South Africa as a tourist attraction – A study into the internal ethical state of organisations across sectors

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Abstract

South Africa is regarded as a major tourist attraction with tourism contributing immensely to the country's economy, although it is being hampered by relatively high levels of crime and corruption. These aspects are very complex and does not form part of this study. This study explores a new concept of perceived ethical capacity (PEC). PEC is a combination of ethical climate (EC) and ethical leadership (EL) within organisations in South Africa. Some ethical barometer (in terms of expected ethical treatment) when tourists decide to visit the country is provided. The concept is derived from a multi-level perspective, supported by the social learning, social exchange and behavioural isomorphism theories. This conceptualisation is intended to supplement and not to replace other ethics-related conceptualisations or models. The data from two independent studies (a total of 2123 respondents, across 36 organisations in both the private and public sectors) was analysed. The results, based on scientifically validated measurements within the South African context, showed that the PEC is relatively positive, with close to 40% rating it high (although a slight, but significant difference between the sectors was found, with respondents from the public sector rating it less favourably). The results of this study indicate that tourists can expect ethical treatment and conduct from organisations in general (including its leaders and employees), in both the private and public sector.

Keywords: behavioural isomorphism, ethical climate, ethical leadership, multi-level thinking, social exchange theory, social learning theory, tourism

Introduction

Tourism in South Africa (SA) is very important for the country, as a result of its social and economic value. According to StatsSA, the tourism sector directly contributed around 3% to South African gross domestic product (GDP). The Chief Executive Officer of South African Tourism, Mr. S. Ntshona stated during the 2018 International Travel Trade Show in Germany that tourism should be expanded and nurtured to ensure continuous growth and sustainability. From a political standpoint, the Minister of Tourism, Mr D Hanekom (MP) encourages every South African to promote tourism by making the experience of every tourist an exceptional one. This would, according to him, result in the country becoming a better place (Republic of South Africa, 2018).

According to StatsSA (2018), the tourism sector has outperformed other industries in the last few years in terms of job creation and growth, even though it has experienced challenges. Some of these challenges include legislative uncertainty (VISA requirements) and concerns for the personal safety of tourists. Various industries contributed to the successes (and gains) from tourism, and therefore it is very difficult to isolate tourism related activities. The reason being that it occurs across multiple industries, directly as well as indirectly. Based on the appeal of the Minister, Mr D Hanekom, this study aimed to determine the ethical state of SA organisations (referred to as business ethics), regardless of the linkage to tourism. Retail, communication and transport are but some of the industries directly linked to tourism. This was done by exploring a new concept of perceived ethical capacity (PEC) that is a combination of ethical climate (EC) and ethical leadership (EL) within organisations in SA. PEC provides some ethical barometer (in terms of expected ethical treatment) for tourists that decide to visit the country. The concept is derived from a multi-level perspective, supported by a number of theories from Social Psychology.

Business ethics is generally regarded as a struggle within a battle, and the battlefield is the organisation. Leading authors in the field introduce this analogy as a major paradigm shift, accompanied with alternative theorising aimed at understanding business ethics (Kaptein, 2017). These views sound most inappropriate – unreal, even – as they suggest that the introduction of business ethics in the workplace is intended to create more good than harm. However, the recent realities and truths of unethical conduct in the workplace have indeed resulted in a struggle to demonstrate and practise sound ethical and moral judgement and in resistance to this struggle. No organisation in today's business environment escapes this epidemic of unethical conduct that constantly confronts one with adversaries and/or resistance, both of which seek to undermine high ethical standards in business. Cressey (1953) attributes this mainly to two forces, namely temptation (pulling one towards unethical conduct) and conforming to pressure (pushing one towards unethical conduct). These forces are also very evident and relevant in the South Africa (SA) (and African) context where the organisational complexities are compounded by racial and ethnical divisiveness, self-enriching and egoistic leadership, unemployment and inequality (Mathooko, 2013). This unique history is also seen as contributing to the occurrences of corruption and greed in public as well as private organisations, impacting negatively on the ethical climate (EC) and culture of organisations (Woerman, 2012). Recent assessment by external institutions such as Transparency International (2016) and Business Anti-Corruption (2016) reported low rankings on the Corruption Perceptions Index (with 45% - 64th internationally). The University of Stellenbosch Business School (USB, 2014) reported that SA business has dubious perceived ethical capacity-related characteristics.

From an internal perspective, many organisations use unstandardised surveys, audit reports and risk assessments to determine the state of ethics in their organisations. In other instances, ethical culture, ethical climate – and recently, ethical leadership – are used as ethical constructs to provide a measure or yardstick of an organisation's ethical and moral standing. However, if the understanding of ethics is approached from a multi-level perspective within an organisation, could there be any other construct of relevance that could provide an additional understanding of the ethical state of an organisation? More specifically, could the combined perceptions of ethical practices and mechanisms in an organisation provide some indication of that organisation's capacity and appetite to overcome this struggle and succeed in the battle?

Therefore, the purpose of this study is to propose a new construct, namely perceived ethical capacity (a composite construct consisting of ethical climate [EC] and ethical leadership [EL]), conceptualised from a multi-level perspective, and based on the social learning, social exchange and behavioural isomorphism theories. This introspection further allows not only confirmation of the accurate measurement of related organisational ethical constructs (specifically the partly validated Ethical Climate Questionnaire [ECQ]). It furthermore provides a benchmark and protocol (preventing typical cross-level fallacy) to measure the state of ethics in organisations in the future.

