

## Exploring ethical culture: a case study in the South African insurance industry

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### **Abstract**

There are many examples of unethical conduct in South Africa. In this article, an ethical culture in organisations is proposed as a countermeasure. An ethical culture prevents ethical lapses that might threaten the reputation and even the continued existence of organisations. A strong ethical culture promotes doing the “right thing”, and should be reflected in the behaviour and actions of management and employees, and in policies, procedures and decisions. It is important for organisations to know how strong their ethical culture is and to identify possible weaknesses. This implies the measurement of the ethical culture. Little evidence could be found of research conducted on this topic in South Africa.

The purpose of the study was to explore ethical culture and to determine how it can be measured. The ethical culture of a JSE-listed company was quantitatively tested by means of a questionnaire and 203 employees participated. Results indicate an overwhelmingly positive ethical culture, which can be improved by attending to the workload of employees, allocation of resources, a procedure to provide feedback to whistle-blowers and rewarding staff for integrity.

Although the empirical findings cannot be generalised, they can give other organisations an indication of issues that also might need attention.

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**Key phrases**

*business; business ethics; business management; corporate governance; culture; ethics; ethical culture; financial industry; insurance company; JSE; South Africa*

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## **1. INTRODUCTION**

### **1.1 Ethics, South Africa and the financial industry**

Unethical conduct is part and parcel of the South African economy. In addition, there is evidence of eroding ethics among corporate leaders in South Africa (Booyesen 2016; Lamprecht 2016, Quintal 2012; Rippon, Royan & Asmal 2015). Examples are the bread price cartel (Seria 2007:Internet), reckless management of African Bank, tenders awarded by government institutions without following due procedures and payment of massive bribes. In 2017 at Eskom, South Africa's largest state-owned power utility, flaws in the accountability systems were identified and it was found that basic principles of good corporate governance were ignored. Questions were raised on excessive executive compensation and breaches in consultation processes. These systems are important for ensuring ethical public services (London 2017:Internet).

Among the corporate scandals, corruption is identified as one of the top problems in the South African economy and market (Irwin 2011:9; Van Vuuren 2004:12; World Economic Forum 2016:Internet). Accountability, responsibility, fairness and transparency reflect ethical conduct (Arjoon 2005:344; Ims, Pedersen & Zsolnai 2014:353; Kolk 2008:1; May, Li, Mencl & Huang 2014:656) and corruption a lack thereof. Of particular interest is the ethical conduct of financial institutions. As with other organisations, these institutions need to be ethical in order to be successful (Arjoon 2005:439; Beerli, Dayan, Vigoda-Gadot & Werner 2013:59).

The South African economy boasts a world-class financial sector – and the empirical study was conducted in this sector. The South African financial market development is ranked 12th in the world, market size 29th, business sophistication 33rd and innovation 38th (South Africa Info 2015:Internet; World Economic Forum 2016:Internet).

Society, businesses and organisations should have confidence in and trust financial institutions when using this industry's services and entering into business transactions (Payne 2007:19). One of the ways to maintain financial and economic stability, customer and investor trust, as well as minimise systematic risk is through managing financial institutions

ethically (Fidelis Institute 2010:Internet; Flynn 2012:171; Smith-Crowe, Tenbrunsel, Chan-Serafin, Brief, Umphress & Joseph 2015:791).

However, ethical lapses still occur in the financial industry globally (Federwisch 2016:Internet; Fidelis Institute 2010:Internet; Zaidi 2015:Internet) and these unethical practices have had significant repercussions, as they affect everyone – employees, clients, investors and governments (Federwisch 2016:Internet). The 2007/2008 global financial crisis (caused by financial institutions such as Lehman Brothers) is a good example (Clark 2008:Internet; Symmetra 2012:Internet). There are numerous other examples of unethical practices in the financial industry across the globe, for example The Common Wealth Bank (Morris 2015:Internet) and the Royal Bank of Scotland (Moore 2016:Internet). Research by Volvo (2015:Internet) and Zaidi (2015:Internet) also found that financial institutions do not always conduct business in an immaculate manner. Volvo (2015:Internet) maintains that if there is one industry that needs an “ethics overhaul”, it is the financial industry.

Although highly regarded, South Africa’s financial industry is not without ethical lapses. African Bank in South Africa, despite strict regulation of both the Johannesburg Stock Exchange (JSE) and the Financial Services Act, practised reckless business conduct and had to be bailed out by the Reserve Bank in 2014 for billions of rand and be put under curatorship. One of the consequences of this incident was a 17.2% decrease in confidence in South Africa’s financial industry (Pickworth 2014:Internet).

## **1.2 Improving ethics in South Africa: the King Code on Corporate Governance and professional codes of ethics**

Recurring ethical lapses in business and industry highlight the importance of regulation, supervision, consumer protection, corporate governance and ethics in business and the economy. For this reason, South Africa’s King Code on Corporate Governance includes guidelines on ethical management practices. The latest amendments to the King Code (King IV) promote principles and outcomes (rather than rules) and emphasise ethical leadership, behaviour mindset and attitude [culture] among other elements of corporate governance. King IV also introduces sector supplements and a specific supplement for retirement funds (applicable to investment companies) (Geral 2016:Internet). One of the elements dealt with in the King Code is ethical culture. An *ethical culture* is considered important when managing ethical conduct efficiently (Forcada, Groe, Keller, Lindberg, Vickers & Williams 2006:vi).

