

Utilising human resource management in developing an ethical corporate culture

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ABSTRACT

South Africa is characterised by rapidly escalating crime, including white-collar crime, and unethical behaviour in public and private organisations. This necessitates innovative ways to deal with the situation. The objective of this conceptual and theoretical research is to investigate ways in which human resource management can be utilised to instil and develop an ethical corporate culture in South African organisations. A theoretical model of ethical behaviour is discussed as a basis for this study. It is indicated that human resource management can have an effect on organisational factors and is therefore an important tool in developing an ethical corporate culture.

Key words: Human resource management, South African organisational context, Unethical behaviour, White-collar crime

INTRODUCTION

South Africa is characterised by rapidly escalating crime, lawlessness, and the disruption of the social fibre of its communities (Boshoff and Van Zyl, 2011; Lange, 2001; Van Zyl and Boshoff, 2010). According to Zuma (2000:7; De Koker, 2007), fatalistic and unethical behaviour has seeped into every sector of South African society. Our lives as South Africans are based on warped principles, and our society has steadily become fundamentally unethical.

The South African business world, in particular, is increasingly being confronted with a lack of clearly established ethical norms in commercial practices. The frequent incidences of white-collar crime and unethical behaviour within public and private companies, coupled with recent disclosures of major fraud in private organisations, underscore the problem that the country is presently facing (PricewaterhouseCoopers, 2007; Wilmot, 1994:5). White-collar crime is regarded as non-violent crime for the financial gain of an individual (Blickle, Schlegel, Fassbender and Klein, 2006). Researchers (Boshoff and Van Zyl, 2011; McGee and Byington, 2009) emphasise that corporate management must be aware that white-collar crime represents a serious threat to the welfare of a company.

Mergers, takeovers, diversification, divestitures, deregulations, and the pressure of international competition have increased the vulnerability of ethics in companies in virtually every industry (Du Plessis, Mosola and Struwig, 1997; Van Zyl and Lazenby, 2002). It is a well-known fact that unethical behaviour and white-collar crime do not know any boundaries and affect all organisations, regardless of country or industry.

De Koker (2007) indicates that fraud and unethical behaviour are a reality in South African public and private companies, and that something should be done to improve the situation.

REASONS FOR CORRUPTION AND WHITE-COLLAR CRIME

A number of reasons for the high incidence of malpractice and corruption in South African organisations are postulated (Boshoff and Van Zyl, 2011; Van Zyl and Lazenby, 2002; Wilmot, 1993:2-3):

- A declining and stagnant economy, as well as work overload and a fear of retrenchment among employees;
- Government structures and regulations that do not control unethical conduct and corruption strictly enough at all times;
- Uncertainty and fears about the future; and

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- A belief that business (profit) and ethics are irreconcilable.

According to De Koker (2007) and Rossouw (1994:10), the lack of moral awareness in business in developing countries (therefore, also in South Africa) can be attributed to:

- The fact that many businesses struggle for survival in the current South African economy and cannot afford morality;
- The fact that some businesses persist with a style of doing business (involving immoral practices) that stems from an earlier dispensation; and
- Certain structural deficiencies in some societies that restrain businesses from evolving into the pro-active moral phase.

Van Zyl and Lazenby (2002) and Van Zyl and Boshoff (2010) contend that, in contrast with American and European companies, relatively few South African organisations have an ethical framework for conducting business. Although most employees have a clear perception of the importance of ethical behaviour in organisations, morality and ethics are rarely discussed, except in times of crisis. It has become abundantly clear that the majority of South African organisations do not attempt to create an ethical culture (Van Zyl and Boshoff, 2010).

INITIATIVES TO BE IMPLEMENTED

The government of South Africa identified the need for initiatives to reduce crime levels (including white-collar crime) by establishing a comprehensive national crime prevention strategy (NCPS) (National Crime Prevention Strategy, 1996). The government also introduced the Prevention of Organised Crime Act (1998) to combat white-collar crime (Government Gazette, 1998). Although the concept 'white-collar crime' does not exist in South African criminal law, the term is commonly used as an umbrella term to refer to crimes such as corruption, commercial fraud, insider trading on the stock market, embezzlement, and other forms of dishonest business schemes (Van Zyl and Boshoff, 2010).

As part of the NCPS, the emphasis in the reduction of crime should be on prevention, and not control. This shift requires that the previously dominant focus on reactive policing of crime – where the bulk of resources go into the administration of justice after crimes have been committed – be adjusted to allow for increased emphasis on preventive actions that would reduce the likelihood of crimes being committed (NCPS, 1996). This also means that crime should be seen as a shared responsibility of all levels of society and government, as well as organs of civil society, not only of the security service departments.

