The effects of ethical business practices on the profitability of firms.

A research report submitted by

Iris Kasiyamhuru

Student number: 1537127

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Supervisor: Derek Seely

Wits Business School

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DECLARATION

I, Iris Kasiyamhuru, declare that this research report is my own work. It is submitted in fulfilment of the requirements for the degree of master's in business administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at this or any other university.

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Iris Kasiyamhuru

Signed at Strubensvalley on the 27th day of April 2021

ABSTRACT

In the last decade, many South African Corporates have been implicated in a series of scandals involving unethical behaviour. The resulting losses and loss of reputation that have occurred, have caused business ethics to gain prominence. This study aims to identify how ethical business practices influence company profitability, in an attempt to inspire organisation leaders to act ethically and in turn, preserve the long-term profitability of companies. A qualitative research methodology using semi-structured interviews was used. Data was collected from a convenience sample of 12 participants comprising C-suite employees and senior finance professionals in Corporates. The findings suggest that corporate leaders have a pivotal role to play in shaping ethics in an organisation. Furthermore, not only should leaders role model the desired ethical behaviours, but they should also see to the fact that necessary resources, systems and processes are put in place for ethics to prevail. Ethics is the responsibility of everyone within an organisation, with leaders leading from the front. The findings suggest that ethical business practices towards various company stakeholders safeguard the profitability and sustainability of a business in the long run.

Keywords: Business ethics, ethical business practices, profitability, firm performance

DEDICATION

This research is dedicated to my family for their support and understanding in this journey.

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1 INTRODUCTION

In recent years, many South African Corporates have been confronted with scandals involving unethical behaviour. The losses and the loss of reputations that have occurred as a result thereof have caused business ethics to gain prominence. In the face of increasing shareholder demands, desire to achieve performance targets, increasing competition and a rapidly changing business environment, emphasis needs to be drawn onto ethical business practices as a mechanism to ensure company profitability and long-term sustainable success.

Several studies have been conducted on ethical business practices. Generally, higher performance is noted in people who follow ethical principles, (Zaim, 2013, p. 194 as cited in Tarim, Zaim and Torun, 2014). Business ethics incorporates fundamental principles, such as respect, honesty, fairness and trust into all business decisions, policy making, and other forms of business dealings, (Onyeaghala-Obioma & Anele, 2014).

Organisations that adopt good moral behaviours experience a surge in positive business image, culminating in intensified sales volumes and enhanced performance, (Ogbari, Oke, Ibukunoluwa, Ajagbe & Ologbo, 2016, p.55). Being ethical generates numerous benefits for the organisation encompassing; enhanced profitability, loyalty and retention of customers, positive goodwill and facilitating efficient and effective utilisation of company resources (Saeidi, Saeidi & Bidi, 2012).

Onyeaghala-Obioma and Anele identify a strong connection between observing ethical practices and business performance. They acknowledge in their study that many benefits accrue to ethical organisations in the form of; attracting and retaining customers and employees, winning public confidence and enhanced financial results (Onyeaghala-Obioma & Anele, 2014).

In summary, when organisations embed ethical practices into their daily processes and procedures, this has strong implications on the company’s long-term profitability. The next sections of this chapter will explore the problem statement, the rationale for the research and the research objective. Limitations and delimitations inherent in the study will be identified, followed by a review of the literature on the key concepts of this study. Chapters two to five of the research will pre-empt the research methodology, present the research results, discuss the results and come up with conclusions and recommendations emanating from the study.

1.1 Problem Statement

Practically daily, headline news, both local and International contains stories of organisational leaders in South Africa being involved in different types of unethical practices. Unethical practices have plagued companies in South Africa, resulting in massive losses. The practices range from conflicts of interest, cases of corruption, fraud, theft, deception and bribery, among others. Unethical practices in the present-day world of work generates huge losses to companies annually. The resulting losses consequently impact the profitability of the companies negatively. Firms that practice unethical behaviour face severe consequences when the behaviour is exposed. The related penalties in tarnished reputations and imposed fines, negatively impact share returns (Wann, Long & Brockman, 2016). In a study by Rossouw on the social and financial costs of unethical behaviour, it was demonstrated that "there are substantial financial losses to be suffered by companies that practice unethical conduct." In addition, "they also face even more severe, long-term consequences; consequences that are hidden but that may in fact negatively impact their long-term profitability and even their sustainability" (Rossouw, 2014). With this in mind, it is thus important to identify and understand how this profitability affects South African firms.

1.2 Rationale for the Research

There is huge concern about the level of ethical behaviour in South African Corporates. In an era where attaining new business, keeping existing business going, making money and getting ahead seem to take priority over responsible decision making, it may seem hard to apprehend the necessity of good moral behaviour in business (Zeiger, 2019). It will therefore be a contribution to knowledge to highlight the effects of ethical business practices on company's profitability, in an attempt to inspire organisation leaders to act ethically and in turn, preserve the long-term profitability of companies.

1.3 The Research Objective

The main objective of this study is to analyse through a case study research how ethical business practices influence company profitability.

1.4 Delimitations and Limitations of the Research

1.4.1 *Delimitations*

"Delimitations are those characteristics that limit the scope and define the boundaries of the study and are within the control of the researcher", (Simon, 2011). These encompass the objectives chosen, research questions, matters to be explored, theories adopted, and the people selected to be investigated (Simon, 2011).

Some of the delimitations applicable to this research are outlined below:

- In this research, the literature review was limited to literature demonstrating business ethics and its impact on company profitability, i.e., any literature on ethical concepts that do not have an impact on company profitability was excluded; and
- This study will not contain any numerical data and research responses will be obtained from a small sample.

1.4.2 *Limitations*

Limitations relate to possible weaknesses that are outside the researcher's control, (Simon, 2011, p.2). The potential limitations in this study are highlighted below:

- Ethics is a very subjective matter. Considering ethical relativism, what might be considered morally correct in one environment may be morally incorrect in another setting. Ethical relativism notes that matters of right or wrong vary between people and societies, and there are no universal truths when applying ethics (Rachels, 2015). Put differently, people in a society decide and approve actions that they regard as acceptable or not, and this becomes their guiding factor in their actions. This therefore makes morality subjective, given that morality is a result of what people reason, making it a matter of personal or societal preference ("Ethical Relativism," n.d.).
- Ethical relativism limits the outcome of the study in that it does not allow for the existence of absolute moral truths regarding social phenomena. As a result, research responses about what is morally right or wrong will be relative and depend upon the society and cultural beliefs of the society which the research participant is a member of. Truth, justice, right and wrong are therefore all relative. Furthermore, simply because a particular society thinks that something is right does not make it so.

1.5 Literature Review

1.5.1 *Definition of Terms*

1.5.1.1 Ethics

Ethics is an approach to examining and understanding matters relating to the well-being and relationships among human beings, in terms of what's considered moral and immoral, right and wrong, and commendable and improper, (Rich, n.d). It is a vital quality that people adopt as a guiding standard in life. It infers principled and moral behaviour by individuals (Paswan, 2015).

Ethics signifies an upright corporate investment that maintains a trust relationship with stakeholders and in turn, preserves business performance over the long run (Goel & Ramesh, 2016). It is based on the association between business and society and takes into consideration businesses' moral responsibilities (Goel & Ramesh, 2016). Ethics is premised on logical ideals prescribing right and wrong that guide people on how they should act, normally in terms of justice, rights, obligations and contributions to society (Velasquez, Andre, Shanks & Meyer, 2010). In addition, Weiss (2014, p.14), noted that ethics comprises understanding and differentiating right and wrong behaviours, and opting for choices that do not cause harm to others.

Based on the literature review, some safe conclusions can be drawn from the fact that the concept of ethics is premised on the notion of right and wrong, specifically looking at behaviour that conforms to acceptable standards of moral behaviour. Furthermore, the concept seems to have a social responsibility element by considering the impact of one's actions on the society at large. The researcher is adopting authors Velasquez, Andre, Shanks and Meyer's definition of ethics. This definition appears broad and gives cognisance to the rights and obligations of one person and actions that are fair and equitable in relation to others.

1.5.1.2 Ethical Business Practices / Business Ethics

Business ethics encompasses moral ideologies, principled decision making, governance matters and businesses' codes of conduct, (Goel & Ramanathan, 2014). It represents governing principles for acceptable behaviour in relation to running the affairs of the business and managing business relationships with society (Sexty, 2011). According to Venter and Urban (2016, p380), "Ethics accordingly goes to the morals and principles governing the rights and wrongs of human conduct. Within a business context, ethics is simply the application of standards of moral behaviour to business situations". Rossouw and Van Vuuren (2010) further noted that business ethics involves determining and applying principles of behaviour that will ensure that stakeholder interests are observed.

Goel and Ramanathan's and Sexty's definitions seem to hint at business ethics as being a framework or guideline that provide guidance on how businesses should operate. These definitions are therefore more about normative ethics, stipulating what businesses ought to do. Venter and Urban's definition on the other hand, relates more to the application of the determined framework or standard for actual business operations. Their definition is thus more about applied ethics.

This research adopts Venter and Urban's definition of business ethics. This definition relates more to the practical application of ethical standards to business processes. The research topic looks specifically at the effects of ethical behaviour on company profitability. To analyse effects, there must first be action and/or practical application or lack thereof of ethical practices to business operations.

1.5.1.3 Company Profitability

Profitability is a key measure of performance and forms part of one of the crucial objectives of companies. It is an indicator of growth and progress and highlights the ability of a company to continue in existence in the nearby future (Seissian, Gharios & Awad, 2018). Numerous factors influence company profitability and profitability is measured in various ways. In analysing company profitability, regard is given to the results that are reflected on the statement of; financial performance, financial position and cashflows (Herciu & Ogrean, 2017). Profitability ratios are also used to assess company performance, as they provide an indication of organisations' wealth (Herciu & Ogrean, 2017).

Profitability is also defined as "the capacity to generate profit from all the aspects of a business; illustrating how proficient the management is in yielding revenue by employing available resources", (ciowhitepapersreview, n.d). Nishanthini and Nimalathasan (2013), defined profitability as the ability to generate a return from invested resources. Additionally, the firm's ability to create profits is measured through profitability ratios. The ratios help to link the investment to assets, equity and debt employed in the business (Nishanthini & Nimalathasan, 2013). Looking at the literature review, a key theme that emerges is the generation of a return from employed resources, implying a benefit. The following inference can thus be made; profitability requires a company to operate in conditions of profit, i.e., revenue generated from operations must exceed expenses incurred in running the business's operations.

1.5.2 *Literature*

1.5.2.1 King IV on Corporate Governance

The King IV Governance Code is a framework that provides guidance to South African Organisations on how they can embed good governance practices in their business operations. The code's requirements are mandatory for listed entities but can also be used by other institutions as guidance for good governance. Corporate governance is defined as “the exercise of ethical and effective leadership by governing bodies towards the achievement of governance outcomes such as ethical culture, effective control, good performance and legitimacy” (Institute of Directors, Southern Africa, 2016, p.20). Ethical leadership is characterized by honesty, integrity, accountability, responsibility, competence and impartiality, to name a few (Institute of Directors, Southern Africa, 2016, p.20). Effective leadership is leadership that is outcome driven, with a focus on efficient and effective implementation and achievement of strategic goals (Institute of Directors, Southern Africa, 2016).

King IV is of relevance to this study because it emphasises crucial elements of governance encompassing; leadership (specifically ethical management), the role of business in community, sustainable development, an inclusive stakeholder approach, Integrated thinking and reporting on business affairs (Institute of Directors, Southern Africa, 2016). These are all elements that resonate with the concept of ethics and business ethics.

Furthermore, King IV is premised on the notion of sustainable development, which is a principal moral and economic imperative. The Institute of Directors Southern Africa (2016, p.23), identified sustainable development as “development that meets the needs of the present without comprising the ability of future generations to meet their needs”. King IV thus imposes duties on governing bodies to observe their privileges and duties and responsibilities with regard to the organisation as an important member of society and also considering its various stakeholder interests (Institute of Directors, Southern Africa, 2016, p.20). The researcher is of the view that the governance practices outlined in the King IV code will not only benefit society, but will help create sustainable value for organisations through supporting its future growth and profitability.

1.5.2.2 Effect of Ethical Business Practices on Firm Profitability

Business ethics is of great relevance in present day’s society. With the development of the world, customer’s awareness was heightened, and not only are they concerned about the excellence of products or services they purchase, but also the ethical practices of the manufacturers or service providers. Numerous benefits can be achieved by companies that follow good ethical practices. The section that follows hereunder aims to highlight the effect of ethical business practices on company profitability. Ethics signifies an upright corporate investment that produces a trust relationship with stakeholders and in turn, preserves business performance over the long run, (Goel & Ramesh, 2016). Business ethics forms the foundation for companies to achieve longevity and be profitable in the long run (Okpo, 2020). Businesses have much to benefit by developing and employing a set of ethical principles and standards, with benefits accruing; satisfied customers, culminating into loyal customers and employees, employee fulfilment, goodwill and trust with society and generating profits and sustainability for the business, (Okpo, 2020).

Basheer, Hameed, Sabir and Jehangir, (2019) identified a positive direct relationship between ethical business principles such as equity, justice, benevolence and sincerity with overall business performance. Improving business ethics directly increases performance, whilst reducing these elements will negatively impact performance (Basheer et al., 2019). Being ethical in business enables and fosters; good for society, business relations, staff productivity and improves profitability (Salvi, 2020). Implementation of sound ethical policies ensures a positive impact on all company stakeholders, from employees to investors and consumers (Horton, 2020).

Trudel and Cottee (2009), notes that the customer's willingness to pay for goods and services is influenced by the level of ethics demonstrated by the companies they purchase from. Furthermore, customers are prepared to pay a premium for goods that are produced ethically (Trudel & Cottee, 2009). According to Simpson and Kohers (2002), doing what is good will influence performance and ultimately company profitability (Simpson & Kohers, 2002). This is supported by the work of Widyani, Landra, Sudja, Ximenes and Sarmawa (2020), who identify that ethical behaviour encourages improvement in organisations' performance, particularly in respect of, productivity, stability, profitability, growth and image of the entity. Ethical behaviour has a significant positive effect on performance, (Widyani et al., 2020). Additionally, leaders' ethical behaviour supports the long-term success of an organisation, (Widyani et al., 2020). Horton (2020), identified business ethics as an important catalyst to business success. Enhanced ethics improves the bottom line, fulfilling the primary purpose of any business (Loertscher, 2020). A positive correlation exists between ethical behavior and long run profitability (Satyanarayana & Bhaskar, 2020).

1.5.2.3 Sustainable Business to Profitability

Smart, Barman and Gunasekera (2010, p.3), stated that "a socially and environmentally ethical approach ensures a company's ability to thrive in the long-term by protecting its reputation, its license to operate, its supply chain, its relationships with partners and its ability to recruit talent". Doing what is right is important to various stakeholders including employees, taxpayers and society, to name a few, (Smart et al., 2010). According to Epstein and Rejc-Buhovac (2014), harmonising economic progression, ecological protection and societal responsibilities, i.e., a triple bottom line can result in massive advantages for an organisation. Companies with high levels of CSR and corporate governance are associated with higher levels of profitability (Tarigan, Hatane, Stacia & Widjaja, 2019). Furthermore, companies achieve operational efficiencies and effectiveness when they implement a good ethical basis for complying with accepted norms. That minimises costs, increases operating margins and profits (Tarigan et al., 2019).

Studies by Ogbari et al. (2016) on the implications of business ethics on corporate performance revealed that profit margins are significantly influenced by company practices such as fair-mindedness, integrity and just dealings. Furthermore, it was revealed that such practices can enhance an organisation’s image, leading to growth in profit margins through increased support and backing, (Ogbari et al., 2016).

In a study by Laskar (2019) it was noted that a social and environmentally focused approach to conducting business operations impacts firm performance positively. Furthermore, ethical accounting practices, coupled with fair treatment of workers, fair interactions with the general public and dissemination of information to shareholders has a direct impact on the overall profitability of a company (Horton, 2020). When organisations interact ethically with the societies and environment they operate in, this has significant impact on its profitability through increased revenue generation, (Bello, Yusuf, Isichel & Abubakar, 2019).

1.5.2.4 Increased Customer Loyalty to Profitability

Ethical business practices enhance the loyalty of customers. Customers are likely to continue to procure their goods and services from companies that they believe have an upright reputation. On the contrary, they will disassociate themselves and stop buying from companies they have a negative view of; regardless of the products or service’s price attractiveness (Saylor Foundation, 2013). Thus, it is clear that when customers have confidence in the way a business conducts its operations, they are likely to continue to support that business. This will increase value for the business through repeat purchases, upselling, cross selling and referrals which in-turn, boosts sales volumes resulting in increased profitability.

