



SOUTH AFRICAN

**business
ethics
survey**

2019



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South African Business Ethics Survey 2019

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survey at a glance

THE SOUTH AFRICAN BUSINESS ETHICS SURVEY

A survey of **organisational ethical culture** of South African **listed and large organisations**, as experienced by **internal stakeholders**. The survey has been conducted five times in the past.

2002

2009

2013

2016

2019

CORE QUESTION

“What is the 'state of ethics' in corporate South Africa?”

By measuring people's perceptions in the following dimensions:

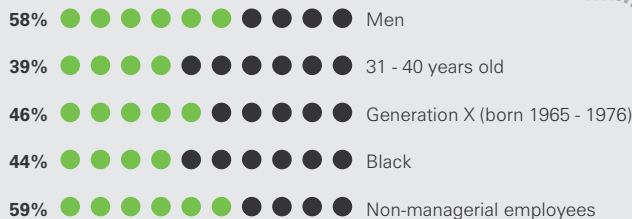
- overall ethical culture
- ethics accountability and responsibility
- senior and middle-management commitment to ethics
- ethical treatment of employees
- ethics talk
- ethics awareness
- tendencies to report misconduct in organisations

New to the
2019
report

...and comparing among **industries, generations, and job levels**.

WHO PARTICIPATED?

Respondents indicated their **gender, age, generation, ethnicity** and **job level**:



2 253 respondents

19 organisations

INSTRUMENT USED



The Ethical Culture Risk Indicator, or
“ECRI”

The instrument uses a hybrid model, drawing on ethical culture and climate theory, and was originally developed by The Ethics Institute.

snapshot of main findings

ETHICAL CULTURE

Low risk <i>Mature ethical culture</i>	75 – 100	
Moderate risk <i>Developing ethical culture</i>	50 – 74	
High risk <i>Underdeveloped ethical culture</i>	25 – 49	
Severe risk <i>Weak ethical culture</i>	0 – 24	

We are here

The overall corporate South Africa Ethical Culture Risk Score is

63 MODERATE RISK 'DEVELOPING' MATURITY

INDUSTRY
Slightly higher perceptions of ethics risk in primary and secondary industries than tertiary (services)

JOB LEVEL
Higher perceptions of ethics culture maturity in senior leaders, compared to less positive perceptions from lower-level staff

GENERATION
Baby boomers and Generation Y (Millennials) most likely to disagree about the maturity of the ethical culture

These are the **top two ethical cultural risks**, as perceived by employees. Note that no severe ethics risks were encountered.

- 1 A lack of the ethics treatment of employees**
- 2 A lack of ethics accountability and responsibility**

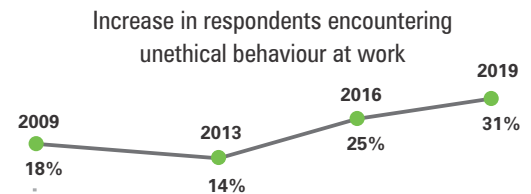
MODERATE RISK 'DEVELOPING' MATURITY

MAJOR FINDING: THE BIGGEST DRIVERS OF ETHICAL CULTURE

Ethics **Accountability and Responsibility**, **Senior Management Commitment to Ethics** and **Middle-Management Commitment to Ethics** account for approximately 53% of the change in overall ethical culture.

53%

REPORTING OF UNETHICAL BEHAVIOUR



Is there more unethical behaviour being observed – why? Refer to page 16 for interpretations.

55% of employees who directly observed unethical behaviour reported it (2016: 48%).

Conversely, **45%** who directly observed unethical behaviour did not report. This is up 11% over the last 10 years.

Fear of victimisation and not believing that anything will be done remain the dominant reasons given.

A Introduction

What is the South African Business Ethics Survey?

The South African Business Ethics Survey (SABES) 2019 is the fifth national business ethics survey that The Ethics Institute has conducted in the private sector in South Africa. In 2002, the first Business Ethics Survey South Africa was published, followed in 2009 by the South African Corporate Ethics Indicator and the South African Business Ethics Survey (SABES) in 2013 and 2016.

In 2019, we surveyed 2 253 employees of 19 listed and large private South African organisations across various industries to identify the general state of ethics in corporate South Africa. The instrument used to measure ethical culture was the *Ethical Culture Risk Indicator (ECRI)* – a standardised and unique instrument developed by The Ethics Institute – which generates a South African benchmark of ethical behaviour for listed and large organisations.

This is the first year that this validated survey is used for the purposes of SABES.

This year, we not only generate findings on overall Ethical Culture, Ethics Accountability and Responsibility of Employees, Management Commitment to Ethics, Ethical Treatment of Employees, Ethics Talk, Ethics Awareness, and tendencies to report misconduct in organisations, but we also compare perceptions thereof among generations, job levels and industries.

B Methodology

1. How did we conduct the survey?

SABES 2019 was conducted through an online survey and, in some instances, telephonic interviews with employees of participating organisations. The sample represents employees from various levels across 19 large and listed organisations operating in the private sector in South Africa. These organisations represent seven broad industries, namely: (1) Banking; (2) Finance, insurance and business services; (3) Information and communications technology; (4) Medical services; (5) Mining; (6) Tourism and hospitality; and (7) Wholesale and retail. The survey was conducted between October 2018 and March 2019. Sampling was conducted in a stratified manner to obtain data from as many organisations as possible, while obtaining representative sub-samples from each individual organisation.

2. What instrument did we use?

The *Ethical Culture Risk Indicator (ECRI)* was used to measure ethical culture in participating organisations. ECRI has been validated in both the public and private sectors, with data gathered from 22 private- and public-sector organisations over several years. The instrument uses a hybrid model of ethical culture and climate, and is theoretically based on ethical culture and climate dimensions proposed by numerous theorists (cf. Cullen et al., 1993; Hunt et al., 1989; Kaptein, 2008, 2009, 2010, 2011; Kish-Gephart et al., 2010; Martin & Cullen, 2006; Treviño et al., 2006; Treviño & Beeghly, 2018; Victor & Cullen, 1987, 1988).

The ECRI has been found to demonstrate good construct validity and meets the criteria for internal consistency reliability of its measurement scales. The instrument asks respondents to indicate the extent to which they agree with a set of statements, from “Strongly Disagree” to “Strongly Agree”. Each statement, or ‘item’, is composed of discrete practices that should be present in an organisation with a mature ethical culture.

The instrument has a total score which is converted to a score out of 100. Higher scores indicate greater agreement by respondents that the specified elements of an ethical culture are present in their organisation, whereas disagreement indicates that these dimensions are absent or lacking. In other words, a higher score indicates lower ethical culture risk and greater ethical culture maturity.

