LEARNER GUIDE

Unit Standard Title:	**Apply the principles of ethics to a business environment**
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Apply the principles of ethics to a business environment

Introduction

When you have achieved this unit standard, you will be able to:

- Demonstrate knowledge and insight into legislation, regulations, and codes relating to corporate governance and ethics in a selected business sector.
- Apply the principles that underpin ethics and professionalism to a code of conduct.
- Critically evaluate the implementation of an organization's ethical code or value system.
- Develop a plan to initiate or improve commitment and compliance in the implementation of a code in an organization.

Section 1

Legislation, regulations and codes relating to corporate governance and ethics in a selected business sector

This Module deals with:

- The ethics related requirements in different legislation, regulations and codes applicable to a selected business sector with reference to the effect on business values, practices and procedures.
- The implications of triple bottom line reporting on a selected business with reference to the ethical aspects of reporting on safety, environmental, health and social responsibility.

There are clear similarities between ethics and legislation, but there are also significant differences. Both ethics and legislation strive towards determining what is right in human interaction and society. Legislation does so through a political and public process and employs the power of the state to ensure that everybody abide by the stipulations of the specific piece of legislation. However, ethics emanates from personal values. In a sense everybody has an obligation to do what is right internally (own free will) as opposed to the external pressure (no free will) of legislation.

1.1 What is Business Ethics?

Business ethics is a form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment.

In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions (known as ethicism) is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws (e.g. the FAIS act on Financial Intermediaries).

Professor Deon Rossouw, the president of the International Society for Business, Economics and Ethics (ISBEE), defines ethics as follows:

Definition of ethics:
Ethics concerns itself with what is good or right in human interaction. It revolves around three central concepts:

- Self
- Good
- Other

Ethical behaviour results when one does not merely consider what is good for oneself, but also considers what is good for others.

When ethics is applied to business we consider the implications of economic activity on the interests of all who are affected by such activity.

Professor Rossouw defines business ethics as follows:

Definition of business ethics:
Business ethics is about *identifying* and implementing *standards of conduct* that will ensure that, at a minimum level, business does not detrimentally impact on the interests 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.

1.2 Ethics related requirements in the Financial Services Environment

As financial products and services are so intangible in nature, it is easy for clients or investors to suffer significant loss in the event of an unethical financial planner giving inappropriate advice. In order to minimise unethical behaviour within the industry a strong ethical foundation must be built. Without a strong sense of ethical behaviour, it is unlikely that objectives of consumer protection will be met.

1.2.1 The importance of ethics in our industry

As an employee in the Financial Services Industry, you should know that there is an increasing focus on the need to consider the various questions around ethics in our environment.

The reasons for this "*new awareness*" are:

- Recent reported cases, both locally and internationally, have increased client awareness of unethical behaviour.
- The loss of clients' money increases the burden on the state as more members of our community have to be supported.
- Unethical behaviour by employees in the Financial Services Industry impacts on how the general public views our profession. This could ultimately have an impact on, not only our own wellbeing, but also the wellbeing of our nation and country.
- People have different views on what constitutes ethical behaviour. This unfortunately has to be managed.
- There is a worldwide trend towards more ethical behaviour in the workplace. In South Africa, the King II report stresses the need for businesses to look at issues of ethical behaviour far more seriously. The King II was later updated or replaced by the King III in 2008.

1.2.2 The ethical problems in our industry

A few of the ethical problems facing the industry are:

- Failing to disclose the options available to clients.
- Financial advisors who give advice to clients without the requisite knowledge and skills.
- Financial advisors who give clients misleading or incorrect information.
- Financial advisors who invest clients' money in investments more beneficial to the advisor than to the client.
- Financial advisors who have no regard for the legislative requirements that are designed to protect the client and to assist in creating a professional environment based on the principles of trust and honesty.

1.2.3 The ethical obligations in our industry

Looking at our industry, the ethical obligations towards clients are probably greater than in other industries. A financial advisor may frequently be confronted with this issue. It is easy to make a "wrong" ethical choice when there is no ethical structure, such as a policy on ethics.

A strong ethical culture also plays a major role in creating and developing relationships of trust with clients and we know that trust is easily broken through unethical decision-making which may have a negative impact on clients. Once trust is broken, it is difficult to re-establish a relationship of trust even if the behaviour does not affect the client directly. As ethics and trust is the cornerstone on which the financial services industry is built, it is critical to check the basis of all ethical decisions regularly.

Our obligations include the following:

- Trust
- Confidentiality
- Disclosure
- Respect for the client
- The client's right to information

- Your obligation to appropriate knowledge and skills
- The client's right to be served by an advisor with appropriate knowledge and skills.

1.3 A code of ethics in our industry

Although we are not all Certified Financial Planners, as an example we will now look at the Code of Ethics of the Financial Planning Institute (FPI) – a professional body in South Africa affiliated with the international Certified Financial Planner Board of Standards.

The FPI's Code of Ethics deals with six key principles that is crucial to be adhered to by any employee in the financial services industry – even if you are not a certified financial planner.

The six key principles are:

- **Integrity:**
  - An advisor shall offer and provide professional services with integrity.
- **Objectivity:**
  - Objectivity requires independence and impartiality and is essential for any professional in order to make prudent professional judgements.
- **Fair and honest disclosure:**
  - An advisor shall perform professional services in a manner that is fair and reasonable to clients, principals, partners and employers, and shall disclose conflicts of interest in providing such services.
- **Competence and diligence:**
  - An advisor is obliged to maintain a high level of professional knowledge and skill and act diligently in providing professional services.
- **Confidentiality:**
  - An advisor shall not disclose any confidential client information without the client's specific consent unless in response to proper legal process.
- **Professionalism:**

- An advisor's conduct in all matters shall reflect credit upon the profession.

The General code of conduct as noted in the FAIS legislation as well as your company's Code of ethics or conduct can also provide guidance in terms of Ethical requirements.

1.4 Requirements in Legislation

The requirements of the following pieces of legislation focus on the protection of the consumer in the event of the giving of financial advice, and the purchase of financial products and services. We also look at money laundering legislation.

1.4.1 Policyholder Protection Rules

Prior to the FAIS Act, the Policyholder Protection Rules regulated the selling of long term and short term insurance products to a limited extent. However, when the FAIS Act and its subordinate legislation in the form of regulations and schedules became fully operational, many of the rules were incorporated into the FAIS Act, to the effect that a Board Notice was published titled: "*Exemption of financial services providers and representatives from the Policyholder Protection Rules*". This notice determined the rules that remain and those that are now exempt.

The rules that still apply from the Policyholder Protection Rules are as follows:

1.4.1.1 Basic rules for direct marketing

These rules require a direct marketer to render services honestly, fairly and with due skill, care and diligence. The direct marketer must act professionally. They are required to make certain disclosures, records must be kept for a minimum period of 3 years and certain information must be made available to the policyholder. Where information is provided orally, it must be confirmed in writing within 30 days.

1.4.1.2 Rules on agreement with intermediaries

The insurer must only enter into an agreement with an intermediary to sell its products if such an intermediary is licensed under the FAIS Act. Such agreement will lapse upon non-compliance with the FAIS Act by the intermediary.

1.4.1.3 Rules on cancellations of policies & the cooling off period

This is a common method of consumer protection. It protects consumers from persons who are selling for commission, rather than acting in the best interests of the policyholder. This rule bolsters consumers' rights to cancel a contract and to claim back any premiums within a 30 day period.

1.4.1.4 Rules on fund policies

Certain rules have been enacted to protect policyholders in the case of a fund policy. In addition to disclosures made in terms of the rules for direct marketers, an insurer is required to deliver a fund policy to either the principal officer of the fund, the trustees of the fund or any other person managing the fund.

1.4.1.5 Assistance business group schemes

An insurer may only conduct business with an assistance business group scheme, or an administrator, if it has entered into a written agreement with such a scheme or administrator.

These rules also state what the agreement must contain and when it may be cancelled, together with certain other requirements regarding such agreements.

1.4.1.6 Additional insurer duties

The rules stipulate that when an insurer *rejects the claim* for a benefit under a policy, or where it disputes the amount of the benefit, the person is entitled to reasons, in writing, as to why the claim has been rejected or why the amount of benefit has been disputed.

A further stipulation under this section is that a policyholder may not sign a blank or partially completed form necessary for any transaction where another person will be required, permitted or allowed to fill in other required details.

1.4.1.7 Policy loans and cessions

The insurer must disclose various details to the policyholder on entering into a policy loan, including details of interest on a quarterly basis, repayment arrangements, the amount and value of the loan on an annual basis, and details regarding the cessation of benefits. The insurer is also obliged to disclose to the policyholder various details on receipt of notification of a cession.

1.4.2 Financial Advisory and Intermediary Services Act 37 of 2002

The FAIS Act has now become the main regulatory vehicle of market conduct within the Financial Services Industry. The Act regulates the activities of all financial services providers and their representatives who give advice or provide intermediary services to clients with regard to certain financial products.