In a study on the impact of marketing ethics on customer loyally, it was shown that a sound ethical approach towards customers enhances customer satisfaction, retention and loyalty, which would in turn, positively impact a firm’s profitability and performance (Nassar & Battour, 2020). Ogbari et al. (2016), identified the existence of a substantial connection between ethical standards and quantities of goods that are sold, and between ethics and market share. The impact of sales volumes on the profitability of firms was demonstrated in a study conducted by Dugguh, Isaac and Sunday Oke. In the study it was revealed that the level of operating efficiencies in conducting business activities and the income that was generated are major influencers of the size of profits generated. High profits thus signify higher sales and business efficiencies (Dugguh, Isaac & Sunday Oke, 2018, p.24).

In a study conducted by Denney and Aeronautical on whether ethics is a component of the process of adding value in an organisation i.e., value chain, it was demonstrated that ethics is a crucial element in generating value and that looking after and providing value to customers is associated with ethical behaviour (Denney & Aeronautical, 2018, p.11). Value is the worth, importance, or usefulness of something (Oxford Dictionary, n.d.). In that context, when customers perceive the goods or services they receive from the company to be of value (i.e., benefits exceeding costs), they are likely to come back for more, pushing up sales and then inevitably, organisation's profits. This is supported by the work conducted by Simons, Parks and Tomlinson, which revealed that there are greater chances for satisfied customers to buy repeatedly and promote company products and/or services through sharing good experiences with friends and colleagues. This increases profits through enhanced patronage (Simons, Parks & Tomlinson, 2018).

Providing customers with value is essentially an ethical business practice, which is linked to the Teleological / Consequentialist ethical theory. The Teleological theory concentrates on the outcome produced by an action and takes the standpoint that an action that generates a positive outcome is morally right. Amundsen and Pinto (2009) demonstrated that the effectiveness of an action is assessed by its contribution to the overall happiness generated for all people.

The perceived value customers receive from the organisation through products and services is essentially the outcome and according to the Consequentialist theory, that outcome is considered better, when pleasure or happiness has been created for more people (Amundsen & Pinto, 2009). Therefore, an organisation that is able to provide the greatest good for the greatest number through its value offerings can expect more satisfied and happy customers, culminating in loyalty and patronage which in turn, filters down to the bottom line, as advocated in studies by Simons et al. (2018) above.

In Contrast to the Teleological theory, which is outcome based, there is the Deontological ethical theory. Deontology theory emphasises the existence of general ethical standards to be observed, regardless of the result (Vitolina, Cals & Sumilo, 2016, p.110). Deontological ethics is also known as "duty or obligation" derived ethics. It looks at the acceptableness of the actions themselves and not at the outcomes generated by those actions (Amundsen & Pinto, 2009). In terms of the theory, companies have moral duties and obligations to do what is right, good and admirable, not only to their customers but also to their various stakeholders. A company that observes its moral duties to the various stakeholder groups is therefore considered ethical. A good relationship with stakeholders is a fundamental factor influencing organisation success, in its quest to differentiate itself from competitors and generate sustainable organisation attractiveness (Baric, 2017).

1.5.2.5 Employee Satisfaction to Profitability

Lal (2015) highlighted that "creating an organisational culture that promotes ethical decision making is the responsibility of management and that organisational performance increases dramatically if management is successful in creating trust and confidence among their employees". Shore, Randel, Chung, Dean, Holcombe Ehrhart and Singh (2011), established that "ethical leader's fair treatment and equal opportunities for all employees are ways of encouraging subordinates to feel a strong sense of emotional attachment and pride in their organisation". Organisations that therefore observe principles of honesty, impartiality, integrity, equality, respect for people, diversity and rights in all their interactions and relationships creates a platform for employees to contemplate ethical issues (Uwa, Akpaetor & Johnson, 2018).

The above literature points to the importance of culture. Organisation culture encompasses the views, ideals, customs, attitudes, beliefs, practices and language exhibited by the people within the organisation (Butts, 2015). Ethical culture: a subset of organisation culture addresses the ethical climate and the level at which ethics is practised in a given work setting (Lombardo, n.d.). Grooming leaders and employees that are ethical is a vital factor in the institutionalisation of ethics in an organisation (Ouma, 2017). It is Important to note that the code of ethics underpins the organisation's ethical culture. Schwartz (2004, p. 321-341), identified the code of ethics as a "written, distinct and formal document which consists of the moral standards used to guide employee and/or corporate behaviour". Organisations can anticipate greater levels of success i.e., longevity and profitability by providing ethics education and training to all employees, so as to ensure that ethical policies and guidelines are well understood (Saylor Foundation, 2013).

Organisation wide norms of appropriate behaviour are created when leaders conduct themselves ethically, are open to communicate ethical issues and their importance, and use benefit and reprimand systems to stimulate desirable behaviour. In that way, employees are more likely to display ethical behaviour (Mayer, Aquino, Greenbaum & Kuenze, 2012). Ethical leadership therefore plays a major role in determining whether a company is profitable or not through their decision making, behavioural attributes and leadership style. Ethical dimensions of leaders' behaviour related to; readiness to share power, ability to listen and understand employee's needs and feelings, fair and equitable access to work as well as dealing with people, have a great impact on employee fulfilment, commitment levels and financial performance (Sajfert, Nikolic, Vukonjanski, Terek & Vulovic, 2017). The chances of achieving longevity and profits are greater when organisations embed ethical practices into their businesses, such as fair treatment of staff and respect for customers, society and environment into their business operations (Saylor Foundation, 2013).

Sajfert et al. (2017), demonstrated that leadership's ethics greatly influence satisfaction in their jobs. When leaders look after the interests of their employees, embrace honesty, transparency and fairness, when making decisions; employees will trust and be satisfied with them. Workers' job satisfaction is thus higher when the level of ethics of the leader is higher (Yates, 2014). Studies conducted by (Hatane, 2015) demonstrated that staff satisfaction and performance facilitated strong organisational performance, leading to profitable growth. This is further reinforced by studies by Turyakira where it was demonstrated that “ethical practices towards employees can warrant job satisfaction and enhanced motivation levels of employees, which eventually leads to better business profitability” (Turyakira, 2017, p.4).

Companies that enforce ethical principles consistently are able to generate confidence in the organisation which will lead to high job satisfaction. This will in turn translate into higher levels of commitment, productivity, increased efficiencies and reduced staff turnover. May and Chang (2015) recognised that employees are less likely to leave their jobs when they morally connect with their employers. Furthermore, they would naturally want to continue employment with a company they believe is ethical. However, when organisations compromise on their ethics, the reverse happens, employees who once morally identified with a company leave (May & Chang, 2015). It is clear that ethical practices towards employees are likely to result in less staff turnover. This in-turn has a favourable effect on the profits of a company, through a decrease in recruitment and training costs and operational inefficiencies, to mention a few. In a study conducted by Faz, Anthonisz & Dang (n.d), it was revealed that staff turnover negatively affected profits through reducing income received, and poor overall service quality rendered.

1.5.2.6 Positive Public Image to Profitability

Companies that maintain high ethical standards are less likely to encounter legal challenges concerning their products and services (Saylor Foundation, 2013). Ethical companies enjoy a good public image. Unethical behaviour that is uncovered results in bad publicity, damaging the business’s image in the process; trust is lost and a decline in sales results (Trang, 2015). Hall and Lee (2014), determined that; “a firm ‘s reputation has a significant impact on its performance and that a favourable reputation is associated with higher levels of profitability/performance”.

This was reinforced by findings by Epstein and Rejc-Buhovac (2014), acknowledging that good performance regarding sustainability i.e., regard for ethics, governance, transparency and all company stakeholders to mention a few, generates good standing in society, enhances public relations and performance of a business. On the contrary, penalties for mismanaging stakeholder relations can be substantial and expensive to the company in terms of damaging its reputation and possible negative impacts on profitability (Epstein & Rejc-Buhovac, 2014). Massive amounts of money can be saved annually by conducting business legally and in an ethical manner. Savings result from reduced levels of claims, settlements and stealing (Weiss, 2014). Acting ethically therefore save the company money by preserving the bottom line. When organisations adopt upright morals, they then generate a favourable company image, culminating in improved sales and corporate performance (Ogbari et al., 2016).

1.5.3 *Research Questions*

Ethical business practices undoubtedly positively influence the profitability of companies, through direct or indirect relationships. This study seeks to further explore the concept of business ethics and its impact on profitability. The following research questions were raised:

- **Main Research question** - How do ethical business practices affect the profitability of companies?

- **Sub-questions**
    1. How does organisation culture influence the ethical orientation and ethical behaviour of employees and thus contribute to the establishment of an ethical climate within an organisation?
    2. How does organisation ethical practices towards its various stakeholders i.e., employees, customers and suppliers influence the financial performance of an organisation.

1.6 Concluding Remarks

Now that the objective and rationale of the study has been pre-empted, and the literature has been reviewed highlighting the effects of ethical business practices on firm profitability; the researcher will now explore the research methodology employed in the study.

2 RESEARCH METHODOLOGY

This section outlines the methodology that has been adopted and highlights why it is appropriate for the purposes of this study. The chapter will explore the target population, sample sizes, the research instrument and ethical considerations to be observed in the study.

This study seeks to analyse the effects of ethical business practices on company profitability. A qualitative research method using semi-structured interviews will be used. “Qualitative research is a type of social science research that collects and works with non-numerical data and seeks to interpret meaning from that data, to help us understand social life through the study of targeted populations or places" (Crossman, 2019). Qualitative research helps researchers to access the opinions and emotions of respondents, which can in turn, enhance understanding of how people interpret situations and experiences (Austin & Sutton, 2015). Furthermore, it seeks to critically understand the factors influencing human conduct and gain a deeper insight of the cause and effect relationship between variables.

Qualitative research demands continuous reflection by researchers throughout the research process, as a means of providing understanding and context for the readers. When being reflective, "researchers should not try to simply ignore or avoid their own biases; instead, reflectivity requires researchers to reflect upon and clearly articulate their position and subjectivities (world view, perspectives, biases), so that readers can better understand the filters through which questions were asked, data was gathered and analysed, and findings were reported" **(**Austin & Sutton, 2015).

Due to its nature of being exploratory and uncertain, qualitative enquiry calls for the research design to be flexible and for the researcher to be responsive to findings that may emerge (Morse, 2003). To some degree, a researcher thoughtfully creates or recreates the research design as the study progresses (Morse, 2003).

Qualitative research samples are often smaller than those used in quantitative research methods, mainly because the research method is aimed at gathering an in-depth understanding of a phenomenon and/or it is focused on deriving the meaning, which is centred on the how and why of a particular situation (Dworkin, 2012). Such in-depth inquiry is not concerned with making generalisations to larger populations and does not tend to rely on hypothesis testing. It is rather more inductive and emergent in its processes (Charmaz, 1990, p. 1162 as cited in Dworkin, 2012).

The appropriateness of a qualitative research sample size is governed by the concept of saturation (Mason, 2010). This is the point where no new or relevant data can be obtained from the data collection process (Mason, 2010). Creswell (1998, p.64 as cited in Mason, 2010) prescribes a qualitative sample size of five to 25 for phenomenological studies. Morse (1994, p.225) as cited in Mason (2010) prescribes at least six. Phenomenology is the study of phenomena as they manifest in people's experiences and how the phenomena is perceived, understood and the meaning it has on people's subjective experiences, (Smith, 2013). Qutoshi (2018), "Phenomenology as a philosophy and a method of inquiry is not limited to an approach to knowing, it is rather an intellectual engagement in interpretations and meaning making that is used to understand the lived world of human beings at a conscious level". Phenomenology studies the structure of various types of experiences such as thought, perception, memory, desire and social activity as they relate to the things of the world. The meaning or content of a given experience is thus derived from this, (Smith, 2013). A phenomenology approach is relevant to this study as it allows gathering of in depth insights of the phenomena at hand.

This research methodology was considered appropriate for this study because:

- It allows the generation of comprehensive descriptions and insights that will help make sense of complex situations and social phenomena.
- It allows learning about the participant's experiences, beliefs, opinions and practices in rich detail which will help in the construction of theory from data.
- It helps to understand occurrences deeply and in detail; and
- It allows the learning of behaviours in natural settings i.e., cultural aspects of settings or contexts.

2.1 Population

The target population was CEO's, CFO's, other C-suit employees, financial managers and other employees holding senior managerial positions in finance departments in private and publicly traded entities in South Africa.

2.2 Sample and Sampling Method

A maximum of 12 participants were interviewed for the purposes of this study. The principle of "Saturation" was applied where the researcher continued to sample candidates until no new insights were being gathered (Elmusharaf, 2012).

The research made use of a convenience sampling method. The researcher gathered data from whatever cases happened to be convenient.

2.3 Research Instrument

Interview Method: Semi-structured interviews were used. An interview consisted of gathering insights by interviewing people.

Some of the advantages of interviews are highlighted hereunder:

- Information comes directly from the people you are interested in.
- Risk of misinterpretations of questions is minimised, as questions can be easily and readily clarified, to ensure understanding and relevant responses; and
- Questions can be adapted as the interview goes on, to follow up on other matters of relevancy that will generate further insight into the study.

Some of the main limitations of interviews are highlighted below:

- Respondents may not be entirely honest in their responses as they may fear that the confidentiality of the data may be compromised; and
- Only a limited number of people can be interviewed as with semi-structured interviews it takes more time to gather a deeper understanding of the issue at hand.

2.4 Data Collection and Analysis

Ethical clearance was obtained from Wits Business School prior to embarking on the fieldwork. Fieldwork was conducted during the period Jan 2020 – April 2020. The variables or constructs that were tested as part of the fieldwork were business ethics and company profitability. The research was aimed at gathering information on the effect of ethical business practices on firm's profitability.
Research participants comprised finance professionals in Private and Listed companies located in Gauteng province. Information was gathered from research participants via telephonic and face to face interviews. A record of what was said was documented via handwritten notes and audio-recording (where permissions to record was granted by research participants). Any observations and casual encounters with the subjects were also documented.

The interview data was analysed once it was received and patterns from concepts and insights were drawn using Atlas.ti. Atlas.ti is a qualitative data analysis tool used to analyse large volumes of textual, audio and graphical data. Research evidence was organised by research question and fed into the software as a word document. The data was further segmented by creating quotations and codes. Coding is a process of analysing non numerical data by assigning labels and identifying and categorising information into themes (Medelyan, 2019). As the data was coded, memos or ideas that came to mind were recorded. Codes, quotations and memos created were assessed and were directly associated with the empirical evidence. Graphical views of parts of the project were created in the form of Semantic Networks, where codes were grouped together to create networks. The codes were linked to each other to show the relationship between them.

2.5 Validity, Reliability and Ethics

Validity assesses the appropriateness of the research instrument, i.e., it is measuring the correct concepts that the researcher intends to measure (Bajpai & Bajpai, 2014). Various forms of validity tests encompassing; content, criterion and construct validity are used to assess the worth of the instrument.

Regarding content validity, the researcher ensured that the instrument was relevant and comprehensive so as to address the key concepts. “The more the scale items represent the domain or universe of the concept being measured, the greater the content validity” (Bajpai & Bajpai, 2014, p.174). Content validity was ensured by asking a number of questions that encompassed business ethics and profitability phenomena. To avoid potential information bias, priority was given to information obtained from the study during the interviews. Furthermore, opinions of experts in the field was sought regarding the appropriateness of the interview questions and research data.

“Criterion validity refers to whether the instrument measures what the researcher claims it measures” (Woodrow, 2014, p.26). The interview questions for this study were appropriate to get an in-depth analysis of the effect of ethical behaviour on company profitability. In respect of construct validity, the researcher had to attest to how well the outcomes derived fitted with other existing theories where the test was designed (Bajpai & Bajpai, 2014, p.174).

Reliability refers to the uniformity of the research outcomes and the assurance of readers regarding the replicability of the study, i.e., to test whether if the research were to be done another time in similar settings, comparable outcomes would be attained (Woodrow, 2014). In this instance the results of the research were compared to prior research (where a similar version of the instrument, “parallel forms”, or a different instrument “internal consistency” were used to measure the effect of ethical behaviour on profitability); in order to assess consistency in the study results.

“A critical consideration of desirable criteria of reliability and validity in empirical ethics also has to take into account that most studies categorised as 'empirical ethics use non-experimental methods from the social sciences’ (Strech, 2010, p.223). The methodology chosen for this research allowed the researcher to gather valuable insights for ethical reasoning purposes and allowed for the research to be conducted in a natural setting.

Ethical considerations

The following ethical guidelines was put in place during the research:

- The researcher told the truth to research participants regarding the purpose of the research and their involvement. Akaranga and Makau (2016) noted that it was the researcher’s role to clarify the purpose of the study and benefits derived there from to all the participants.
- The researcher obtained voluntary and informed consent from the research participants before conducting any interviews. Consent was also sought before recording any of the interviews.
- The dignity and wellbeing of research participants was protected at all times.

