A Construct of Code Effectiveness: Empirical Findings and Measurement Properties

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Abstract

The purpose of the study is to examine and describe the use of codes of ethics in companies operating South Africa. The population included the company secretaries of the top 500 companies operating in the South African corporate sector. The findings stipulate that South African companies need to understand that their employees are diverse in beliefs and opinions and as a result do not all have a similar ethical value system. Therefore, ethical education is imperative to ensure a stronger focus on the offering of ethics programmes aligned with the business philosophy of the company.

Keywords: Business ethics, Corporate governance, Business policy, South Africa

INTRODUCTION

Over the last two decades, South African business has experienced significant modifications in ethical outlook. The country is however unique, considering that it has experienced a fundamental change due to the termination of apartheid and the establishment of its first democratically voted government in 1994. The country has also seen an intense transformation to the corporate management approach that guides proper business conduct (Price & Van der Walt, 2013:430). Furthermore, corruption and favouritism are perceived in South Africa as being more associated with government officials, however these activities are prevalent also in the private sector. Fraud always involves more than one person and can be viewed as a "collusion between several people" (SABPP, 2013:1). Globally, the ethical manner in which companies operate, becomes inherently more important in the market environment. The global market place is becoming more aware of, and increasingly against, companies that do not adhere to the minimum criteria of ethical business actions and ethical management values (Tuan, 2012;133). Therefore, by developing a code of ethics a company highlights to its stakeholders and the world of business that its commitment to an ethical corporate culture is strong (Van Zyl & Lazenby, 2012:65; Somers, 2001:186).

In South Africa, cases of corruption increased between 33 000 to 55 300 between 1986 and 1992. The MTN Group, one of South Africa's largest corporate brands, is facing a $4.2 billion lawsuit by the Turkish cell phone company, Turkcell, based on accusations of corruption. Such business indignities have brought about an increased interest in South Africa in the field of business ethics (Loyd, Mey & Ramalingum, 2014: 569). Although it is assumed that unethical behaviour is the outcome of bad practice by a few employees in a company, there is increased confirmation that corporate culture plays a central role in the support of ethical behaviour (Zona et al., 2013:267). Jondle et al. (2014:29) state that through the operationalisation of business functions within a globalised environment, companies are continuously expected to deal with "the interactions fostered when creating, executing, and sustaining ethical business practices". Jones et al. (2013:55) further argue that in an ever increasing diverse working environment, employees will continuously require relevant knowledge, skills, abilities, and attitudes to successfully liaise with colleagues, customers, and clients who are different from themselves. They continue to argue that a company that supports diversity in the workplace, can strengthen the creativity of its employees, initiate a stronger understanding for business ethics in the workplace, and empower the company to engage with a broader group of stakeholders.

Berenbeim (2000:5,7) cites three trends as proof of the increasing prominence of corporate codes of ethics, namely “the globalisation of markets and the need for core principles that are universally applicable, the acceptance of these codes as part of the companies’ governance as illustrated by increased participation of boards in their development, and the improved ethical literacy of senior managers as illustrated by the increasing sophistication of the codes”. When companies have a desire to scrutinise their ethical practices, they will develop policies that they can institute within their companies to illustrate to internal and external parties concerned, that they have ethical business practices. This can be in the form of a code of ethics since it is a tangible piece of work that can be seen and acted upon by all. The code of ethics document should be developed considering the values in business that each company wishes to communicate to its personnel and the broader public. Such a code motivates employees to explore the ethical guidelines on which the practices of the company for which they work, is based. However, it also serves as an indication to the broader public that the company has established a code of ethics to guide its business practices (Whyatt et al., 2012: 332).

