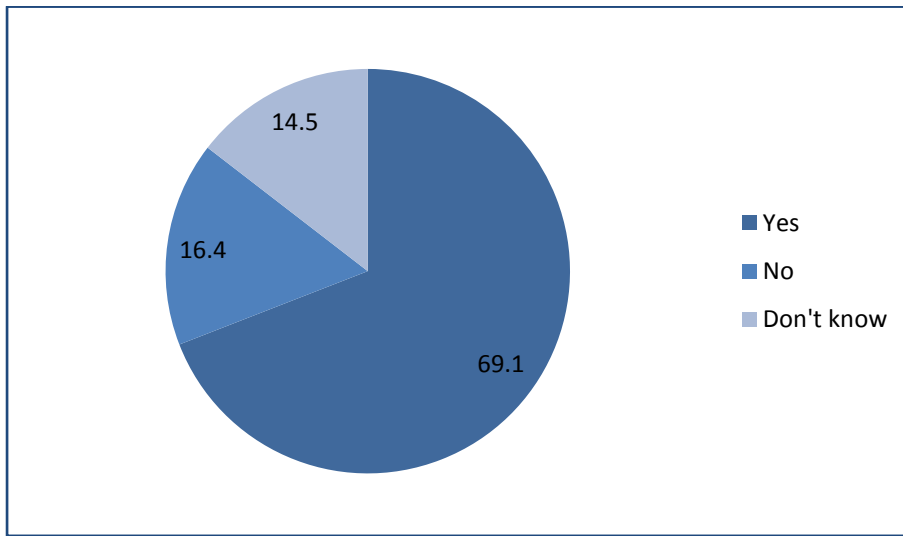
- Personal values play a strong role in the motivation to act ethically.
- Religious convictions also play a strong role as motivation to act ethically.
- A desire to avoid the negative impact of unethical behaviour on their organisations' management and reputation motivated some respondents to act ethically.
- Other respondents were motivated by the notions of equality and fairness.
- Finally, a number of respondents indicated that the way they were raised motivated them to act ethically.

This diverse range of answers indicates that there is no single motivation for acting ethically. This should be taken into account when developing a training course for managers and especially when developing an organisation's corporate values.

### Perception of ethical behaviour

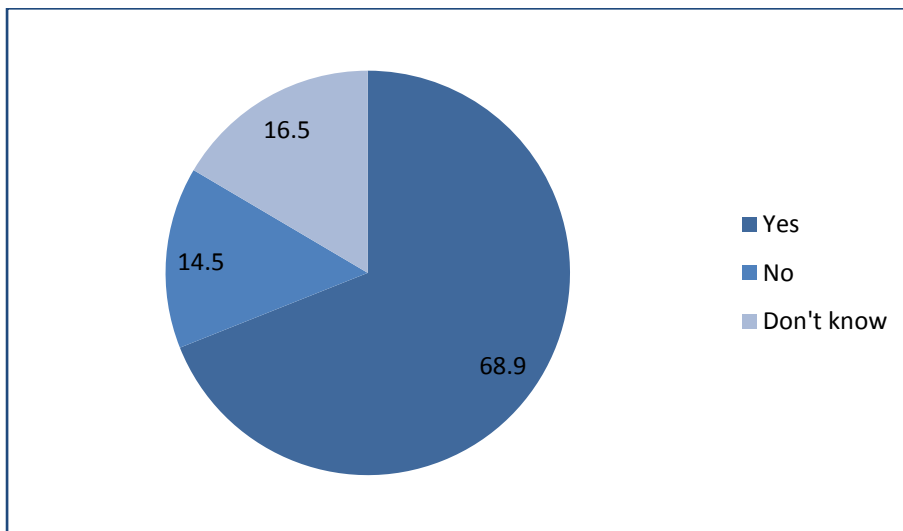
In the following section three questions were asked to ascertain the respondents' perceptions of South Africa's ethical position. The results are presented in figures 3.1, 3.2 and 3.3 below followed by a discussion of the findings (in order to simplify the figures only the valid percentages were used).

