Creating ethical organisational cultures through performance management systems in South Africa

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ABSTRACT

The increase in global and specifically South African, unethical business practices have lead to a focus on the ethical organisational culture and the ethical behaviour of Boards, Directors, management and employees. This study was undertaken to establish the role of performance management systems in the development and maintenance of an ethical organisational culture. The research was based on a qualitative methodology approach and includes ten respondents from organisations within the private and parastatal sectors. The data was analysed using thematic content analysis.

The creation of an ethical organisational culture is an integrated process that requires components from the strategic, systems and operational levels of an organisation. Performance management is a key component of the systems level and aims to evaluate employee's behaviour against set targets and organisational values. The results of the study established two approaches to the inclusion of ethics into the performance management systems, in the form of a 'tick box' obligation and ethics as a separate key performance area. The potential of including ethics into the performance management system as an additional way to contribute to the ethical organisation culture has not yet been fully realised. Furthermore, it was established that despite the efforts of organisations to create an ethical culture, the past and present South African Government and external business environment is seen as a barrier to the realisation of ethical interventions.

DECLARATION

I, Nicole Lindsay Hall, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2012

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REFLECTIONS OF A RESEARCHER

This study has been conducted as a result of the interest a class assignment initiated with regards to ethical organisational cultures. Through this assignment, an organisation's ethical culture and the model that was used to facilitate this culture was reviewed in order to understand the factors that were needed to create such a culture and subsequently, the attributing factors to the sustainability of this ethical culture.

The literature on ethical organisational culture presented various models and frameworks that could potentially be used in the creation of an ethical culture. Included in these models and frameworks are interventions that can be implemented on a strategic, systems and operational level such as leadership buy-in and commitment, a code of ethics, induction and ethics training and ensuring that there are supporting policies and procedures, to name a few. In order to focus on a specific scope, for the purpose of this research, the researcher chose performance management systems, and how organisations include ethics into these performance management systems and how that would potentially influences their ethical cultures.

In order to gain an in-depth understanding of ethics, performance management systems and ethical organisational cultures, semi-structured interviews were conducted, thereby following a qualitative methodology. The respondents who agreed to be involved in this study were informative, candid and supportive in their responses, and this has contributed to the validity and reliability of the study. Furthermore, from the respondents it became apparent that many organisations have followed what could be seen as an "ethics formula", whereby commitment has been given to implementing best practices with regards to: codes of ethics, ethics training, ethical awareness programmes, ethics hotlines and adherence and compliance to legislation regarding ethical business conduct. The inclusion of ethics in the performance management system has to, varying degrees, been implemented from a 'tick box' process to ethics as a separate key performance area. From the literature on performance management systems and behaviour, it is concluded that they can be utilised to support and encourage ethical behaviour of employees, however the potential of performance management systems to facilitate ethical behaviour can be fully realised if attention is given to creating ethics as a separate key performance area.

The initial aim for conducting this research had been fulfilled; however an interesting element of ethical organisational cultures was identified through all ten respondents. The influence of the external business, economic, social and political environment was highlighted as a critical factor for the sustainability and effectiveness of an ethical organisational culture. Although not included in the requirements of this study, This finding could not solely be included in a suggestion for further research and needed to be explained in more detail.

The South African environment from all spheres- social, political and economic- can be described as unique. Our country's history is widely recognised as a fundamental element responsible for the state of our country today. The effects of Apartheid, one-party dominance and the rise of new elites has played a significant role in how ethics has been understood and practiced in our society as a whole, and more specifically within the business environment. Not only did this research answer my initial question but it proposes a possible understanding to why, despite organisation's best efforts, there is still a continuous high degree of unethical practice and behaviour.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to explain how the use of performance management systems contributes to the development and sustainability of an ethical organisational culture, within the contemporary business environment of South Africa.

1.2 Context of the study

The world has witnessed an apparently growing trend of untoward business practices- from brazen fraud at Enron, WorldCom and Lehman Brothers, to accusations of child labour abuse by Nike, to environmental disasters brought on by BP's negligence in the Gulf of Mexico oil spill situation- over the last two decades (Salter 2008). Such events lead one to question whether Milton Friedman's proposition that "the business of doing business is business" is sufficient to govern multinational corporations in an increasingly global economy. Painter-Morland (2008) proposes that the ultimate goal of business activity is the enhancement of life, which can be argued, is an extension of the proposition that the sole goal of business activity is to make money, however this notion of enhancing life includes various intangible factors to life such as job satisfaction, personal wellness and an individual sense of security and well-being. It is important for an organisation to understand how they themselves view business, as well as the environment in which they function and subsequently their stakeholders. This understanding will impact how ethics is implemented and institutionalised in an organisation.

The academic research of business ethics is seen to have been introduced in the 1980s, with the Journal of Business Ethics introduced in 1982, the aim of which was to provide a forum for the ethical issues relating to business to be discussed and debated (Collins 2000). In addition to creating a forum of discussion and debate, the journal allowed for global ethical issues to be highlighted, and not only on ethical issues in America and Europe. However, although the development in the global context has been made, business ethics is still a young field of study and therefore there is limited knowledge of what is happening within this field in Africa (Barkhuysen and Rossouw 2000). Although business ethics is an emerging field of study in Africa, South Africa has been forced to include business ethics both on a practical and theoretical level within organisations and academia (King Committee 2010).

Not only has the global business environment increased the need for the implementation of business ethics that need too, is being expressed by politicians, business leaders, academics and communities within South Africa. Former president Nelson Mandela said at the opening of Parliament (February 17, 1995 in Rossouw 1997) “We are conscious of the reality that corruption in many forms has deeply infected the fibre of our society. Precisely because we face the challenge of dealing with systematic corruption, we need a dispassionate and systematic approach to this question”. It can be argued that after 16 years this statement still holds true. Within the South African context it is necessary for organisations to respond to the King III Report and the newly revised Companies Act. The implications for organisations that are found to be in contravention of the principles set out in the King III Report and the Companies Act are detrimental. Therefore it is important to identify initiatives taken by business to strengthen the moral fibre and social consciousness of the business environment of South Africa (Rossouw 1997).

Unethical business practices, and essentially unethical decision making, has adversely affected employees, shareholders, management, suppliers, customers, surrounding communities and the environment. The consequences of unethical behaviour and unethical business practice can no longer be ignored, and the relevance of ethics in business can no longer be denied. The issue is no longer whether ethics or values should play a role in business decisions, but how various practices can most effectively do it (Hartman and Des Jardins 2011). One way of moving away from the Friedman model, to a business model that features a genuine commitment to ethical behaviour is the creation of an ethical culture that drives all functions, activities and decision making processes of the organisation.

Research on business ethics, organisational culture, and organisational leadership suggest that ethical or unethical behaviour in organisations is a function of both individual characteristics and contextual factors (Meyers 2004 in Ardichvili, Mitchell and Jondle 2009). Business ethics is defined by Rossouw and Van Vuuren (2004: 4) as “identifying and implementing standards of conduct that will ensure that, at a minimum level, business does not detrimentally impact on the interest of its stakeholders”. Attention to ethics in the workplace sensitises leaders and staff to how they should behave or how most appropriately they should behave. The costs of unethical behaviour and decision making can be high. An unethical organisation may suffer from public disrepute, decreased investor confidence, and diminished employee morale (Rossouw and Van Vuuren 2004).

Some organisations have become aware of the high costs as a result of unethical behaviour, and have to varying degrees, made some effort to institute ethics into their organisational cultures. However, the ethical default position for most businesses is an attitude of “have to” rather than “want to” (Van Vuuren and Crous 2005). The result is a potentially limited commitment to ethical requirements. Ethical culture can be defined as those aspects of the organisational context that impede unethical conduct and promote ethical conduct (Treviño and Weaver 2003). By creating an ethical culture an organisation is not only creating a workforce that is able to respond to challenges and issues within the South African business environment but it is also creating an organisation that is focused on future performance.

1.3 Problem statement

1.3.1 *Main problem*

Evaluate the use of a performance management system in the creation and the maintenance of an ethical organisational culture in a firm operating within the contemporary business environment of South Africa.

1.4 Significance of the study

Research into the field of ethical cultures and climates have focused on either the need for ethics within an organisational culture context, or focused on a particular method, such as training and a code of ethics or leadership (Collins and Page 1992, Kaptein 2008 and McKinney, Emerson and Neubert 2010). Furthermore, research into similar studies from South African universities, resulted in focused studies on a single method of implementing and institutionalising ethics, which included induction and mentorship (Malatji 2005 and Goosen 2005).These methods have excluded the evaluation of behaviours that contribute to an ethical organisational culture. Therefore, as this research is focused on the use of a performance management system in contributing towards the establishment of an ethical organisational culture, it fills the gap by evaluating an individual's behaviour and not merely attempting to influence specific behaviours.

Through the evaluation of the performance management system of organisations, the research will provide guidance to leaders, managers and ethical change agents and champions within South African organisations regarding the role performance management systems can play in the promotion and influence of ethical behaviour that is aligned to the values and ethical standards of the organisation. This research will allow individuals the opportunity to understand the use of the performance management system in the development of an ethical organisational culture. Furthermore, academics and students from the fields of business ethics, organisational culture and performance management will be able to use the data collected and analysed, as well as the results of this research as a foundation for further research and the addition of knowledge to their relevant fields of study.

1.5 Delimitations of the study

The study aims to evaluate the use of the performance management system in the development and sustainability of an ethical organisational culture, and will exclude the evaluation of additional methods or interventions used by organisations, to implement and institutionalise ethics. Furthermore, the study focuses on how the performance management system evaluates individual behaviours and competencies that are a tangible result of the values and ethical standards, as established by the organisation. It does not assess key performance indicators as a whole.

The study will evaluate performance management systems used by South African organisations from a cross-sector perspective. This is not an industry specific study, and is focused on the methods used, rather than the organisation itself. However, it is understood that the external environment in which an organisation functions has significant impact on the creation of the operating factors such as strategy, policies and procedures, and organisational culture.

1.6 Definition of terms

Methods: a manner of procedure especially a systematic or clearly defined way of accomplishing an end (The Living Webster Encyclopaedic Dictionary of the English Language). Methods for the purpose of this research will therefore refer to any organisational initiative that has been implemented to create or to enhance a firm’s ethical organisational culture.

1.7 Assumptions

- The organisations included in the research have implemented or institutionalised methods in an attempt to create an ethical organisational culture. If no methods have been implemented or at the very least researched the information is not valid for this research.

- The total number of respondents will be sufficient to gain adequate data.
- The respondents have sufficient knowledge and understanding of the topic and methods implemented to answer the questions posed. Insufficient knowledge will not provide the necessary information required for the research.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This section contains a literature review on the key themes of relevance to the study. A high level overview of business ethics and various models and frameworks will be presented and discussed, to provide a foundation for the understanding of the complex nature of organisational culture and more specifically ethical organisational culture. A brief explanation and discussion of performance management will follow, focusing on the role of performance management in organisations. The section concludes with an overview of the key learnings from the information presented.

2.2. Background Information

In the global and modern business environment in which South African organisations are operating, the demand for excellence and exacting performance is ever increasing. In the case of "for-profit" organisations, these demands are a consequence of the ease at which capital can flow to greater returns elsewhere. Non-profit organisations are not excluded from this focus of high performance, and face increasing demands for effectiveness and efficiency, from financially-strapped governments, demanding citizens and from donors, hoping to obtain greater impact from their contributions (Manzoni, 2012). However the past decades have seen attention being given to creating not only high levels of performance but high levels of integrity in organisations. According to Manzoni (2012: 3), this intensification of focus is due to increasing ethical expectations from society and customers, which have often led to increased regulation and lower tolerance for behaviour perceived to be unethical or otherwise inappropriate. Furthermore, internal organisational processes have empowered employees to become active participants in preventing and reporting transgressions.

A liberal, capitalistic-oriented economy can function only if the participants and the responsible players follow a certain set of ethics (Schnebel and Bienert, 2004 : 203). This set of ethics includes but is not limited to mean that bills are to be paid, contracts are to be kept, employees, shareholders, competitors, suppliers and customers are treated according to existing contracts and the law. The sustainability of such an economy is reliant on the majority of players within the economy adhering to these values and principles. Deviation away from the values and principles could potentially result in various negative impacts on the economy as a whole. Therefore, ethical principles constitute the foundation of the economy. This description of the economy makes a case for the relevance of business ethics. Prominent business leaders and politicians, throughout South Africa's history, have deviated from the principles outlined above and allowed for bribery, corruption and fraud to become synonymous with business. Schnebel and Bienert, (2004: 204) raise the question that if society is watching itself and detects the phenomena of its values and institutions being undermined, how can it react to make sure this basis for its system of social organisation can survive? This question calls for the relevance of business ethics on a macro-economic level. In addition to this, business ethics allows for the advantages of ethical behaviour to be shown within the existing social system including organisations and institutions whereby focusing on ethics from a micro-economic level.