ECRI was developed by The Ethics Institute. For more information on the validation of the ECRI, or any other technical information, please refer to the *Ethics Culture Risk Indicator: Technical Manual (2018)*, which is available on request from The Ethics Institute.

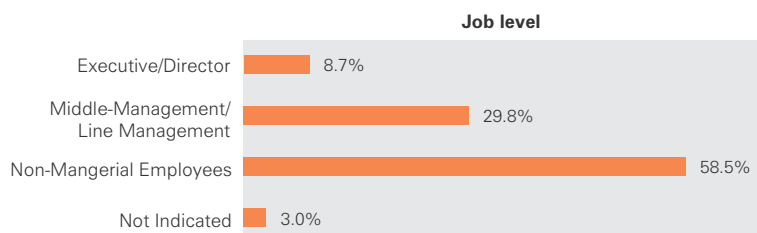
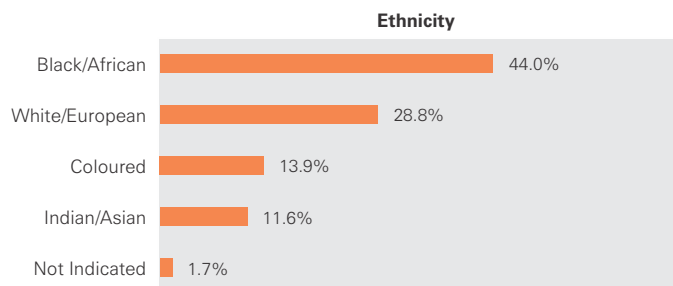
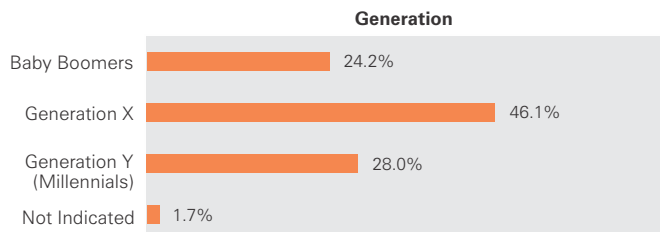
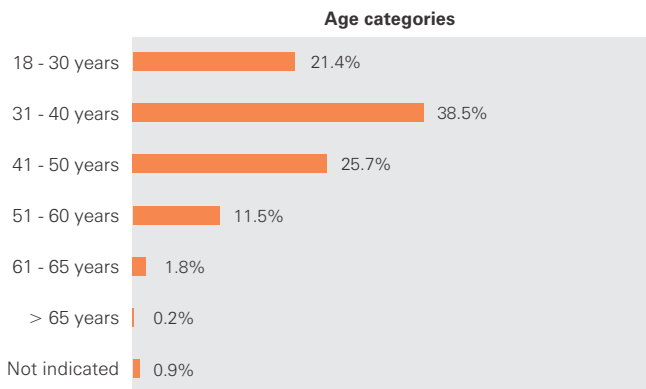
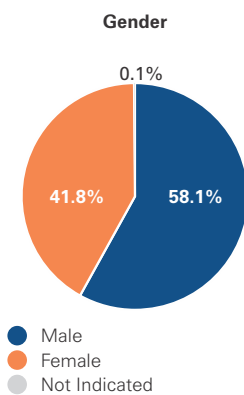


3. Who participated in the survey?

The participants were 2 253 employees of 19 large and listed private organisations in South Africa. Data was stratified and aggregated for reporting purposes. In other words, each organisation was weighted equally during scoring to ensure that sample size differences did not unduly affect results. Approximately two organisations from each of the following seven industries participated: Banking; Investment, finance and insurance; Information and communications technology (ICT); Medical services; Mining; Tourism and hospitality; and Wholesale and retail.

It is important to contextualise the findings using demographic characteristics. The below figures summarise the demographic characteristics of the sample.

Total number of employees participated
= 2 253



C Findings

1. Ethical Culture Total Score

Ethical culture risk exists when ethical values, assumptions, or beliefs are lacking or underdeveloped. An ethical culture is the most powerful driver of likely organisational behaviour and is thus one of the most important variables for determining the state of ethics in an organisation. The table below represents the degree of risk and corresponding ethical maturity associated with different levels of the Ethical Culture Total Score. The ECRI presents overall ethical culture by means of an Ethical Culture Total Score. The Ethical Culture Total Score ranges from zero to 100, with higher scores indicating greater agreement by respondents that the organisation has a mature ethical culture, as based on numerous predictive dimensions.

ETHICAL CULTURE

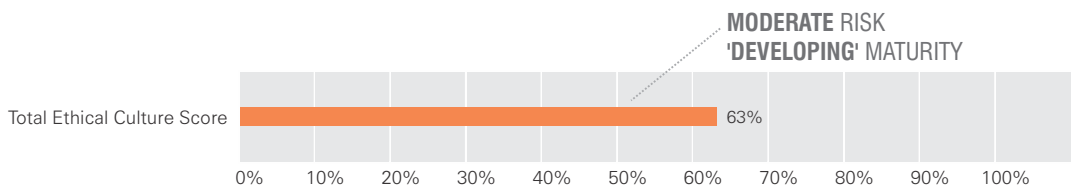
Those elements in an organisation's values, assumptions, and beliefs that support or do not support ethical conduct.



Ethical culture risk descriptor	Score	
Low risk <i>Mature ethical culture</i>	75 – 100	
Moderate risk <i>Developing ethical culture</i>	50 – 74	
High risk <i>Underdeveloped ethical culture</i>	25 – 49	
Severe risk <i>Weak ethical culture</i>	0 – 24	

This table represents the degree of risk and corresponding ethical maturity associated with different levels of the Ethical Culture Total Score.

