

AN ETHICS MODEL TO CREATE AND SUSTAIN AN ETHICAL ORGANISATIONAL CULTURE

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INTRODUCTION

- The Eastern Cape province struggles with corruption.
- This impacts negatively on the general business environment of the Province.
- Corruption issues, fraud and a general low level of business ethics in an economy, spreading from firm-level (private sector) to government-level (public sector) will have severe negative externalities on the structure, conduct and performance of the provincial and ultimately the national economy.

- The role of HR department in creating an ethical organisation.
- A proposed model for the establishment and support of an ethical organisation.
- The results of an empirical study which was conducted within the automotive cluster of the Eastern Cape Province will also be discussed.

THE ROLE OF THE HUMAN RESOURCES DEPARTMENT IN CREATING AN ETHICAL ORGANISATION

- Effective HRM contributes to organisational success.
- Traditional activities to introduce a corporate culture.
- Raise awareness about ethical issues in promoting ethical behaviour and disseminating ethical practices.

- Communicate ethical codes, provide ethics training, manage compliance and monitor/enforce the code of ethics.
- The second King Report on Corporate Governance places emphasis on non-financial issues i.e. managing human resources is emphasised.

- The role of the human resource practitioner should be that of the ethical conscience of an organisation.
- The department can participate actively by linking its own programmes and initiatives to the aims of the ethics programme.

CAUTION

- Its critical that ethical leadership originates at the top of the organisation while the human resource department coordinates and implements ethical strategies.
- The human resource department cannot make the culture of the company; it can only guide the culture.
- It does so with the assistance of senior management.

- 83% of respondents claimed that human resource practitioners are taking the most responsibility for ethical leadership and guidance in organisations (Danley).
- A survey by KPMG stated that 78% of respondents believed that the human resource manager was responsible for the ethics function in the organisation.

- The responsibility included the “implementation, monitoring and assurance of ethics initiatives”.

ETHICAL CLIMATE WITHIN AN ORGANISATION IS ESTABLISHED AND REINFORCED BY:

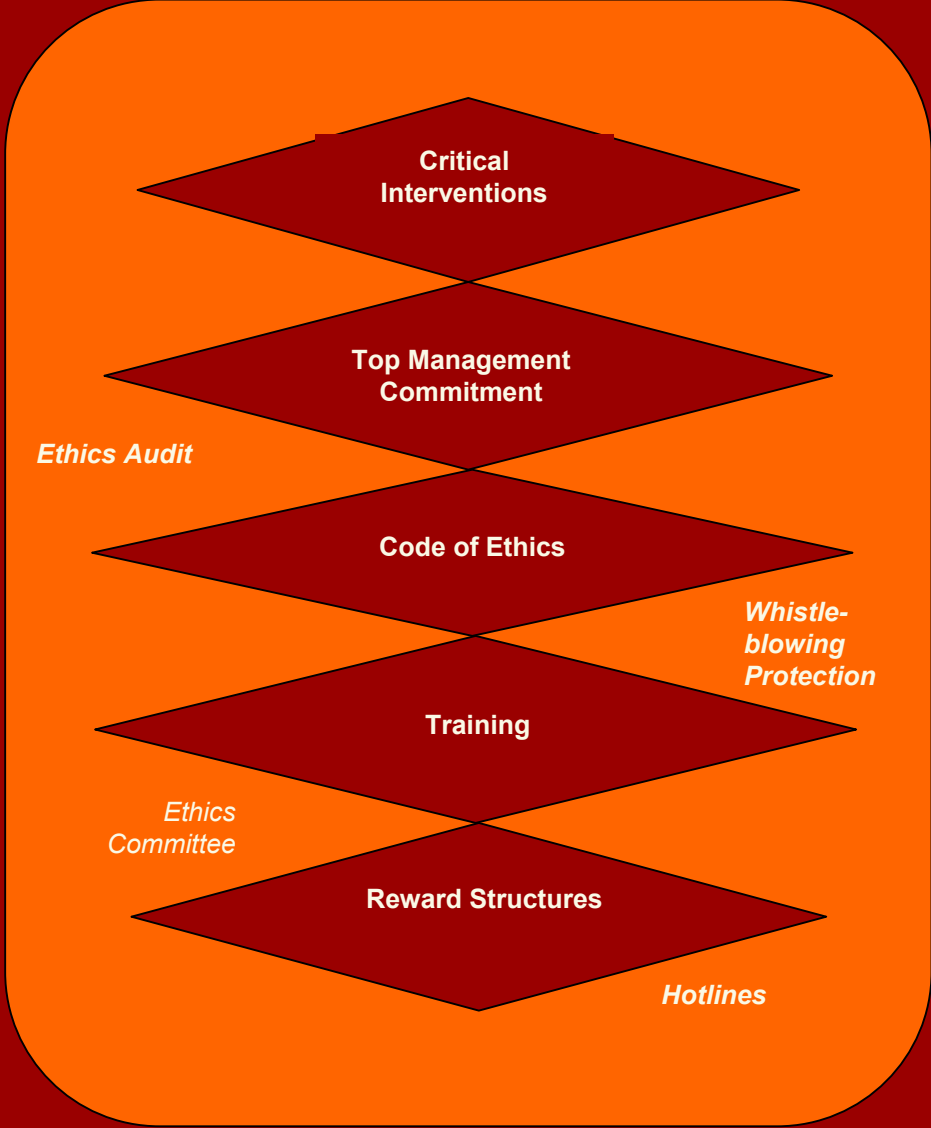
- Developing a comprehensive code of conduct.
- Providing ongoing ethics training.
- Reinforcing and rewarding ethical behaviour.
- Having top management and other role models behaving ethically.

