Publications in The Ethics Institute’s handbook series available at www.tei.org.za

- Codes of Ethics Handbook (2020)
- Whistleblowing Management Handbook (2020)
- Ethics Ambassador Handbook (2021)
- Institutionalising Ethics Handbook (2021)
The development and production of this handbook was made possible courtesy of the KBA-NotaSys Integrity Fund (www.integrityfund.ch).

Published by The Ethics Institute 2022
In memory of the late Thembekile Kimi Makwetu who served as Auditor-General of South Africa and championed ethical organisational culture not only in the public sector, but across all organisations in South Africa. In his words:

“For me to live ethically, is to recognise as a business that you are part of an integrated whole. There is no other option but to live ethically because it gives you an opportunity to sustain the achievements of what the business wants to do. A business is not there purely to make money for those who own it today, but it is also one of the institutions and instruments in a society that is mobilised and organised to create a life for citizens to come.”
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We proudly present the tenth title in The Ethics Institute’s (TEI’s) Ethics Handbook Series: the Ethical Culture Handbook.

The purpose of this handbook is to demystify the concept of ethical organisational culture. The latest King Report on Corporate Governance for South Africa (King IV, 2016), clearly states in Principle 2 that it is the responsibility of the governing body to ensure that the organisation develops an ethical culture. This is a challenging proposition because it assumes that an ethical culture can be measured and changed. Unfortunately, the term ‘ethical culture’ is an abstract concept. Many people find it difficult to understand and describe it, and to acknowledge why it should be a vital goal for high performing organisations. Additionally, ethics and ethical culture are often still viewed as ‘soft’ issues by executives. This has not helped to legitimise the concept. To add to the uncertainty, ethical culture is notoriously difficult to operationalise practically with many organisations relying on superficial indicators to understand and evaluate it. The ambiguity of the relationship between organisational culture and ethical culture further adds to the misunderstanding.

This handbook was therefore written to provide a practical understanding of ethical culture, how it relates to organisational culture, why it is important to develop it, and how to evaluate it in a more holistic and valid manner. More importantly, the purpose of this handbook is to inform governance structures, executive and senior leadership, those responsible for ethics management in the organisation, middle and line management, and employees on what their responsibilities are in collectively building an ethical culture. Indeed, an ethical culture can only be achieved if all employees, across all job-lev-els, are aligned, understand their role, and are empowered and enabled to do so.

I would like to thank Prof Leon van Vuuren and Prof Deon Rossouw for their unwavering support to establish the TEI research division to evaluate, learn, experiment, and build a better understanding of ethical culture. This could benefit organisations not just in South Africa, but across the globe. The resources provided to better measure and evaluate this very important construct has led to a better understanding of what needs to be done to change the organisational landscape to become more responsible, trusted, transparent, high-performing, and stakeholder focused.
Last, but not least, TEI would like to once again thank the KBA-Notasys Integrity Fund who has shown belief in what TEI stands for and what we do. Thank you for sponsoring several TEI handbooks, including this publication. We know these handbooks are making a meaningful difference.

Dr Paul Vorster
March 2022
1. What is an ethical culture?

1.1 Purpose of the handbook

Principle 2 of the King IV Report on Corporate Governance for South Africa (IoDSA, 2016) clearly outlines that it is the responsibility of the governing body to ensure that the organisation establishes an ethical culture.

“The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture”
- King IV Principle 2 (2016, p.44)

The report further reiterates what the governing body should do to establish such a culture in an organisation, namely to (1) set an ethical direction for the organisation, (2) establish proactive ethics management processes and structures; (3) develop ethics guidance (e.g., codes of ethics, ethical values, ethics-related policies) for various internal and external stakeholders; (4) ensure that organisational ethics risks are managed and mitigated; (5) ensure that that ethical standards are applied and that contravention of such standards are sanctioned; and (6) disclosing the ethics risks and mitigation interventions that have been established.

Operational ethics management interventions are the responsibility of a designated ethics management function, or ethics office.

As indicated in Principle 2 of King IV, the governing body (or one it’s committees) have a strategic and oversight role for the governance of ethics. Operational ethics management interventions are the responsibility of a designated ethics management function, or ethics office. Ethics management per se is thus not something that the governing body should get involved in, but it should instead (1) ensure that these activities are executed, and importantly, (2) evaluate whether these activities are effective. Synergy between the governing body and the ethics office is vital for a coherent ethical culture building initiative. Selected executive leaders and senior managers in the organisation also have an important role to implement an ethics management strategy and execute an ethics management plan.
Although the King IV report provides guidance on the tasks associated with building an ethical culture, it does not provide a picture of what an ethical culture should look like. In other words, how do we know whether our organisational culture is ethical or unethical in nature? What do we pay attention to? What do we change? Where do we start? Are we doing enough to build an ethical culture? Are we considering the right indicators to make a rigorous evaluation of whether the organisation is succeeding in this task? There are indeed many unknowns.

The purpose of this handbook is to provide governing bodies, executive and senior management across various functions, middle and line management, those responsible for ethics management (i.e., the ethics officer), and anyone interested in organisational culture and ethical culture with a guide on what an ethical culture looks like, how it can be developed, and how to evaluate its status. We have aimed to provide contemporary insights on ethical culture to assist organisations to truly understand this concept so that their ethical cultures can be nurtured, strengthened, and effectively sustained.

1.2 What is an organisational culture?

If you have the time, run a little experiment of your own. Ask employees, colleagues, friends, or family if they know what organisational culture is. Then ask them about ethical culture. Lastly, completely mystify them by asking them what the differences between these two concepts are.

We have asked these questions to numerous people from a variety of organisations (across various job-levels) and the answer is usually diverse, overlapping, and in many
cases different. The answers provided usually depend on who you speak to and the nature of the organisation in question. The single parent of organisational culture research, Edgar Schein (2010) even admitted that ‘culture is confusing’.

However, much progress has been made in the last 60 years since organisational culture was first identified and studied. What we do know about organisational culture is that it is a broad and powerful mechanism that influences its members.

Schein (1988, p.9) proposed the following seminal definition of organisational culture:

“A pattern of basic assumptions, invented, discovered, or developed by a given group, as it learns to cope with its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore is to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”

Organisational culture is thus firstly a pattern of basic assumptions. These can also be called ‘first principles’ as they are things that the organisation as a collective believe about the world, the context in which the organisation finds itself and ‘how things are done in the organisation’. It is ultimately how the organisation, and its members, view their environment and their role in that environment; and determines what they find valuable within it. Interestingly, many of these ‘first principles’ are imbued by the founder(s) of the organisation and often mirror the desires and values of this person or persons even after they may have left the organisation.

In many other organisations, such as state-owned enterprises (parastatals), the founding principles are often borne out of some need or service that must be rendered within the economy or government. We could say that these organisations are founded on their reason for existence. This often embodies the values associated with meeting such need or purpose.

The assumptions, or principles that the organisation adheres to are invented, discovered, or developed by the organisational group (i.e., the employees operating at various levels in the organisation). In other words, the beliefs or convictions are also
developed by the collective group and individuals over time as they interact with the world and engage with various stakeholders. These beliefs and convictions are mechanisms that have been put into place either formally or informally because they tend to help the organisation function better, not repeat mistakes, and help the organisation to meet its purpose and mandate. They also tend to help organisations seek out those things that are considered valuable and worth doing.

Organisational culture must ‘work well enough’ to be considered valid or useful for the organisation to meet its purpose and be successful.

These convictions often guide the organisation as a collective and create stability, but this does not mean that these convictions remain static. As Schein puts it, they are rules or algorithms that work well enough to ensure internal integration (i.e., cohesion amongst internal stakeholders) and external adaptation (meeting the demands and challenges in the world outside the organisation). Consequently, we acknowledge that organisational culture must ‘work well enough’ to be considered valid or useful for the organisation to meet its purpose and be successful.

The beliefs, and assumptions (the first principles) should function in the real world to be considered to have perceived validity. For these ‘first principles’ to function they may need to be updated as the world changes. Therefore, organisational culture is a dynamic ever-changing construct, and yet stable enough not to confuse its members over the short to medium term. We could say that the ‘first principles’ of the organisation should transcend environmental pressures and variability and remain adaptive and beneficial to the organisation over time.

Additionally, organisational culture is a transferable and cumulative construct (i.e., everybody adds something to it and takes something from it) that allows individuals to develop shared beliefs about their ‘reality’ as seen from a group perspective over time. In this way, organisational culture has a normative component (it tells its members both overtly and covertly how to behave and make sense of the world) that instils certain shared beliefs and assumptions amongst a group of individuals on both a conscious (i.e., being aware of) and unconscious (being unaware of) level (Schein, 1988, 2010; O’Donnell & Boyle, 2008).
Integration: What is an organisational culture?

1. A system of beliefs and assumptions
2. Allows for better adaptation to external and internal change and pressures
3. Is transferable and cumulative (everyone takes from and adds something to the culture)
4. Creates a shared meaning and reality for members
5. Is normative in nature (it tells its members how to behave)
6. It affects its members on both a conscious and unconscious level

But how does the organisation transfer its culture to its members? O’Donnell and Boyle (2008, p.4) state that organisational culture:

“…gives organisations a sense of identity and determines, through the organisation’s legends, rituals, beliefs, meanings, values, norms, and language, the way in which ‘things are done around here’.

Although the methods of transferring organisational culture are important, the behaviours that emanate from these are the most critical. Rousseau (1990) indicates that the visible aspects of organisational culture, which can be empirically observed or measured, include: (1) artefacts (e.g., dress code, office structure, work flexibility or inflexibility, hierarchies, language, and colloquialisms etc.); (2) patterns of behaviour (e.g., interaction between employees, employees and management, employees and external stakeholders); and (3) behavioural norms (e.g., expectations, performance criteria, rewards and accountability systems, etc.). Less visible aspects of organisational culture include elements such as: (1) espoused and internalised values (i.e., what the organisation really cares about) and (2) deep seated beliefs and assumptions.
Organisational culture has visible and invisible components:

Visible
- Artefacts (i.e., dress code, office structure, work flexibility, hierarchical structure, language, and colloquialisms).
- Patterns of behaviour (i.e., interaction between employees)
- Behavioural norms (i.e., expectations, rules, sanctions, rewards).

Invisible
- Espoused and internalised values.
- Deep seated beliefs and assumptions

These visible (tangible) and invisible (intangible) aspects of organisational culture greatly influence how individuals behave, what they consider to be ‘correct’ or ‘acceptable’ behaviour, and how they treat one another and stakeholders outside the organisation. Consequently, organisational culture influences the morality of the organisation as a collective. The way in which the organisational culture influences and conceives of right and wrong is often viewed as an independent construct called ‘ethical culture’, or ‘ethical climate’. Both ethical climate and culture cannot be divorced from the overall organisational culture and can be understood to be a ‘nested’ construct (a construct that exists within another construct). For the purposes of this handbook, we will refer to ethical culture and climate interchangeably.

1.3 What is an ethical culture?

It is critical to understand that the expectations of behaviour in each culture already carry moral weight. This may include the behaviours that are rewarded or recognised, those that are punished or deterred, and those things the organisation does not react to at all (i.e., being silent on issues). In all these cases the organisation sends signals to its members about ‘how we do things around here’.
Consider the following definition of organisational culture that relates to the power of individual members as suggested by Treviño et al. (1998: 451)

“Organisational culture is a powerful force that ‘assimilates’ (converting a minority group to assume the views of the majority group through shared values, beliefs and behaviours either fully or partially) and can influence how individuals view their own subjective world and identity.”