The purpose of the Act is:

- To protect consumers.
- To provide consumers with adequate information so that they can make informed decisions.
- To regulate the selling and advice-giving activities of financial planners.

The Act applies to licensed financial services, key individuals and representatives.

It deals with:

- The administration of the Act, more specifically, to provide for the appointment of a Registrar of Financial Services Providers.

- The authorisation of financial services providers through the licensing of financial services providers and the need to fulfill the “fit and proper” requirements in order to obtain a license.
- Representatives of authorised financial services providers.
- Codes of conduct.
- The duties of authorised financial services providers with respect to compliance officer arrangements, maintenance of records, and accounting and auditing requirements.
- Certain enforcements that include the creation of the office of a Ombud for Financial Services Providers as well as other measures to ensure compliance with requirements of the legislation.
- Miscellaneous provisions.

The FAIS Code of Conduct:

This code deals specifically with the interaction between the financial planner and their clients. The code covers the following areas:

- Introductory provisions.
- General provisions, which include the general duty and duties of a FSP.
- Information on product suppliers.
- Contacting of clients.
- Information about financial service.
- Furnishing of advice in terms of suitability and record of advice.
- Custody of financial products and funds.
- Risk management.
- Advertising and direct marketing.
- Complaints.
- Termination of agreement or business.
- Waiver of rights.
- Subordinate legislation

1.1.1 Financial Intelligence Centre Act, 2001 (Act no 38 of 2001)

The FICA Act is to establish a Financial Intelligence Centre and a Counter-Money Laundering Advisory Council in order to combat money laundering activities and the financing of terrorist and related activities.

FICA also impose certain duties on institutions and other persons who might be used for money laundering purposes and the financing of terrorist and related activities, including the following:

- to clarify the application of the Act in relation to other laws
- to provide for the sharing of information by the Centre and supervisory bodies
- to provide for the issuance of directives by the Centre and supervisory bodies
- to provide for the registration of accountable and reporting institutions
- to provide for the roles and responsibilities of supervisory bodies
- to provide for written arrangements relating to the respective roles and responsibilities of the Centre and supervisory bodies
- to provide the Centre and supervisory bodies with powers to conduct inspections; to regulate certain applications to Court
- to provide for administrative sanctions that may be imposed by the Centre and supervisory bodies
- to establish an appeal board to hear appeals against decisions of the Centre or supervisory bodies
- to amend the Prevention of Organised Crime Act, 1998, and the Promotion of Access to Information Act, 2000; and to provide for matters connected therewith

Money laundering can be described as the manipulation of illegal acquired wealth in order to obscure its true source. Perpetrators use many different methods in order to obscure its true source. They use different companies to launder illegal funds by performing a number of transactions that, if successful, leave the illegally derived funds appearing as the product of a legitimate investment or transaction which then forms part of the formal social system and economy.

Money laundering has a number of detrimental effects on the economy. These include:

- It negatively affects legitimate business by interfering with the integrity of the financial systems.
- It negatively affects economic development in that it becomes entrenched in the political and financial systems of developing countries if left unchecked.
- It negatively impacts on society at large in that organised crime often infiltrates all parts of society.

Financial planners are now in a position to play a role in limiting these detrimental effects on the economy as they have been co-opted into the fight against money laundering by legislation that places obligations on them to be alert to suspicious transactions and to report such transactions. This will assist in deterring criminals from using the financial services industry to launder money.

1.5 Triple Bottom Line

Until very recently the success of a company was measured by looking at its financial bottom-line. When investors evaluated potential investment options, they were essentially interested in whether the company was making money, and what the prospects were of it continuing to do so. In the last decade, the realisation that making money and being a sustainable business required much more than focusing solely on the financial bottom-line, led to the development of the notion of a triple bottom-line. The Triple Bottom Line concept recognises that a "bottom line" should not solely reflect the economic return on investment of a business. Other assets, which deal with issues of environmental sustainability and social capital, ranging from product responsibility and labour practices to community upliftment, should also be included.

The concept is underpinned by three societal objectives:

- Economic prosperity
- Social responsibility
- Environmental sustainability

Therefore the ability of a business to persist in a truly sustainable state will result from producing a positive and balanced return to all three forms of capital - economic, environmental, and social – hence the Triple Bottom Line.

Definition of Triple Bottom Line:
Triple Bottom Line can be defined as the process of identifying, assessing and reporting on an individual company's business activities in terms of its impact on society, the environment and economic sustainability. It also entails the confronting of basic issues around the core values of a company and consistent application of a company's core values to all its activities.

In South Africa, the King II Report has firmly put the need for Triple Bottom Line (TBL) reporting on the agenda of all listed companies (listed on the JSE). Later on it was replaced by the King III in 2008.

Let's look at some differences between the King II and the King III report:

- King II was a non-legislated code applicable to JSE Listed companies, corporations in the financial services environment & public enterprises and based on a "comply" or "explain" basis.
- The King III us recommended for all entities regardless of the manner of establishment and is also on an "apply" or "explain" basis.
- King III highlights corporate citizenship and integrated sustainability, the so-called triple bottom line.
- King III builds on this principle by emphasizing on sustainability.

Apart from economic reporting, social investment and environmental issues must also be addressed in companies' annual reports. Although the shift in business thinking, to embrace the Triple Bottom Line and sustainability, has taken off from a relatively small base, it is accelerating at an extraordinary pace.

The performance indicators for companies are both *qualitative* and *quantitative* and can be grouped in three categories covering the *economic*, *environmental*, and *social dimensions* of sustainability.

Economic indicators are concerned with an organisation's impact, both direct and indirect, on the economic resources of its stakeholders and economic systems at local, national, and global levels. Economic responsibility refers to the profit-making business of the company and should also reflect the growing global economic integration of the company.

Environmental indicators are concerned with an organisation's impact on living and non-living natural systems, including eco-systems, land, air and water.
Included within environmental indicators are the environmental impacts of products and services: energy, material and water use; greenhouse gas and other emissions; effluents and waste generation; impacts on biodiversity; use of hazardous materials; recycling, pollution, waste reduction and other environmental programmes; environmental expenditures; and fines and penalties for non-compliance.

Environmental responsibility (including health and safety) means that business should be run in a way that provision of goods and services does not mean the increase of pollution and further environmental degradation.

Social indicators can be grouped into three clusters:

- Labour practices such as diversity, employee health and safety;
- Human rights such as child labour and compliance issues, and
- Broader social issues such as bribery, corruption and community relations.

1.6 Ethics as a component of Triple Bottom Line Reporting

We see that on the *First Line* a company has to report on:

- Financial matters
- Social-ethical matters
- Environmental matters

In the *Second Line* the requirements are:

- Social matters
- Ethical matters (i.e. on organisational integrity)

In the *Third Line* the requirements are:

- Internal social reporting
    - Health and safety
    - Human capital
- External social reporting
    - Corporate social reporting (CSR)
    - Black Economic Empowerment (BEE)
    - Social transformation

Section 2

Apply the principles that underpin ethics and professionalism to a code of conduct

This Module deals with:

- Internationally accepted principles that are the basis of a good code of conduct with reference to their relevance in a selected business environment.
- The impact of the African value systems on codes of ethics in South Africa with reference to aspects that is unique in the South African context.
- The business case for compliance with codes and the ethical code of an organisation with reference to the role in attracting investors.

As previously noted, a code of ethics is a document or agreement that stipulates morally acceptable behaviour within an organisation. It defines the moral standards or guidelines that need to be respected by all members of an organisation in their decisions and actions.

The GRI (Global Reporting Initiative***)*** is an independent, international institution whose mission is to develop, promote, and disseminate globally applicable Triple Bottom Line Reporting Guidelines. In his book, Business Ethics, Professor Deon Rossouw, mentions the following international principles of ethics as the basis of a good code of ethics.

2.1 International Principles of Ethics

2.1.1 Internal purposes

A code of ethics should be used to achieve a number of internal organisational goals:

- It should raise ethical awareness and expectations by establishing standards of morally acceptable behaviour within an organisation.
- It should prevent unethical behaviour by stipulating that specific conduct will not be tolerated by the organisation.
- It should promote ethical behaviour by articulating the ethical values that should guide members of the organisation in their actions and decisions.
- It should provide guidance in ethical decision making.
- It should promote organisational integration and co-ordination by rallying people around specific ethical values that will strengthen commitment to the organisation.

2.1.2 External purposes

A code of ethics should also be adopted to satisfy external stakeholders. A code of ethics sends a message to external stakeholders that will bolster their trust in that specific organization. In the case of a code of ethics for external purposes, the purpose of the code should be:

- To promote the reputation of the organisation amongst its external stakeholders.
- To pacify external stakeholders like special interest groups who might have expressed concern about specific aspects of an organisation's actions.
- To deflect state interference in the internal affairs of a business or even an industry.
- To pre-empt legal action against a company.
- To demonstrate its intention to avoid moral malpractice.

2.1.3 Cultural purposes

Organisations must constantly adapt to changes in national and international culture. In the next section we will be discussing this at great length.