**Figure 3.1: Has business ethics really deteriorated?**



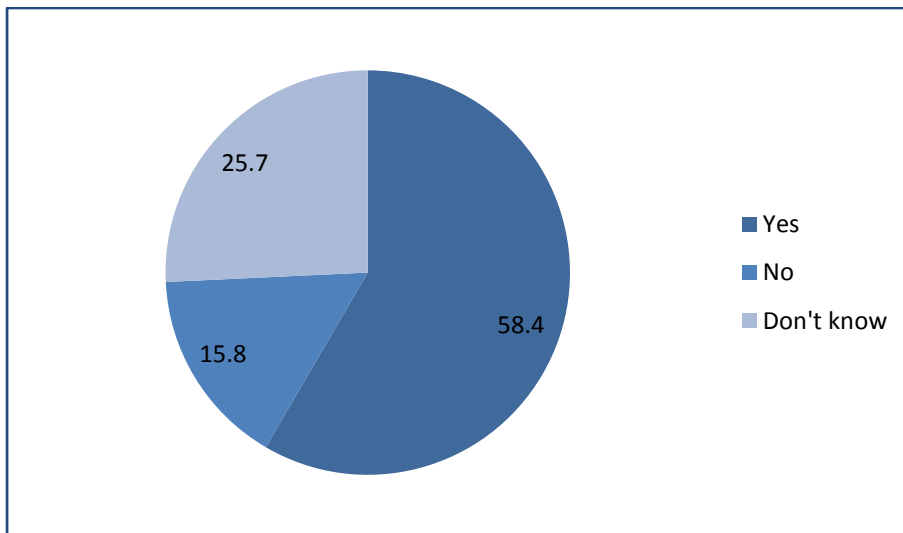
The majority (69.1%) of the respondents indicated that they believe that business ethics in South Africa have deteriorated, while 16.4% indicated that it had not deteriorated and 14.5% are unsure whether business ethics have deteriorated.

**Figure 3.2: Is the media reporting on ethical problems more frequently?**



The majority (68.9%) of the respondents indicated that they believe that the South African media is reporting on ethical misconduct more frequently, while 14.5% indicated that the media is not reporting on ethical misconduct more frequently and 16.5% are unsure whether ethical misconduct is reported on more frequently.

**Figure 3.3: Are socially acceptable practices changing?**



The majority (58.4%) of the respondents indicated that they believe that socially acceptable practices are changing, while 15.8% indicated that socially acceptable practices are not changing and 25.7% are unsure about whether socially acceptable practices are changing.

In summary the majority (69.1%) of the respondents indicated that they felt business ethics was deteriorating and that there are more frequent media reports of ethical misconduct (68.9%). Most respondents also felt that socially accepted practices have changed over time (58.4%). The first two figures, therefore, indicate a perception among the respondents that the ethical situation in South Africa is deteriorating.

### 3.4 FURTHER STATISTICAL ANALYSIS

In the previous section the findings of the research study were presented. In the following section a number of additional statistical analyses will be presented and discussed, both in terms of their practical significance and their overall significance.

A number of contingency tables were developed from the findings discussed above, in order to measure the relationship between certain variables. However, only those that proved to be practically significant, or significant in other respects, are discussed below.

#### 3.4.1 The relationship between managerial experience and perceptions of whether virtue pays

A contingency table (see Table 3.22 below) measuring the relationship between managerial experience and the perception of the respondents on whether virtue pays, was developed. The phi coefficient of 0.314 indicates that a practical visible association or medium effect between the variables does exist (the p-value is 0.006).

**Table 3.22: Managerial experience versus whether virtue pays**

Managerial experience	Does virtue pay?		
	Yes	No/Don't know	Total
0-5	50%	50%	100%
6-10	82.8%	17.2%	100%
11 and above	77.8%	22.2%	100%
<b>Total</b>	61.5%	38.5%	100%

(Source: Own Compilation)

Table 3.24 reveals that managers with 6 to 10 years' experience and managers with more than 11 years' experience, are more inclined to attach value to acting virtuously. In the 6 to 10 years group 82.8% indicated that virtue pays, and in the 11 and above group 77.8% of the respondents indicated that virtue pays. Interestingly only 50% of the managers with between 0 and 5 years' experience (62% of the respondents fall in this group) indicated that acting virtuously pays. Therefore, respondents with more managerial experience are more inclined to perceive virtuous conduct as valuable.

### 3.4.2 The number of undergraduate and post-graduate respondents that have had management training

A contingency table (see Table 3.23) was developed in order to see what percentage of the undergraduate and post-graduate students have had management training on ethics. The phi coefficient of 0.361 indicates that a practical visible association or medium effect exists between the two variables (the p-value is 0).

**Table 3.23: Number of undergraduates and post-graduates that have received management training on ethics**

Qualifications	Received management training on ethics		
	Yes	No/Don't know	Total
Undergraduate	32.4%	67.6%	100%
Post-graduate	70.4%	29.6%	100%
<b>Total</b>	58.1%	41.9%	100%

(Source: Own Compilation)

The relationship indicates that only 32.4% of the undergraduate respondents have received management training on ethics, while the majority (70.4%) of the post-graduates indicated that they have received management training on ethics. This indicates that undergraduates have less contact with ethical studies than post-graduate students.