The King Code is not enforceable, as it is seen as a guideline (Deloitte 2016:Internet). Companies listed on the JSE are required to adhere to the King Code's guidelines as this is a listing requirement (Pierce & Kennedy-Good 2009:Internet). Most of the major leading South African financial and insurance institutions (or their holding companies) are listed on the JSE (Johannesburg Stock Exchange 2013:Internet). In addition to the listing requirements provided by the King Code, financial institutions are required to adhere to professional codes of ethics. Professional codes of ethics are industry specific and cover guiding principles for a specific group of professions (Van Wyk 2016:233).

There are numerous codes in the South African financial industry. The Financial Intermediaries Association of Southern Africa (FIA) (n.d.:Internet) requires its members to adhere to its Code of Conduct. Another example is the Independent Regulatory Board for Audits (IRBA) (n.d.:Internet) which has its Code of Professional Conduct. Therefore, these listed and financial institutions ought to not only manage for ethical conduct and adopt ethical cultures, but also to be at the forefront of these initiatives. In addition, it is apparent that ethical cultures need to be investigated.

### **1.3 Ethical cultures in corporate South Africa**

Given the importance of business ethics and ethical culture, in 2009, 2013 and in 2016 Ethics SA conducted business ethics surveys aimed at depicting JSE-listed organisations' state of ethics (Groenewald 2016:4). The findings indicated inter alia that the ethical cultures of participating companies needed to be strengthened. However, no significant improvement was noted between 2009 and 2013. It was also found that the participating companies did not fare well against indicators of a strong organisational culture (Groenewald 2016:17; Groenewald & Geerts 2013:34; Punt, Groenewald & Geerts 2010:44).

Despite maturity in the field of business ethics in South Africa (Rossouw 2011:99), limited research has been published on the *ethical culture* in South African institutions. The research focus of business ethics related articles includes topics such as corporate governance, disclosure practices (reporting), code of ethics, ethical values, prevention of corruption (or fraud), corporate citizenship and corporate social responsibility (CSR) issues in JSE-listed, multinational companies or small or medium-sized enterprises (SMEs) (see, for example, Littlewood 2014:39-63; Luiz & Stewart 2014:383-398; Marta, Singhepakdi &

Higgs-Kleyn 2001:755-772; Marx 2009:31-44; Parboteeah, Seriki & Hoegl 2014:979-1001; Smith, Mazibuko & Muzvidziwa 2015:447-472; Smith, Venter & Turyakira 2014:677-702).

The article by Parboteeah *et al.* (2014) focuses on ethnic diversity, corruption and ethnocultural climates in sub-Saharan Africa. A study done by Smurthwaite (2011:86) indicates that 115 business ethics related research publications were published in South Africa in the period 1995 to 2010, on topics such as CSR (15%), corporate governance (11%), economic justice (11%), ethics (9%), social and business issues (9%) and business ethics theory and teaching (8%). Other studies on business ethics suggest an approach to create shared meaning of ethics in organisations (see Van Vuuren & Crous 2005:399-412) and guidelines to build a strong corporate ethical identity (see Kleyn, Abratt, Chipp & Goldman 2012:61-76). However, no scientific articles focus on the evaluation or measurement of the ethical cultures of organisations, apart from the studies on the state of ethics in JSE-listed companies conducted by Ethics SA.

Therefore, there was a gap in research about what ethical culture entails, how it can be measured and how South African institutions perform in terms of *ethical culture* and the areas where they can improve to strengthen ethical cultures. This study aimed to close this gap, despite the limited scope of this study.

In the following section, the literature on business ethics and particularly ethical culture is explored. Then the methodology of the empirical study is explained and data analysis presented. Subsequently, the results and management implications are discussed. The article concludes with the limitations of the study and possible future research topics.

## **2. LITERATURE REVIEW**

### **2.1 Business ethics**

Business ethics is the study of behaviour and decisions in the business setting and the pursuit of determining these practices' acceptability, fairness and morality (Carroll & Buchholtz 2015:182). It concerns right and wrong, good or bad, ethical issues, fairness in behaviour, ethical dilemmas, conflicts of interest and moral decision making in organisations (Borah & Hazarika 2015:273; Carroll & Buchholtz 2015:182; Collins 2012:4). Organisations strive to manage ethical conduct in the workplace, as they face numerous ethical issues and dilemmas (Collins 2012:4). A lack of ethical conduct is reflected in abuse of organisational

resources, abusive behaviour towards or intimidation of employees, conflicts of interest, corruption, falsification and discrimination (Borah & Hazarika 2015:279; Collins 2012:6; Singh & Twalo 2015:515). Through formal management of ethical conduct and practices, organisations minimise the costs of possible lawsuits, protect their reputation, maintain customers' or clients' trust and public acceptance, maintain investor confidence and yield to pressure exerted by society for ethical corporate practices and transactions (Van Wyk 2016:230).

Within the business setting, ethics is formally managed through mission and value statements that reflect an organisation's ethical stance and values, codes of ethics (or conduct), reporting, ethical hotlines, ethical officers and committees and ethical training and education (Kaptein 2015:415; Majluf & Navarrete 2011:568; Ruiz, Martinez, Rodrigo & Diaz 2014:72; Smith-Crowe *et al.* 2015:792). Benefits of managing ethical conduct reach further than just minimising unethical conduct.

Research has highlighted that other benefits include competitive advantages gained through being ethical. Being ethical attracts and retains high-quality employees, customers, suppliers and investors, which in turn leads to improved and trustworthy information needed for decision making, employee productivity and improved quality of products and services (Collins 2012:14; Raza & Ramzan 2013:49;). In addition, managing ethics formally leads to a strong ethical culture, better decision making, customer loyalty and achievement of organisational outcomes (Riivari & Lämsä 2014:1; Valentine 2009:230; Verma, Mohapatra & Löwstedt 2016:73).