The index figure below represents the overall Total Ethical Culture Score for all responses across the 19 organisations sampled:

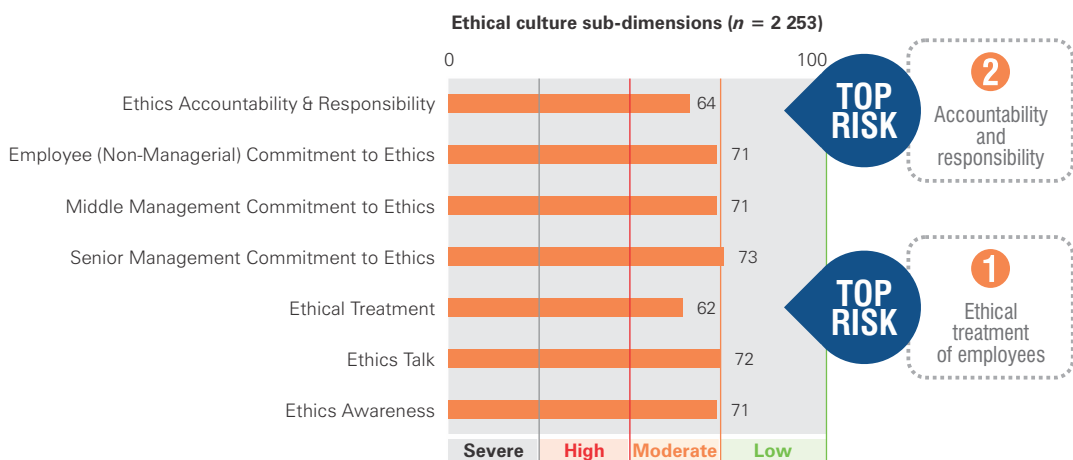


The score indicates that, on average, listed and large private organisations operating in South Africa fall within a moderate ethical culture risk category, with some aspects of an ethical culture present, and others underdeveloped. Additionally, these findings indicate an overall 'developing', but not 'mature', ethical culture. These findings are encouraging insofar as they indicate that organisations are prioritising the building of an ethical culture to some extent, but also demonstrate that more can be done to improve the ethical culture of large and listed organisations in South Africa. Evidently, not all governing bodies are heeding principle two of the Fourth King Report on Corporate Governance for South Africa (IoDSA, 2016), which states that "the governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture."

2. Ethical Culture Sub-Dimensions

There is, of course, more to ethical culture. The ECRI has validated dimensions which are represented by 'clusters' of items that provide a more detailed interpretation of the constituent elements that make up an ethical culture, or are the most predictive of an overall ethical culture. Exploring these 'sub-dimensions' of a mature ethical culture provides valuable insight; this is what we will do in the next few sections.

Each sub-dimension comprises a number of 'positive' statements with which respondents were asked to indicate their level of agreement. Again, higher scores indicate greater agreement that the specific ethical culture dimensions are present, and lower scores indicate the opposite. The scores below represent the average level of agreement with each dimension across the 19 organisations sampled.



The most pertinent ethical culture risks as perceived by employees in corporate South Africa were a lack of ethical treatment of employees, and a lack of ethics accountability and responsibility in organisations.

2.1 Sub-dimension 1: Ethics Accountability and Responsibility

Accountability refers to answerability, liability, blameworthiness and the expectation that employees will take responsibility for their actions, inaction, mistakes and decisions. This dimension encompasses consistent and appropriate sanctions (punishment) for unethical behaviour, and rewards for ethical behaviour. In ethically accountable organisations, there are visible consequences for all levels of employees who break the ethical standards of the organisation, unethical behaviour is dealt with openly and employees feel comfortable to report unethical conduct.

ETHICS ACCOUNTABILITY AND RESPONSIBILITY

The degree to which the organisation consistently holds employees accountable and responsible for their behaviour across all job levels, and effectively rewards ethical conduct or sanctions unethical conduct.



RISK

Lack of accountability → Inconsistency → Doubt and suspicion → Perceptions of unfairness → **Counterproductive and unethical behaviour**

64

MODERATE RISK
'DEVELOPING' MATURITY

Employees reported an average agreement of 64% that Ethics Accountability and Responsibility were present in their organisations.

Of all the sub-dimensions, Ethics Accountability and Responsibility is the most important contributor to an ethical culture (refer to section D for the 'Big Five' drivers of ethical culture on

page 20). The fact that this dimension of culture was rated the second lowest is an indication that governing bodies and other layers of management do not always hold themselves and employees consistently accountable and responsible for their decisions or actions.

2.2 Sub-dimension 2: Employee (Non-Managerial) Commitment to Ethics

Organisational ethical culture is influenced by the degree to which non-managerial employees are committed to ethical conduct and take policies, rules and ethics seriously. Ethical employees are those who make decisions in the best interest of their employer, colleagues and external stakeholders, and who build trusting relationships.

EMPLOYEE COMMITMENT

The degree to which employees (non-managerial) are committed to good and ethical conduct, and take policies, rules and ethics seriously within the organisation.



71

MODERATE RISK
'DEVELOPING' MATURITY

Survey respondents reported an average agreement of 71% that Non-Managerial Employee Commitment to Ethics is present in their organisations.

Given the characteristics of ethical employees, this bodes well for the prevention of corrupt activities. However, findings were not in the low-risk range, and indicate that more can

be done to improve non-managerial commitment to ethics in corporate South Africa.

2.3 Sub-dimension 3: Middle-Management Commitment to Ethics

'Tone-at-the-top' is often viewed as the most important driver of an ethical culture but, especially in large corporations, this can only go so far. Given that they are the direct interface with employees, middle-managers are indispensable to the development and maintenance of an organisation's ethical culture. They are the critical link between the tone-at-the-top and non-managerial employees.

MIDDLE-MANAGEMENT COMMITMENT

The degree to which middle-management (i.e., first line to middle managers) are committed to good ethical conduct; support employees to make better ethical decisions; enforce policies, rules and procedures; and role-model ethical behaviour.



Indeed, middle-managers must take responsibility for promoting ethical behaviour among non-managerial employees, irrespective of whether or not there is ethical leadership from the 'top'. Furthermore, while top management (for example, the Chief Executive Officer) may change every few years, middle-managers tend to make longer-term commitments, and consequently have a longer-term interest in the organisation's fortunes.

71

MODERATE RISK
'DEVELOPING' MATURITY

Employees reported an average agreement of 71% that Middle-Management Commitment to Ethics is present in their organisations. This result is good, insofar as it is indicative that organisational ethical standards are being role-modelled to non-managerial employees by middle-managers. However, as findings

were not in the low-risk range, more can be done to improve middle-management commitment to ethics in corporate South Africa.

2.4 Sub-dimension 4: Senior Management Commitment to Ethics

Senior management commitment is commonly viewed as the single most crucial element for creating an ethical culture, and there is a great deal of truth in this. While our research into ethical culture indicates that, in fact, Ethics Accountability and Responsibility is the biggest driver, there is no denying that without senior management commitment, ethics accountability and responsibility cannot be attained. Senior Management Commitment to Ethics has a huge impact, and is indeed the second-biggest of the 'Big Five' drivers of culture (refer to section D on page 20). Through their behaviour and decisions – not necessarily through their words – senior leadership communicate 'how we do things around here'. Senior management's behaviour should, as far as possible, be beyond reproach, as people imitate the behaviour of role models and look to leaders to legitimise the vision and ethical culture of the organisation.