It must be understood that a code of ethics in itself is not enough to guarantee that the employees of a company will actually exhibit ethical behaviour (Sims, 1992:507)), nor can external parties to the company ever be confident that the company developed its code of ethics for motives that were purely altruistic, and that the mercenary factor of business survival was not foremost in the minds of senior executives when they constructed and enacted a code. Sadly, skepticism is rife amongst the public regarding a company’s motive for business ethics, because over the last forty years we have all witnessed the same errant behaviours in different decades reappearing in a slightly different guise (Bisschoff and Fullerton, 2011:17; Wood, 2002:62). We see such issues as baby milk formula debacles, oil spills in pristine oceans, car safety issues ignored to the detriment of the motoring public, the collapse of financial institutions and amongst others, rogue stock market traders regularly surfacing to the detriment of individuals who encounter these sharp practices and who suffer because of them (Wood, 2002:63). Whilst having a code is important, embracing its ethos is more important and inculcating that ethos throughout the company must flow on from having the artefact of a code. Therefore, a code of ethics must become a document that promulgates ethical behaviour (Van Zyl & Lazenby, 2012:65).

LITERATURE DISCUSSION

A business code of ethics provides a signal to external stakeholders of a company's commitment to ethical conduct. In so doing, they can positively influence people's trust in the company (Egels-Zandén, 2007:46). The adjudication function of codes of ethics comes in when there are complaints that need to be dealt with. In such cases, codes of ethics help guide people hearing such matters and one hopes that they enable them to make appropriate judgments (Tuan, 2012:135-136). Bisschoff and Fullerton (2011:15) argue that in alignment with the argument of the first King Report of 1994, the Institute of Directors (IOD) suggested that "there should be new guidelines for ethical practice in business enterprises in South Africa". The authors argue that there seems to be a cultural mindset in South Africa that ethics might succumb to questionable actions if companies want to secure their survival in the long term.

This article builds upon the work of Svensson et al. (2004a and 2004b), Svensson et al. (2006) and Svensson and Wood (2008), that sought reasons stated by companies as to why they believed that having a code of ethics had a positive effect upon their company.

The previous work in this area suggested that the responses would fall into three categories, as specified by Figure 1:

- Altruistic: A benefit was in evidence for the good of society, its stakeholders and employees that was not judged on the basis of a financial gain or a financial loss for the company.
- Mercenary: A direct financial benefit was believed in evidence to the company.
- Regulatory: A benefit was in evidence by avoiding behaviour that could lead to issues for the company up to and including monetary fines from legal authorities.

INSERT FIGURE 1 HERE

Against the background provided, each of the three categories is now briefly discussed.

Altruistic ideals in the development of a code of ethics

In South Africa, Nelson Mandela stated at the opening of the South African Parliament on 17 February 1995 that, “We are conscious of the reality that corruption in many forms has deeply infected the fibre of our society. Precisely because we face the challenge of dealing with systematic corruption, we need a dispassionate and systematic approach to this question”. In 1994 the South African Institute of Directors (IOD) suggested that “there should be new guidelines for ethical practice in business enterprises in South Africa" (Institute of Directors Southern Africa, 1994). Commenting on the situation in the early 1990s, Bisschoff and Fullerton (2011:14-15) argue that there seemed to be at the time, a cultural mindset in South Africa that ethics might succumb to questionable actions as organisations may choose to secure their survival in the long term at the expense of being ethical and of obeying the law. This conundrum has been faced by societies all over the world since the inception of the capitalist system which often becomes the challenge between self-interest vs society's interests. The importance of corporate governance in South Africa was highlighted by the publication of the King Report on Corporate Governance (King Report 1994) in November 1994 (Institute of Directors Southern Africa, 2002). The focus of the report, widely referred to as King 1, was to emphasise that it is essential for companies to become an accountable part of the societies in which they operate (Dekker, 2002).

Unethical business practices are prevalent in the global business environment where scandals of an ethical nature are constantly making headlines. Ethical failures result in various costs and consequences for the company such as financial losses, fines, executives losing their positions, eroded reputations and, in extreme cases, company closure. The Enron and Arthur Anderson cases are two of some of the world's most high-profile cases that are still fresh in the minds of individuals over 10 years onwards (Schoeman, 2012:25). South African companies can develop an ethical framework for business practice by ensuring that company stakeholders have a strong belief in the manner by which the company conducts its business. This implies that business practice must be perceived as mutually beneficial to all parties involved, and not purely profitable to one of the parties in the relationship (Rossouw, 2012:5-6).