Globally, the suggestion is that the practice of ethics management will become more prominent. In South Africa specifically, ethical culture was identified as one of the primary outcomes to instil ethical and effective leadership (through corporate governance) in the business setting (KPMG 2017:Internet). According to Vittee (2015:Internet), a culture infused by moral sensitivity is necessary for the survival of contemporary organisations in South Africa. The central place of ethics, and subsequently ethical culture, in the business setting is further justified by leading practice documentation such as the King Code, the Public Service Integrity Management Framework (PSIMF) (KPMG 2017:Internet), as well as professional codes of ethics adopted by various industries such as the medicine, law, financial and accountancy industries.

## 2.2 Ethical culture

According to Bauer (2009:19), not only does ethics receive increasing attention in the business environment, but organisations are making efforts to develop ethical cultures. Belak (2013:530) states that while the formal structures are a core part of managing ethical conduct, supplementary to these structures is a strong ethical culture.

Formally managing ethics helps to promote ethical behaviour (discourage unethical behaviour), but an organisational (ethical) culture leads to more effective results (Belak 2013:530; Forcada *et al.* 2006:7; Jondle, Ardichvili & Mitchell 2014:29). Studies done by the Ethics Resource Center (2012:19) highlight that a strong ethical culture reduces misconduct in the workplace. Hartman and DesJardins (2011:151), Kaptein (2011:846) and Park and Blenkinsopp (2013:522) agree on the important role that a strong ethical culture plays in the ethical behaviour of employees.

Ethical culture is an aspect or element of organisational culture that affects the way employees think and act, especially in situations where ethics is applicable (Baker, Hunt & Andrews 2006:849; Beeri *et al.* 2013:62; Meinert 2014:42). Majluf and Navarrete (2011:568) define ethical culture as the ethical principles behind a corporate culture.

Ethical culture promotes ethical behaviour in various ways. It empowers employees to act ethically and responsibly, fosters positive organisational behaviour, is a significant component for ethical decision making and directly contributes to higher work engagement (employee commitment and trust), workforce performance and job satisfaction (Ardichvili & Jondle 2009:230; Fraedrich, Ferrell & Ferrell 2013:18; Hartman & DesJardins 2011:145; Huhtala, Feldt, Hyvonen & Mauno 2013:266; Martins 2015:757; Raza & Ramzan 2013:49; Riivari & Lämsä 2014:1).

An ethical culture is developed from components such as codes of conduct, orientation and training programmes, policies, authority structures (or top management), rewards and punishment, communication and reporting channels (or hotlines), ceremonies, norms, rituals, heroes, myths/stories and language (LeClair & Ferrell 2000:314; Palomino, Pablo & Martínez 2011:74; Schaubroeck, Hannah, Avolio, Kozlowski, Lord, Treviño, Dimotakis & Peng 2012:1054; Valentine & Fleischman 2004:381). In literature there is a distinction between strong and weak ethical cultures.

The Ethics Resource Center (2012:1) refers to strong ethical culture as a culture that promotes and prioritises doing the “right thing”. It is represented by ethical leadership and high levels of values that are evident in the behaviour of employees and organisational policies and decisions (Carroll & Buchholtz 2015:235; Ethics Resource Center 2010:1). In contrast to a strong ethical culture, a weak ethical culture represents the opposite, and an attitude of simply getting the job done – with no regard for doing so ethically (Ethics Resource Center 2010:1). In such a culture, unethical activities such as abusive behaviour, discrimination, stealing, dishonesty, favouritism, internet abuse, safety violations, breaches in confidentiality, alteration of financial records and environmental abuse are promoted (Raza & Ramzan 2013:48; Weiss 2009:303).

There is therefore growing interest in strong ethical culture, as it is seen as key to improve ethical behaviour in the workplace (Huhtala *et al.* 2013:266; Park & Blenkinsopp 2013:521). Therefore, in addition to managing ethical conduct, organisations should develop an ethical culture, especially those operating in the financial industry and JSE-listed companies, which ought to make this a priority.

In view of the preceding information, the following questions can be raised: What does an ethical culture entail? What are the characteristics or dimensions of an ethical culture? Pioneers in research done on ethical culture, Treviño, Butterfield and McCabe (1998) worked on, developed and tested constructs to measure ethical culture. However, the concept remained underdeveloped, justifying further development in this field. Based on their earlier work, Kaptein (2008) developed and tested the Corporate Ethical Virtues (CEV) Model. The CEV Model assists in assessing the elements (virtues) of corporate ethical culture. Ardichvili and Jondle (2009) and Jondle *et al.* (2014) developed this construct further. In their studies, characteristics of an ethical culture were identified, clustered in five groups (Ardichvili & Jondle 2009:448). Subsequently the Ethical Business Culture Survey or CEBS was developed (Jondle *et al.* 2014:31). At the time when this study was conducted, the CEV Model was the only developed and validated instrument that could be found in literature. Consequently, this model was the instrument selected to measure ethical culture in a South African insurance company.

According to Kaptein (2008:924), a strong ethical culture has certain *virtues*. Accordingly, a virtue-based theory of business ethics was developed. This theory states that there are

characteristics, or virtues, that allow individual employees and organisations to excel morally.