The organisational culture acts as a lens through which the individual views the organisational world and themselves. This view dictates how people will consequently behave.

There is something a little scary about wielding such influence without imbuing some form of morality into the culture. If culture is capable of assimilating individuals, surely the organisation should take those individuals into consideration as well as those individuals that may interact with the organisation. Is there some form of mutual benefit?

Now that we have a basic understanding of organisational culture and that it needs a moral or ethical component to succeed, we can explore what an ethical culture really is. From what was learned earlier we realise that organisational cultures need a moral component to keep the organisation honest, in touch with reality, and aware of the expectations of stakeholders so that these expectations can be effectively balanced.

McLaverty (2016, p.9) defines organisational culture with a moral component:

“it is possible to contemplate that culture may actually define which (if any) issues are placed in the moral domain in the first instance. Culture may also directly influence moral reasoning and behaviour.”
McLaverty (2016) speaks here of the organisational culture bringing a moral conscience into the organisation. However, it is not a given that the organisational culture will necessarily have a moral component, nor whether this moral component is effective.

It is important to realise however, that an organisation cannot chart a successful path if it does not inform its members of what is acceptable (good) and unacceptable (bad) behaviour. The organisation’s conception of good and bad behaviour should thus be aligned to its stakeholders’ perspectives on these terms.

Hunt et al. (1989, p.90) confirm this in their definition of ethical culture, which states that an ethical culture is composed of:

“values that help establish and maintain the standards that delineate the ‘right’ things to do and ‘worth doing’.

The unacceptable behaviours are usually related to activities, behaviour, beliefs, and assumptions that add no value (or may be damaging) to the organisation and its material stakeholders.

The ethical culture therefore is what the organisation deems as acceptable and unacceptable behaviour (actions and decisions). The unacceptable behaviours are usually related to activities, behaviour, beliefs, and assumptions that add no value (or may be damaging) to the organisation and its material stakeholders. On the other hand, acceptable behaviour is related to the same things that add value to the organisation, and by default its stakeholders. Another more encompassing definition of ethical culture takes this idea of ‘right’ and ‘wrong’ behaviour even further.

Trevino et al. (1998. p.451) conceptualise this broader definition of ethical culture as:

“a subset of organizational culture, representing a multidimensional interplay among various ‘formal’ and ‘informal’ systems of behavioral control that are capable of promoting ethical or unethical behavior.”
These systems of control include messaging by leaders (both verbally and through their actions), accountability measures, rewards and recognition, ethical aspirations or visions, and compliance processes and systems that contribute to the promotion of ethical behaviour and thus the ethical culture of the organisation.

However, Trevino et al. warn in this definition, that the same systems can also result in promoting unethical behaviour and thus in an unethical culture. It is therefore not a given that all organisations necessarily build these systems with ethics or a stakeholder approach in mind. They may instead build systems to maximise profits at the expense of certain stakeholder groups, which would in fact promote unethical conduct using the same systems of behavioural control. The organisation may also get away with this for some time.

We can therefore not separate an ethical culture from the organisational culture, they are part and parcel of one another.

It is also important to note from Trevino’s definition that an ethical culture is a ‘subset’ of an organisational culture. We can therefore not separate an ethical culture from the organisational culture: they are part and parcel of one another.

The organisational culture thus determines an ethical course of action or not, promotes good behaviour or bad ones, or reflects a decision to consider its ethical values or ignore them based on a cost-benefit calculation.

Having an ethical culture on the other hand, means that the organisation has developed a moral conscience. This results in considering what is good and bad for stakeholders before acting. We could say that the existence or lack of an ethical culture is what makes the organisation good or evil, or decent but sometimes dubious.

Although these definitions help us to understand ethical culture and its relationship to organisational culture, we do not yet have a picture of what an ethical culture looks like. In other words, what would an advanced or mature ethical culture have that an immature or fragile ethical culture does not have? To understand this, we first need to understand the ‘primacy’ of ethics in an organisational culture.
Building an ethical culture, is therefore something essential to ensure that the organisational culture does not become harmful, disconnected from its social context, or maladaptive to itself or others over the long-term. Building the ethical culture of the organisation is to give the organisational culture a conscience and a good shot at a sustainable and prosperous future.

1.4 The role of ‘ethics primacy’ in an organisational culture

We need to understand what differentiates a good ethical culture from a fragile or immoral culture. One of the primary aspects that determines whether the organisation is ethical or unethical in nature is the degree to which it prioritises its ethical values (or its moral conscience) in its day-to-day activities.

Ethics primacy is defined below:

**Ethics primacy** is the degree to which the organisation prioritises ethics as an important and fundamental component of the organisational culture and whether ethics is represented in the strategic, operational, and financial priorities of the organisation.

- **Strategic ethics primacy** – Does the organisation set a strategic vision and roadmap for the development of an ethical culture and ensure oversight?
- **Operational ethics primacy** – Does the organisation actively manage the ethics of the organisation to ensure stakeholder benefit?
- **Financial ethics primacy** – Does the organisation consider ethics in its business and investment decisions, provide a budget for ethics development and management, and consider ethics in its key performance indicators - both on the organisational level and the individual employee level?
The degree to which the organisation prioritises ethics is closely related to the maturity of its ethical culture. What is known about ethically advanced or mature organisations is that they truly embrace the importance of ethics for business and prioritise it accordingly. Just think about this: an organisation is not only a building, but rather a complex set of relationships between various stakeholders. Ethics is what regulates these relationships. If these relationships were to break down, the organisation itself breaks down.

Generally, organisations can be thought of as having different levels of ethical culture primacy. The more developed the ethical culture of an organisation, the more ‘mature’ the ethical culture and the stronger the organisational conviction that ethics is a core component of how it must operate.

Ethical culture maturity is often categorised into four main components that provide insight into the extent of organisational ethical culture primacy. When evaluating these, ask yourself, where does my organisation rank? See the table below.

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<tr>
<th>Ethical Culture Maturity</th>
<th>Definition</th>
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<tr>
<td>Fragile or (high-risk) ethical culture</td>
<td>A fragile ethical culture is characterised by very little ethics primacy (not prioritising ethics as a core organisational value, which forms an almost non-existent part of the organisational culture). This means that ethics is often overlooked in the organisation and financial, operational, and strategic values do not have ethical components. The organisation may be at great risk of alienating stakeholder groups.</td>
</tr>
<tr>
<td>Underdeveloped ethical culture</td>
<td>An underdeveloped ethical culture is characterised by some level of ethics primacy (doing the minimum to prioritise ethics as a core organisational value, which forms a small but not insubstantial part of the organisational culture). Some ethics is brought into strategic, operational,</td>
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and financial priorities of the organisation, but these priorities still override the ethical component. The organisation may be ethical when convenient and may alienate some of its stakeholders over time when engaging in less ethical behaviours.

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<th>Ethical Culture Maturity</th>
<th>Definition</th>
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<tr>
<td><strong>Developing ethical culture</strong></td>
<td>A developing ethical culture is characterised by a much greater degree of ethics primacy (prioritising ethics as a core organisational value, which forms a major part of the organisational culture). Organisations with this type of ethical culture are cognisant of the importance of ethics for long-term sustainability. However, not all employees may be aligned to the ethics vision and the organisation may sometimes prioritise strategic, operational, and financial priorities above ethical concerns. Small pockets of unethical behaviour may even be tacitly tolerated. It is, however, able to correct itself and restore its stakeholder relations when mistakes are made.</td>
</tr>
<tr>
<td><strong>Mature or advanced ethical culture</strong></td>
<td>A mature or advanced ethical culture is characterised by a high level of ethics primacy (prioritising ethics as a core organisational value, which is synonymous with the organisational culture). Ethics is seen as an integral part of what the organisation does, and no distinction is made between the organisational culture and the ethical culture. The organisation is at very little risk of alienating its stakeholders as it forms mutually beneficial relationships with those affected by the organisation. In short, everyone is on board with ethics in the organisation.</td>
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*Characteristics of organisations with different levels of ethics primacy*
The degree to which an ethical culture (i.e., the ethical values of the organisation) is embedded in the organisational culture, strongly relates to the ethical culture maturity of the organisation and consequently its relationship with its stakeholders. This illustrated in the figure below.

Organisations with high levels of ethics primacy often indicate that ethics is a core value underpinning every operation, decision, and action of the organisation.

To develop ethics primacy and a more mature ethical culture, certain supportive elements of an ethical culture need to be prioritised. These ethical culture ‘dimensions’ indicate what an organisation should be focusing on to develop an ethical culture that will result in ethics primacy. These dimensions are the building blocks of an ethical culture. These are discussed in more detail in chapter 3 of this handbook.
1.5 Contextualising ethical culture building

The governance of ethics framework is depicted in the figure below. It is also referred to as the management of ethics framework as it not only provides guidance on the governance of ethics, but also on the management of ethics in the organisation. This framework can be found in other handbooks of this Ethics Handbook Series, which demonstrates its importance to the ethical culture building and the ethics management process.

The ethical culture building process is a complex one. For this reason, it is important to return to the governance of ethics framework presented in the figure above regularly when reading through this handbook. Note that without leadership commitment to ethics, effective governance structures, the measurement of ethics risks, and the development of an ethics strategy and management plan, most ethical culture building initiatives will fail.
The ethical culture of an organisation cannot be improved if there is no commitment from senior leadership to take ethics seriously. Although many may think that organisations can be changed from the bottom-up, this is usually messy, risky, and not very efficient. Additionally, good oversight and governance of ethics is a prerequisite to ensure that the goal of building an ethical culture is attained.

An ethical culture cannot be changed unless it is first measured. Although leadership commitment to ethics and the role of the governance structures are important catalysts for the construction of a more robust ethical culture, other aspects of the management of ethics need to be considered. The ethics risk assessment is one such element and can be considered as one of the most important proactive elements to building an ethical culture.

These measurement techniques can take the form of either qualitative or quantitative processes. Qualitative ethics risk assessment methods usually involve analysis of open-ended comments garnered in interviews and focus groups with selected stakeholders. The purpose of such interviews and focus groups is to obtain the perceptions of those interviewed to evaluate any ethics risk themes that may emerge. Quantitative ethics risk assessment methods usually involve the distribution of a forced choice survey across all internal stakeholders of the organisation.

Surveys are advantageous as they can provide the perceptions of ethics risks across most of the organisational population whereas interviews and focus groups are usually limited to only a few individuals. These techniques have their advantages and disadvantages, and are often better used together than independently. For more in-depth information on ethics risk assessment methods please refer to the *Ethics Risk Handbook* (van Vuuren, 2016).
Good measurement of ethics risks is important but useless unless the findings of such ethics risk assessments are not mitigated or actioned. The development of an ethics strategy and management plan is therefore a crucial part of ethical culture building.

The ethics strategy and management plan is usually designed after the ethics risk assessment, and is heavily based on the findings of such an assessment. Consequently, the ethics strategy and management plan is often viewed as a proactive ethical culture building exercise. This is not always the case, however. Some organisations may simply react to costly ethical failures by investigating their state of ethics and initiating some interventions to address these problems. In such a case an ethics strategy and management plan may be more reactive than proactive in nature.

Identifying ethics focus areas as part of the ethics strategy, can help the organisation to build both reactive and proactive ethics interventions to address problems and build the ethical culture. Successful ethics strategies and management plans are usually ones that are realistic, based on the ethics risk assessment, have risk owners, and can be objectively measured for completion or progress over a period of time.