SENIOR MANAGEMENT COMMITMENT

The degree to which top management (i.e., senior and executive leadership) are committed to good ethical conduct; support employees to make better ethical decisions; enforce policies, rules and procedures; and role-model ethical behaviour.



73

MODERATE RISK
'DEVELOPING' MATURITY

Survey respondents reported an average agreement of 73% that Senior Management Commitment to Ethics is present in their organisations. Consequently, employees tend to perceive senior management as encouraging people to do the right thing, setting a good example of honest and responsible behaviour, believing

that doing the right thing is more important than short-term financial gains, dealing with unethical behaviour effectively and generally taking ethics seriously. This finding is acceptable, but also disappointing. Especially given the degeneration of morality and lack of trust in South African society after the experience of state capture, it would have been better to see a higher level of Senior Management Commitment to Ethics in corporate South Africa.

It is interesting to note that the general perception among all employees was that senior management are quite committed to ethics in corporate South Africa. In comparison, middle-management and non-managerial employees were perceived as slightly less committed. This may indicate that there is a slight reduction in ethical commitment at lower levels, and that this is compensated for by stronger senior management commitment. Additionally, these findings may

indicate that there is a slight disconnect between the ethical commitment of senior management and that of employees at lower levels who might be ethically committed only if senior leadership actively and visibly demonstrates such commitment.

2.5 Sub-dimension 5: Ethical Treatment

Ethical Treatment encompasses a wide range of tangible and intangible elements, from fairly remunerating and recognising employees for their work, to providing employees with safe and healthy working environments. Ethical Treatment also includes the general inclusion of employees in decisions that may impact them, and treating them with courtesy, respect and dignity. When organisations neglect the effect that their actions have on the rights and expectations of employees, this can manifest as job dissatisfaction (Rossouw and van Vuuren, 2017:123). The latter could result in mild to destructive unethical behaviour (for example, theft, overt aggression, bullying, lying, corruption) that could threaten the well-being of the organisation. Indeed, research in the area of counterproductive work behaviour, or CWB, indicates that poor treatment of employees may result in negative affective (emotional) states, which may in turn increase the frequency of CWB, such as interpersonal conflict, theft, unwarranted absenteeism and presenteeism (Spector, Fox, & Domagalski, 2005). Ethical treatment of employees is therefore considered to be one of the most effective methods to reduce unethical conduct and improve employee loyalty and commitment.

ETHICAL TREATMENT

The degree to which the organisation treats its employees with respect, fairness and dignity; and considers employees when making decisions that may affect them.



RISK

Poor treatment → 'Ethical neglect' → Job dissatisfaction → Negative emotional states → **Counterproductive and unethical behaviour**

62

MODERATE RISK
'DEVELOPING' MATURITY

Given the potential consequences of ethical neglect, and the importance of good treatment for employee morale, it is discouraging to observe that employees reported just under two-thirds (62%) agreement that Ethical Treatment is present in their organisations.

This means that a large proportion of employees feel that they are not treated with the respect and dignity they deserve. It is imperative, therefore, that organisations ensure *all* employees across the board are consistently treated in an ethical manner, by respecting their dignity and enhancing trust, personal growth and job satisfaction. The negative moral, reputational and operational implications of not doing so can be dire.

2.6 Sub-dimension 6: Ethics Talk

Ethics Talk, as an antithesis for moral muteness, is an important tool to embed ethics in organisations (Rossouw and van Vuuren, 2017:236). By talking about ethics, organisations create a safe space for employees to discuss ethical dilemmas and scrutinise the ethical dimensions of their decisions and actions. 'Talking the ethics talk' is, however, a dialogue that should be initiated by leadership and management in general. It is a cost-effective method to improve the overall ethical culture of an organisation, as it involves prioritising discussion about ethics in meetings and informal settings. Importantly, it requires an open environment in which employees feel safe to discuss ethical challenges and to bring ethical risks to the attention of their superiors.

ETHICS TALK

The degree to which employees openly talk about and discuss ethics issues in the organisation.



72 MODERATE RISK
'DEVELOPING' MATURITY

Survey respondents reported an average agreement of 72% that Ethics Talk does occur in their organisations. This is encouraging as it indicates that conversations about ethics are considered legitimate in most organisations. However, to embed ethical thinking and to ensure that ethical challenges are dealt with

appropriately, more steps need to be taken to increase ethics talk across organisations. To do so, senior and middle-management will need to create a safe and open environment where employees will feel comfortable to talk about ethics challenges, mistakes and dilemmas. Additionally, it requires management to ensure that ethics becomes part of every meeting and conversation.

2.7 Sub-dimension 7: Ethics Awareness

Having a code of ethics and ethics-related policies does not necessarily mean that employees will comply with the standards espoused therein. Organisations have a responsibility to ensure that their ethical standards are not just words on paper. Through effective and consistent awareness programs, such standards become embedded in the behaviour of employees.

ETHICS AWARENESS

The degree to which employees are familiar with ethics standards; receive ethics training; are familiar with ethics policies (e.g., codes of conduct); and know what is expected of them in terms of ethical behaviour.



71 MODERATE RISK
'DEVELOPING' MATURITY

Survey respondents reported an average agreement of 71% that Ethics Awareness exists in their organisations. This is good, as it indicates that organisations have started to realise that awareness of ethical standards only comes about through active and continuous interventions, and not through posting

policies on, say, the intranet. There is, however, much room for improvement in this regard. It is incumbent on organisations to develop and implement sustainable awareness campaigns that 'market' ethics and keep it 'top of mind' for employees in a consistent, impactful, and sustainable manner.

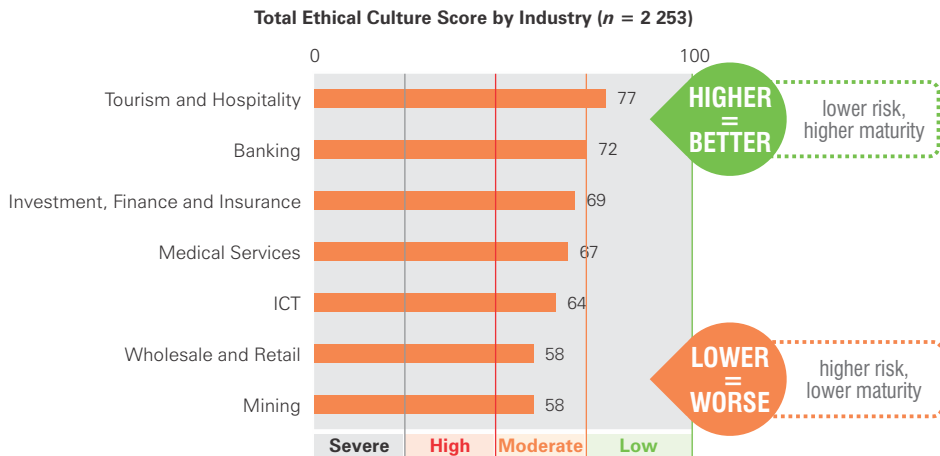
3. Comparing the Ethical Culture Total Score by industry, job level and generation

To dig deeper into these findings, it is useful to analyse the Ethical Culture Total Score by industry, job level and generation. In other words, we asked the question: Do these features have a noteworthy impact on respondents' perceptions of ethics in their organisations? Although numerous differences in the Ethical Culture Total Score can be noted, only some of these are statistically significant, and we indicate which in the following sections. We used a statistical technique referred to as the analysis of variance, or ANOVA, to evaluate whether these differences are significant (for more, see Howell, 2014).