According to Kaptein (2008:924), the virtues that enable moral excellence of an organisation can be determined through the extent to which the organisational culture stimulates employees to act ethically, as well as avert unethical behaviour. These virtues create the organisation's internal environment for ethical conduct, reflected by the ability to stimulate employee ethical behaviour. In the article entitled "Developing and testing a measure for the ethical culture of organizations: the corporate ethical virtues model", Kaptein (2008:924) identifies and tests seven virtues that should be embedded in an organisation's ethical culture: 1) *virtue of clarity*; 2) *virtue of congruency*; 3) *virtue of feasibility*; 4) *virtue of supportability*; 5) *virtue of transparency*; 6) *virtue of discussability*; 7) *virtue of sanctionability*.

### **2.2.1 The virtue of clarity**

There should be clear guidance for employees on how to behave or make decisions ethically (Bannon, Ford & Meltzer 2010:56; Treviño & Nelson 2011:150). Adelstein and Clegg (2016:54) state that employees are required look to a code of ethics for guidance for ethical or "right" behaviour. Defined organisational values provide employees with essential guidance on the "right" behaviour and indicate what is expected of them. Organisations should have sound internal policies and codes of conduct. These policies and codes should be clear and simple and should include factors such as conflict of interest, limitations on accepting gifts, the use of social media, etc. (Perego 2011:3).

In conclusion, the *virtue of clarity* refers to clearly stated and all-inclusive ethical expectations of appropriate or inappropriate behaviour of employees. This means there is complete clarity about expectations of right and wrong conduct, authorisation, use of company assets, productivity during working hours, handling cash and other financial assets, dealing with conflicts of interest and sideline activities, dealing with confidential information, external persons and organisations and environmental issues (Kaptein 2008:924).

### **2.2.2 The virtue of congruency**

One of the essential elements of an ethical culture is supervisor reinforcement. It is leaders and managers who set the right tone and model ethical culture in an organisation.

Employees look to leaders, supervisors and managers to see that ethics is taken seriously and considered important (Bannon *et al.* 2010:56; Forcada *et al.* 2006:viii; Kaptein 2015:418; Perego 2011:2).

In conclusion, the *virtue of congruency* states that behaviour from employees to comply with desired expectations is reinforced when management's behaviour is consistent with the ethical expectations of the organisation. This includes managers' conduct in line with the shared set of norms and values, setting a good example, communicating the importance of integrity, not using unethical methods to achieve business goals, practising what they preach, fulfilling responsibilities and being honest and reliable (Kaptein 2008:925).

### **2.2.3 The virtue of feasibility**

Pressure to meet unrealistic business objectives or deadlines is a likely cause of dysfunctional or unethical behaviour (Al-Shbiel 2016:288; Forcada *et al.* 2006:vii). Employees will most likely compromise on ethical standards when they experience pressure to meet unrealistic business objectives and targets (Basran & Webley 2012:42). An organisation's management needs to monitor sources of pressure and coping strategies at work (Kermis & Kermis 2009:6).

In conclusion, the *virtue of feasibility* refers to a work environment or conditions fostered by an organisation that allow employees to comply with the ethical expectations and desired behaviour. This refers to an environment where nobody will expect somebody to do something in conflict with their conscience, giving up personal norms and values or breaking the rules. It also includes sufficient time, information and resources to carry out tasks responsibly (Kaptein 2008:925).

### **2.2.4 The virtue of supportability**

Trust plays an important role in employee commitment to the organisation (Ehlers, Lessing & Theledi 2016:752; Pucetaite, Lamsa & Novelskaite 2010:198). According to Pucetaite *et al.* (2010:198), trust arises from ongoing compliance with consistent ethical principles and values. Trust in leadership can coach employees towards organisational commitment and organisational citizenship behaviour (OCB) (Leroy, Palanski & Simons 2012:256). OCB can be defined as discretionary behaviour in which an employee engages and which is above

and beyond his/her formal job description. This behaviour is aimed at promoting the effective functioning of the organisation (Kannan-Narasimhan & Lawrence 2012:196; Mitonga-Monga, Flotman & Cilliers 2016:1065). It can be said that trust drives behavioural integrity (Leroy *et al.* 2012:256).

In conclusion, the *virtue of supportability* refers to a work environment in which employees experience trust and respect and with which employees identify, and they approve of the organisational values and standards. It includes a total commitment to the (stipulated) norms and values of the organisation, an atmosphere of mutual trust between colleagues, managers and non-managers, the best interests of the organisation and respect for one another (Kaptein 2008:925).

### **2.2.5 The virtue of transparency**

To practise sound business ethics, there should be an abundance of goodwill, transparency and ethical behaviour. Transparency refers to the visibility of organisational systems and decision making. It can be viewed as “being open” or “being clear” and as the “visibility” of actions and decisions and the reasons behind them (Crumpton 2011:128). Transparency must be present in planning and actions in order to have an influence over followers and other stakeholders. It is also through transparency that a leader’s own set of values and ethics is evident to others (Crumpton 2011:128).

In conclusion, the *virtue of transparency* is concerned with the visibility of employees’ or managers’ conduct and its consequences to all in the organisation. It includes awareness of potential violations and incidents, adequate checks to detect unethical conduct and transparency with reporting of unethical conduct (Kaptein 2008:926).

### **2.2.6 The virtue of discussability**

Communicating the importance of ethics and supporting one another in doing the right thing are essential elements of an ethical culture in an organisation (Bannon *et al.* 2010:56). Employees and co-workers teach or learn from each other in their work environment (Ethics Resource Center 2010:1).

Communicating ethics will result in increased awareness of ethical practices in the organisation (Fraedrich *et al.* 2013:366). Employees who speak their minds freely are more

likely to challenge unethical actions (Forcada *et al.* 2006:5). Consequently, organisations ought to promote a work environment that stimulates “ethical communication”, and should also encourage employees to communicate (or report) ethical issues (Kaptein 2015:417).