Following from the concept of business ethics relevance within different levels of the business environment, Rossouw and van Vuuren (2004: 2) distinguish three broad dimensions of economic activity to which business ethics is relevant:

- The macro or systemic dimension. This is the economic system or the wider policy framework within which economic exchange occurs. The framework is determined at national level by the political power of the state.

- The meso or institutional dimension. This describes relations between economic organisations and others, for example interactions between business and organisations of civil society. The importance is the collective behaviour of those within the economic organisation towards those outside the organisation.

- The micro or intra – organisational dimension. This concentrates on the economic actions and decisions of individuals within the organisation.

These three dimensions are distinct in theory. However, in practice, they are often interrelated. An organisation's effort in creating an ethical culture should allow for all three dimensions to be taken into account. The need to be cognisant of the three identified dimensions is supported by an empirical study conducted by Victor and Cullen (1988 in Clegg, Kornberger and Rhodes, 2007) that found that ethical climate is determined by contextual factors, including the wider socio-cultural environment, organisational form and the specific history of an organisation.

2.3. Defining Business Ethics

A study conducted by Rossouw (1997) focused on the state of Business Ethics as an academic discipline, as well as the extent to which theory on Business Ethics has been translated into practice with the South African society. The results of the study identified three trends regarding the definition of business ethics. The first trend defines business ethics in terms of personal values and virtues that should be applied to business practises; the second, in terms of application of societal or religious norms, rules, standards or values to business practices, and the third as a reflection on economic and business practices and decision-making, Ensuring business activities are beneficial to individuals and society alike within the framework of a competitive market-driven economy (Rossouw 1997). The foundation for these definitions is inappropriate for the use in this study. With regards to the second trend described, a growing body of research suggests that religious beliefs and convictions make little difference in the behaviour of individuals in the business environment. For example Gallup (Sherman and Hendricks, 1992: 22) reported in the Wall Street Journal that people who attend church or synagogue or who feel a religious affiliation appear only slightly more likely to walk the straight and narrow path than their less pious compatriots.

Therefore, for this study the definition of business ethics will be based on how the organisation as a whole defines the standards, norms and behaviour in relation to the business environment in which it operates. From this it can be stated that the working definition of business ethics is: “identifying and implementing standards of conduct that will ensure that, at a minimum level business does not detrimentally impact on the interest of its stakeholders.” (Rossouw and van Vuuren, 2004: 4). This definition allows for three broad areas of individual ethical decision making to be identified as outlined by Human (1999). These are:

- Choices about the law: what it should be, and whether or not to obey it.
- Choices about the economic and social issues that are beyond the law’s domain – usually called the grey areas or people values. These concern the tangible and intangible way one treats others.
- Choices about the pre-eminence of one’s own self-interest – the degree to which one’s own well-being comes before the interests of the organisation or of other people inside and outside the organisation.

Work by Bauman (Bauman and Tester, 2001, in Clegg, Kornberger and Rhodes, 2007) further highlights the individual decision making process when dealing with ethics. The work presented by Bauman moves away from a rule-based approach to decision making and suggests that ethics will be enacted in situations of ambiguity, where dilemmas and problems will be presented as dynamic real-time interactions in relation to local, culture-specific contexts. Therefore individuals are not expected to prescribe essential positions or follow pre-defined judgements but rather to embrace the active, unpredictable and subjectivity of ethical dilemmas and see ethics as a practice of choice and evaluation circumscribed by socially established ethical models (Clegg, Kornberger and Rhodes, 2007). It should be understood that choice does not suggest a total ‘free play’ with regards to ethics, but implies that moral choice is rather a movement between possibilities. These possibilities are determined by the situation and are found within an organisations ethical culture including ethical codes, norms and models.

2.4. Ethical Organisational Culture

Managers of organisations have attempted to utilise organisational culture as a means of creating change consistent with organisational goals. Sathe (1983) describes organisational culture as multi-layered phenomena which include deep-seated and enduring values, with artefacts and symbols, procedures and policies. Within this definition, researchers have further defined organisational cultures as complex combinations of formal and informal systems, processes and interactions (Cohen, 1993). Formal organisational culture components are comprised of leadership, structure, policies, reward systems, socialisation mechanisms, and decision processes (Ardichvili, Mitchell and Jondle, 2009). Informal culture components include implicit behavioural norms, role models, rituals, historical anecdotes and language. Sinclair (1993) proposes that a working understanding of organisational culture consists of what people believe about how things work in their organisation and the behavioural and physical outcomes of these beliefs. At its most basic, culture is said to be a common way of thinking, which drives a common way of acting (Manzoni, 2012:3). Manzoni (2012) elaborates and further explains that culture is not only about the way people think, but the way that their thinking translates into the way they behave, and that culture refers to a pattern of behaviour that is reasonable pervasive throughout the organisation, which is consistent with the definitions of Cohen (1993) and Sinclair (1993).

It is evident from the definitions and understanding of organisational culture that it is a primary determinant of employee behaviour. This is an important realisation in the way organisations implement and institutionalise ethics. Trevino, Butterfield and McCabe (1998) argue that the culture of an organisation, particularly when it is congruent with formal systems, can significantly influence the likelihood that individuals will behave in ethical ways.

This leads to the suggestion that culture influences an employee's behaviour not only by determining what behaviour is appropriate and inappropriate, but also prompting particular ways of thinking. Therefore, the management of organisational culture is critical to raising ethical standards in business (Sautar, McNeil and Molster, 1994). This conclusion is based on the approach of creating a unitary culture. According to this approach management can and should create a unitary and cohesive organisational culture around core ethical values (Sinclair, 1993), as opposed to the sub cultural approach, which recognises the existence of subcultures within the greater organisational culture. This sub cultural approach questions the power and ability of management to control organisational culture, and suggests that it is rather the sub cultures that are the dominant influences of values, norms and behaviour.

Furthermore, as can be seen from the various definitions of organisational culture (Sothe, 1983: Sinclair, 1993: Ardichvili, Mitchell and Jondle, 2009), values play a predominant role in establishing the foundation for individual's thinking and serve as important determinants of behaviour, providing criteria for decision-making. The previous section described ethics as a decision-making process that is based on the broad parameters as set out by the organisational culture and not merely from a rule-based approach. It has been established that values dominate the selection of organisational goals, which in turn, form the criteria through which all decisions are evaluated (Liedtka, 1989). In addition to this values also play a role in determining the way in which an individual within the organisation defines the problem itself. According to Elango, Paul, Kundu and Paudel (2010) values may be assessed on both the individual and the organisation levels. For many recruitment processes, 'person-organisational fit' has been somewhat determined by the congruence between an individuals values and those of the organisation. Research by Liedtka (1989) attempted to address value conflicts' of managers and focused on the interplay of individual and organisational value systems. In the study the term "value congruence" was used to define the internal consistency of values within the organisation, in addition to the internal consistence of values held by the individual. When an individual is faced with an ethical decision and conflict arises between or within value systems (individual and organisational value systems) the prescribed positions or pre-defined judgements are not sufficient in the decision making process and individuals are forced to draw on values in the decision making process for that particular decision. Therefore Liedtka (1989) argues that the greater the degree of value congruence within the organisation, the more influential the organisation's values will be in shaping the responses of individuals to ethical dilemmas.

A further study undertaken by Elango et al. (2010) focuses on ethical intentions, which relates to behaviour that can be an expression of values. An association between value congruence and ethical decision-making is acknowledged in the study however it is additionally argued that individuals with similar values can make different behavioural choices in ethical decision-making due to different cultural or organisational factors. This highlights the complex and multi-dimensional relationship between values, organisational culture and ethical practices. Different values may be expressed in similar behavioural choices, and similar values may be associated with different behavioural choices (Elango et al. 2010:545). Although it has been stated that values are an imperative foundation in ethical decision-making, it should be explained that value congruence consists of agreement on fundamental values and ethical congruence consists of agreement on appropriate actions when faced with ethical dilemmas. Elango et al. (2010) state that although ethical congruence may derive from values congruence, as posited by Liedtka (1989), this may not always be the case. As will be discussed later there are a number of elements that are critical and influential to an ethical organisational culture, such as leadership, internal processes and procedures, and the cultural norms prevalent in a given geographic setting, which will affect ethical decision-making. Therefore the study concluded that individuals make ethical decisions using not only their own experiences and values but are also influenced by the ethical standards and practices as seen in the organisational culture.

In order to conceptualise and measure an organisation's ethical culture the Centre for Ethical Business Cultures (CEBC) at the University of St. Thomas, Minnesota initiated the development of the Minnesota Principles. These principles were developed as a foundation for dialogue among business leaders on an international scale with regards to issues surrounding ethics. The CEBC used these principles and additional research in developing the Ethical Organisation Model as seen in Figure 1. The Ethical Organisation Model describes five foundational principles upon which an ethical organisation should be built (Jondle, Shoemake and Kowske, 2011). The five characteristics of an ethical organisation as identified by the model are expanded upon below:

Values

At the centre of every organisation are its values which are seen as its lifeblood and driving force. It is not merely part of the vision and mission statements but forms a fundamental aspect to what the organisation does and how its goals are achieved.

Leadership Effectiveness

In order for an organisation to institutionalise ethical practices, the leadership should be seen to embody the organisation's values in their own behaviour in order to set an example for employees to believe subscribe to..

Stakeholder Balance

It is understood and accepted that within the working environment of an organisation the needs and demands of different stakeholder groups frequently exist in tension with one another (Jondle, Shoemake and Kowske, 2011). The model does not suggest that the abovementioned tension is not present for an ethical organisation but rather that these tensions are recognised and managed.

Process Integrity

Process integrity is a focus on the systems dimension of organisational life (Jondle, Shoemake and Kowske, 2011). The operational processes, including but not limited to recruiting, evaluation, compensating, promoting, marketing and production, are aligned to the values of an ethical organisation.

Long-term perspective

The Minnesota Principles have recognised that a fundamental characteristic of an ethical organisation is the commitment of its leadership to strategic planning for the long-term. Business has seen a shift in focus from shareholders to stakeholders and the CEBC model represents an organisation's commitment to return value to all stakeholders through the link between leadership effectiveness and stakeholder balance.

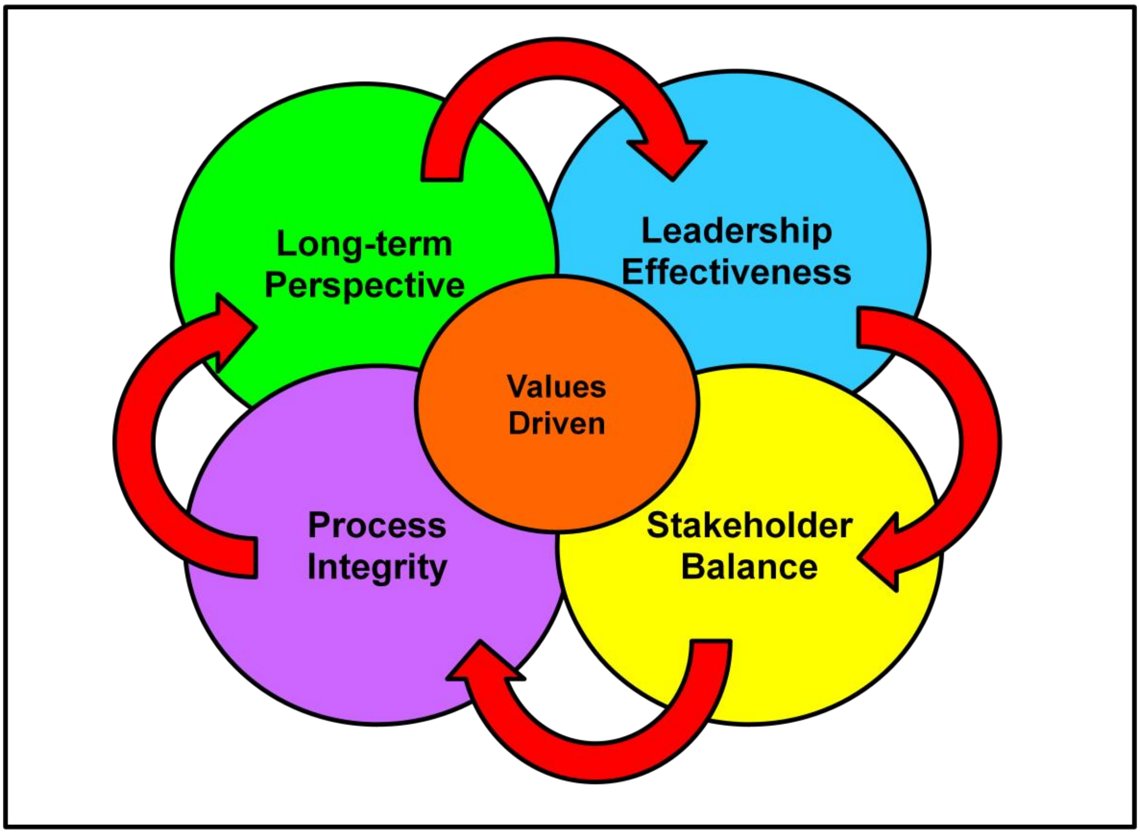

Figure 1**:** CEBC Ethical Organisation Model (Jondle, Shoemake and Kowske, 2011:2)

The CEBC Ethical Organisation Model has provided organisations with a foundation for assessing its ethical strengths and weaknesses and to allow an organisation to evaluate its ethical practices. The CEBC additionally used the model to develop the CEBC Integrity QuickCheck, which is a five-item instrument, providing a high level overview of an organisations ethical landscape (Jondle, Shoemake and Kowske, 2011). The five-items of the CEBC Integrity QuickCheck ask employees whether the following conditions of ethical business exist in their organisations (Jondle, Shoemake and Kowske, 2011:2):

- Ethical issues and concerns can be discussed without negative consequences
- Senior management support and practice high standards of ethical conduct
- The organisation is committed to serving the interests of multiple stakeholders (eg: customers, employees, supplies and community) not just the shareholders
- Employee behaviour is consistent with the organisation's mission, vision and values
- Employee advancement is based on behaviour that demonstrates company values.