The vision of development and job creation as a solution to

the crime problem cannot adequately deal with the problem of special economic crimes (which are more often than not perpetrated by the employed rather than the unemployed or poverty-stricken). The financial costs of white-collar crime in both private and public sectors place a burden on the economy and are therefore a constraint to growth. As commercial crime is less visible than violent crime, it does not always receive the priority it deserves. However, white-collar crime does have national security implications in that it destabilises the economy and seriously curtails economic growth and employment creation (NCPS, 1996). According to McGee and Byington (2009), a PWC study indicated that 72% of South African companies have been victims of white-collar crime.

The unique nature of commercial crimes implies that they cannot be policed by traditional methods. According to the NCPS (1996), other methods and ways of thinking should be implemented in order to prevent commercial/white-collar crimes. This means, inter alia, that education programmes should be implemented, providing vital life skills, preventing anti-social behaviour, and promoting non-violence. It is essential that a range of role-players, including employees and employers in the organisational context, become engaged in programmes that heighten awareness of the problem and emphasise responsibility (NCPS, 1996).

THE PROBLEM AND THE AIM OF THE STUDY

From the above-mentioned, it is evident that unethical behaviour and white-collar crime are a reality in South African public and private organisations, which necessitates pro-active preventive actions. McGee and Byington (2009) are of the opinion that corruption threatens economic growth, social development, the consolidation of democracy, and national morality, and that preventive measures should be implemented in order to rectify the situation. One way to prevent corruption and white-collar crime in a pro-active manner is to utilise the human resource management function of South African organisations in the development and implementation of an ethical corporate culture. The objective of the present conceptual and theoretical research was to investigate ways in which human resource management can be utilised as a means to improve ethical conduct in organisations. Digh (in Van Vuuren and Eiselen, 2006) indicate that 70% of the responsibility for ethics in the organisational context should fall to the human resource management function. Wiley (1998) too, believes that human resource management has a role to play in taking responsibility in developing an ethical corporate culture. She based her opinion on research findings which revealed that it is appropriate for human resource management to assume a responsibility for corporate ethics.

THEORETICAL MODEL

According to Stead, Worrel, and Stead (1994:58) and Boshoff and Van Zyl (2011), research supports a person-situation explanation of ethical behaviour, wherein individual and situational (organisational) factors influence the decisions made by individuals. According to Boshoff and Van Zyl, (2011, in Stead, *et al.*, 1994) [Figure 1] the theoretical model consists of two phases, which can be schematically illustrated as follows:

The first phase reflects the relationship between the individual factors and the development of the person’s ethical philosophy and decision-making ideology. Essentially, this linkage demonstrates that the ethical beliefs one holds and how these beliefs are applied are strongly influenced by personality and background. Factors such as age, work experience, nationality, gender-role differences, and religious beliefs may influence ethical behaviour (Stead *et al.*, 1994).

The individual enters an organisation during the second phase, and is exposed to various organisational factors, such as the ethical climate, managerial behaviours and philosophy, reinforcement systems, and the characteristics of the job. Mishra and Sharma (2010) indicate that the human resource management function of an organisation can have a significant effect on organisational factors (such as ethical climate and reinforcement systems), due to the fact that the focus of the human resource function should be to create a happy and productive workforce. Segon (2011) asserts that managers and leaders should have confidence in the company’s human resource management function, and that new thinking (for instance, new behaviour and philosophy) and changes (for instance, the ethical climate and reinforcement systems) should be implemented through this function.

Van Zyl (2001:235) states that a critical organisational variable that influences behaviour is the firm’s reinforcement system. Research in ethical behaviour strongly supports the conclusion that if ethical behaviour is desired, the performance assessment, appraisal, and reward systems must be modified to take into account ethical behaviour. This modification can be done by the human resource management function. Several dimensions of the job itself may also influence the ethical behaviour of employees; for instance, jobs involving external contacts are believed to have more potential for ethical dilemmas than jobs with purely internal contacts (Stead *et al.*, 1994:114). In a research study, it was also found that white-collar crime takes place in larger organisations and in organisations where adequate reporting systems to senior management are lacking (Holtfreter, 2005:353). Adequate reporting systems can be put in place by human resource management (Van Zyl, 2001).

According to Stead *et al.* (1994), the above-mentioned organisational factors (which are also affected by external forces such as the economy and competition) have a critical effect on the ethical conduct of the individual, and may influence the individual in important ways to act ethically (or not) within the working context.

Human resource management can therefore have an important effect on organisational factors and is therefore an important tool in developing and implementing ethics in the organisational context.

ETHICS IN PRACTICE BY MEANS OF HUMAN RESOURCE MANAGEMENT

Development of an ethical corporate culture

In order to create an ethical corporate culture, the following factors should be investigated (Van Zyl and Lazenby 2002):

Strategic human resource management

Strategic human resource management pertains to the integration of human resource management into the company’s strategic planning efforts. Thus, general strategic plans (including, in particular, the mission and philosophy of the organisation, objectives and the steps to achieve them) should also be formulated with regard to human resource needs. As a consequence, all human resource management actions will automatically fit into the ethical framework.