Wood (2002:63) states that ethical behaviour should be

> "pursued for the altruistic desire to be ethical, not for the mercenary desire to profit from this latest strategic initiative. For if profit drives the motives, then one has missed the inherent truth in being ethical. That is, one does an action because it is the right thing to do, and not that if one appears to be ethical, then that action will be the "right" thing for the business".

The business practice of the company must therefore be guided by its business philosophy, which should clearly reflect ethical values both internal and external to the organisation's operations. Ethical values are developed and managed from within the company, to develop and strengthen external business relationships. South African companies also need to determine whether their business operations are guided by consideration for the environment and the communities that they serve, or whether they operate simply to make a profit (Rossouw, 2012:5).

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Mercenary ideals in the development of a code of ethics

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All companies are in the corporate marketplace to make a profit. Profit should be the natural outcome of a company's business endeavours (Lea, 1999:152). In capitalist societies, companies come into existence and are permitted to flourish because it is believed that these companies have a critical role in enhancing the betterment of society (Goldman et al., 2012:77). BUSA (2009) emphasises that South African companies have a responsibility towards society by being responsible, commercial citizens. Therefore, South African companies should support ethical business practices through an emphasis on responsibility. This goal implies that South African companies should take responsibility for their decisions and actions. This can be achieved, amongst others, through the practice of sound management strategies and operations, the safeguarding of all relevant legality, regulations and standards, as well as the support of organisational practices that are economically, socially and environmentally sustainable.

Maclagan (1992:322) stated in the early nineties that the pressure to perform is strong in many companies, often to the extent where it overrides personal ethical standards. Management may want to reconsider company pressures such as management by objectives, surpassing last year's accomplishments, cost-savings plans, and pay-to-performance schemes (Cant & Van Niekerk, 2013:2-3) as they may be counterproductive to fostering ethical behaviour. Within a South African context, as in other emerging economies, the concern is ever present that employees may be pressurised into unethical activities, and more so, that such behaviour may sadly be rewarded by the company either overtly or covertly. The business code of ethics should be one way of guiding the employees of companies to take the right course of action that considers simultaneously the potential benefits and downsides of their actions to a variety of stakeholders. Companies should not be lambasted for generating profits, but they need to examine the ways in which they achieved those profits and to be cognisant of the value that they place on the mercenary goal of profit being the maximiser of corporate effort (Loyd et al., 2014:571-572).

Regulatory ideals in the development of a code of ethics

The regulatory ideals of South African companies should be applied to avoid litigation such as law suits, avoid fines and empowering employees to be ethical in their daily operations, thereby preventing them from doing damage to the company. In South Africa, the King 1 Report (1994) thus focused not only on the fiscal and regulatory aspects of corporate governance. By considering "a participative corporate governance system of enterprise with integrity, the King Committee in 1994 successfully formalised the need for companies to acknowledge that they no longer operate autonomously from the societies and the environments in which they function" (Institute of Directors Southern Africa, 2009:Online).

A 2013 South African workplace survey on ethics established that over the past four years, there has been an improvement amongst employees of their awareness of the ethics management processes in their companies (Groenewald & Geerts, 2013:12). This is an important development to note as the ethical culture of a company is the communal set of beliefs about what the correct behaviour is, and how ethical issues will be managed. This corporate culture provides a foundation for decision-making at all levels and in all circumstances in the company (Van Zyl & Lazenby, 2012:62). However, Irwin (2011:15-16) states that in South Africa unethical business practices can be addressed through a process of protected whistleblowing. Whistle blowers in South Africa are protected against retaliation by the Protected Disclosure Act of 2000. Yet, both government and private sector employees are of the opinion that their whistleblowing endeavours will not protect them from retaliation in the workplace. They are of the opinion that "the example set by associates of the party-political elite and or their family members and affiliates, and the absence of steps taken to prosecute them, set a poor example and limit the willingness of people to speak up".