Ethics risk assessments and an ethics management plan can also help the organisation to evaluate whether policies, rules, and codes need to be crafted to provide guidance to employees. These policy documents can also be updated using the results of an ethics risk assessment. This is an important step, as employees will tend to refer to available policies to determine what is ‘good’ or ‘acceptable’ behaviour in the organisation. If we were to find, for example, that gifts and entertainment are a problem we may need to ensure that we develop, implement, or redesign a gifts policy for employees.
It is also important for ethical culture building that ethics is institutionalised. The institutionalisation of ethics is a process of making ethics real for employees and involves proactive interventions (i.e., promoting ethical behaviour) and reactive interventions (i.e., dealing with ethical failures or problems after they occur). Both reactive and proactive methods of institutionalising ethics are important and help to craft the ethical culture over time. For a more in-depth look at institutionalising ethics in organisations please refer to the *Institutionalising Ethics Handbook* (Van Vuuren and Groenewald, 2021).

Of course, all of these activities and their progress need to be reported to the senior leadership of the organisation as well as to the governance structures (e.g., the sub-committee of the board responsible for ethics). This ensures that effective oversight of ethics management interventions towards the goal of building an ethical culture, is attained.

To summarise, King IV, Principle 2 clearly suggests that an ethical culture need to be developed. To establish such a culture the organisation should:

- Measure ethical culture and conduct (i.e., ethics risk assessment).
- Change the ethical culture with appropriate interventions (i.e., the ethics strategy and management plan).
- Re-measure the ethical culture and conduct once interventions are implemented and institutionalised.
- Report on the progress made towards building this ethical culture to the senior leadership and governing body of the organisation.

Organisations could tick all the interconnected boxes in the governance of ethics framework, yet fail to establish an ethical culture. An ethical culture should be the outcome of the combined effect of all the other components of the framework. Consequently, organisations have to ensure that this process aims to improve their ethical cultures, and should not be purely aimed at simply managing ethics for the sake of doing so.
2. Why and when to build an ethical culture?

2.1. Why build an ethical culture?

In this section of the handbook the necessity of building a sustainable ethical culture over time is explained by considering the stakeholder approach, the impact of an ethical culture on employees and the organisation respectively, and the impact of neglecting ethical culture.

The stakeholder approach

An ethical culture can also be described as something that must use systems of control and influence towards a more stakeholder focused approach. An ethical culture is characterised as one where the organisation’s systems of control, its beliefs, assumptions, and its formal and informal systems promote balance between the needs of the organisation (what it deems to be valuable and worth doing) and the needs of its stakeholders.

The stakeholder approach is a critical factor to assist us in understanding the importance and scope of ethical culture development. Consider the following, would an organisation exist without those it serves (i.e., clients, customers, the public)? The answer is undoubtedly, no. Could an organisation reach its potential if it harms or exploits its own employees? The literature on employee burnout, mental health, and work disengagement clearly indicate that this is unlikely. What about shareholders? Many organisations have lost major financial value due to shareholders losing trust, or in extreme cases, boycotting the organisation due to a moral failure. See the excerpt below as written by Ashley Lutz for the Insider in 2015:

How Nike shed its sweatshop image to dominate the shoe industry

Nike is the undisputed leader of athletic brands. Between its Nike and Jordan lines, the company controls a shocking 62% of athletic footwear brand share in the US, more than four times the combined value of competitors Adidas, Skechers, and Asics.
While many companies strive to focus on a specific demographic, Nike, which has annual sales of $28 billion, appeals to every generation.

In a recent survey, Nike was named the favorite brand among millennials, beating out names like Apple, Coca-Cola, and Nintendo. And teens are also wild about the brand, choosing it as their preferred clothing and footwear retailer in another recent survey. Nike has also managed to be popular with older consumers, who buy its gear for hobbies like running. But Nike nearly lost its ubiquitous popularity. Two decades ago, the company was under major fire for abusive labor practices after outsourcing labor overseas because it was cheaper.

The public was shocked by reports of Indonesian Nike workers earning as little as 14 cents an hour. Disturbing allegations of abuse included stories that a Vietnamese sub-contractor ran women outside until they collapsed for failing to wear regulation shoes. Customers staged embarrassing public protests at the Olympics and at Nike stores. People began boycotting the brand in droves. The perception that Nike abused its workers lasted for more than seven years.

“The sweatshop perception was one of the biggest challenges Nike has faced,” branding expert and University of Southern California professor Jeetendr Sehdev told Business Insider. “It seemed impossible they could ever shake the perception.”

By 1998, Nike had to lay off staff amid declining sales. That’s when then-CEO Phil Knight started to aggressively and publicly make changes within the company. The key to Nike’s turnaround was being honest and transparent about the labor issues it faced.

“The Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse,” Knight said in a public address at the time. “I truly believe the American consumer doesn’t want to buy products made under abusive conditions.”
Nike also raised the minimum wage it paid workers, improved oversight of labor practices, and made sure factories had clean air.

These admissions and changes helped public sentiment toward Nike turn more positive, Sehdev said.

"Nike admitted it wasn’t perfect, and that it was flawed," Sehdev said. "This gave it more credibility with consumers."

It is evident from the Nike case that the trust of stakeholders is a vital component for the success of an organisation. Nike did a few things right. Firstly, they admitted that what they did was wrong. Secondly, they fixed their mistakes and started to pay attention to being an organisation with some morality. This re-established trust amongst shareholders, employees, customers, communities, and even the governments of the countries in which Nike operated. In short, doing what is in the best interest of the organisation is to simultaneously do what is in the best interest of its stakeholders. These two elements namely ‘the organisation’ and its ‘stakeholders’ have never been mutually exclusive. For an organisation of any kind to be successful, it needs to be ethical. To be ethical, means that it forms a mutually beneficial relationship with its stakeholders and does what is good not only for itself, but also for the other.

This stakeholder-inclusive approach is also clear in the fourth King Report that states: “King IV advocates a stakeholder-inclusive approach, in which the organisation takes account of the legitimate and reasonable needs, interests, and expectations of all material stakeholders in the execution of its duties in the best interest of the organisation over time. This is the essence of the stakeholder approach” (IoDSA, 2016: 25). It is important to remember that the organisation is a pattern of complex relationships between numerous stakeholders that operate either internally or externally, and that
cooperate for some mutual benefit, goal, milestone, or mandate. If the organisation does not cooperate effectively with its key stakeholders, it could quickly find that it may be underperforming, incapable of reaching levels of excellence or prosperity, or in some cases failing to survive.

The stakeholder approach is an ethical approach as it is geared towards ensuring that the stakeholders of the organisation are not exploited or harmed, but rather benefit from their relationship with the organisation.

The stakeholder approach is an ethical approach as it is geared towards ensuring that the stakeholders of the organisation are not exploited or harmed, but rather benefit from their relationship with the organisation. Of course, the organisation should benefit from this relationship as well. It also has a right to thrive. Stakeholder relationships are viewed as a form of mutualism (a type of symbiotic relationship where species involved benefit from their interactions) and not altruism (a relationship where one species benefits from the self-sacrifice of another). Ethical cultures are geared towards ensuring that these stakeholders are considered because without them, the organisation may be less adaptable, profitable and sustainable.

The impact of an ethical culture on the employee level

When the word ‘stakeholder’ is mentioned, few individuals consider employees (i.e., the most important internal stakeholder) and tend to gravitate towards external stakeholders. Employees at every job level in the organisation are those that are most affected by organisational aspirations, decisions, and actions. Employees often look to the organisation to meet their legitimate expectations. Building an ethical culture helps the organisation to meet these legitimate ethical expectations.

Consider some of the research below that demonstrates the advantages of building an ethical culture for internal stakeholders.
Ethical culture has been linked to the following impact on employees:

- Increased levels of job-satisfaction and contentment (Ambrose et al., 2008)
- Increased levels of organisational commitment and loyalty (Bulutlar & Oz, 2009; Leung, 2008)
- Decreased intentions to leave the organisation (Fournier et al., 2010)
- Increased work engagement and performance (Tseng & Fan, 2011)

We could say that an organisation with an ethical culture is a high morale organisation.

The impact of an ethical culture on the organisational level

Additionally, many advantages exist for the organisation when fostering an ethical culture. We must remember that an organisation is a heavily interdependent system that consist of numerous sub-systems. It has many moving parts, all of which need to work in unison for the organisation to be effective at meeting its mandate in society and achieve strategic, financial, and operational success.

If an organisation is troubled by distrust, a lack of transparency, poor communication, exploitative behaviour, or is unable to build its moral conscience, it may be at substantial
Ethical culture has been linked to the following impact for the organisation and the societies in which it operates:

- Increased internal and external accountability (i.e., holding employees and the organisation fairly and visibly accountable for its mistakes to re-establish trust) (Laratta, 2011)
- Increased ethical behaviour internally and on the collective level (Deshpande & Joseph, 2009)
- Improved organisational ethical decision-making which reduces operational, financial, and strategic risk (Verbeke et al, 1996)
- Improved ethical judgement (i.e., the capacity to identify and mitigate ethics risks proactively) (DeConinck, 2003)
- Stronger ethical intentions (i.e., the overall intention of the organisation and its employees to be a force for good within society) (Buchan, 2005)
- Increased moral imagination (i.e., the capacity to adapt to and solve ethical challenges and dilemmas) (Caldwell & Moberg, 2007)
- Stronger moral intensity (i.e., the degree to which the organisation and its employees prioritise ethics in day-to-day operations) (DeConinck, 2003)
- Organisational citizenship behaviour (i.e., an increase in the good discretionary actions that employees engage in beyond their job-description) (Shin, 2012)

Note some of the research below that outlines the advantages encountered in organisations with a robust and well-developed ethical culture.
It is clear that a more mature ethical culture results in numerous advantages for the organisation.

Just imagine an organisation where the opposite may be true. In the next section we examine the negative effects experienced by organisations that neglect their moral conscience (i.e., have fragile or underdeveloped ethical cultures).

**The impact of neglecting ethical culture**

Neglecting to build an ethical culture may result in several tangible disadvantages for the organisation. These are usually encountered not only at the group or organisational level, but also on the individual employee level.

Consider the research summarised below on fragile or non-existent ethical organisational culture.

Organisations with a fragile or non-existent ethical cultures often have increased incidences of:

- Antisocial behaviour (Mayer et al., 2010)
- Bullying or intimidation (Bulutlar & Oz, 2009)
- Corporate illegality (McKendall & Wagner, 1997)
- Deception (Ozer & Yilmaz, 2011)
- Contravention of company rules (Wimbush et al., 1997)
- Falsification of reports (Martin & Cullen, 2006)
- Organisational misconduct (Andreoli & Lefkowitz, 2009)
- Political and production deviance (Peterson, 2002)
Ethical organisational cultures help the organisation to perform at a higher level of excellence.

It is becoming more obvious that ethical organisational cultures help the organisation to perform at a higher level of excellence. It should be emphasised that although ethical cultures can create high functioning organisations, an ethical culture does not guarantee an organisation’s success or survival. What is evident though, is that organisations who do not prioritise an ethical culture have a much higher likelihood of failure or dysfunction.

