# Inculcating ethics in small and medium-sized business enterprises: A South African leadership perspective

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**DOI:**

10.15249/11-1-132

**Keywords:**

small and medium-sized business enterprises; SMME; ethics management; South Africa; institutionalising ethics

## Abstract

This research provides much needed insight into the management of ethics by leaders of small and medium-sized business enterprises in the South African context. Utilising a quantitative methodological approach, the research analyses the unique ethical risks faced by leaders of small and medium-sized businesses and explores how these leaders attempt to mitigate such risks through embedding their personal values within the organisation, using systems and operational mechanisms to assist them in this regard.

## 1. Introduction

While research into business ethics has grown significantly into a field of specialisation, research on ethics within small and medium-sized business has received little attention. This point was made by Quinn (1997), Painter-Morland and Spence (2009) as well as Bailey, Burnett, Myers and Vyakarnam (1997). Bailey *et al.* (1997:1625) pointed out that while small businesses make up the majority of businesses in operation, research related to business ethics in these organisations has remained limited: "There has not been any research based on the perspectives of small business leaders, to define what ethical dilemmas they face and how, if at all, they resolve them." In similar vein, Painter-Morland and Spence (2009:1) stated "the presumption of the unit of analysis as a large firm has always been the norm".

This lack of research is a concern, with most research on business ethics being directed towards large-scale organisations, still ignoring the organisation's size (López-Pérez & Vázquez-Carrasco, 2013). These authors went as far as stating that "we are dealing with a line of research still in its early stages – lacking in maturity" (2013:3210) and that "we are dealing with a very relevant line of research with a lot of potential for future studies" (2013:3216). This research project was aimed at addressing this shortcoming.

## 2. Research objectives

The objective of the research was to determine the ethical risks faced by small and medium-sized businesses and to ascertain how business leaders address these risks by inculcating business ethics into their organisations. It was proposed that the inculcation of business ethics occurs on three principal levels (strategic, systems and operational) and each of these levels was set as a secondary area of focus. Three questions were posed. How was business ethics inculcated at a strategic level – a reflection on whether these businesses view ethics as a strategic issue in their business? How was business ethics inculcated at a systems level – reflecting on the various systems that these businesses use to aid them in their ethics management? How was ethics inculcated at an operational level – investigating the alignment of operational mechanisms to support ethical behaviour and prevent misconduct within the organisations? Factors that could influence the inculcation of business ethics on any one of these levels were also investigated. The three principal levels (strategic, systems and operational) are similar to Rossouw and Van Vuuren's (2010:249-265) concept of institutionalising ethics on these three levels of an organisation. It is also aligned to Robinson, Engelbrecht and Pieterse's (2015:198-214) formulae for an effective code of conduct which includes a strategic orientation, supported by formal and informal instruments to better manage ethics.

There is a lack of clarity as to what classifies a business as a small and medium-sized entity. For purposes of this research, a broad interpretation of a small and medium-sized enterprise is adopted and classified as one which has between 10 and 1 000 employees with at least one managerial level in addition to that of the owner-manager. It excludes micro-sized businesses defined as those with less than 10 employees.

### 2.1 Business ethics in small and medium-sized business enterprises

Small and medium-sized business enterprises "play an incredibly important role in creating jobs, and in so doing, assist in poverty alleviation, providing social safety-nets and community support" (Painter-Morland & Spence, 2009:3). This is especially true in the developing world context where these business enterprises can contribute significantly to economic growth and drive much needed development in sub-Saharan Africa (Painter-Morland & Dobie, 2009:7). In South Africa, for instance, it is estimated that small and medium-sized businesses account for 92% of formalised business, provide employment to 60% of the labour force, and contribute 34% of the country's GDP (The Banking Association of South Africa, 2016). Acknowledging the importance of these enterprises, this study hopefully adds to the body of knowledge regarding ethics in these organisations, focusing on the link between the leaders' values and those of these enterprises, and finally, the systems and operational mechanisms utilised to entrench an ethical orientation in their businesses.

## 2.2 An ethical context for small and medium-sized businesses: survival and risk

The struggle for survival in small and medium-sized businesses, as well as the unique risks faced by these entities, influence business leaders' ethical behaviour (Painter-Morland & Spence, 2009:3). Regarding the ethics and profitability in small and medium-sized businesses, Arend (2013) described the paradoxical relationship between the two. These businesses depend on their ethical reputation to survive, yet they are faced with the temptation to be unethical to survive, where "ethics can be a factor that can trade off against profitability, and it can also be a factor that is synergistic with profitability" (Arend, 2013:1). One implication is that ethical behaviour of small and medium-sized businesses fluctuates during times of recession and boom (Bailey *et al.*, 1997:1627). From a long-term perspective, Avram and Kühne (2008:472) posited that responsible business behaviour by small and medium-sized business enterprises is indeed a source of competitive behaviour and an imperative to long-term survival.