### 3.4.3 The relationship between level of qualification and the perception of whether virtue pays

A contingency table (see Table 3.24) was developed in order to ascertain whether a difference existed between the perceptions of the undergraduate and post-graduate respondents on whether virtuous action pays. The phi coefficient of 0.5 (rounded up from 0.496) indicates that there is a practically significant or large effect (the p-value is 0).

**Table 3.24: Qualification versus whether virtue pays**

Qualifications	Does virtue pay?		
	Yes	No/Don't know	Total
Undergraduate (execute education)	25%	75%	100%
Post-graduate (MBA)	77.1%	22.9%	100%
<b>Total</b>	60.8%	39.2%	100%

(Source: Own Compilation)

As Table 3.24 indicates, at the undergraduate level the majority of the respondents (75%) believe that virtue does not pay, while the majority (77.1%) of the post-graduate respondents believe that virtue pays. Taking into account that a greater number of post-graduate respondents have had more management training on ethics, this could be indicative of the fact that the training sensitised them to the value of making an ethical decision.

### 3.4.4 The relationship between the level of qualification and the perception of whether ethics can be taught

A contingency table (see Table 3.25) was developed to measure the perceptions of undergraduate and post-graduate respondents, on whether ethics can be taught. The phi coefficient of 0.233 does not indicate a practical significant association between the variables (The p-value is 0.018).

**Table 3.25: Qualification versus whether ethics can be taught**

Qualifications	Can ethics be taught?		
	Yes	No/Don't know	Total
Undergraduate	67.6%	32.4%	100%
Post-graduate (MBA)	42.9%	57.1%	100%
<b>Total</b>	51.0%	49.0%	100%

(Source: Own Compilation)

While the phi coefficient does not indicate a practical significant association between the variables, it should be noted that the majority (67.6%) of the undergraduates believe that studying ethics will make them more ethical, while the majority (57.1%) of the post-graduate students did not. This is interesting in light of the fact that the majority (70.4%) of the post-graduate respondents did receive management training on ethics, while the majority (67.6%) of the undergraduate respondents did not. This suggests that those who have had management training on ethics are less likely to agree that ethics can be taught.

### 3.4.5 The possibility of an ethical transgression taking place in an organisation that has an ethics code

A contingency table (see Table 3.26) was developed to ascertain whether organisations that have ethics codes are more or less likely to experience ethical transgressions. The phi coefficient of 0.028 indicates a practical non-significant association or small effect (the p-value is 0.77). This means that there is a weak relationship between the variables.

**Table 3.26: Possibility of an ethical transgression taking place in organisations with an ethics code**

Ethics code	Have you experienced an ethical transgression?		
	Yes	No/Don't know	Total
Yes	53.5%	46.5%	100%
No/Don't know	50.0%	50.0%	100%
<b>Total</b>	52.8%	47.2%	100%

(Source: Own Compilation)

The fact that the phi coefficient indicates a weak relationship between having an ethics code and experiencing an ethics transgression is, however, in itself significant. As Table 3.26 indicates, in organisations that have an ethics code, 53.5% of the respondents indicated that they had experienced an ethical transgression, while in the organisations that do not have ethics codes 50% of the respondents experienced ethical transgressions. This indicates that having an ethics code does not lead to a significant reduction in the number of ethical transgressions that take place.

### 3.4.6 The possibility of an ethical transgression taking place in an organisation that has a value set in place

A contingency table (see Table 3.27) was developed to ascertain whether organisations that have a value set in place are more or less likely to experience ethical transgressions. The phi coefficient of 0.142 indicates a practical non-significant association or small effect (the p-value is 0.142). This means that there is a weak relationship between having a value set in place and experiencing an ethical transgression.

**Table 3.27: Possibility of an ethical transgression taking place in an organisation that has a value set in place**

Experienced transgression	The business has a value set in place		
	Yes	No/Don't know	Total
Yes	93%	7%	100%
No/Don't know	84%	16%	100%
Total	88.8%	11.2%	100%

(Source: Own Compilation)

The fact that the phi coefficient indicates a weak relationship between having a value set in place and an ethical transgression, is significant. As Table 3.27 indicates both organisations that have a value set in place and those that don't had a high prevalence of ethical transgressions taking place (93% and 84% respectively). Therefore having a value set in place does not lead to a significant reduction in ethical transgressions.