2.2 The impact of the African Value System on Codes in South Africa

2.2.1 Ubuntu

As we know, the African people in this country have, over many centuries evolved a value-system of Ubuntu with its basic ideology suitably captured by the saying: *motho ke motho ka batho* "'A person is a person because of other people". Many of us have been brought up to uphold values based on this old-age African adage. Through socialisation many Africans have ensured that our families and communities are themselves grounded on the value-system of Ubuntu.

Definition: "Ubuntu" is an ancient African word, meaning "*humanity to others*". Ubuntu also means "*I am what I am because of who we all are*".

A close examination of the central tenets of the values that drive the behaviour and approach of the Afrikaner, Indian and Jewish and other communities reveal that there are many elements that are consistent with the value-system of Ubuntu.

Today government as well as civil society use elements of this value-system of Ubuntu in their approaches to the day to day challenges. Some of these examples are the government's Batho-Pele campaign that seeks to place the interests of the public at the centre of government work and delivery of services.

Further, government as well as various communities have on different occasions embarked on programmes based on some of the basic elements of Ubuntu such as Letsema and Vuk'zenzele to mobilise people to act together to advance the objective of a better life.

Clearly, we have a responsibility to utilise the many positive attributes of Ubuntu to build a non-racial, non-sexist and united South Africa.

This should be at the heart of all South Africans, black and white and should be the foundation of the value system of every company in South Africa.

2.2.2 Tirisano

Tirisano, meaning *'working together'* in Setswana, targets education in South Africa with the aim of improving racial and gender representivity of staff and building a pool of future leaders. The initiative started with the former Minister of Education, Professor Kader Asmal and is now encouraged by our current Minister of Basic Education, Angie Motshekga, and Minister of Higher Education and Training, Blade Nzimande.

This initiative instituted the current SETAs and encourages the establishment of public and private FET colleges and HET institutions.

According to "*the spirit of tirisano*" an organisation should begin strategic planning by taking a critical look at itself and the environment in which it operates. Is this true in the case of Metropolitan? In your research task, you will look into actions taken and processes in place in order to analyse and evaluate the current situation within the Metropolitan environment.

This internal analysis should be overlaid with an analysis of external factors such as customer needs, preferences, and satisfaction levels, economic and market conditions, technological advancements and competitive pressures. You will have to assess its internal strengths and weaknesses against future external opportunities and threats.

2.3 The attraction of investors by means of compliance and ethical behavior

Companies or organisations that lose their reputations through scandals relating to unethical behaviour may take years to recover (if they recover) and regain their reputations. Famous examples include the Catholic Church, the International Olympic Committee, Caremark, Enron and Worldcom. Some corporate reputations, like those of Arthur Anderson in the US and Leisurenet and Saambou Bank in South Africa, were affected so badly that the companies ceased to exist shortly after their scandalous behaviour came to light.

A recent example in the South African News is that of Fidentia.

There is, therefore great ethical risks in that corporate reputation determine whether investors, consumers, potential employees, suppliers, and governments will trust companies sufficiently to pledge their sustained allegiances to these organisations. It is, for instance, doubtful whether investors, be they of the large institutional or individual kinds, will invest their clients' funds or their own funds in entities with a questionable reputation.

Similarly, if organisations have a reputation for large internal losses due to fraud, investors may frown upon these organisations' ability to pre-empt and curb this kind of unethical behaviour.

Consumers are increasingly becoming discerning about where and to whom they choose to part with their hard-earned currencies. Should consumers have choices and be of the opinion that the products or services they purchase were produced by clearly unethical or even ruthless and exploitative means, they may choose to vote with their money and not acquire such products.

A case in point is Nike, who suffered reputational damage that has had an impact to this day following the exposure of their infamous child labour practices. There is a crucial connection between ethical behaviour and a company's reputation. It is the experience by employees, customers, suppliers, shareholders and other stakeholders that the company treats them fairly and looks after their interest that gives a company a good reputation and consequently inspires confidence amongst it stakeholders. As no organisation can achieve long-term success without passionately guarding its reputation, it becomes clear that reputation is an ethical risk factor that needs to be managed.

It should be clear that companies with good reputations have a competitive edge over companies with poor reputations. A summary of ethical risks and opportunities is provided in the following table:

Dimension	**Poor Reputation (a lack of ethics)**	**Good Reputation (a reputation for ethics)**
Investor confidence	• Deters potential institutional and individual investors. • Lack of trust in investment business generally and the organisation in particular. • Scares of discerning customers.	• Attracts investors concerned with good governance and ethics. • Reflects sustainability of the company. • Creates trust in the organisation. • Inspires customer confidence. • May insure loyalty even in the face of the occasional mistake.

As can be seen from this table, organisations do not only have to anticipate and mitigate the negative consequences of ethical risks they may incur (managing threats), but they also need to position themselves to utilise their reputation for ethics as a vehicle for capitalizing on the positive effects of ethical risk management (managing opportunities).

Section 3

Critically evaluate the implementation of an organisation's ethical code or value system

This Module deals with:

- An organisation`s code of conduct analysed in terms of the intention of the organisation as regards behaviour.
- A gap analysis conducted against the principles in the organisation`s code of conduct in order to identify strengths and weaknesses.
- The relationship between reputation and ethics with reference to a specific organisation

In this module, your organisation's code of conduct will be analysed in terms of the intention of the organisation as regards behaviour.

3.1 The implementation of an organisation's Code of Ethics

We can distinguish between two types of codes of conduct – an aspirational code and a directional code. An aspirational code is a short document that spells out the ethical values that should guide behaviour in an organisation. It is aspirational in that it sets standards that all members of an organisation are expected to meet.

Directional codes are often referred to as codes of conduct. In this format the code of ethics is a more extended document that provides specific guidelines about what is expected from members of an organisation in specific circumstances.

3.2 The Content of the Code

The following categories of content should be found in codes of ethics:

- Rationale for the code

- Ethical values or standards
- Guidelines for conduct
- Sanctions
- References to resources

3.2.2 Rationale for the code

This is the justification for the code. It should explain why the code has been developed and what this means for the organisation. The rationale of a code intends to persuade its readers of the importance of the code by explaining what the organisation stands to win from adherence to it.

3.2.2 Ethical values and standards

These provide the norms that will tailor organizational behaviour. They identify the ethical values and standards to be adhered to, and can be considered as the backbone of any code of ethics.

3.2.3 Guidelines for conduct

Guidelines for conduct prescribe specific actions. Their purpose is either to avoid malpractice or to promote ethical behaviour by giving explicit directions about what is expected from organizational members.

3.2.4 Sanctions

These stipulate the consequences of disregard for the code.

3.2.5 Reference to resources

Codes sometimes also refer their readers to specific resources that can be used in addition to the code. These resources might be people who have specific duties with regard to the management of ethics, or it might be facilities that can assist staff in ethical decision-making, such as an ethics helpline. Reference should also be made to other policies and documents that need to be consulted in addition to the code.

3.3 The Tone of the Code

The spirit of the message that the code is conveying is important. The tone of a code of ethics can have a marked influence on its effectiveness.

In general, a code of ethics that is intended to stamp out ethical malpractice by imposing sanctions will have a negative and prohibiting tone. A code should inspire members of an organisation to live up to ethical values and should actually have a positive and supportive tone.

An instrument, called the Competing Values Framework has been developed by Quinn, et al. (1991) and Stevens (1996). This instrument is very useful for analyzing the tone of codes of ethics. The four quadrants are used in order to analyse a company’s code of ethics.

3.4 Competing Values Framework

RELATIONAL **(trust)**	**TRANSFORMATIONAL** **(change)**
INFORMATIONAL **(facts)**	**INSTRUCTIONAL** **(action)**

Source: Quin et al. 1991

When applied to codes of ethics, this model can assist in identifying what the dominant tone of a code is. This model also indicates that each of the quadrants has an opposite. The opposite of the relational quadrant is the instructional one and vice versa. That implies that if the tone of a code is predominantly classified in one quadrant, then one can aspect the code to be weak in the opposite quadrant. A code that has a strong relational tone will therefore have a weak instructional tone.

3.5 The Implementation of the Code

In analysing and evaluating an organisation's code of ethics you have to give proper considerations as to *how* the code was implemented.

The main question you have to ask yourself is whether the organisation's code of ethics lives in the heart of all or whether the code is just words on paper.

There are many different audit tests that can be performed as part of an internal audit of a compliance and ethics program. These tests include interviews, documentation and document reviews, computer audit data testing, and numerous other techniques.

3.6 An Organisational Ethical Code or Value System

You should obtain a copy of your own organisation's Code of Ethics and evaluate the code's implementation against international principles.

Example

To give you an example of an organisation's Code of Ethics, we will look at Metropolitan Holdings Limited's Code of Ethics.

While working through these pages, pay attention to the following:

- Is the intention of this Code aspirational or directional?
- What is the tone of the Code?
- How does it compare with the principles of the code of the Certified Financial Planner Board of Standards?
- Are the principles of Ubuntu and Tirisano incorporated in this Code of Ethics?