Model Conceptualisation

The foundation of the conceptualisation is multi-level thinking and analysis, with interrelatedness being a central element associated with it. The interrelatedness is not only horizontal, but also vertical, across the different levels as depicted in Figure 1. The conceptualisation is based mainly on the premise of the social learning, social exchange and behavioural isomorphism theories and is intended to complement/supplement and not to replace existing ethics theories and models.
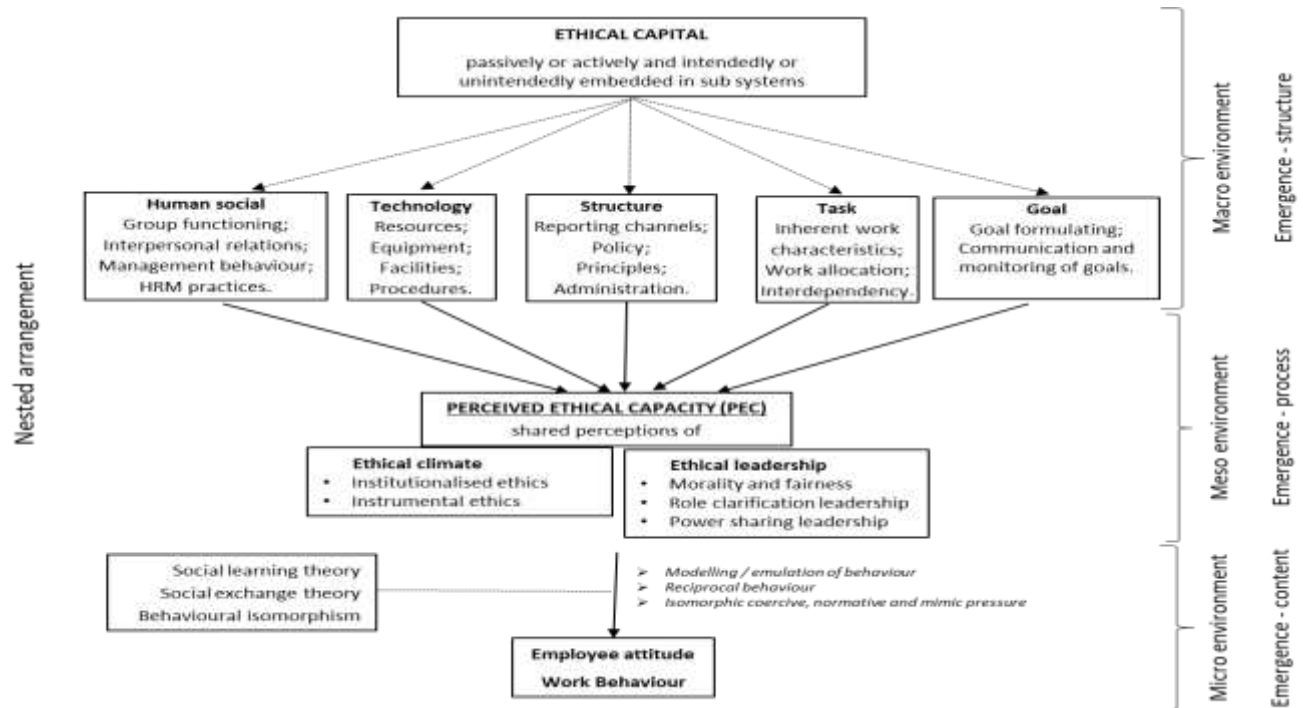

Figure 1: Conceptualisation of perceived ethical capacity (PEC) from a multi-level perspective
Source: Authors

The micro-meso-macro framework by Dopfer, Foster and Potts (2004) is used to depict and explain the vertical interrelatedness and interdependency across the levels, whether the influence is top-down, bottom-up or bi-directional, according to Aryee, Walumbwa, Seidu and Otaye (2012). Although the micro-meso-macro framework was initially developed within the economic disciplines, it is in essence a multi-level perspective. The multi-level perspective is about the identification of principles that enable users to understand the integrated nature of a phenomenon across levels (Kozlowski & Klein,

2000). Dopfer et al. (2004) defined three distinct levels of analytical structure (levels of analysis) which comprise the knowledge base of any economic (or organisational) system. This framework is, however, considered to be universal and applicable across disciplines and phenomena and can therefore be utilised within the broad domain of organisational behaviour (House, Rousseau & Thomas-Hunt, 1995). Through the integration of the three levels of analysis, one can establish connections that link elements (or components) together within a larger whole (Jeurissen, 1997), if the conditions for statistical aggregation of data (to establish a higher level) are adhered to, and to prevent the so-called cross-level fallacy (Hitt, Beamish, Jackson & Mathieu, 2007; Rousseau, 1985).

Dopfer et al. (2004) emphasised that individuals and groups influence macro-organisational phenomena. As individuals interact with their environments, and vice versa, it occurs in the nested arrangement postulated by Hitt, et al. (2007). Macro-organisational components are typically the organisational structure, mandate and organisational strategy. In terms of the emergence of a collective phenomenon theory, the higher-level units are represented by the forming of structure which can be (but is not limited to) organisational structure as well as the departmentalisation of the organisation (Fulmer & Ostroff, 2016).

The meso level, on the other hand, is based on the transactional or instrumental component and concerns the study of at least two levels of analysis simultaneously, with one or more levels concerning individual or group behavioural processes, as well as one or more organisational processes, and the linking and/or bridging of the respective processes (House et al., 1995). It is aimed at synthesising the micro and macro-organisational processes. The meso level is focused on processes within the organisation, with leadership, decision-making, organisational policies and practices considered typical meso constructs (House et al., 1995). In terms of the emergence of a collective phenomenon theory, it is regarded as a process of emergence (Fulmer & Ostroff, 2016) which is based on the interactions between the parts within the organisation.

The micro level, according to Kyriakidou and Özbilgin (2006), is the study of individuals as the elementary unit of analysis, assuming fixed identities, interests, goals and preferences. It therefore represents individuals as self-subsistent entities. The emergence of a collective phenomenon theory regards this component as the content and as representing the lowest level. It is often called the raw individual contribution to the phenomenon (Fulmer and Ostroff, 2016).

Thus, to understand organisational behaviour constructs (including ethical behaviour in organisations) with their multiple levels of analysis, one needs to understand that organisations or units of enquiry (components) are, according to Kyriakidou and Özbilgin (2006), a continuous process of interaction and interrelatedness (a dynamic system). The different levels, as depicted in Figure 1, are *ethical capital* and the organisational subsystems (as macro or structure components), the *perceived ethical capacity* **[PEC]** (which is a combination of perceived **EL** and **EC**) as meso or process components, and employee attitude and work behaviour as the micro or content component. The forming and shaping of the micro or content component is explained through the social learning and social exchange theories, as well as behavioural isomorphism.