- The confidentiality of the respondent's responses was protected at all times. The researcher did not disclose any personal data concerning the research participants in the research report.
- The researcher did not create or fabricate any research data or research results.
- The researcher did not manipulate any research data or results, in order to arrive at anticipated results.
- The researcher did ensure that the reported results and findings were a true reflection of the actual research data.
- The researcher ensured that all data sources used in the research were properly referenced, giving credit to the original owner; and
- The researcher checked the research report for potential plagiarism before submission for marking.

2.6 Concluding Remarks

- The research methodology was appropriate to gather relevant data concerning the subject matter. The results generated from the semi structured interviews conducted are presented in the next chapter.

3 PRESENTATION OF RESULTS

3.1 Introduction

This section presents the outcomes of the data collection and analysis. The conclusions drawn from this analysis, in response to the research questions, have been provided in the subsequent section after this.

3.2 Methodological Aspects of The Research

3.2.1 *Demographics*

To attain the research objective, qualitative research was conducted using a semi-structured interview method. The research sample was made up of 12 participants and the data concerning the people who were interviewed is shown in Table 1 below.

Table 1: Research sample structure

Participa	Designation	Industry	Type of Company	Gender
P1	Chief Operations Officer	Telecommunications	Public Listed Company	Male
P2	Chief Executive Officer	Consulting Services	Private Company	Male
P3	Investments manager	Telecommunications	Public Listed Company	Male
P4	Chief Executive Officer	Consulting Services	Public Listed Company	Male
P5	Chief Executive Officer	Consulting Services	Private Company	Male
P6	Chief Operations Officer	Financial Services	Public Listed Company	Female
P7	Financial Accountant	Steel Industry	Public Listed Company	Male
P8	Chief Financial Officer	Property Development	Private Company	Female
P9	Chief Operations Officer	Steel Industry	Public Listed Company	Male
P10	Chief Financial Officer	Consulting Servicies	Public Listed Company	Male
P11	Chief Financial Officer	Fast Moving consumer Goods	Private Company	Male
P12	Financial Manager	Telecommunications	Public Listed Company	Female

The participants were chosen on the basis of their job designations. The data on the interviewed candidates based on job designation, industry, type of company and gender is presented in Figures 1, 2, 3 and 4 below.

Figure1: Participants by designation

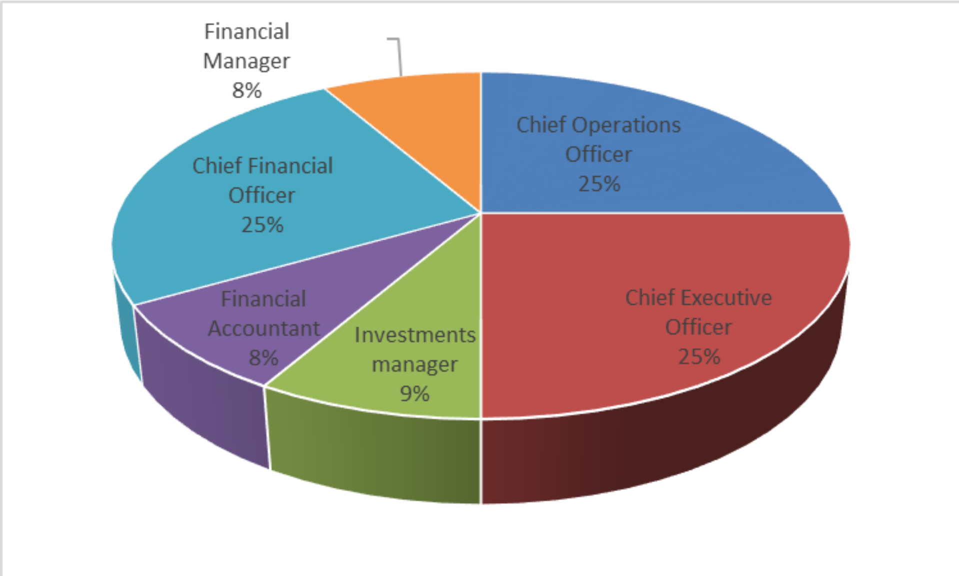


Figure 2: Participants by industry

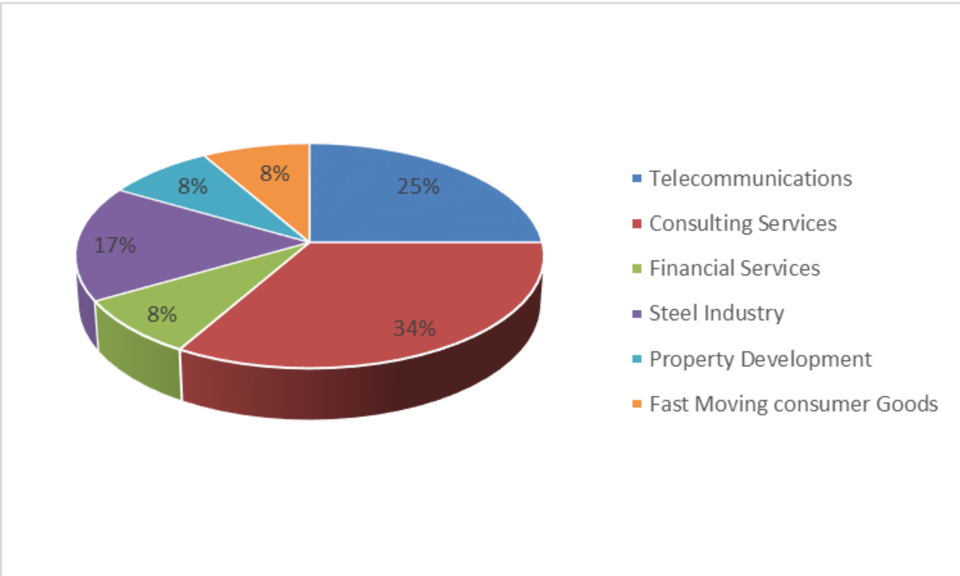


Figure 3: Participants by nature of company

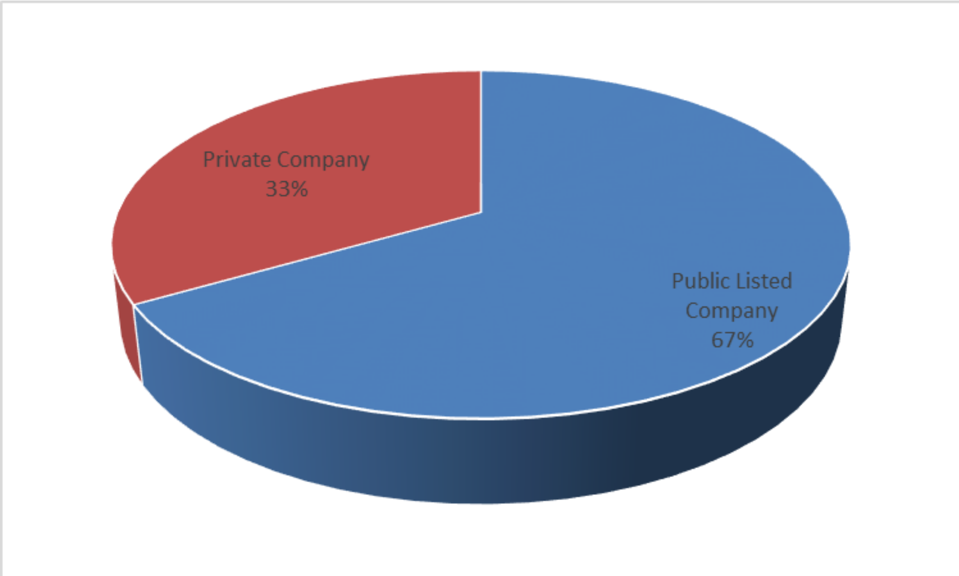
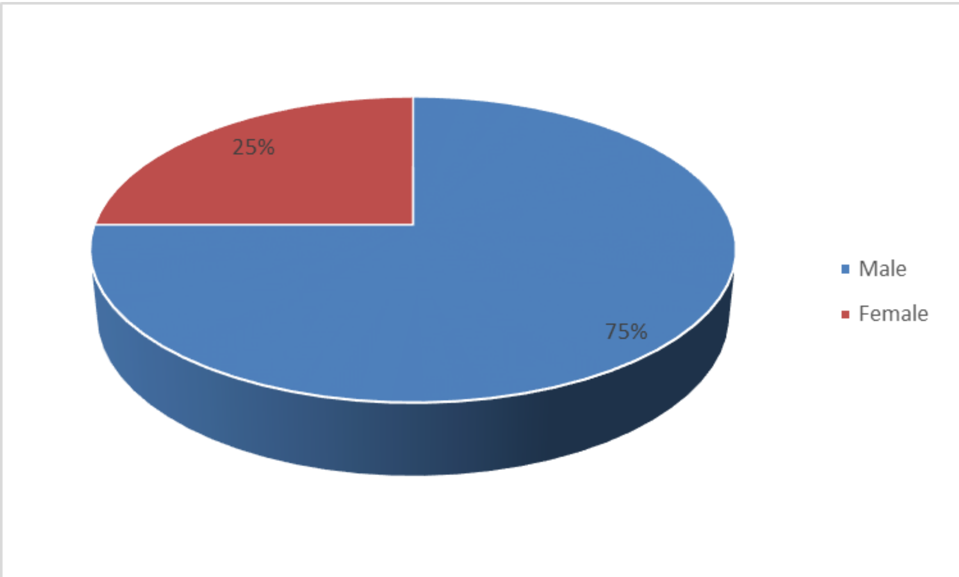


Figure 4: Participants by gender



3.2.2 *Research Questions*

The interview guide included 14 questions that were broken down into three broad categories, as follows: (i) Ethics and business ethics (ii) Culture, organisation culture and ethical culture (iii) Ethical business practices and company profitability. The questions were organised in such a way as to first identify the level of awareness of the key research concepts i.e., ethics and business ethics. Questions on culture were included to identify how culture influences behaviour, which was then used to build up into the crux of the study, to identify how ethical practices influence company profitability.

The detailed list of questions that were used to gather research data and their appropriateness to the study is listed below:

1. What is your job position in the organisation?

   This question is included to assess the level of authority and influence the research participant possessed. It was noted from the literature review that leaders play a vital role in influencing whether a business is profitable or not, through examining their decision making, behavioural attributes and leadership styles.

2. What is your understanding of the concept ethics?
3. What is your understanding of the concept business ethics or ethical business practices?
4. What attributes / qualities do you associate with business ethics /ethical business practices?

   The above 3 questions were included as part of the study, to identify the research participants' awareness and knowledge of the concept of ethics and business ethics. These two key themes form part of the core of the study. Zaim (2013), noted that improved performance was noted in people who followed ethical principles.

5. What is your understanding of the term organisation culture?
6. What is your understanding of the term ethical culture, in the context of an organisation?
7. What is your view on the contribution of organisation culture in influencing the ethical orientation and ethical behaviour of employees?

   The identity of an organisation is shaped by the way it manages stakeholder related issues through its values and conduct (Goel & Ramesh,2016). The findings of a study conducted by (Lal, 2015) highlighted that management is responsible for creating an organisational culture that promotes ethical decision making. Furthermore, performance improves markedly if the leadership team is successful in creating confidence and trust among the workforce (Lal, 2015). These 3 questions are necessary to identify the influence of culture on behaviour, which will in turn, impact performance.

8. In your view, how can organisations create a culture of ethics within the workplace environment?

   The literature review identified the code of ethics as the backbone for establishing an ethical culture. In addition, organisations can anticipate greater levels of success i.e., longevity and profitability, by providing ethics education and training to all employees, to ensure that ethical policies and guidelines are well understood (Saylor Foundation, 2013).

9. Who do you think should take responsibility for ethics within the company and why?

   The findings of a study conducted by (Lal, 2015) identified management as responsible for creating an organisational culture that promotes ethical decision making. This question thus seeks to identify whose responsibility it is for ethics to prevail.

10. Do corporate leaders have a role to play in shaping the ethical practices within the organisation? In your view, how do corporate leaders contribute to shaping ethical behaviour in the workplace?

    Mayer, Aquino, Greenbaum and Kuenze (2012) noted that organisation wide norms of appropriate behaviour are created when leaders conduct themselves ethically, are open to communicate ethical issues and their importance, and use benefit and reprimand systems to stimulate desirable behaviour. In that way, employees are more likely to display ethical behaviour (Mayer, Aquino, Greenbaum & Kuenze, 2012).

11. Does an organisation have an ethical responsibility towards its various stakeholders (i.e., customers, employees, suppliers, to name a few, and why?

    According to Smart et al. (2010), doing what is right is important to various stakeholders including employees, taxpayers and society, to name a few. Additionally, an approach that observes societal and environment related issues enables an organisation to succeed in the long-term, through safeguarding its operating licence, supply chain, reputation and internal and external relationships, (Smart et al., 2010).

12. What is your understanding of the term company profitability?

    The literature review indicates that high profits signify higher sales and business efficiencies, (Dugguh, Isaac & Sunday Oke, 2018).

13. What is your view on the contribution of ethical business practices towards the profitability of companies?

    According to the Saylor Foundation (2013), customers are likely to continue to procure their goods and services from companies that they believe have an upright reputation. Furthermore, Ogbari et al. (2016), identified the existence of a substantial connection between ethical morals and quantities of goods sold, and between ethics and market share.

14. In what ways do ethical business practices contribute to the profitability of firms?

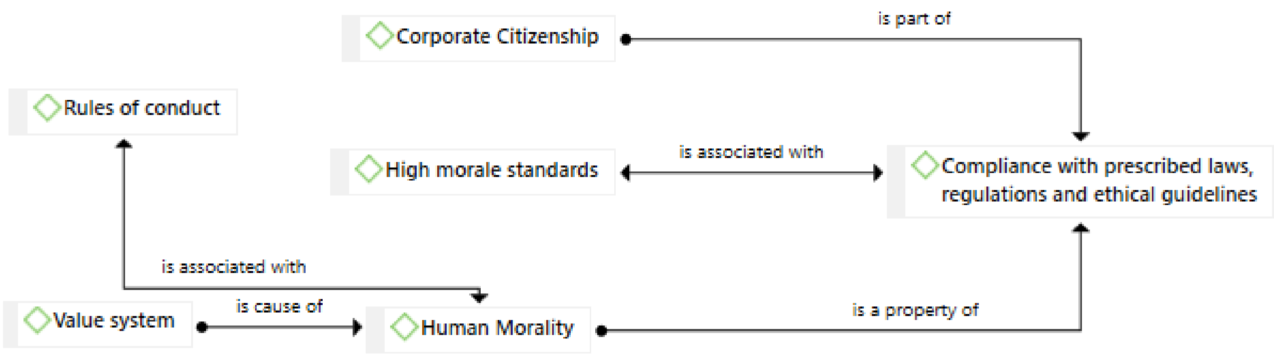
    The literature review showed that profit margins are significantly influenced by company practices such as fair-mindedness, integrity and just dealings. Furthermore, it was revealed that such practices can enhance an organisation's image, leading to growth in profit margins through increased support and backing (Ogbari et al., 2016).

3.3 Results Pertaining to Research Questions 2 and 3

3.3.1 *Ethics and Business Ethics / Ethical Business Practices*

The first and second questions of the research sought to identify how participants understood the idea of ethics and ethical business practices and business ethics in general. From the analysis of the research data, the notions of ethics and business ethics were used interchangeably. These two concepts were defined in terms of six overlapping themes, which are shown in Figure 5 below.

Figure 5: Ethics / business ethics



The research revealed crucial insights on each of these themes, which are outlined hereafter. Ethics and business ethics are identified as rules of conduct, either in a personal capacity or as a business; referring to the rules of certain things that one is permitted or not permitted to do. These rules of conduct represent boundaries to work within and are associated with the setting of standards that align with the environment, to achieve good and right or good and evil. Further, ethics is regarded as a code of "conduct" or "behaviour" which anyone who wants to belong to an organisation is required to abide by, otherwise they can be expelled from it. The purpose of the rules was identified as governing behaviour and ensuring compliance with stipulated guidelines.

In addition, compliance with applicable laws, regulations and ethical guidelines was identified as representing the concept of ethics and business ethics. Respective laws and regulations include the Company's Act, the Employee's Act, the Occupational Health and Safety Act, the Anti-Bribery Act, and the Kings Report on Corporate governance, to mention a few. Ethics and business ethics require performing the correct things in the right way. It involves inter alia, doing things the legal way, things that are above board, things that will not get one into trouble, not accepting or offering bribes, not engaging in corruption, complying with company policies and procedures, declaring conflicts of interests and complying with various regulations governing companies. Compliance is expected to be the norm, even in difficult or trying times.