2.2. The readiness of an organisation to build an ethical culture

Some organisations tend to be more equipped than others to effectively build and maintain an ethical culture. In combination with leadership commitment to ethics, ethics primacy (i.e., the degree to which ethics is prioritised in the organisational culture) forms a big part of this process. However, organisations also differ in their approaches to ethics management, which can also create various challenges for building a mature ethical culture.

Some organisations tend to be more equipped than others to effectively build and maintain an ethical culture.

We present the modes of ethics management of organisations below. These are explained more thoroughly in the *Ethics Office Handbook* (van Vuuren, 2018) and indicate the general attitude of organisations regarding the management of ethics at different stages of moral development. Each of these stages indicate (i) the readiness of the organisation to build an ethical culture and (ii) the challenges that may exist in doing so.
### Modes of ethics management

<table>
<thead>
<tr>
<th>Nature</th>
<th>Purpose</th>
<th>Ethics management approach</th>
<th>Readiness level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics does not belong in business</td>
<td>Exclusion of ethical considerations from business</td>
<td>Exclusion of ethical considerations in decisions and operations</td>
<td>Poor</td>
</tr>
<tr>
<td>Unethical conduct is required to survive</td>
<td>Endorsing unethical behaviour is what is required for survival</td>
<td>Condone unethical behaviours and practices</td>
<td>Poor</td>
</tr>
<tr>
<td>Token gestures of ethical intent</td>
<td>Protecting against risk of unethical behaviour</td>
<td>Ethical standards without any enforcement</td>
<td>Moderate</td>
</tr>
<tr>
<td>Commitment to prevent unethical behaviour</td>
<td>Preventing unethical behaviour</td>
<td>Unethical behaviour is detected and penalised</td>
<td>Moderate</td>
</tr>
<tr>
<td>Promotion of responsible ethical behaviour</td>
<td>Raising level of corporate ethical performance</td>
<td>Ethical behaviour is detected and recognised</td>
<td>High</td>
</tr>
<tr>
<td>Ethics ingrained in corporate purpose and identity</td>
<td>Ethics is embedded in corporate culture and purpose</td>
<td>Ethical business entrenched as the norm</td>
<td>High</td>
</tr>
</tbody>
</table>

#### Amoral and survival mode organisations

Amoral and survival mode organisations function at a poor readiness level of ethical culture building. Although these organisations are in dire need to improve their ethical culture, any ethics interventions implemented in an organisational environment that
does not care about ethics is going to be a very challenging endeavour. Ultimately these organisations could be said to be in the most need of ethical culture building and yet are the least suited to them.

Organisations in this mode tend to focus on operational, strategic, and financial objectives at the expense of developing an ethical culture. This is partly due to ignorance about the importance of ethics and partly due to a disregard that ethics has anything useful to add to the organisation and its mandate. Unfortunately, many of these types of organisations suffer an inability to create an ethical culture. This impacts on operational, strategic, and financial goals before ethical culture building is even considered as a possible initiative.

These organisations may be capable of developing their ethical culture if senior leadership start emphasising this goal, but it remains a challenging endeavour.

The reactive mode organisation

Reactive mode organisations often realise that the organisation’s ethics can impact the operational, strategic, and financial goals and performance of the organisation. This usually occurs due to some impetus factor such as an ethical failure or proactive ethical culture building championed by the senior leadership of the organisation. The organisation thus reacts to the negative impact of not making ethics a central component of the organisational culture.

Many organisations in the amoral and survival modes of ethics must first progress to the reactive mode (for example, by suffering a costly ethical failure) to truly begin gaining the impetus for ethical culture building. The entry point for any purposeful ethical culture building process is the reactive mode organisation, as many of its members
have witnessed or encountered the cost of not making ethics an important part of the organisational culture. Although this type of organisation may understand in a rudimentary way that something must be done about ethics, there are still many challenges and impediments at this mode to doing so.

Organisations in the reactive mode may not yet truly grasp the importance of ethics. Any ethical culture building would thus play second fiddle to other more strategic, financial, or operational organisational goals. Reactive organisations often want to do just enough to be perceived by external stakeholders as addressing ethical concerns. Consequently, the greatest challenge for ethical culture building in reactive organisations is that there is some superficial change and not deep and sustained change. Ethics is often viewed as a veneer and ethics primacy may be very low.

The compliance mode organisation

Most organisations function in the compliance mode. This mode involves a compliance-based perspective on the management of ethics, the sole purpose of which is to mitigate ethics risks. Ultimately these organisations understand the importance of ethics and enforce ethical compliance through numerous policies, rules, procedures, and systems (i.e., catching those who do wrong).

Compliance mode organisations could be said to police ethical adherence well, but do not build a spirit of adherence.

These organisations do not place much emphasis on building a values-based ethical culture, but rather on preventing unethical behaviour and catching those that may do harm to the organisation and its ethical culture (it is generally more reactive than proactive in nature). In this way compliance mode organisations could be said to police ethical adherence well, but do not build a spirit of adherence. Consequently, these organisations remain challenging environments in which to build ethical cultures as they may not understand that values alignment is as important as compliance to rules and regulations.
Very often these organisations may find novel ethical challenges and dilemmas difficult to resolve as no rule or policy may exist to resolve such a challenge or dilemma. Employees also need to be aware of many rules and policies to be able to effectively comply to the organisations requirements.

Additionally, these types of organisations may inadvertently promote a culture of ‘if it is not forbidden it is allowed’ or ‘it is acceptable to do it if we do not get caught’.

Other elements that may impede culture development include a lack of trust. Employees who operate in heavily compliance driven cultures often feel disempowered and distrusted by their organisation. Over-policing employees may result in harming internal stakeholder trust rather than promoting it. This may have the effect of increasing employee cynicism and the frequency of counterproductive work behaviour.

For organisations in the compliance mode the building of an ethical culture should be about the ‘why’ and not just the ‘what’ of ethics.

The integrity mode organisation

The integrity mode organisation is characterised by a substantial amount of ethics primacy. Most integrity mode organisations rely heavily on their leadership to lead the way regarding ethics, making it a priority in the organisation. Although integrity mode organisations are much better suited to ethical culture interventions, the ethics primacy experienced is still heavily reliant on leadership to make it a priority.

In other words, not all employees are completely on-board with the ethics message (although a substantial number are) and if leadership were to lose motivation or leave the organisation, the organisation may slip back to a compliance mode if new leadership do not prioritise the importance of ethics as their predecessors did. For this reason, integrity mode organisations, although hospitable environments to build an ethical
It is also integral to understand that integrity mode organisations are essentially compliance-based organisations that are starting to move towards a more aspirational and values-based ethics mindset. Organisations in this mode of ethics management aim to promote ethical behaviour, rather than to merely prevent unethical behaviour (they take a more proactive approach to ethics). Integrity mode organisations straddle the zone between rule-based compliance and aspiration-based ethical values (with some bias towards values-based ethics). The integrity mode organisation therefore needs to resist the urge to regress to a more rule-based or compliance orientation when the organisational context becomes threatening or when ethical failures are encountered. Integrity mode organisations need to thus gain experience and encounter the advantages of a more aspirational and values-based mode of managing ethics to completely trust this process and maintain ethical culture development.

**The totally aligned mode organisation**

The totally aligned mode organisation has, by its very nature, a strong ethical culture.

The totally aligned mode organisation has, by its very nature, a strong ethical culture. It represents a desired end-state regarding the seamless integration of ethics into its organisational culture. Such organisations have a mature or advanced ethical culture. This end-state may seem difficult to attain. Fortunately, many such organisations do exist.

Totally aligned organisations often have moved completely beyond compliance-driven methods of managing ethics and rely on every employee at every level in the organisation to be torchbearers for the organisation’s ethical culture and values. These types of organisations therefore do not have to rely on their leadership as the most important patrons of ethics in the organisation but have a decentralised ethical ownership across every employee at every level in the organisation. Employees understand the ethical
values of the organisation, buy in to the ethics message, and engage in day-to-day behaviours that uphold the ethics aspirations and values. This naturally results in ethical behaviour. Leadership therefore do not have to convince employees to be ethical, but may themselves be reminded by employees to do the same. A positive feedback loop regarding ethics is well-established in this organisational mode.

It is no surprise then that totally aligned mode organisations are very proactive and open about their ethical development. Often, these organisations view a small and materially unimportant ethical failure as an unacceptable oversight that has no place and must be rooted out quickly. The organisation is hard on itself when it comes to truly living its values and is trying to achieve ethical excellence, instead of ethical survival or compliance.

**One of the most bedevilling problems these organisations face is ethics complacency.**

Although totally aligned organisations may be perceived as reaching the pinnacle of ethics, they do have their shortcomings. One of the most bedevilling problems these organisations face is ethics complacency. Many totally aligned organisations have slipped into the integrity mode (i.e., losing the buy-in to ethics of some employees over time) or the compliance mode (i.e., moving away from a values-based ethical culture) because leadership think they have done enough regarding ethics. This complacent mindset results in a neglect of the ethical culture which can have dire consequences over time.

Maintaining a totally aligned mode is marked by a desire to constantly prioritise ethics and ensure that all employees buy in to the ethics message (even when things are going well). It also involves being proactive and managing the ethics of the organisation in a manner that constantly focuses on ethics primacy and guards against ethics complacency. This is no easy task and requires constant time and energy investment from leadership and employees. In other words, ‘the tower must always be guarded’.

In summary: Although organisations may be at different readiness levels for sustained ethical culture building, none of the challenges mentioned are insurmountable. Any
organisation in any mode can initiate interventions to improve the ethical culture. Additionally, these interventions can have many positive effects on the organisation’s performance, morale, and capability to overcome challenges faced in their day-to-day operations.

One of the most important elements of building an ethical culture is to ensure that the organisation starts to prioritise the development of certain well-defined ‘building blocks’ of ethical culture. We focus on these critical building blocks in the next chapter of this handbook.
3. The building blocks of an ethical culture

3.1 Introduction to the building blocks of ethical culture

The primary dimensions, or building blocks, of an ethical culture are presented in an easy-to-understand manner in the table below.

<table>
<thead>
<tr>
<th>Ethical culture dimension</th>
<th>Ethical culture dimension operational definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ethics accountability and responsibility</td>
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<tr>
<td></td>
<td>The degree to which the organisation holds employ-</td>
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<tr>
<td></td>
<td>ees accountable and responsible for their behavio-</td>
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<td></td>
<td>raviours and decisions and provide sanctions for u-</td>
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<td></td>
<td>nethical conduct.</td>
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<tr>
<td>2</td>
<td>Non-managerial employee commitment to ethics</td>
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<tr>
<td></td>
<td>The degree to which employees (non-managerial) a-</td>
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<td></td>
<td>re committed to good and ethical conduct and take p-</td>
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<tr>
<td></td>
<td>olicies, rules, and ethics seriously.</td>
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<tr>
<td>3</td>
<td>Middle management commitment to ethics</td>
</tr>
<tr>
<td></td>
<td>The degree to which middle management (i.e., first</td>
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<tr>
<td></td>
<td>line to middle managers) are committed to ethical</td>
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<tr>
<td></td>
<td>behaviour; support employees to make better ethi-</td>
</tr>
<tr>
<td></td>
<td>cal decisions; enforce policies, rules, and proce-</td>
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<tr>
<td></td>
<td>dures; and role model ethical behaviour.</td>
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<tr>
<td>4</td>
<td>Leadership commitment to ethics</td>
</tr>
<tr>
<td></td>
<td>The degree to which senior management are commit-</td>
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<td></td>
<td>ted to ethics; support employees to make better e-</td>
</tr>
<tr>
<td></td>
<td>thical decisions; enforce policies, rules, and pro-</td>
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<tr>
<td></td>
<td>cedures; and role model ethical behaviour.</td>
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<tr>
<td>Ethical culture dimension</td>
<td>Ethical culture dimension operational definition</td>
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<td>------------------------------------------------</td>
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<tr>
<td>5</td>
<td>Ethics talk</td>
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<tr>
<td>6</td>
<td>Ethical treatment of employees</td>
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<tr>
<td>7</td>
<td>Ethics awareness</td>
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</tbody>
</table>

It is interesting to note that these dimensions are ‘indicators’ of an ethical culture but are not ethical culture in and of themselves. This is an important distinction. We can accurately assume, however, that ethical culture is present where all these dimensions are present and integrated. The building blocks strongly determine employee behaviour and the degree to which ethical culture risk exists in the organisation.