Ethical capital

According to Bull, Ridley-Duff, Foster and Seanor (2010), ethical capital mobilises and facilitates moral values, and is a part of a subset of different forms of capital. Examples are physical capital (mobilising natural resources), economic capital (mobilising financial resources), human capital (mobilising labour resources) and intellectual capital (mobilising intellectual resources). Wagner-Tsukamoto (2005) suggests that ethical capital conveys the asset of morality in an organisation. He outlines three levels of ethical capital; firstly, the passive, unintended moral agency, in other words, just doing good business, with the main focus on profits and operational efficiency. The second level of ethical capital is labelled as passive, intended moral agency that builds on the previous level, but with a deliberate intention to ensure that all processes adhere to the organisation's values and morals. Lastly, active, intended moral agency aimed at maximisation of ethical capital, for instance through social corporate responsibility and corporate citizenship is outlined as the third level of ethical capital. Ethical capital is considered the ethical fibre embedded and penetrated in all the subsystems of the organisation and cannot exist independently (Wang, 2015). The reconciliation of ethical capital across all these subsystems, as an embedded function (passive/active or intended or unintended), maximises all other types of capital.

Five interdependent subsystems, namely the human social, technology, structure, task and goal subsystems (Field & Abelson, 1982; French & Bell, 1999) are included. The horizontal interdependency across the subsystems is central to the General Systems Theory (GST). Boulding (1956) suggests that GST has significance in most disciplines, and that its foundation and assumptions are almost universal. The foundation of GST is based on the assumptions firstly that components are interrelated and secondly that the relationship between the components is characterised by the fact that a change in one component would influence the other components (Boulding, 1956). This is in line with the central proposition to multi-level thinking, specifically where organisational entities are regarded as existing in nested arrangements (Hitt et al., 2007), whether this is in an informal group or team, or within the subsystems of the organisation as a whole.

PEC and contributing variables

PEC is, for the purposes of this study, regarded and analysed as a meso-level variable. Capacity, in its most modest form, is the amount of something that one can do, emanating from one's ability to perform a task, to overcome a particular challenge, or to deal adequately with a situation. From an organisational level perspective, capacity is the ability of an organisation to accomplish its undertaking through a combination of an all-encompassing management philosophy, strong governance, and continuous assessment of progress towards achieving results (Grantmakers for Effective Organizations, 2003). PEC is therefore conceptualised as the inherent willingness and ability of the organisation (in terms of instrumental imperatives, e.g. policies and procedures) as well as individuals within the organisation (leaders as well as employees in general) to create and maintain an ethical work environment. Hence, the inherent will and belief of those in the organisation that high standards of ethics are important and are practiced throughout the organisation. PEC is seen as an emerging construct that resonates with the notion that both EL and EC are dormant – not visible, but potentially able to achieve expression when actors are requested to make ethical-related decisions.

Ethical leadership (EL) – EL is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (Brown & Treviño, 2006: 595). According to Yasir and Mohamad (2016), ethical leaders are honest and fair individuals who inspire and reiterate the importance of moral conduct to their followers, as well as in their decision-making. Furthermore, EL deals with the character displayed by those entrusted with governance. These leaders display characters such as integrity, responsibility, fairness, honesty, accountability, and competence in their decision-making (Rossouw, 2013). Vorster (2017) further describes EL as the extent to which leaders embed an ethical culture and are committed to displaying good moral behaviour. From the above definitions, two schools of thought emerge. In the first, EL is viewed from a behavioural perspective, and in the second, from a morality perspective. Brown, Treviño and Harrison (2005:120) are from the first school and they define EL as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making". This is in congruence with Resick, Hargis, Shao and Dust's definition (2013: 952). They emphasise that EL "is demonstrated through normatively appropriate conduct and one's personal actions and interpersonal relationships with others. This conduct is promoted through two-way communication, reinforcement, and decision-making." De Hoogh and Den Hartog (2008) also include behaviour that highlights focusing on fair-mindedness, role clarification and sharing power.

On the other hand (and related to the second school of thought), EL refers to the moral leader, a matter of having good values, portraying a good character, and being a person of strong personality (Monahan, 2012: 55-56). Therefore, EL contains a variation of values, motives, and behaviours, including personal characteristics such as fairness, selflessness and honesty (Yukl, Mahsud, Hassan & Prussia, 2013).

Stouten, van Dijke, Mayer, De Cremer and Euwema (2013) reveal EL as being a combination of behavioural and moral aspects through the incorporation of ethics in the leaders' decisions, and in their conduct based on their values and interests. The influence of EL on the organisation, and specifically its employees, could be described in accordance with the so-called trickledown effect, with a cascading down of ethical and appropriate behaviour (Wang, Xu & Liu, 2016). They also support the delineation of this phenomenon, seeing it as occurring when people (leaders and followers) are working closely together "side by side" effect (Weaver, Treviño & Agle, 2005). Weaver, Treviño and Agle (2005) believe employees are often influenced most by those closest to them, in other words the people they work with every day and not executive leadership who are very often viewed as faraway figures whose influence on employees' behaviour is regarded as minimal. The underlying principles of this trickledown or side-by-side effect are associated with the social learning theory (Bandura, 1977) and the social exchange theory (Blau, 1964), as well as with behavioural isomorphism (DiMaggio & Powell, 1983).

Ethical climate (EC) - Schneider (1975: 474) defined organisational climate in general as "a stable, psychological meaningful, shared perceptions employees hold concerning procedures and policies existing in their organisation". This seminal definition is largely used in defining EC which is, according to Cullen, Parboteeah and Victor (2003:128), a subset of the more general array of work climates, with the focus on the shared perceptions about the handling of organisational practices (including leadership) with moral consequences. Victor and Cullen (1987:51-52) defined organisational EC as

"shared perceptions of what is ethically correct behaviour and how ethical issues should be handled". Victor and Cullen (1988: 101) refined the definition to read as: "the predominant perceptions about the procedures and practices of the organisation that have ethical content, or the prevailing perceptions of typical organisational practices and procedures that have ethical content" (Victor & Cullen, 1988:101). Cullen et al. (2003:129) expanded the definition to include the "components of the individual's environment as perceived by the members", including organisational procedures, policies and practices with moral consequences (Huang, You & Tsai, 2012; Martin & Cullen, 2006; Shin, 2012; Tsai & Huang, 2008).

These organisational procedures, policies and practices should contain elements of a fair process criterion, such as consistency, lack of bias, correctability, representation, accuracy and ethicality, according to Colquitt, Conlon, Wesson, Porter and Ng (2001). This is all assessed in terms of what the employees consider (ethically) acceptable behaviour (Treviño, Butterfield & McCabe, 1998). Acceptable ethical behaviour is defined as "what is considered right or wrong within the organisation" (Kapp & Parboteeah, 2008: 29), and how ethical issues should be addressed (Deshpande, Joseph & Shu, 2010).