METROPOLITAN CODE OF ETHICS

Core Ethics

All behaviours listed in this Code must be practiced at all times throughout Metropolitan, always with the view to maintaining the entrenched Metropolitan values of People, Trust and Performance, which values are underpinned by the following core ethics:

Accountability

Taking responsibility, making commitments, finding solutions and being held accountable for results.

Integrity

Honesty, trustworthiness, consistency, and openness.

Respect

Listening and responding to others, being mindful of other cultures and being willing to learn from each other.

Commitment guidelines

Recognising that our public reputation is one of our most important assets, we are committed to achieving the highest ethical standards in all our business operations.

Commitment to Clients:

- We will act fairly and in the best interests of each individual;
- We will communicate in an open, timely, honest and transparent manner;
- We will render a responsible and effective service;
- We will deal with complaints and enquiries in a prompt and efficient manner;
- We will report accurately on our performance and prospects;
- We will protect the confidentiality of information in accordance with the law and prescribed practice;
- We will uphold the letter and spirit of agreements to which we are party.

Commitment to Shareholders:

- We will expand and maintain the business and profitability of the company;
- We will maintain executive accountability for decision-making on material matters;

- We will comply with all relevant legislation, industry regulations and prescribed practices;
- We will produce accurate and timely accounting statements and shareholder information;
- We will report developments that may have a material impact on the value of the shareholders assets;
- We will conduct business honestly, fairly and responsibly;
- We will not engage in restrictive trade practices and comply with competition laws.

Commitment to Employees:

- We will provide a healthy and safe working environment;
- We will promote the principle of internal equity and take account of market trends when determining the pay levels of our employees;
- We will recruit and promote in accordance with established labour law and practice;
- We will maintain sound and fair labour practices and apply codes of good practice;
- We will develop skills and competencies of employees in line with the needs of the organisation;
- We will respect the tradition and culture of all our employees;
- We will not allow any unlawful discrimination, intimidation, victimisation or harassment of employees;
- We will create the climate and opportunity to report concerns and irregularities safely and without fear of retribution or victimisation;
- We will deal with employee complaints and enquiries promptly and efficiently;
- We will communicate in an open, transparent, honest and timely fashion;
- We will respect the right to freedom of association and expression;
- We will keep our employees' personal details confidential.

Commitment to Employers / Metropolitan:

- We will act in the best interests of Metropolitan and our clients;
- We will maintain the confidentiality of clients and business partners;
- We will always conduct ourselves in a professional and courteous manner;
- We will communicate objectively, truthfully and accurately;

- We will protect and seek to enhance company assets and business;
- We will respect the tradition and culture of all peoples;
- We will take accountability for our decisions;
- We will deal with complaints and enquiries promptly and efficiently;
- We will produce and maintain accurate records where required;
- We will embrace continuous learning as a way of working and developing ourselves;
- We will acknowledge differences and work together to create solutions;
- We will recognise that individual and corporate success is dependent on teamwork.

Commitment in respect of Advisors and Brokers:

- We will require that they conduct their business in an ethical manner;
- We will require that they provide products, services and advice that meet the needs of their clients;
- We will require that they comply with specific codes of conduct that apply to them.

Commitment to our Business Partners:

- We will conduct business in an ethical, equitable and professional manner;
- We will uphold the letter and spirit of contracts and agreements;
- We will compete fairly and not engage in unlawful market conduct;
- We will maintain the confidentiality of our business partners;
- We will maintain the confidentiality of our business partners;
- We will endeavour to create opportunities to expand the business and increase the profitability of our business relationships.

Commitment to Authorities:

- We will act within and align ourselves with the spirit and the letter of the Constitution of the Republic of South Africa;
- We will align our business strategies with the national priorities of transformation and economic growth;
- We will recognise and discharge our responsibility to uphold all applicable laws and regulations;
- We will endeavour to provide accurate information;

- Employees should co-operate with company investigators, as well as any law enforcement agency investigating the fraud.
- All questionable activity should be reported, irrespective of whether the person suspected promises to return the funds or item(s) taken.
- Individuals have a right to retain their anonymity when reporting non-compliance in accordance with Metropolitan's Code of Ethics, and must make use of the anonymous reporting Ethics hotline should they wish to retain their anonymity.

Conclusion

This Code merely sets out guidelines and should not be interpreted as being a substitute for good judgment, personal integrity, honesty or a sense of right and wrong, which are values that should always prevail in the manner in which we conduct business, reflecting our motto of *People, Trust and Performance*.
Together we can.

3.7 GAP Analysis

3.7.1 The SWOT ANALYSIS

A SWOT analysis is a process to identify where you are strong and vulnerable -- where you should defend and attack. The result of the process is a 'plan of action', or 'action plan'.

The analysis can be performed on a product, on a service, a company or even on an individual. Done properly, SWOT will give you the big picture of the most important factors that influence survival and prosperity as well as a plan to act on. SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats**.**

Definition of SWOT analysis:
The SWOT analysis is a process to generate information that is helpful in matching an organisation or group's goals, programs, and capacities to the environment in which it operates.

We will now look at what is classified as *Strengths*, *Weaknesses*, *Opportunities*, and *Threats*.

Strengths

- Positive tangible and intangible attributes, internal to an organisation.
- They are within the organisation's control.

Weakness

- Factors that are within an organisation's control that detracts from its ability to attain the desired goal.
- Which areas might the organisation improve?

Opportunities

- External attractive factors that represent the reason for an organisation to exist and develop.
- What opportunities exist in the environment, which will propel the organisation? Identify them by their "time frames"

Threats

- External factors, beyond an organisation's control, which could place the organisation mission or operation at risk.
- The organisation may benefit by having contingency plans to address them if they should occur.
- Classify them by their "seriousness" and "probability of occurrence".

3.7.2 How to do a SWOT analysis

The SWOT analysis is normally done in the form of the following matrix and has 3 steps:

	POSITIVE/ HELPFUL to achieving the goal	**NEGATIVE/ HARMFUL to achieving the goal**
INTERNAL Origin facts/ factors of the organisation	**Strengths** Things that are good now, maintain them, build on them and use as leverage.	**Weaknesses** Things that are bad now, remedy, change or stop them.
EXTERNAL Origin Facts/ factors of the environment in which it operates.	**Opportunities** Things that are good for the future, prioritise them, capture them, build on them and optimize	**Threats** Things that are bad for the future, put in plans to manage them or counter them

Step 1 – Information collection of the here and now

- List all strengths that exist now.
- Then in turn, list all weaknesses that exist now. Be realistic but avoid modesty!
- You can conduct one-on-one interviews. Or get a group together to brainstorm. A bit of both is frequently best.
- You first have to prepare questions that relate to the specific issue that you are analysing.
- When facilitating a SWOT search for insight through intelligent questioning and probing.

Step 2 – What might be?

- List all opportunities that exist in the future. Opportunities are potential future strengths. Then in turn, list all threats that exist in the future. Threats are potential future weaknesses.

Step 3 – Plan of action

- Review your SWOT matrix with a view to creating an action plan to address each of the three areas.
- Strengths need to be maintained, built upon or leveraged.
- Weaknesses need to be remedied, changed or stopped.
- Opportunities need to be prioritized, captured, built on and optimized.
- Threats need to be countered or minimized and managed.

3.1.1 What makes a SWOT analysis work?

Due to the collaborative nature of this tool, your working group will need certain qualities to succeed:

- Trust – The questions that SWOT will bring up, particularly in the Weaknesses and Threats categories may be uncomfortable. Your group must be at a point in its working relationship where weaknesses and potential threats can be faced openly and objectively.
- Ability and willingness to implement change.
- Diversity – The team conducting the SWOT analysis should be representative of your entire planning team.
- Time – Taking time to do a thorough SWOT assessment will help your group move forward in developing a workable plan.

3.8 Reputation and Ethics

It has been said that "Business Ethics is an Oxymoron", and that's how many people see it. It's not an Oxymoron, but companies that develop an Ethics Program for the wrong reasons can, in fact, create a reputation that is exactly opposite to their intent. Many people think that by creating a Corporate Ethics Policy that financial success will be assured. The best policy in the world will not assure the success of a bad product. Neither will it, in isolation, change people's attitude, internally or externally.

It is only a piece of paper after all. The adoption of a policy is only one aspect of a multi-faceted process that can re engineer a company and require significant change in entire operations and procedures. There is no one size fits all as no two companies are alike. Business Ethics essentially is a science of human interaction that promotes a positive reputation in the market place. While manufacturing involves people, it tends to be more the action of machines under human direction. Business, even at the highest corporate level, is about human relationships and interface. It is about truth, transparency, integrity, and trust, among a whole series of other specific components. It makes no more sense to parse the words Business and Ethics separately than to distinguish between the words Cold Weather. Business is the act of commerce and Ethics is the consideration of how it is conducted.

In ethics practice the aim is to achieve an honest reputation, whatever the field of endeavor, so that conduct can be measured, and adjusted to maximize goodwill towards the company. Ethics Committees exist in virtually every sphere of life, medical, academic, political, to name a few, and these well established forums aim to increase public confidence in their arenas. Investigations into people or companies that have caused concern grow public confidence that the organization is ultimately concerned about the common good.