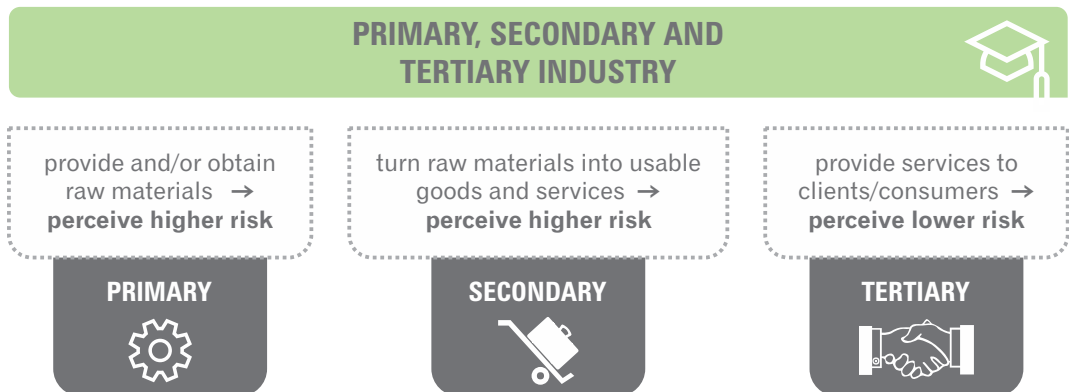
It is important to note that scores in this section are presented from highest (more mature ethical culture, lower ethical culture risk) to lowest (less mature ethical culture, higher ethical culture risk).

3.1 Comparison 1: Industry

The participating organisations were broadly representative of **seven different industries**. Recall that approximately **two organisations per industry** were sampled.



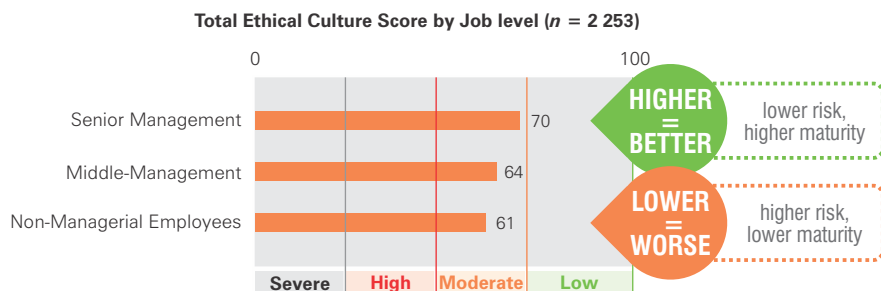
It is interesting to note that 'tertiary' industries appear to have lower ethics risk and more mature ethical cultures than their 'primary' and 'secondary' industry counterparts.



This could be because tertiary industries employ more skilled labour, with many individuals obtaining better salaries, higher relative status, and possibly better (ethical) treatment. Conversely, primary industries tend to have, on average, poorer (more demanding) physical work environments, and to be less 'social' in nature. These industries also tend to employ more unskilled labour, who may not enjoy the same status or treatment as their more skilled counterparts, thus resulting in higher ethical culture risk scores. In addition, more client-facing and high-trust industries (such as hospitality, banking and finance) indicated much higher average ethical culture scores than those who are directly focused on clients (such as production, distribution and mining). These findings indicate that primary and secondary industries may need to focus more on improving their ethical cultures and ethical treatment of employees in order to improve their ethical culture maturity.

3.2 Comparison 2: Job level

Respondents were asked to indicate their job level, choosing between **non-managerial**, **middle-management** and **senior management**.



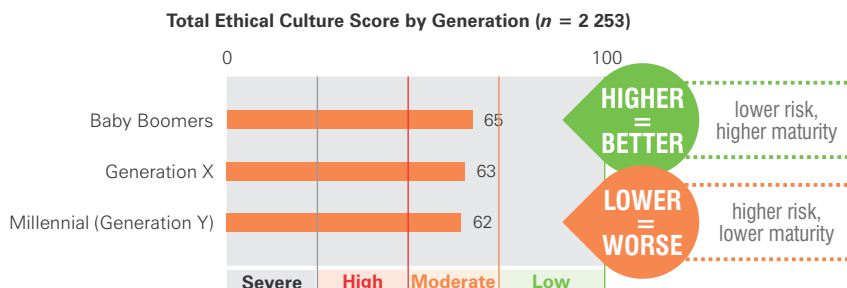
Senior management (70%) perceived a much higher level of ethical culture maturity than middle-management (64%) and non-managerial employees (61%). Statistically significant differences were observed between each category, indicating that there is a considerable difference in the reporting of ethical culture among these job-level categories. In other words, people working in the same organisation can have significantly different perceptions of the very same organisation's ethical culture, depending on their job level.



These findings may indicate a general disconnect in the way that senior leadership view ethical culture, compared to the majority of employees operating at lower levels. Leadership in corporate South Africa are evidently not entirely in touch with, and may be under some illusions about, the overall ethical culture maturity of their organisations.

3.3 Comparison 3: Generation

Respondents were asked to indicate their generation, choosing between **Baby boomer**, **Generation X** and **Millennial (Generation Y)**.



Baby boomers (in other words, those born between 1946 and 1964) perceived a slightly higher average ethical culture maturity compared to Generation X (born between 1965 and 1976) and Millennials (born between 1977 and 1995).

Statistically significant differences were reported between the scores of Baby boomers (65%) and Millennials (62%), whereas no statistically significant differences were reported between Baby boomers and Generation X, or between Generation X and Millennials. Millennials indicated a poorer perception of the overall ethical culture maturity than Baby boomers in the same organisations.