In summary, PEC is, for the purposes of this study, regarded to be the perception of employees of the organisation's intrinsic characteristic\capacity to be able to function ethically and morally. It is construed to be intangible and dormant by nature. In practical terms, there exists a possibility that ethical behaviour and conduct (including ethical decision-making and leadership behaviour) will be shaped by a system or set of shared moral principles. PEC (as a meso-level variable) acts as a catalyst in determining the emerging conduct and behaviour when ethical dilemmas arise, regardless of the nature, magnitude or risk that it may pose (on micro-level).

Employee attitudes and behaviour

The micro-level (employee attitudes and behaviour) (emergence – content), as depicted in Figure 1, is influenced by PEC as a meso-level component (emergence – process) through the social interaction, social exchange and a need to conform. The social learning theory suggests that learning occurs within a social context, thus also in an organisational setting. Bandura (1987) believes that people learn from one another through observation, imitation and modelling. The social exchange theory emphasises that the streams of transactions between two parties are based on a sense of obligation to reciprocate positive or negative actions of the other party (Blau 1964). In practical terms, employees would feel obliged to reciprocate support, trust and fair treatment that they receive from their leaders by acting with integrity and ethically. The nested arrangement thus includes the micro and macro environments as individuals are nested in work groups. These work groups are nested in larger organisational units, such as departments or organisational subsystems and these, in turn, are nested in the organisation (Hitt et al., 2007). The organisation, for the purposes of this article, is nested in either the private or the public sector.

In addition to the social learning and social exchange theory, the shaping of ethical behaviour can be viewed from an isomorphism perspective. It was deemed appropriate here to adapt the original institutional isomorphism thinking of DiMaggio and Powell (1983) to ethical behaviour in organisations. For this study, instead of studying organisations in society, employees within an organisation (and specifically their

perceptions of the ethical related variables) are the level of analysis. According to Meyer and Rowan (1977), as well as March and Olsen (1989), organisations continuously attempt to decrease heterogeneity and to promote homogeneity, specifically when it comes to acceptable ethical behaviour of all employees. The institutionalisation of acceptable behaviour reflects the values and expectations of the organisation and can be regarded as a form of isomorphism (*iso* – equal or similar; *morphism* – form) and is therefore referred to as behavioural isomorphism in this study. Consistent with the social learning and social exchange theories, isomorphism can be achieved through three types of pressures, namely coercive, mimetic and normative pressures (DiMaggio & Powell, 1983). Coercive isomorphism places pressure on employees to reflect the formal and informal expectations of the organisation that could be vested in policies, procedures and practices. Acceptable behaviour is rewarded, and unacceptable behaviour is punished. Normative isomorphism results primarily from employees aligning their behaviour to what is considered to be acceptable and appropriate. Lastly, and associated with the social learning theory, is mimetic isomorphism, where employees model themselves on other employees and leaders, also in terms of the employees' perception of the ethical nature of leadership in an organisation.

This study thus recognises the relevance of the perceptions of ethical climate and ethical leadership as it is associated and contributes to organisational and employee outcomes (ethical behaviour as well as employee well-being), consistent with the social learning, social exchange and behavioural isomorphism theories. The introduction of PEC as a new concept provides additional insight into this field.

Research Design

Research approach
This study employed a typical empirical paradigm using a cross-sectional design and quantitative analysis. Surveys were used to generate data.

This paper is based on two independent studies. Ethical clearance was obtained from the Unisa Graduate School of Business Leadership (SBL) Research Ethics Committee.

Research participants
The population (*N*) of studies 1 (2015) and 2 (2016) consisted of employees of 21 and 15 organisations respectively, with 60 employees per organisation selected randomly (N=2 123). This study is multi-sectoral with close to 75% (1 583) of the respondents being from the private sector and 25% (540) from the public sector. The mean age of the respondents was 37 years (*SD*=9.00), and the mean tenure in the specific organisation was 8 years (*SD*=7.00). These characteristics suggest that the respondents have the necessary experience (in terms of age) and exposure to their organisations (in terms of tenure) to respond to the constructs measured in this study.

Statistical analysis
The statistical analysis was conducted with the use of Statistical Package for the Social Sciences (SPSS), version 25. Cronbach's alpha coefficients, interim correlations as well as confirming factor analysis (CFA) were done to determine the validity and reliability of the instruments. Missing values were deleted case wise and the data set was analysed to identify and eliminate unengaged responses.

To confirm the exploratory results of the ECQ (as reported by Grobler 2016), a CFA was conducted by testing a higher order, multi-dimensional ethical climate model. To assess the model fit, several fit indexes were used, including the comparative fit index (CFI), the root mean square error of approximation (RMSEA), chi-square (χ^2), and the ratio of the differences in chi-square to the differences in degrees of freedom (χ^2/df). Given that there is no one acceptable cut-off value of what constitutes adequate fit, it was elected to use a CFA value of .90 and an RMSEA value of .08 or less as indicative of adequate fit (Byrne, 2010).

Descriptive statistics, more specifically mean scores, standard deviation, kurtosis and skewness, were used to determine the normality of the data distribution and the appropriateness of the use of parametric statistical techniques. The skewness and kurtosis values were assessed against the critical values of 2.00 and 7.00 respectively (West, Finch & Curran, 1995), which is an indication that the data is normally distributed.

Structural equation modelling (SEM) was used to confirm the PEC concept in accordance with the CFA fit index. As measurement invariance is regarded to be a prerequisite for meaningful interpretations and valid cross-group comparisons, an elementary cross-validation assessment was performed to determine invariance between the private and public sectors. It is important that items and constructs are understood and interpreted the same way across different samples. This means that the variance in the observed score differences between groups (in this case the private and public sectors) should not be a result of group membership, but rather of the construct being measured. The indexes of the CFA were used to assess the measurement invariance.

The chi-square statistic, along with the associated probability of chance observation, was computed for the categorical variables. Phi, as well as Cramer's V-values, was used to report the effect size of the differences. The parameters for the phi coefficient with regards to effect size were established, with .10 being small, .30 medium and .50 large in terms of effect (Pallant 2013). Cohen (1988) is of the opinion that effect size for behavioural and psychological studies should be regarded as significant, even with small effect (Cramer's V > .10), as it represents a meaningful difference. Tolerance, as well as the variance inflation factor (VIF), was calculated to test possible multicollinearity. If the value of tolerance is less than .20 and the VIF value is larger than 10, this suggests multicollinearity of the variables.