The high levels of normal business risk in smaller businesses are widely argued. In this respect Christopher (2003:289) stated: "Small business is a risky business – from the predictable to the unpredictable". Risk is an important factor to consider when researching any aspect of small and medium-sized businesses as their risk can differ significantly from that of larger businesses. Painter-Morland and Spence (2009:1) referred to the works of Wynarczyk, Watson, Storey, Short and Keasy in 1993 that highlighted the "uncertainty and vulnerability" experienced by these businesses; also to Spence's 1999 observation that these business leaders are faced with the demands of limited cash flow and "persistent survival challenges". In this context, the researchers suggest that the struggle for survival and unique risks faced by small and medium-sized enterprises may impact the ethical orientation of business leaders and their businesses.

## 2.3 Strategic orientation: the link between personal values of the business leader and ethics in small and medium-sized businesses

The importance of adopting an ethical orientation in small and medium-sized businesses was emphasised by Avram and Kühne (2008). They described this ethical orientation as responsible business behaviour because "the source of your competitive advantage can either be enhanced or destroyed by strategic and operational decisions you take today" (2008:472). The institutionalisation of ethics in organisations may be considered at three levels: strategic, systems and operational (Rossouw & Van Vuuren, 2010). From a *strategic* level, there are a number of ethics management strategies: the reactive strategy – reacting to a particular problem encountered; the compliance strategy – aiming to prohibit misconduct; the integrity strategy – focusing on the organisation's values; and lastly, the totally aligned strategy that integrates ethics throughout the organisation

(Rossouw & Van Vuuren, 2010:249-254). These levels are probably quite relevant to small and medium-sized businesses.

It has been argued by Viviers (2013:68-69) and Quinn (1997:121) that the personal values of a business leader could have a profound influence over the ethical orientation of small and medium-sized business. Viviers (2013:68) described how these values "orientate company culture and practices" and how the relatively informal nature of the business results in the business leaders' values constituting the "fundamental determinant of company ethics and practices" (2013:69). Quinn (1997:120) referred to Trevino's Interactionist Model of Ethical Decision-making in organisations and suggested that individual moderators, such as ego strength, field dependence and locus of control all have a greater impact in smaller businesses as opposed to situational factors, such as the job context, organisational culture and work characteristics. The implication is that a business leader's ethical attitudes have a greater impact on the business decisions of small and medium-sized enterprises than would be the case in large organisations with inherent control systems and organisational norms (Quinn, 1997:120).

## 2.4 Systems and operational mechanisms for managing ethics

Systems are defined as the formal and informal methods a business can adopt to guide the business and employees in ethical conduct, such as identifying and communicating the values of the business; leadership setting an example of exemplary ethical conduct; the development of a code of conduct that encapsulates the values and standards of behaviour expected of employees; training interventions to assist employees when facing complex ethical decisions; and the establishment of whistle-blowing lines to encourage the reporting of misconduct (Robinson *et al.*, 2015:198-214). Operational mechanisms refer to operational processes and monitoring efforts to ensure procedures and standards are adhered to, and include auditing financial records; procurement procedures; product quality control systems; and monitoring of employees and assets through technology (pilot study outcomes).

According to Kaptein (2015), research on a *systems and operational level* in ethics management is again biased towards large organisations. He, for example, evaluated the 'components' of an ethics programme from the perspective of their effectiveness for large organisations specifically, including pre-employment screening, codes of ethics, training and communication, investigation and corrective policies, accounting policies, an ethics reporting line, ethics office, monitoring and auditing as well as incentive policies. Kaptein (2015) found that formal ethics management systems were mostly used in large organisations – contrasting with the more informal systems mostly utilised by small and medium-sized businesses (in which case less unethical behaviour was observed). The tendency of small and medium-sized businesses to adopt a more informal approach to ethics management was also suggested by Viviers (2013:69): "Rather than implementing a set of policies, codes and protocols, these owner-managers operate their companies primarily through informal practices and relations". Graafland, Stoffele and Van De Ven (2003) further highlighted differences in the management of ethics in larger and smaller organisations. According to these authors, large firms have larger scales and the cost of development of instruments, such as codes of conduct, is relatively low. In addition, due to larger firms' scale, they need more instruments to facilitate communication of their values and norms; smaller businesses achieve this through personal communication (Graafland *et al.*, 2003). Furthermore, the cost of corporate social responsibility – such as social and ecological efforts – in light of the competitive environment in which smaller firms operate – can be very expensive for these firms. Graafland *et al.* (2003) suggested that large firms were more likely to make use of a range of formal instruments to further ethical behaviour and Spence and Lozano (2000) found the adoption of formal codes of conduct and other standards or controls to be lacking in most small United Kingdom firms. This was attributed to a mistrust of bureaucracy and a reliance on informal control mechanisms.

The difference between larger and smaller organisations with regard to ethics management is also clear from the perspectives of Rossouw and Van Vuuren (2010:254-263). They described various systems to manage ethics: communication through the use of awareness programmes, 'ethics talk', an ethics help desk, confidential reporting systems, ethics newsletters, recruitment, suitable selection of employees supported by interviews, reference checking, psychometric tests, assessment centres, orientation of new employees, performance management and rewards, training, disciplinary procedures, and the monitoring of the ethical performance of the company. It can reasonably be argued that small and medium-sized organisations would not be in a position to offer most of these extensive ethics management support systems such as an ethics help desk and a sophisticated human resources system.