### 3.4.7 The relationship between having a formal ethics code and having an ethics officer

A contingency table (see Table 3.28) was developed to ascertain how many of the organisations that had an ethics code in place also had an ethics officer. The phi coefficient of 0.276 indicates a practical visible association or medium effect (the p-value is 0.004). This means that a medium relationship exists between the variables.

**Table 3.28: Relationship between having a formal ethics code and having an ethics officer**

Ethics code	Does your organisation have an ethics officer?		
	Yes	No/Don't know	Total
Yes	41.9%	58.1%	100%
No/Don't know	9.1%	90.9%	100%
Total	35.2%	64.8%	100%

(Source: Own Compilation)

Table 3.28 indicates organisations that have an ethics code are more likely to also have an ethics officer. However, only 35.2% of the respondents indicated that their organisations have an ethics officer, and of those only 41.9% have both an ethics code and an ethics officer, which calls into question the resolve of organisations to implement their formal ethics codes.

### 3.5 SUMMARY

This chapter constituted the empirical investigation of the research study. A total of 108 respondents were surveyed, using a questionnaire designed specifically to measure the opinions of the respondents and satisfy the research objectives of the study. The empirical investigation (see section 3.3.1 above) confirmed that the respondents who participated in the research study represented a diverse range of industries (the majority are involved in manufacturing, finance and business services), age groups, work experience (76% had between 0 and 15 years of experience), qualifications (33% have a B-degree) and managerial experience (62% have between 0 and 5 years of experience). Therefore, it can be concluded

that while the findings are not necessarily representative of the entire population of South Africa, they do represent the opinions of a diverse group of South African managers.

An overview of all the findings was presented and discussed, along with the further analyses that were developed. In the next chapter conclusions will be drawn from the findings discussed in this chapter and recommendations will be made.

## **CHAPTER 4**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **4.1 INTRODUCTION**

In the previous chapter the findings of the empirical investigation were presented and discussed. The purpose of this chapter is to draw some meaningful conclusions from the literature review conducted in chapter two and the empirical investigation of chapter three.

This chapter will also contain an evaluation of the success of the research study, propose a number of recommendations based on the research results and present some ideas for future research.

#### **4.2 SUMMARY OF THE MAIN RESEARCH FINDINGS**

This section aims to provide a summary of the main research findings in order to satisfy the research objectives of the study.

##### **4.2.1 Deficient implementation of ethics in organisations**

In chapter two the central role of managers in terms of establishing, developing and implementing ethics in their respective organisations was identified. This is especially true in the South African context where legislation and corporate codes of conduct, such as the new Companies Act (72 of 2008) and the King III report (IOD, 2009), place a growing burden on organisations to become responsible corporate citizens and to ensure that their organisations are managed ethically.

To achieve this goal, managers must embrace ethical leadership and develop an ethical culture and values within their respective organisations to support high ethical standards. However, ethical leadership can no longer be confined to the establishment and statement of ethical values, but must be an embodiment of the values of the organisation and the values of the employees, which should be made part of the strategy and vision of the organisation. In short, ethical leaders should “practice what they preach” (Brown & Trevino, 2006: 597).

In section 2.3 a global overview of ethics was provided. In this section it was found that employees had witnessed an increase in ethical conduct breaches in their organisations from 16% in 2008 to 23% in 2011. One of the main reasons put forward for this phenomenon was increased pressure on managers from the owners of organisations to retain business, especially during times of economic downturn. In South Africa (see section 2.4 above) a similar trend was identified in the 12<sup>th</sup> Global Fraud Survey (Ernst & Young, 2012b). The survey indicated that in South Africa, pressure on management to meet revenue targets is undermining management's commitment to comply with policies and law. It also found that the number of South Africans that feel that unethical behaviour should not be used to help a business survive during an economic downturn fell from 64% in 2010 to 36% in 2012. Therefore, it would seem that both globally and in South Africa, commitment to ethical codes and ethical values by management is on the decrease.

The empirical investigation conducted in this research study revealed a number of positive trends in terms of ethics in South Africa. Firstly, 79.6% of the respondents indicated that their organisations have formal ethics codes. Secondly, 88% of the respondents also indicated that their organisations have a value set in place. Thirdly, 76.9% of respondents indicated that their organisations integrate values into their revenue generation process. Finally, 72.2% of respondents indicated that their organisations conform to high standards of ethical behaviour and that, therefore, their organisations have a moral management model in place (see section 3.3.3 above).

On the face of it the statistics mentioned above indicate a healthy ethical situation in the majority of the respondents' organisations. However, on further investigation it seems that while formal policies and codes are in place, the implementation of these policies is lacking. According to the South African Corporate Ethics Indicator (SACEI) report (Punt et al., 2010: ix)(also see section 2.4), the ethical policy frameworks of South African organisations are well established but formal ethics management is poorly established. This suggests that while South African companies do comply with the laws and guidelines provided by government to the extent to which they are obliged, the actual implementation of ethics management is lacking.