Measurement instruments

Ethical Leadership Questionnaire (ELQ)
The ELQ, developed by De Hoogh and Den Hartog (2008), was used in this study. It consists of three dimensions, namely morality and fairness, role clarification, and power sharing, and these were measured, as validated and confirmed by Grobler (2017) within the SA context. This instrument is designed to elicit the respondents' perceptions of the behaviour of leaders.

The first dimension, namely m*orality and fairness* was assessed using six items measuring leaders demonstrating honesty, trustworthiness and high ethical standards, which includes the considerate and fair treatment of employees. The first item reads "*The leaders in my organisation make sure that their actions are always ethical*". The second dimension, *role clarification leadership*, was measured using five items

measuring leaders' transparency, engagement in open communication, clarification of expectations and responsibilities. A typical item reads "*The leaders in my organisation explain who is responsible for what.*" The third and last dimension, *Power sharing leadership,* refers to behaviours providing followers with voice and allowing them participation in decision-making. A typical item reads "*The leaders in my organisation allow subordinates to have influence on critical decisions*". The instrument uses a seven-point Likert scale, ranging from 1 (strongly disagree) to 7 (strongly agree). The Cronbach alpha coefficients reported by Grobler (2017) ranged from .82 to .95, which is deemed to be acceptable.

Ethical Climate Questionnaire (ECQ)
The ECQ was developed by Victor and Cullen (1989; 1988) and originally consisted of nine factors (later reduced to six then five), utilising a six-point Likert scale ranging from 0 (strongly disagree) to 5 (strongly agree). Grobler (2016) has conducted an exploratory factor analysis (EFA) on the EC within the SA context and reported a three-factor model with the factors having acceptable Cronbach alpha coefficients, ranging from .74 to .93. The first factor is *Institutionalised ethics (ethical work environment)* and is defined as a working environment where employees and management are openly interested in the well-being of each other as well as that of all stakeholders and customers, where all organisational (and individual) behaviour adheres stringently to their professional codes of practice and governance through disciplined and consistent following of the rules and mandates of the organisation in order to be efficient. A typical item reads "*What is best for everyone in the organisation is the major consideration here*".

The second factor is *Instrumental ethics* and is defined as the joint maximisation of organisational interest (including company profit for private sector organisations) and, subsequently, the interest of employees of the organisation. A typical item reads "*People are expected to do anything to further the organisation's interests, regardless of the consequences*". The third factor is called p*ersonal morality* and is defined as the perceived degree of discretion (and independent ethical reasoning) that a decision-maker must apply in respect of his or her personal ethical beliefs and morality within the organisational context. Employees are expected to follow their own personal and moral beliefs and to decide for themselves what is right and wrong, guided by their own personal ethics. A typical item reads "*In this organisation, people are guided by their own personal ethics*".

The initial step of the study was to conduct a confirmatory factor analysis (CFA) on the ECQ to establish its construct validity, as Grobler (2016) conducted only an EFA on the instrument. The rationale for this step is to ensure that all the instruments used in this study are validated within the SA context. The other instrument, namely the ELQ has been validated by Grobler (2017). This will enhance the accuracy and validity of the measurement related to this study.

Results

The results of the CFA on the ECQ confirmed the work of Grobler (2016) with the first-order model in which all 26 items loaded directly on the three respective factors (i.e. *Institutionalised ethics, Instrumental ethics* and *Personal morality*) was the best fitting model. The results indicated an acceptable fit ($\chi^{2/df}$ (266) = 7.84, *CFI* = .93, *TLI* = .91, *RMSEA* = .06). The descriptive statistics as well as the internal consistency of each of the factors are reported in Table 1.

Table 1: Descriptive statistics, Cronbach alpha coefficient of the factors of the ELQ and the ECQ

	ELmf	ELrcl	ELpsl	ELtotal	ECTie	ECTin	ECTpm	ECTtotal
Mean / 7	5.01	4.80	4.59	4.80				
Mean / 5					3.65	2.29	2.16	3.13
SD	1.35	1.32	1.32	1.13	.78	.87	1.07	.60
Skewness	-.65	-.58	-.39	-.51	-.98	.24	.57	-.18
Kurtosis	.15	.10	-.24	.03	1.49	.17	.07	.35
α	.85	.93	.84	.93	.92	.75	.82	.86

With: **ELmf** = morality and fairness; **ELrcl** = role clarification leadership; **ELpsl** = power sharing leadership; **ELtotal** = ethical leadership total score; **ECTie** = Institutionalised ethics / ethical work environment; **ECTin** = instrumental, **ECTpm** = personal morality, and EC**Ttotal** = ethical climate total score

The descriptive statistics in Table 1 show that all the ELQ factors, namely *Morality and fairness*, *Role clarification leadership* and *Power sharing leadership*, reported relatively high mean scores (on a 7-point Likert scale). This is also the case with *Institutionalised ethics/ethical work environment*, the first factor of ECQ. The *Instrumental* as well as the *Personal morality* factors measured slightly lower (on a 5-point Likert scale). The skewness and kurtosis values for all factors do not exceed the critical values of 2.00 and 7.00 respectively, which is an indication that the data is normally distributed. Most of the factors reported negative values of skewness, which is an indication that the distribution has relatively few small values and tails off to the left. The Cronbach alpha coefficients of the factors are acceptable if the guideline of α >.70 (Nunnally & Bernstein, 1994) is applied. It would thus appear that the factors possess acceptable levels of internal consistency.