Rossouw and Van Vuuren (2010:265-273) also described the challenges of 'translating' values into an ethical culture. In order to do so, they suggested a number of role players that can contribute towards this aim, for instance the chief executive officer, the 'ethics sponsor', the 'ethics champion', the ethics committee, the ethics manager and the line managers. In small and medium-sized businesses, the researchers suggest that some of these role-players may not feature – for instance, an ethics committee – while the small and medium-sized business leader is likely to take on a number of these roles.

The systems proposed by Rossouw and Van Vuuren (2010:254-263) and Robinson *et al.* (2015:198-214) were nonetheless adopted as a useful framework for this research.

## 3. Method

A quantitative methodological approach was utilised and the following steps were undertaken:

### 3.1 Pilot study

A pilot case study was conducted through an in-depth interview and company site visit of a profitable and successful (owner voluntarily provided financial results), relatively mature (20 years of operation), owner-managed medium-sized business. While the results were not included in the analysis of the data, the pilot study was conducted to (1) determine the most suitable research methodology for the research; (2) guide the structure of the project; and (3) inform the inclusion of appropriate questions in the questionnaire to address the relevant topics identified during the process. The interview with the pilot study's business owner consisted of open-ended questions that sought to determine the kinds of ethical risks that were faced by this company, the severity of these risks, and the various methods employed to mitigate these risks and support an ethical orientation in the business. The owner provided documents as evidence of the systems and operational mechanisms employed in ethics management.

## 3.2 Planning and design

The pilot study interview data, the ethics management documents, the theoretical frameworks to institutionalise ethics proposed by Rossouw and Van Vuuren (2010), and the formulae for effective codes of conduct provided by Robinson *et al.* (2015), guided the researchers in the choice of a quantitative methodological approach for the project and informed the design of the questionnaire.

The first section of the questionnaire consisted of participant information, and included questions regarding the nature of ownership such as family versus non-family owned; the number of years in operation; the age of the owner or manager; the number of hierarchical levels; the number of managers; the number of employees; and the industry in which the company operated. The results of this section of the questionnaire are depicted in Table 1.

The second section of the questionnaire considered the risks faced by small and medium-sized business as the findings by Arend (2013:1), Christopher (2003:289), and Painter-Morland and Spence (2009:1) emphasised the unique context of risk faced by small and medium-sized enterprises in their efforts for long-term survival. The questionnaire posed different functions within the organisation, such as sales and accounting, and types of risk, such as theft and fraud. The questionnaire allowed the participants to select the level of perceived risk on a Likert-scale from very risky to no risk posed.

The relationship between the owner or manager's values and the ethical orientation of the business, as suggested by Viviers (2013:68) and Quinn (1997:121), were explored in the third section of the questionnaire. In total 12 questions were asked that sought to determine the perceived relationship between the personal values of the owner or manager and the values of the business; the role of ethics as a strategic imperative; and whether the owner or manager acted in accordance with the values and rules of the business. Participants could select on a Likert-scale of agreement to the question posed from 'very much so' to 'not at all'.

Robinson *et al.* (2015:198-214) and Rossouw and Van Vuuren (2010:254-265) provided a useful framework that informed the design of the final two sections of the research questionnaire that aimed to identify the ethics management systems and operational mechanisms that small and medium-sized businesses used to manage ethics. The pilot study also identified operational mechanisms that were used in ethics management, and these were added to the questionnaire. The questionnaire required participants to select the systems and mechanisms they utilised to manage ethics from the listed 24 systems or 11 operational mechanisms detailed, and to describe whether the system or operational mechanism was useful, or not, in their attempt to inculcate ethics in their businesses.

## 3.3 Selection of participants

The Nelson Mandela Bay Business Chamber's list of members, publicly available on their website, was the primary source of participants. The researchers also sought suggestions from colleagues to enlist potential candidates in the research. Twenty companies were selected for their suitability based on their small and medium-sized nature. These companies were approached to participate by telephone and by e-mail. The nature of the study was explained and they were asked to voluntarily participate on a confidential basis (company names would not be disclosed in the research outcomes). Of these companies, 13 small and medium-sized business' leaders agreed to participate. Their details – type of ownership, years in operation, average annual turnover, age of owner or manager, number of hierarchical levels in the company, number of managers, number of employees and nature of the industry, are depicted in Table 1.

**Table 1: Description of participants**

| Participant | Family owned | Years in operation | Average annual turnover (R-million) | Owner/ manager age | Hierarchical levels | Number of managers | Employees | Industry |
|---|---|---|---|---|---|---|---|---|
| 1 | Yes | 20+ | R10-20 | 77 | 3 | 2 | 30< | Manufacturing |
| 2 | Yes | 10-20 | R20+ | 60 | 5 | 1 | 30< | Manufacturing |
| 3 | Yes | 20+ | R20+ | 38 | 3 | 4 | 31-50 | Logistics |
| 4 | No | 20+ | R20+ | 58 | 4 | 3 | 30< | Manufacturing |
| 5 | No | 20+ | R20+ | 42 | 3 | 6 | 51-100 | Advertising & marketing |
| 6 | No | 20+ | R20+ | 57 | 5 | 5 | 201> | Agriculture |
| 7 | No | 10-20 | R20+ | 49 | 4 | 9 | 201> | Security |
| 8 | Yes | 20+ | R10-20 | 51 | 3 | 6 | 51-100 | Hospitality |
| 9 | Yes | 20+ | R20+ | 57 | 4 | 5 | 30< | Retail |
| 10 | Yes | 20+ | R20+ | 51 | 2 | 0 | 30< | Motor |
| 11 | No | 3-5 | R20+ | 59 | 4 | 6 | 201> | Agriculture |
| 12 | Yes | 20+ | R20+ | 59 | 4 | 10 | 201> | Motor |
| 13 | Yes | 20+ | R3-6 | 41 | 3 | 3 | 30< | Retail |

