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Leaders for tomorrow

Inculcating ethics in medium-sized business enterprises: A South African leadership perspective on ethics' management

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Limited research on small and medium sized enterprises

“The presumption of the unit of analysis as a large firm has always been the norm” (Painter-Morland and Spence, 2009)

“We are still dealing with a line of research still in its early stages – lacking in maturity” (López-Pérez and Vázquez-Carrasco, 2013)

Even less research on ethics management by medium-sized business leaders

How do medium-sized enterprise leaders influence the ethical orientation of their businesses?

A different context

Struggle for survival:

These businesses depend on their ethical orientation to survive, yet they are faced with the temptation to be unethical to survive (Arend, 2013)

Unique risks:

Every small business is a risky business – from the predictable to the unpredictable” (Christopher, 2003)

Personal values:

Informal nature of the business results in the business leaders’ values constituting the “fundamental determinant of company ethics and practices” (Vivier, 2013)

Lack of efficiencies of scale and funding for sophisticated ethics management infrastructure

Research objectives

Inculcation at a strategic level

Inculcation at a systems level

Inculcation at an operational level

Objectives informed by:

- Rossouw and Van Vuuren's three levels of institutionalising ethics (2010)
- Robinson, Engelbrecht and Pieterse's formulae for an effective code of conduct (2015)

Mixed methodology

Pilot study

Personal interviews (sample size 13 business leaders)

Qualitative open ended questions analysed by coding and transcribing into themes

Quantitative Lickert-scale questions analysed by means of descriptive statistics and simple correlations

Findings: Ethical risks and risk mitigation

Intense involvement by leaders in the business gave them some direct control

But impossible to mitigate risk completely:
“there are always loopholes” (log 3)

Greatest risk at executive level:
“We do a lot of work with the public sector... make sure you don’t overstep the boundary” (Sec 7)

Overriding risk issue was employee related:
“Ethical risks revolve around people” (Agr 11)

Competitive risk a surprisingly major problem area for most participants

Findings: Ethical risks and risk mitigation

Frequency table of risk perception

Risk areas	Mean	SD	Median	Min	Max	N
Sales	2.38	1.45	2	1	5	13
Marketing	3.23	1.36	3	1	5	13
Accounting	3.85	1.21	4	1	5	13
Product	2.31	1.38	2	1	5	13
Theft	2.38	1.45	2	1	5	13
Fraud	3.69	1.60	4	1	5	13
Asset damage	3.31	1.44	4	1	5	13
Customers	2.77	1.36	3	1	5	13
Supply chain	3.54	1.33	4	1	5	13
Legal liabilities	3.15	1.41	3	1	5	13
Health & safety	3.38	1.04	4	1	5	13

Findings: Ethical risks and risk mitigation

Insights gained:

1. Accounting and fraud risk perception relatively low due to direct control
“I sign everything off. I pay everything myself.” Mot 10
2. Theft risk perception higher due to difficulties in controlling the risk
3. Product and service quality perceived as high risk due to potential reputational damage, although generally was well mitigated
4. Asset damage due to negligence or vandalism perceived to be low risk due to a. training, b. financial incentives, or c. penalties.

Findings: Ethical risks and risk mitigation

Insights gained:

5. High perception of customer risk due to payment defaulting, fraudulent transactions, “lying by omission” (Mot 12), conflict of interest, and confidentiality issues
6. Health and safety risk addressed by programmes and monitoring
“I walk around and check that they are complying to safety standards. First thing I do is go around and say ‘morning’”. (Man 1)
7. Commitment to fair treatment of customers
“We have a formula for (fair) pricing. We have a benchmark profit percentage.” (Man 2)

Findings: Ethical risks and risk mitigation

Further factors analysed

1. Family versus non-family owned:

Family owned risk perception lower in area of sales, marketing, product or service, customer, supply chain, and legal liabilities.

2. Years of operation:

Risk perception slightly higher for firms in the 10-20 year old category in marketing

Risk perception slightly higher for firms over 20 years old category in product or service, fraud and damage to assets, supply chain, and legal liabilities

Lack of data for younger firms – opportunity for future research

Findings: Ethical risks and risk mitigation

Further factors analysed

3. Number of hierarchical levels:

Most significant factor impacting risk perception

As the number of hierarchical levels increases, the perception of risk increases notably for sales, marketing, accounting, and theft

Could this be related to 'hierarchical-distance' and the resulting ethics management complexities?