The PEC model was assessed in terms of its fit indexes. It consists of a combination of the EL (as a second order model), as proposed by Grobler (2017), as well as the EC factors, excluding the problematic factor *Personal morality* (as a first factor model). The results indicated an acceptable fit ($\chi^{2/df}$ (4) = 10.79, *CFI* = .99, *TLI* = .97, *RMSEA* = .07).
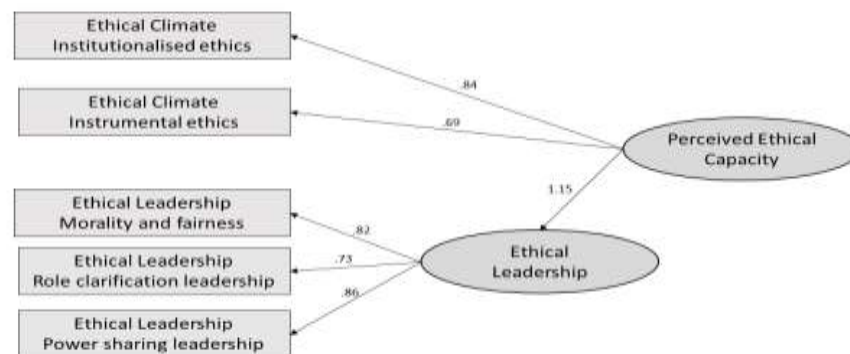

Figure 2: The perceived ethical capacity model   **Source:** Authors'

Since this study intends to compare the private and public sectors, it was deemed necessary to conduct an elementary cross-validation assessment to determine invariance between the sectors. The sample was split into the two sectors, using 500 cases randomly selected for each. The results for the two-sample groups were $\chi^{2/df}$ (4) = 6.55, *CFI* = .97, *TLI* = .93, *RMSEA* = .07 and $\chi^{2/df}$ (4) = 4.32, *CFI* = .99, *TLI* = .96, *RMSEA* = .08 (for the private and public sectors respectively). The degree of invariance in terms of the Likelihood Ratio Test is 2.23 (6.55 – 4.32). A further indicator of invariance is the difference between the *TLI* values (.96 – .93 = .03), which is lower that the norm of .05. The *ECVI* values reported for the private and public sectors are .08 and .10, respectively (difference = .02), which is marginal. The results of the comparisons between the two sample groups lend support to the accuracy of the cross-validation results. The correlations between the variables were determined, and the correlation matrix is reported in Table 2.

Table 2: Correlations between the ethical climate total score, the ethical leadership total score and their factors.

	ECITie	ECITin	ECITpm	ECITtotal	ELmf	ELrcl	ELpsl	ELtotal
ECITie	1.00							
ECITin	.13	1.00						
ECITpm	.06	.25	1.00					
ECITtotal	.67	.57	.35	1.00				
ELmf	.58	.18	n/s	.46	1.00			
ELrcl	.53	.13	.18	.33	.62	1.00		
ELpsl	.60	.23	-.07	.46	.65	.56	1.00	
ELtotal	.66	.22	.05	.49	.88	.83	.85	1.00

With: **ECITie** = institutionalised ethics / ethical work environment; **ECITin** = instrumental, **ECITpm** = personal morality, ECI**Ttotal** = ethical climate total score **ELmf** = morality and fairness; **ELrcl** = role clarification leadership; **ELpsl** = power sharing leadership and **ELtotal** = ethical leadership total score; n/s: non-statistically significant (*p*>.05)

Strong, positive and significant (all *p* < .001) correlations were reported between the variables, specifically between *Institutionalised ethics/Ethical work environment* and the *Ethical leadership* factors and construct (*r* ranging from .53 with *Role clarification leadership* to .66 with the *Ethical leadership total score*). The *Ethical climate total score* has high correlations (*r* = .33 to *r* = .49) with the *Ethical leadership total score* and factors. Due to the relatively high correlations between the factors, it was decided to conduct an assessment for multicollinearity by means of a stepwise multiple regression analysis, with the PEC score as dependent variable and the EL and EC factor scores as independent variables. The results are reported in Table 3.

Table 3: Results of a stepwise multiple regression analysis with the ethical leadership and ethical climate factor scores and the perceived ethical capacity total score

	Unst. Coefficients		St. Coefficients	t	Sig.	Collinearity Statistics	
	β	Std. Error	β			Tolerance	VIF
(Constant)	.07	.01		6.40	<.001		
ECITie	1.00	.00	.37	292.15	<.001	.55	1.83
ECITin	1.01	.00	.42	411.78	<.001	.86	1.16
ECITpm	.00	.00	.00	1.76	n/s	.84	1.19
ELmf	.34	.00	.22	156.21	<.001	.46	2.19
ELrcl	.31	.00	.20	148.87	<.001	.52	1.94
ELpsl	.32	.00	.20	145.60	<.001	.46	2.19

With: **ECTie** = institutionalised ethics / ethical work environment; **ECTin** = instrumental, **ECTpm** = personal morality, and ECT**total** = ethical climate total score; **ELmf** = morality and fairness; **ELrcl** = role clarification leadership; **ELpsl** = power sharing leadership; **ELtotal** = ethical leadership total score; **Dependent Variable:** perceived ethical capacity

Significant standardised beta coefficients (p <.001) were reported for all the EL factors (ranging from $β$ = .20 to $β$ = .22), as well as the *Institutionalised ethics/ethical work environment* ($β$ = .37) and the *Instrumental ethics* ($β$ = .42) factors of EC. The tolerance values were found to be relatively high (> .20) and the VIF values were reported to be far below the critical value of 10. It can therefore be concluded that there is no violation of the multicollinearity assumption.

A Chi-square test for independence to determine the significance of the association between the respective sectors (public and private sectors) and the *Ethical climate* was conducted. The weighted mean scores of each of the participants on the two EC factors that contributed to the PEC variable (excluding *Personal morality*), as well as the total score, were categorised with L = 0,1; M = 2,3; H = 4,5 (on a 6-point Likert scale). The results are reported in Table 4.

Table 4: The impact of sector on ethical climate – cross-tabulation with chi square

Sector		Institutionalised ethics/ ethical work environment			Instrumental ethics			Ethical climate total score		
		L	M	H	L	M	H	L	M	H
Private Sector	n	10	486	1087	266	1158	159	171	959	458
	Exp n	24.6	545.8	1012.6	262.5	1183	137	208	953.7	421.3
	%	.6%	30.7%	68.7%	16.8%	73.2%	7.5%	10.8%	60.6%	28.6%
Public Sector	n	23	246	271	86	429	25	108	320	112
	Exp n	8.4	186.2	345.4	89.5	403	46.8	71	325	143.7
	%	4.3%	45.6%	50.2%	15.9%	79.4%	4.6%	10.8%	59.3%	20.7%
Total	%	1.6%	34.5%	64.0%	16.6%	74.8%	8.7%	13.1%	60.2%	26.6%
X^2(df)		81.36 *			15.94 *			35.42 *		
Cramer's V		.20 *			.09 *			.13 *		
Where: L = 0,1; M = 2,3; H = 4,5 (on a 6-point Likert scale); n = count; Exp n = expected count and X^2(df) = Pearson Chi-Square; n/s = not significant (p > .05) *(p<.001)										

The Chi-square test for independence indicated a significant association (p<.001) between the sectors and the *Ethical climate* (total score) [X^2 (2, n = 2 123) = 35.42] as well as the factors, *Institutionalised ethics/ethical work environment* [X^2 (2, n = 2 123) = 81.36]; *Instrumental* [X^2 (2, n = 2 123) = 15.94]. The observed frequency of the respondents who were categorised in the "high score" category was larger for the private sector when compared to the public sector. This was the case for the total score on *Ethical climate* as well as the factors *Institutionalised ethics/ethical work environment* and *Instrumental ethics* (small effect – Cramer's *V* value ranging from .09 to .20). The overall result indicates that only 13% of the respondents perceived the *Ethical climate* as unsatisfactory (or low). Most of the respondents (60.2%) regarded the *Ethical climate* to be reasonable, with 26.6% perceiving it as being exceptionally good.