The empirical investigation in chapter 3 identified a similar trend. The research study revealed that despite the fact that the majority of the organisations have a formal ethics code and a value set in place, the bulk (52.8%) of the respondents still experienced ethical transgressions. Also worrying is that only 35.2% of respondents indicated that their organisation has an ethics officer, and of the organisations that have a formal ethics code only 41.9% had an ethics officer, pointing to a lack of commitment from the organisations to implement their ethics codes via an ethics officer. On the positive side, in 75.5% of the cases where an ethical transgression took place remedial action was taken.

An analysis was conducted of the relationship between the existence of an ethics code and the likelihood of experiencing an ethical transgression, and the relationship between having a value set in place (an established set of corporate values to help guide ethical decision making) and experiencing an ethical transgression (see section 3.4.5 and 3.4.6 above). The analysis revealed the following:

- Firstly, there is no practical significant association between having an ethics code in place and experiencing an ethical transgression (see section 3.4.5 above).
- Secondly, there is no practical significant association between having a value set in place and experiencing an ethical transgression (see section 3.4.6 above).

The results indicate that the existence of a formal ethics code or a value set does not lead to a significant reduction in the number of ethical transgressions that occur. Further, both these findings indicate a failure on the part of management to implement ethics codes in their respective organisations. Therefore, it seems that in South Africa the management and implementation of ethics in organisations remains problematic.

One of the primary reasons for the lack of commitment from management was identified as pressure on managers to meet revenue targets, especially in times of economic downturn. However, this implies that the managers do not fully comprehend the business value of ethical conduct and developing their organisation into a responsible corporate citizen.

#### **4.2.2 The value of ethics management**

In section 2.2.6 it was established that ethical or virtuous conduct leads to reward for the organisation. The payment or reward emanates from savings generated by the avoidance of

costs associated with ethical misconduct (such as fines, legal action and reputational damage), and through improved financial performance due to a strong ethical identity and positive public image as well as the improved productivity of employees.

The empirical investigation of this research study revealed divergent opinions among the respondents (who are all involved in management) on whether ethical or virtuous conduct pays. According to section 3.3.2 only 59.3% of the respondents agreed that virtuous conduct pays, while 12% held the contrary view and 25.9% were unsure whether ethical conduct pays. In itself, this is an alarming statistic — if managers cannot perceive the value of ethical conduct they cannot develop into ethical leaders who fully implement their organisations' ethics codes.

Two additional analyses were conducted on the issue of whether virtue pays (see sections 3.4.4 and 3.4.6 above). The first revealed that there was a discernible relationship between the managerial experience of the respondents (in years) and their perception of whether virtue pays. The more experienced managers were, the more inclined they were to recognise the value of ethical conduct. This phenomenon could probably be attributed to the practical experience of the managers, and their first-hand involvement in situations where ethical misconduct took place. This illustrates that managers with real world experience in the application of ethics in the workplace have a greater understanding of the importance and value of ethical conduct.

The second analysis revealed a practically significant or large effect between the respondents' level of education and their perception of whether virtue pays. Only 25% of the undergraduate respondents (of which 65% only have a matric qualification and 23% have a post-school diploma) indicated that they were of the opinion that virtue pays. Of the post-graduate respondents (of which 52% have a B-Degree) 75% recognised the importance of virtuous conduct. This illustrates that respondents with higher qualifications were more likely to acknowledge the importance of ethical conduct.

Both these analyses provide valuable additional insight into managerial ethics. The first is that managers require practical examples to enhance their understanding of the importance of ethical conduct; consequently, this could be achieved through training or sensitisation of managers to the real world application of ethics. The second is that the focus placed on

ethics by tertiary institutions has supported individuals in developing their awareness of the value of ethics. However, to what extent this has helped individuals in the application thereof is uncertain. In the next section training in management ethics will be discussed.

#### **4.2.3 Training in managerial ethics**

In the previous two sections it was highlighted that despite the development of ethics codes by a number of organisations the implementation of ethics by management remains deficient and a high number of managers do not comprehend the value of ethical conduct. One of the ways in which managers could be sensitised to the importance of ethics and given the necessary background and practical experience to fulfil their role as ethical leaders is through training.