It is furthermore interesting to note that the lack of willingness to challenge authority is also influenced by the feeling of Ubuntu in South Africa. The latter reflects respect for seniority and allegiances, further hindering the willingness of individuals to report on unethical behaviour. However, to support the concept of accountability, the Protected Disclosures Act (2000) came into existence in South Africa in 2000. The objective of the Act is "to ensure the establishment for processes by which employees in both the private and the public sector may reveal information regarding dishonest or irregular conduct by their employers or other employees in the employ of their employers in order to provide for the safeguarding of personnel who make a revelation which is protected in terms of this Act, and to provide for matters connected therewith" (Lewis & Uys, 2007:77).

A greater awareness of ethics in corporate South Africa has been driven by the King III Report on corporate ethics (SAICA, 2014). In the report, real emphasis is placed on being moral "corporate citizens" who have ethical values. Boards are also advised to become more aware of legitimate stakeholder interests when decisions are made. Key stakeholders are identified and direction is provided on how to manage those relationships and the level of disclosure required. Furthermore, the importance of compliance with applicable laws, regulations, non-bindings rules and standards, is highlighted. It is advised that companies have a compliance function which is appropriately independent to advise the board on such matters (Seegers, 2009:8). Planting (2013) highlights that the King III Report devoted its first chapter to the concept of ethical awareness, whilst the same topic was the final chapter of the King 1 report of 1994. This difference in positioning highlights how the subject of ethical awareness has been moved up in priority over the last fifteen years from perhaps an afterthought to how the foundation stone of the actions is expected from our corporations.

In conclusion, Schoeman (2012:25) states that the reporting of the ethical practices of the company is a recommendation of the King III, and a requirement for the Companies Act social and ethics committee in South Africa. The report of a company on ethics should be inclusive of the responsibilities and practices of the social and ethics committee as well as the measurement of the company's ethics, both of which should be presented in relation to the company's ethical strategy and goals. She further concludes by stating that "an added benefit from the regular assessment of a company's ethics derives from the company's dictum that 'you can't manage what you don't measure'. While this is slightly an overstatement, ethics can surely be better and more easily managed if it is measured. It is a fact that companies are governed by the outside forces of regulations placed upon business in general, and perhaps their industry in particular. It would be naïve to suggest that compliance with regulatory elements in their business environment is not going to be a focus of their having a code and its perceived worth to the company (Loyd et al., 2014:572).

METHODOLOGY

The study was quantitative and exploratory in nature. The population of interest for the study consisted of the top 500 South African companies. The list of companies was obtained from the TopCo 2014 publication which contains details of the top 500 companies in South Africa, based on their financial performance only. A census was conducted and a response of 222 companies was received. The research method applied to the study was a questionnaire survey. This survey was conducted using the Computer Assisted Telephone Survey (CATI) method. The Head of Ethics or Company Secretary in each company was asked to answer up to 15 statements relating to the effect of a code of ethics on their business practices. A considerable amount of work was done in the preparation, implementation, control and conclusion of the telephonic survey.

Individual respondents at each company was contacted by telephone prior to the interview to determine their suitability to respond to the questionnaire. Each respondent was then also briefly orientated in terms of the study to arouse his or her interest and willingness to partake in the survey. The Head of Ethics or the company secretaries who were not available at the date and time agreed upon for the interview, were contacted again by telephone to establish a new date and time for the interview. This paper focuses upon the 222 companies in the study who indicated that they have a code of ethics. Three dimensions were tested upon which the company code of ethics has an influence, namely Altruistic, Mercenary and Regulatory motives for action. Five statements in the questionnaire were used to measure “Altruistic”, seven statements to measure “Mercenary” with four statements measuring “Regulatory”.

Measures

Participants responded to a five-point Likert-type scale anchored at (5) Strongly Agree and (1) Strongly Disagree. The items were adopted from Svensson et al. (2006) and are provided in Table 1.