Participating companies were deliberately selected from a wide range of industries to avoid the tendency to become industry specific. References to participating companies were abbreviated according to their industry to protect confidentiality. Abbreviations were also used to refer to the different industries: 'Man' to manufacturing industry; 'Log' to logistics; 'Adv' to advertising; 'Agr' to agriculture; 'Sec' to security; 'Hos' to hospitality; 'Ret' to retail; and 'Mot' to the motor industry. Numbers referred to the number of the participating company in the sequence of the interviews conducted, as detailed in Table 1. For example, 'Ret 13' referred to interview number 13, which was a retail company.

### 3.4 Interviews

Appointments were made to interview the business' leaders individually and semi-structured interviews were conducted at their business premises. The interviews were between one and two hours in duration, during which time the quantitative questions were posed. The semi-structured nature of the interview allowed the participants to clarify their answers, and allowed the researchers to ask probing questions to obtain clarity or a deeper understanding of participants' reasoning in answering questions as they did. The researchers completed the quantitative questionnaires reflecting the participants' answers and made notes of additional comments they made during the interview.

### 3.5 Analysis of the data

Descriptive statistics was used to analyse the quantitative Likert-scale data to determine means and standard deviations of the risks faced by small and medium-sized business enterprises, the role of values in ethics management, and the adoption of systems and operational mechanisms as tools in ethics management. Frequency analysis was utilised to determine the level of adoption and perceived usefulness of systems and operational mechanisms available to managers to manage ethics in participating companies.

## 4. Results

The results of the research will be described and discussed below in four sections: nature of the risk faced by small and medium-sized enterprises and the efforts business leaders undertook to mitigate such risks; the strategic commitment of these leaders to ethical business practices; the systems they utilised in ethics management; and the operational mechanisms they adopted to manage ethical behaviour.

### 4.1 Areas and frequency of perceived prevalence of risks

Participants were firstly asked to identify the areas of ethics risks in their organisations and to rate the risk areas according to their perception of whether the risk was very risky, a moderate risk, a neutral risk, a low risk or not a risk at all. These were classified on a Likert-scale from 1 (very risky) to 5 (no risk). The results are depicted in Table 2. The semi-structured nature of the interviews provided greater insight into these risks and the approaches the business leaders took to mitigate these risks.

**Table 2: Areas and frequency of perceived risk areas**

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

Although the responses varied quite significantly between firms as indicated by the high standard deviation and range of answers, it did indicate a higher perception of risk in the following areas: *product*, *sales*, *theft* and *customers*. The results also indicated a lower perception of risk in the areas of *accounting*, *fraud* and *supply chain*.

## 4.2 Risk and mitigation of risk

The respondents generally described intense involvement in the management of their businesses which, to some extent, gave them direct control over some risk factors. There was consensus, however, that despite this level of control, it was almost impossible to mitigate risk entirely. Even when "we've tried to diminish all the things that can go wrong" (Mot 12), "there are always loopholes" (Log 3).

Although *product* (product and service quality) is perceived as a relatively high risk area due to the potential negative reputational impact and financial cost to the company, this risk was generally well mitigated. "Everything is checked before it leaves" (Man 1); "We strive towards service delivery" (Log 3); "We compete nationally…our services have to exceed those of other national companies" (Adv 5). In the case of *theft* participants found it more difficult to control the risk. "If there are personal financial pressures, people take chances" (Agr 6); "I have caught staff stealing" (Ret 9); "Typically theft occurs in our retail shop, both internally (staff) and externally (customers)" (Agr 6). Perceived *sales* risk was as a result of unethical sales efforts, while the perceived risk from *customers* reflected the danger of customers acting unethically.

Concerning *accounting* and *fraud*, relatively low risks were perceived, possibly resulting from the adoption of sophisticated accounting systems and procedures, often with direct control over payments from managers: "I sign everything off. I pay everything myself" (Mot 10). Sometimes these systems or procedures were the result of learning the 'hard way' through prior fraud: "In our time we have had instances. Every time it is someone you trust. It always is" (Mot 12). Referring to *supply chain* risk, the perception was that suppliers posed little threat to their businesses.

An unexpected outcome was some participants' commitment to fair treatment of their customers from a pricing perspective. Manufacturing firm (Man 2) is a specialised firm offering security solutions, and benefits from an almost inelastic supply scenario. They could charge almost whatever they wanted. Yet they have adopted the following approach with pricing: "We have a formula for (fair) pricing. We have a benchmark profit percentage". Other approaches include "not charging too much or too little – fair pricing. Integrated software systems linked to how much time it takes to design – we can immediately see if we over or under quoted" (Adv 5); "We put on a margin and sell it. Our customers see our gross profit" (Agr 6).