In addition to the CEBC Ethical Organisation Model, as discussed above, the Corporate Ethical Virtues Model will be introduced. Kaptein (1999) has developed a multi-dimensional model of ethical culture of organisations known as the Corporate Ethical Virtues Model. Grounded in Solomon's virtue-based theory of business ethics, Kaptein (1999) states that the virtuousness of an organisation can be determined by the extent to which the organisational culture stimulates employees to act ethically and prevents them from acting unethically. There are a number of elements that are aligned between the two models, such as leadership, management behaviour and process integrity. Both models are useful in determining an organisation's ethical commitment and practices. Table 1 defines the seven organisational virtues.

***Table 1*:** The Corporate Ethical Virtues Model definitions (Kaptein, 1999, 2009)

No.	**VIRTUE**	**DEFINITION**
1.	Clarity	Normative expectations regarding conduct of employees. The extent to which ethical expectations, such as values, norms and rules are concrete, comprehensive and understandable to managers and employees.
2.	Congruency	Management and supervisor behaviour. The extent to which the board, middle management and supervisors act in accordance with ethical expectations.
3.	Feasibility	Availability of resources. The extent to which the organisation makes available sufficient time, budgets, equipment, formation and authority to management and employees to fulfil their responsibilities.
4.	Supportability	Support to meet ethical expectations. The extent to which the organisation stimulates identification with, involvement in and commitment to ethical expectations among management and employees.
5.	Transparency	Visibility in the organisation. The extent to which ethical and unethical conduct and its consequences are visible to those managers and employees who can act on it.
6.	Discussability	The extent to which managers and employees have the opportunity to raise and discuss ethical issues.
7.	Sanctionability	The extent to which managers and employees believe that unethical behaviour will be rewarded, as well as the extent to which the organisation learns from unethical conduct.

The organisation virtues defined in the table are relevant as they influence the behaviour of managers and employees, and pliant enough to be managed and changed when necessary, therefore changing the ethical culture of an organisation. In order for an organisation to be able to implement and institutionalise ethics and improve their organisational virtues and culture, an ethics program will have a different impact on the various virtues resulting in a different relationship to the respective dimensions of the ethical culture. These relationships may differ in terms of significance (whether there is any relationship at all), strength (how strong the relationship is), and nature (whether the relationship is negative or positive) (Kaptein, 1999). Furthermore Kaptein (1999: 263) states that some dimensions may be more partial to improvement by an ethics programme than others, thus yielding stronger interrelationships.

Ethics programmes can be defined as the formal, or tangible organisational control systems designed to create an ethical culture and to directly or indirectly impede unethical conduct and promote ethical conduct (Kaptein, 2009: 264). Each organisation will design a unique ethics program based on the needs and requirements of the organisation, however only by all employees internalising the ethical values espoused by the organisation will ethics be able to be truly institutionalised. A study conducted by Soutar, McNeil and Molster (1994) suggests that institutionalisation efforts have little chance of succeeding unless the written words are accompanied by ethical actions and behaviour on the part of leaders and management. Therefore it is critical that the creation of an ethical culture is driven by management, and that management set specific ethics objectives for the organisation, design and implement strategies to achieve these objectives, devise systems to institutionalise and operationalise ethics in the daily activities of the organisation. Rossouw and van Vuuren (2004) describe a number of methods and interventions that can be included in an ethics program. Each method is categorised into the following areas: strategic level, systems level and operational level, as seen in figure 2. It should be noted that the impact of the components of an ethics program on the ethical culture of an organisation will depend on the quality. This study will focus on the systems level performance management component.

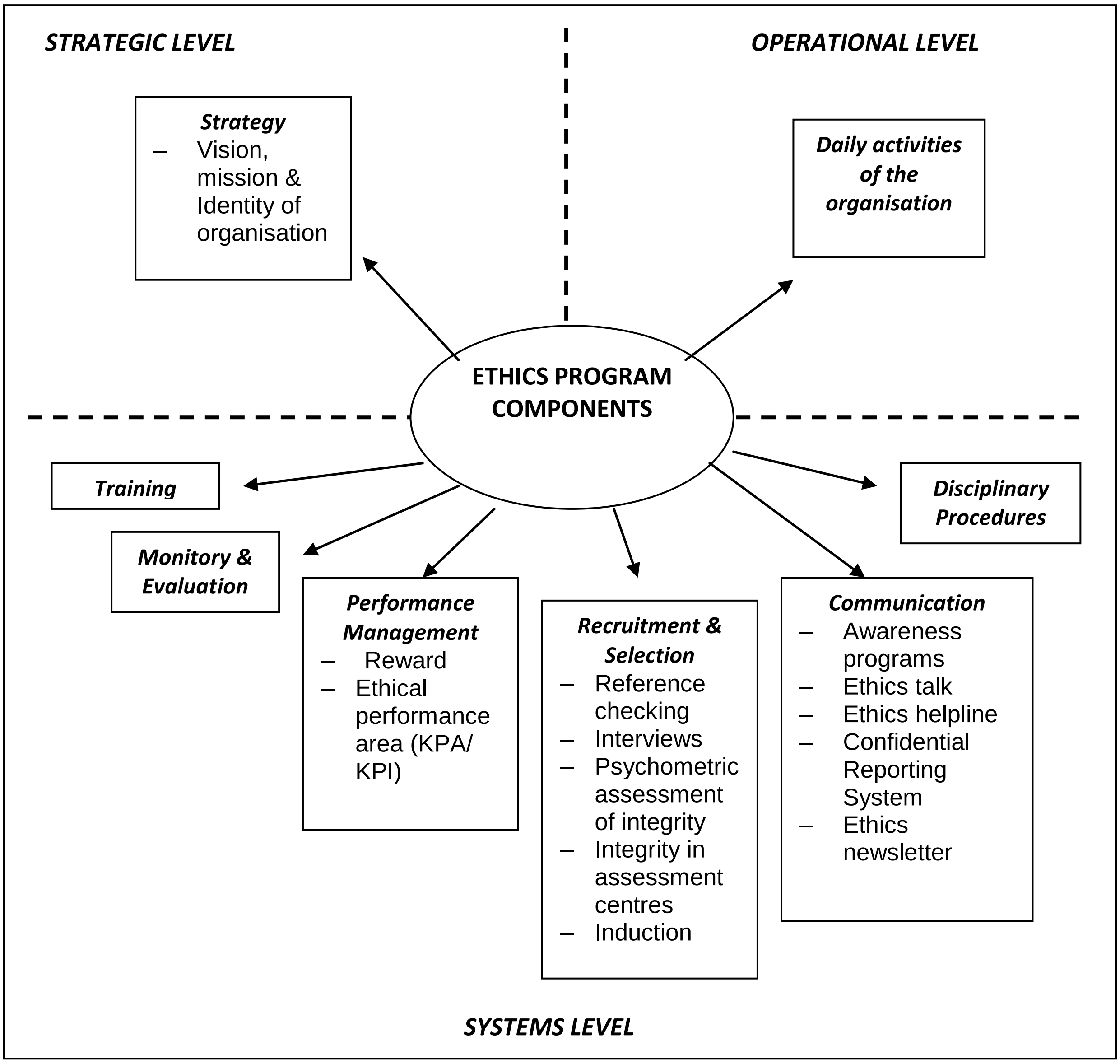

Figure 2**:** Ethics Program Components

Various models and theories have been introduced and discussed in the above sections, forming a conceptual framework, and identifying characteristics and virtues of an ethical organisation that can be used to influence the behaviour of managers and employees. Furthermore the categorisation of ethics programs based on the three identified levels (strategic, operational and systems) of an organisation was highlighted. The section to follow will discuss how an organisation will manage ethics based on alternative modes the organisation finds itself in. Rossouw and Van Vuuren (2003:390) have proposed a model (Modes of Managing Morality Model) which is based on an analysis that explains why business organisations tend to move from less complex modes of managing ethics to more complex modes thereof. It is important to understand that each mode identifies the dominant ethics management strategies adopted by the organisation and the advancement from mode to mode does not represent the moral development of the organisation. The model therefore claims that organisations move through an evolutionary process of improving their sophistication in managing ethical performance (Rossouw and Van Vuuren, 2003: 390).

The Modes of Managing Morality Model (MMM) is a classification framework whereby an organisation can be identified as having a specific way of managing ethics. Rossouw and Van Vuuren (2003:391) define a mode as "the predominant (preferred) strategy of an organisation to manage its ethics at a given point in time". Each mode has observable quantitative and qualitative properties that display the organisation's strategy towards ethics, ranging from reactive and superficial ethical window dressing to concerted and structured efforts to institutionalise and integrate ethics. The model consists of five modes namely:

1. Immoral
2. Reactive
3. Compliance
4. Integrity
5. Total alignment

Table 2 provides a summary of the modes in different terms of comparison such as the nature of the mode, the modes primary purpose, the predominant strategy, and lastly, the typical challenges that could arise. Each mode presents its own challenges to managing ethics, and it is these challenges that facilitate transition to the next mode of managing ethics. The movement between modes represents the increase in complexity of the management of ethics and not of the advancement of the organisation's moral development. The model ultimately presents organisations with a tool to identify the differences that exist in the ways that ethics are managed. Furthermore, the model could potentially provide feedback to organisations on their current ethics performance and may facilitate the transition to an alternative ethics management strategy.

***Table 2*: The Modes of Managing Morality Model Summary**

DIMENSIONS OF COMPARISON	IMMORAL MODE	REACTIVE MODE	COMPLIANCE MODE	INTEGRITY MODE	TOTALLY ALIGNED ORGANISATION (TAO) MODE
NATURE	– Unethical conduct is seen as good business – Business ethics is seen as an oxymoron – Milton Friedman's proposition "the business of doing business is business	– Reaction to the avoidance of risk and consequences of ethical conduct – Show of commitment includes a Code of Ethics – Unethical behaviour is ignored and remains unpunished	– Code of ethics becomes standard against which the organisation measures its own ethical performance – Deviation from the Code of ethics results in corrective action by disciplining or penalising transgressors	– Value-based approach to managing ethics – Focus on the internalisation of ethical values and standards – The organisation seeks to obtain the commitment of individuals to a set of shared corporate values	– Seamless integration of ethics into the purpose, mission and goals of the organisation. – Ethics is integral to how an organisation defines itself and how things are done – Non-negotiable morally responsible interaction with stakeholders

PURPOSE	– Aim is to maximise profit at all cost – Unethical business practices are the norm	– Aim is to avoid threats of litigation, boycotts, strikes and shareholder alienation – Decrease the risks of unethical behaviour – Defensive corporate approach to business ethics	– Aim is to prevent unethical behaviour by the organisation – Desire to have a good ethical reputation	– Aim to raise the level of ethical performance of the organisation – Pro-actively promote ethical behaviour – Organisational members commit themselves to the ethical standards and values of the organisation – Ethical performance is of strategic importance	– Reinforce ethics as part of the organisation's culture and purpose – Ethics becomes entrenched in corporate discourse and decision-making

ETHICS MANAGEMENT STRATEGY	– Management does not see the need to make decisions concerning ethics – Corporate culture makes little provision for an ethical way of thinking – No proper ethics management strategy	– Minimum measures of ethics management interventions to avoid paying a high price for morality – Code of ethics however there is lack of application	– There is a conscious decision to regulate ethics and display a commitment to eradicate unethical behaviour – Transactional approach which includes systems to ensure compliance of the Code of ethics and ethical standards	– Facilitates the internalisation of ethical standards in all members of the organisation – Ethical performance will be perceived as a KPA to be included in performance management and appraisal – Internalisation of values occurs in that employees are empowered as well as enabled to manage ethics in their own roles and jobs – Stakeholder engagement	– Reinforce the essentiality of ethical behaviour for the sustained success of the organisation – Ethics forms part of line management's strategic and operational activities – The whole organisation is responsible for ethics management – Management of ethics aims to identify discrepancies between behaviour and organisational values