INSERT TABLE 1 HERE

EMPIRICAL FINDINGS

The corporate sample characteristics of this study are summarised in Table 2. The nature of business goes across industries and sectors of South African companies. The companies in the sample range from medium-sized to large or very large, based upon annual turnover and number of employees. Overall, the sample represents a broad spectrum of the South African corporate environment. Table 2 reflects the sample characteristics based on the nature of the business, company turnover and the number of employees.

INSERT TABLE 2 HERE

Table 2 indicates that the majority of respondents (17%) are from the Manufacturing Sector in South Africa, followed by Personal and Other Services (11.2%), the Retail Trade (9.9%), Transport and Storage (7%), and Communication Services (6.3%). The sector response to this study is in line with the contribution that each of these major sector groups made to the Gross Domestic Product (GDP) of South Africa in 2013. SAInfo (2013) revealed that Manufacturing, Personal and Other Services, the Retail Trade, Transport and Storage as well as Communication Services were contributing 12.3%, 5.9%, 16.2%, 9% and 9% respectively to the GDP of South Africa in 2013.

Media Club South Africa (2013) supports this by stating that over the past decade, the five sectors that made the largest contribution to South Africa's GDP were also the largest responders in this study. Furthermore, the majority of the companies participating in the study (96%) also had a total of 201 or more employees in their service. This situation reflects the corporate size of the companies which responded, as in South Africa a business with an employee size of larger than 200 is classified as large (NCR, 2011:25). Finally, of the 153 companies that indicated their turnover, 65 had turnovers of less than US$25 million, 45 had turnovers of between US$25 million and just less than US$100 million, 43 had turnovers of US$100 million and above with 17 of these turning over US$1 billion and above. Considering that the annual turnover of the majority of companies in the study is above US$25 million. It further reflects that the companies are large and of a corporate nature. This recognition is important since the study is designed to reflect the current status of ethical behaviour within a corporate environment.

Table 3 shows the items used and the univariate analysis of items for the Code Effectiveness-construct. The univariate statistics indicate a satisfactory consistency across items.

INSERT TABLE 3 HERE

Companies were questioned about the effect of their code of ethics on their overall business practices (refer to Table 3). The researchers were interested in whether there were any seeming patterns. It would appear that, in general, companies in South Africa do view their code of ethics to have a positive effect on their business operations. Such a positive effect is spread across the three broad dimensions of a code of ethics, namely Altruistic, Mercenary and Regulatory.

In terms of the Altruistic dimension, the statement "Our Code has a positive effect on the earnings of our stakeholders" received the highest score with a mean value of 4.63. In addition, the statement "Our Code has a positive effect on being a good corporate citizen" received the lowest rating with a mean score of 4.50. From Table 3 it appears that all five statements in this dimension received mean scores ranging between 4.50 and 4.63 out of a maximum of 5. This situation illustrates that South African companies put strong emphasis on conducting business practices that strengthen their ethical corporate image, develop employees to have a positive attitude towards ethical business practices, strengthen stakeholder relationships through ethical business behaviour, and conduct business in a manner that is in line with the ethical business philosophy of the company.

When considering the Mercenary dimension, the statement "Our Code has a positive effect on improving business performance" obtained the highest score with a mean value of 4.61. The statement "Our Code has a positive effect on increasing customer loyalty" received the lowest rating with a mean score of 4.47. Table 3 however reflects that all six statements in this dimension received mean scores ranging between 4.47 and 4.61 out of a maximum of 5. This highlights the important role of ethical behaviour in business practice for South African companies. Corporate South African companies are guided by their ethical approach to business since it enhances the reputation of the corporate sector amongst the general public and its stakeholders. It furthermore established a basis for differentiation since it creates feelings of trust and belief amongst its target audience, allowing companies to enhance customer loyalty due to the creation and strengthening of trust with its customer base, thereby enhancing profitability and increasing long-term interests, since all parties involved want to establish a relationship or continue with an existing one.