Are personal values of leaders reflected in the values of the business?

1. Personal values are reflected in the businesses' culture
2. They tend to employ people with similar values to themselves
3. They communicate their values to employees
4. The operational and systems rules and procedures reflect these values

“Unashamedly ethical. Employees won't try anything unethical, otherwise they are out of the door” (Mot 1)

Is business ethics a strategic imperative?

1. Very much so,
2. although there was some indication that this commitment may not always be an explicit aspect of their business strategy

“Ethics is part of our culture. We wouldn’t be in business if we weren’t ethical” (Log 3)

“We will only obtain long-term sustainability if we get the reputation of doing the right thing” (Sec 7)

“It (ethics) is the core of our business. It has to be. If you don’t have ethics, you don’t have a business” (Hos 8)

Do business leaders act in accordance with their values and the businesses rules?

1. Strong commitment to lead by example when it came to ethical issues,
2. although there is sometimes a disconnect between personal values and business decision making

Hos 8 described the internal conflict experienced, “but you have to stick to the policies. Don’t expect others to keep to policies if you don’t”

Ethical considerations can impede decision making: “Sometimes takes too long to make decision, because sometimes we take too long to think about it – often from an ethical perspective” (Sec 7)

Further factors analysed

1. Family versus non-family owned:

There was a slight difference between family and non-family owned businesses in terms of whether their personal values were reflected in the values of the business – possibly because the leaders of non-family owned business are employees and inherit a set of values that may differ from some of their own

2. Number of hierarchical levels:

The results suggest as the hierarchical levels increase, their personal values are marginally less reflected in the values of the business – could this have to do with the evolution of a unique business culture that doesn't necessary reflect one person's values?

Findings: Systems utilized

Communication and training

Instrument	Frequency of adoption	Frequency of adopted systems being 'very useful'
Q1 Values publicly displayed on company premises.	46,15	66,67
Q2 Communication of ethical issues verbally – that is, encouraging discussion of ethical issues.	84,61	63,64
Q3 Communication of ethical issues in newsletters, letters, email, website etc.	23,08	33,33
Q4 Training on ethical issues.	61,54	75,00
Q5 Generic set of rules	69,23	33,33
Q6 Code of conduct.	38,46	60,00
Q7 Visibility of rules or ethical behaviour such as posters or published guides.	38,46	60,00

Findings: Systems utilized

Values communication

Values mostly conveyed verbally

“People know me and so I don’t need to put it on boards (Mot 1)”

Some respondents felt values weren’t communicated as much as they needed to be communicated

Varied response as to value of formalised rules and codes of conduct

“Waste of time. It is our culture / personal relationship with each employee (that makes us ethical) (Man 2)”

Findings: Systems utilized

Recruitment, selection and employment

Instrument	Frequency of adoption	Frequency of adopted systems being 'very useful'
Q8 Ethical standards detailed in job advertisements.	23,08	0,00
Q9 Ethical standards explained in job interviews.	53,85	71,43
Q10 Training new employees on ethical standards.	61,54	62,50
Q11 Inclusion of ethical standards / rules in employment contracts.	53,85	42,86
Q12 Requirement for employees to sign acknowledgement of ethical standards separate to the employment contract.	30,77	50,00

Recruitment and training new employees

Low frequency of communicating values in recruitment process:
Possibly due to preference by some participants preference to employ friends and family

Selection is predominantly motivated by aligned values:
“Values first and then skills developed to match where possible” (Manu 4)
“Much rather have an employee with 80% of skills, but who has the same values” (Ret 13)

Findings: Systems utilized

Ethical assistance, reporting misconduct, performance, rewards

Instrument	Frequency of adoption	Frequency of adopted systems being 'very useful'
Q13 Training on ethical issues.	46,15	50,00
Q14 Access to an ethics help-line.	0,00	N/A
Q15 Access to a whistleblowing hotline.	15,38	50,00
Q16 Anonymous reporting of misconduct is offered.	61,54	37,50
Q17 Methods of reporting misconduct are provided to employees.	61,54	50,00
Q18 Consequences of misconduct are communicated to employees verbally.	69,23	55,56
Q19 Consequences of misconduct are provided to employees in some form of written documentation.	23,08	66,67
Q20 Ethical behaviour is publicly recognised.	38,46	40,00
Q21 Ethical behaviour is rewarded financially.	0,00	N/A
Q22 Ethical behaviour is included in performance appraisals.	7,69	0,00