CHALLENGES	– Financial consequences for unethical behaviour may become unaffordable – An increased dissonance between personal and corporate values – An increased dissonance between the organisation's values and those of its stakeholders	– Credibility problem with stakeholders (gap between talking and walking ethics) – Susceptible to ethical scandal – Ethically aware employees might demand more proactive management strategy towards ethics	– Due to the rule-based approach there may be a reliance solely on the existing rules – Undermines personal moral autonomy and responsibility – Dis-empowers employees in dealing with issues and grey areas that are not addressed in the Code of ethics	– The greater discretion granted to employees can be abused and unethical conduct can increase – The integrity mode relies on the integrity of its leadership – It is imperative that core ethical values are aligned with corporate identity and priorities	– Could result in ethical complacency – Ethics becomes second-nature to employees which could result in new employees not being properly inducted – Dispersion of the managerial responsibility throughout the organisation may result in a lack of co-ordination of the ethics management effort

2.5. Performance Management

Organisations that aim to improve their competitive advantage through employees must be able to manage the behaviour and results of all employees. Noe, Hollenbeck, Gerhart and Wright (2003: 327) define performance management as the process through which manager's ensure those employees' activities and outputs are congruent with the organisation's goals. A performance management system will typically consist of three parts, mainly defining performance, measuring performance and feedback. Firstly, a performance management system specifies which aspects of performance are relevant to the organisation, which is primarily achieved through the use of a job analysis. Secondly, those identified aspects are measured, usually through a performance appraisal. It should be noted that there are a number of methods that could be used in the measurement of performance. An employee's performance appraisal is usually based on a number of key performance areas that constitute a job (Rossouw and van Vuuren, 2004). Thirdly, it provides feedback to employees regarding any improvements or developments that need to be made, with a focus on adjusting the employee's performance to the organisations strategy and goals. Further decisions regarding, for example, training, rewards and promotions are usually made based on performance management. Bascal (1999) has identified what performance management is and what performance management is not in the current business environment. These differences are seen in Table 3 below:

***Table 3*:** Description of Performance Management (Bascal, 1999)

Performance Management is:	**Performance Management is not:**
– A partnership between the employee and the manager – About clarifying the essential job function the employee is expected to perform – About defining what a job looks like in concrete terms – Clarification of an employee's job contributions to the organisation's goal – About how job performance will be measured – About identifying and overcoming barriers to performance	– A mechanism to force people to work better or harder – Used only in poor performance situations – About completing forms once a year – Only linked to remuneration and bonuses

The traditional approach to performance management was focused on creating a system that would justify remuneration and reward decisions made by management. Central to this traditional approach to performance management was the performance appraisal which was 'backward looking' and subjective in nature. However, since the last decade of the 20th century, business performance is being more closely related to people performance, and therefore performance management is becoming more aligned with, and driven by business goals (Sturgess, 2012). Researchers and human resource practitioners have developed numerous performance management systems and techniques including, but not limited to, the Wheel of Work (McLeod), Organisation-Person Fit Competency Model (Veldsman, 2012), Total Performance Scorecard™ (Rampersad, 2012) and Strengths-Based performance management (Biswas-Diener and Garcea, 2012). The alternatives available to organisations regarding performance management systems are numerous however organisations should view the chosen system as a dynamic tool that transforms performance by mobilising the human energy in the organisation and ultimately the system should improve organisational, team and individual performance (Dent, 2012). Dent (2012) has identified five critical success factors for performance management systems, regardless of which specific system is used. These critical success factors are:

1. *Measure output*: it is necessary to measure the quality of the deliverable outputs as they define the purpose of the job and are more tangible and therefore measurable.
2. *Role clarity*: it is important that for each output one employee is identified to be responsible for the achievement of that output. Therefore no confusion regarding accountability is present.
3. *Set clear targets*: By setting clear targets the key performance areas/ key performance indicators are even more tangible and create a clearer expectation of performance.
4. *Regular review meetings*: previously performance management has been an annual event, focused on past behaviour. There has been a change in how performance management contributes to the achievement of the organisational goals and is now viewed as a developmental, pro-active tool in optimising employee performance and ensuring alignment with the organisation's goals and values, therefore it is important that it is conducted on a regular basis.
5. *An integrated system*: without integration and a culture of performance that is aligned to the organisation's goals, there is no commitment to ensure the success and benefit of a performance management system.

In addition to the abovementioned critical success factors, the foundation for effective performance management is ongoing communication and is aligned to critical factor regular review meetings. Ongoing performance communication is the process by which manager and employee work together to share information about work progress, potential barriers and problems, possible solutions to problems, and how the manager can help the employee (Bascal, 2000).

This ongoing communication process allows for change, adaptability and flexibility in the performance management process. Previously performance management was conducted once-a-year in a pressurised environment. Performance management takes place in both formal and informal ways (Painter-Morland, 2008). The employees of an organisation must be able to engage in a constructive discussion regarding their performance.

In an organisation that is committed to creating an ethical culture, ethics becomes an integral component of organisational life, and therefore it is a necessary responsibility of all employees when they perform their jobs. The inclusion of ethical dimensions into the performance management system and appraisal will integrate ethics expectations into employee's formal role identities and make ethical conduct at work relevant and rewarding for employees and therefore contributing to the ethical culture (Selvarajan, 2006). Furthermore, rewarding performance is an integral component to performance management and when an individual is rewarded for their performance across several key performance areas (including ethical performance as an independent key performance area) they are, by implication, also rewarded for their ethical performance (Rossouw and van Vuuren, 2004). However, this is a complex relationship and a well-designed performance management system, in which ethics is explicitly rewarded and misconduct discouraged, could potentially have unforeseen negative effects. It seems that when performance management systems explicitly reward ethical behaviour, it undermines the individual's moral discretion by inducing compliance for the sake of self interest (Painter-Morland, 2008). This could result in self-interested behaviour that could have a negative effect on teamwork. Additionally it should be acknowledged that group rewards could potentially create the perception that employees are not individually held accountable for what transpires in the organisation.

There is an absence of an accepted approach for directly assessing the ethical behaviour of employees due to the complexity and difficulty of measuring the ethics construct (Gatewood and Carroll, 1991). According to Kriek (2002: 57) the criterion development for the purpose of predicting job success is a five-step procedure, consisting of the following:

- job analysis and / or analysis of organisational needs
- development of measures of actual behaviour related to expected behaviour as identified in the job analysis
- identification of criterion dimensions underlying such measures,
- development of reliable criterion measures, and
- determination of the predictive validity of the independent variables for each one of the criterion measures.

This process needs to be completed when developing ethics as a key performance area, which could be a challenge given the nature of ethics.

2.6. Conclusion of Literature Review

The literature review outlined the relevance of business ethics and emphasised the importance of managing the organisational culture when implementing and institutionalising ethics into the organisation. A number of models were introduced and discussed in relation to the elements that constitute an organisation being ethical. The CEBC Ethical Organisation Model highlighted factors found to be critical to an ethical organisation which forms a foundation for an organisation in its attempts to create an ethical culture. The Corporate Ethical Virtue Model was presented to determine, manageable components of an organisation's culture. Each organisation will design an ethics program based on their specific needs and requirements. The aspects of the ethical program will have a varying impact and influence of the seven identified virtues. In addition to the abovementioned models, the Modes of Managing Morality Model was discussed. This model classifies an organisation based on the ethics management strategy undertaken and adopted and the various challenges that drive transition between the various modes. The aspect under study is performance management. Performance management identifies relevant performance indicators and provides feedback. Due to the tangible nature of measuring performance, the inclusion of ethics as a key performance area is complex. Aside from the need to overcome the profit motive, individuals and organisations do not always agree on standards of right conduct.

2.6.1 *Research question 1:*

How do the companies interviewed define and understand business ethics?

2.6.2 *Research question 2:*

What attributes of organisational life do the interviewed companies view as contributing to an ethical organisational culture?

2.6.3 *Research question 3:*

Of the companies that have included ethics into their performance management system, to what degree and how has this been designed and achieved?

CHAPTER 3: RESEARCH METHODOLOGY

This section describes the methodology that was followed in order to address the research questions as identified in section 2.6. The qualitative research methodology will be discussed as the appropriate method chosen for this study, followed by the specific methodological approach and instrument that was applied. A description around the data collection, data analysis and interpretation will follow. In addition, this section will conclude with an overview of the validity and reliability issues of this study

3.1 Research methodology /paradigm

This study used the qualitative methodology in order to gather the data necessary to answer the research question. A researcher undertakes a qualitative study in a natural setting where the researcher is an instrument of data collection that gathers words or pictures, analyses them inductively, focuses on the meaning of participants and describes a process that is expressive and persuasive in language (Creswell 1997). Denzin and Lincoln (2000) characterise qualitative research as interpretive in nature. Therefore qualitative research can be defined as "an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem." (Creswell,1997:15). In a qualitative study the researcher collects open-ended, emerging data with the primary intent of developing themes from the data. This methodology allows for the researcher to gain an insiders' perspective and sets out understanding the particular, the individual, and the unique.

The advantages of using the qualitative research method include: the facilitation of a depth of understanding and meaning around the topic of study, it is suited to understand the attitudes and behaviours in their natural setting and is capable of capturing complexity. Table 4 below highlights the reasons for applying the qualitative methodology to this particular study.

***Table 4*:** Application of qualitative methodology to this study

	Qualitative methodology Characteristic	**Appropriateness to this study**
1	Nature of the research question	In a qualitative study the research question often starts with a how or what so that the initial forays into the topic describe what is going on (Creswell 1997). The research question of this study is to explain how performance management systems contribute to the development of an ethical culture.
2	A topic needs to be explored	In a qualitative study variables cannot be easily identified, theories are not available to explain behaviour of participants or their population of study and theories need to be developed (Creswell 1997). Although there are a number of theories that attempt to understand the complex nature of business ethics, organisational culture and performance management, these are done individually and separately. The literature review identified a gap in the theory regarding how these concepts are related to one another.
3	The need to present a detailed view of the topic	Each organisation not only defines and understands business ethics from a unique perspective but has their own culture and a specific means of managing performance. In addition, based on the complex and dynamic nature of the concepts under study it is therefore important to present a detailed view of the topic.
4	Study individuals in their natural settings	The literature on ethics and business ethics explores how an individual's ethical and moral standing is upheld within a business environment. Research has indicated that a naturally ethically individual, given a number of specific circumstances, could behave in an unethical manner. To further emphasise the need to study individuals in their natural settings, research has indicated that individuals contribute to the development of an organisational culture. It is important to study the individuals within their natural business environment.

3.2 Research Design

The research design of a study is a set of guiding philosophical assumptions that relate to the understanding of knowledge. Creswell (1997) describes knowledge as:

- found within the meanings people make of it,
- gained through people talking about their meanings,
- laced with personal biases and values,
- written in a personal, up-close way, and
- knowledge evolves, emerges and is inextricably tied to the context in which it is studied.

This study is designed using simple interpretive approach. Denzin and Lincoln (2003:4) describe qualitative research as involving the studied use and collection of a variety of empirical materials - case studies, personal experiences, introspection, life stories, interviews, artefacts, cultural texts and productions - that describe routine and problematic moments and meanings in individual lives. In order to gain a deeper understanding of the subject matter under study, qualitative researchers utilise a wide range of interconnected interpretive practices applied to the various empirical material that was collected. Through the use of the simple interpretive approach, researchers engage in both the how and what of social reality. The interpretive approach is centred both in how the people methodically construct their experiences and their worlds and in the configurations of meaning and institutional life that inform and shape their reality- constituting activity (Gubrium and Holstein, 2003: 215).

The research question aims to explain how performance management systems contribute to the creation of an ethical organisational culture. Although theory exists pertaining to the separate concepts, business ethics, organisational culture and performance management, of this study, there appears to be no theory that relates to the interaction of all three. In addition, each concept includes an individual as well as organisational aspect and how ethics is practiced from each of these aspects (individual and organisational). A focus on practice allows one to embrace the active, unpredictable, subjective and not fully controlled ways that organisations operate (Czaraniawska, 2003). Therefore based on the above, the simple interpretive approach is appropriate for this study.

3.3 Population and sample

3.3.1 Population

The population for this study are the organisations that have included an ethical performance area into their performance management system. These organisations are representative of the private, governmental and parastatal sectors.

3.3.2 Sample and sampling method

The Ethics Institute of South Africa offers advisory service to a number of organisations. It is assumed that as the organisations have approached the Institute with regards to ethics in the business environment, they were willing to provide interviews for this study. Therefore the organisations that are identified as clients of the Institute, and who have included an ethical performance area into their performance management system, were the primary focus of identifying organisations to be part of the sample. Furthermore the samples that will be selected include managers, Human Resource managers and employees responsible for ethics. The topic under study relates to a phenomenon that is integral to the whole organisation, that of ethics and performance management, therefore interviewees from all levels of the organisation will be included. The qualitative researcher typically conducts 10-15 interviews based on visits ‘to the field’ to collect data (Creswell 2009). Given this guideline and availability of interviewees, ten interview respondents were included in the study.