High moral standards are recognised as defining ethics and business ethics. This was taken to refer to behaviour that reflects honesty and integrity. Such behaviour enables one to do things that are right, involving amongst others; doing in business life what one would do in private life, taking decisions which are, in the exact words of one of the participants, "decisions or actions that allow one to sleep at night without having worries about things one should not have done". Ethics / business ethics was identified as a concept of running business affairs in a manner that shows integrity and follows governance protocols. Acting with integrity requires one to put company interests ahead of personal interests. It was also acknowledged to represent the way an organisation arrives at its decisions, aiming to ensure that the decision-making process follows an ethical path that will result in sound and ethically correct decisions.

Corporate citizenship is another element which was used to define ethics and business ethics. It was accepted as doing the right things, i.e., doing what is good and proper with regard to each stakeholder group; employees, customers, suppliers, communities, and bankers, to mention a few.

Explicitly looking at the concept of ethics on its own, it is also identified as a value system. This was regarded as certain values or beliefs held by people that, in turn, influence how they behave. In addition, it is the imputation of moral codes of values to any undertaking. Human morality was further identified to define ethics. In this sense, ethics was regarded as a branch or philosophy that seeks to navigate between what is considered evil or good; as well as right or wrong in all human interactions.

The analysis of the research data also revealed that the concept of ethics is very subjective. With ethics it's either right or wrong and sometimes, it's not clear to determine which is which. It was highlighted that there are a lot of staff that are sitting on a knife edge and in that case one needs to get a legal opinion. The world survives on law and actions should be judged in terms of whether they are legal or not. It is recognised that the legal system through case law formulates what the interpretation of a particular issue is. This is not always available in a particular ethical space. However, the laws are recognised as having the ability to provide guidance on behaviour which is deemed acceptable and appropriate in respect of a situation.

3.4 Results Pertaining to Research Question 4

3.4.1 ***Attributes or Qualities of Ethical Business Practices***

This question sought to identify the attributes or qualities participants associated with business ethics / ethical business practices. The results of the data analysis can be categorised into three themes, as presented in Table 2 below.

Table 2: Attributes of business ethics / ethical business practices

Behavioral attributes	**Control Frameworks**	**Behavioral Outcomes**
Intergrity	Setting ethical guidelines	High Morale
Fairness	Setting policies and procedures	Low turnover
Trustworthiness	Internal control	Respected leaders
No discrimination		Retention of critical staff
Honesty		Effective Communication
Transparency		Approachable leaders
Openness		Winning team
Objectivity		Doing the right things all the time

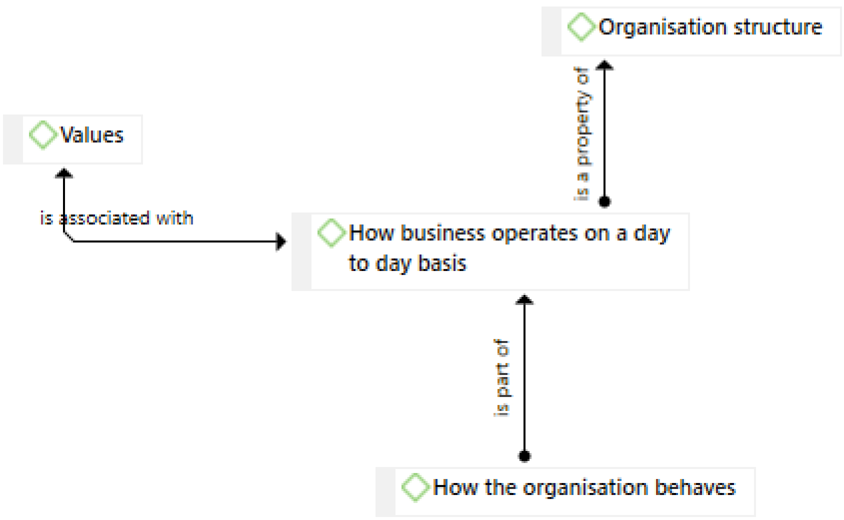
The behavioural attributes are represented by qualities or characteristics that form part of one's distinctive character. These are regarded as associated with people who observe ethical business practices. Control frameworks were identified as mechanisms that ought to be in place in organisations, to govern and monitor ethical behaviours; and behavioural outcomes were linked to the outcomes that are seen in the environment that evidence the existence of business ethics.

3.5 Results Pertaining to Research Question 5

3.5.1 *Organisation Culture*

The research data revealed that organisation culture is a function of three elements that identify how the organisation conducts itself on a daily basis, as reflected on the mind map shown hereunder.

Figure 6: Organisation culture



Research participants identified organisation culture as a set of values that an organisation ascribes to. This comprises the underlying beliefs, assumptions, customs and values instilled in people within a given environment. The values are believed to be instilled through regular education and awareness. The ways that are identified to entrench values into an organisation's behaviour encompass: including them as part of company presentations, highlighting their importance to the organisation and setting KPI's linked to values, where all employees are measured in terms of how they live and perform in terms of company values.

Organisation structure was also identified to define organisation culture. This was recognised as the hierarchy and line of command within an organisation that clearly articulates the structure in terms of; how authority and power is distributed and exercised, and how tasks and responsibilities are disseminated, to ensure the achievement of overall goals and objectives.

A key theme that emerged from the term organisation culture is that it refers to how an organisation behaves. This was taken to represent the patterns of behaviour and characteristics of the people; how people communicate and interact with each other and clients, including ways in which management relates to staff, how people within the organisation dress, how projects are run and executed, and how business reacts to internal and external forces. The spirit present in the environment was also used to describe organisation culture, referring to the feeling that one gets when they are in the environment, for example showing a slow spirit or a spirit of negativity. Elaborating on the way an organisation behaves, participant (P5) identified organisation culture in terms of seven elements as shown in Figure 7 below.

Figure 7: Organisation culture components

People orientation was taken to refer to how an organisation engages and treats its people. People oriented organisations were recognised as providing great opportunities and creating an environment that allows people to flourish and realize their best potential. This construct was extended to also focus on customers regarding providing efficient service to customers.

Outcome orientation was identified in terms of an organisation's stance in achieving results. There may be a strong drive or lack of drive to achieve outstanding results within an organisation. It was acknowledged that outcomes to be achieved may vary from department to department; but overall, all outcomes should work together to achieve set objectives and goals.

Aggression was used to represent an environment that is aggressive about everything that is done. People in such an environment are believed to push harder to achieve what they set out to achieve because that will be the nature of the environment they operate in, for example, in the IT environment, it is recognised that due to the fact that it's ever changing, organisations need to be aggressive, fast paced and agile.

The level of detail whereby things are looked at within the organisation was linked to detail orientation. It was recognised that there is great respect shown towards understanding the underlying details and to look at things in a more granular form in such environments.

Team Orientation was associated with how work is normally performed within the organisation; referring to whether people collaborate and work together in teams or alternatively, it is a siloed environment where people work individually and do not engage much with others when they are performing work functions.

Stability was identified as asking the question of whether the environment is stable or unstable. A stable work environment will be one where people seem to work in a relaxed way with not too much pressure and yet the organisation is still able to generate value; whereas in unstable environments, things are very unpredictable and thus people have to stay at the top of their game.

In concluding the seven elements, innovation was recognised as a culture where emphasis is placed on being innovative. Research and development would be an important aspect for such businesses. In an innovative environment, it is believed that structures and platforms are put in place that allow people to be creative and come up with innovative things.

Culture was identified to have two critical perspectives i.e., the internal view and the external view. The internal view was related to the perception employees have of the organisation. This perception is believed to be driven by management or exco, depending on how they operate and do things. The external view was related to the perception that outsiders have of the organisation. This is how the organisation is perceived in the market; and perception is believed to be created by media, vendors and the employees.

3.6 Results Pertaining to Research Question 6

3.6.1 *Ethical Culture*

Participants were also asked to define their understanding of ethical culture, in the context of an organisation. This was identified as a culture of doing what's right and doing things the right way.
This was taken to refer mainly to the practising of ethical behaviour, as outlined hereunder. A culture where the company lives its values, beliefs and adheres to the ethical standards it sets for itself is a culture that is full of honesty and integrity; where there is openness in engagement, transparency in what people do, where they do it and how they do it; which, in turn, generates trust within the organisation, and an environment that challenges and holds its people accountable. Ethical culture is also recognised to involve complying with rules and regulations. Ethical organisations are believed to guide their people on how they can approach particular situations and the right courses of action to follow while ensuring ethical decisions.

3.7 Results Pertaining to Research Question 7

3.7.1 *Culture and Employee Behaviour*

This question of the research sought to identify the contribution of organisation culture in influencing the ethical orientation and ethical behaviour of employees. The research findings can be summarised according to the illustration below:

The participants strongly believed that organisational culture has a massive influence on employee behaviour. It was highlighted that organisational culture is so important that once you do it correctly, you define a company that you want to see in the 21st century. The participants acknowledged that culture shapes and drives behaviour. The culture defined in an organisation can either perfect someone or corrupt them and can influence them either for good or bad. For example, if there is an absence of a good or positive culture in an organisation, it will drive bad behaviour. Corporate culture is believed to set the tone for behaviour; resulting in a direct impact between what the organisation does and what the employees will do, i.e., if the organisation is unethical then employees may tend to be unethical. An organisation was taken to mean everybody within the company and not just senior management.

The participants recognised that culture must be lived and talked about, so that people are aware and believe in it. The research data revealed that employee behaviour must be driven from the top, with senior leadership leading by example; by having the right procedures, following proper company policies, and by living and showing the culture so it becomes believable. It was emphasised that what employees see on a daily basis is what they will ultimately resemble. The participants concurred on the fact that one cannot enforce ethics on an employee if the organisation is not ethical. In other words, management cannot preach to employees to be ethical if the employees know that that they are doing something unethical. Culture filters from the top down, and thus it influences the whole organisation.

The results also revealed that ethical culture and ethical behaviour are inter-dependant and that words were used interchangeably by some of the participants. It was recognised that culture has behavioural tendencies. People exercise culture through their behaviour; one is able to read culture through observing the behavioural tendencies of the people, in terms of how they do things in that environment. Furthermore, it was recognised that behaviour drives culture through the behaviours that are seen, which in turn, influences the culture. The two are believed to also influence each other.

3.8 Results Pertaining to Research Question 9

3.8.1 *Responsibility for Ethics*

This question sought to identify persons who should take responsibility for ethics within a company and why. The results of the data analysis are represented in the diagram below.

Figure 8: Responsibility for ethics

The responses provided can be summarised into two categories: the senior leadership team and everyone within the organisation. The participants recognised that ethics should emanate from the CEO, the Board and the Executive directors, it is a collective leadership responsibility. It was acknowledged that the leadership team represents the people actually directing the company in whatever direction it takes. The CEO was identified as the person who must be at the forefront of ethics; supported by his or her executive and management team.

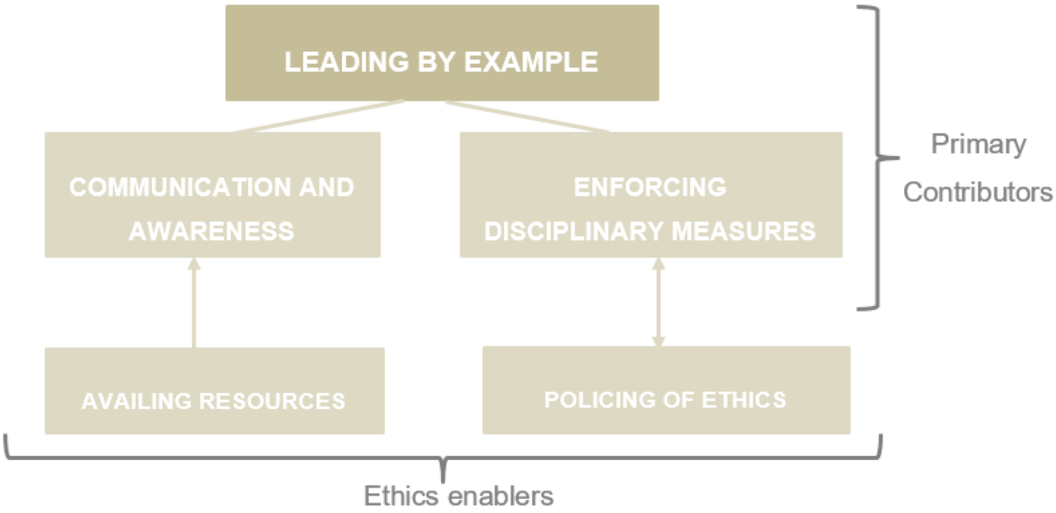
Everyone within an organisation was identified to have a responsibility for ethics. However, being driven from the top i.e., the leadership team; it was accepted that ethics cannot be made the responsibility of one person or department, but rather, the entire workforce should be responsible for exhibiting and maintaining moral behaviour.

3.9 Results Pertaining to Research Questions 8 and 10

3.9.1 *Corporate Leaders Responsibility and Creating an Ethical Culture in The Workplace*

Question 8 sought to identify how organisations can create a culture of ethics within the workplace environment and Question 10 sought to identify whether corporate leaders have a part to play in influencing the ethical practices within an organisation and how they contribute to shaping ethical behaviour in the workplace. The responses provided for these two questions spoke to each other and are summarised hereunder.

Figure 9: Building ethical culture



The analysis of the research data revealed that corporate leaders have a substantial part to play in shaping ethics in the workplace, by setting the right tone. It was indicated that ethics should essentially start from the top and filter down to the rest of the organisation. Leaders should take ownership, be accountable and contribute with honesty and integrity all the time, in an attempt to build a culture of ethics. They should contribute positively to the well-being of the organisation. Ethics is recognised as crucial to being part of the language and behaviour of the leadership team. Participants recognised that people emulate their leaders and as a result, leaders must be visible role models, who demonstrate that they are ethical by being compliant themselves. A key factor highlighted was that leaders must buy into ethics and live it, so that it becomes easier for the rest of the people to follow. Leaders should set up a high standard within an organisation.

In addition, it was highlighted that leaders must be decisive and must punish unethical behaviour. This should also encompass punishing leaders who are found to be unethical. It was reinforced that the good and bad should be enforced through disciplinary processes. In the exact words of one of the participants, “If you say you are an ethical company and there are unethical people within the organisation, you need to get rid of them”. The participants recognised that action must be taken against offenders as that will send a clear message of what’s not acceptable. The research data revealed that people must be held accountable and that things that go wrong in an organisation must not be overlooked but must be addressed. In that way it is believed that people will take ethics seriously. The culture of the organisation must be such that employees will be hesitant to move out of it because of the repercussions of what will happen to them if they do not comply. In addition to punishing unethical behaviour, participants also recognised that organisations must visibly reward good behaviour, to encourage everyone to be ethical.

A culture of zero tolerance for non-compliance with set rules was identified as important. This includes zero tolerance for behaviour that's not aligned to the value system of the organisation. It was identified that tolerance levels should be set, depending on the position and environment in which the company operates. This may comprise; punitive measures, warning or dismissal and passing quality assurance and disciplinary measures. The participants also recognised that leaders should provide protective measures to insulate the environment so that ethics prevails. This could include measures such as 24-hour surveillance cameras, physical access controls and computerised access controls (system access privileges and locking certain sites on PCs), to mention a few. Allowing a safe space and process for reporting unethical behaviour was also accepted as important in the mission to build an ethical culture. This includes having whistle blower facilities and anonymous reporting of fraud and unethical behaviour.

Communication and awareness is also an area that was identified as crucial in creating an ethical culture. It was highlighted that company leadership should see to it that there is ongoing communication and awareness regarding ethical issues. All the people within an organisation should receive ethics training and ethical boundaries should be constantly reinforced. It was indicated that management should not assume that people know the rules, but clear guidelines should be given showing the good and bad; with the help of policies and procedures helping to outline how things are done in the organisation. In ethical training workshops, it was highlighted that leadership and management teams should also attend, to demonstrate their commitment to ethics.

In addition, ethical workshops are needed to address what the organisation does and what's expected of its employees; both for general employees and for the leadership team. It was highlighted that training would help to remind people about ethics and provide an opportunity where people could ask questions on ethical dilemmas and get guidance on the right courses of action to take. An important point that came out from one of the participants was that their company does not have formal ethics training or updated ethical meetings, but indicated that leading by example, policies, procedures and ethical guidelines directs what's expected. Furthermore, the participant highlighted that all the people are professional and are expected to know what ethical behaviour is or isn't.

A code of conduct / ethics was recognised as key to forming the ethical foundation of an organisation. It was highlighted that employees should be educated on it, to create awareness. Further, new appointments ought to be inducted on the code and should sign it as acknowledgement of its contents. This will ensure that new employees know the behavioural expectations from the onset. Research data also revealed that policies, procedures and relevant guiding principles should be developed, to provide guidance to employees on how they should perform their tasks. It was recognised that this ought to be reviewed and updated regularly to accommodate changes within the business and the external environment. In formulating the policies and procedures, it was recognised that management should confirm the appropriateness thereof, with reference to applicable laws. Furthermore, a code of ethics was identified as providing a basis on which to hold people accountable and enforce disciplinary measures against cases of ethical misconduct.