In section 2.6 an overview of some of the issues in managerial ethics training and ethics training in general was provided. It was found that, as a result of the spate of ethical transgressions globally there has been a renewed focus on ethics training, especially in business schools. The Global Survey on Business Ethics in Teaching, Training and Research (see section 2.6 above) indicated that there has been an increase in teaching, training and research globally, with a strong focus on governance, the management of ethics and corporate citizenship. In the South African context, the report indicated a similar focus on organisational ethics (such as the development and management of ethics codes) as well as responsible corporate citizenship.

However, the scandals also called into question current methods of training, and in fact whether ethics can be taught at all, due to the fact that a number of business schools already provided ethics teachings as part of their curriculum — the existence of managerial ethics appeared to have no discernible preventative impact on misconduct. An internet search of five South African business schools and five international business schools revealed that there is no clear guideline for the incorporation of ethics into managerial training courses. Some of the business schools provided a stand-alone course on ethics, while others integrated ethics into other subject matter or alternatively provided it as a course elective. The empirical investigation delivered the same result, namely that the respondents indicated an almost equal split between receiving management training on ethics as a course elective (27.4%), as a module on its own (30.6%) or integrated into other

subject matter (27.4%). This indicates variance in the understanding of how best to train managers in ethics, because no single method seems to be preferred. However, Ryan & Bisson (2011: 47-50) argue that ethics training should be integrated into other course material in order to make it more practically applicable.

On the question of whether ethics can be taught, some argue that ethics has no place in formal education as ethical development occurs over time and is influenced by a number of factors such as religion, the individual's upbringing and work experience (see section 2.6). However, the literature review also indicated that ethics training can provide individuals with the necessary background, models, approaches and examples to assist managers in implementing ethics in their respective organisations. This suggests that while an individual's values cannot be prescribed, managerial ethics training can provide individual managers with the necessary practical knowledge and background to improve their application of ethics in the business environment.

The findings of the empirical investigation revealed that 50% of the respondents believed that studying ethics would enhance ethical behaviour, while 38.9% did not and 10.2% expressed uncertainty. Those respondents who supported the fact that ethics could be taught indicated that studying ethics would increase their awareness of ethical issues and improve their ability to handle situations where ethical issues arose. This finding is in line with that of the literature review and indicates that managers do not want training on how to be more ethical, but rather training on how to apply ethics in the workplace practically.

An additional finding is that the undergraduate respondents (who have had less exposure to managerial training) are more convinced that ethics can be taught than the post-graduate respondents (who have had more exposure to managerial training) (see section 3.4.4). This points to a lack of guidance on the practical implementation of ethics at management level that nurtures a failure to value the training of managerial ethics. This underscores the need for enhanced practical guidance and training in managerial ethics and its integration into other subject matter.

In a final observation on ethics training, the empirical investigation revealed that only 57.4% of the respondents have been involved in management training on ethics. What is disturbing about this statistic is that if managers are not appropriately trained in ethics they

will be unable to become ethical leaders and will consequently fail to implement the ethics codes of the organisation in order to enhance their organisations' corporate social responsibility. Further analysis revealed that the respondents without tertiary education have had far less training in managerial ethics (see 3.4.2 above). Only 32.4% of the undergraduate students have benefited from managerial training in ethics, while 70.4% of the post-graduate students have had training on managerial ethics. Given the reality of the South African situation, where very few people in the country have a tertiary education, it is clear that not enough is done, at either school level or in internal business training, to educate managers on ethics.

The analysis reveals a perception that ethical standards are deteriorating in South Africa and that media reporting on the issue is on the increase. However, the majority of respondents were of the opinion that their organisations had formal ethics codes in place and adhered to ethical standards in their management and business conduct. This apparent anomaly points to either an error in prevalent perceptions or a lack of awareness and ability to identify unethical behaviour as a result of a deficient understanding of ethics in business.

#### **4.3 STUDY EVALUATION**

In order to evaluate the research study, it must be established whether the research objectives have been met. The primary objective of the research study was to analyse some aspects of managerial ethics in a South African business environment, specifically looking at a group of managers from diverse backgrounds. However, the primary objective was achieved by realising the secondary objectives of the study.

The following secondary objectives were identified:

- Gain an understanding of the main concepts related to business ethics, managerial ethics, individual values, corporate values, ethical leadership and responsible corporate citizenship, by conducting a literature review.
- Obtain insight into the global and South African situation in respect of ethics by means of an analysis of relevant literature and international reports.
- Obtain insight into some aspects of ethics training in management.

- Measure the opinions of a diverse group of managers that are currently furthering their management studies at an accredited South African business school.