The nature of qualitative research requires the researcher to refine the categories that were identified during the data collection and analysis phases and apply them to theoretical constructs within the field of study. During this process gaps in the data could potentially be identified. The researcher is then required to return to the field and collect delimited data to fill those conceptual gaps (Charmaz 2000). This process of theoretical sampling begins with a homogenous sample of individuals who are similar, and, as the data collection proceeds and the categories emerge, the researcher turns to a heterogeneous sample to ascertain under what conditions the categories hold true (Creswell 2009:243). Therefore the researcher could potentially re-interview an individual in order to seek precise information or greater understanding to shed light on a theory.

3.4 The research instrument

Qualitative researchers want to understand people's experiences in as rigorous and detailed a manner as possible. Therefore the instrument that was used is the semi-structured in-depth interview. The epistemology of the qualitative interview tends to be more constructionist than positivist (Warren 2001), and the purpose of most qualitative interviewing is to derive interpretations, not facts or laws. Qualitative researchers start with areas of interest regarding the topic and develop preliminary interviewing questions to open up those areas. The semi-structured interview is appropriate in asking these preliminary questions and the format of the questions will function as triggers to encourage the participant to talk. Although the questions are designed to encourage the interviewee to freely discuss, and share information, an interview agenda will ensure that some structure is maintained and the interviewer remains on course regarding the topic (Willig 2008). Qualitative methods require that researchers take control of their data collection and analysis, and in turn these methods give researchers more analytical control over their material (Charmaz 2001), the semi-structured interview format will facilitate this control. The interview agenda for a semi-structured interview consists of a relatively small number of open-ended questions as seen in Appendix A. Included in the semi-structured interview are elements of in-depth interviewing. According to Johnson (2001) in-depth interviewing seeks 'deep' information and understanding. The word deep has a number of meanings in this context; these include (Johnson 2001:106):

- Deep understandings are held by the real-life participants of daily activities, and the interviewer seeks to achieve the same deep level of knowledge and understanding as the participants.
- Deep understandings go beyond commonsense explanations for and other understandings of some cultural form, activity, event or place.
- Deep understandings can reveal how our commonsense assumptions, practices, and ways of talking, partly constitute our interests and how we understand them.
- Deep understandings allow researchers to grasp and articulate the multiple views of, perspectives on, and meanings, of some activity, event or place.

The use of the semi-structured in-depth interview was selected due to the topic and design of the study. This interview structure allowed for complex questions to be asked, flexibility during the interview to explore a particular area in-depth, resulting in a higher response rate, unlike the unpredictability of a questionnaire. However it should be noted that an interview structure does have disadvantages that need to be accounted for. These include the use of small samples given that interviews are time consuming, and most importantly the interviewer needs to be cognisance of the role they play in the data collection process as they could influence the respondent. An important issue that needs to be addressed is the ethical issue of confidential information. An in-depth interview could potentially reveal personal information and therefore the responsibility for the protection of the respondent lies with the researcher. The study aims to explain the contribution that performance management systems make to the development of an ethical organisational culture, and this in itself will identify a small sample and therefore the interview instrument will not be the cause of the small sample size.

3.5 Procedure for data collection

Pre-arranged interviews, of between 60-90 minutes were conducted with a manager, human resource manager or employee responsible for ethics in each selected organisation. Interviews took place at the respondent's respective offices to ensure convenience and comfort for the interviewee. All interviews were audio recorded, with the informed consent of the interviewee. No respondent expressed any feelings of discomfort of being recorded, however due to the sensitivity of the nature of ethics, confidentiality and anonymity were managed throughout the recording. Furthermore the nature of qualitative research necessitates that all data is collected verbatim to ensure that correct and valid categories are identified and substantiated by the text. Additionally, notations have the potential of disrupting the flow of the interview and eye contact with the interviewee.

3.6 Data analysis and interpretation

The data was analysed using an approach that was interactive in practice and followed the steps as outlined in figure 3. The figure suggests a linear, hierarchical approach, building from the bottom up, however the various steps are interrelated and not always visited in the order that they are presented (Creswell, 2009).

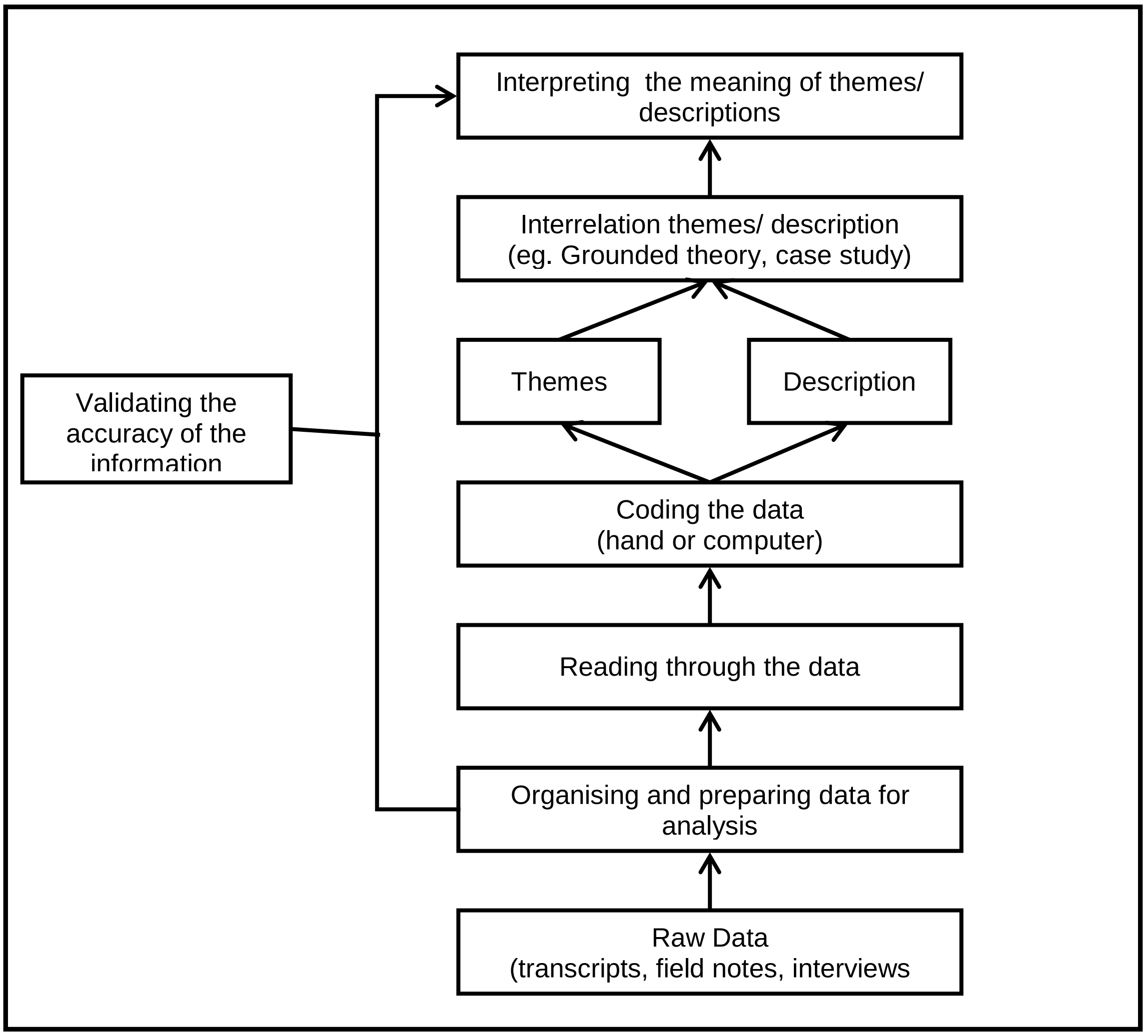

***Figure 3*:** Data Analysis in Qualitative Research (Creswell, 2009: 185)

The process of coding in this research utilised the grounded theory method which is systematic and follows a standard format as listed (Creswell 2009):

1) Open coding: the researcher forms initial categories of information about the phenomenon being studied by examining and segmenting the text. The identified categories are composed of subcategories, called properties, which represent multiple perspectives about the categories. The properties are then dimensionalised, thereby showing the extreme possibilities on a continuum. This stage of the data analysis is focused on reducing the data to a small set of themes or categories that categorise the topic that is being studied.
2) Axial coding: this phase is concerned with interconnecting the categories. Once an initial set of categories has been identified, the researcher

identifies a single category as the central phenomenon of interest and begins exploring the interrelationship of categories. As the interrelationships are explored the researcher is able to explore casual conditions, which identify categories of conditions that influence the phenomenon. From this, the researcher will identify specific strategies which are the actions or interactions that result from the central phenomenon. The researcher is then able to identify the context and intervening conditions which influence the strategies, and delineates the consequences for this phenomenon. During this phase the researcher creates a coding paradigm or theoretical model. This coding paradigm is a visual representation of the interrelationships of the axial coding categories of information.

3) Selective coding: the researcher builds a ‘stay’ that integrates the categories in the axial coding model. In this phase conditional propositions and hypotheses are presented.

The analysis phase concludes with an interpretation of the data which is applicable to the phenomenon within one particular situational context. This analysis and interpretation could possibly be subjected to further empirical testing.

3.7 Limitations of the study

This study was reliant on the availability of a small sample of organisations that have included an ethical performance component into their performance management system. Furthermore the topic involves all members of the organisation and it is therefore important to gain a holistic view from managers, Human Resource managers and employees responsible for ethics from all organisations in the sample. The possibility of interview cancellations and unavailability was factored into the study.

3.8 Validity and reliability

Each research design and study needs to be cognisant of the concepts of validity and reliability. It is important to understand where the validity and reliability of a study could possibly be compromised; as this could include bias and measurement errors that do not allow for accurate conclusions to be drawn. Kalof, Dan and Dietz (2008:156) define validity as congruence, or ‘goodness of fit’ between the details of the research, the evidence, and the conclusions drawn by the researchers. This congruence ensures that a study is measuring what it says it is measuring. The two aspects of validity that will be addressed in this section are external validity and internal validity. Reliability is defined as the consistency, therefore research findings are considered reliable if similar findings are revealed time after time in repeated application of research (Kalof, Dan and Dietz 2008:156). It is important to note that a study could be considered reliable but not valid. In this case the study would consistently measure the wrong thing. However when a study is considered valid by default it is also reliable. The various aspects as they pertained to this study will be discussed in further detail.

3.8.1 External validity

External validity is the ability to generalise from a study to a larger population (Kalof, Dan and Dietz 2008). This may seem more achievable for a quantitative study as the focus of a qualitative study is not to make statements about the larger population but to understand things in-depth and directly from the perspectives of those being studied. Typically, qualitative studies use non-probability samples and small sizes, both of which limit the ability to generalise. The sample chosen for this study, although small, consists of a number of organisations and is not limited to one specific organisation. This increases the transferability of the study. In addition, by providing rich descriptions of the research site and characteristics of the sample it will increase the understanding of the sample and therefore the generalisability.

3.8.2 Internal validity

Internal validity concerns the extent to which caused propositions are supported in a study of a particular setting (Bergh and Theron 2003). In a qualitative study this is referred to as credibility, and is concerned with how accurately the data reflects reality (Kalof, Dan and Dietz 2008). Triangulation of methods and data sources is a possible way of ensuring credibility. The research sample includes managers, Human Resource managers and employees, constitutes a triangulation process whereby the same aspects are asked from different perspectives. In addition, the design of this study is inductive and iterative and therefore it is important for the researcher to ensure an in-depth understanding of the participant's meanings. This will further increase the internal validity.

3.8.3 Reliability

As previously mentioned reliability refers to how consistent a study is. Due to the interactive nature and design of a qualitative study each researcher will play a unique role in the data collection and interpretation phases of the study, therefore it is more accurate to look at dependability. Dependability reflects how truthful the researcher is and how truthful the research is (Kalof, Dan and Dietz 2008:163). Qualitative researchers attempt to, during the data analysis phase, include as many incidents, events or activities as possible to provide support for the identified categories. The study has reached saturation once no new information was attained that added to the understanding of the category. The study also includes a reflection from the researcher which will add to the reliability of the study.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

The results presented in this chapter were extracted from interviews conducted in organisations that have included ethics into their performance management systems. The results presented will be described according to relevant themes as identified from the interviews and structured according to how they pertain to the research questions as outlined in section 2.6. A detailed description of the themes will be presented as they are applicable to each of the research questions. This section will conclude with a summary of the results presented.

4.2 Demographic profile of respondents

The source of data for analysis that is presented in this chapter was obtained from interviewing ten organisations that fulfilled the requirement of having included ethics into their performance management system. The organisations interviewed are from the private and parastatal sectors, covering numerous industries that form part of the South African economy. Due to time constraints and respondent unavailability no representative of the government sector was included. Furthermore the planned number of interviews ranged from 10-15, however due to the specific requirement of the study i.e. including ethics as part of the performance management system and availability of respondents, only ten interviews were conducted. The individuals interviewed included managers, Human Resource managers and employees responsible for the ethics management within the organisation.