Shortcomings in respect of the mission, vision, and philosophy of the organisation should be determined. Furthermore, the morality of the organisational culture and structures, decision-making processes, and contact with clients and the broader community should be assessed (Van Zyl, 1993). Questions to be addressed can include the following:

- How are value differences dealt with at present?

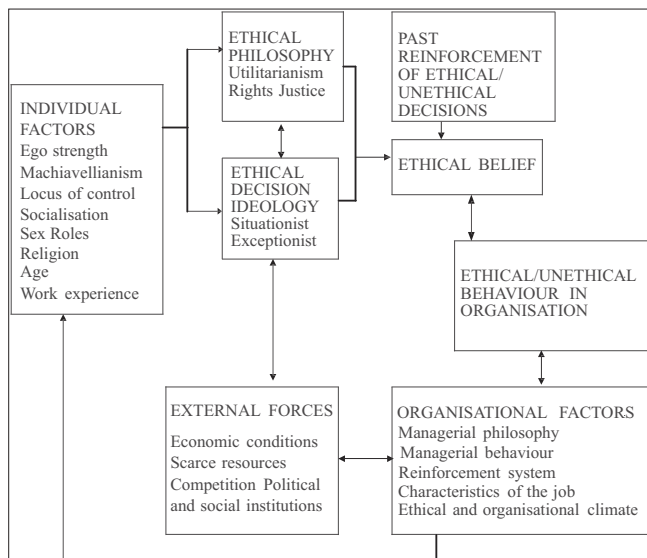


Figure 1: Model of ethical behaviour¹

- How effectively is information communicated to subordinates?
- To what degree are persons consulted concerning decisions that affect them?
- What about equal opportunities and corporate social responsibilities? Are these matters considered to be implemented and in which way should it be implemented? (Van Zyl, 1993; Van Zyl and Lazenby, 2002).

By identifying shortcomings, senior management can set goals and take steps to achieve them. The human resource management division can play a facilitator's role in achieving these objectives.

Creating ethical codes of behaviour policies and/or strategies of business conduct

Companies contemplating the development of ethics codes/policies and/or strategies for the first time, or updating existing codes, should appoint a task force specifically for this purpose (Esterhuizen, 1992; Mishra and Sharma, 2010). According to King III (Institute of Directors in Southern Africa, 2009), all organisations should establish a board-level ethics committee. The board should delegate specific functions to well-structured committees, which may include representatives from all levels of the organisation (Institute of Directors in Southern Africa, 2009). The human resource management function can support the board and committees to encourage people to participate, contribute their ideas, and be involved.

Opportunities have to be provided for unions and personnel on every level to give their inputs with regard to behaviour policies and/or strategies of business conduct (Kemp, 2002; Watkins, 1993). This will allow employees to feel more involved in the codes/strategies and/or procedures, which will mitigate the effect of different perspectives on ethics.

According to Watkins (1993), differences were found in the values held by managers and employees from different cultural groups. Dominance, competitiveness, and status were identified as important by white managers and employees. These typical Western performance values were regarded as less important by managers and employees from previously disadvantaged groups. They placed greater importance on mastering necessary work skills.

Different reasons can be provided for these results. From an educational point of view, managers/employees from previously disadvantaged groups may have had fewer educational possibilities, which may have given rise to the inability to learn values such as competitiveness and status aspiration. From a social-psychological perspective, most of the white people in the study were raised with Protestant work ethics that justify wealth. The managers

and employees from disadvantaged groups, on the other hand, grew up with *ubuntu* – the belief that possessions should be shared with the community – which may mean that aspirations such as status, dominance, and competitiveness were not stimulated (Kemp, 2002; Watkins, 1993).

From the perspective of cognitive psychology, the motive to perform is stimulated by the individual's expectation that his/her performance will have a specific outcome. Financial remuneration is sometimes based on agreements reached with unions rather than job performance.

Other reasons may be provided as to why values differ among employees and managers from different cultural groups. However, the greatest emphasis must be placed on acknowledging specific values from different cultures, respecting these, and trying to integrate them with one's own values (Van Zyl and Lazenby, 2002).

Ethics communication sessions (driven by the human resource management division) are a sensible way of obtaining cooperation and information from personnel on every level. As a guideline during the discussions, answers to the following questions should be sought:

- Where are we now?
- Where do we want to go?
- How will we achieve this?
- What will be the main obstacles preventing us from achieving our ethics goals? (Van Zyl and Lazenby, 2002)

Information obtained during the communication sessions, as well as shortcomings identified by senior management, may be used to finalise the ethics code/policy and/or procedures. This will ensure that the values of the different cultural groups and those of the organisation are integrated.