The first three secondary research objectives were met in chapter two. The literature review in section 2.2 above helped to cultivate a deeper understanding of the main concepts related to business ethics, managerial ethics, individual values, corporate values, ethical leadership and responsible corporate citizenship. Section 2.3 and 2.4 above, satisfied the second objective, by providing an overview of the ethical situation globally and in South Africa, and section 2.6 highlighted and discussed some of the issues in ethics training in management.

The fourth secondary objective was satisfied in chapter three. A diverse group of respondents currently furthering their studies at an accredited South African business school were surveyed and the results of their opinions were analysed and presented in chapter three.

In section 4.2 the summary of the main research findings drew all the secondary objectives together in order to specifically analyse some aspects of managerial ethics in a South African business environment, thereby satisfying the primary research objective.

#### **4.4 RECOMMENDATIONS**

Based on the research findings, a number of issues were identified. While a favourable and facilitating climate exists for South African organisations to incorporate ethics into their business management models, implementation in the real-world environment at management level remains a notable obstacle.

At organisational level, it is requisite that organisations start bridging the gap between the stated business values and ethics codes and the physical implementation of these guidelines. In the pursuit of this goal it is necessary for the organisation to appoint a champion for adherence to the ethics code. This champion should ideally act as the ethics officer for the organisation, provide ethical leadership and be sufficiently senior to ensure that the ethics codes and values are integrated into the organisation's strategic plans. To ensure efficient and coherent implementation, other senior, middle and lower level managers should be sensitised to the importance and value of ethical conduct and provided

with the tools for practical application in day-to-day decision making. In pursuit of this goal, organisations should develop an in-house management training course on ethics or make use of formal institutions, which will provide management with the necessary background and real-world knowledge.

In terms of management training at tertiary level, especially at business schools, it is recommended that management ethics become a more integrated part of the training courses already in place. The aim of this integration should be to familiarise students with the role of ethics in their diverse range of subjects. For instance, the ethical considerations for marketing (which has a strong customer focus) differ vastly from principles that should be applied to financial management (where issues such as transparency and honest reporting are fundamental). The aim of the integration should also be to provide the students with practical tools for implementation, which could be achieved through incorporating real-world case studies into the subjects.

Finally, given the South African reality, with the limited reach of tertiary education, it is recommended that ethics be treated as a distinct subject or alternatively be integrated at a secondary education level. This could assist in sensitising learners at an early age to the importance of ethics and potentially, in time, nurture more ethical leaders.

#### **4.5 FURTHER RESEARCH**

This study aimed to provide an assessment of some of the issues that relate to managerial ethics within the South African business context. In the course of the research study a number of areas for further research were identified.

Firstly, there should be a continuous and more comprehensive enquiry into the state of South African management ethics. This would enhance the understanding of how managerial ethics in South Africa has evolved. It could also serve to uncover additional shortcomings in the field of managerial ethics, and could potentially assist researchers in finding solutions.

Secondly, it was put forward in this study (see section 4.2.3 above) that ethics should be integrated into other subject matter and be enhanced through more practical implementation methods, particularly in terms of management training where managers

need to understand how best to apply ethical business principles. Further research on how this integration could be achieved and how real-world, practical implementation guidelines could be incorporated will be valuable.

Thirdly, South African business schools should be examined in order to elucidate the extent to which they have incorporated management ethics into their curriculum. The contribution of research performed by these business schools in the field of managerial ethics should also be investigated.

Finally, it is recommended that the curriculum of the secondary education system incorporate ethics to lay the groundwork for the formation of the managers of the future. Further research on how this could be achieved, and to what extent it should be incorporated, should be conducted in order to make this a reality.

#### **4.6 CONCLUSION**

The findings of this research study reveal a number of significant conclusions. While a favourable and facilitating climate exists in South African organisations for the enhancement of ethical business conduct, implementation remains problematic. In the majority of the companies surveyed, ethical codes and value sets are in place. In spite of this enabling structure, implementation of ethical codes by management remains wanting. The primary reason identified for this deficient execution is the growing pressure on managers to meet revenue targets in a challenging economic climate, pointing to a lack of comprehension regarding the business value of ethical conduct. Interestingly enough, the length of managerial experience directly correlates to the value apportioned to ethical business conduct. A similar association exists between the level of academic qualifications and the perceived value of ethical conduct in commercial activities. This apparent deficiency in the level of comprehension illuminates the value of effective training in managerial ethics that underscore and illustrate the potential benefits to revenue generation of an enhanced application of existing ethical codes and value sets through the provision of practical, real world examples to guide implementation.

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## ANNEXURE A: QUESTIONNAIRE

### ANONYMOUS

Please complete the questionnaire as objective as possible. Just tick your answer in the relevant box.