Findings: Systems utilized

Reporting misconduct

Limited access to whistleblowing hotlines

Anonymous reporting and methods of reporting available in most companies

Direct reporting common and encouraged:

“Direct line to me – again based on personal relationship” (Manu 2)

“Open-door policy” (Log 3 and Sec 7)

‘Informal’ method of detecting misconduct:

“‘Bush-telegraph’ works like a bomb. When working as a team, things come back quickly” (Mot 12)

Findings: Systems utilized

Suppliers and customers

Instrument	Frequency of adoption	Frequency of adopted systems being 'very useful'
Q23 Communicating ethical standards to suppliers.	23,08	0,00
Q24 Communicating ethical standards to customers.	53,85	14,29

Findings: Systems utilized

High perceived 'usefulness' of systems found for the following:

- Public display of values
- Verbal communication of values
- Training on ethical values
- Code of conduct
- Visibility of rules
- Ethical standards explained in job interviews
- Training new employees on ethical standards
- Written consequences of unethical behaviour

Findings: Systems utilized

Impact of factors of family owned, hierarchical levels and years of operation:

Results inconclusive as the number of cases per systems were just too small to make inferences

Future research opportunity

Results were also inconclusive in this regard for operational mechanisms utilised on ethics management

Findings: Operational mechanisms utilized

Financial monitoring mechanisms

Operation	Frequency of adoption	Frequency of adopted operations being 'very useful'
Q1 Accounting system that flags suspicious transactions.	69,23	88,89
Q2 Financial auditing with a focus on fraud prevention or identification.	92,31	58,11

Findings: Operational mechanisms utilized

Financial:

High level of sophistication of financial mechanisms (flags and auditing)

Low perceived usefulness:

Even though processes may be in place to prevent fraud, they can never completely mitigate risk (as discussed previously)

Findings: Operational mechanisms utilized

Technological

Operation	Frequency of adoption	Frequency of adopted operations being 'very useful'
Q3 Visual observation, such as CCTV to monitor employees.	76,92	40,00
Q4 Use of GPS technology to monitor employee activities and use / misuse of assets.	61,54	62,50
Q5 Email and internet controls and monitoring of employees' web, email and social media usage.	38,46	40,00
Q11 Advanced use of ICT technology to monitor and control employees' activities.	23,08	66,67

Findings: Operational mechanisms utilized

Technological:

Relative high levels of monitoring employees

Low perception of the usefulness of such monitoring

“You can bring in 100 cameras, but if thieves want to steal, they will”

(Hos 8)

Findings: Operational mechanisms utilized

Control systems

Operation	Frequency of adoption	Frequency of adopted operations being 'very useful'
Q6 Procurement processes to guard against bribery and corruption.	30,77	50,00
Q7 Customer selection and screening to prevent undesirable clients.	30,77	50,00
Q8 Control systems to ensure sales and marketing practices are ethical.	23,08	100,00
Q9 Quality control systems to ensure quality products and services are provided.	100,00	61,54
Q10 Health and safety controls are in place to ensure minimum standards are adhered to.	84,62	45,45

Findings: Operational mechanisms utilized

Control systems:

Strong emphasis on product and quality control systems

“Nature of our business is about service levels. Something important”
(Sec 7)

“That’s our business... spend a lot of money on quality control” (Agr 11)

Some of the quality control systems were extremely sophisticated and detailed

Perceived usefulness was surprisingly not very high (61.54%)

Implications of the research

1. Low adoption of formal systems to manage ethics may be an opportunity for medium sized businesses to better manage ethics

Often participants contemplated that the systems and operational mechanisms discussed could have useful implications for their business if introduced

2. Lack of exposure to methods available to better manage ethical behaviour

3. Opportunity for academics and training providers involved with small and medium sized businesses to introduce this element into their education and training efforts

4. Greater support from government and NGO's in ethics management efforts could contribute to more sustainable businesses of this size

Future research opportunities

1. Investigation into the influence of maturity of the business
2. Investigation into the influence of the industry sector on ethics inculcation by medium sized businesses
3. Quantitative research with larger sample sizes could provide greater insight into factors of family versus non-family owned businesses, firm size, hierarchical levels, and maturity on the adoption and usefulness of systems and operations

Thank you

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