GENERATIONS

Born 1946-1964 →
perceive slightly higher ethics maturity

BABY BOOMER

Significant difference with Millennials

Born 1965-1976 →
perceive slightly lower ethics maturity

GENERATION X

No significant difference with Millennials or Baby boomers

Born 1977-1995 →
perceive slightly lower ethics maturity

MILLENNIALS

Significant difference with Baby boomers

These findings tend to echo the generational research literature, in as much as Baby boomers differ only slightly from Generation X, and Generation X differs only slightly from Millennials (Generation Y). The biggest differences usually occur between Baby boomers and Millennials, as these groups tend to have different values. On a practical note, Millennials currently find themselves at lower job levels (younger employees who still need to climb the corporate ladder), whereas Baby boomers and Generation X are either at the pinnacle of their careers, or close to this point. Differential reporting on ethical culture may therefore be a product of these job-level differences across generations, where Baby boomers enjoy more status and better salaries than their younger counterparts.

4. Observing and reporting misconduct

Survey respondents were asked about the reporting of unethical behaviour within their respective organisations. Because we asked exactly the same questions in previous years (SACEI 2009, SABES 2013, SABES 2016), we are able to compare findings over time.

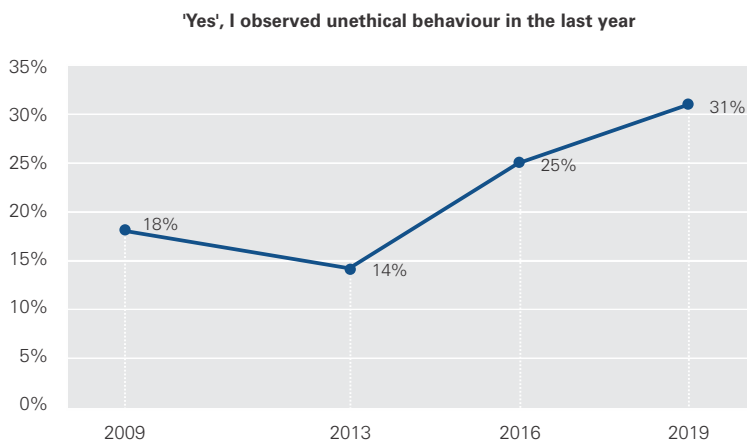
Six hundred and thirty-two (632) employees responded to these questions. We summarise the responses to these questions in the below sections.

4.1 Did employees observe unethical behaviour in the last year?

Respondents were asked whether they had observed unethical behaviour or misconduct in their organisation in the last year, and could choose between 'Yes' or 'No'.



Almost 7 out of 10 employees (69%) responded that they had not encountered any unethical behaviour or misconduct in the last year, whereas about 3 out of 10 employees (31%) indicated that they had. These findings indicate that unethical behaviour is directly observed in corporate South Africa by approximately a third of employees. Comparing with previous years, the following graph illustrates an overall upward trend, with a 13% increase in the last ten years.



These findings should be a warning to organisations. It could be the case that the increase in observation of misconduct relates to greater awareness of what constitutes unethical behaviour, as a result of effective communication, embedded policies and training. This is the more positive interpretation. On the other hand, these findings could indicate that misconduct is indeed on the increase in corporate South Africa; unfortunately, various ethical lapses in private sector organisations are supportive of this interpretation.

4.2 Did employees report the unethical behaviour they observed?

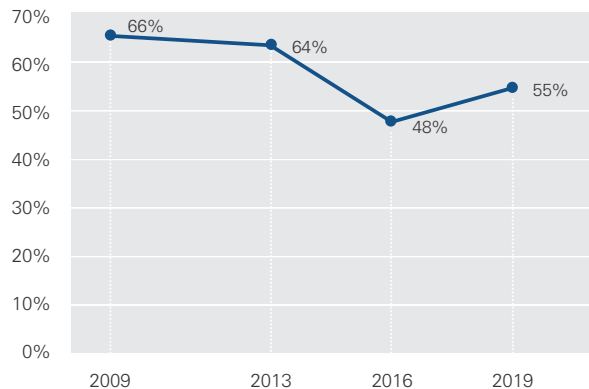
Did you report the unethical behaviour you observed?



Of the 194 employees who indicated that they had encountered unethical behaviour or misconduct in the last year, just less than half (45%) indicated that they did not report it, while 55% did.

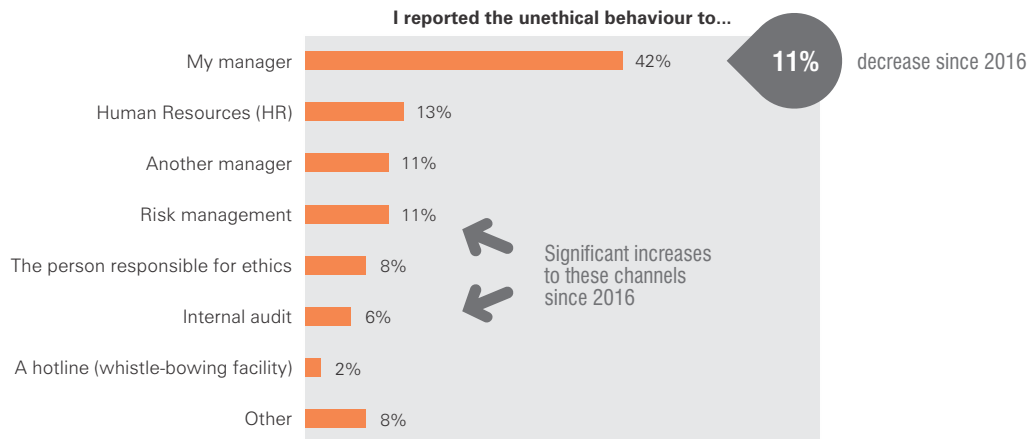
It is encouraging that the percentage of employees who reported misconduct increased by 7% from 2016. This could perhaps be ascribed to an increased sense that reporting misconduct is important. Considering the role that whistle-blowing has played in exposing state capture and other activities in South Africa, this increased awareness is a not unlikely outcome. It could also be that South Africans have become disheartened, or 'fed up', with corruption and unethical conduct in the country, and are therefore more intolerant of these activities in their workplaces. Having said that, it is worrying that just under half (45%) of those who observed unethical behaviour opted to not report it, and that the rate of reporting has decreased by 11% over the last ten years.

'Yes', I reported the unethical behaviour I observed



4.3 To whom did employees report the unethical behaviour?

Respondents who indicated they had reported the misconduct were asked a further question: "to whom?" did they report. The following graph provides a breakdown of the standard reporting 'channels' and indicates how frequently these were used by corporate South Africa's employees in the past year.



Most employees reported to their direct manager (42%), then human resources (13%), followed closely by risk management (11%) and another manager (other than their direct manager) (11%).