4.3 Results pertaining Research Question 1

4.3.1 *Research Question 1*

How do the companies interviewed define and understand business ethics?

4.3.2 *Results and Themes*

The interviews conducted yielded a number of themes with regards to the definition of business ethics. Table 5 below is a representation of the themes and the corresponding interview responses.

Table 5: Results and themes (Research Question 1)

Themes		Interviews									
		I1	**I2**	**I3**	**I4**	**I5**	**I6**	**I7**	**I8**	**I9**	**I10**
Business Ethics Definition	Behavioural Competencies	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Values	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Legislation		✓	✓			✓	✓	✓		✓
	Stakeholders	✓	✓	✓	✓	✓	✓	✓			✓

From the table it can be seen that when defining business ethics, organisations include a number of dimensions namely:

- Behavioural competencies
- Values
- Legislation
- Stakeholders

These themes will be described below:

Values

The respondents made reference to organisational values based on what the organisation believes to be right and wrong, and what is important to the organisation. In addition to this, individual's value systems within the organisational context were referred to by respondents whereby values (individual's and the organisations) are a key component to the sustained economic success of the business.

Behavioural Competencies

The interviews indicated that business ethics is understood as how employees act in the organisation and how ethics is seen through observable behaviour such as being respectful and considerate to colleagues.

Legislation

For a number of respondents the legal framework in which organisations operate defines the parameters of business ethics and includes regulations as outlined by South African law and the guidelines set out by various professional bodies that guide and promote ethical behaviour.

Stakeholders

This theme is described as the relationship between the organisation and its stakeholders, which the respondents identified to include employees, customers, suppliers, the community and shareholders. The relationship the organisation has with its stakeholders involves the role the organisation plays in managing the different stakeholder needs as well as the responsibilities the organisation has towards those stakeholders.

Each organisation included a combination of the identified themes in their definition and understanding of business ethics, with the predominant theme emerging as behavioural competencies followed by values and stakeholders. Therefore it can be concluded that the organisations included in this study define and understand business ethics as a multi-dimensional concept and an interrelationship between the themes.

4.4 Results pertaining to Research Question 2

4.4.1 *Research Question 2*

What attributes of organisational life do the interviewed companies view as contributing towards an ethical organisational culture?

4.4.2 *Results and Themes*

Table 6 below displays the themes and corresponding results as per the interviews conducted.

Table 6: Results and themes (Research Question 2)

Themes		Interviews									
		I1	**I2**	**I3**	**I4**	**I5**	**I6**	**I7**	**I8**	**I9**	**I10**
Leadership		✓	✓	✓	✓		✓	✓	✓	✓	✓
Code of ethics		✓	✓	✓	✓	✓		✓	✓	✓	✓
Other Ethical Interventions		✓	✓	✓	✓			✓	✓		✓
Ethical Challenges	Fraud/ corruption	✓	✓	✓		✓		✓	✓	✓	✓
	Behavioural issues	✓	✓		✓			✓	✓		✓
	Meaning clarification/ misunderstandings	✓	✓	✓	✓						
	Process factors			✓	✓	✓					

The themes that were identified include organisational characteristics and attributes that the organisations believe to contribute towards an ethical organisational culture such as leadership, a code of ethics and alternative ethical interventions. Furthermore, an emergent theme coded as ethical challenges was identified as attributes that negatively affect an organisation's ethical culture. This ethical challenges theme is divided into four subcategories namely: fraud/ corruption, behavioural issues eg: theft, meaning clarification/ misunderstandings and process factors. The themes are described below:

Leadership

Respondents associate the leadership theme with leader and management buy-in and commitment to ethics, observable ethical behaviour of leaders and managers ("walk the talk"), and management roll-out and implementation of ethics within the organisation.

Code of Ethics

The code of ethics identified by the interviews is described as the ethical standards of conduct as prescribed by the organisation. A number of organisations referred to the code of ethics by an organisation specific name such as “The Principles of Action” and “The Value Book”.

Ethical Interventions

In addition to identifying the code of ethics as a contributing factor towards an ethical organisational culture it was identified that alternative ethical interventions were seen to be attributing factors towards the organisational culture. Each organisation highlighted a number of ethical interventions implemented including induction and ethical training, ethics awareness programmes, ethics hotline, ethics committees and an ethics mascot.

Ethical Challenges

This umbrella theme represents the various attributes that were seen by the respondents to prevent, or act as a barrier in the creation or sustainability of ethical organisational culture. In addition to this these subcategories as identified earlier are problem areas the organisations are focused on decreasing within their organisations.

The two factors deemed important by the respondents are the themes of leadership and code of ethics which play a critical role in contributing towards an ethical organisational culture. Within the ethical challenges theme the predominant negative factors as identified by the interviews are those of fraud/ corruption and behaviour issues.

Furthermore, all the respondents made reference to a critical factor affecting the organisation’s ethical culture. The theme has been identified as External environment/ Government. This theme refers to industry and government pressures that require organisations to make ethical decisions. Although external to the organisation this theme was highlighted by all respondents which demonstrate the importance thereof.

4.5 Results pertaining to Research Question 3

4.5.1 *Research Question 3*

Of the companies that have included ethics into their performance management system, how has this been designed and achieved?

4.5.2 *Results and Themes*

The themes identified in this section are subcategories to the main theme of performance management. Table 7 identifies the four subcategories and the corresponding organisational responses.

***Table 7*: Results and themes (Research Question 3)**

Themes		Interviews									
		I1	**I2**	**I3**	**I4**	**I5**	**I6**	**I7**	**I8**	**I9**	**I10**
Performance Management	Values vs ethics				✓	✓		✓	✓	✓	
	Ethics KPA	✓	✓	✓		✓					
	Tick box				✓		✓	✓		✓	✓
	Explanation	✓	✓	✓		✓			✓		

These themes have been identified as the design factors used by organisations with regards to the inclusion of ethics in the performance management system. Each of these design themes will be described below:

Values vs ethics

Numerous organisations use values as a collective term for what the organisation stands for, which ethics forms part of and was not identified as a separate factor. Alternatively a number of organisations view ethics as an independent factor and developed ethics as a separate key performance area in the performance management system, resulting in the *Ethics KPA* theme.

Ethics KPA

As mentioned above, a number of organisations have defined and developed a separate key performance area for ethics to that of the organisational values. Included in this ethics KPA is the specific behaviour conducted by the employee.

Tick box

This theme relates to the mention of ethics in the performance management system; however it acts as a compliance check rather than a behavioural measurement. For example one organisation's inclusion of ethics is extended to the question:" Has the employee read and signed the code of ethics?"

Explanation

In contrast to the previous theme, this theme can be described as the in-depth understanding of the ethical behaviour exhibited by the employee in the organisation. This includes examples of the individual's ethical behaviour as well as a discussion relation to the decision-making surrounding that behaviour.

The interview responses regarding the design of the ethics component of the performance management system resulted in an averaged dispersion of the alternative designs. There is no dominant way in which the participating organisations have designed ethics into their performance management systems.

4.6 Summary of the results

The coding of the raw data i.e. the interviews resulted in a number of themes being identified. Each of these themes was categorised according to their applicability to each of the research questions. Table 8 below is a grid summation of all the themes and the corresponding respondents.

Table 8: Summary of Results

Themes		Interviews									
		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10
Business Ethics Definition	Behavioural Competencies	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Values	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Legislation		✓	✓			✓	✓	✓		✓
	Stakeholders	✓	✓	✓	✓	✓	✓	✓			✓
Leadership		✓	✓	✓	✓		✓	✓	✓	✓	✓
Code of ethics		✓	✓	✓	✓	✓		✓	✓	✓	✓
Other Ethical Interventions		✓	✓	✓	✓			✓	✓		✓
Ethical Challenges	Fraud/ corruption	✓	✓	✓		✓		✓	✓	✓	✓
	Behavioural issues	✓	✓		✓			✓	✓		✓
	Meaning clarification/ misunderstandings	✓	✓	✓	✓						
	Process factors			✓	✓	✓					
Performance Management	Values vs ethics				✓	✓		✓	✓	✓	
	Ethics KPA	✓	✓	✓		✓					
	Tick box				✓		✓	✓		✓	✓
	Explanation	✓	✓	✓		✓			✓		
External environment/ Government		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

The South African business environment has created a focal point and a platform for ethics, governance and sustainability over the last decade. The legal framework that governs organisational behaviour has increased, and relevant stakeholders are holding organisations accountable for their behaviour. There has been a shift from not only what the organisation does, but how the organisation achieves its goals and objectives. Subsequently, organisations have embraced ethical behaviour as a legitimate business goal. In order to facilitate and nurture ethical behaviour, it is critical that organisations create and sustain an ethical organisational culture, through interventions that are implemented on the strategic, systems and operational level of the organisation. The aim of this study was to evaluate how the use of performance management systems contributes to the development and sustainability of an ethical organisational culture. This section provides an in-depth discussion of the results introduced in chapter 4, pertaining to the three research questions as outlined in section 2.6.3. This discussion of the results will conclude with a summary of the findings.

5.2 Defining Business Ethics

The creation and sustainability of an ethical organisational culture is subsequent to the formulation of a working ethics definition, as accepted and understood by an organisation. Therefore it was important to understand the ethics framework from which an organisation's ethics management strategy stems. Rossouw and van Vuuren (2004:4) define business ethics as "identifying and implementing standards of conduct that will ensure that, at a minimum level, business does not detrimentally impact on the interest of its stakeholders. At an optimum level, business ethics is about standards of behaviour that will enhance the interests of all who are affected by business”. The results of the interviews identified four themes in the definition and understanding of business ethics, namely:

- Behavioural competencies
- Values
- Legislation
- Stakeholders

These themes are in alignment with the working definition presented above. The definition distinguishes between the minimum level and optimum level of business ethics, and can be represented on a continuum as seen in the figure below.

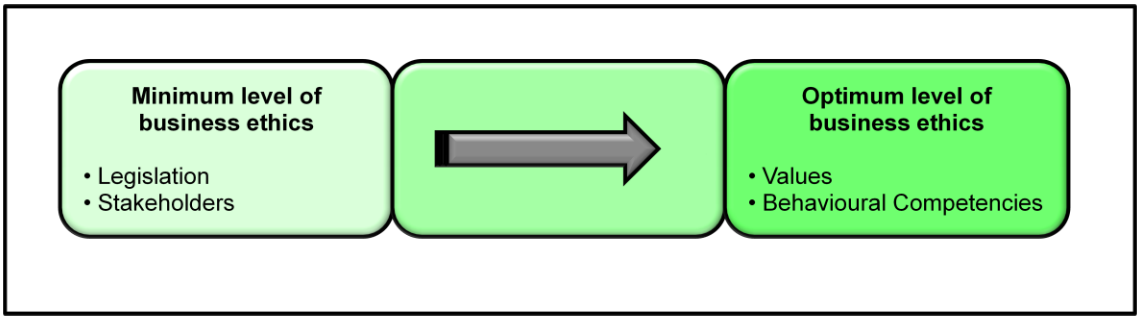

***Figure 4*: Business Ethics Definition Continuum**

At the minimum level of the continuum, business ethics is positioned within a legislative framework supported by standards of conduct. This understanding and approach to business ethics is rule-based, providing clear and specific guidelines to employees. One particular organisation focused predominantly on the legislative and governed nature of ethics, referring to legislation, regulatory frameworks and controls.

“There are a lot of pieces of legislation we need to abide by ...”

“... we have a lot of regulatory frameworks in place...”

“... we’ve got all the controls there making sure we obviously act ethically ...”

The optimum level does not ignore those aspects of the minimum level, but rather establishes an internal focus of ethical control by focusing on standards of behaviour. This understanding of ethics moves away from a rules-based approach, to a more behavioural-based approach, whereby employees are not expected to follow prescribed essential positions or pre-defined judgements but rather to embrace ethics as a practice of choice within the defined organisational parameters. This is seen to be aligned to the thesis of Clegg, Kornberger and Rhodes (2007). Furthermore, research conducted by Liedtka (1989) establishes that values dominate the selection of organisational goals, which in turn, form the criteria through which all decisions and behaviour are evaluated. The results indicated the behavioural competencies and value themes as the predominant themes in the definition and understanding of business ethics by the respondents. This indicates that the majority of the organisations are no longer approaching ethics from a solely compliance aspect with ethical decisions being made in accordance to legislation and regulatory framework, as it can be argued the minimum level of continuum is, but rather acknowledging that values are an imperative foundation in ethical decision-making.

Furthermore, the concept of ethical intentions as presented by Elango et.al. (2010) relates to behaviour that can be an expression of values. There is an implication from the research introduced and the results, of an interrelationship between values and behavioural competencies. A respondent highlighted this interrelationship with the following:

"... you express the values by way of behaviours, by way of the conduct that is visible that you can see."