The data were further analysed using descriptive statistics to determine the impact of family-owned versus non-family-owned factors on these risk areas. *Accounting*, *theft*, and *health and safety* had similar risk weightings between family and non-family-owned businesses. In a number of other areas, family-owned businesses often perceived the risk to be lower than did non-family-owned businesses: *sales* (mean 2.5 versus 2.2), *marketing* (mean 3.5 versus 2.8), *product* (mean 2.75 versus 1.6), *misconduct of customers (*mean 3.125 versus 2.2); supply chain (mean 3.75 versus 3.2), and *legal liabilities* (mean 3.75 versus 2.2).

The most significant factor impacting risk perception amongst small and medium-sized businesses seems to be the number of hierarchical levels. As the number of hierarchical levels increases, the perception of risk increases significantly for *sales*, *marketing*, *accounting* and *theft*. This could be related to the hierarchical distance, resulting in ethics management complexities between the business leader and employees. *Theft*, in a business with three hierarchical levels had, for example, a mean of 3.4; with four hierarchical levels, a mean of 2; with five or more hierarchical levels, a mean of 1 – suggesting that the perception of the risk of *theft* increased substantially with the number of hierarchical levels.

## 4.3 Strategic commitment to ethical business practices

In order to determine whether participants – and their businesses – had a strategic orientation toward ethics, participants were asked a number of quantitative questions, the results of which were analysed using descriptive statistics. In addition, they were encouraged to comment on the questions to provide a better understanding of the data obtained. Three themes were explored in the quantitative questionnaire and rated on a Likert-scale from 'very much so' to 'not at all'.

**Theme 1: Are personal values reflected in the values of the business?**

Four questions were presented to the participants:

- C1Q1: "Do you believe your personal values are reflected in the business culture?"

  The question elicited an 84% response of "very much so" and a 15% response of "neutral".

- C1Q2: "Do you employ people with similar values to yourself?"

  77% of the participants said "very much so" and 23% agreed to "moderately so".

- C1Q3: "Do you regularly communicate your values to your employees?"

  69% of the participants agreed to "very much so", 15% to "moderately so", 8% were "neutral" and 8% said "not really".

- C1Q4: "Do your rules and regulations in business reflect your personal values?"

  77% of the participants said "very much so", 8% said "moderately so", while 15% was "neutral".

These results indicated that business leaders of small and medium-sized enterprises generally believed that their personal values were reflected in the businesses' culture; that they tended to employ people with similar values to themselves; that they communicated their values to employees, and that systems rules and procedures and operational mechanisms reflected these values. Comments made by participants during the interviews substantiated these results. Personal values, for example, were strongly reflected in leaders' management style: "Good work ethics. Lead by example rather than charismatic. Doing the right thing. Disciplined approach. Integrity, honesty and reliability" (Sec 7); "Take personal pride in the business" (Hos 8); "Emphasis on integrity. People need to be open and upfront. Whatever I do is real and true" (Agr 11).

A number of the leaders' statements also referred to the important role of values in their relationship with customers and employees. Fairness to customers, for example, was often highlighted: "We're all in business to make money, but don't chase the money" (Man 1); "Give product knowledge. Right price. Do our best. Right service… I put myself into the customer's position" (Ret 9). From an employee perspective, participants had the following to say: "We try to treat them properly" (Man 2); "Respect for our people… very people orientated. Integrity and fairness. Open door policy" (Adv 5); "Respect is earned. One of my core beliefs. Don't expect someone to do something if I can't do it" (Hos 8); "Unashamedly ethical. Employees won't try anything unethical, otherwise they are out of the door" (Mot 1); "'Birds of a feather'. We have grown our own (training employees)… good solid people. Quality people" (Mot 12).

**Theme 2: Is business ethics a strategic imperative?**

Four questions were posed to participants:

- C2Q1: "Acting ethically is critical to your business success?"

  An overwhelming response of 100% agreed "very much so" to the question.

- C2Q2: "Unethical behaviour could destroy your business?"

  Again, a response of 100% was received for the "very much so" option.

- C2Q3: "Do you emphasise the importance of ethical behaviour when communicating with employees?"

  85% of the participants agreed to the "very much so", while 15% agreed to the "moderately so" option.

- C2Q4: "Is ethical behaviour integral to your business strategy?"

  69% of the participants agreed to the "very much so", 23% to the "moderately so", and 8% to the "neutral" option.

These responses indicated a strong perception that an ethical orientation was a strategic imperative, although there was a slight indication that this commitment may not always be an explicit aspect of their business strategy. The implicit nature of ethics in their strategy can be illustrated by numerous quotes from the participants: "Ethical behaviour is central to our business" (Man 2); "Ethics is part of our culture. We wouldn't be in business if we weren't ethical" (Log 3); "We will only obtain long-term sustainability if we get the reputation of doing the right thing (Sec 7)"; "It (ethics) is the core of our business. It has to be. If you don't have ethics, you don't have a business" (Hos 8); "It (ethics) is the foundation of living out our strategy" (Agr 11).