Distributing the code/policies and/or procedures

The human resource management division is usually responsible for distributing codes/policies and/or company strategies. These code/policies and/or strategies should also include a statement that employees must sign to acknowledge that they have read and understood the documents (Kemp, 2002; Du Plessis *et al.*, 1997), which is normally the responsibility of the human resource management department.

Implementation and integration

Job descriptions

There is no reason why the wording in the ethical codes/policies and/or strategies should not be used in basic documents such as job descriptions (for instance that employees shouldn't be bribed by clients by means of accepting gifts for special treatment). Job descriptions can refer to specific policy statements (Esterhuizen, 1992).

Training

Lecturers and visual material on ethics can be used in the orientation programmes for new employees (Becker, 2010). The relevant ethical codes/policies and procedures should be discussed in these programmes. Most management development sections address such topics as company organisation, communication skills, counselling, performance appraisal, safety, group objectives, time management, and management by objectives. Almost all of these subject areas can include material on ethical conduct (Van Zyl and Lazenby, 2002).

Ethical skills training for all employees can be conducted and presented throughout the company (Segon, 2011; Simms, 1992). Every employee should be given the opportunity and responsibility to develop a personal ethical framework. To achieve this, the following steps can be taken:

- Case studies of difficult situations that employees may find themselves in should be identified, analysed, and discussed. Guidelines for decision-making in these situations should be clarified. These guidelines can cover the following questions:
 - Is it according to the company's directives?
 - Is it fair?
 - How will I feel about myself?
- The connection between personal and job values should be emphasised and encouraged so that a set of universal values for the individual can be developed (Du Plessis *et al.*, 1997; Lyons, 2011).
- Individuals should be given the opportunity to discover their own value system. Although many individuals may have enough money to live quite comfortably, they continuously endeavour to make more money, accumulate possessions, and achieve higher status. Behaviour patterns that are typical of the aim to achieve a higher standard may lead to being selfish and to act unethically (Kemp, 2000). One way which could help in preventing the abovementioned situation is to have time to reflect on what is important in life. This may include to discover your own value system and essential values (for instance to act ethically in all situations) (Coetzee in Van Zyl and Lazenby, 2002). If individuals can discover their own values, it may contribute to act ethically and to influence other to do the same (Elliot, 2010; Palomino and Martinez, 2011).
- The example set by management and their attitude to subordinates should contribute to the strengthening of the ethical philosophy/culture of the organisation (Holtfreter, 2005). Managers should therefore (Coetzee in Van Zyl, 2002) be trained to:
 - acknowledge symptoms of defective self-control, as well as personal and religious shallowness, and address the situation;
 - apply personal strategic management by (1) periodically thinking about their own goals and (2) determining

whether or not there have been any achievements and growth in their personal lives (involving ethical behaviour in particular). A nominated person can help to evaluate possible growth achieved;

- normalise their ambitions. Managers should ask themselves whether or not their aspirations for higher positions are in line with their real potential. Working according to potential may be a contributing factor to act according to important work and ethical values;
- live out their personal values in all they do. If personal values can be reconciled with work values, a deeper level of satisfaction, ethical conduct and personal growth can be achieved;

Selection

Employment interviewers should be aware that the organisation is looking for candidates who are not only well qualified, but who also adhere to ethical norms. Although this quality can be measured by means of valid tests, experienced interviewers can usually make accurate predictions based on past behaviour (Van Zyl and Lazenby, 2002). Strandberg (2009) indicates that staffing and selection processes should foster the perception of fairness and being ethical in South African companies. He also states that an increasing number of companies are realising the advantages of profiling ethics in their recruitment branding and marketing programmes, promoting the benefits of working within a value-based culture (Strandberg, 2009).

Performance appraisal and compensation

According to Strandberg (2009), performance appraisals have to make it clear that the company's ethical standards are being upheld by measuring and rewarding those who adhere to these standards. Human resource management should be able to compile the abovementioned appraisals and measurements, as well as reward systems.

FINAL COMMENTS

Owing to South Africa's high incidence of commercial crime and the costs involved, more than ever before, employers and employees alike have the responsibility to practise ethical norms.

The current economic and political situation in South Africa will probably stay the same for years to come. By utilising human resource management in the development and implementation of an ethical corporate culture, a new frame of reference, in which caring, purposeful, committed, and ethical people can play a part in the institutional setting, is created. This frame of reference can contribute to the establishment of a fair, just, participative, and ethical society.

ENDNOTE

¹The model of ethical behaviour is sourced from Boshoff and Van Zyl, 2011, in Stead, Worrel and Stead, 1994:64.

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