These building blocks ‘indicate’ the status of an ethical organisational culture. They can be practically changed or emphasised by the organisation’s senior leadership and middle management to improve the ethical culture of the organisation with the right interventions. They also have the advantage of being measurable. In the subsections below we provide an overview of each of the ethical culture building blocks.
### 3.2 Ethics accountability and responsibility

**Description:**
The degree to which the organisation and its management holds employees accountable for their decisions and actions in a swift, transparent, consistent, and fair manner.

Ethics accountability and responsibility (hereafter referred to as ‘ethics accountability’) is the degree to which the organisation reacts to unethical behaviour swiftly, consistently, fairly, and transparently. It has a lot to do with the signals that the organisation and its management send to employees and even external stakeholders on what ethically undesirable behaviour is. It should obviously also signal what is considered good behaviour through appropriate encouragement and recognition.

Broadly speaking ethics accountability relates strongly to the degree that stakeholders believe and observe that something is being done about ethics. If employees are unaware of sanctions imposed for unethical behaviour, they assume that the organisation does not care whether people act ethically or not. This may result in a culture where employees and other stakeholders think that they can engage in unethical behaviour with no reprisal. It may also send a signal that the organisation is hypocritical and does not practice what it preaches, or does not really care about its own policies, rules, principles, or procedures.

Punishing ethics transgressors indicates why certain people are held accountable and what they did wrong. This does not mean that we should name and shame employees, but rather that employees generally know what behaviour is dealt with and what sanctions were imposed. Clear relationships between the behaviour, action, decision, and the organisational values and ethical intent need to be demonstrated.
Organisations fool themselves when thinking that sanctioning someone for unethical behaviour is something employees close to the sanctioned employee know nothing about. Employees who work closely with a sanctioned colleague may simply wait for confirmation about the wrongdoing and what was done to remedy it. Not explaining what has happened stops employees from learning about the mistakes made by others and dooms them and future employees to repeat these errors.

Some organisations are afraid of ‘hanging out their dirty washing’ and opt to be silent on what was done about wrongdoing. Other employees then repeat the mistakes as made by their overtly sanctioned colleagues. Employees who are cognisant of action taken against transgressors may be more willing to do the right thing and avoid unethical behaviour. This contributes to the development of the collective moral intelligence or wisdom of the organisation. If bad apples go unpunished, why would any employee take actions to avoid the same behaviour or even report such behaviour?

A major reason for not reporting ethical violations is caused by a belief that nothing will happen to transgressors.

Transparency in terms of the process followed to address unethical behaviour should be prioritised, particularly as an indication to those who may have raised an ethical concern, reported unethical behaviour, or who may have used the safe reporting (whistleblowing) facility. A major reason for not reporting ethical violations is caused by a belief that nothing will happen to transgressors. This has a knock-on effect, in that if more employees decide nothing is done about ethics, fewer employees would be willing to report such behaviour. The outcome leads to a perception that the organisation does not really care about ethics.

The consistency and fairness of sanctions imposed should be clear. Inconsistent treatment confuses people and may be perceived as favouritism or unfairness. This is of particular concern across job levels when it appears that unethical behaviour by senior managers are swept under the carpet and that employees with less positional power are punished for wrongdoing.
Another precondition for ethics accountability is *personal responsibility*. Organisations should send a clear message to everyone that it is their duty to oppose, speak up and report unethical behaviour. Of course, an ethically mature culture will result in people taking responsibility for their own actions, admitting wrongdoing, and doing the right thing by resigning should the offense have been sufficiently intolerable. If leadership and line management do not encourage employees in this regard, or provide them with the necessary protection, support and guidance, employees may have little motivation to take on this responsibility.

Several questions that can be asked from an oversight perspective, and activities required from an operational perspective to evaluate whether the organisation is serious about its ethics accountability initiatives are listed below.

<table>
<thead>
<tr>
<th>OVERSIGHT: Crucial questions to be asked by oversight bodies</th>
<th>OPERATIONALLY: The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are there effective accountability measures for unethical behaviour?</td>
<td>1. Implementation of ethics training and awareness campaigns for all employees.</td>
</tr>
<tr>
<td>2. Are the accountability measures perceived to be?</td>
<td>2. Review of codes and policies. Making these available to employees in a convenient and easy to understand manner.</td>
</tr>
<tr>
<td>a. Effective</td>
<td></td>
</tr>
<tr>
<td>b. Fair</td>
<td></td>
</tr>
<tr>
<td>c. Just</td>
<td></td>
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<tr>
<td>d. Transparent</td>
<td></td>
</tr>
<tr>
<td>e. Consistent (especially across job levels)</td>
<td></td>
</tr>
<tr>
<td>f. Legitimate and effective</td>
<td></td>
</tr>
<tr>
<td>g. Executed swiftly</td>
<td></td>
</tr>
<tr>
<td>3. What are the major accountability issues (conduct issues) encountered across the organisation?</td>
<td>3. Initiation of an ethics reporting system or hotline. Implementation of training and information sessions for employees on how to use the safe reporting system or hotline.</td>
</tr>
<tr>
<td>OVERSIGHT: Crucial questions to be asked by oversight bodies</td>
<td>OPERATIONALLY: The presence of ethics management activities</td>
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<tr>
<td>-------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>4. Are the major themes being addressed with effective risk mitigation and interventions?</td>
<td>4. Implementation of fair and consistent accountability measures (i.e., sanctions for unethical conduct). Reviewing organisational sanctions for fairness and consistency.</td>
</tr>
<tr>
<td>5. What measures are in place to prevent the reoccurrence of transgressions?</td>
<td>5. Informing employees of ethics sanctions and ensuring that those who report unethical behaviour are kept in the loop (i.e., obtain feedback)</td>
</tr>
<tr>
<td></td>
<td>6. Ensuring that unethical behaviour is addressed quickly and linked back to the ethical values of the organisation. Ensuring that management communicate this.</td>
</tr>
<tr>
<td></td>
<td>7. Regularly informing employees of the most regular unethical behaviour that was sanctioned in a reporting period.</td>
</tr>
<tr>
<td></td>
<td>8. Crafting initiatives and training so that employees do not make the same mistakes as the peers.</td>
</tr>
</tbody>
</table>

### 3.3 Non-managerial employee commitment to ethics

**Description:**
The degree to which employees (non-managerial) are committed to good and ethical conduct and take policies, rules, and ethics seriously.
Non-managerial employees (i.e., those that manage no one) usually make up the largest number of employees in most organisations.

It is vitally important that these employees are committed to the organisation’s ethics purpose, vision, and values. If the largest group of employees do not buy in to these aspirations the organisation may, as a collective, not live the values nor adhere to the behavioural requirements set forth in its codes and convictions. Because of their sheer numbers there is a higher probability that this cohort commit the most transgressions. Should employees not have a commitment to ethics it may result in ethical cynicism.

In addition to buying-in to the ethics vision and mission of the organisation, employees should also be committed to doing the right thing. This commitment should translate into behaviours such as adherence to the organisation’s ethics standards. This may also include holding colleagues accountable and responsible for their behaviour and assist in bringing relevant ethical challenges and dilemmas into conversations. This may also translate into good ethical citizenship and the courage to speak up and report misconduct.

Interestingly, employee commitment to ethics is highly dependent on whether the other elements of an ethical culture are present. For example, employees may not be aware, nor understand the importance of ethical behaviour if they are not held sufficiently accountable for transgressing the ethical standards of the organisation (refer to ethics accountability and responsibility). Additionally, employee commitment is strongly related to supervisory and middle management commitment to ethics with most employees evaluating right and wrong through observation of their direct supervisors and managers and their attitudes and behaviour towards ethics (middle management commitment to ethics). Senior leadership also have a major role to play as their visibility regarding ethics and a commitment to ethics influences whether non-managerial employees demonstrate ethical commitment.
Non-managerial employees also observe how senior leadership treats middle management such as whether senior leadership demonstrate respect or show disrespect for their direct reports. The degree to which management can regulate accountability and engage in consistent treatment is a necessity to get the buy-in of non-managerial employees.

Another dimension strongly related to the ethical commitment of non-managerial employees is ethics awareness. Non-managerial employees cannot be expected to demonstrate ethical commitment if they are not aware of what is expected of them from an ethical perspective. Therefore, employees need to be made aware of the organisation’s ethical values and how these translate into real, visible behaviours.

Several questions that can be asked from an operational and oversight perspective, and activities required of an operational perspective to evaluate whether the organisation is serious about its non-managerial commitment to ethics are listed below.

<table>
<thead>
<tr>
<th><strong>OVERSIGHT:</strong> Crucial questions to be asked by oversight bodies</th>
<th><strong>OPERATIONALLY:</strong> The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do non-managerial employees buy-in to the organisation’s stance on ethics?</td>
<td>1. Ensuring that employees are trained on organisational ethics and understand the rationale behind ethics-related policies, rules, and procedures.</td>
</tr>
<tr>
<td>2. Are we indicating the importance of ethics from a strategic, financial, and operational perspective?</td>
<td>2. Encouraging management (senior and middle) to engage in visible ethics role-modelling (i.e., walking the talk). Ensuring that management help employees to make better ethical decisions and support them when they have ethical concerns.</td>
</tr>
<tr>
<td>3. Are non-managerial employees familiar with the values/convictions of the organisation?</td>
<td>3. Institution of an ethics induction training programme for all new employees entering the organisation.</td>
</tr>
</tbody>
</table>
### OVERSIGHT: Crucial questions to be asked by oversight bodies

4. Do non-managerial employees understand that ethics is important for business?

5. Are non-managerial employees aware of what is right and wrong conduct in the organisation?

6. Do non-managerial employees hold themselves and others accountable for unethical acts?

7. Does senior leadership and middle management translate the values of the organisation into real practical behaviours for employees to relate to?

8. Is the organisation ‘catching’ those who do wrong? Is there recognition for ethical decisions and behaviour?

### OPERATIONALLY: The presence of ethics management activities

4. Including an evaluation or assessment of ethical behaviour in the performance management system (i.e., KPAs and KPIs) for all employees.

5. Training employees to become informal ethical leaders (ethics ambassadors) in the organisation.

6. Constructing processes where employees are encouraged to admit mistakes and question the ethical conduct of peers and managers in a respectful manner.

7. Ensuring that employees are consulted and have a voice when policies and procedures that may affect them are altered or implemented.

8. Constructing trusted platforms where employees are encouraged to engage in ethics dialogue with one another and their managers.

---

### 3.4 Middle management commitment to ethics

**Description:**
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.
Time and time again organisational research and surveys have demonstrated that middle management either ‘makes’ or ‘breaks’ ethical culture.