**Theme 3. Do the business leaders act in accordance with their values and the businesses rules?**

The four questions posed to participants were the following:

- C3Q1: "Do you set an example of ethical behaviour for your employees?"

  92% of the participants believed they did "very much so", while 8% felt they did "moderately so".

- C3Q2: "Are your business decisions sometimes in conflict with your personal values?"

  Only 8% of the participants felt this to be true and selected "very much so", 8% selected "neutral", 15% selected "not really", while the remaining 69% selected "not at all".

- C3Q3: "Do you sometimes disregard your own rules for business's sake?"

  8% of the participants selected "not really", while 92% selected "not at all".

- C3Q4: "Would you turn a 'blind eye' to an employee contravening the law or your rules if it resulted in profit with little risk?"

  All respondents (100%) indicated they wouldn't and selected "not at all".

These results indicated a strong commitment by medium-sized business owners to lead by example when it came to ethical issues, although there sometimes may be a degree of dissonance between personal values and business decision making. The difficulty of sometimes making the correct ethical decisions did come to the fore in the discussions with participants. One participant described the internal conflict sometimes experienced, "but you have to stick to the policies. Don't expect others to keep to policies if you don't" (Hos 9). Ethical decision making can also complicate and make decision making a longer process: "Sometimes takes too long to make decisions, because sometimes we take too long to think about it – often from an ethical perspective" (Sec 7); "We encourage 'robust engagement': debate issues" (Sec 7); "If we have a dilemma, we will check the legal ramification" (Mot 12).

A comparison was made between family-owned and non-family-owned businesses in terms of the above questions. In most instances the results were closely correlated, indicating little difference between family- and non-family-owned business leaders' perceptions of the values of the business, the importance of ethics as a strategic imperative, and their role in leading by example. A slight difference was observed in terms of C1Q1 which explored whether leaders' personal values were reflected in the values of the business. For family-owned businesses a mean of 1.0 was recorded; for non-family-owned businesses, a mean of 1.8. This could be because non-family-owned businesses are managed by managers rather than owners, possibly resulting in some business values not being the same as the owner's. This result is in line with past research that indicated that family ownership can influence levels of misconduct: Ding and Wu (2014), in a study of smaller firms in the United States of America, found that family-owned firms were less likely to perpetrate unethical behaviour than non-family-owned firms.

A similar analysis was conducted regarding the impact of the number of years of business existence on the strategic orientation of ethics within the business. Results were closely correlated, indicating that there was little difference between the strategic orientation of the businesses and their age. This result is not fully aligned to the findings of a study by Ding and Wu (2014) who found that maturity of the firm and the age of the smaller business owner had a positive moderating influence over ethical behaviour due to the succession motivation of these owners (transfer of the business to other family members). It must be noted that most of the participant companies were mature companies, with the vast majority of these companies exceeding 21 years of being in existence (77%).

Responses were also evaluated to determine whether the number of hierarchical levels influenced the strategic (ethical) orientation of the business. The number of hierarchical levels appeared to have a limited influence on the strategic orientation towards ethics within the business. Results from question C1Q1 indicated that leaders in companies with three hierarchical levels felt their personal values were better aligned to those of the business (mean of 1) as opposed to leaders in companies with four hierarchical levels (mean 1.8). A possible explanation for this discrepancy may be that more complex organisations develop a unique business culture that does not always reflect one person's value system.

## 4.4 Systems utilised in ethics management

Participants were provided with a list of 24 possible systems that could be used to inculcate ethics in their businesses. They were asked to confirm whether they utilised such systems, and if so, rate their perceived usefulness on a scale 1 to 5, with 1 being very useful and 5 being perceived as a waste of time. The results are summarised in Table 3 below. Frequency of adoption refers to the percentage of participants utilising a particular system in ethics management, while the frequency of adopted systems being 'very useful' refers to the percentage of participants, who used such systems, perceiving these systems as being useful in ethics management.

**Table 3: Frequency of adoption and perceived usefulness of systems utilised in ethics management**

| | System | Frequency of adoption (%) | Frequency of adopted systems being perceived as 'very useful' (%) |
|---|---|---|---|
| Q1 | Values publicly displayed on company premises. | 46.15 | 66.67 |
| Q2 | Communication of ethical issues verbally – that is, encouraging discussion of ethical issues. | 84.61 | 63.64 |
| Q3 | Communication of ethical issues in newsletters, letters, email, website etc. | 23.08 | 33.33 |
| Q4 | Training on ethical issues. | 61.54 | 75.00 |
| Q5 | Generic set of rules. | 69.23 | 33.33 |
| Q6 | Code of conduct. | 38.46 | 60.00 |
| Q7 | Visibility of rules or ethical behaviour such as posters or published guides. | 38.46 | 60.00 |
| Q8 | Ethical standards detailed in job advertisements. | 23.08 | 0.00 |
| Q9 | Ethical standards explained in job interviews. | 53.85 | 71.43 |
| Q10 | Training new employees on ethical standards. | 61.54 | 62.50 |
| Q11 | Inclusion of ethical standards/rules in employment contracts. | 53.85 | 42.86 |
| Q12 | Requirement for employees to sign acknowledgement of ethical standards separate to the employment contract. | 30.77 | 50.00 |
| Q13 | Training on ethical issues. | 46.15 | 50.00 |
| Q14 | Access to an ethics help-line. | 0.00 | N/A |
| Q15 | Access to a whistle-blowing hotline. | 15.38 | 50.00 |
| Q16 | Anonymous reporting of misconduct is offered. | 61.54 | 37.50 |
| Q17 | Methods of reporting misconduct are provided to employees. | 61.54 | 50.00 |
| Q18 | Consequences of misconduct are communicated to employees verbally. | 69.23 | 55.56 |
| Q19 | Consequences of misconduct are provided to employees in some form of written documentation. | 23.08 | 66.67 |
| Q20 | Ethical behaviour is publicly recognised. | 38.46 | 40.00 |
| Q21 | Ethical behaviour is rewarded financially. | 0.00 | N/A |
| Q22 | Ethical behaviour is included in performance appraisals. | 7.69 | 0.00 |
| Q23 | Communicating ethical standards to suppliers. | 23.08 | 0.00 |
| Q24 | Communicating ethical standards to customers. | 53.85 | 14.29 |