A similar Chi-square test for independence was conducted to determine the significance of the association between the respective sectors (public and private sector) and *Ethical leadership*. The weighted mean scores of each of the participants on the three EL factors, as well as the total score, were categorised L = 1, 2; M = 3, 4, 5; H = 6, 7 (on a 7-point Likert scale). The results are reported in Table 5.

Table 5: The impact of sector on ethical leadership – cross-tabulation with chi square

Sector		Morality and fairness			Role clarification leadership			Power sharing leadership			Ethical leadership total score		
		L	M	H	L	M	H	L	M	H	L	M	H
Private Sector	n	57	799	727	67	939	577	78	1003	502	40	1009	534
	Exp n	78.3	853.8	650.9	96.2	976.8	510.0	113.3	1032.7	436.9	61.1	1056.6	465.3
	%	3.6%	50.5%	45.9%	4.2%	59.3%	36.4%	4.9%	63.4%	31.7%	2.5%	63.7%	33.7%
Public Sector	n	48	346	146	62	371	107	74	382	84	42	408	90
	Exp n	26.7	291.2	222.1	32.8	333.2	174.0	38.7	352.3	149.1	20.9	360.4	158.7
	%	8.9%	64.1%	27.0%	11.5%	68.7%	19.8%	13.7%	70.7%	15.6%	7.8%	75.6%	16.7%
Total	%	4.9%	53.9%	41.1%	6.1%	61.7%	32.2%	7.2%	65.2%	27.6%	3.9%	66.7%	29.4%
X^2(df)		71.51 *			75.15 *			84.76 *			77.01 *		
Cramer's V		.18 *			.19 *			.20 *			.19 *		

Where: L = 1, 2; M = 3, 4, 5; H = 6, 7 (on a 7-point Likert scale); n = count; Exp n = expected count and X^2(df) = Pearson Chi-Square; *(p<.001)

There was a significant association between the sectors and *Morality and fairness* [X^2 (2, n = 2 123) = 71.51, p<.001]; *Role clarification leadership* [X^2 (2, n = 2 123) = 75.15, p<.001]; *Power sharing leadership* [X^2 (2, n = 2 123) = 84.76], p<.001 and *Ethical leadership* (in total) [X^2 (2, n = 2 123) = 77.01, p<.001]. The respondents from the private sector reported significantly more counts on the high category and fewer on the low category on the *Ethical leadership* total score and all factors. Respondents from the public sector reported significantly less counts (small effect - Cramer's V value ranging from .18 to .20). The relatively high count on the medium category could be attributed to the wider range in the scale (which included 3, 4 and 5 on the 7-point Likert scale). The overall result indicates that 3.9% of the respondents perceived *Ethical leadership* to be low, compared to the 29.4% who regarded it to be very good, and the 66.7% who indicate it to be generally satisfactory. The raw scores on PEC were divided into low (L), medium (M) and high (H) categories based on the combined raw scores on the EC factors (*Institutionalised ethics/Ethical work environment* and *Instrumental ethics*), which are scored on a 6-point Likert scale (0-5) and the EL factors (*Morality and fairness; Role clarification leadership* and *Power sharing leadership*) on a 7-point (1-7) Likert scale. The minimum combined score is thus 3 and the maximum 31, with a range of 28, resulting in the lowest 25% of the possible raw score (3-10) to constitute a low score, and the top 25% (27-31) to constitute a high score. A medium score was allocated to respondents who reported raw scores between 11 and 23 (representing the middle 50% of the possible scores). The results are reported in Table 6.

Table 6: The impact of sector on the perceived ethical capacity – cross-tabulation with chi square

Sector		Perceived ethical capacity		
		L	M	H
Private Sector	n	6	864	713
	Exp n	9.7	948.5	624.8
	% of Private sector	.4%	54.6%	45.0%
Public Sector	n	7	408	125
	Exp n	3.3	323.5	213.2
	% of Public sector	1.3%	75.6%	23.1%
Total	% of both sectors	.6%	59.9%	39.5%
X^2(df)		83.99 *		
Cramer's V		.20 *		

Where: PEC =Latent Ethical Potential; L = 3-10; M = 11-23; H = 24-31 (raw score minimum of 3 and maximum of 31)
n = count; Exp n = expected count and X^2(df) = Pearson Chi-Square *(p<.001)

Overall, less than 1% of all the respondents reported a raw score of 3 to 10, which constitutes a low PEC score. Close to 40% of the respondents reported a high score on PEC (with raw scores ranging from 24–31), with the medium category reporting the highest count with 60%. A significant association between the sectors on PEC [X^2 (2, $n =$ 2 123) = 83.99, $p<.001$] (small effect - Cramer's V value =.20, $p<.001$) was reported, with 45% and 23% respondents from the private and public sectors respectively falling into this category. The public-sector respondents are best represented in the middle category with 75.6% compared to the 54.6% of the private sector respondents. Both the sectors reported less than 1% on the low category.

Discussion

From an ethics point of view, it was deemed necessary to conduct this study to determine the general internal state of ethics of SA organisations, in both the private end public sector. SA currently rated (and perceived) negatively in terms of ethics, although it is argued that it is based on specific incidences and related to specific individuals, especially business and political leaders. The rationale of this paper is to communicate the state of business ethics to, inter alia, tourists, which will assist then with their decision to visit the country. This study proposed a new construct, namely PEC from a multi-level perspective, conceptualised in accordance with the social learning, social exchange and behavioural isomorphism theories. It has an EC and EL component, and points towards the perceived willingness and ability of the organisation (including the actors within the organisation, e.g. leadership) to create and uphold an ethical work environment. PEC is regarded as intangible and dormant and will manifest when ethical dilemmas arise.