The definition of business ethics characterises a minimum and optimum level with a number of possibilities between the two levels. Ideally, organisations should define and understand business ethics in such a way that meets the needs of their industry and stakeholders. However, the growing trend indicates an increase in organisations focused on a holistic, multi-dimensional understanding of business-ethics as seen by this respondent:

"... as basically the way we do things here, operating in our own framework. So the framework isn't just legal ... but also what we have to put in there is how we behave and how our values indicate we are ethical ..."

The way in which an organisation conceptualises business ethics forms the foundation for the ethics management strategy that will be implemented and the degree of inclusion of ethics into the performance management system.

5.3 Ethical Organisational Culture: Characteristics and Barriers

Managers of organisations have attempted to utilise organisational culture as a means of creating change that is consistent with organisational goals. Many organisations are placing ethics and ethical behaviour as an important organisational goal, and therefore it is necessary to identify and understand the characteristics and attributes of an ethical organisational culture, as well as the barriers that could potentially impede progress and efforts towards the development and maintenance of such a culture.

Sinclair (1994) proposes that a working understanding of organisational culture consists of what people believe about how things work in their organisation, and the behavioural and physical outcome of these beliefs. This description makes reference to the behavioural aspect of a conceptual idea of organisational culture, as ethics can be argued it is the behavioural aspect of the conceptual idea of values. In addition to this, organisational culture consists of formal and informal systems, processes and interactions. An organisation is a complex and dynamic system of interrelated networks, which are not only influenced by a certain organisational direction but by the relationships developed between the individuals within the organisation. The Ethical Organisational Model (Jondle, Shoemake and Kowske, 2011) was introduced as a measure of assessing an organisation's ethical strengths and weaknesses, as well as a model for evaluating an organisation's ethical practices. The model outlines five characteristics of an ethical organisational culture which include:

- Values
- Leadership Effectiveness
- Stakeholder Balance
- Process Integrity
- Long-term Perspective

The results of the study indicate that the respondents identify leadership and code of ethics as pertinent characteristics of an ethical organisational culture. Both these themes are consistent with the Ethical Organisational Model presented. The code of ethics theme falls within the process integrity characteristic.

5.3.1 *Leadership*

Research into organisational culture has indicated a somewhat sequential positioning of factors, needed for the realisation of organisational vision and achievement of organisational goals and objectives. It commences with the values chosen by the organisation; followed by the leadership and management who espouse and nurture those values throughout the organisation; supported by operational systems and procedures that enable these values to become part of daily activities; and finally this leads to the observation of employee behaviour that should represent the values at the beginning of the cycle. This chain of factors is represented in figure 5.

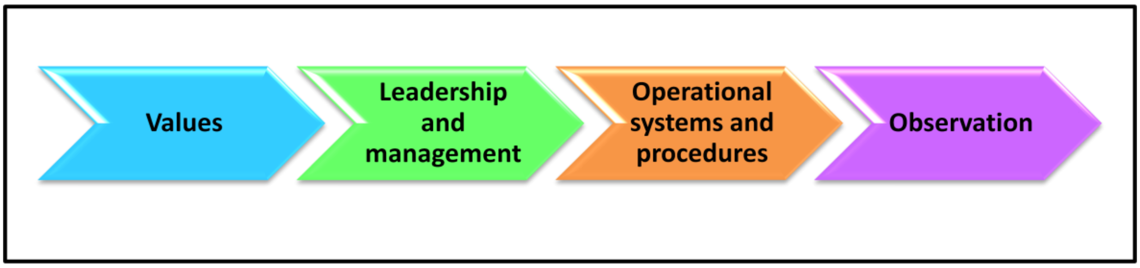

Figure 5: Organisational Culture Value Chain

Although this is a simple overview of organisational culture, it highlights the important role leadership plays in ensuring organisational values are institutionalised in the organisation. The majority of respondents discussed the role leadership plays in the institutionalisation of ethics:

"... in one instance in one of our business units it was necessary to remove the entire leadership team over time and replace it with a team that was ethical. In this way the culture could be affected."

"... you do a cultural survey and you want to ensure people don't say leadership doesn't care so why bother."

"... to me it is total leadership. The CEO of the organisation is based overseas and quite frankly it is probably his number 2 priority after safety."

"When the ethics program was launched personally by the CEO in a video conference to the entire organisation with a strong emphasis that all top management are obliged to roll it out into their operations."

"... you can't expect ethical behaviour from your staff unless you portray those characteristics, which is the first thing. The second is that you should consistently get the message out to your staff that you take ethics seriously."

"... you have to walk the talk."

"... it is important that you look at your leaders and they must demonstrate the traits that you aspire to ..."

Although the importance of leadership in the institutionalisation of ethics cannot be denied, a small percentage of respondents expanded upon situations in which the entrenched organisational culture over -rode any leadership influence. This appears to be in conflict to the theories on leadership, however to refer back to the definition of organisational culture, it is what people believe about how things work in their organisations. Therefore it can be suggested that if a new leader attempts to change the organisational ways there will be a resistance to change and that leader could potentially encounter barriers to such change. This could apply to an unethical organisation, as well as an ethical organisation, as can be seen in the interview responses below:

“You get a whole team that has been allowed to behave in an unethical manner consistently over time, no leader can change that.”

“... in any case leadership leaves quicker than the people that join Company C and they stay for life and that is the group that you really need to focus on in terms of their integrity, that even if they know that management is being unethical they don’t do the same ...”

5.3.2 *Code of Ethics*

Apart from legal compliance, the code of ethics is often the starting point in implementing ethics, and is mistaken as the sole mechanism for managing ethics in business. The code of ethics does form part of the foundational guidelines for ethical behaviour, however its success depends on how effectively it is used and understood within the organisational context. One code of ethics might be totally ineffectual, and seen as an exercise for window dressing. Table 9 describes the purposes of a code of ethics (Rossouw and van Vuuren, 2004:216).

***Table 9*: Code of Ethics Purposes**

INTERNAL PURPOSES	EXTERNAL PURPOSES
– Raise ethical awareness and expectations by establishing standards of morally acceptable behaviour – Prevent unethical behaviour by stipulating behaviour that will not be tolerated – Promote ethical behaviour by outlining the ethical values – Provide guidance in ethical decision-making – Promote organisational integration and co-ordination	– Promote the reputation of the organisation amongst its external stakeholders – Pacify external stakeholders that express concern over aspects of an organisation's actions – Prevent state interference in the internal affairs of a business – Pre-empt legal action against a company.

The results did not identify the specific purpose of the code of ethics within each organisation; however it was highlighted as a key component to creating and maintaining an ethical culture, and providing a standard of behaviour for employees. It should be noted that a number of organisations that participated in the study are international corporations that subscribe to directives from their Head Office. It was therefore necessary to adapt the code of ethics to the South African business environment.

"... the code of ethics is a document from Head Office, can we not now make it relevant to South Africa. So that is what we did, we dedicated a whole exercise around making it relevant in South Africa."

The code of ethics has various purposes based on the needs of the organisation, however the fundamentals of a code of ethics is to establish a base or minimum guideline of standards that are to be followed. It is essential that these standards reflect the unique and diverse South African business environment.

5.3.3 *Ethical Interventions*

An organisation is categorised into three levels: strategic, systems and operational. The institutionalisation of ethics occurs at each level, however with a different focus and relevant interventions.

At the strategic level, strategising for ethics implies that once an organisation has embraced ethics as strategically important and decided to make ethics part of how it defines itself, it needs to decide on an appropriate ethics management strategy (Rossouw and van Vuuren, 2004). The different management strategies were introduced in the Modes of Managing Morality Model as described in chapter 2. The different strategies include:

- Reactive strategy
- Compliance strategy
- Integrity strategy
- Totally aligned strategy

It can be seen from the results as discussed in section 5.2 that a large number of organisations can tentatively be categorised to have chosen an integrity strategy with one particular organisation having chosen a compliance strategy. It should be noted that the various strategies do not imply ethical development but rather sophistication in ethical management.

At a systems level it is crucial to ensure that the vision and strategy for ethics are made real throughout the organisation. The systems required to do this make provision for the introduction of an ethics dimension in the following aspects of the organisation:

- Communication
- Recruitment
- Selection
- Orientation/ induction
- Performance management
- Training
- Disciplinary procedures

The results presented in chapter 4 show that seventy percent (70 %) of respondents made mention of additional ethics interventions that have been implemented in their organisations. These include ethics awareness programmes, ethics hotlines, reference and security checks, induction, ethics training and disciplinary procedures. The sample requirement for this study was the inclusion of ethics in the performance management system; therefore by default, all the organisations include ethics in this factor of the system level. It should not be assumed that the organisations implemented ethics within all the dimensions listed above, but rather each organisation had implemented a selection according to their needs, size of organisation and availability of funds.

The operational level requires that ethical principles need to be applied to the daily activities of each member of the organisation. In order to apply ethics to the daily activities of employees it is in part management's responsibility to set the climate for ethical behaviour, achieved through ensuring ethics is discussed, not only in meetings but, throughout the completion of tasks and activities. This allows employees to be empowered to discuss ethics. A dimension of 'ethics talk', that can be used to make it easier for employees regularly to consider ethics in their decision-making, is using ethics heroes as role models for ethical thoughts and actions (Rossouw and van Vuuren, 2004). The results indicate that only one organisation uses the concept of 'ethical heroes' as a means of encouraging ethical thought and behaviour. Each year, individuals are nominated by their colleagues for recognition of an ethical act. Each nomination is supported by substantial evidence, and if the nominee is chosen they are requested to attend the organisations international conference, where they are recognised and congratulated on their ethical behaviour.

The system and operational levels risk implementing ethics as a 'must-have' rather than developing meaningful interventions that are suitable to the organisation. As with any change initiative, there needs to be buy-in continuous communication throughout the organisation. An example of a tailor made ethics training of one participating organisation is described below:

"The lower level associate one, I would say for general associates is quite cleverly done. We've used the soccer game to explain ethics. The ethics

trainers will record a game to show where the lines are on the field in which different positions have to play within and what are those lines in our business, and what are the rules and regulations. Then there is the referee who keeps an eye on things and that is our ethics officers ... we give them scenarios that explain how ethics operate in the grey areas between the rules to help them understand how to make a decision."

5.3.4 *Ethical Challenges*

The institutionalisation of ethics, and the development and maintenance of an ethical organisation, is an ongoing process, and does not result in a utopia concept of total ethical behaviour. The results indicate that, for many organisations, there are ethical challenges. The predominant ethical challenge that is faced by the organisations is fraud and corruption. The specific examples given during the interviews included fraud and corruption within the organisation as well as with external stakeholders, such as suppliers, in the event of securing contracts. The results further indicated ethical challenges that relate to behaviour such as theft and a misunderstanding of the code of ethical guidelines. In addition to this process, factors such as inconsistent performance assessments and internal policy issues include, each of these challenges were being addressed through various control mechanisms, ethics training and policy reviews.

From these ethical challenges, it was found that each organisation identified an overarching theme as pertinent to the sustainability of an ethical organisational culture. This theme is that of the external environment and government. An organisation is systemic in nature, and does not operate in isolation. The external environment includes the economic and societal factors, such as the instability following the economic crisis, and the financial consequences thereof, including inflation and the increasing prices of food and transport. Societal factors include the diverse cultural make-up of South Africa and the dispersion of wealth in the country. In addition to this, the influence government has on creating an ethical national culture, and facilitating an ethical business environment, is questioned. This theme argues that although the organisation's efforts are deemed to be effective in the broader context of South Africa, they could be wasted due to the growing unethical external environment.

5.4 Performance Management

In 2008 the ethical climate of organisations in the United States was researched through the use of the CEBC Integrity Quick-Check. The five-item instrument identified that the misalignment of organisational systems is a potential problem. Fifty percent (50 %) of respondents agreed that there was integrity in their organisational systems (Jondle, Shoemake and Kowske, 2010). Processes in an organisation include the way in which the organisation recruits, trains, disciplines, remunerates and recognises employees. Jondle, Shoemake and Kowke (2010) explain that process integrity forms the basis of system effectiveness and efficiency, as it relates to behavioural modification, and creating an ethical culture. The survey results imply that within the United States, the internal processes are not totally aligned with organisational values. This could potentially affect the effectiveness of the integration and promotion of ethical behaviour.

Although the study was conducted in 2008, it highlights the potential risks an organisation, and for the purpose of this study, a South African organisation, could face if there is little process integrity. Performance management is one aspect of process integrity, and forms the focus of this study. As previously mentioned, all participating organisations include ethics in their performance management systems. Research question 3 pertains to the degree of inclusion, as well as the design of ethics in the performance management system.