The results indicated that values were conveyed mostly through verbal communication (frequency of adoption = 85%) with lesser use of formal methods such as publicly displaying values, or communicating values through newsletters. It was aptly stated: "People know me and so I don't need to put it on boards" (Mot 1). Some participants acknowledged that they didn't communicate values as much as they felt they needed to; others made ethics a "top priority" (Agr 1). This was achieved through addressing ethical issues in meetings, personally discussing the company's value system with new employees; encouraging discussion and debate and utilising case studies. "We try to do it all the time. The mind-set has changed towards 'doing the right thing' all the time" (Sec 7).

Regular and ongoing training on ethical issues was reasonably widespread (frequency of adoption = 62%). There was a preference for generic rules instead of a formal code of conduct, with only 39% of companies having a formalised code of conduct. Some of the participants felt there could be value in introducing formalised codes of conduct. Those who did have a code of conduct mostly found value in the application of the code's provisions in disciplinary matters. Some didn't see any value in their codes: "We have a code of conduct to comply with customers' (requirements). Waste of time. It is our culture/personal relationship with each employee (that makes us ethical)" (Man 2).

In the recruitment and employment of new employees, ethical standards and rules were mostly not used in job advertisements (frequency of adoption = 23%). Ethical standards were only marginally conveyed in job interviews and included in employment contracts (frequency of adoption = 54%). Standards are, however, often included in the training of new employees (frequency of adoption = 62%). Regarding the selection of employees, participants did emphasise the importance of aligning values: "Values first and then skills developed to match where possible" (Man 4); "Focus on individual values" (Agr 1.); "Much rather have an employee with 80% of skills, but who has the same values" (Ret 13); "Do you fit our value system?" (Adv 5).

Although there was limited access to whistle-blowing hotlines (frequency of adoption = 15%), anonymous reporting and methods of reporting were in place in the majority of companies (frequency of adoption = 62%). Direct reporting of misconduct to the business leader was most common and generally encouraged: "Direct line to me – again based on personal relationship" (Man 2); "Normally they would come to me" (Agr 11); "Open door policy" (Log 3 and Sec 7). Informal communication was also a way through which business leaders detected misconduct as Mot 12 mentioned, "… 'bush telegraph' works like a bomb. When working as a team, things come back quickly."

The usefulness of the systems was further analysed using frequency analysis to determine the percentage of participants who regarded the system as useful. While this frequency analysis itself is limited due to the low adoption levels of some of the systems, it does provide some insight into perceived usefulness of certain systems. The frequency analysis compares systems that are perceived to be 'very useful' as opposed to systems that are regarded as 'moderately useful', 'neutral', 'not very useful', and a 'waste of time'. Systems with a frequency of 60% and above were regarded as being perceived as 'very useful' by the companies using them. These systems included the public display of values, verbal communication of ethical values, training on ethical values, a code of conduct, visibility of rules, ethical standards being described in job interviews, training new employees on ethical standards, and written consequences of unethical behaviour being provided to employees.

## 4.5 Operational mechanisms utilised in ethics management

The range of operational mechanisms was evaluated in terms of frequency of adoption and frequency of perceived usefulness, and is detailed in Table 4 below:

**Table 4: Frequency of adoption and perceived usefulness of operational mechanisms utilised in ethics management**

| | Operational mechanisms | Frequency of adoption (%) | Frequency of adopted operational mechanism being perceived as 'very useful' (%) |
|---|---|---|---|
| Q1 | Accounting oversight and methods to flags suspicious transactions. | 69.23 | 88.89 |
| Q2 | Financial auditing with a focus on fraud prevention or identification. | 92.31 | 58.11 |
| Q3 | Visual observation, such as CCTV to monitor employees. | 76.92 | 40.00 |
| Q4 | Use of GPS technology to monitor employee activities and use/misuse of assets. | 61.54 | 62.50 |
| Q5 | Email and internet controls and monitoring of employees' web, email and social media usage. | 38.46 | 40.00 |
| Q6 | Procurement processes to guard against bribery and corruption. | 30.77 | 50.00 |
| Q7 | Customer selection and screening to prevent undesirable clients. | 30.77 | 50.00 |
| Q8 | Restraint of sales and marketing practices to ensure ethical practices. | 23.08 | 100.00 |
| Q9 | Quality control to ensure quality products and services are provided. | 100.00 | 61.54 |
| Q10 | Health and safety controls are in place to ensure minimum standards are adhered to. | 84.62 | 45.45 |
| Q11 | Advanced use of ICT technology to monitor and control employees' activities. | 23.08 | 66.67 |