In conclusion, the *virtue of discussability* concerns the opportunities employees have to discuss ethical matters and ethical issues arising in the workplace. This includes the cautious handling of reporting of unethical conduct, taking any suspicion or reports of unethical conduct seriously, freedom of speech about ethical matters, opportunities to discuss moral dilemmas, respectful handling of implicated individuals, scope for corrective action and different alternatives to reporting unethical conduct (Kaptein 2008:926).

### **2.2.7 The virtue of sanctionability**

Formal and/or informal systems of sanctions are an important determinant of behaviour because they direct employee actions. When a situation in the workplace takes place, managers must maintain control by imposing sanctions or distributing rewards (Bell 2010:9). Employees will stay clear of unethical behaviour when punishment is involved (Kaptein 2008:927).

Rizk (2008:248) postulates that the adoption of a comprehensive ethics programme should be integrated into an organisation’s system of rewards and punishment. Previous studies indicate that rewarding ethical conduct results in greater ethical conduct in organisations (and vice versa).

Rewards and punishment influence people’s ethical behaviour, and they are more willing to modify their behaviour accordingly (Zhang, Chiu & Wei 2009:631). Rewards and punishment are also elements to develop an ethical culture (Small 2006:593; Treviño & Nelson 2011:153; Van Wyk 2016:238).

In conclusion, the *virtue of sanctionability* concerns the extent to which unethical behaviour is punished and ethical behaviour rewarded. This includes holding people at all levels accountable, valuing ethical conduct, favouring people with integrity, disciplining unethical conduct even at managerial levels, generally upholding norms and standards and rewarding ethical conduct (Kaptein 2008:927).

The virtues discussed above formed the basis for the questionnaire for the empirical study.

### **3. RESEARCH METHOD AND DESIGN**

#### **3.1 Research design**

Various companies in the financial sector were approached to participate in the survey. However, only one company, an insurance company, was willing to do so. The participating company was listed on the JSE. This study can therefore be regarded just as a case study and is not indicative of the whole industry. The methodology followed in this study was quantitative in nature and in the form of an online survey with the aim of evaluating the ethical culture of the participating institution, based on the experience and perceptions of staff members and managers.

#### **3.2 Sample and sampling techniques**

The sample frame for this study was one of the major insurance companies in South Africa. Staff members of the company's Gauteng retail division were sampled using a stratified random sampling approach. This technique allowed for the proportional selection of managers and non-managers in order to identify perceptual differences with regard to the ethical culture. A total of 875 online questionnaires were distributed and 203 were fully completed (66 by managers and 137 by non-managers). According to Krejcie and Morgan (1970:608), this is an appropriate sample size. This represents a total active response rate of 27.69%.

#### **3.3 Research instrument**

A *questionnaire* was employed and was sent electronically (via email) to all candidates sampled. The questionnaire used in this study was developed and tested by Kaptein (2008:927) based on the CEV Model. The corporate ethical virtues identified (discussed above) thus formed the foundation for the questionnaire. Another measuring tool has been developed by other researchers, but they have not tested this model properly (see Ardichvili & Jondle 2009:223-244; Jondle *et al.* 2014:29-43.)

The constructs and items in the questionnaire were specifically developed to measure the ethical culture of an organisation. The virtue of congruency was divided into two parts during the development stage. Part A concerned the congruency of supervisors (or first-level managers) and part B the congruency of managers (senior managers and board members).

A six-point rating scale was used in the original questionnaire. In this rating scale, respondents were asked to what extent they agreed or disagreed with a statement or series of statements on a six-point rating scale, with 1 indicating “strongly agree” and 6 “strongly disagree” (Kaptein 2008:928). However, for this research study a seventh option was added. This response option comprised “I don’t know”, in case a respondent did not have any knowledge of what was asked and therefore was unable to express any opinion.

During the development phases of the questionnaire, Kaptein (2008:927) tested the seven virtues for validity in international organisations and with management consultants in the field of international business ethics. All items were also tested for reliability (Kaptein 2008:927). However, in this research study, the research instrument was used in the South African financial services industry.

Through exploratory and confirmatory factor analysis, the research instrument’s validity was tested and confirmed in the South African business environment. Reliability was measured by calculating Cronbach’s alpha coefficients. This was tested on all the factors identified in the factor analysis. The Cronbach’s alpha coefficients for the eight constructs ranged between 0.747 and 0.938, which was above the 0.7 minimum value (Saunders, Lewis & Thornhill 2012:283). Table 1 depicts the Cronbach’s alpha values per construct.

**TABLE 1: Cronbach’s alpha values per construct**

Construct	Cronbach's alpha value
Virtue of clarity	0.881
Virtue of congruency: supervisors or line managers	0.938
Virtue of congruency: manager/head of division or department	0.920
Virtue of feasibility	0.747
Virtue of supportability	0.928
Virtue of transparency	0.828
Virtue of discussability	0.882
Virtue of sanctionability	0.869

### 3.4 Data analysis

The data collected through completed web-based *questionnaires* were captured using SPSS. Descriptive statistics (including the mean scores) were used. The mean scores were used to examine the perceptions of staff members regarding the ethical culture of the leading South African insurance company.

### 3.5 Research ethics

Ethics was an integral part of the planning and methodology of this study and the rights and interests of all the participants were protected. Firstly, permission was obtained for the use of the research instrument (which was slightly adapted) from the originator (Kaptein 2008:923).

In addition, research conducted in this study aimed to maintain the participants' trust in researchers and research. Participants had the opportunity to refuse participation or withdraw their consent to participate in this research at any stage during the research process. In instances where participants decided to withdraw, the data obtained from them were discarded. Participants were asked to give their consent, which allowed them to continue with the research process.