Section 4

Develop a plan to initiate or improve commitment and compliance in the implementation of a code in an organization

This Module deals with:

- The findings of the gap analysis used as a basis from which to develop a plan to initiate or improve commitment to the code of ethics in an organisation.
- Measures to monitor the implementation and ensure regular revision of the code of practice to ensure alignment

Once an organisation has implemented a Code of Ethics, it still has a long way to go to entrench a culture of ethics. The challenge then, for the key role players involved in ethics management, is to translate the ethics strategy into meaningful ethics management systems. Designing and implementing such systems are crucial to ensure that the vision and strategy for ethics are made real throughout the organisation.

Understanding ethical dilemmas by identifying the perspective (or level) at which the issues originate, can add clarity for those who must decide what course of action to take. In business, most issues with which managers are confronted with regarding decision making fall into one of five levels, namely the individual, organisational, association, social and international perspectives. These perspectives are not mutually exclusive.

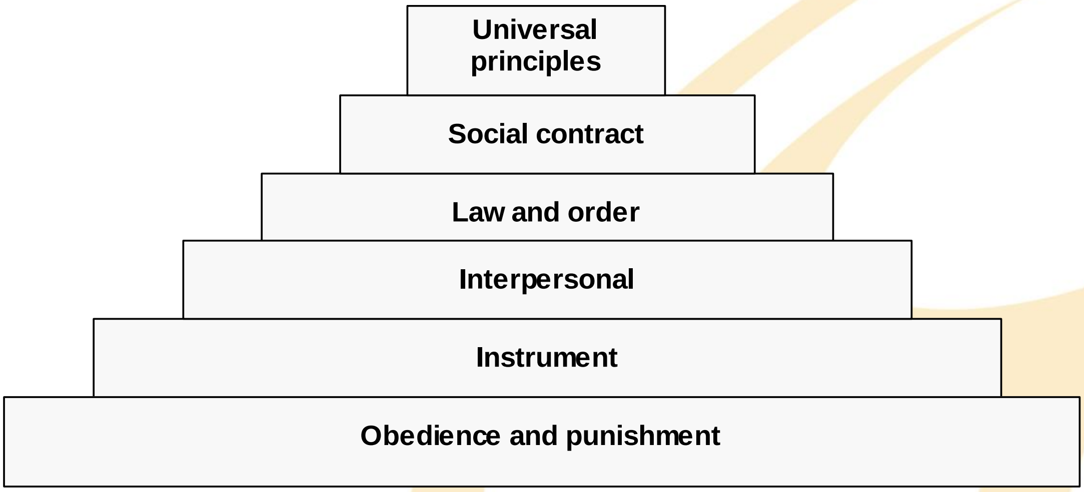
Individual perspective

Individuals have their own values of what is ethical, despite prevalent societal, legal and organisational interpretations. Ethical questions from the individual perspective address issues such as whether to cheat on an expense account, to call in sick when one is not, to accept a bribe or to report a sexual harassment incident.

Lawrence Kohlberg is probably the best-known scholar in the field of the psychology of ethical decision-making and behaviour. His model of moral development is useful in exploring questions about how members of an organisation regard ethical dilemmas, including how they determine what is right and what is wrong in a particular situation (Kohlberg 1969:347-380). Kohlberg held that people develop morally, much as they do physically, from early childhood to adulthood. As they develop, their ethical criteria and patterns of moral reasoning go through stages of moral development, which ranges from the lowest (obedience and punishment) to the highest (universal principles).

The stages are illustrated below:

KOHLBERG'S STAGES OF MORAL DEVELOPMENT



- **Obedience and punishment stage.**
  A person at this stage does the right thing mainly to avoid punishment or to obtain approval. An employee stuck at this stage might think that the only reason not to steal money from an employer is the certainty of getting caught and then fired and arrested.

- **Instrumental stage.**
  A person at the instrumental stage becomes aware that others also have needs and begins to defer to them to get what he or she wants. Proper

behaviour is what satisfies the person's self-interest. An employee at this stage might be willing to defer to the needs of the employer to reduce absenteeism, but only if the employer gives something in return.

- **Interpersonal stage.**
  A person at the interpersonal stage considers appropriate behaviour as what pleases, helps, or is approved by friends or family. Proper behaviour exhibits conformity to conventional expectations, often of the majority. At this stage, being seen as a 'good person' with basically good motives is important. An employee at this stage might focus on the importance of being a loyal employee and colleague who is always friendly and who avoids conflict.

- **Law and order stage**.
  A person at this stage recognises that ethical behaviour is not determined only by reference to friends, family and co-workers. Proper behaviour consists of doing a person's duty, showing respect for authority and maintaining the social order for its own sake. Loyalty to the nation and its laws are paramount. For example, in some organisations employees commonly take paid sick days even when they aren't sick. Employees may even encourage each other to take all their sick days. They view these leave days as something the company owes them. However, the company policy may state that sick days are allowed only for legitimate illnesses. In this situation, employees at the law and order stage might resist peer pressure to take a day off if they aren't ill. They would view company rules as overriding the somewhat selfish interests of their peers. At this stage of moral reasoning, rules are considered to be necessary for the effective functioning of the entire organisation, and they should be followed even when this requires some self-sacrifices or resistance to pressure from peers.

- **Social contract stage**.
  A person at this stage is aware that people hold a variety of conflicting personal views that go beyond the letter of the law. A person at this stage understands that although rules and laws may be agreed upon and for the

most part must be impersonally followed, they can be changed if necessary. Some absolute values, such as the right to life and liberty, are held regardless of different individuals' values or even majority opinion. People at this stage would recognise that employees of organisations are expected to follow the rules but would also accept the notion of breaking the rules when those rules conflict with accepted social values.

- **Universal principle stage.**

  Someone at this stage views appropriate conduct as determined by a person's conscience, based on universal ethical principles. Universal principles are founded in justice, the public welfare, the equality of human rights, and respect for the dignity of individual human beings. People at the most advanced stage of ethical reasoning recognise these universal principles and act in accordance with them rather than rules or laws.

Organisational perspective

To provide guidance for employees, an organisation can define ethical and unethical behaviours. Organisations can also guide employees' actions both formally and informally. The most fundamental informal source of guidance is top management's behaviour, which demonstrates the ethical principles that are important to the organisation. Even within the same company, different departments may have different ethical substructures. In other words, the behaviour of middle- and lower-level managers can also send signals about what is considered ethical conduct. More formal sources of guidance include policy statements, codes of ethics, speeches, publications, the content of training programmes, and disciplinary actions taken against employees who act unethically. The nature of an organisation's culture, leadership, reward systems and practices can work for or against ethical conduct. An organisation isn't likely to design intentionally rewards systems that will encourage unethical behaviour, but often just that happens. Consider what would happen at a soft drink manufacturing plant is managers at headquarters set sales targets for sales people. The quotas are reasonable and most sales people achieve their goals. Management then set more difficult goals to achieve. The goals are now more challenging and most sales people work hard to achieve them. During the next round of planning, managers even set the goals higher than before. Some sales people now fall short on achieving them and begin to fear the consequences. Out of fear, they figure out ways to cheat the system and appear to be meeting the goals.

Association perspective

At the association level an accountant, lawyer, medical doctor, or management consultant may refer to his or her professional association's charter or code of ethics for guidelines on conducting business. In South Africa both the private sector and the public sector make extensive use of the services of consultants. These consultants were often the victims of downsizing, re-engineering and affirmative action policies of their previous employers. No enforceable code of conduct exists to regulate the ethical conduct of these consultants to ensure that their clients receive fair treatment and protection of their rights.

Social perspective

A large part of any view of what is ethical comes from the society in which the behaviours occur. At the social level, norms, customs and traditions govern the moral acceptability of behaviour. The following questions were posed to respondents in several surveys (for example Harris, 1987: 71 and Gudridge & Byrne, 1990: 86-87):

- *Question 1*: The ethical standard of business managers and executives is only fair or poor.
- *Question 2*: White-collar crime is common or somewhat common.
- *Question 3*: The lack of ethics in businesspeople is contributing to crumbling moral standards.
- *Question 4*: People are less honest today than they were ten years ago.
- *Question 5*: Businesspeople harm the environment to maintain profits.
- *Question 6*: Executives and managers put workers' health and safety at risk to maintain profits.

The following table presents the percentages of the respondents that agreed with these statements.

Question	Percentage of respondents agreed to the question
1	58
2	90
3	76
4	54
5	47
6	42

In contrast to this relatively negative results, the results of a comprehensive survey of managers revealed that 80 percent thought their organisations were guided by high ethical values. However, lower-level managers responding to the survey were more likely than top managers to say that their organisations were not guided by high ethical standards.

These survey results indicate that the general public perceives serious ethical problems in the way that business is conducted generally, whereas managers tend to see serious ethical problems in business as exceptions that grab headlines in the media.