It was found that the level of adoption of operational mechanisms detailed in the questionnaire was relatively high, although the perception of their usefulness was relatively low. Accounting oversight and auditing practices were generally in place to monitor suspicious or fraudulent transactions, yet the usefulness of auditing in combating fraud was regarded as low, with a frequency of 58%. Perhaps this reflected participants' views – as discussed earlier – that despite processes to combat fraud being in place, risk will never be completely mitigated.

The use of CCTV and GPS to monitor employees was relatively high although the perception of the usefulness of such monitoring devices was low (frequency = 40%). Two participants mentioned the fact that it was impossible to monitor CCTV footage all the time, while others claimed that while it may be a deterrent, it didn't prevent problems such as theft. "You can bring in 100 cameras, but if thieves want to steal, they will" (Hos 8).

All the participants had product and service quality control mechanisms. This had been a common theme in the interviews, with participants emphasising the importance of their service to clients and the provision of quality products. “Nature of our business is about service levels. Something important” (Sec 7); “Very important to us. Must be kept to!” (Mot 10); “That’s our business…spend a lot of money on quality control” (Agr 11). Some of these operational processes were quite detailed: “Operational process manual. Guides from 1st client meeting to final handover. ‘Proofing stamp’ that requires a whole lot of people to sign including the client” (Adv 5). The potential for these control mechanisms to ensure high quality service and products was nevertheless questioned with only 62% perceiving these measures to be very useful.

## 5. Conclusion

A number of important contributions to the understanding of ethics management by small and medium-sized business leaders were derived from the research. Small and medium-sized business leaders perceived relatively higher levels of ethical risks in the areas of product quality, threat of theft, sales and misconduct by customers, with relatively lower levels of risk in the areas of accounting, fraud and the supply chain. Participants indicated high levels of perceived potential risk due to misconduct or unfair competitive behaviour. Small and medium-sized business owners displayed a commitment to fair treatment of customers especially with regard to pricing of their products and services. Family-owned businesses also often perceived their ethics risk as lower than that of non-family-owned businesses, especially in the functions of sales and marketing, and in their relationship with customers, their supply chain, and the potential for legal liabilities. Most significant was the finding that the number of hierarchical levels, and the inherent complexity related to more management levels, apparently increased the perception of risk in the sales, marketing and accounting functions, and the threat of theft.

Personal values of business leaders were found to be strongly correlated to the values of the business, and business leaders regarded business ethics as a strategic imperative. Business leaders also tended to act in accordance with both their values and the business’ rules and regulations. The majority of participating firms were mature, making it difficult to draw conclusions regarding the impact of such maturity on values, strategy and actions.

The analysis of systems adopted and the perceived usefulness of such systems in inculcating ethics in small and medium-sized business were found to be mostly informal in nature, such as verbal espousing of values by the business leaders rather than a reliance on written documentation. Some leaders did, however, express the views that they were possibly not doing enough to communicate their values. Formal methods, such as ethics help lines and documented rules were either non-existent or poorly used. From an operational perspective, while the adoption of the range of operational mechanisms available was high, the perceived usefulness of such mechanisms to ensure ethical behaviour remained quite low.

The results from this study have a number of useful implications. The low adoption of certain systems to manage ethics in small and medium-sized businesses may potentially be an opportunity for their leaders to consider their use. During the interviews, there was often contemplation by participants that the systems and operational mechanisms discussed could be useful to manage ethics in their organisations. The results could also provide an opportunity for academics and training providers involved in entrepreneurship, and small and medium-sized business leadership training, to expose these business leaders to the range of methods that are available for them to better manage ethics in their businesses. Noting the importance of small and medium-sized businesses to the economy, especially in developing nations, and the obvious negative impact of unethical behaviour on the long-term survival of such businesses, government institutions supporting small and medium-sized business development may also consider supporting such businesses with clearer guidelines and training to imbed ethics in new and existing businesses.

An important limitation of the study is the process of convenience sampling and a small sample size both of which may limit the generalisability of the findings. This opens several future research opportunities. Firstly, larger sample sizes may obviously provide greater reliability and validity. Secondly, enhanced insights into the moderating factors that may influence the inculcation of ethics into small and medium-sized businesses may be particularly valuable: the role of family versus non-family ownership, firm size, number of hierarchical levels and business maturity.

It is important to note that the vast majority of firms in the research had been in business for more than 10 years. Further research may be needed to ascertain whether the maturity of the business – especially between start-up and less than 10 years – had any significant impact on the strategic orientation of ethics within the business.

## Acknowledgements

We would like to acknowledge Dr Jan du Plessis who assisted with the quantitative analysis of the research results as well as Mr Rod Townsend who provided assistance in the editing of the article.

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