In addition, it was acknowledged that at recruitment level, proper screening and background checks needed to be conducted. In the words of one participant, “people you bring into an organisation can either make or break the organisation”. Thorough screening is needed, organisations should avoid hiring people implicated in corruption, fraud or other acts of unethical behaviour. It was noted that organisations should hire people with a good reputation; as hiring people with questionable reputations might end up tarnishing the company’s reputation and business operations, if such employees are found to be on the wrong side.

Leaders were identified as responsible for providing the resources required to promote the desired ethical culture. It was highlighted that the leadership team should free up monetary resources, by setting up budgets for ethics training for all employees. In addition, leaders to see to the fact that they provide systems, policies and procedures to employees and in greater detail on how people are supposed to be ethical. Having an ethics champion who always talks to ethics, was identified as crucial towards improving the organisation’s ethics drive.

The data revealed that policing of ethics need to be happening in professional organisations that claim to be ethical. It was highlighted that governing bodies and/or the government should police ethics rigorously and relentlessly in organisations, to ensure that governance practices are being enacted. In addition, the organisations themselves should also have mechanisms to police ethics within their operations, to ensure that stipulated ethical guidelines are enacted. Despite proper governance structures being implemented in an organisation, without policing it, participants recognised that it amounted to nothing. Additionally, it was recognised that real consequences should be there for people who step out of line.

Organisations should adopt the principles of integrated thinking in the way they conduct their operations. This is believed to assist in creating a culture of ethics within a workplace environment. Integrated thinking was identified as referring to how business ethically interacts with its environment. Key pillars that are acknowledged are Transparency, Human, Social, Environmental and Relationship capital. This is regarded as a paradigm that will drive sustainable value creation.

The research evidence revealed that ethics is one of the most important things a company must have; and that it should become a norm in the company's day to day activities. Furthermore, it was highlighted that people should hold themselves accountable for higher standards of behaviour.

3.10 Results Pertaining to Research Question 11

3.10.1 *Ethics and Stakeholders*

The research question sought to identify whether an organisation has an ethical responsibility towards its various stakeholders (i.e., employees, customers, suppliers, etc), and why. The results indicated that a business, together with its stakeholders, forms a connected whole. This is illustrated in Figure 10 below:

Figure 10: (Sesión del miércoles, 2015)

The participants strongly believed that an organisation has an ethical responsibility towards its various stakeholders. The whole eco-system revolves around stakeholders; not just investors, customers, employees or creditors but every stakeholder. One stakeholder is believed to feed into another, ultimately. Behaviour was also identified as being not just internal but also external. The participants acknowledged that the whole reputation of a company is built on internal and external ethical behaviour towards its various stakeholders. It was highlighted that an organisation does not operate in a vacuum; it requires other people, and the other people also need the company.

An example was provided as follows: "if a company acts unethically, it might have serious consequences such as losing customers, losing business and possibly end up closing down. In the situation where the company closes down, people who used to buy from the company are going to be affected because it is no longer there; there will be less competition and they might now be few suppliers who are now providing that service, which may result in prices going up". In that sense, unethical behaviour affects even an ordinary person and not just the organisation. It was accepted that whatever decisions an organisation makes will affect all its stakeholders.

The analysis of the research data revealed that people might not want to engage in business dealings with unethical companies because that may create issues for them as well. As a result, suppliers and customers may in turn boycott the company. Furthermore, it was stated that partnership with professional and leading firms often require certain ethical procedures to be followed in the way a company does things. This is recognised as being a requirement that may be put in place in order for the other entity to remain a partner and to be able to sell their products and/or benefit from that association.

Doing the right thing by the company's stakeholders is believed to safeguard a company's profits. Organisations are there to create value and if anything does not function according to the way it should, it hampers profits because trust will be lost. It was further indicated that ethics must be upheld as it has everything to do with making a profit.

Additionally, it was recognised that acting ethically with all of the company's stakeholders helps to generate trust. Proper governance procedures must be in place and followed with regard to each group of stakeholders, according to their needs. Some of the ethical practices highlighted for several stakeholder groups follow hereunder. For the employees, it was recognised that an organisation should ensure a safe and secure working environment. Once employees feel safe and secure, it is believed that it gives them a sense of care and belonging which, in turn, will motivate the employees to give the best they can in terms of productivity. With regard to the customers, ethical practices are believed to relate to delivering the best quality products that are not harmful to the environment. In addition, products that have benefits or utility should not have misleading information on its labels and goods should be delivered as per advert or other branding promises. For suppliers' ethical practices are linked to the RFP processes being followed, such as paying them on time, being open and communicating issues to them; ensuring that transactions are at arm's length and treating all suppliers in the same way, regardless of size of their orders. Such practices are believed to create long lasting favourable relationships. A point was also made that organisations should pick suppliers that have ethical policies, procedures and processes in place.

3.11 Results Pertaining to Research Question 12

3.11.1 *Company Profitability*

The definition provided for company profitability can be expressed as per the following formula:

TOTAL REVENUE − **TOTAL EXPENSES** = **PROFITS**

Participants highlighted that company profitability refers to the bottom line of the company, which is the net profit after tax has been calculated, within a given trading period.

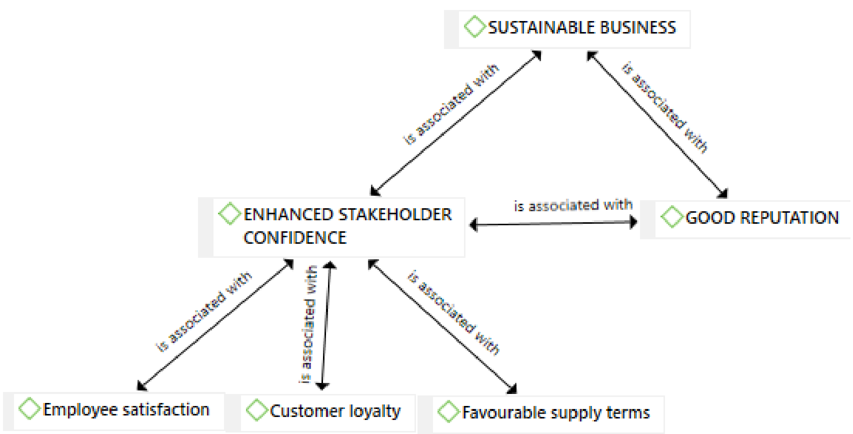
3.12 Results Pertaining to Research Questions 13 and 14

3.12.1 *Ethical Business Practices and Company Profitability*

Questions 13 and 14 sought to identify the contribution of ethical business practices to the profits of firms and investigate the ways in which ethics contributes to company profitability.

The data analysis highlighted that moral practices influenced the profitability of firms in various ways. The findings can be categorised into three themes that identify how ethical practices contribute to company profitability.

Figure 11: Ethics and company profitability



3.12.1.1 ENHANCED STAKEHOLDER CONFIDENCE

The analysis highlighted that a culture of ethics creates a platform for sound and ethical decisions to be taken. People are believed to be cognisant of the potential consequences of decisions that are not in line with companywide policies, procedures and ethical guidelines. In this case, they try to ensure that decisions that are ultimately taken are above board in all material respects. It was stated that a bigger picture view is taken when making decisions, by assessing whether the decisions made are in the company's and the various stakeholders' best interests. In addition, leaders are identified as approachable, open minded and willing to hear other people's views and ideas. This is also believed to contribute to the quality of decisions that are ultimately made.

The respondents recognised that ethical business practices towards various stakeholder groups will either directly or indirectly, impact company profitability, as described below.

3.12.1.1.1 EMPLOYEE SATISFACTION

The data revealed that ethical business practices towards employees would significantly influence the levels of employee satisfaction and their loyalty. It is accepted that this has a positive effect on profits due to three fundamental qualities, namely, high morale, retention of staff and ability to attract talent.

The participants recognised that when an organisation does the proper things and runs its business affairs in an ethical way, this manifests itself in the morale in that environment. Employees can be measured by their level of morale and the happier employees are, the better the results they will achieve. High morale is associated with people doing very well, a willingness to work harder and do more, and people doing things the right way. The participants acknowledged that ethical practices towards employees typically help to streamline processes and ensure that the organisation works with maximum efficiency, productivity, and harmony. This is believed to safeguard company profitability, through improving operating efficiencies which effectively reduces operating costs.

An organisation is believed to be ethical towards its employees when it concerns itself with things such as employee safety and health, providing opportunities for training and advancement, providing equivalent opportunities, regardless of race, gender and age, fair and equitable remuneration and being transparent about all communications that may affect employees e.g., when management contemplates layoffs and or recognition. With regard to remuneration, it was recognised that organisations should provide salary scales that are marketable, acceptable and at the same level for employees performing the same job functions. It was emphasised that inequitable salary scales for people performing the same jobs amounts to dishonesty and discrimination on the part of the organisation. The participants stated that when an organisation gets the above right, it would probably translate into happier employees who would produce maximum productivity which is what an organisation needs to produce the best results.

Additionally, it was recognised that retention of critical staff is influenced by an organisation's general behaviour towards its employees. The data showed that "where you have high staff turnover, it might be an indication that the organisation does not really look after its people very well". It is also believed that where people stay with the company for long, it could be a sign that they are comfortable and happy, and therefore in most cases the ethics in that environment would be right. It was accepted that if the organisation acts ethically towards its employees, trust is generated, and key employees will be retained. The chances of making profits should increase when the organisation retains people who have the right technical knowhow and ability, which will ensure continued quality and/or improved products or service, resulting in repeat business. The reverse applies in that unqualified people may compromise quality and in turn, negatively impact company profitability.

A couple of the participants who are in the consulting space acknowledged that if the company does not treat its employees fairly, it has a direct influence on their profitability. They recognised that the greatest asset for any organisation is its people. In the exact words of one of the participants "ethical behaviour towards employees and the satisfaction of those employees, is the company's life blood". The companies do not sell any products other than via their employee's expertise, and thus that is the only method they have for making profits. It was accepted that business have to interact ethically with their employees, in order to retain critical staff, especially in view of the massive skills shortage in South Africa which is extremely difficult to rectify. It was also recognised that by treating employees fairly that will encourage them to go the extra mile for their leaders.

In addition, ethical practices towards employees is believed to result in a company that is liked, and which people want to be associated with. This is accepted to increase the company's ability to attract great talent. Great talent was identified in terms of people who are hardworking, pro-active, smart and efficient in performing their tasks. This workforce is believed to contribute to profitability through increased productivity and operating efficiencies.

3.12.1.1.2 CUSTOMER LOYALTY

The analysis also highlighted that ethical business practices lead to customer loyalty. It was recognised that if an organisation is ethical, people will lean towards the brand and want to be affiliated with it. This is believed to drive customer demand and ensure longevity of companies they do business with. The participants acknowledged that customers would come back for repeat business and also try other products the company has on offer. In this way, it was believed that revenues would go up which would ultimately drive profitability. In addition, it was averred that an ethical company would also benefit from ‘word of mouth’ by satisfied customers, which is generally accepted to not only increase sales but also to save the company money in terms of marketing costs, thereby lowering the company’s operating expenses. In summary, the findings revealed that a more ethical culture would produce more clients, more revenue, more cost optimisation and more likelihood of profits.

3.12.1.1.3 FAVOURABLE SUPPLY TERMS

The data revealed that ethical business practices resulted in more suppliers wanting to do business with an organisation and in existing suppliers wanting to do more business with the company concerned. As a result, the company is then able to negotiate better deals and support and revenues would go up. Favourable supply terms could be negotiated, such as improved terms and conditions on agreements, better payment terms, lower interest rates, lower charges and improved pricing. Furthermore, it is believed that if the organisation is ethical, it generates supplier confidence and trust, resulting in suppliers not having to build a lot of risk into their pricing. Favourable terms positively influence profitability by means of lowering operating costs and extending payment terms.

3.12.1.2 GOOD REPUTATION

The results revealed that there are upsides to having good ethics, such as being in good standing with communities and society as a whole and better relationships with the market the company operates in. The participants stated that this would provide the organisation with opportunities to improve “Goodwill”. Ethical business practices generate a good reputation for the company, resulting in stakeholders having more confidence in the organisation. The organisation would also enjoy having a better market share and sustainable profits, as a result.

One participant said that the biggest risk at the moment is failing to please customers; particularly when they now have so much more power over retailers and service providers, driven by social media. He stated that: “the generations coming up are demanding what the integrated thinking is all about, and demanding answers from companies to tell them; how they are doing business, treating employees, things being done to develop society, responses to environmental staff and how business is managing its relationships”. Companies that do not respond favourably to customers may face the risk of boycotting of their products and/or services. Ethical practices demonstrated by organisations to their various stakeholders may create a viral loop through social media, thus generating good traction towards company brands, which may translate into increased sales.

3.12.1.3 SUSTAINABLE BUSINESS

The research data revealed that there are cases where unethical behaviour can provide shortcuts to increasing profitability. However by contrast, some participants believed that ethical behaviour benefits companies to be long-lasting, with sustainable profitability.

A culture of ethics is believed to prolong the life of an organisation i.e., assuring its longevity. When companies' start-up, the owner's office bearers and staff believe that the company will be there forever. However, often, companies may close down due to difficult situations or conditions. The participants averred that organisations that exhibit ethical principles and behaviour are more likely to last well into the future. One of the participants stated that: "being ethical ensures that the organisation will be in operational existence for a long period of time and in the process it can either make profits or losses".

Furthermore, some participants said that although companies do not budget for losses, sometimes they budget to break even and as long as the organisation is still existing, they have a chance to make a profit sometime. The respondents acknowledged that ethical companies should walk away from businesses or agreements where their ethics may be compromised and that companies should remain ethical even during tough times. Participants concurred, saying that striving for profitability should influence companies' long-term decisions and that such decisions are beneficial to organisation's chances of enjoying success in the distant future.

Additionally, it was recognised that ethical practices help with profitability in the long term and tend to improve the chance of sustainability of a business. The participants recognised that in the short term, there is no doubt that unethical behaviour can pay off, but that it can be detrimental to the company if it is exposed. They believed that operating in an unethical way would in the long-term impact profitability negatively through; fines, losing customers and partners picking up on the organisation's unethical behaviour and therefore not wanting to do business with it, can cause a drop in share prices, and possible closure. The EOH and Steinhoff scandals illustrate this. They described how companies dissipate when allegations of unethical behaviour came out, resulting in their share prices dropping significantly. The participants acknowledged that in the long-term ethical practices assure business sustainability.

Analysis of the data reveal that the topic of ethics leads to governance i.e., good governance. Ethics is believed to be part of governance and governance was defined as "the way systems and norms are structured in an organisation to ensure proper and smart way in operating; if structured good, then good governance". It is believed that there is a direct connection between profitability and good governance; once everything is synchronized in oneness, anything that sucks up financial resources is uprooted. If there is no ethics, leakages occur leading to losses. Further, if a company gets a contract in an ethical way, it is likely to get it again as opposed to getting it in an unethical way. Research evidence acknowledge that organisations that run in an efficient environment with outstanding morals have greater chances to make profits through minimising leakages and generating more business. It is further recognised that if organisations are not doing the right thing, it will eventually catch up and cost the company. Ultimately, ethical conduct is believed to impact the sustainability of a business through boosting profits in the long term. Respondents recognised that compared to another ethical company, ethical practices do not give business an edge, but definitely is there to sustain profitability.

3.13 Concluding Remarks

The foregoing section commented on the results of the research fieldwork. Insights were gathered and the next section will explore and discuss the results to bring into context how ethical business practices influence firms' profitability.

4 DISCUSSION OF RESULTS

4.1 Introduction

This section presents a discussion of the results shown in the preceding chapter. The discussion is presented in light of previous research and the information discussed in the literature review.

4.2 Demographic Profile of Participants

The participants were chosen on the basis of their Job designation and the environment they work in, e.g., the private sector. A convenience sampling method was used, and the participants who could avail themselves and were keen to take part were interviewed. The sample predominantly comprised men and individuals working for listed companies.

4.3 Discussion Pertaining to Research Questions 2 and 3

4.3.1 *Ethics and Business Ethics*

Ethics and business ethics are terms that are used interchangeably by the research participants, it is important to note however, that both constructs share common themes such as doing the right things i.e., things that comply with stipulated guidelines. Business ethics is an extension of ethics, which brings doing the right things into a business context. Twomey and Jennings (2011) identified business ethics as applying ethics to business situations. Dimitriades (2007), as cited in Srokaa and Lorinczy (2015), identified business ethics as encompassing the beliefs, moral principles, values, governance issues, culture and the acceptable way of operating businesses.

The notion of ethics and business ethics as a value system, rules of conduct, human morality, high moral standards, corporate citizenship and adhering to prescribed rules and procedures results in the formulation of the following definition; “Ethics and business ethics refers to the adherence to high standards of moral behaviour, in both an individual and/or a business capacity, and it is a function of a value system, rules of conduct and human morality.” Ethical behaviour complies with prescribed ethical guidelines and considers wider stakeholder’s interests.