CRITICAL INTERVENTIONS MODEL

- Ensure that the ethical change in the organisation is managed effectively
- Provides logical, practical and uncomplicated guidelines to organisations.
- Distinguishes between critical interventions and optional interventions.

Ethical Organisation

Ethical Culture



Ethical Culture

Ethical Organisation

EMPERICAL STUDY

- Conducted within the automotive cluster in the Eastern Cape Province.
- 58.6% response rate.
- The majority of organisations (54.8%) that responded are classified as functioning in manufacturing automotive components.

ETHICS INTERVENTIONS OFFERED BY THE ORGANISATION

- 97.7% of respondents perceived their organisation to be highly ethical or ethical.
- 74.7% of organizations reported that a code of ethics existed.
- 31.3% of organisations provided staff with training in business ethics.
- A suggestion for further research would be to investigate the type of frequency of training conducted by organisations that are aiming at improving the ethical culture of the organisation.

- 41.2% of respondents reported that their organisations have an ethics officer to whom employees can report misconduct or obtain advice on ethical issues.
- This percentage appears to be high as only 9.4% of the responding organisations appointed an ethics officer to coordinate the ethics function.
- 68.3% of respondents reported that protection exists for individuals who report misconduct in their organisation.

- 72.6% of respondents state that an ethics audit has not been conducted.
- 77.4% stated that rewarding ethical behaviour in the form of promotions or performance bonuses does not transpire.

INTERVENTIONS ADOPTED WITHIN THE ORGANISATION

- 48.2% had implemented a code of ethics.
- 20.7% of organisations have implemented ethics training while 9.8% are in the process of implementing ethics training.
- This finding is consistent with the KPMG study that found that the South African organisations have not focused extensively on ethics training.

- Only 9.8% of respondents state that reward structures that encourage behaviour had been implemented.
- Only 14.6% of organisations had implemented an ethics committee.
- Only 32.9% of respondents stated that their leaders display ethical leadership.
- Very small percentages of respondents indicated that their organisation were currently implementing the various ethical interventions as proposed by the model.

- A lack of seriousness is being displayed by the automotive cluster in the Eastern Cape Province to govern ethically.
- Developing an ethical organization is a core business activity.
- Unless South African organisations enforce some form of ethical interventions, progress in improving the ethical culture of the organization, and ultimately the country, will be limited.

RATING OF INTERVENTIONS

- Top management commitment (73.8% of respondents) and the code of ethics (62.4% of respondents) were viewed as the most essential interventions when attempting to establish an ethical culture within the organisation.

IMPORTANCE OF ETHICAL CULTRURE

- 97% of respondents say its important that an organisation is seen to be operating as an ethical entity.

BENEFITS OF AN ETHICAL CULTURE

- Benefits the shareholder.
- Consistently yields greater profits.
- Respondents indicate:
 - ✓ the financial position (76.5%),
 - ✓ morale of employees (95.3%),
 - ✓ stakeholder perception (93%),
 - ✓ long term strategic sustainability (94.3% of)
 - ✓ social responsibility (85.9%) would improve should the organization exhibit an ethical culture.

SEVERE OBSTACLES TO FOREIGN DIRECT INVESTMENT INTO A COUNTRY OR BUSINESS

- Corruption
- Fraud
- Absence of sound business ethics
- This notion was already documented in the 1700s by Adam Smith
- He believed that the first step towards assuming the economic welfare of nations is good governance.

CONCLUSION

- Corruption and ultimately poor business ethics will lead to institutional failure.
- Shortage of private sector investment in Sub-Saharan Africa has led to lower economic growth rates in the region (Okeahalam and Bah).
- A poor business ethics track record in the private sector will also lead to less foreign and eventual internal investment into businesses.
- This in itself will also lead to economic stagnation and institutional failure.

- Corruption leads to economic inefficiencies.
- Poor business ethics will also lead to economic inefficiencies and ineffective management decisions.
- Fraud, corruption and bribes may reduce transaction costs but will lead to higher transactions cost i.t.o. failure to produce quality returns, timeous reciprocities, etc.

- Private and public sector economic transactions may ultimately lead to capital flight (i.e. disinvestment and di-investment campaigns) away from the target country and business.
- This will be ultimate transaction costs linked to corruption, fraud and a poor business ethics track record in the private and public sector of a business, economy and region.