Comparing the findings of 2019 with those of 2016, reporting to direct line-managers decreased by 11% (from 53% to 42%), while reporting to internal audit increased from 1% to 6%, and to risk management from 4% to 11%. These are significant increases. A likely explanation is that the ethical failures associated with state capture in South Africa, and the resulting focus on increasing trust through combined assurance, have influenced employees' perceptions of where it would be most appropriate to report unethical behaviour.

Somewhat disheartening is the fact that reporting to the person responsible for ethics management has remained the same since 2013, and reporting to a safe-reporting facility (whistle-blowing hotline) decreased by nearly 5% over the same period. Perhaps corporate South Africa is placing insufficient emphasis on the role of ethics managers and safe-reporting facilities, with the result that employees do not trust them or view them as ineffective. This dimension is explored in more detail in the following section (4.4).

4.4 Reasons for not reporting observed unethical behaviour

Respondents who indicated that they had observed unethical behaviour, but chose *not* to report it, were also asked a further question: "why?". They could choose from a list of possible reasons (refer to the breakdown in the following graph) or to specify an 'other' reason.



Fear of being victimised (32%) was the number one reason given for not reporting observed unethical misconduct, followed closely by not believing anything would be done about it (31%). Jointly, these two reasons accounted for roughly two thirds of the total reasons for not reporting unethical behaviour in corporate South Africa. This is an echo of the 2016 findings, where fear of victimisation (36%) and the belief that the organisation will not act on reports (32%) dominated reasons for keeping quiet.

Approximately 13% of respondents indicated that they did not report observed unethical behaviour because they did not believe they could do so anonymously. It remains worrisome that employees clearly still fear victimisation. Many organisations have implemented strict policies to protect whistle-blowers, but the fact that roughly one third of employees still fears victimisation indicates that such policies are either not taken seriously, that employees are unaware of them, or that they are not enforced. Reports in the media of cases where whistle-blowers have been victimised probably also contribute to the belief that whistle-blowers will be victimised.

Employees' belief that their organisations will not investigate reports of misconduct – recall that a third of respondents felt this way – most likely emanates from either personal experience, or from observing others' experience. It seems, then, that large and listed South African companies are not yet complying with the Protected Disclosures Amendment Act (Act 5 of 2017), which requires that feedback must be provided to reporters about (1) whether their reports will be investigated, and (2) the outcome of investigations. Complying with the Act will significantly decrease employees' belief that their organisation will not act on reports of misconduct.

PROTECTED DISCLOSURES AMENDMENT ACT

The Amendment of 2017 introduced a number of changes to the Protected Disclosures Act (Act 26 of 2000). It provides legal protection to whistle-blowers who disclose in good faith information regarding unlawful or irregular conduct by their employers or fellow employees.



4.5 Reflection: some closing thoughts on the reporting of misconduct

The reporting of misconduct offers organisations the opportunity to respond to transgressions of ethical standards and to implement necessary proactive and reactive measures to prevent recurrence. Organisations that do not address unethical conduct in a timely fashion are more at risk of reputational damage than those organisations who act timeously. So, reporting must and should be recognised as the positive that it is, especially for long-term sustainability.

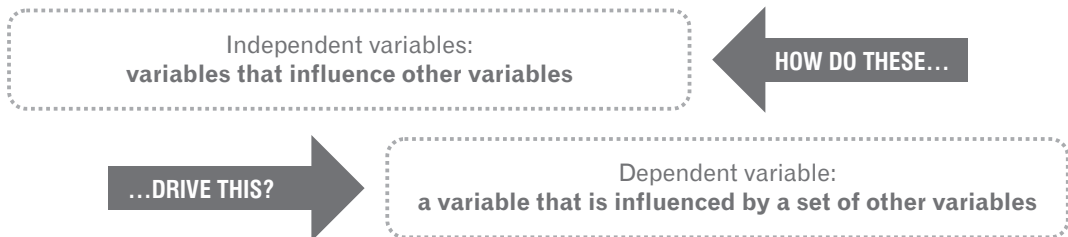
However, the findings of this survey clearly show that employees in the private sector in South Africa are not yet sufficiently comfortable to speak up about unethical conduct. Approximately one-in-three respondents observed misconduct, but only just over half of them reported as much. When organisations do not provide a safe environment for reporting or make good on their promises to follow up on reports, much unethical conduct will continue to go unnoticed. Many corporate scandals, world-wide, could possibly have been prevented if someone in the organisation had reported their observations or knowledge of colleagues', peers', managers' and others' misconduct.

D The 'Big Five' of Ethical Culture Change

1. What are the levers of change?

Organisational culture is complex and has numerous interactive dimensions. Which of these dimensions have the biggest influence on shaping, or driving, *ethical* culture? To answer this important question, a dominance analysis was conducted, using the seven ethical culture dimensions as independent variables and the Total Ethical Culture Score as the dependent variable.

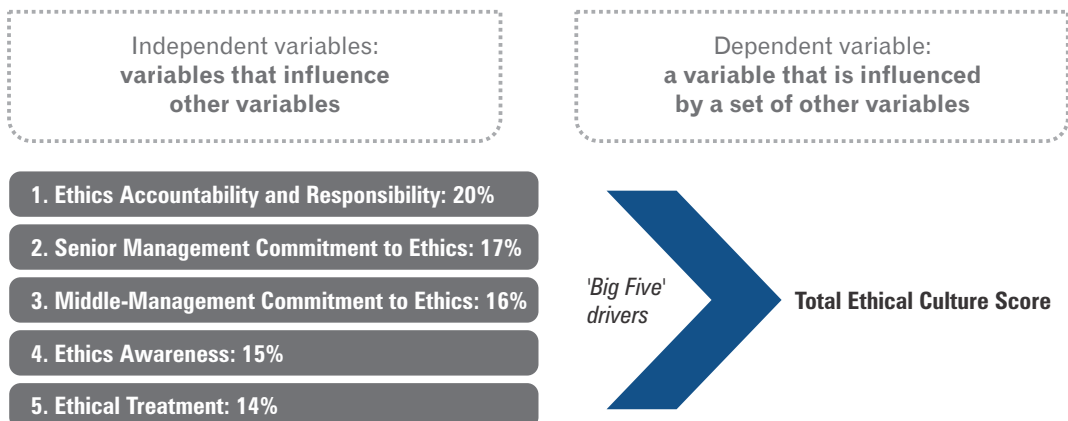
DOMINANCE ANALYSIS



For more on dominance analysis and linear relative importance analysis, please refer to Chevan and Sutherland (1991) and Feldman (2005).