From this definition, two key fundamentals can be identified, i.e., high standards of moral behaviour and stakeholder interests. The first fundamental addresses modelled standards. The set standards represent a framework that provides guidance on behavioural expectations in a given environment and it encompasses the code of conduct, rules and regulations of certain things. Goel and Ramanathan (2014) recognised that business ethics represent an acceptable way of behaviour, governance matters, moral principles and decision making.

Stakeholder interest takes into account that there are various groups of people that affect or are affected by a company’s operations whose interests must be observed, managed and promoted. Corporate social responsibility (CSR) recognises that stakeholder groups other than shareholders must also be treated fairly and responsibly by corporates (Goel & Ramanathan, 2014). According to Abiodun and Oyeniyi (2014), ethics emphasises critical stakeholder issues encompassing, compensation and benefits of employees, product excellence, satisfaction of customers, and societal and environmental responsibilities. Goel and Ramanathan (2014) further recognised CSR as a subset of business ethics that should be embedded into a company’s strategy and its governance structure.

The definition adopted in the study defines ethics as based on logical ideals prescribing right and wrong, that guide people on how they should act, normally in terms of justice, rights, obligations and contributions to society (Velasquez, Andre, Shanks & Meyer, 2010). The working definition recognises the principles of decent human conduct in relation to others. Goel and Ramesh (2016) identified ethics as referring to the moral obligations of a business, based on its association with society. This supports the research findings in that high moral standards are observed with regard to various stakeholder’s groups, premised on a value system, rules of conduct and human morality.

An individual or organisation is presumed to adhere to high standards of moral behaviour when they possess qualities such as honesty, integrity, fairness, trustworthiness, openness and objectivity.

Turyakira (2017) identified some of the basic ethical standards required for business activities which included honesty, reliability and cooperation. A value system represents strongly held beliefs and customs in a given environment. The Collins Dictionary (n.d.) define a value system as a set of views and attitudes shared by a group of people. Rules of conduct represent a guiding framework that helps people determine what people can or cannot do. The last premise, human morality looks at distinguishing human behaviour between what is good and evil, right or wrong. “Morality is the belief that some behaviour is right and acceptable and that other behaviour is wrong” (The Collins Dictionary, n.d).

4.4 Discussion Pertaining to Research Question 4

4.4.1 *Attributes or Qualities of Ethical Business Practices*

The qualities associated with ethical business practices are identified in terms of behavioural attributes, control frameworks and behavioural outcomes.

For an environment to be deemed ethical, it is clear from the analysis of research data that there are certain qualities that are expected to be exhibited by people in that particular setting. These qualities comprise behavioural traits such as integrity, fairness, openness, and honesty. Abiodun and Oyeniyi (2014), recognised ethics to be premised on fundamental ideals encompassing transparency, responsibility, accountability, fairness and integrity. In addition, ethics comprises the institution of principles such as fairness and honesty into business relationships with employees and customers (Singh & Prasad, 2017).

Control frameworks are an inherent part of ethical business practices. The Research data identified set standards, policies and procedures, a code of conduct and internal control as important attributes of business ethics. The former three address the normative branch of ethics, in that they provide a framework for behaviour that should be observed and adhered to. Management sets the tone for companywide ethical awareness through institutionalising policies and measures for ethics (Barisic & Tusek, 2016). In addition, the code of conduct specifies the behaviours required of employees, in order to observe the company values and philosophy (The Saylor Foundation, 2013). The latter element refers to controls that are put in place to ensure ethical standards and proper governance in the workplace. According to Manoukian (2016), Internal Control embodies systems i.e., policies, procedures and measures that are put in place to manage risk and to facilitate the achievement of set objectives. Furthermore, Kenton (2019) noted that internal controls represent mechanisms and procedures applied by entities to safeguard the integrity of data, encourage responsibility and avoid deception.

The last element identified as a quality of ethical business practices is behavioural outcomes. It is apparent from the analysis of research evidence that the test for ethics is in the results. Ethical business practices are associated with behavioural outcomes such as high morale, low turnover, effective communication, and winning teams. This finding holds true and is supported by evidence presented later on in the report, on how ethical business practices influence company profitability.

4.5 Discussion Pertaining to Research Questions 5 and 6

4.5.1 *Organisational Culture and Ethical Culture*

Organisational culture is identified in the research findings as the way a business operates daily and is referenced in terms of three elements i.e., values, organisation structure and how the organisation behaves.

In line with the research evidence, values are beliefs that an organisation chooses to associate itself with. They represent a set of ideologies that assist in defining what the organisation stands for and the principles it adheres to in the conduct of its operations. Values that are collectively held in a given environment serve to influence behaviour. It can thus be accepted that the behaviour that is seen at the surface level is consequently a manifestation of the underlying beliefs one holds. One can therefore not have culture without values, the two are associated with each other.

According to Tianya (2015, p8), "the core of culture is formed by values. Values mainly refer to the fundamental beliefs, values, ethics and spirits of an organisation". Schein (2011) as cited in Agwu (2014), identified organisational culture as "the set of shared values, beliefs and norms that influence the way employees think, feel and behave in the workplace". Spencer-Oatey, (2012, p. 2), defined culture as "a set of basic assumptions, values, orientations to life, beliefs, policies, procedures and behavioural conventions that are shared by a group of people, which influence (but do not determine) each member's behaviour and interpretation of other's behaviour".

In light of the fact that values influence the culture in a given environment, it is important that the desired values are entrenched in people so they can be enacted. Continuous education and awareness, highlighting their importance is thus crucial. In addition to including values as part of company presentations and employee's KPIs, awareness can also be created through displays in common areas in the workplace, displays on the internet and on the company website. Regular companywide surveys aimed at gauging the level of awareness can also be conducted and appropriate remedial action instituted where needs be. Meaningful companywide discussions on values and clearly defining indicators to put them in practice helps to ingrain organisational values into the company's operations (Burford, Hoover, Stapleton & Harder, 2016).

Culture is behaviour and refers to how an organisation behaves. Performance that people exhibit i.e., how they talk, team focus, how they relate with each other, the level of commitment expressed, how projects are executed, all describe how an organisation behaves.

A model of culture was identified as part of the study which comprises seven elements that assist in identifying and understanding culture in a business context. These elements comprise people orientation, outcome orientation, team orientation, aggression, detail orientation, a stable environment, and innovation. The identified elements typically address the behavioural tendencies of the organisation in approaching various aspects of its business, while driving strategy.

People and team orientation elements address the human aspect of things. In addition to providing empowering opportunities to employees, this construct also refers to how people are treated; treating people as valuable members of the organisation, recognising and rewarding good work done, and allowing people a voice i.e., giving them a platform to air their views. Encouraging and growing people is the crux of a people focused approach (Bell, 2019). Aggression, detail orientation and innovation look at the way people approach their various tasks and outcome orientation focuses more on the output generated. An outcome orientated environment tends to be more results or output driven.

Robbins and Judge (2011) identified seven essential components of organisational culture. These comprise: (i) allowing the workforce to be innovative and not to fear taking risks, all of which is believed to produce creativity and enhance productivity. (ii) detail orientation, requiring that employees pay attention to detail. (iii) a focus on outcomes achieved. (iv) a focus on people's needs. (v) team dynamics. (vi) the level of aggressiveness applied. (vii) the level of stability.

The seven elements provide a concise picture of how things are typically done within a given environment. It is important to note that the emphasis placed on them will probably vary from one organisation to another and across various industries, depending on the forces and risks factors the respective organisations face. Edgar Schein (n.d) as cited in Johnson, Whittington, Scholes, Angwin and Regner (2017, p.171), identified organisation culture as comprising four components; beliefs, values, behaviours and paradigms. His study supported the research finding of identifying values and how people behave, as critical components of organisational culture. Behaviours are defined in his study as the daily observable activities of an organisation, encompassing its organisation structure, control dynamics, work habits and behavioural symbols (Schein (n.d), as cited in Johnson et al., 2017). According to McGuinn (2018), "organisational culture refers to a company's way of life, encompassing ethics and formalised and implied standards". It also involves the everyday activities that personify and display ethics or the lack of it (McGuinn, 2018).

Research participants also identified organisational culture as referring to organisational structure. Organisational structure addresses how authority and power is distributed, and tasks executed within the organisation. The organisational structure, also referred to as the chain of command, specifically shows the hierarchy in terms of power, which is crucial in identifying the path that critical decisions should take. In respect of execution, it assists in defining the roles and responsibilities that each level in the organisation undertakes. This is important for ensuring goal congruence and avoiding potential duplication of effort in the pursuit of organisation's goals and objectives. Organisational structure is a mechanism linking and coordinating people within the context of their responsibilities, command and power (Kanten, Kanten & Gurlek, 2014). Furthermore, Greenberg (2011) defined organisational structure as "the formal configuration between individuals and groups concerning the responsibilities, allocation of tasks and authority in the organisation".

The identification of Organisational structure as part of culture is supported by the work of Johnson, et. al. (2017) on the cultural web. The web is a tool that is used to identify and understand the factors that influence culture. It displays the culture prevalent in a given environment in the form of behaviours that are seen, physical outlook and symbols used (Johnson et al., 2017). Organisational structure is an element that is identified as an influencer of culture on the cultural web. Johnson et al. (2017, p. 176), identified organisational structure as "the roles, responsibilities and reporting relationships in organisations".

One key thing that did not explicitly emerge from the analysis of research data is that culture may take two different forms i.e., primary culture (organisation wide culture) and secondary culture, better known as subcultures. In any organisation, these two levels of culture are likely to exist, with subculture relating mainly to how certain things are done in different departments or business units. It is important that management is aware of and manage the subcultures, together with the primary culture and channels them in the direction that will ensure efficient and effective execution of company strategy. According to Organisational Subculture: Definition and Examples (2013), in any organisation, culture takes the form of a dominant culture and numerous sub-cultures. The dominant culture outlines universal guidelines and boundaries that direct member's behaviour. Subcultures on the other hand, contain critical elements of the dominant culture and also supplementary values that are specific to a group or department, (Organisational Subculture: Definition & Examples, 2013). The board of directors, as the governing body of the company is tasked with overseeing and managing the overall organisational culture, together with its sub-cultures (Ernst & Young, 2019).

In addition to organisational culture, ethics that are embedded in the way things are done in the organisation result in the creation of an ethical culture. Ethical culture requires people to do the right things and to observe the rules, regulations and or ethical guidelines that are in place. The institutionalization of ethics in the organisation refers to taking decisive actions on how to embed ethics in all company activities and the development of strong moral cultures (Burford, Hoover, Stapleton & Harder, 2016). Baquillas (2018), noted that ethical culture is "the shared beliefs of the organisation’s members about ethics. It incorporates the promotion of ethical behaviours and conduct within an organisation”.

4.6 Discussion Pertaining to Research Question 7

4.6.1 *Influence of Culture on Behaviour*

The results from this exploratory study advocate that the culture that is seen in an environment influences the behaviour of the employees. A key insight that arose from the examination of the research information is that culture drives behaviour and behaviour drive culture. The two constructs are inter-related and actively reinforce the culture and behaviour that is prevalent in a given environment. It is apparent from this study that culture has behavioural tendencies and behaviour in-turn, has cultural tendencies, making both inseparable. According to Maxfield (2015) “behaviour directs culture, and culture directs behaviour”. Furthermore, Bandura (1999) as part of his “reciprocal causality model” recognised that environmental factors and behavioural patterns are interacting variables with the power to influence each other. Individual and external factors alike, influence behaviour, and people via their actions, influence themself and their surroundings (Bandura, 1999).

4.7 Discussion Pertaining to Research Questions 8, 9 and 10

4.7.1 *Responsibility for Ethics and Creating an Ethical Culture*

It is apparent from the analysis of research data that the starting point for ethics within an organisation is the company leadership. It is recognised that the senior leadership team plays a crucial role in shaping ethics and culture within an organisation. It is acknowledged that employees look up to their leader’s deeds for guidance in terms of what they can do. It is very apparent from the study that ethics and behaviour start from the tone that is set by the leaders and then filters down to the rest of the organisation. This finding has serious implications for the leaders and the organisation as a whole. It is reasonable to presume that what the leaders do, say or not say, how they relate to others, how they treat stakeholders and their attitude towards various stakeholders, is usually under scrutiny by employees. Consequently, employees form their own opinions about the leaders and the organisation culture that will influence their behaviour either favourably or negatively.

In light of this, it is therefore very important that the leadership team should role model the kind of behaviours they would like to see within the workplace environment. Ethics should start with the leadership team and then filter down to the rest of the organisation so it then becomes everyone's responsibility. Management's pledge to ethics is the foundation on which to develop an ethical organisation, (Lloyd & Mey, 2010). Mayer, Aqquino, Greeenbaum and Kuenzi (2012), noted that modelling desired behaviours and making use of "rewards and punishments" help to stimulate suitable conduct by followers and eliminate relationship conflicts with fellow employees. Furthermore, leaders contribute to developing an ethical culture through demonstrating desired behaviours. Workers are encouraged to be ethical when their superiors display a high standard of ethics (Singh & Prasad, 2017). Culture originates from the top. People imitate their leader's actions. It is thus crucial that the executive and management team are cautious about managing their own behaviour and exhibit desirable ethical behaviours for the entire workforce (McGuinn, 2018). Bandura (1977, 1986) stated that "the behaviours of leaders are crucial to the success of an organisation because individuals learn by paying attention to and emulating attitudes, values, and behaviours of credible role models".

The research data revealed that though ethics start from the top, everyone in an organisation, regardless of their level, fulfils a crucial role in influencing the overall ethics within the organisation. It is worth emphasising that people learn from observation, first and foremost observing their leaders as discussed above, and to some degree what their fellow colleagues do. Then the whole environment must be such that ethics is seen everywhere in the company. Every person must regard ethics as part of their daily responsibility and hold themselves personally accountable, even without policing it. This approach turns everyone within an organisation into an informal ethics manager, allowing them to assume an active role in influencing the desired culture. Bandura's "social learning theory" posited that new behavioural patterns are learnt directly through experience or observation of behaviours, attitudes and behavioural outcomes of others (Bandura, 1971). Furthermore, through observing modelled behaviour, people form ideas of acceptable behaviour that then guide their future actions (Bandura, 1971). Mahomed (2018) stated that governance should be seen as part of what a business does and be incorporated into every sphere of business. The effective and strongest form of governance is when every employee is a risk manager, managing and governing the risks they deal with in their respective business areas (Nel, 2018).

In addition to leading by example, various other mechanisms are identified as important in creating and maintaining a culture of ethics within the work environment. It is apparent from the research evidence that leaders should prioritise the communication of ethical issues in order to create awareness. One of the ways of communication identified is the offering of regular ethics related training to employees. Such training is vital to an organisation because it provides guidance to employees on how they can approach potential ethical dilemmas they may encounter. Furthermore, it provides a platform for employees to engage on ethical issues and have a holistic view on the importance of ethical practices to the organisation.

Eluka, Agu & Okafor (2015), identified ethics policies and training programmes as mechanisms for promoting ethical behaviour in organisations. According to Mhonderwa (2013) “ethics training in business provides strategic mileage, empowering staff with the information, understanding and skills to anticipate and recognise ethical challenges and dilemmas, and formulate morally sound decisions”. In addition, it affords the opportunity for contemplating ethical matters when performing unique job functions and in the work environment itself. Organisations have a duty to create ethical awareness and impart skills to the workforce so that they are in a position to recognise and deal appropriately with any ethics related risks that may arise (Mhonderwa, 2013). The leader’s participation in the ethics training workshops was identified as crucial by research participants. It is important because it demonstrates their buy-in and commitment to ethics which reinforces the leading by example principle. All entities that value ethics must provide ethics training at all levels of the organisation, must be tailored to suit the respective level of responsibilities of each workforce group (Mhonderwa, 2013).

A code of ethics sets out the tone for behaviour within an organisation. Management should see to it that a clear and comprehensive code of conduct is developed and maintained and that people are educated on it. In addition, they should endeavour to make the code of ethics a more live document rather than a policy document that employees just sign when they join and then it gets filed away. Ethics begins with clarifying the behaviours a company desires to encourage and the activities that are forbidden in the work environment. Adoption of a code of conduct or ethics stipulating such behaviours is thus a fundamental first step (The Saylor Foundation, 2013). A code of ethics is a document stating what a company regards as morally allowable behaviour for all its staff members (Landman, n.d). It sets out the ethical principles, standards, guidelines or values to be observed in all its business dealings (Landman, n.d). A code of ethics is a vital tool in forming and establishing an ethical environment (Yallop, 2012). Landman (n.d), notes that “the litmus test for any code is whether members of the organisation follow it on a daily basis. If it is properly communicated, promoted and revised, it is more likely to become a living document”.