Managers and employees work in more of a fishbowl than ever before. The media expose and report on their decisions and behaviour, which are often judged publicly by many different pundits and interest groups. In recent years the tobacco industry in South Africa has come under pressure as more and more evidence has been provided which links smoking to various diseases. In response to these facts, the South African government passed the Tobacco Products Control Amendment Act of 1999. The main theme of this Act is an eventual blanket ban on all tobacco advertising, vigorous health warnings, and a crackdown aimed against encouraging new smokers, especially the youth.

Hundreds of studies have shown that smoking tobacco has negative health consequences. Tobacco related health problems also have huge medical costs, which are ultimately paid by taxpayers and anyone who pays for private health insurance.

In a single society, the view of what is ethical and legal changes over time. Changing societal views of ethical behaviour eventually result in new legal requirements. However, before laws and government regulations are changed, managers and their organisations may take voluntary actions that reflect their personal and corporate values and beliefs and their assessments of the public's changing ethical stance. An example of this can be found in the alcoholic beverages industry. As with tobacco, there are laws in South Africa that regulate corporate advertising of alcoholic beverages. SABMiller was selected as the best company to work for in South Africa in 2005 by the Corporate Research Foundation. Every SAB site has its own pub. The company is committed to encouraging the responsible use of alcohol and was a founder member of the Industry Association for Responsible Alcohol Use. In 1998, they conducted an extensive drink/drive campaign, representing an investment of R4, 2 million which included repeated use of the logo of the government's Arrive Alive campaign. The division also donated over R1 million to the campaign to fund the cost of communicating the issue to all nine provinces in South Africa.

Legal perspective

What a society interprets as ethical or unethical frequently ends up being expressed in laws, government regulations and court decisions. Laws are simply society's value and standards that are enforceable in the courts. However, the legality of actions and decisions doesn't necessarily make them ethical. At one time South African organisations could legally discriminate against woman and black people in hiring and promotions. After the democratic elections held in April 1994 and the drafting of a new constitution, these practices were outlawed. The much-needed economic transformation after 1994 has proven to be very elusive. Since 1994, the government has passed a number of policies, laws and regulations aimed at achieving black economic empowerment (BEE). The economy, however, continued to remain in the hands of a relatively small minority consisting largely of white people. As a result, the government ignited a second wave of BEE by introducing a system of charters setting out precise targets that companies in each sector must achieve within a specified time. Charters essentially bind corporates to transform themselves in such a way that their make-up more accurately reflects the composition of the country's population. To monitor transformation, corporates must publicly disclose progress in meeting targets through the use of a "Balanced scorecard".

Government will measure all charters against a balanced BEE scorecard.

The indicators in the scorecard and their weightings are given in the table below:

Indicator	**Weighting**
Ownership	20
Management	10
Employment equity	10
Skills development	20
Preferential procurement	20
Enterprise development	10
A residual that is sector specific	10

Source: Black Economic Empowerment Charters. Supplement to Leadership, September 2003

South African companies have tended to respond very favorably to the Charter initiative. Sasol, for example, is a signatory to the Liquid Fuel Charter, which obliged is to introduce 25% BEE ownership into it Liquid Fuels Business by 2010. The merger of Exel Petroleum into Sasol was a first step towards the creation of a new business entity. Sasol initiated Exel and contributed to it developing into the most profitable and successful BEE enterprise in fuel retailing in South Africa.

International perspective

If a company operates in many different countries, the international perspective on ethical behaviour becomes important. Local standards for ethical behaviour may differ greatly from one location to the next. Developing ethical guidelines that make sense in various countries may become a complex and difficult task. Some companies apply their domestic country's standards for ethical behaviour wherever they operate in the world, in the belief that this approach will not violate ethical principles elsewhere. Other companies adapt to local practices, arguing that ethical standards make only sense when considered within a particular societal context. An example of an ethical issue from the international perspective would be to accept the organisation's policy of doing business with a government that abuses human rights such as child labour. Conditions in a shoe manufacturing plant in China, illustrate this problem. Some 50 000 employees, many of them younger than 16, work in factories that make products for Nike, Adidas, Reebok, LA Gear, Puma and New Balance. Many workers are not even paid the Chinese minimum wage without any benefits. They work under conditions that are typical in the region, but that are harsh by global standards. Ethical issues at this level can be difficult to resolve since a mix of cultural, political and religious values is often involved in a decision.

4.1 Different Approaches to Ethical Decision-Making

The ethics of managerial decision-making is often complex and managers often disagree on what comprises an ethical decision. There are four fundamental ethical approaches that business managers can use in their ethical decision making when selecting particular alternatives and justifying difficult actions. In the following paragraphs the utilitarian approach, the moral rights approach, the individualism approach and the justice approach are discussed.

4.1.1 The utilitarian approach

When the utilitarian approach is adopted, the effects of a particular action on those directly involved is judged in terms of what provides the greatest good for the greatest number of people. This approach focuses on actions rather than on the motives behind the actions. Potentially positive results of an action are weighed against potentially negative results. If the positive results outweigh the negative results, the manager taking the utilitarian approach is likely to proceed with the action in question. That some people might be adversely affected by the action is accepted as inevitable. Managers faced with making decisions about pension plans and company sponsored medical aid schemes are often required to make utilitarian judgements. Here they use their conceptual skills to estimate the general benefits to be derived from a decision.

The utilitarian approach prescribes ethical standards for managers and employees in the areas of organisational goals, efficiency and conflict of interest.

- Organisational goals:
  - Providing the greatest good for the greatest number in a competitive market system means focusing on maximising profits.
  - Achieving high profits is thought to result in the highest-quality products and the lowest prices for consumers.
  - Profits are seen as the reward for satisfying customers. If profits get too high, new competitors will enter the market, thereby increasing the supply of high-quality goods and pushing prices down.
  - No organisation should unilaterally go beyond what the law requires – for the sake of helping preserve the environment, for example. Doing so would only reduce their profits and would do nothing to eliminate the pollution caused by competitors.

- Efficiency:
  - Managers and employees should try to attain organisational goals as efficiently as possible.
  - Efficiency is achieved by minimising inputs (such as labour, land and raw materials) and maximising productive outputs (for example products and services).

- Conflict of interest:
  - Managers and employees should not have personal interests that conflict with the organisation's achievement of its goals.
  - A purchasing manager having a significant interest in one of the firm's major suppliers faces a potential conflict of interest.
  - The purchasing manager may be motivated to purchase form that supplier, even when the price or quality is not the best available.

4.1.2 The moral rights approach

The moral rights approach asserts that decisions should be consistent with fundamental rights and privileges (for example life, freedom, health, privacy and property) as set forth in documents such as the South African Constitution.

Respect for certain moral rights is equivalent to defining these moral rights as universal principles that should guide ethical decisions and behaviour.

- Life and safety:
  - Employees, customers and the general public have the right not to have their lives and safety unknowingly and unnecessarily endangered. In South Africa, this moral right in large part justifies the Occupational Health and Safety Act, which contain many requirements designed to increase the safety of work environments.

- Truthfulness:
  - Employees, customers and the general public have the right not to be intentionally deceived on matters about which they should be informed.

- Privacy:
  - Citizens have the right to control access to personal information about themselves and its use by government agencies, employers, and others.

- Freedom of conscience:
  - Individuals have the right to refrain from carrying our orders that violate their moral or religious beliefs.

- Free speech:
  - Employees have the right to criticize the ethics or legality of their employers' actions. This right holds only if the criticisms are conscientious and truthful and do not violate the rights of others within or outside the organisation.

- Private property:
  - The legal and value systems of the United States, Canada, United Kingdom, Germany, Japan, South Africa and many other societies recognise the individual's right to private property.
  - This right allows people to acquire, use, and disposes of shelter and to have life's basic necessities.

4.1.3 The justice approach

The justice approach holds that moral decisions must be based on standards of equity, fairness and impartially. When managers must decide how the costs and rewards of employment in the organisation should be shared, the basis for ethical judgment is social judgment where rules are fairly and impartially imposed and enforced.

To ensure just decisions and behaviour, the proponents of this approach argue that three principles should be followed when designing management systems and making organisational decisions: the distributive justice principle, the fairness principle and the natural duty principle.

- Distributive justice approach:
  - The distributive justice approach morally requires that individuals not be treated differently on the basis of arbitrarily defined characteristics.

- This principle holds that (1) individuals who are similar in relevant respects should be treated similarly; and (2) individuals who differ in relevant respects should be treated differently in proportion to the differences between them.
- The South African Employment Equity Act of 1998 forbids employers from discriminating between employees on the basis of race, gender, sex, pregnancy, marital status, family responsibility, ethnic or social origin, sexual orientation, age, disability, HIV status, religion, conscious belief, political opinion, culture, language or birth.

- Fairness principle:
  - This principle morally requires employees to support the rules of the organisation when two conditions are met: (1) the organisation is just (or fair); and (2) employees have voluntarily accepted benefits provided by the organisation or have taken advantage of opportunities offered in order to further their own interests.
  - Employees are then expected to follow the organisation's rules, even though those rules might restrict their individual choices. If a job applicant was informed that accepting a job offer would later involve being subjected to random drug testing and continuous video monitoring, the organisation could expect the employee to accept these conditions of employment.
  - Under the fairness principle, both the organisation and its employees have obligations and both should accept their responsibilities. Their mutual obligations can be considered fair if they satisfy the following criteria: (1) they result from voluntary acts; (2) they are spelled out in clearly stated rules; and (3) they are owed between individuals who are cooperating for mutual benefit.