The regulatory dimension, as illustrated in Table 3, reflects that the statement "Our Code has a positive effect on avoiding fines" received the highest score with a mean value of 4.61. In addition, the statement "Our Code has a positive effect on focussing employee efforts" received the lowest rating with a mean score of 4.54. Reflecting on Table 3, it is clear that all four statements in this dimension received mean scores ranging between 4.54 and 4.61 out of a maximum of 5. From the results it is clear that South African companies apply their code of ethics to empower employees in operating with a strong ethical intention, thereby ensuring that business practices are ethically driven to comply with the laws of the day and to thus try to minimise any legal challenges that could have arisen as a result of their actions in the marketplace. Ethical business practices are the foundation by which corporate South Africa conducts its business with customers and builds its relationships with stakeholders.

To assess the underlying pattern of dimensions and items of the Code Effectiveness-construct, exploratory factor analysis (Norusis, 1993; Norusis, 1994) was applied as shown in Table 4. The principal component was used for factor extraction. An orthogonal approach of the varimax method was used to rotate the initial factor solution. Subsequently, a factor analysis was performed of the Code Effectiveness-construct. The factor solution contains three dimensions and eight items of a construct of Code Effectiveness. Note that a confirmatory factory analysis is not appropriate, as this study explores new ground of theory development. Previous studies have only used qualitative data.

INSERT TABLE 4 HERE

As shown in Table 4, the outcome of the factor solution of used dimensions and items of the construct of TBL was acceptable *(KMO: 0.841 (Overall MSA); Bartlett's Test:*

Approx. Chi-Square: 759,158: df 28: Sig: 0.000). Measures of sampling adequacy ranged between 0.61-0.75. Communalities ranged between 0.65-0.85. The Cronbach Alpha for each factor ranged between 0.74-0.80. Subsequently, three factors were identified and are shown in Table 4, all of which indicate acceptable convergent, discriminant and nomological validity, as well as for acceptable reliability for each dimension. It is concluded that the measurement metrics of the construct of Code Effectiveness assessed in Table 4 provide support for acceptable validity and reliability. If one examines the loadings against these three factors, the results are indicative of the emphasis placed upon businesses in South Africa over the last 20 years. Since the move to a more inclusive South Africa in the 1990s, great emphasis has been placed upon doing business in a manner that would enhance business practices in terms of corporate governance, business ethics, and putting in place legislation to reinforce these desired behaviours.

The Regulatory factors that loaded were: avoiding litigation in the form of law suits, avoiding fines, and focussing employee efforts. Legislation was put in place in South Africa to ensure that companies acted in accordance with the acceptable business morals that the society expected of them. There was a need to therefore focus employee efforts on these pieces of legislation and by the employees complying, mitigate the risk of incurring penalties for the business. South Africa's Companies Act No 71 of 2008 which became effective on 1 May 2011 replacing the old 1973 Companies Act, introduced changes and additional demands to the regulatory and governance requirements of companies. Some of these requirements were in relation to the expected social and ethical obligations of companies. Deloitte.com (2012) reported that as a result of deliberations in 2007 during the public hearings conducted on the Companies Bill by the Portfolio Committee on Trade and Industry, the need for companies that have significant public interest to not only act responsibly, but to also be seen to be doing so, was recognised and acknowledged to be important. It was felt that such companies need to account for their decisions and the results thereof, especially in respect to the public interest perspective. The results of this initiative were amendments to the Act that provide authority to the Ministry of Trade and Industry to require that certain companies have a Social and Ethics Committee.

Companies that are currently required to have such committees include every state-owned company, every listed public company, and companies that have been found to have a high public interest score of at least 500 points in any two of the previous five years. Calculation of the Public Interest Score commonly takes into consideration a number of factors including a company's annual turnover, its workforce size, and the nature and extent of its activities. The purpose of the Public Interest Score is to establish if there is a need for an audit or an independent review by a company, and the financial reporting standards that should be applied (Grant & Thornton, 2011).

The South African National Consumer Protection Act (CPA) came into effect on 1 April 2011. The aim of the act is "to promote fairness, openness and good business practice between the providers of goods or services and the consumers who use such goods and services" (Western Cape Government, 2013:Online). The Act stipulates the minimum requirements to ensure the protection of South African consumers. This Act provides a comprehensive framework for consumer protection (SAICA, 2013). The development of these two Acts and their passing into law in the last four years, have further focused South African businesses to be cognisant of their actions in the marketplace and their vulnerability to less than expected employee efforts that may see them facing litigation for breaching corporate expectations. No company needs this type of attention placed upon their business, as it can only be detrimental to their continued wellbeing as an organisation.