Consent was obtained in electronic format, and in turn, participants were given information that adequately explained the details of the research. No data, information, references or any other detail that might link the identification of a participant and/or the particular insurance company to the particular findings and data were mentioned or included in this study.

### 3.6 Trustworthiness

The researchers were as objective as possible in analysing the data and reporting the findings. The analysis and discussion of findings are based on the primary data collected.

## 4. RESULTS, INTERPRETATION AND FINDINGS

Table 2 summarises the statements (measuring a particular virtue) with the highest and lowest mean values for both managers' and non-managers' responses.

**TABLE 2: Summary of statements with highest and lowest mean values**

VIRTUE OF CLARITY			Mean values
<b>Managers' response</b>	Highest:	CL10: In my immediate working environment, it is sufficiently clear how we are expected to <i>conduct ourselves</i> in a responsible way	5.26
	Lowest:	CL9: The organisation makes it sufficiently clear to me how I should deal with <i>environmental issues</i> in a responsible way	4.09
<b>Non-managers' response</b>	Highest:	CL7: The organisation makes it sufficiently clear to me how I should <i>deal with confidential information</i> responsibly	5.23
	Lowest:	CL9: The organisation makes it sufficiently clear to me how I should deal with <i>environmental issues</i> in a responsible way	4.40

VIRTUE OF CONGRUENCY – PART A			
<b>Managers' response</b>	Highest:	COA3: My supervisor would <i>never</i> authorise unethical or illegal conduct to meet business goals	5.39
	Lowest:	COA2: My supervisor <i>communicates the importance of ethics</i> and integrity clearly and convincingly	5.09
<b>Non-managers' response</b>	Highest:	COA3: My supervisor would <i>never</i> authorise unethical or illegal conduct to meet business goals	5.34
	Lowest:	COA2: My supervisor <i>communicates the importance of ethics</i> and integrity clearly and convincingly	4.87

VIRTUE OF CONGRUENCY – PART B			
<b>Managers' response</b>	Highest:	COB4: The board and (senior) management would never authorise unethical or illegal conduct to meet business goals	4.89
	Lowest:	COB1: The conduct of the board and (senior) management reflects a shared set of norms and values	4.38
<b>Non-managers' response</b>	Highest:	COB3: The board and (senior) management communicate the importance of ethics and integrity clearly and convincingly	4.75
	Lowest:	COB2: The board and (senior) management set a good example in terms of ethical behaviour	4.37

VIRTUE OF FEASIBILITY <sup>1</sup>			
<b>Managers' response</b>	Highest:	FE2: In order to be successful in my organisation, I <b>do not</b> sometimes have to <i>sacrifice my personal norms and values</i>	4.61
	Lowest:	FE3: I have <b>sufficient</b> <i>time</i> at my disposal to carry out my tasks responsibly	3.65
<b>Non-managers' response</b>	Highest:	FE6: In my job, I <b>am not</b> sometimes put under pressure to break the rules	5.09
		FE3: I have <b>sufficient</b> <i>time</i> at my disposal to carry out my tasks responsibly	3.65
	Lowest:	FE5: I have <b>inadequate</b> <i>resources</i> at my disposal to carry out my tasks responsibly <sup>2</sup>	3.79

VIRTUE OF SUPPORTABILITY			
<b>Managers' response</b>	Highest:	SU3: In my immediate working environment, everyone has the <i>best interests of the organisation</i> at heart	4.74
		SU6: In my immediate working environment, <i>everyone treats one another with respect</i>	4.74
	Lowest:	SU 4: In my immediate working environment, a <i>mutual relationship of trust prevails</i> between employees and management	4.44
<b>Non-managers' response</b>	Highest:	SU6: In my immediate working environment, <i>everyone treats one another with respect</i>	4.69
	Lowest:	SU4: In my immediate working environment, a mutual relationship of trust prevails between employees and management	4.41

<sup>1</sup> All the statements in this construct (feasibility) were reverse scored to align them with the other constructs. Hence, the average value reflects the ratings of the opposite of the statement as indicated in bold in each statement.

<sup>2</sup> FE5 was an additional statement with a low mean value.

VIRTUE OF TRANSPARENCY			
<b>Managers' response</b>	Highest:	TR1: If a colleague <i>does something</i> which is <i>not permitted</i> , my manager will find out about it	4.79
	Lowest:	TR4: If I criticise (report) other people's unethical behaviour, I will <i>receive feedback</i> on any action taken as a result of my criticism	3.65
<b>Non-managers' response</b>	Highest:	TR1: If a colleague <i>does something</i> which is <i>not permitted</i> , my manager will find out about it	4.32
	Lowest:	TR4: If I criticise (report) other people's behaviour, I will <i>receive feedback</i> on any action taken as a result of my criticism	3.65

VIRTUE OF DISCUSSABILITY			
<b>Managers' response</b>	Highest:	DI2: In my immediate working environment, I have the opportunity to <i>express my opinion</i>	5.20
	Lowest:	DI10: If reported unethical conduct in my immediate working environment does not receive adequate attention, there is sufficient opportunity to raise the matter <i>elsewhere</i> in the organisation	4.17
<b>Non-managers' response</b>	Highest:	DI2: In my immediate working environment, I have the opportunity to <i>express my opinion</i>	4.92
	Lowest:	DI10: If reported unethical conduct in my immediate working environment does not receive adequate attention, there is sufficient opportunity to raise the matter <i>elsewhere</i> in the organisation	4.13