The measurement of ethical performance of all individuals in an organisation is crucial, as all levels of employees in an organisation have a distinct effect on the overall ethical performance of the organisation. Gatewood and Carroll (1991:672) provide a summary of research on the measurement of ethical performance, and present a number of principles that should be followed in this regard:

- The measurement of the system should be linked to the philosophy, culture, strategy and goals of the organisation.
- Measurement should be applied to all levels of employees in the organisation.
- Multiple measures should be used within jobs and across levels.
- Different measurement systems may be appropriate for different organisational units.
- Measurement may be applied to an individual or a team depending on the characteristics of the work.
- Measurement should address both long-and short-term aspects of performance.
- Measurement should address both behaviours and results.
- Whatever is being assessed should be under the control of the individual(s) being evaluated.

These principles provide the basis for the conceptual framework that will be described. The framework consists of three sections which focus on:

1. What is being evaluated?
2. What content areas of employee's roles are being evaluated?
3. What standards are being used to make ethical evaluations?

What is Being Evaluated?

To identify what is being evaluated it is suggested the following is conceptually separated (Gatewood and Carroll, 1991):

1. Individual performance from group performance

   In an effective evaluation system it is important to distinguish between ethical performances for which the individual is accountable and for which the group is accountable for. This is consistent with the critical success factor for performance management systems of Role Clarity, as outlined by Dent (2012).

2. Behaviours of employees from results achieved by employees

   This refers to a process versus outcomes dichotomy. It is necessary to identify whether it is the actions (behaviours) taken by the employee that are being assessed for ethical performance, or the results being achieved by the individual (Gatewood and Carroll, 1991). The characteristic of the work will determine which should be measured, process or result, or both.

3. Actions taken that are in response to mandates of the law from those that are discretionary, or not legally required.

   To refer back to the working definition of business ethics adopted in this study, at the minimum level of business ethics, organisations should identify and implement standards of conduct that are in compliance to the law and that will ensure that business does not detrimentally impact on the interest of its stakeholders. In addition to this, work by Bauman (Bauman and Tester, 2001, in Clegg, Kornberger and Rhosdes, 2007), argues that employees should not use the standards of conduct as their sole source of ethical guidance, but should be encouraged to include an ethical dimension in their decision making. Although both the legal and the discretionary components comprise ethical performance, it allows for the specification of behaviours and therefore the clarification needed for employees.

Content Areas of Employees Roles

This part of the classification scheme is based on the stakeholder concept, and relates back to the definition of business ethics, that includes the needs of stakeholders as a pertinent factor in understanding business ethics. Major, generic stakeholder groups could include customers, managers, employees, owners, suppliers, competitors, the community and any other group such as government. The nature of the job tasks of the employees' position will dictate which stakeholder groups they interact with by the employee (Gatewood and Carroll, 1991). The identification of the stakeholders per position will provide a useful way of understanding the important contacts or transactions that define employees' roles.

Principles for Setting Ethical Standards

Gatewood and Carroll (1991:674) state that the process of ethical decision making requires that behaviours or results be assessed against standards or norms of acceptability. An individual's standard of moral behaviour stems from various sources including the law, family, one's religious faith, the community and one's profession, to name a few. However it is necessary for an organisation to identify specific ethical standards within the business context. This may be achievable if one was to abide by the code of ethics alone however this ethical standard identification poses challenges when an employee is faced with the grey areas of ethics. The standards that are identified need to be operationally applied; therefore it is proposed that these standards be captured by the following questions (Gatewood and Carroll, 1991):

1. Does the behaviour or result achieved comply with all applicable laws, regulations, or government codes?
2. Does the behaviour or result achieved comply with organisational standards of ethical behaviour?
3. Does the behaviour or result achieved comply with defined professional standards of ethical behaviour?

The first question corresponds with the distinction of individual ethical performance of legislative and legal compliance, whereas the remaining questions correspond to the discretionary nature of individual ethical performance. Table 10 represents the framework for evaluating corporate employees' ethics as have been discussed.

The framework is conceptual in nature and presents suggestions for the evolution of ethical performance. Although the framework sets out specific distinctions on what could be evaluated regarding ethical performance, it does not provide methods of evaluation that can be used, that will prove to be reliable and valid, excluding subjectivity and bias. This framework will be used to explain the results of the study. Regarding the degree of inclusion of ethics into the performance management system, the results indicated a fifty- fifty split between respondents. Half the respondents include ethics to a small degree, by including a single question pertaining to ethics. This question does not attempt to identify particular ethical behaviour, but attempts to ascertain whether the employee has, for example, read and signed the code of ethics, thereby seen as a ‘tick-box’ exercise. It is argued that an organisation cannot assume that the individual has indeed read the code, that by regarding the code as an informative guideline, it was understood, and lastly, by simply reading the code, their behaviour in the future will be ethical. It is potentially a start for organisations to include ethics into their performance management systems, but it does not address actual behaviour of the employee, merely the process of reading and signing the code of ethics.

***Table 10*:** Conceptual Framework to Evaluate Ethical Performance

<table>
<tr><th colspan="2" rowspan="3"></th><th colspan="4">INDIVIDUAL PERFORMANCE</th><th colspan="4">GROUP PERFORMANCE</th></tr>
<tr><th colspan="2">BEHAVIOUR</th><th colspan="2">RESULTS</th><th colspan="2">BEHAVIOUR</th><th colspan="2">RESULTS</th></tr>
<tr><th>LEGALLY MANDATED</th><th>DISCRETION-ARY</th><th>LEGALLY MANDATED</th><th>DISCRETION-ARY</th><th>LEGALLY MANDATED</th><th>DISCRETION-ARY</th><th>LEGALLY MANDATED</th><th>DISCRETION-ARY</th></tr>
<tr><td rowspan="6">STAKE-HOLDER GROUPS</td><td>OWNERS</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>MANAGERS</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>EMPLOYEES</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>CUSTOMERS</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>COMMUNITY</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>OTHERS</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

The remaining respondents have included ethics as an integral part of their organisation, and have identified values and more specifically ethics as a separate key performance area (KPA). The design of the key performance area included both an individual evaluation and peer evaluation. The individual evaluation is designed to facilitate ‘ethics talk’ and discussion between the manager and the employee, during the evaluation meeting, by engaging with the employee to provide an example of ethical behaviour and reasoning for the behaviour. The aim is to develop a process of ethical decision making skills. In the peer review instance, employees are requested to rate their colleagues for example on a number of ethical issues such as trust, honesty and respect, to name a few. In both the individual and peer evaluation, various challenges will need to be acknowledged, as with any performance management dimension. These challenges could include subjectivity, bias, personal interest and exaggeration. A number of organisations have designed ethics into an individual’s personal development program, and one organisation has identified ethics as an leadership trait, necessary for career advancement. It should be noted however that for personal development programs ethics is developed as Emotional Intelligence (EQ) or similar character building, for employees to vie the inclusion of ethics a positive and beneficial component of personal development programme, without negative connotations being assumed. .

It can be concluded from a comparison of the conceptual framework introduced, and the design elements of the participating organisations, that the focus is on the facilitation and encouragement of ethical decision making rather than measurement of ethical behaviour. The conceptual framework has provided a quantitative approach to the measurement of ethical performance, whereas the results indicate a focus on qualitative method of evaluating behaviour. Furthermore, only a few organisations have aligned the inclusion of ethics to remuneration and promotional decisions. All the organisations have developed disciplinary procedures relating to unethical behaviour, aligned to the basic conditions of employment, however there appears to be minimum positive reinforcement of ethical behaviour.

5.5 Conclusion

The results indicate a consistency between ethical theory and practice with regards to the definition and understanding of business ethics, and the identification of characteristics of ethical organisational culture. The discrepancy has been identified in the theory and practice of measuring ethical performance. Organisations, included in the study, have identified interventions that they have the necessary budget, capability and support for, that will enable an organisational culture to be established and maintained. This has to an varied extent included ethics into a performance management system.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The final chapter of this study will provide a summary of the research findings. In addition to this, recommendations will be discussed as a result of the findings, where after suggestions for further research will be identified.

6.2 Conclusions of the study

The aim of the study was to evaluate the use of a performance management system in the creation and maintenance of an ethical organisational culture within the contemporary South African business environment. The research provided insight into three main areas of concern, namely: defining business ethics, ethical organisation characteristics, and performance management. In defining and understanding business ethics, Rossouw and van Vuuren (2004) provided a definition that included a minimum level of business ethics that was founded on a legal framework, and an optimum level, which institutionalises ethics throughout the organisation, including a fundamental aspect of decision-making. The organisations, included in the study, can tentatively be categorised as being closer to the optimum level of business ethics. It can be concluded that South African organisations have acknowledged that business ethics is no longer a pure compliance and legal issue but rather an institutionalisation of values and ethical understanding.

It is understood that the organisation's definition and understanding of business ethics consequently drives the chosen, and subsequently implemented, ethics management strategy. Included in the ethics management strategy, are specific areas of focus regarding ethics from a strategic, systems or operational level. The study identifies leadership as a critical characteristic of ethical organisational culture, emphasising the need for leadership commitment, support and visible exhibition of ethical behaviour. In addition, the importance of a code of ethics as a foundation for the institutionalisation of ethics was highlighted. In order to create an ethical organisation it is suggested that ethics be included in all three organisational levels- strategic, systems and operational. The study found that the organisations have focused predominantly on the operational level in the attempt to create and to maintain an ethical organisational culture. The focus includes ethics hotlines, ethics awareness programs, induction and ethics training. Each of these aims to influence ethical behaviour, but does not evaluate behaviour. Organisations are making an effort to institutionalise ethics and create an ethical culture, irrespective of the challenges they face such as fraud, corruption and theft.

The findings of the study further indicated a significant challenge faced by organisations in the maintenance of an ethical organisational culture. This was identified as the influence and role the external environment and government has on facilitating and promoting an ethical business environment.

The last section the study focused on was the degree to which ethics has been included in performance management systems. Furthermore, the design of a ethics component in a performance management system was explored. The findings indicate a distinctive split between the organisations regarding the degree of inclusion. Ethics was either viewed as a ‘tick box’ exercise, or as a separate key performance area that required a form of measurement and explanation. Performance management forms part of the systems level, and is one dimension of the level that has not been utilised to its full potential as a way to not only measure ethical performance but to influence and promote ethical behaviour and consequently create and maintain an ethical organisational culture.

6.3 Recommendations

The findings of the study indicate that the understanding of business ethics within the South African environment is advancing beyond a legally compliance mode, towards a behavioural, values-based approach. One of the focus areas of organisations is to create an ethical culture that facilitates the discussion of ethics and empowers employees to make ethical decisions that not only comply with the law but are aligned to the organisation's values and goals. The purpose of a performance management system is to align behaviour with organisational values and goals and subsequently evaluate the behaviour.

Firstly, it is recommended that organisations include ethics in their performance management systems. Performance management systems aim to evaluate results, targets and behaviours. By including ethics as a behavioural competence, the organisation is able to support the need for ethical behaviour in the achievement of targets. It is imperative that the inclusion of ethics into a performance management system is designed to engage with the employee and not simply an administrative obligation, as expanded on in the second recommendation.

Secondly, it is recommended that the inclusion of ethics be designed as a separate key performance area. The addition of ethics as a 'tick box' exercise is based on various assumptions about behaviour that are not deemed true i.e. it is assumed that if the code of ethics is read it is understood. The design of the ethics key performance area needs to be level and position specific, as a generic measurement will not provide effective influence on an individual's behaviour. The conceptual framework developed by Gatewood and Carroll (1994) highlights critical aspects of ethical performance which should be evaluated.

Thirdly, it is recommended that ethics is viewed as a quantifiable, tangible component of the performance management system, and not as a 'soft issue'. Therefore the framework needs be further studied and adapted to the South African context as it identifies key ethical aspects of an employee's given role.

6.4 Suggestions for further research

The study focused on the current practices relating to the inclusion of ethics in the performance management system. In addition, the study aimed to explore how organisations define and understand business ethics, and identify what critical factors are necessary for an ethical organisational culture.

It is suggested that further research into the role of performance management and the evaluation of ethical behaviour is undertaken, in order to identify specific behaviours required from employees and effective methods of evaluation.

A suggestion for further research is to conduct a comparative study based on the CEBC Integrity QuickCheck to analyse and compare the ethical climate of South African organisations to similar organisations in the United States.

It is further suggested that a longitudinal study be conducted on an organisation that identifies the ethics management strategy and corresponding interventions and evaluates ethical performance over a prolonged period of time to attempt to establish the effectiveness of such interventions. This research could be narrowed to focus on one specific intervention.

A critical finding of the study is the challenge that the external environment and government pose with regards to maintaining an ethical organisational culture. It is suggested that the role and influence of government and the external environment has on the South African business in terms of ethics be researched.

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APPENDIX A

Actual Research Instrument

Semi-structured interview questions

1. How would you define business ethics?
2. What characteristics would you associate with an ethical organisational culture?
3. What do you feel should the organisation focus on in terms of ethics?
4. What are the challenges facing the organisation in terms of ethics now and going into the future?
5. Describe your performance management system, including the appraisal process
6. Are the key performance areas/ indicators defined in terms of tangible, observable behaviours?