The level of analysis of PEC is the respondents' perceptions of EL and EC. Although this level of analysis has its shortcomings, a link exists between perceptions, attitudes and behaviour, also in the work context. Although the interpretation of the stimuli after the perception might be different from the reality, it does however contribute to individual attitudes and these, to a large extent, determine individual behaviour.

The underlying influence of the meso level, in other words, the PEC, on employee attitudes and behaviour is explained through the social learning theory and the social exchange theory, as well as through behavioural isomorphism. These theories share core elements of modelling or emulation of behaviour, reciprocal behaviour (to do good in return) as well as isomorphic coercive, normative and mimic pressure to conform. Brown et al. (2005), for instance, state that leaders are ethical role models and employees may identify with them and emulate their behaviour. Thus, leaders who are to be perceived to be ethical leaders will influence ethics-related outcomes if they are perceived as attractive, credible, and legitimate.

The empirical results support the conceptual contribution of this study, firstly in terms of the scientific properties of the instruments. The ECQ has been scrutinised for construct validity by means of a CFA and was found fit. The factors of EC and EL (as well as the total instrument) were found to be reliable, with the data normally distributed. It was decided to refrain from interpreting the mean scores as these are based on the aggregation of individual perceptions to another level (total sample or sectoral level), which may lead to the so-called cross-level fallacy. Secondly, the PEC construct has

been confirmed through a SEM analysis, with the two OC factors (*Institutionalised ethics, Instrumental ethics*) loading directly onto PEC, with the three EL factors (*Morality and fairness*, *Role clarification leadership* and *Power sharing leadership*) loading onto the EL (secondary factor) that loads onto PEC. The model fit statistics were found to be acceptable.

Since the level of analysis is the perceptions of employees, the response scale was divided into low (lowest 25%), medium and high response (top 25%) categories. Overall, it was found that 26.6% of the respondents experience the EC in the organisations as being very good, with only 13% regarding it as being poor. The EC factor that measured the most positively (in terms of respondents), is *Institutionalised ethics/ethical work environment* (64%) with only 1.6% experiencing it negatively. *Instrumental ethics* reported unalike results, with most respondents reported it to be moderate (75%), with 16.6% experiencing it as negative. When comparing the sectors, the private sector reported significantly (although small effect) better results, in other words, more respondents within the higher categories and fewer in the lower category, on all the factors and the total EC.

Comparable results were found with the EL factors and total score. The factor that measured the most favourably is *Morality and fairness,* with 41% of the respondents experiencing it positively, and only 5% negatively. There is however a large difference (19%) on this factor between the private sector (46%) and the public sector (27%). This is the case with all the factors as well as with the EL total score (all differences are small effect).

When the PEC is analysed, one would expect the same pattern to emerge, as it is a composite construct. In the private sector, 45% of the respondents were located in the high category on PEC, along with around 23% of the public-sector respondents. Only .40% and .60% of the private and public sector respondents respectively fell into the low category on PEC, with 54.6% and close to 75.6% in the middle category for the two sectors respectively.

In conclusion, based on the social learning, social exchange and behavioural isomorphism theories, and from a multi-level meso perspective, it has been found that the general state of ethics of SA organisations, in terms of the PEC, is not regarded as critical. It does, however leave room for improvement, more so in the public sector. It is argued that the PEC in organisations, although intangible and dormant, has the potential to impact on employee behaviour in a positive way, ensuring that employees will act ethically when ethical dilemmas are encountered. A serious concern remains – that is, the conduct of senior and executive management (top leadership), which is not, in terms of the conceptualisation and delineation of this study, directly associated with PEC and which is more closely linked to the direct interactions on a day-to-day basis. The so-called trickledown effect, with a cascading down of ethical and appropriate behaviour from the more senior levels, may however influence the next level of leadership and this will ultimately affect the lower levels and, subsequently, the PEC.

The contribution of this study is on four levels. Firstly, in terms of its academic contribution, it proposes a new composite concept, supported by theory, the multi-level meso framework, as well as a confirmed model and valid measurements. The conceptual and empirical delineation of this study, with the exclusion of the impact of the role of senior and executive management on employee behaviour and attitudes, creates

opportunities for scholars to pursue further research. Secondly, on a broader societal level (and specifically related to the tourism industry), the study provides empirical evidence that there is hope and potential in SA organisations with regards to ethics on a day-to-day and operational level that, in terms of numbers, forms a large part of the organisational composition. In terms of the sectoral comparison, it has been found that the public sector reported less favourable results, which places the sector at risk. Thirdly, based on the findings of the study, but also specifically upon the authors' practical experience, two high-level recommendations are made for the improvement of the ethical state of SA organisations. The most important practical recommendation is aimed at senior and executive management, where decision-makers will have to prioritise correct appointments, appropriate performance management and governance, as well as definite and consequent corrective action where ethical transgressions are observed. It is argued that the PEC will steadily decrease as a result of the trickle-down effect if (perceived to be) unethical senior and executive managers are appointed and kept in organisations.

The second practical recommendation is for human resource, training and development, and organisational development practitioners and managers. It is important to enhance PEC through direct and transparent communication related to ethical matters (e.g. professional codes of practice and the degree of discretion), leadership training and sensitising on ethically-related matters (specifically the fair and consistent treatment of employees). Leaders must further ensure that they demonstrate honesty, trustworthiness and high ethical standards in their day-to-day conduct, which includes the mutual clarification of expectations and responsibilities, through a process of participation.

Limitations

This study's focus was on the ethical state of SA organisations in general, without isolating the specific industries, organisations and agents that are directly related to tourism. This study could serve as a basis for future studies, specifically focused on tourism related organisations. This study has some limitations, mainly related to design and methodology. The cross-sectional design has shortcomings, specifically in the studying of causality, and it may further be susceptible to response (or non-response) bias. The instruments used are based on self-reporting and this may lead to method bias. This might still be a reality despite the assurance of anonymity and confidentiality given to participants during the briefing. Social desirability and subsequent response bias will always remain a concern and a limitation in studies such as this one. Self-reporting – and specifically reporting of sensitive constructs such as the ethical behaviour of leaders – may consist of one-sided reporting from the employees' side. Lastly, common-method bias, which is considered a potential problem in behavioural research in general, is a limitation of this study as it is considered a possible source of measurement error.

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