#### Section A: Demographics

(mark with an X)

##### A1. Age in years

20 – 25	1
26 – 30	2
31 – 35	3
36 – 40	4
41 – 50	5
Older than 50	6

##### A2. Gender

Male	1
Female	2

##### A3. Work experience (years)

0 – 5	1
6 – 10	2
11 – 15	3
16 – 20	4
21 – 30	5
More than 30 years	6

A4. Managerial position

First line (supervisors)	1
Middle level	2
Top Management (executive)	3
Other	4

If 'other' please specify: \_\_\_\_\_

A5. Managerial experience (in years)

0 – 5	1
6 – 10	2
11 – 15	3
16 – 20	4
More than 20 years	5

A6. My career-orientation is in the following field of specialization:

Education (training)	1
Marketing	2
Production	3
Operations	4
Finances	5
General Management	6
Health Care	7
Safety	8
Human Resources	9
Administration	10
Other	11

If 'other' please specify: \_\_\_\_\_

A7. I work in:

The public sector (government)	1
Private Sector	2
Parastatal	3

A8. I work in the following economic sector/industry:

Agriculture, hunting, forestry & fishing)	1
Mining & quarrying	2
Manufacturing	3
Electricity, gas & water	4
Construction	5
Wholesale & retail trade; Catering & Accommodation Services	6
Transport, storage & Communication	7
Finance, insurance, Real Estate & Business services	8
Community, Social & Personal Services	9
Other	10

If 'other' please specify: \_\_\_\_\_

\_\_\_\_\_

A9. My highest qualification(s) are:

Matric (Grade 12)	1
Post-school Certificate	2
Post-school Diploma (National)	3
Post-school Higher Diploma	4
B-Degree	5
Post Graduate Honours Degree	6
Post Graduate Masters Degree	7
PhD (Doctoral)	8
Other	10

If 'other' please specify:

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A10. MBA-students: Please indicate whether you are currently a 1<sup>st</sup>, 2<sup>nd</sup>, or 3<sup>rd</sup> phase student:

1 <sup>st</sup> year	1
2 <sup>nd</sup> year	2
3 <sup>rd</sup> year	3

**Section B:**

B1. Does your business have a formal Ethical Code?

Yes	1
No	2
Don't know	3

B2. Did you experience any ethical transgressions over the past number of years?

Yes	1
No	2
Don't know	3

B3. If your answer in B2 is 'yes', Did the organisation/company take any remedial action regarding unethical behaviour:

Yes	1
No	2
Don't know	3

B4. My/our business has a value set that integrates the notion of making money with values:

Yes	1
No	2
Don't know	3

B5. My/our business has a value set in place:

Yes	1
No	2
Don't know	3

### Section C

C1. Is someone in your organization appointed as an ethical officer?

Yes	1
No	2
Don't know	3

C2. Does virtue pay?

Yes	1
No	2
Don't know	3

C3. Did you receive any management training on the topics of ethics?

Yes	1
No	2
Don't know	3

C4. If 'yes' in question 3, then, which of the following approaches was followed during the training?

A coarse elective	1
A module on its own	2
Integrated in our other subject matter like finances	3
Other	4

If 'other' please explain here:

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C5. Will studying ethics make you more ethical?

Yes	1
No	2
Don't know	3

Motivate your answer:

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C6. Choose a model of management ethics that best describe your organization:

Immoral Management – A style devoid of ethical principles and active opposition to what is ethical	1
Moral Management – Conforms to high standards of ethical behaviour	2
Amoral Management – <i>intentional – does not consider ethical factors</i>	3
Amoral Management – <i>Unintentional</i> – casual or careless about ethical considerations in business	4
Don't know	5

C7. Who should be responsible for ethics in your organization?

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C8. Who should make Moral Management Actionable?

Senior management	1
Middle management	2
Supervisors	3
Self-analysis	4
Ethics training	5
Other	

If 'other' please explain here:

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C9. What is your motivation for acting ethically?

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C10. Answer the following 3 questions:

	Yes	No	Don't know
Has business ethics really deteriorated			
Are the media reporting ethical problems more frequently and vigorously?			
Are practices that once were socially acceptable no longer socially acceptable?			

C11. Choose the one which you think is correct (B=Benefits of a decision; C=Costs of a decision):

When the Benefits and Costs of an Action to Whomsoever they Accrue are:	Then, the Action is Ethical	Action is Unethical
$B_1 + B_2 + B_3 + \dots B_n > C_1 + C_2 + C_3 + \dots C_n$	(a)	(b)
$B_1 + B_2 + B_3 + \dots B_n, C_1 + C_2 + C_3 + \dots C_n$	(a)	(b)

Thank you !

The Researcher