The middle management band, including senior middle management, middle management proper, junior managers and supervisors form the backbone of the maturity of the organisational ethical culture. Time and time again organisational research and surveys have demonstrated that middle management either ‘makes’ or ‘breaks’ ethical culture.

Middle management is an important link between senior management and non-managerial employees. Unfortunately, middle management is also considered to be the most competitive and ambitious part of the organisational hierarchy. There is an old saying: “no one in middle management wishes to remain in middle management”. Such attitudes may result in the setting of unrealistic targets and even overlooking unethical behaviour in the pursuit of performance targets.

For middle management it is often all about climbing the corporate ladder. Weakness is not tolerated. Middle managers may also be more tempted than other employees to micromanage their subordinates, push very hard for performance outputs (even exploiting non-managerial employees to do so), and engaging in coercion, bullying and intimidation to get the job done. This behaviour may result in hiding mistakes, or in extreme cases concealing ethical failures.

Middle managers need to be effective ethical leaders to cascade the ethics message from the senior leadership of the organisation to non-managerial employees. Non-managerial employees view senior leadership and the organisation through their direct manager or supervisor. Consequently, if middle managers do not act as ethical role models, or have little ethical legitimacy, employees will view their senior leadership in the same manner.

It is necessary that middle management is incentivised to balance the expectations of varying stakeholder groups, including those of senior leadership and non-managerial employees. If senior leadership prioritise performance over ethics, middle management will do the same, sometimes even in a more amplified manner.
Ideally, middle management should ensure that they (1) lead by example (i.e., walk the talk); (2) build trust by delivering on promises and being reliable resources for non-managerial employees; (3) create a safe environment for employees to voice their ethical concerns and take such ethical concerns seriously; (4) hold employees and themselves accountable for any behaviour that may be ethically questionable and do so in a consistent, transparent and fair manner; and (5) support employees to make the right ethical decisions despite performance considerations.

Several questions that can be asked from an operational and oversight perspective, and activities required of an operational perspective to evaluate whether the organisation is serious about its middle management’s commitment to ethics are listed below.

<table>
<thead>
<tr>
<th>OVERSIGHT: Crucial questions to be asked by oversight bodies</th>
<th>OPERATIONALLY: The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do middle managers buy in to the ethics vision and values of the organisation?</td>
<td>1. Ensuring that middle managers are trained or inducted on the importance of ethics for the organisation.</td>
</tr>
<tr>
<td>2. Are middle managers viewed as visible ethical role-models?</td>
<td>2. Ensuring that middle managers are trained on the ethics policies, rules, and procedures of the organisation. Instructing middle managers to support and execute these rules, policies, and procedures.</td>
</tr>
<tr>
<td>3. Do middle managers take ethics into account before making decisions or acting? Are they incentivised to do so?</td>
<td>3. Establishing ethics performance criteria for middle managers (i.e., KPAs and KPIs).</td>
</tr>
<tr>
<td>4. Do middle managers have ethical legitimacy?</td>
<td>4. Extending the mandate to middle managers to translate the ethical values of the organisation into real and practical behaviours for employees. Ensuring there are formal and informal platforms for such conversations to take place.</td>
</tr>
<tr>
<td>OVERSIGHT: Crucial questions to be asked by oversight bodies</td>
<td>OPERATIONALLY: The presence of ethics management activities</td>
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<tr>
<td>-------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>5. Do middle managers hold employees fairly and consistently accountable for unethical behaviour?</td>
<td>5. Instructing middle managers to create open dialogue with subordinates and internalise their grievances and concerns. Embedding formal structures to support two-way communication between middle managers and their subordinates.</td>
</tr>
<tr>
<td></td>
<td>6. Mandating, empowering, and enabling middle managers to address ethical concerns and provide transparent feedback to their subordinates.</td>
</tr>
<tr>
<td></td>
<td>7. Evaluating middle managers in terms of the degree to which they treat their subordinates fairly, consistently, transparently, and with dignity and respect.</td>
</tr>
<tr>
<td></td>
<td>8. Enabling middle managers to act as an ethics resources and support mechanism for employees. Embedding a structure or system that can assist with this process.</td>
</tr>
</tbody>
</table>

### 3.5 Senior leadership commitment to ethics

**Description:**

The degree to which senior leadership (i.e., senior, and executive management) are committed to good ethical conduct; support employees to make better ethical decisions; enforce policies, rules, and procedures; and role-model ethical behaviour.
The commitment of senior leadership to ethics is a core prerequisite for building an ethical culture. We often use words such as ‘the tone at the top’ or ‘it starts with leadership’ to describe the importance of senior leadership regarding ethics. Simply put, if the senior leadership in the organisation do not prioritise ethics it simply will not be something central to the organisational culture. Moreover, the building of an ethical culture and oversight thereof by senior leadership is a key corporate governance guideline.

As with middle management, senior leaders should ensure that they (1) role model ethical behaviour in a visible and open manner (i.e., walk the talk); (2) build trust by delivering on promises and living the values of the organisation; (3) create an environment where it is easy for good people to do the right thing, and difficult for bad people to engage in unethical behaviours; (4) hold employees at all levels and themselves accountable for any behaviour that may be ethically questionable and do so in a consistent, transparent and fair manner; and (5) support employees to make the right ethical decisions and demonstrate ethical courage.

In short, senior leadership commitment to ethics is about ethical leadership. Professor Joanne Cuilla (2014, p.2), one of the foremost experts on leadership ethics defines leadership within the parameters of ethics:

“No matter how people become leaders, no one is a leader without willing followers. Managers, coaches, generals, and others may act like playground bullies and use their power and rank to force their will on people, but this is coercion, not leadership. Leadership is not a person or a position. It is a complex moral relationship between people, based on trust, obligation, commitment, emotion, and a shared vision of the good. Ethics is about how we distinguish between right and wrong, or good an evil in relation to the actions, volitions, and characters of human beings. Ethics lies at the heart of all human relationships between leaders and followers.”

Cuilla emphasises that being a leader is to lead ethically. It is vital that senior leadership ensure that they make ethics a focus of their leadership characteristics and core component of how they execute their tasks.

Relevant questions that can be asked from an operational and oversight perspective, and activities required of an operational perspective to evaluate whether the organisation is serious about its senior leadership commitment to ethics are listed below.
<table>
<thead>
<tr>
<th><strong>OVERSIGHT:</strong> Crucial questions to be asked by oversight bodies</th>
<th><strong>OPERATIONALLY:</strong> The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Has senior management formulated and endorsed a statement of strategic ethical intent?</td>
<td>1. Ensuring that senior leadership are informed of all ethics management processes and initiatives in the organisation.</td>
</tr>
<tr>
<td>2. Is the senior leadership setting an ethical example in a visible manner?</td>
<td>2. Ensuring that senior leadership are trained on the management and governance of ethics.</td>
</tr>
<tr>
<td>3. Does senior leadership verbalise and act on their commitment to ethics? Is their proof of this commitment?</td>
<td>3. Ensuring that senior leadership have been briefed or given feedback on the results of ethics risk assessments conducted in the organisation.</td>
</tr>
<tr>
<td>4. Are the values of the organisation ‘lived’ and ‘translated’ by senior and executive leadership? Is ethics part of executive meetings and agendas?</td>
<td>4. Ensuring that senior leaders are included in an ethics strategy and management plan development process.</td>
</tr>
<tr>
<td>5. Does senior management provide resources for the proactive management of ethics in the organisation?</td>
<td>5. Implementing platforms where leadership can engage regularly with employees about organisational ethics and values using a variety of communication methods.</td>
</tr>
<tr>
<td>6. Is senior leadership’s performance balanced with stakeholder value creation?</td>
<td>6. Ensuring that senior leadership communicate with employees in a two-way manner and take their grievances, suggestions, or concerns seriously.</td>
</tr>
<tr>
<td>7. Is there transparency in how leadership communicate in the organisation?</td>
<td></td>
</tr>
</tbody>
</table>
3.6 Ethics talk

Description:
The degree to which employees openly discuss ethics and ethical challenges with one another and their managers.

Ethics talk does not equate to whistleblowing or the reporting of unethical behaviour.

One of the most important ingredients for an ethical culture is whether people in the organisation intentionally and actively talk about ethics. Ethics talk does not equate to whistleblowing or the reporting of unethical behaviour. It is about discussing values and ethics both formally and informally. Usually, this type of ethics communication occurs among employees within and across various job levels and manifests as ethics dialogue. Ethics dialogue occurs during discussions between two or more people with the aim of resolving something, gaining better understanding, reaching consensus, or coming to a mutually beneficial decision or outcome. Speaking up, or raising ethical concerns, in a non-confrontational and non-sermon like, but assertive manner, is a typical sign of ethics talk.

Ethics dialogue is very different from a debate or a simple discussion. Whereas a debate usually has a winner and loser, dialogue is about reaching mutual consensus and compromise (i.e., walking away with a mutually beneficial outcome). A simple discussion may not necessarily resolve an issue or increase understanding or ensure consensus. Therefore, ethics dialogue is evident when employees actively talk about the application of their personal, professional, and organisational ethical values towards developing a better shared understanding of right and wrong, and reach moral consensus on a particular ethical challenge, dilemma, or decision.

There is a powerful correlation between the frequency of ethics talk in organisations and its ethical culture maturity. This relationship primarily relates to the organisation learning as a collective about values and ethical values specifically. In essence, ethics talk is the
vehicle through which the moral intelligence of the organisation grows and is transferred to its members.

Ethics talk results in adaptation to an ever-changing ethical landscape, a capability of assuming an ethical stance on difficult or ethically sensitive topics, dealing with ethical challenges and dilemmas effectively, and pre-empting ethics risks and opportunities that may arise in the organisation and which are not necessarily accounted for in a standard or rule.

Of course, ethics talk is heavily reliant on whether a conducive and open environment is created by both senior leadership and middle management for communication about ethics. If the environment is not conducive to ethics talk, e.g., a climate of distrust between management and employees, or when management dismisses employee concerns, fails to act on employee concerns, or see ethics as a taboo topic (i.e., something that should not be mentioned at work), effective ethics talk cannot be established.

The table below contains a number of questions that can be asked from an operational and oversight perspective, and activities required of an operational nature to evaluate whether the organisation is serious about developing ethics talk.