- Natural duty principle:
  - This principle requires that decisions and behaviour be based on universal principles associated with being a responsible member of society: (1) to help others who are in need or in jeopardy, provided that

the help can be given without excessive personal risk or loss; (2) not to harm or injure another; (3) not to cause unnecessary suffering; and (4) to support and comply with just institutions.

4.1.4 The individualism approach

According to the individualism approach, acts are moral when they promote the individual's best long-term interests, which eventually lead to the greater good of all concerned. With all individuals pursuing self-interest, the greater good is ultimately served when people learn to accommodate each other in their own long-term interest, hence leading to honesty and integrity as opposed to lying and cheating.

Each of the three ethical approaches has strengths and weaknesses. Utilitarian views are most compatible with the goals of efficiency, productivity, and profit maximisation – all strong managerial values in South Africa. Managers in many South African organisations value this approach. In contrast, the moral rights and justice approaches emphasise individual rights and obligations and the need to distribute benefits and burdens fairly among individuals. These models give greater weight to the long-term welfare of employees than the short-term organisational efficiency. Using these three approaches in combination increases the probability that others will judge decisions and behaviour as ethical.

The systems required to do this should make provision for the introduction of an ethics dimension in the following aspects of the organisation:

- Communication
- Recruitment
- Selection
- Orientation
- Performance management
- Training
- Disciplinary procedures
- Monitoring and evaluation

4.2 Communication

To really gain momentum in its quest to achieve ethical organisation status over time, an organisation has to communicate clearly its ethics expectations to all stakeholders.

The standards for ethical conduct that have been written into its code of ethics have to be understood and applied by every employee. In addition, the organisation needs to know what kind of ethical issues their employees are confronted with, what types of unethical behaviour occur, and what the “good news” ethics stories are.

Communication about ethics forms the backbone of implementing an ethics strategy. A good two-way communication strategy that enables the organisation to convey ethics expectations and that affords its stakeholders, in particular the employees, opportunities to tell the organisation about their ethics experiences, has to be designed and implemented.

Specific interventions that can be used to ensure effective communication on ethics include awareness programmes, ethics talk, an ethics helpline, a reporting channel for unethical behaviour, and an ethics newsletter.

4.2.1 Awareness Programmes

Unethical behaviour is often related to ignorance about desired ethical behaviour. Employees, in particular, need to know what the organisation expects in terms of ethical awareness and ethical conduct. The code of ethics has to move beyond the point of being words on paper – it has to become a living document. To accomplish this, an organisation requires an ethics awareness campaign.

An example of an ethics awareness intervention is orientation sessions about the importance of ethics, what the code of ethics entails, how it should be applied, what the resources for advice on ethics are, and procedures in case of non-compliance.

The orientation sessions could be conducted by the key ethics management role-players. Such orientation sessions are of course ideal forums for top management to demonstrate visibly their commitment to ethics.

Depending on the size of the organisation, such sessions could be conducted in a typical “road-show” format. Organisations can also use these sessions to give their employees an opportunity to participate in the annual code revision process. Some organisations use a comprehensive awareness campaign to launch their newly developed or revised codes of ethics.

Complementary awareness raising actions include poster campaigns and corporate clothing and stationary that promote ethical values, as well as computer screensavers and software aimed at engendering awareness.

4.2.2 Ethics talk

Ethics talk is an extremely powerful tool. The fact is that although many people think about ethics, not many verbalise their thoughts in meetings and discussions. Nor do people actually debate ethical issues. Although it would not be an “ethics management system” in the strict sense of the word, organisations need to aim at making ethics talk part of employees’ daily vocabulary.

Ways of doing this include putting ethics on the agenda when decisions have to be made, creating forums where ethics can be discussed openly and freely, making ethics part of managerial development and training, and identifying a number of credible ethical role-models in the organisation that can be utilized to facilitate ethics talk.

4.2.3 An ethics helpline

Having a code of ethics is one thing. Applying it is another. Since many codes of ethics are value-based they do not provide specific guidelines to deal with ethics issues that confront employees on a daily basis. Even those codes that are rule-based cannot cover all the eventualities.

For example if an aspirational code that relies on employees to use their own discretion forbids bribery, can an employee accept a gift from a customer? And, what is the difference between a gift of a company T-shirt and an all-expenses paid weekend away? The reality is that employees need guidelines to deal with lesser decisions as well as issues that have more serious ethical consequences. How do they know what to do?

Many organisations across the world have instituted so-called “ethics helplines” to assist employees in code interpretation, or when they are confronted with difficult ethical issues. A typical helpline is a facility that consists of an “office”, website or telephone line that can be used by employees seeking answers to their ethics queries while remaining anonymous. The helpline is preferably a source of ethics guidance or specific advice.

Usually, trained ethics advisors deal with queries quickly while maintaining confidentiality and protecting the identity of the caller or person that raised the issue. Having a helpline naturally also raises the ethics awareness in an organisation – if the helpline receives many calls it does not necessarily mean that unethical behaviour is rife – it does, however, indicate that people think about ethics and are not afraid to ask questions about it.

4.2.4 Confidential reporting system

Not all ethical issues can be adequately addressed by the ethics helpline. There are often complicated or serious issues that require something in addition to the helpline. It may stand organisations in good stead to have a separate, anonymous facility or reporting line where unethical behaviour can be specifically reported. Such a reporting line satisfies the needs for confidential reporting. Certain ethical issues pose dire consequences for organisations should these issues be made public. Rather than reading about unethical conduct in newspapers, organisations would want to know about it before it is made public by the media.

Such reporting lines may prevent “scandals” being exposed in the public domain and give an organisation an opportunity to deal with the issue decisively within the organisation’s boundaries. Organisations can avoid potentially harmful reputational damage in this way. Although many organisations have an internal reporting line to cater for “whistle-blowers”, others have opted for outsourcing it to external companies that specialize in providing such services. The latter approach increases the chances that the person who reports unethical behaviour remains anonymous and thus not fall victim to potential victimisation.

4.2.5 Ethics newsletters

Newsletters are useful vehicles to maintain organisational ethical awareness. Organisations use newsletters as an internal mechanism to publish accounts of good news ethics stories, case studies of ethical dilemmas, records of cases that indicate how unethical behaviour was dealt with or statistics relating to helpline queries or confidential reporting incidents.

This type of information is an important aid in the ethics management endeavour. Although most organisations choose not to hang out their dirty linen, others publish theirs in newsletters in the hope that the employees will realize that the organisation takes ethics seriously. Case studies published in this way also provide contextualized content for ethics training interventions.

4.3 Recruitment

If an organisation wishes to build a new ethics culture or maintain an existing one, it has to ensure that it attracts potential employees of integrity. When devising recruitment strategies the organisation has to put out the word in no certain terms that it wishes to attract people that can align their ethical orientations with those espoused by the organisation.

An organisation that is known for, and that overtly express the fact that it has unyielding ethical values underpinned by codified standards of behaviour, may actually deter candidates of dubious integrity from applying for vacancies. The approach to recruitment also builds the organisation's reputation and enables it to attract talent. It also contributes to the creation of employees' ethics awareness from the outset.

4.4 Selection

Once an organisation has embarked on an ethics journey, it has no choice but to be an ethically discerning employer. This holds particularly true for organisations that have had histories of unethical behaviour, or whose business is by nature characterised by opportunities for employees to commit fraud, bribery and corruption, Along with the growth of the high-technology age came the proliferation of opportunities to abuse technology for unethical ends.

No wonder then that many organisations opt for including integrity as a criterion for the selection of new employees or when promoting existing employees to positions that require ethical accountability. Given the assumption that integrity may indeed be measurable in a quantitative or qualitative manner, it may be included as a dimension to be assed in a number of selection methods. In the following paragraphs the inclusion of integrity as a dimension in interviews, reference checking, psychometric testing, and in assessment centre technology, is discussed.

Selection interviews, if utilized correctly, are a useful way of establishing whether a person's integrity will match that required by the potential employer. Although interviews are by no means known for possessing good predictive validity, they are still the most popular component of any set of selection tools employed by organisations.

4.5 Orientation of New Employees

Employees entering an organisation are susceptible to adopting the new organisation's culture. If this culture is characterized by a strong ethics dimension, the new employees become aware of the organisation's expectations regarding ethical behaviour from the outset.

This is also the time to explain the code of ethics and how to apply its rules and guidelines. The new employees' supervisors and managers also play an important role at this point, in that they can make or break the new employees' compliance with organisational ethics. Coaching newcomers on using the code of ethics in their daily tasks where required is the responsibility of the supervisor or manager. Informal or formal mentorship is an additional useful vehicle for conveying the organisation's ethical values and standards to new employees.