The Altruistic factors that loaded of earning respect of stakeholders, exhibiting behaviour that it is integral to company philosophy, and being a good corporate citizen, are expected to be seen when one understands this deep-seated desire in South Africa over the last twenty years to be seen as doing the right thing in business by all, so that businesses in South Africa will be accepted globally as businesses that operate with integrity in everything that they do. Embedded in the first King Report of 1994 was the desire to do business for the intrinsic worth of the organisation and for the betterment of the society that encouraged its existence.

Corporate governance in South Africa was established by the publication of the first King Report on Corporate Governance ("King Report 1994") in November 1994 (Institute of Directors Southern Africa, 2009). The report incorporated a Code of Corporate Practices and Ethics, and was the prime example in the country (Dekker, 2002). The purpose of the report was to improve corporate governance in South Africa and to put forward standards of ethics for boards and directors of listed companies, banks, and certain state-owned enterprises. The focus of the report was to emphasise the need for companies to become an answerable part of the communities in which they function (Institute of Directors Southern Africa, 2009).

Van Tonder (2006:14) stated that the King II Report succeeded in emphasising the importance, need for, and nature of corporate governance. It furthermore highlighted that corporate governance can only have an effect if an inclusive stakeholder approach is pursued. The report emphasised clearly that companies can not only focus on matters relating to economic efficiency. A greater focus must also be placed on creating a balance between economic efficiency and societal impact. The altruistic imperative was clearly signaled in the King II Report: economic efficiency must be married with a consideration of the societal impact of the actions of an organisation.

The Mercenary factors that loaded were improving business performance and enhancing company reputation. All companies need to ensure that their reputation is protected and enhanced and by doing so, one would expect their business performance to improve. The King III Report inspires companies to consider "the concept of integrated reporting in terms of which they are expected to report on their strategies, corporate governance, risk assessment, financial performance and sustainability dimensions, and to show how these components are connected to one another so as to enable all relevant role players to assess a company's performances holistically in terms of the organisation's ability to create and sustain value" (Makiwane & Padia, 2012:422-423). It is this ability to sustain value that will impact heavily upon business performance and in turn company reputation.

MANAGEMENT IMPLICATIONS

The South African corporate sector has provided clear evidence of the positive effect that a code of ethics has on its business practices. Evidence provided illustrated that all three spheres of business practices in corporate South Africa, namely Altruistic, Mercenary and Regulatory guide companies in South Africa to apply ethical business approaches. It therefore does appear that the measurement properties of a construct of code effectiveness provides clear guidelines to South African companies on being ethically responsible in consideration of a wide range of stakeholders. The findings in study have both practical and theoretical implications. 16 An important implication is that the tested measurement properties of a construct of code effectiveness provide an initial understanding of how such a code of ethics influences business operations in corporate South Africa. Such a code of ethics framework may also serve as a basis for further investigations on the subject. Other items and 16 constructs may be considered and incorporated in testing of the code of ethics framework. Furthermore, the framework proposed in Figure 1 offers to the authors' knowledge, for the first time, empirical indications of the measurement properties of a construct of code effectiveness.

Many companies perceive an ethical approach to leadership as central to the development and management of an ethical culture amongst employees. However, it is also true that unethical management practices have the largest influence on unethical business practices in the corporate sector. It is of imperative importance therefore that the leadership of a company ensures that the ethical culture (incorporating of the value system) is not limited to the senior management of the company, but is filtered throughout the company. McDonald and Zepp (1990:12) are of the opinion that the ethical example set by the leadership of the company should at all times be impeccable. They quote Loucks (1987) as saying "...Indeed, without a good example from the top, ethical problems are probably inevitable within your company". Therefore, an approach that can be used by a company's leadership to enhance personal ethical value-systems within the company is to use every opportunity to communicate on the topic of ethical business practices, ethical value systems and the alignment of individual and corporate ethical beliefs and importantly, to lead by example. This approach can be used to convince not only the employees and management of the company, but also the general public of the veracity of what is claimed by the company.