VIRTUE OF SANCTIONABILITY			
<b>Managers' response</b>	Highest:	SA2: In my immediate working environment, ethical conduct is <i>valued highly</i>	5.17
	Lowest:	SA6: In my immediate working environment, only people with <i>integrity</i> are considered for <i>promotion</i>	3.56
<b>Non-managers' response</b>	Highest:	SA2: In my immediate working environment, ethical conduct is <i>valued highly</i>	5.15
	Lowest:	SA6: In my immediate working environment, only people with <i>integrity</i> are considered for <i>promotion</i>	2.98

(1 = strongly disagree; 2 = disagree; 3 = slightly disagree; 4 = slightly agree; 5 = agree; 6 = strongly agree)

Table 2 highlights the individual statements that scored the highest and lowest for managers and non-managers. The mean values range between 3.65 (indicating slightly disagree) and 5.39 (indicating agree to strongly agree). Based purely on the lowest scores, table 2 indicates certain areas where improvement is possible.

The statements with the lowest mean values entail the following:

Clarity (CL9) – *The organisation makes it sufficiently clear to me how I should deal with environmental issues in a responsible way.* This statement's lowest mean value was 4.09 for managers and 4.4 for non-managers. The lowest means are above 4 (slightly agree), which means that the company's stance on ethical conduct was clear to all.

Congruency (COA2) – *My supervisor communicates the importance of ethics and integrity clearly and convincingly.* The lowest mean value for this statement was 5.09 for managers and 4.87 for non-managers. The lowest mean scores are close to 5 (agree), which means that people in higher positions (supervisory) took the lead in ethical conduct.

Congruency (COB1) – *The conduct of the board and (senior) management reflects a shared set of norms and values.* The lowest mean value for managers was 4.38. (COB2) – *The board and (senior) management set a good example in terms of ethical behaviour.* The lowest mean value for non-managers was 4.37. The lowest mean values are above 4 (slightly agree), and the conclusion can be made that the board and senior management set norms and values and set an example.

Feasibility (FE3) – *I have sufficient time at my disposal to carry out my tasks responsibly* (reversed). The lowest mean value for both managers and non-managers was 3.65. One additional statement FE5 – *I have adequate resources at my disposal to carry out my tasks responsibly* (reversed) logged a low score, in the disagreement range, with a low mean value of 3.79 for non-managers. The means between 3 and 4 (slightly disagree) indicate that the personnel were to some degree overburdened with work. In addition, 'available resources to properly perform work' was a problem to some degree.

Supportability (SU4) – *In my immediate working environment, a mutual relationship of trust prevails between employees and management.* The lowest mean value for managers was 4.44 and for non-managers 4.41. The lowest mean values of above 4 indicate that the virtue of supportability was present in the ethical culture of the organisation.

Transparency (TR4) – *If I criticise [report] other people's [unethical] behaviour, I will receive feedback on any action taken as a result of my criticism [report].* The lowest mean value for both managers and non-managers was 3.65. The mean values of above 3 (slightly disagree) indicate that transparency can be improved for these particular aspects.

Discussability (DI10) – *If reported unethical conduct in my immediate working environment does not receive adequate attention, there is sufficient opportunity to raise the matter elsewhere in the organisation.* The lowest mean score for managers was 4.17 and for non-managers 4.13. The mean values above 4 (slightly agree) indicate that ethical conduct was communicated and discussed in the organisation.

Sanctionability (SA6) – *In my immediate working environment, only people with integrity are considered for promotion.* The lowest mean score for managers was 3.56 and the lowest mean score for non-managers was 2.98. The low mean scores fall in the disagree range. This means that the company did not reward ethical conduct with promotion.

The virtues with item *mean values below 4*, indicating slightly disagree to disagree, are areas for improvement and justify further discussion.

With regard to feasibility - FE3 *I have sufficient time at my disposal to carry out my tasks responsibly* (reversed) suggests that neither the managers nor non-managers had sufficient time at their disposal to carry out their tasks responsibly. This could be because either (1) they were generally overburdened or (2) they did not have sufficient time at certain times, in certain situations and/or during certain seasons (e.g. month-/year-end).

The reason could also be that the time allocated to certain tasks and goals was unrealistic and/or that employees were not skilled or were unable to manage their time. This might also suggest that there might not be enough people (human resources) employed to do the tasks at hand. Lastly, managers might delegate tasks and responsibility and demand that these be prioritised, which could lead to (1) subordinates leaving their own tasks in order to meet the delegated task's deadline; and (2) less time to accomplish their own goals and tasks.

Feasibility - FE5 *I have adequate resources at my disposal to carry out my tasks responsibly* (reversed). Resources may include human resources, funds, facilities and equipment. This finding may suggest that there were not enough human resources (assistants) to alleviate the workload; this might be in line with the findings of statement FE3. It is doubtful that a

JSE-listed company does not have enough funds, facilities and equipment at the disposal of employees to complete their tasks responsibly and ethically.

Regarding **transparency**, TR4 - *If I criticise [report] other people's behaviour, I will receive feedback on any action taken as a result of my criticism [report]* may suggest that managers and supervisors did not give feedback on possible investigations or steps taken as a result of the criticism (reporting possible unethical conduct). There was clearly no system in place to provide feedback. Feedback is important to give assurance to whistle-blowers that the company is serious about not tolerating unethical or unacceptable behaviour. It is important to investigate the reported misconduct carefully and this takes time. However, simply an acknowledgement of the receipt of the complaint and an assurance that the matter will receive attention should be acceptable feedback as a start. This statement was used according to the instrument of Kaptein. The word "criticise" could have been interpreted differently by the various participants, which could have influenced the response to the statement. However, the participants had the option to indicate that they did not know.