4.6 Training

Ethics training for particular groups of employees and for particular purposes is also required. An advantage of a formal ethics training intervention is that trainees are exposed to a more structured learning environment than normal work situation allow for. It facilitates spontaneous discussion on ethics, and empowers learners to be confident and decisive when required to make ethical decisions.

4.7 Disciplinary Procedures

The downside of building an ethical organisational culture is that it is sometimes unavoidable that ethical or non-complaint behaviour be discouraged through punishment. Organisations have to resort to deterrents to unethical behaviour by dealing with transgressions, especial serious ones, in a swift and decisive way. Organisational disciplinary structures and procedures are usually sufficiently informed and well-positioned also to deal with ethical transgressions. Disciplinary procedures should be based on principles of substantive and procedural fairness to ensure fair investigation, hearings, verdicts and penalties.

4.8 Monitoring and Evaluation

In order to actively manage the ethical performance of a company, it is vital that it should be constantly monitored. Ongoing engagement with stakeholders can provide valuable feedback on whether the ethical expectations that they have of the company are met or frustrated. Changes in stakeholders expectations can be gauged qualitatively (through personal or group interviews) and quantitatively (through surveys). Incidence reports are another source that provides feedback on the organisation's ethics performance.

The number of incidents of complaints, fraud, corruption, sexual harassment, racism, calls to the ethics helpline and reports via the confidential reporting system all provide information on the organisation's ethics performance. This information need to be systematically documented and analysed.

Also, external indices that rate companies with regard to reputation, sustainability, or attractiveness to aspirant employees provide information that can be captured in the monitoring and evaluation system. If ethical performance is included in the performance appraisal system of the company, it also provides feedback to the company on whether levels of ethical performance are to be found in the prevalence of ethics talk.

Through measures like the above a disciplined monitoring and evaluation system can be created. The feedback on ethical performance that is gained in this way, serve two purposes. On the one hand it provides the information required for further ethics management interventions. On the other hand it provides the data required for reporting on the ethical performance of organisations.

4.9 Integration of a Code of Conduct in a Workplace

A code of conduct is a formal statement of an organisation's values concerning ethics and social issues; it communicates to employees what the company stands for. It also includes arrangement that influence, shape, control or set benchmarks for behaviour in the marketplace.

The code of conduct can be:

- **Principle-based**
  - Principle-based statements are designed to affect corporate culture; they define fundamental values and contain general language about company responsibilities, quality of products and treatment of employees.

- **Policy-based**
  - Policy-based statements generally outline the procedures to be used in specific ethical situations. These situations include marketing practice, conflicts of interest, observance of laws, proprietary information, political gifts and equal opportunities.

The purpose of a code of conduct is as a management tool for establishing and articulating the corporate values, responsibilities, obligations, and ethical ambitions of an organisation and the way it functions. It provides guidance to employees on how to handle situations which pose a dilemma between alternative right courses of action, or when faced with pressure to consider right and wrong. They must reflect the concerns of the employees of the particular organisation and the context of the relationships and business environment in which it operates.

4.9.1 Why do we have a code of conduct?

- To define accepted/acceptable behaviors.
- To promote high standards of practice.
- To provide a benchmark for members to use for self evaluation.
- To establish a framework for professional behaviour and responsibilities.
- As a vehicle for occupational identity.
- As a mark of occupational maturity.

4.9.2 What should be included in a code of conduct?

The Purpose and Values of the Business:

- The service, which is being provided - a group of products, or set or services - financial objectives and the business' role in society as the company sees it.

Employees:

- How the business values employees.
- The company's policies on: working conditions, recruitment, development and training, rewards, health, safety & security, equal opportunities, retirement, discrimination and harassment & use of company assets

Customer Relations:

- The importance of customer satisfaction and good faith in all agreements, quality, fair pricing and after-sales service.

Shareholders or other providers of money:

- The protection of investment made in the company and proper 'return' on money lent.
- A commitment to accurate and timely communication on achievements and prospects.

Suppliers:

- Prompt settling of bills.
- Co-operation to achieve quality and efficiency.
- No bribery or excess hospitality accepted or given.

Society or the wider community:

- Compliance with the spirit of laws as well as the letter.
- The company's obligations to protect and preserve the environment.
- The involvement of the company and its staff in local affairs.
- The corporate policy on giving to education and charities.

4.9.3 Implementation

An effective code of conduct provides guidance for making ethical business decisions that balance conflicting interests.

It:

- Should articulate as far as possible the underlying assumptions and guiding principles of a working ethic.
- Should be sufficiently general to encompass all divisions in a company.
- Oppose prejudice with respect to sex, religion, national or ethnic origin, age, sexual preference, race or physical or mental disability.
- Should take into account that employees still have a responsibility, individually and collectively, to try to foresee and to keep themselves aware of, the developing applications of their work and to choose or redirect it accordingly.
- Should recognize that actions designed narrowly to benefit humankind may in fact threaten the survival of all species
- Should encourage any activities towards the peaceful resolution of conflict that may occur.
- Should articulate as far as possible the underlying assumptions and guiding principles of a working ethic.
- Should be sufficiently general to encompass all divisions in a company.
- Oppose prejudice with respect to sex, religion, national or ethnic origin, age, sexual preference, colour or physical or mental disability.
- Should take into account that, while in general it is difficult to anticipate all the consequences of actions. Employees still have a responsibility, individually and collectively, to try to foresee and to keep themselves aware of, the developing applications of their work and to choose or redirect it accordingly.
- Should recognize that actions designed narrowly to benefit humankind may in fact threaten the survival of all species, since the ecosystem is a seamless web.
- Should encourage any activities towards the peaceful resolution of conflict that may occur.
- Should be made available to all employees and stakeholders.

4.9.4 Creating an effective code of conduct

To create an effective code of conduct, we need to:

- Think in terms of values, beliefs and expectations rather than facts
- Put the thesaurus back on the bookshelf
- Choose to be concise and within reason
- Active rather than passive language
- Give examples when it is appropriate to do so
- Don’t lose sight of the employee

Include the following:

- The purpose and values of the business
- Employees
- Customer relations
- Shareholders or other providers of money.
- Suppliers
- Society or the wider community
- Implementation

Codes of conduct need to be actual living documents encouraged and valued at the highest levels. Board members, senior executives and management have to set an example for the type of conduct they expect from others.

Printing copies and posting them on the wall and on bulletin boards is not enough – however, it is a good start.

Asking if this is the right thing:

- Is what I am about to do fair, allowed, honest and legal?
- Does it follow the appropriate regulations?
- Would I be ashamed if my mother knew I had done this?
- Will this decision pass the scrutiny of my superiors?

If the code has been breached, remember to:

- Initiate a discussion with the manager of the employee with whom you have a concern about their behaviour to clarify.
- Confront and resolve the situation as soon as possible;
- If unable to confront or resolve the situation, a written complaint may be sent to the employee.
- A copy of the written complaint must be submitted to the Labor Relations section in your company (or applicable person); it may also be necessary to involve a supervisor/manager/person with a higher rank to resolve the problem.
- Confidentiality is to be strictly adhered to by all individuals involved in the complaint resolution process (and subsequent review and investigation to ensure a factual, fair and effective review and investigation and to promote the dignity of all involved).
- Upon receipt of a written complaint, a letter must be distributed to all parties involved regarding:
- Describing the initial plan of action and/or decisions and information about follow-up meetings.
- Should it be necessary to conduct an investigation, it must be done in a timely manner. This will include speaking with the person initiating the complaint and the plaintive. Other people may be interviewed and evidence may also be sought as deemed appropriate.
- All such contact and reviews must be documented in writing.
- Where a case is resolved against the employee, s/he may, depending on the circumstances and the gravity of the charge, be suspended from the company or be subjected to some other condition that may be deemed appropriated.
- However, the plaintive has the right to appeal against the verdict.
- The same procedures must be followed or the procedures as been laid down by the company.

4.9.5 Steps in developing a code of ethics

The following steps can be used when you develop a code of conduct / ethics

Step	Action
1	• Select the top 5 ethical values • Example: Honesty, transparency, integrity, equality etc.
2	• Establish the organizations rules to manage ethics • Start with a list of do's and don'ts • Define the organization's operating value, i.e. excellence, accountability
3	• Establish an ethics committee to manage and monitor the process
4	• Undertake training to clarify ethical awareness by employees
5	• Establish an ongoing communication channel for the code • Have an ethics help-line
6	• Enforce the code consistently and uniformly
7	• Measure and audit the effectiveness of the ethics programme
8	• Review and refine the code and enhance and improve its moral principles
9	• The code of conduct should be launched and initiated publicly by the board of directors and senior management

4.10 Guidelines of Managing Ethics in the Workplace

- Recognise that managing ethics is a process.
- The bottom line of the code of conduct is accomplishing preferred behaviors in the workplace
- The best way to handle ethical dilemmas is to avoid their occurrence in the first place.
- Make ethics decisions in groups, and make decisions public, as appropriate.
- Integrate ethics management with other management practices.

- Use cross-functional teams when developing and implementing the ethics management program.
- Value forgiveness, note that trying to operate ethically and making a few mistakes is better than not trying at all.

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