Corporate codes of business ethics are applied by South African companies to enable them to improve on their existing business performance. Such codes can further enable the company to strengthen its reputation as a role player in the market and strengthen its long-term interests, whilst at the same time ensuring the benefit to as many stakeholders both internal to the company and external to it as is possible. It is imperative therefore, for South African companies to create an environment that is supportive of the ethical education and development of employees. These companies need to understand that their employees are diverse in their beliefs and opinions and as a result, do not all have a similar ethical values system. The regulatory environment of an company towards ethical principles can be strengthened through education by ensuring a stronger focus on the development of basic ethical awareness programmes, offering ethics programmes aligned with the business philosophy of the company, developing employees to have an appreciation for the individual differences of people, and recruiting potential employees who reflect the ethical values as promulgated by the company.

A company can further also enhance an awareness of business ethics through the distribution of the most current articles on ethical business practice to employees, and presenting visual material such as DVDs on the topic of business ethics to staff. McDonald and Zepp (1990:13) agree with this suggestion and further state that companies can also "introduce a counsellor to discuss with employees previous decisions about which they have felt uncomfortable - and to explore the reasons for this discomfiture and in multinationals, discussions can be run on the cultural variations of business ethics, and their effects on decision making, e.g. different cultures view bribery with varying degrees of approval or disapproval, and employees should be made aware of these differences."

Managers of South African companies must continuously evaluate how they reward employees and for what they reward them, if they want to enhance ethical business behaviour. Somers (2001:186) agrees with McDonald and Zepp (1990:13) when they state that instead of providing "employees with an opportunity to fiddle their expenses, using the customary system of expense claim forms, some companies are allocating a fixed amount to their employees to cover expenses. The individual is then free to decide how he/she will spend the sum – " 'fiddling'' is no longer possible. By changing the system, the company has removed the ethical responsibility from its employees' shoulders".

It is the firm belief of the authors that the proposed properties of a measurement model are an important seed to develop a nomological framework of Altruistic, Mercenary and Regulatory dimensions and item structures to assess the code of ethics effectiveness in the marketplace and for the society.

CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

It would seem that companies in South Africa consider the three areas of benefit namely Altruistic, Mercenary and Regulatory, as all being major factors in their profit generation. The question that does need to be asked is: Are companies in South Africa mostly motivated to be ethical through the mercenary consideration of profit maximisation or the altruistic consideration or the regulatory consideration? Svensson et al. (2006) also ask the following questions: "Are corporations just acknowledging the obvious flow on effect that being ethical leads to enhancing profit, but they are not viewing this as a mercenary perspective, just one of inevitability and reality? Is being ethical seen by companies as a tool of competitive advantage? Is the adage 'good ethics is good business' finally being recognised as a truism by many companies?" If the latter is true, what are the motivational reasons that companies are using to pursue this objective? Such research did not fall within the scope of this study, but an investigation of this issue would add a deeper dimension of understanding to the motivations of companies in South Africa as to their perceptions of the value to their company of having a code of ethics.

It is concluded that the developed Code Effectiveness-construct makes a contribution. This study provides an empirical foundation for a general Code Effectiveness-construct that consists of specific items to each dimension. It may be used by both researchers and practitioners to assess Code Effectiveness across contexts and over time. This study is also unusual in that it addressed Altruistic, Mercenary and Regulatory aspects of codes of ethics simultaneously, which are seldom seen and have not been tested in previous studies. Furthermore, the empirical findings of this study provide valuable opportunities for further research into how the dimensions of the Code Effectiveness-construct are intertwined and interconnected as indicated by the empirical findings based upon corporate perceptions. In sum, the current study makes an essential and relevant contribution to previous studies and existing theory in terms of further developing the general measurement properties of a Code Effectiveness-construct.

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