In addition to having the code governing conduct, the code itself must be regularly checked and updated if needs be, to remain relevant in a fast-changing macro-environment. Ethics is something that should not be taken for granted and left to employees to be ethical on their own; management should not assume that people are professional and will therefore be ethical. As part of the communication and awareness, active steps should be taken to drive ethics and focus should be placed on discussing the code of conduct and its behavioural implications and finding effective ways of incorporating it into the day-to-day functions of employees. This will assist in instilling the required behaviours in people. Codes and ethics policies reinforce ethical behaviour. They stipulate acceptable actions and limit the prospect of ethical misconduct by highlighting the consequences for ethical violations (Eluka, Agu & Okafor, 2015). Faulk (2014) noted that the code of ethics must be continually refined to address new challenges, while also remaining truthful to the organisation's principles and aims.

To be in a position to build something worthwhile, resources are required. The setting aside of resources for the building of ethics is something that should not be taken lightly. Resources encompass financial resources, time, people, systems and procedures. In addition, the providing of policies and procedures safeguards company processes and operations by limiting employee's freedom to do what they want, which may not be in line with the behaviours the organisation expects to see. Committing resources to the building and maintaining of ethics demonstrates management's commitment and sends a message that ethics is something the organisation values.

In bringing new employees into an organisation, in addition to checking the good standing of prospective candidates, the recruitment team should consider as part of their selection strategy whether a culture fit exists. This will assist in avoiding gross misalignment between the organisation's values and principles and those of new employees, which could possibly result in a culture clash and adversely affect the overall culture the organisation seeks to build. According to Vavruska (2019) "hiring should be done with intention and with the existing company culture in mind; otherwise, the company runs the risk of making a bad investment and hire". New workers can affect the optimal working of a team, productivity and growth prospects of a company. It is thus important that careful attention is dedicated to hiring processes (Vavruska, 2019). Hiring process should ensure culture-fit, as that will stimulate and encourage performance, driving the organisation forward (Vavruska, 2019). In addition, appointments to senior positions should be thoroughly screened to minimise risk exposure, considering the essential function leaders fulfil in influencing culture and organisation-wide behaviour. Ernst and Young (2019), notes that CEO and other executive appointments should be done by the nomination committee, after careful consideration of present and desired culture, to ensure alignment of new appointments with the company's goals.

Disciplinary measures are a necessity in the quest to develop a culture of ethics. A culture of zero tolerance should be instituted and management should ensure that any incidences of ethical misconduct are dealt with properly in line with company policies. Taking action against offenders assist in cultivating a culture of zero tolerance, where people are held accountable for their actions. According to Andreescu (n.d. p.141) "commitment for ethics should start from the top management of the company, declaring zero tolerance for corruption and this needs to be backed up by policies and procedures that will help put this commitment into action".

An organisation must hold its workforce answerable when they act unethically. This should involve referring to the code of conduct and taking required measures of either warning the defaulter or terminating employment (Brookins, 2019). In enforcing discipline, it is imperative that it is applied consistently without discrimination to any employees i.e., applied equally to all employees, regardless of job title, job level and/or level of authority. This also involves applying it to company leaders who are found to be in contravention. Inconsistently applying disciplinary measures before employees may render the process flawed and ineffective, thereby eroding other internal attempts to build a culture of ethics. To safeguard the success of the ethics training programmes, organisations must commit and live by the code, ensure guidelines are clear to everyone and facilitate equal enforcement of stated rules, regardless of the employee's position (The Saylor Foundation, 2013).

As much as action is taken against offenders, good behaviour should also be rewarded as that will support company efforts to promote an ethical culture. Saying that behaviour rewarded is behaviour repeated, implies that management should visibly acknowledge, appreciate and reward good behaviour in the workplace. Through offering recognition, honours and reinforcements for required behaviours, organisations can encourage the desired ethical culture (Plante, 2015). According to Pavlo (2014) "employees who display ethical behaviour should be rewarded for good ethical choices; either through monetary bonuses, promotion, or prizes for good stewardship while increasing profitability". The use of incentives and punishments stimulates reception of ethical principles by employees (Eluka, Agu & Okafar, 2015).

A whistle blower line is crucial in supporting company efforts in building a culture of ethics. Some employees may fear reporting instances of ethical misconduct directly, for fear of repercussions. However, the presence of a whistle blower line provides a safe space for reporting of issues without fear of victimisation. The reporting of issues allows management to embark on necessary investigations and also take appropriate actions against offenders. It is important to note that in addition to the investigation and taking of corrective measures, management should see to it that incidents are reported via the hotline and the outcome of the investigations, together with the consequences for wrongdoers, are communicated in senior leadership meetings, as well as to all employees within the organisation. This will create a number of benefits for the organisation, including inter alia; creating awareness of the hotline, inspiring confidence that the process is safe, providing assurance that the process really works and is not flawed, and creating an enabling environment for ethics, by demonstrating that there are real consequences for unethical behaviour. The communication of such issues also demonstrates transparency, openness and accountability on the part of management; attributes that are associated with an ethical environment. Andreescu (n.d) advocated for public reporting of company efforts in fighting corruption. Through public reporting of ethical matters and efforts being put in, a company demonstrates its commitment and involvement in averting and fighting fraud, and its respect for the essential principles of honesty, transparency and responsibility towards its stakeholders (Andreescu, n.d).

Policing of ethics is important if management is to build a culture of ethics. Internal controls review is one way to check if people are complying with prescribed standards. Management should ensure that reviews are done regularly to support a sound control environment. As the saying goes, you cannot control what you do not measure. It is thus critical that management monitors compliance to stipulated guidelines and institutes appropriate remedial action in its efforts to build a culture of ethics. According to Schoeman (2012) "the measurement and monitoring of a company's ethical status is a crucial part of an effective ethics strategy". Ethics must be measured through regular ethics reviews so that potential areas of concern can be identified and properly managed (SAJEMS NS 17, 2014; Lloyd & Ranalingu, 2014). Schoeman (2012) noted that ethics surveys provide a comprehensive method to measure ethics. Critical ethical issues demanding attention are identified through the survey results as well as the corrective actions to be taken to advance ethics in the organisation (Schoeman, 2012). Given that organisational culture can either positively or negatively impact company reputations, frequent evaluations should be held by executives to check how well their behaviour endorses their organisation's values and code of conduct (McGuinn, 2018). In concluding how to build an ethical culture, protective equipment such as surveillance cameras should be monitored continuously to ensure that the desired behaviours are being conducted.

4.8 Discussion Pertaining to Research Question 11

4.8.1 *Corporate Citizenship*

The analysis of the research data highlighted that an organisation has a moral responsibility toward its various stakeholders. An organisation and its stakeholders represent an eco-system whereby its members depend on each other for continued survival i.e., an organisation requires other parties to be able to conduct its operations and in turn those other parties also require it. Managing relationships with these parties is crucial for an organisation, in order to support its continued existence. As a result, organisations should endeavour to generate value for their stakeholders and their stakeholders will in turn generate value for them. Goel and Ramanathan (2014), recognised that the operating environment and resource sources have an impact on business operations. To support continual sustainable existence of a business and the environment, a business must honour its duties towards the environment (Goel & Ramanathan, 2014). The task then is for the organisation to identify all its stakeholders and map them in terms of what their needs are and how critical they are for the organisation's existence. This is commonly referred to as stakeholder analysis.

Stakeholder analysis is the process of identifying and prioritising all the constituent groups of people that may have an impact on the success of an organisation. It involves determining the way such groups can either contribute or hinder realising successful outcomes (Kennon, Howden & Hartley, n.d). In addition, Kennon, Howden and Hartley (n.d) noted that "stakeholder analysis is an essential starting place for understanding critical stakeholders and is the first step for developing engagement strategies for building and maintaining the networks that are necessary for the delivery of successful project outcomes". Doing good or a lack thereof within the various company stakeholders has serious implications on the company's performance, as described in the sections that follow. According to The Chartered Institute of Purchasing & Supply (CIPS) (n.d), the greatest and most powerful companies acknowledge that their long-term success is dependent on them satisfying the aspirations of their stakeholders.

4.9 Discussion Pertaining to Research Questions 12, 13 and 14

4.9.1 *Effect of Ethical Business Practices on Company Profitability*

The analysis of the research data revealed that ethical business practices towards various company stakeholders positively impacted company profits. Company profitability is the excess of revenue over its operating expenses. Maverick (2020) defined net profit as "the revenue after all the expenses related to the manufacture, production, and selling of products are deducted".

Whilst ethical practices will not always guarantee that the company will always be profitable, it is clear from the research data that they do safeguard and increase a company's capacity to be profitable in the long term. Ethical practices, whether "good or bad", generate varying outcomes. Whilst observing moral practices doesn't always guarantee achievement of specified ends and aims, the opposite is also true; immoral practices are more likely to contribute to organisational failure in the future (The Saylor Foundation, 2013). The following section describes the impact that ethical business practices have on company profitability, as shown by some of the stakeholder's perspectives.

EMPLOYEE SATISFACTION

Employees are recognised in the study as a fundament resources that an organisation needs to successfully execute its strategy. Ethical practices towards employees result in enhanced loyalty, which, in turn, manifests itself in benefits such as high morale and low staff turnover. In addition, they also increase the organisation’s ability to attract talent. The three benefits are related to one another in the sense that an environment with high morale will result in lower staff turnover and an increased ability to attract high performing talent, as discussed below.

The results of the data analysis showed that employees who recognise that their organisation is concerned about their well-being and cares for them, are more likely to have confidence in the organisation which will translate into trust. Trust is a key driver for stimulating employee loyalty, which will drive performance. The level of ethics a leader applies in managing his/her followers has an impact on the drive and devotion of the workers (Singh & Prasad, 2018). Brown and Mitchell (2010) noted that “followers are more likely to display a sense of obligation or indebtedness to leaders who treat them fairly and are trustworthy”. Additionally, when servant leaders’ model ethical behaviours, and are trusted by their employees, positive organisational outcomes result i.e., a satisfied and committed workforce (Chan & Mak, 2014; Sharif & Scandura, 2013).

Higher morale is linked to higher employee fulfilment levels, which translate into positive organisation performance. It is clear from the data analysis that highly satisfied employees perform to their best potential and are willing to go the extra mile. Happy employees are likely to explore ways of improving their operating methods to ensure smart and efficient execution. Furthermore, room for error in performing tasks is minimised due to the commitment levels that drive quality work. Operational efficiencies such as improved utilisation of resources; raw materials, labour and overheads and a reduction in wastages will result. These represent normal operating costs and lessening them will positively influence the bottom line. Seppala and Cameron (2015) noted that employee relations, capabilities, creativity and loyalty are amplified when the work environment is characterised by mutual respect, caring and inspiring one another, gratitude, honesty and trust.
Companies that are successful at growing positive, honourable cultures experience high levels of organisational effectiveness, encompassing; improved productivity, engaged employees, satisfied customers and monetary performance (Seppala & Cameron, 2015). Furthermore, employee focus on assigned work increases exponentially when company executives lead by example and follow business ethics principles (Horton, 2020). “Morale is stimulated and productivity increases, leading to greater levels of profit for the company” (Horton, 2020).

In addition, Kokemuller (n.d.) noted that “good employee morale generally means that workers are happy to come to work each day and are comfortable with the nature of their work and with their co-workers, and optimistic about their production”. It also means more fulfilment in the work, work relations and the job itself (Kokemuller, n.d). Strong principled organisations and superiors that promote ethical behaviours achieve more positive organisational and work-related outcomes (Ahmed, Shad, Mumtaz & Tanveer, 2012). Staff fulfilment is closely linked to favourable organisational performance (Mafini & Pooe, 2013).

Optimising and expediting staff satisfaction acts as a motivation to boost company performance. On a contrary note, performance diminishes when the workforce is discontented (Mafini & Pooe, 2013). Bakotic (2016) noted that a positive connection exist between job satisfaction and economic indicators of performance such as return on equity, revenue per staff member, and unit labour costs.

Ethical practices aimed towards employees results in an engaged workforce that will stay with the company for a long time and reduces the levels of staff turnover. Low employee turnover is a sign that can be taken to mean that employees are not looking for other opportunities elsewhere and are happy with the culture and way things are done in the organisation. According to Gartenstein (2019), worker productivity and engagement increases when employees sense that they are respected and valued. A corporate atmosphere that is healthy and treats its employees well, through fair salaries, benefits, healthy lifestyle initiatives, open communication at all levels and collective projects encourages staff to stay longer with the organisation (Gartenstein, 2019).

Low turnover means that the company saves on recruitment and induction related training costs. Furthermore, it implies that the value of the organisation’s products, processes, and services can be maintained and even improved. This ensures ongoing quality output without defects. Generating consistent or improved quality products and services safeguards a company’s sales due to customer satisfaction. Gartenstein (2019) noted that when people stay with the organisation for a longer time, they perform their jobs better and develop troubleshooting skills and ability. Furthermore, when turnover is low, the company saves on cash by circumventing problems. There are needless slip-ups, training costs increased due to the need for new hires, and operating inefficiencies that might occur during the learning curve (Gartenstein, 2019).

Essays UK (2018) noted that “retaining employees builds a strong knowledge base in the organisation, which helps to ensure daily operational efficiency”. When employees stay longer, it makes the organisation more stable, and productivity will increase (Essays UK, 2018). Productivity is measured by taking into account the resources that are invested to produce a given output. If fewer inputs are employed to produce more outcomes, productivity is driven higher (Nibusinessinfo, n.d).

The profits of a business are seriously affected by the level of productivity and product and service quality. Businesses can thus enhance profits by using their resources more efficiently, to get the most out of them (Nibusinessinfo, n.d.). Iqbal (2017) noted that high turnover is a serious obstacle to efficiency, quality, and firms' profits. Achoui and Mansour (2007), noted that "the negative consequences of high turnover include both tangible costs like recruitment, selection, training and production lost and intangible cost such as moral impact, workload impact and team performance disruption, which have both a financial and a non-financial impact".

Ethical practices towards employees also increase the organisation's ability to attract high performing talent. People want to be associated with ethical companies and the more ethical an organisation is, the greater the chances are of attracting skilled and talented people who will contribute positively to company performance. According to Sheppardson (2019), people want to be associated with companies that they can be proud of, people who advocate for something greater than themselves. They want to be affiliated with companies that put the needs of the people, society and the environment first (Sheppardson, 2019).

To attract and retain talent, trust is key. "Trust has to be earned and built and in the search for new talent, the only evidence that you run a trustworthy business and team is visible from what you do, what you've done previously and how that translates to the local community and the planet as a whole" (Sheppardson, 2019).

CUSTOMER SATISFACTION

The research findings demonstrate that customers who believe that an organisation that upholds ethical practices in their operations and is committed to creating shared value will tend to favour that brand. Continued quality products and or services, coupled with ethical practices drive customer satisfaction, which culminates in customer loyalty. It is clear from the data analysis that customer loyalty drives increased revenues, which then impact positively on the bottom line.

Customer loyalty is a key influencer of lasting success, as customers keep coming back to buy products from the organisation. In addition, loyal customers are inspired to even try other products that the organisation may be selling, due to their trust in the brand. As a result, loyal customers drive sales and in turn profits through repeat purchases, upselling and cross selling of the company's products. McMurrian (2006) noted that organisations that deliver quality and perceived value to customers, based on moral behaviours are likely to create more profitable growth, owing to the level of customer satisfaction and loyalty generated. In addition, McMurrian (2006) identified the profitable behaviours arising from customer loyalty to encompass; more purchases over time, thereby producing more income; as compared to disloyal customers, purchasing repetitively from the organisation for an extended period and referring potential customers to organisations they have faith in and are extremely contented with (McMurrian, 2006).

Customer loyalty serves as a strong marketing tool that an organisation will benefit from, without incurring many costs. Satisfied customers are likely to give positive reviews and recommend others to try the brand. Sharing positive information on a tried and tested brand among friends, colleagues and other parties, serves to generate traction for the brand or product, and encourages others to try them. As a result, not only will the organisation benefit from new sales generated through referrals but will also save on marketing costs on acquiring new customers. “Organisations that have delivered high levels of customer value through maintaining higher quality relational processes, based on ethical behaviours, have the potential to generate sustained growth and higher revenues over a longer period, while incurring less marketing expenses, resulting in stable and growing quarterly and long-term profitability” (McMurrian, 2006).

It is cheaper for business to market to loyal customers, and less monetary resources are employed in marketing campaigns aimed at them. Furthermore, less frequent contact is required and when contact is made, it should maintain confident and valuable relationships, as opposed to merely directly selling products (McMurrian, 2006). Peter and Donnelly (2015) identified the worth of trustworthy customers to include: (i) saving on high costs needed to acquire new customers, as opposed to keeping old ones, (ii) customers buying more over time, customers become more profitable if they remain with the organisation over a long time, (iii) servicing costs are lower than for new customers, (iv) it becomes an excellent source of referral business, and (v) customers are prepared to pay a premium for the value and quality they want.