Findings revealed that certain ethical culture sub-dimensions are more important and account for a larger proportion of the variance of overall change in the Total Ethical Culture Score.



Ethics Accountability and Responsibility has the greatest influence on overall ethical culture (20%), followed by Senior Management Commitment to Ethics (17%); Middle-Management Commitment to Ethics (16%); Ethics Awareness (15%) and Ethical Treatment of Employees (14%).

Building an ethical culture is therefore greatly dependant on whether senior leadership are perceived to be committed to doing the right thing, and whether employees are held effectively and consistently accountable for their conduct and decision-making. Having said that, it is interesting to note that Middle-Management Commitment to Ethics is also highly impactful, influencing total ethical culture almost as much as Senior Management Commitment does. Good levels of ethics awareness and treating employees in a way that upholds their dignity are also critical considerations when building an ethical culture.

However, these sub-dimensions are closely interrelated and should not be interpreted in a vacuum. For example, the effectiveness of Ethics Awareness and Ethical Treatment of employees may be greatly reduced if senior and middle-management commitment to ethics is lacking, or if ethics accountability measures are not consistently executed. Or a lack of ethics accountability (in other words, not sanctioning employees fairly and consistently for unethical behaviour) may, for example, be viewed as unfair, and impact perceptions of ethical treatment. Conversely, a lack of ethics awareness may limit the broader impact of ethical behaviour displayed by senior and middle-management, or vastly reduce the effectiveness of accountability measures and their implementation.

2. What should be done to change ethical culture?

2.1 Focus on the drivers-based practical toolkit

The Big Five of Ethical Culture Change is far more than just a *theoretically* useful window into the workings of ethical culture. It also outlines a *practical* toolkit for what South African corporates must focus on to build stronger ethical cultures. This drivers-based guidance is explored in the following sections.

ETHICS ACCOUNTABILITY AND RESPONSIBILITY

1

Implementing accountability measures



Leadership and management should demonstrate their commitment to ethics by actively implementing accountability measures in the organisation. This would involve ensuring that employees are held consistently accountable for their decisions and actions and ensuring that senior management are not seen as being above sanctions for unethical conduct.

SENIOR MANAGEMENT COMMITMENT TO ETHICS

2

Consistently 'walking the walk' and 'talking the talk'



Ethical organisations have credible belief systems and articulated values that serve as the foundation of their strategy and operations. Senior management should continuously be reminded of the role they play in communicating the aforementioned to the organisation's internal and external stakeholders. Commitment to ethics does not consist of an ethics-related message once a year. It consists of senior management consistently, audibly and visibly demonstrating the organisation's values through what they say and what they do, holding people accountable for their decisions and actions, sanctioning unethical behaviour and acknowledging good conduct. It also means that senior managers are willing to invest time and resources in the building of an ethical culture, as opposed to viewing it as an afterthought.

MIDDLE MANAGEMENT COMMITMENT TO ETHICS

3

Engaging middle management



Senior management should actively engage middle management about the role they play in communicating the ethical standards of the organisation to non-managerial employees and the effect that their role-modelling will have on employees' behaviour. Middle management needs to realise that they are the conduit of the ethics message from senior management to non-managerial employees. Tone at the top can effectively stop at middle-management if they are not included in the journey.

ETHICS AWARENESS

4

Continuing with consistent ethics awareness campaigns



Organisations should not become complacent about conducting consistent awareness campaigns and interventions about their ethical standards as espoused in their codes of ethics and ethics-related policies. Being aware of acceptable and unacceptable organisational behaviour enables employees to comply with and embrace the organisational values. In terms of ethical standards, ignorance is not bliss. Given the pressures that many employees might experience from external (socio-economic) sources, it is imperative for organisations to ensure that employees know what to do when faced with pressure, who to ask for advice and where to report unethical conduct.

ETHICAL TREATMENT

5

Rooting out unethical treatment



Employees want to be treated with dignity and respect. They long for fair and just treatment and to be acknowledged for their work. Favouritism, nepotism, poor working conditions, unsafe working environments, and the like, are not conducive to job satisfaction. Corporate South Africa should actively aim at rooting out all aspects of unethical treatment of employees by ensuring that internal policies and relevant legislation are complied with and employees at all levels understand the significance of respect and trustworthiness in enhancing organisational cultures. Treating employees with dignity, consistency and respect may inoculate the organisation against the negative effect of counterproductive work behaviour. Satisfied employees are motivated and productive employees are intrinsically driven to live the organisational values and contribute positively to the organisational goals and ethical culture.

2.2 Focus on reporting of misconduct

In addition to the Big Five of Ethical Culture Change, but inextricably related to it, is the fact that organisations must focus on increasing reporting of misconduct and trust in safe-reporting facilities. Two major steps to get this right are outlined briefly in the following sections.

TRAIN MANAGEMENT IN THE HANDLING OF WHISTLE-BLOWING REPORTS

1

Management training: "focus on the message, not the messenger"



Line-managers are the primary recipients of reports of misconduct. Organisations therefore need to ensure that all line-managers are adept at handling confidential reports and protecting the reporter. The importance of focusing on the message and not the messenger should consistently be emphasised. Employees fear victimisation and would therefore be more likely to report misconduct if they were confident that their reports will be handled confidentially. Having a robust system that guarantees the confidential handling of reports contributes positively to ethical cultures, as it communicates to employees that the organisation is committed to its values and ethical standards.



Safe-reporting (whistle-blowing) facilities should continue to receive attention through constant promotion, but more importantly, by providing feedback to employees about actions taken and sanctions implemented. Not only will this increase trust in safe-reporting facilities and encourage reporting of misconduct, it will serve as a deterrent to those who contemplate unethical behaviour. If they believe that they will be caught out and sanctioned, they are more likely to reconsider their behaviour.

2.3 Closing thoughts

DEFINITIVE FINDING

Ethics Accountability and Responsibility, Leadership Commitment to Ethics and Middle-Management Commitment to Ethics account for approximately **53%** of the change in Overall Ethical Culture.

Bearing in mind that over half of the driving force of ethical culture change is located in these three dimensions, it can be argued that accountability mechanisms (sanctioning bad behaviour, rewarding good behaviour), and the people in top and middle management, are, together, what shape the ethical culture of the entire organisation. This is therefore the most fruitful ground for making positive change.

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NOTES



About The Ethics Institute

The Ethics Institute is an independent, public benefit institute producing original thought leadership and offering a range of products and services related to organisational ethics.

Our vision is **building an ethically responsible society**. We pursue our vision through thought leadership and an organisational ethics-related offering, including training, advisory services, assessments, products, and Supporter opportunities. We work with the public and private sectors, and with professional associations.

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