<table>
<thead>
<tr>
<th>OVERSIGHT: Crucial questions to be asked by oversight bodies</th>
<th>OPERATIONALLY: The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is ethics formally a point on the agendas of meetings overseen by leadership?</td>
<td>1. Ensuring that employees across job levels are trained in a basic ethics vocabulary (i.e., understand basic ethics terms and have a shared meaning of ethics).</td>
</tr>
<tr>
<td>2. Do employees understand how to report unethical conduct?</td>
<td>2. Creating formal opportunities both in person and through systems where employees can raise ethical concerns or make suggestions.</td>
</tr>
<tr>
<td>OVERSIGHT: Crucial questions to be asked by oversight bodies</td>
<td>OPERATIONALLY: The presence of ethics management activities</td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>3. Are employees comfortable to raise ethical concerns?</td>
<td>3. Mandating departments, teams, or employee groups to have ethics as a standing item on meeting agendas. Ensuring that the ethical implications of business decisions are considered and minuted.</td>
</tr>
<tr>
<td>4. Do employees perceive their leadership is listening to their opinions on ethical matters?</td>
<td>4. Training managers on what to do when an employee raises an ethical concern.</td>
</tr>
<tr>
<td>5. Are employees encouraged to talk about right and wrong, and empowered to bring ethics into formal meetings and agendas?</td>
<td>5. Training employees to know how to raise ethical concerns with their managers in a tactful and respectful manner.</td>
</tr>
<tr>
<td></td>
<td>7. Mandating senior leadership to engage in convictions conversations with middle management and non-managerial employees explaining the ethics vision and values of the organisation as well as the rationale behind the organisation’s ethics stance.</td>
</tr>
<tr>
<td></td>
<td>8. Actively rooting out negative language about ethics (i.e., language that dilutes or belittles ethical concerns).</td>
</tr>
</tbody>
</table>
3.7 The ethical treatment of employees

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

It is crucial that organisations and their management ensure that employees are treated with dignity, fairness, and mutual respect, and ensure that the legitimate ethical expectations of employees are met. Many employees harm their organisations because they reason that they deserve to take from it, as it takes too much from them. It is no coincidence that remuneration often becomes the focus of employees who feel poorly treated. As their expectations of remuneration rise employees feel exploited or misused by the organisation. Unrealistic performance expectations or exploitative working hours may have a similar negative impact.

Organisations need to establish a mutually beneficial relationship with employees and ensure that this important stakeholder group is well consulted and understood. Something as simple as changing a performance criterion or a financial benefit without employees being consulted can lead to major employee cynicism and thus potential perceptions of unfair and unethical treatment.

Employees may also react negatively to what they perceive to be ‘unjust systems’ in the organisation. These may be rules, methods of work, processes, or a system that may result in alienating employees. If the organisation is serious about treating its employees more fairly, it will actively respond with empathy when employees raise concerns about perceived unjust systems.

A number of questions that can be asked from an operational and oversight perspective, and activities required of an operational nature to evaluate whether the organisation is serious about treating its employees ethically, are listed below.
<table>
<thead>
<tr>
<th>OVERSIGHT: Crucial questions to be asked by oversight bodies</th>
<th>OPERATIONALLY: The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are the legitimate expectations of employees heard, understood, and responded to appropriately?</td>
<td>1. Ensuring that employee perceptions of fair and dignified treatment are polled and surveyed.</td>
</tr>
<tr>
<td>2. Do employees feel fairly and consistently treated?</td>
<td>2. Creating opportunities for employees to engage in two-way communication about their concerns or grievances. Ensuring that something is done about these concerns and communicated back to employees. Building systems or policies that facilitate this communication.</td>
</tr>
<tr>
<td>3. Are employees given ‘humane’ work and working conditions?</td>
<td>3. Evaluating whether performance criteria and expectations are realistic and achievable for employees. Ensuring that the ethics management function engages with the HR function regularly to ensure realistic job-performance targets are set.</td>
</tr>
<tr>
<td>4. Are performance expectations realistic?</td>
<td>4. Explaining HR policies to employees and polling their perception of such policies.</td>
</tr>
<tr>
<td>5. Are there active efforts to ensure that employees are treated with dignity and respect by managers and one another?</td>
<td>5. Ensuring that accountability measures are fair, transparent, and consistently implemented.</td>
</tr>
<tr>
<td>6. Are there employee assistance or wellbeing measures in the organisation?</td>
<td>6. Upskilling or training managers on conflict management, cultural differences and sensitivity, facilitation of discussions and ethics dialogue.</td>
</tr>
<tr>
<td></td>
<td>7. Ensuring there are mechanisms where employees are included in decisions that may affect them.</td>
</tr>
<tr>
<td></td>
<td>8. Creating a policy or guidance document on dignified employee interaction.</td>
</tr>
</tbody>
</table>
3.8 Ethics awareness

**Description:**
The degree to which employees at every job-level in the organisation are familiar with the ethical values, standards and policies of the organisation; and know what is expected of them in terms of ethical behaviour.

Ethics awareness is usually the focus of most organisational ethics management interventions. Awareness interventions may include processes to determine whether employees are aware of organisational ethics and what it means for them and for the organisation, and whether they are familiar with the code of ethics or conduct, or ethics related policies such as the gift policy, or conflicts of interest policy.

It is imperative that awareness interventions relate to knowing where to obtain advice about ethics, whether employees are aware of and familiar with the ethics reporting procedures in the organisation (i.e., the whistleblowing facility), and the extent to which they really understand what the ethical expectations of the organisation may be in terms of their daily work activities. Ethics awareness is just that: are employees aware of what is expected of them from an ethical perspective?

There are many different methods of generating ethics awareness including but not limited to:

- Ethics roadshows (i.e., events where ethics awareness is generated, and ethics expectations are communicated or marketed to employees).
- Stakeholder engagement initiatives (i.e., where the organisation meets with its internal and external stakeholders to discuss its ethics expectations).
- Formal ethics training and workshops (i.e., formally training employees on ethics-related topics and orientating external stakeholders about the ethics of the organisation).
- Values conversations (i.e., where management talk to employees about what is expected of them ethically as this relates to the values of the organisation).
• General ethics communication and transparency (i.e., where the organisation openly and transparently communicates to employees what its ethics vision is and how it will achieve this through an ethics strategy and management plan. This also involves communicating about accountability measures taken, and the current state of ethics in the organisation).
• Ethics induction programmes for new employees.

It is important to realise that ethics awareness, although a very important component of building an ethical culture, is not something that can function in isolation to all the other ethical culture building blocks mentioned earlier.

The table below contains a number of questions that can be asked from an operational and oversight perspective and activities required of an operational nature to evaluate whether the organisation is serious about creating ethics awareness.

<table>
<thead>
<tr>
<th>OVERSIGHT: Crucial questions to be asked by oversight bodies</th>
<th>OPERATIONALLY: The presence of ethics management activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the ethics subcommittee of the governing body responsible for ethics properly trained on the governance of ethics?</td>
<td>1. Ensuring that employees are aware of why ethics is important for the operations of the organisation. Ensuring that employees understand that organisational performance and success is strongly related to the ethics of the organisation.</td>
</tr>
</tbody>
</table>
2. Are employees aware of the ethics vision and statement of strategic ethical intent of the organisation?

3. Are there organisational policies, rules, and procedures that indicate the ethical expectations of the organisation? Are these policies, rules, and procedures readily available to employees?

4. Do employees need additional guidance on ethics related matters, dilemmas, or challenges? What are some of these matters, dilemmas, and challenges?

5. Are there ethics advice and ethics reporting systems in the organisation? Are employees aware of it and do they trust it?

6. Are there initiatives to ensure that external stakeholders are made aware of the organisation’s ethical standards?

7. Is there any evidence that demonstrates ethics awareness of the employee cohort?

2. Ensuring that senior and executive managers are aware of their ethics responsibilities through effective training and awareness sessions.

3. Ensuring that an employee induction programme is implemented for all new employees.

4. Establishing an ethics vocabulary for employees in the organisation.

5. Ensuring that ethics policies are easily available to all employees.

6. Ensuring that there is clarity on ethics policies in the organisation through formal training and awareness sessions.

7. Ensuring that employees are aware of an ethics helpdesk or ethics advisory function in the organisation.

8. Ensuring that employees know how to report unethical behaviour.
4. The ‘how’ of building an ethical culture

4.1 Top-down and bottom-up ethical culture development

There is an adage used often when it comes to organisational ethics: ‘ethical leadership starts at the top’. This term has been used so often that many have become desensitised to its true significance.

Some would argue that an ethical culture can be built from the bottom-up and not just the top-down. Of course, it is possible to change an organisational culture from the bottom-up. If leadership is open to what employees are concerned about and truly engage with them as an important internal stakeholder in a transparent manner, organisations can proactively address employee concerns or suggestions, and self-correct.

Unfortunately, the lack of positional power of employees at the lower job-levels of the organisation makes it very difficult for such an endeavour to succeed. Very often changing an organisation from the bottom-up alone may result in turmoil with the system being thrown bottom-up. This can create much chaos and often puts the organisation and its operations at risk. We have seen how such bottom-up change can result in dire consequences for the organisation, its employees, and communities (e.g., Eskom employee sabotage, and the Marikana incident).

Employees may also affect an organisational culture and its ethical dimension indirectly through levels of turnover (employees leaving the organisation of their own free will), substandard performance (go-slow), voicing outrage (picketing), or engaging in work stoppages or other unionised activities.

In essence, leadership should lead the way, employees should follow, but leadership should take the needs of employees seriously along the way.

The techniques mentioned above are messy. They can be costly and be a direct threat to the organisation’s existence. Ideally, leadership should form a mutually beneficial relationship with all employees and allow for transparent two-way communication.
In essence, leadership should lead the way, employees should follow, but leadership should take the needs of employees seriously along the way.

To truly build a significant ethical culture a combination of top-down and bottom-up approaches are recommended. One way this may work is by applying the speleology metaphor.

**Speleology: The study of mineral formations in caves**

When discussing mineral formations in caves, we often talk about stalactites and stalagmites.

A stalactite is an icicle-shaped formation that hangs from the ceiling of a cave and is produced by precipitation of minerals from water dripping through the cave ceiling. Most stalactites have pointed tips.

A stalagmite is an upward-growing mound of mineral deposits that have precipitated from water dripping onto the floor of a cave. Most stalagmites have rounded or flattened tips.

Stalactites grow downwards and stalagmites grow upwards. The eventually meet and form columns. Columns become strong structures that are sustainable. In the same way a top-down approach to forming ethical cultures can eventually fuse with a bottom-up approach that can grow into a very solid structure over time. In this way ethical culture is built downwards and upwards. Building an ethical culture thus becomes the responsibility of the entire organisation and not just the leaders.
But can employees realistically become co-creators of ethical cultures? To answer in the affirmative, it is crucial that employees are empowered and enabled to contribute to the ethics of the organisation. This requires an ethics competence. Such a competence is characterised by employees that:

- Understand the organisation’s values;
- Are able to translate ethical values into behaviours;
- Associate with other ‘good apples’ and not necessarily the ‘in’-group;
- Do not listen to rumours and gossip, but deal in facts;
- Act on their feeling that ‘something is wrong’;
- Ask ethics-related questions;
- Speak up, assertively but respectfully;
- Raise ethical concerns;
- Treat others fairly, with dignity and respect; and
- Protect the organisation’s reputation.

If you think you are too small to make a difference, you haven’t spent a night with a mosquito.

African proverb
4.2. A practical take on building an ethical organisational culture

During ethical leadership training sessions, we often hear the words “Sure, this ethical culture thing makes sense. But where do we start?”.

Of course, there is no simple answer. When prompted for opinions on what leadership could do to positively influence the ethical culture, abstract words and phrases are used. Typical responses are consistency, leading by example, we must be fair, and we need to be transparent. These suggestions are clearly aspirational and vague. More tangible action is thus required. We require actions that are more tangible, visible, and unambiguous to practically build an ethical culture.

When contributing to building ethical cultures leaders need to start with the controllables. These are things leaders and managers do daily. It includes decisions and actions over which they have proactive control. Ethical cultures are determined by five actions:

1. Who you hire.
2. Who you fire.
3. Who you promote.
4. What you talk about.
5. What you spend money on.

Organisations make decisions and take actions that affect the lives of their stakeholders, and employees in particular, on a daily basis. They then communicate these decisions or actions. Or communicate them somewhat. Or not at all.