In light of the crucial role loyal customers play in referring new business to the organisation, it is important that a company acts ethically in all its interactions, so as to receive positive reviews. Where customers discover that an organisation has been or is being unethical in its operation, they will have the same power that customers have in giving positive reviews, as they will have in generating negative reviews of the brand, which will adversely affect future sales and the organisation’s profitability. Singh and Prasad, (2017, p.4) recognised that “a company’s reputation for ethical behaviour can help it create a more positive image in the marketplace, which, in turn, can bring in new customers through word-of-mouth referrals”. On the contrary, a reputation for unscrupulous dealings will harm the company’s likelihood of obtaining new clients; particularly in this age of social networking where displeased customers can swiftly publicise information about the bad experiences they encountered (Singh & Prasad, 2017).

FAVOURABLE SUPPLY TERMS

Ethical practices towards suppliers go a long way in enhancing the company's profitability. Paying suppliers on time, amounts to doing the right thing with vendors as this will provide them with sufficient liquidity to support their own businesses. Such action culminates in good relations, which opens up platforms for suppliers to be more open and willing to renegotiate some of the contract terms, on request. Ethical companies therefore have the ability to access better terms on agreements i.e., better contract charges, interest rates, payment terms, which goes a long way in improving the profitability and liquidity of the organisation. Lower contract charges mean reduced operating costs and extended credit provides an opportunity to invest money received from debtors; thereby earning interest before suppliers are paid. In so doing this enhances company profitability. Extended payment terms with suppliers, while keeping receivables payment terms the same will unlock a significant source of cash. It also frees up working capital to be allocated towards other purposes (Finexio Marketing, 2019). Additionally, paying suppliers on time is likely to result in suppliers having more confidence in an organisation as a business partner, makes suppliers keen to work with the business, which allows the organisation the opportunity to negotiate favourable agreements and circumvent interest charges on late payments (Nibusinessinfo, n.d). Paying suppliers on time results in a good credit rating for the organisation. Its risk profile is thereby reduced, resulting in money lenders not having to build in a lot of risk when providing financing. This results in lower interest rates, which will make it convenient for the business to borrow money. According to Hilton-Baird (2018) a business's credit score and risk profile are key factors in lender's decisions. In addition, a good credit rating is key to negotiating better rates, whereas a poor credit rating as a result of making late payments makes it harder for a business to access funding (Hilton-Baird, 2018).

BRAND IMAGE AND SUSTANABLE BUSINESS

Ethical practices towards various company stakeholders culminate in an improved reputation and good standing in the society. People will want to be associated with the brand, generating more business which then contributes positively to company performance. Ethical business practices safeguard the company's profitability and sustainability, by ensuring that the business will be there for a long time (longevity). Goel and Ramesh (2016), noted that "ethics is a good business investment that generates trust and confidence between the parties and, in turn, guarantees long-term performance". Companies are able to generate trust from stakeholders, including customers, investors and society at large, by observing and protecting their rights (Sarah, 2017).

Ethical businesses that foster strong organisational cultures gain from loyal employees, solid productivity, satisfied customers and a strong standing in society (Mcguinn, 2018). Furthermore, companies that embrace and adopt ethics in all their operations have a greater chance to become and continue to be profitable, compared to those that operate unethically (Horton, 2020).

Ethics is part of governance i.e., ethical business practices embedded in the way things are done amount to good governance. Ramakrishnan (2011) noted that "corporate governance represents the moral framework, the ethical framework and the value framework under which an enterprise takes decisions". Furthermore, a crucial element of corporate governance is the ability to create and maintain a positive ethical setting, (Elango, Paul, Kundu & Paudel, 2010). Good governance roots out resource leakages by eliminating losses though bribery, corruption, operational inefficiencies, which negatively affect profitability. Sarah (2017) noted that workers that are trained to adhere to good ethical standards tend to avoid unnecessary resource wastages. Over the long term, ethical behaviour, specifically good corporate governance benefits company performance in the form of growing profits and promoting its reputation (Ramakrishnan, 2011).

"Corporate governance refers to a system of practices, processes and instructions by which a company is directed and controlled" (Chan, 2020). It principally involves harmonising the interests of all parties that influence a company, such as customers, bankers, suppliers, the government, and community (Chan, 2020). Entities that follow good governance practices are able to generate trust with the communities and consequently gain success in the future (Sarah, 2017). Furthermore, investors and markets reward companies with good corporate governance system with high valuations (Vemula, 2017). When corporate governance principles are properly applied in an organisation (transparency, accountability, responsibility and fairness), they increase profits and earnings, enhance attractiveness, reliability and improve stakeholder relations (Vemula, 2017). The higher the levels of corporate governance mechanisms, the higher the firms' profitability will be (Babatunde & Akeju, 2016).

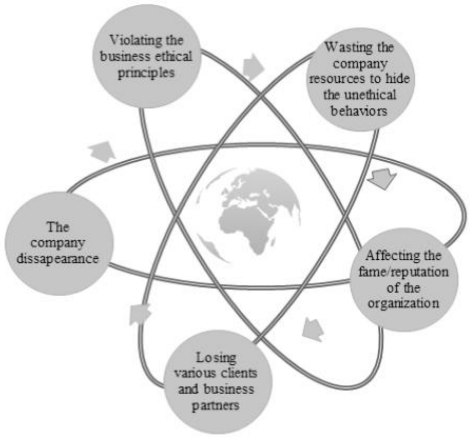
The participants also acknowledged that unethical practices stimulate company profitability. However, such practices are believed to be unsustainable. Whilst cutting corners may make it seem like the company is doing well, the consequences may in the long-term impact the company's reputation and ability to continue in business. Exposed cases of ethical misconduct may result in an organisation losing customers, key employees, suppliers and other parties not wanting to be associated with it. The negative publicity generated may also affect share price and investor returns. Fines and penalties may be imposed on the organisations which will negatively impact profitability and possibly cripple the company's recovery from the impacts thereof. Mcguinn (2018) noted that unethical companies may seem to prosper for a while. However, in the end, headlines of lawsuits and or investigations of bad behaviour will surface; thus, damaging the company's reputation.

It is clear from the research data analysis that the decisions that an organisation take are very important to support its longevity. Furthermore, decisions that an organisation makes have an impact on ordinary people, including others who do not work for the organisation. This creates massive responsibility for organisations to ensure that the decisions that are made are objective and employ balanced processing; taking into account the interests of those who may be impacted by them. A culture of acting ethically supports the making of sound ethical decisions. Some lessons can be learnt from some of the corporate scandals involving unethical behaviour where unethical decisions were made. KPMG South Africa for instance, was implicated in severe corruption scandals involving the Gupta family's businesses. This resulted in hundreds of jobs being terminated and some offices in the country being closed, in order to "take into account prevailing client losses and levels of demand for certain services" (Cotterill, 2018). In addition, KPMG South Africa lost major clients, including Barclays Africa and government institutions, as part of the fallout from its entanglement with the Guptas (Cotterill, 2018). Dimitriu (2017) noted that "a good reputation is arguably one of an audit firm's most valuable assets. When auditor independence is compromised, it can have very negative consequences for the relevant stakeholders and, in extreme cases, it can even undermine the public's trust in the country's financial system".

Additionally, the Steinhoff South Africa scandal involving unethical behaviour resulted in Steinhoff International, the global retailer pledging to slimming its activities down and disposing of assets in an attempt to survive substantial debts and investor claims, emanating from its South Africa operation's accounting scandal (Cotterill, 2019). The scandal wiped 15 billon dollars from Steinhoff's shares and was linked to the faking of significant income by former executives. It led to 13 billion euros of write-downs as Steinhoff restated its accounts amid a forensic probe (Cotterill, 2019). These two cases are just a few selected to highlight the massive implications of unethical behaviour on various company stakeholders. Leaders should thus review the quality of decisions taken critically, to ensure that they are above board; to safeguard the sustainability and profitability of a business. Horton (2020) stated that "when confidence is lost, it can be a struggle for a company to regain the trust of the public, its investors, and its shareholders; profitability may take years to build up again".

Vadastreanu, Maier and Maier (2015), recognised that "the violating of business ethical principles comes as a convenient solution that brings short-term benefits, but this solution in the long term, will represent a source of continuous expenses"; majority of these costs are related to attempts to conceal the bad behaviour. Most often, such behaviour cannot be hidden and some part of the truth eventually comes out, thus affecting the reputation and status of the company, (Vadastreanu, Maier & Maier, 2015). With a tainted reputation, customers and other business partners will be lost, and the company will in the end cease to exist (Vadastreanu, Maier & Maier, 2015). Furthermore, it was noted that consequences of unethical behaviour are interconnected, with one outcome leading to another, as can be seen in Figure 12 below.

Figure 12: Effects of the unethical behaviour (Vadastreanu, Maier & Maier, 2015)



McMahone (2012), noted that trust is required for a successful business venture. Stockholders are not motivated to invest if they do not trust and appreciate the income potential of a business. Further, without trust in company products, customers will not buy them. Likewise, employees are not motivated to deliver their best when trust is lacking. Unethical behaviour can thus be terminal in a global environment that is marked by extreme competition; it weakens the productivity of businesses (McMahone, 2012).

4.10 Concluding Remarks

The discussion of the results, taking into account the existing literature has highlighted how ethical practices influence firms' profitability. Interesting conclusions and recommendations can be drawn from this study which we will now explore in the next chapter.

5 CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusions and recommendations that can be drawn from the study. The researcher will also explore the theoretical and practical implications of the study and any opportunities for future research.

5.1 Contributions

5.1.1 *Theoretical Implications*

The study contributes to expanding the literature on ethics in three ways; initially, by identifying mechanisms whereby an organisation can create a culture of ethics. This study not only helps in providing practical steps on how to embed ethics in business operations, but it also adds to existing literature by identifying how such mechanisms can lead to positive organisation outcomes, consequently relating ethical practices to profitability. Ogbari et al. (2016) noted that when organisations adopt upright morals, they will witness a favourable company image; culminating in improved sales and corporate performance.

Secondly, looking at culture and behaviour, this study not only identified culture as an influencer of behaviour, but also behaviour to influence culture. The researcher recommends both to be properly managed, to derive desired behaviours and/or culture within an environment. Meaningful companywide discussions on values and clearly defining indicators to put them into practice helped to ingrain organisation values into its operations (Burford, Hoover, Stapleton & Harder, 2016). Bandura (1999) stated that individuals and external factors influenced behaviour, and people, via their actions affected both themselves and their surroundings.

Lastly, this study not only identified everyone in the organisation as being responsible for managing ethics, but also as ethics managers are responsible for managing ethical risks within their specific areas of work. Nel (2018) stated that the most effective and strongest form of governance is when every employee is a risk manager, managing and governing the risks they deal with, personally, in their business areas.

5.1.2 *Practical Implications*

The results of the study provided practical implications to help readers to appreciate the concept of ethics and its effect on profits. Clearly, the results prove that leaders helps create a culture of ethics within the workplace environment by presenting visible role models of ethical behaviour. Leading by example directs employees towards beneficial behaviours that they can emulate; and a good behaviour role model is needed to ensure that employees exemplify such behaviour.

Holding people accountable for their actions; by instituting disciplinary measures and rewarding good behaviour, enhances a culture of ethical behaviour. This is important because it eliminate resource leakages that can cost the company money.

Leaders should be more open minded in their decision-making processes by allowing input from others and considering factors in the macro-environment, to ensure robust and relevant decisions. Furthermore, decisions should consider the potential implications on various company stakeholders, to ensure that their interests are not infringed upon.

An organisation's ethical practices towards various company stakeholders contributes to customer loyalty, employee loyalty, favourable supply terms and a good reputation in society. These attributes improve organisation profitability through increased sales volumes, production efficiencies, and reduced operating costs.

5.1.3 ***Future Research***

A number of opportunities present themselves in the light of the study, of directions for future research. This study was undertaken, using private sector employees only, but other sectors should also be investigated so as to validate results. The study was limited to South Africa, Gauteng province and future research should be done in other provinces in the country, to validate findings. Future research should also be conducted into other countries and cultures, to identify how ethical business practices influence company profitability in those societies. Considering Ethical relativism, what's morally the good thing to do in a particular environment may be morally a bad thing in a different setting, so extending the study to other environments would validate the outcomes of the research.

This research was limited to C-suite executives and employees holding senior finance positions, as the target population. Future research should expand the target population to include employees from other departments and at different levels in organisation hierarchies. Future research should look into the process of ethical decision making in organisations, to identify a framework to follow to ensure sound and ethical decisions.

Future research warrants examining the notion of corporate governance, and the role of ethics in governance. Integrated thinking is a term that was identified in the research and future research should seek to analyse this concept in more detail and understand how it relates to ethics and the concept of sustainable value creation. Opportunities for further research exist in the field of leadership, specifically ethical leadership and servant leadership; questioning how they influence the ethical climate in organisations.

5.2 Conclusion

This study supports the notion that ethical business practices contribute positively to the profitability of companies. The leadership team set the tone for ethics in an organisation and are instrumental in inspiring and promoting ethical behaviour in the workplace. Successfully embedding ethical practices into day-to-day business operations benefits organisations' performance in a myriad of ways encompassing; good reputation, streamlining operations: increased productivity and efficiencies, reduced operating costs, savings in marketing costs, recruitment costs, and legal costs, and customer and employee loyalty.

The study also supports the notion that unethical practices can be costly for organisations. While cutting corners may generate short term profitability, the consequences once exposed may be detrimental to the company in the long term. Some negative impacts encompass tainted company reputations, loss of customers, key employees, suppliers, negative share prices and investor returns; and other parties not wanting to be associated with the firm. All these consequences may negatively impact profits. Key lessons can be learnt from the KPMG and Steinhoff scandals. KPMG terminated hundreds of jobs and closed off some offices in the country, to cushion itself against the resultant client losses emanating from its entanglement with the Guptas (Cotterill, 2018). In addition, KPMG South Africa lost major clients including Barclays Africa and government institutions, as part of the fallout (Cotterill, 2018). On the Steinhoff South Africa scandal, substantial debts and investor claims arose which led to Steinhoff International slimming-down its activities and disposing of assets in an attempt to survive (Cotterill, 2019). The scandal wiped 15 billon dollars from Steinhoff's shares and led to 13 billion euros of write-downs, as Steinhoff redrafted its accounts amid a forensic probe (Cotterill, 2019). These two cases serve to support the research finding that whilst ethical practices will not guarantee that a company will always be profitable, they will safeguard the sustainability and profitability of firms over the long run.

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7 APPENDICES

APPENDIX A

COVER LETTER

A RESEARCH REPORT ON THE EFFECTS OF ETHICAL BUSINESS PRACTICES ON THE PROFITABILITY OF FIRMS.

Iris Kasiyamhuru

A research report submitted to Wits Business School in fulfilment of the requirements for the degree Master of Business Administration.

Johannesburg, 2021

APPENDIX B

RESEARCH INSTRUMENT

Semi-structured interviews

Research topic: The effects of ethical business practices on the profitability of firms**.**

Research Objective: To analyse how ethical business practices influence company profitability.

Research questions:

1. What is your job position in the organisation?
2. What is your understanding of the concept ethics?
3. What is your understanding of the concept business ethics or ethical business practices?
4. What attributes / qualities do you associate with business ethics / ethical business practices?
5. What is your understanding of the term Organisation Culture?
6. What is your understanding of the term ethical culture in the context of an organisation?
7. What is your view on the contribution of organisation culture in influencing the ethical orientation and ethical behaviour of employees?
8. In your view, how can organisations create a culture of ethics within the workplace environment?
9. Who do you think should take responsivity for ethics within the company and why?
10. Do corporate leaders have a role to play in shaping the ethical practices within the organisation? In your view, how do corporate leaders contribute to shaping ethical behaviour in the workplace?
11. Does an organisation have an ethical responsibility towards its various stakeholders (i.e., employees, customers, suppliers, etc.) and why?
12. What is your understanding of the term company profitability?
13. What is your view on the contribution of ethical business practices to the profitability of companies?
14. In what ways do ethical business practices contribute to the profitability of firms?

APPENDIX C

UNIVERSITY OF THE
WITWATERSRAND
JOHANNESBURG

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Kasiyamhuru

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER: H19/07/15**
PROJECT TITLE	The effects of ethical business practices on the profitability of firms
INVESTIGATOR(S)	Ms I Kasiyamhuru
SCHOOL/DEPARTMENT	Wits Business School/
DATE CONSIDERED	19 July 2019
DECISION OF THE COMMITTEE	Approved
EXPIRY DATE	06 October 2022

DATE 07 October 2019 **CHAIRPERSON** (Professor J Knight)

cc: Supervisor : Mr D Seely

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10004, 10th Floor, Senate House, University. Unreported changes to the application may invalidate the clearance given by the HREC (Non-Medical)

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**