One statement in the **sanctionability** category scored the lowest of all statements: SA6 – *In my immediate working environment, only people with integrity are considered for promotion*. The lowest mean score may mean that the organisation promoted employees or managers who did not always act with integrity and ethically. There might be many reasons for these perceptions. One can only speculate about this. It also means that integrity was not a criterion for promotion in this company.

The *final overall conclusion* that could be made is that the company that participated in the study had an overwhelmingly strong ethical culture. The areas that need more attention relate to dealing with work pressure, inadequate time and resources, feedback on reporting unethical behaviour and rewarding ethical conduct.

The discussion above revolved around the individual items within the different virtues. The overall picture with regard to the different virtues is summarised in table 3. Table 3 depicts the virtues with the overall highest and lowest mean values according to managers', non-managers' and total responses.

**TABLE 3: Virtues with overall highest and lowest mean values**

	Managers' response	Non-managers' response	Total responses
<b>Highest (according to mean values)</b>	Congruency (5.22)	Clarity (5.14)	Congruency (5.14)
<b>Lowest (according to mean values)</b>	Feasibility (4.19)	Transparency (4.02)	Transparency (4.14)

(1 = strongly disagree; 2 = disagree; 3 = slightly disagree; 4 = slightly agree; 5 = agree; 6 = strongly agree)

Table 3 indicates the mean values for the highest and lowest mean scores for the virtues from 4.02 to 5.22. These mean values suggest that there is an overwhelmingly strong ethical culture within this insurance company. However, table 2 and the subsequent discussion above highlighted the possible areas for improvement of the ethical culture of this company (based purely on the lowest mean scores or a score lower than 4).

## 5. SUMMARY AND IMPLICATIONS

Managing ethical conduct is important in organisations to ensure long-term sustainability. This is particularly so for financial institutions. For organisations that are serious about doing the right thing, creating and maintaining an ethical culture throughout the organisations is important. This study explored the intricacies of ethical culture by means of a literature study. Management is not possible without a measurement of performance. Therefore, an important part of the literature study was to identify issues to be included in the measurement of ethical culture. Dissecting an ethical culture showed various dimensions, and many smaller issues that are not normally considered as part of ethics in organisations were exposed. Examples are workload, environmental responsibility, relationships between colleagues and different levels, respect in the workplace, expressing opinions and fair treatment. The obvious and the less obvious ethical issues work together to form a strong ethical culture.

An instrument that was identified in literature was adjusted slightly and used to measure the ethical culture in a JSE-listed insurance company that was serious about managing their

ethics. Results from this study indicate an overwhelmingly strong ethical culture and identify a few areas that can be improved.

Although the empirical findings cannot be generalised due to the limited scope, they can give other organisations an indication of issues that might also need attention. For example, workload and constant pressure on employees is a phenomenon experienced in many organisations and industries all over the world. It is not an issue that can be ignored. Organisations need to determine the severity of the workload and consider corrective action such as streamlined processes or more employees. A related issue is a lack of resources at the disposal of employees to perform their tasks efficiently. An aspect that other companies might also lack is not having a feedback procedure in place when unethical conduct is reported. Another aspect is taking ethical conduct for granted and not rewarding employees for integrity. Integrity and high values cannot be taken for granted in South Africa today. They are important to ensure sustainable ethical conduct throughout the organisation – from the top to the lowest level workers. Integrity or ethical conduct should be a criterion for promotion at all levels. Then only will it be clear to all that ethical conduct is ingrained in the culture of the organisation.

## **6. LIMITATIONS**

The single most important limitation of this research study is that the findings cannot be generalised across the financial sector and the insurance segment, because only one company was willing to participate in the study. Accordingly, the sample was not representative of the insurance sector. A measurement of ethical culture specific to South Africa, perhaps incorporating elements of the King Code, could better assist in sketching a picture of ethical culture in South African organisations.

## **7. RECOMMENDATIONS FOR FUTURE RESEARCH**

There are future research opportunities in further exploring the dimensions or virtues of an ethical culture, for example possible significant differences between managers' and staff's perceptions. Additional future research opportunities include 1) assessing the culture of other insurance organisations in South Africa, to gain insight into the overall status of ethical culture in the insurance sector, and 2) broadening the study's scope to include the financial

industry as a whole. Such studies could assist in identifying which dimensions of ethical culture are strong in the insurance sector or the wider financial industry, and which ones are lagging. A valid and reliable measurement to assess ethical culture within the South African context (incorporating principles of the Code) could be researched and developed.

## 8. CONCLUSION

Given issues such as widespread corruption and an evident lack of ethical corporate leaders in South Africa, focus on a (strong) ethical culture in corporate South Africa is essential. This is particularly true for financial institutions that work with the public's money and livelihood, and the expected compliance with Acts and codes of ethics which govern this industry.

From literature, it is evident that there are limited studies on the measurement of ethical culture, particularly in South Africa. Therefore, the objective of this study was to explore ethical culture and to determine how it can be measured in South African circumstances. Being the first of its kind in South Africa, the study contributes to the body of knowledge, with practical implications.

A previously developed instrument to measure ethical culture was identified and applied within a South African insurance company. The study found that the participating company had a strong ethical culture, but some weaknesses exist, although not to a large extent. Workload and constant work pressures, lack of resources needed to conduct work tasks, lack of communication (feedback) and promotion criteria, which includes integrity, were some of the weaknesses identified. Measurements to address weaknesses in ethical culture might further increase the strength thereof.

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