The fact is that every decision or action, whether communicated or not, sends a signal to stakeholders. Think of it in terms of a green light versus a red light analogy. When organisations make decisions that contribute positively to the formation of an ethical culture, green signals are sent to employees and external stakeholders.
Green signals are sent when decisions and actions that enhance ethical cultures are clear and unambiguous and executed assertively. Red signals are sent when decisions are made, and actions taken that undermine the progress towards building an ethical culture.

In terms of the five determinants:

• **Who you hire**

  Should leaders hire a good apple, they send a green signal, but when they recruit and select a bad apple, they send a red signal.

• **Who you fire**

  The word ‘fire’ is a rather abrasive term, but it rhymes with ‘hire’. Green signals are sent when there is swift, fair, decisive, and transparent action to deal with ethics transgressors. For serious transgressions perpetrators are dealt with assertively, and even dismissed or ‘fired’. On the flipside, strong red signals are sent when there is failure to decisively deal with ethics transgressors.
• **Who you promote**

The employment of, and engaging with ethical employees and suppliers send clear green signals. Conversely, rewarding people for unethical behaviour through ingenious incentive schemes, showing clear favouritism in promotions and not promoting people on merit, are obviously red signals.

• **What you talk about**

Things leaders say stick. Of course, how they say it, also sticks. The narrative and discourse that emanate from leadership, influence attitudes and behaviour and send powerful signals.

Continuous talk about doing the right things and encouraging ethical behaviour obviously send green signals. Being sceptical and cynical about ethics in business, and reinforcing myths such as ‘its all about the bottom line’, may sound like tough business speak, but sends red signals.

• **What you spend money on**

> “Don’t tell me what you value, show me your budget, and I’ll tell you what you value.”  

Joe Biden

Being circumspect about the money that leaders spend on behalf of the organisation sends green signals. On the other hand, spending money disproportionately on non-essentials such as building new headquarter structures or entertaining lavishly (or even obscenely), sends red signals.

Having strong power bases, senior leadership and management are ideally positioned to send green or red signals. It becomes a simple choice. Leaders can start doing this immediately and there is not much cost involved.
4.3 Building an ethical culture in a virtual organisational context

The organisational landscape has changed drastically since the advent of the COVID-19 pandemic. Most organisations have opted for a virtual work environment. Or a hybrid model where some employees work at the organisational premises and others work virtually either full-time or part time.

A virtual organisation is a geographically distributed organisation where organisational members communicate and coordinate their work through information technology. While these organisations may have a physical aspect most employees work entirely online from various dispersed geographical locations.

In a virtual organisational context ethical conduct and culture transference has become more challenging.

Although this has resulted in greater efficiency for many organisations, ethical conduct and culture transference has become more challenging. Behaviour has become invisible. This means that for many organisations they cannot physically observe the behaviour or decisions of their employees in real time. It has also resulted in less visible role-modelling from leaders who are now communicated with on an ad hoc basis, if at all.

Secondly, certain ethics risks have become more prominent in the virtual organisation namely:

- Misappropriation of funds
- Window dressing (i.e., espousing ethics but not living it)
- Bribery and corrupt practices
- Supply chain risks
- Cybercrime, phishing, and digital fraud
- Online sexual harassment
- Online cyber bullying, coercion, and intimidation
- **Gaslighting**: (a practice whereby employees are made out to be responsible for mistakes they have nothing to do with).

The virtual organisation therefore has a central challenge: how to transfer culture when most of the culture components can no longer be visibly seen by employees.

**A new focus for virtual organisations**

Although virtual organisations create impediments to building an ethical culture, the same logic still applies. The building blocks of ethical culture need to be prioritised. However, additional work needs to be done to ensure that the culture is transferred effectively.

There are four focus areas that need to be considered when building a virtual ethical organisational culture:

- **Connectedness**: The organisation needs to ensure that employees have the means and platforms (either formal or informal) to remain in touch with one another and engage in ethics talk. It is easy for virtual organisations to revert to a silo mentality where subcultures can form. These subcultures do not necessarily reflect the organisational culture or ethical culture. Re-alignment and connection of employees across divisions, departments, and teams are thus an additional requirement when dealing with a primarily virtual organisation.

  Employees should thus have platforms, either formal or informal, where work can be done together in a visible manner.

- **Collaboration**: Retaining a connected culture is important, however, employees should also be encouraged to collaborate. Collaboration means that employees are encouraged, empowered, and enabled to complete work as a team, engage with employees outside of the direct team, or engage with employees at different job-levels. Collaboration allows employees to learn from one another and allows for ethical role modelling from
managers and supervisors. Employees should thus have platforms, either formal or informal, where work can be done together in a visible manner.

- **Trust:** Although most organisations require trust to build an ethical culture, virtual organisations require far more of it. This is partly because employees can no longer be physically monitored when they complete their day-to-day activities. Virtual organisations also result in less micro-management. For this reason, building a more aspirational and values-based ethical culture is more advantageous than focusing on compliance. It has become necessary to foster trust amongst employees instead of relying purely on policing them. Compliance focused organisations will thus struggle to attain more robust cultures in a virtual organisational landscape.

The organisation and its leadership are aware and conscious of not only what is communicated, but what may not be communicated.

- **Communication:** Virtual organisations need to communicate more frequently and more transparently than non-virtual organisations. This is easy to understand as most virtual organisations have a diluted communication system. This communication has to be used in a way that does not create information overload or fatigue. Using multiple methods of communication (i.e., email, webinars, or virtual meetings, learning management systems, physical but socially distanced meetings and multimedia) can help to reduce this fatigue and get the message across. The most important aspect is that the organisation and its leadership are aware and conscious of not only what is communicated, but what may not be communicated.

In virtual organisations it is more important than ever to treat employees in an ethical manner. Unethical treatment could easily occur due to perceived physical distance where task-oriented leadership dominate to hasten communication and to ‘get the job done’. More than ever leadership should be marked by sound interpersonal skills such as proper listening skills and empathy.
Conclusion

Although there are many elements required to build an ethical culture and many actors in the organisation required to do their part, following the governance and management of ethics framework presented in Section 1.5 of this handbook will allow the organisation to systematically improve its ethical culture.

This is the essence of developing an ethical culture. It should not be viewed as a process that requires everything in this handbook to be done all at once. Focusing on some of these recommendations will already make a difference. The role of the ethics function is therefore to help the organisation to start its ethics journey. If the organisation can start with but one intervention and complete this successfully, it may provide sufficient impetus to attempt a second intervention, and then a third and so on.

The core of building an ethical culture is the will to do so.

It is also important to understand that all organisations differ. This means that interventions and ethical culture building processes may take different shapes and forms in different types of organisations. However, the building blocks of an ethical culture presented in chapter 3 of this handbook remain generic and relevant to most organisations. In other words, although leadership commitment, ethics talk and ethical treatment of employees (to name only three) may be achieved differently across organisations in different industries and sizes, they remain important elements of robust and mature ethical cultures.

There are a few important factors that need to be considered when building an ethical culture however:
• **The size of the organisation**

Large organisations (i.e., those with hundreds or thousands of employees) take longer to develop and build their ethical culture. It is important to realise that an ethical culture is not built overnight. There are more people to convince, more systems to change, more new employees that enter the organisation periodically and more buy-in required in larger organisations. Additionally, interventions that may take weeks or months in a small organisation could take years in large organisations. Large organisations need to also combat bureaucracy, subcultures, or different operating contexts and cultures. It is therefore important that patience is practiced, and interventions followed through in these types of organisations. Large organisations should also set realistic expectations of the culture building process and should not expect a mature ethical culture in a year. A three-to-four-year period is more realistic, and even then large organisations are required to evaluate improvement in the ethical culture instead of focusing on a hard goal of achieving a mature ethical culture over this period.

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An ethical culture is not built by the ethics officer alone, but requires the assistance of every leader, manager, and employee.

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• **The empowerment and enablement of the ethics management function**

The ethical culture of the organisation is heavily dependent on ethics management interventions. These interventions are not just compliance oriented but must be constructed to improve the ethical culture of the organisation. It is therefore very important that the organisation puts a person or team in charge of this process. Normally the ethics management function is executed by a dedicated ethics officer in conjunction with other senior leaders in the organisation (often referred to as the ethics management committee). These individuals have to support the ethics management function. It is imperative that leadership provide both symbolic support and resources to the ethics management function for it to be effective at improving the ethical culture. It needs to be emphasised that an ethical culture is not built by the ethics officer alone, but requires the assistance of every leader, manager, and employee.
• **The levels of trust in the organisation**
Organisations that have a good level of trust and cooperation will find it much easier to enhance their ethical cultures. If an organisation is plagued by distrust, a lack of cooperation, or suffers from fear or cynicism, building an ethical culture will be much more difficult. Organisations may first need to re-establish a semblance of trust (especially in leadership) for any ethical culture building process to proceed. If the leadership are not trusted, or viewed as illegitimate, any ethical culture intervention will be met with cynicism.

• **The hierarchical structure of the organisation**
Organisations with more vertical control structures (i.e., more job levels and more authoritarian control) are often slower to develop their ethical cultures. Flatter organisations with more two-way communication may find the ethical culture building process easier and faster. It is important that hierarchical organisations ensure ethics buy-in from all job levels as the ethics message needs to go through various strata before it can be internalised by employees. If one job level does not come to the party, the ethics message may be skewed, or the organisation may suffer from the ‘broken telephone syndrome’.

Organisations that have a more adaptive, open, and egalitarian culture may find it easier to implement ethics interventions and change the ethical culture.

• **The current ethical culture**
The ethical landscape of an organisation also may act as a springboard for ethical culture development or may impede it. Organisations that have a more adaptive, open, and egalitarian culture may find it easier to implement ethics interventions and change the ethical culture. Organisations that are more traditional, risk averse, bureaucratic, less adaptable, and less open may find the process to be slower and more challenging.
In summary, organisations of any size, type, culture, or mode of ethics management can improve their ethical cultures. Organisations have a moral obligation to develop their ethical conscience and ensure that their stakeholders are considered. Building an ethical culture is more than merely reporting to shareholders and other stakeholders on how 'good' the organisation is. It should be about creating a more cohesive, effective, high performing and ethical organisational culture that is considered sustainable over the long-term. We hope that this handbook will allow anyone operating in the organisation to understand what is important in ethics culture building, how to do it, and where to start. We trust that organisations will see that developing an ethical culture is worth the effort, and important to not only the organisation, but also to all those that it interact with.


About the Authors

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Dr Paul Vorster is a registered industrial psychologist who has worked in leadership selection and employee assessment most of his career. He holds the position of internal research specialist at The Ethics Institute and is a senior research associate at the University of Johannesburg. He mostly focuses on psychometric measurement evaluation and construction and was awarded the Johann Schepers Award for advancing psychometric assessment in South Africa in 2016. He co-authored the *Ethics Ambassadors’ Handbook* in 2021. He currently focuses on the measurement of ethical culture and climate for organisations and is a certified ethics officer.

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The purpose of this handbook is to demystify the concept of ethical organisational culture and provide a practical understanding of what an ethical culture looks like and how it can be influenced and improved. Additionally, the handbook aims to elicit a better understanding of the concept ‘organisational culture’ and how it relates to an ‘ethical culture’, what the impact of an ethical culture is on the stakeholders of the organisation, and how an ethical culture can be evaluated and established. The handbook also provides guidance on the role of senior leadership, the governing body, and employees at different levels in the organisation and what they can and should do in the ethical culture building process. Lastly the handbook identifies critical success factors when building an ethical culture.