

# Introduction: Business ethics in small and medium enterprises

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This volume of papers brings together the insights that researchers from around the globe have developed on ethics in micro, small and medium sized enterprises (SMEs). We are pleased to present an extraordinary range of papers giving regional perspectives from Africa, Europe, India, Latin America, New Zealand and Australia, and the United States of America. The idea originated from a plenary panel on 'Ethics in SMEs' that was part of the 2008 Congress of the International Society for Business, Ethics and Economics (ISBEE) in Cape Town, South Africa. ISBEE<sup>1</sup> is a global organisation which has the goal of enabling the contemporary debates on business ethics and economics to include a developing world perspective as well as the dominant Anglo-Saxon developed world view. ISBEE holds a world congress every four years, fondly known as the 'Olympics of Business Ethics'. After previous congresses in Tokyo, Saõ Paulo and Melbourne, the Cape Town Congress was ably hosted by the Business Ethics Network-Africa<sup>2</sup>. Thirty nine countries were represented at the congress, ensuring a rich and vibrant mix of perspectives. One of the two congress themes was Ethics in Small and Medium Sized Enterprises, which took the form of both individual research papers and the global overviews presented here.

The purpose of the global overviews was to draw together, for the first time, an understanding of ethics from the point of view not of the usual multinational corporation, but of SMEs which are in fact – globally

– the majority business form (Fischer & Reuber, 2000). SMEs typically contribute some 50% of GDP in developed economies, and account for around 60% of employment (Griffiths et al., 2007:11). Developing country statistics are hard to come by, due to the problems of collecting information on the ill-defined unit of an SME and the commonly large degree of activity in the informal economy, as discussed by our authors in this special issue on the Latin American case. Nevertheless the special focus on SMEs by the World Bank, the Organisation for Economic Co-operation and Development and the United Nations is testament to the critical importance associated with a thriving SME economy.

Within the business ethics field, the presumption of the unit of analysis as a large firm has always been the norm. In recent years, however, recognition that this narrow approach is inappropriate has been rising. Journal special issues on the topic of smaller businesses and ethics can be found in both small business, and ethics journals, but have been regional in perspective, with examples from the United States (Harris, Sapienza & Bowie, 2009) and most consistently, Europe (Spence & Rutherford, 2003; Moore & Spence, 2006; Morsing & Perrini, 2009). What we know from the extant literature is that there is a clear difference between ethics in large firms and their smaller counterparts. This is no great surprise to small business researchers since all systems and processes are impacted by the difference in scale, yet the business ethics field continues in large part to disregard the important differences. The ISBEE congress was a welcome exception in this respect and has established the foundation for a wider basis and more sophisticated understanding of the ethics of small and medium sized enterprises globally. By way of background, Wyncarczyk et al. (1993) have suggested that there are three ways in which small firms differ characteristically from large firms. These are uncertainty and vulnerability, active engagement in innovation and evolution and change. Elsewhere the idiosyncrasies of small firms have been described as independent and owner-managed, stretched by a broad range of tasks, limited cash flow, facing persistent survival challenges, built on personal relationships, mistrustful of bureaucracy and controlled by informal mechanisms (Spence, 1999).

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What makes the predominance of theoretical models derived from studies of ethics in large corporations all the more troublesome for SME research, is that it has led to distinctions between various ethical dimensions of large organisations that are not applicable to their smaller counterparts. For instance, within the field of business ethics, clear distinctions are made between studies of CSR (corporate social responsibility) and organisational ethics, or 'ethics management and compliance' as it is often referred to in the US. Studies of CSR typically focus on social impacts of the corporation on both its internal and external stakeholders. Ethics management or compliance initiatives focus on the ethical behaviour of the corporation or its agents, and are directed at curbing misconduct and limiting legal liability. In certain contexts, like the US, these fields initially developed largely independently from one another. It is only relatively recently that 'CSR' and 'ethics management and compliance' have become part of a more integrated approach to 'sustainability' and 'triple bottom-line reporting' globally (Painter-Morland, 2006). These distinctions create all kinds of terminological problems when one tries to study ethics in SMEs. The papers in this volume attest to this problem. Some authors use CSR as the central term, others use 'ethics' as a broad designation of both CSR and internal organisational ethics.

From the work presented at the congress, it soon became clear that there were interesting parallels, but also important differences in how SMEs in different parts of the world viewed CSR and other ethical dimensions of their business practices. Not only were the cross-cultural perspectives that emerged during the discussions enlightening, but we also became acutely aware of the dearth of research available on ethics in SMEs all over the world. All the panelists commented on how little is available both in terms of theoretical literature reviews and empirical studies. They reported difficulties in getting the quality and quantity of input that were required to write substantive research papers. Despite the challenges that all of the panelists faced they undertook to pursue their research further. In this volume, we gather the data, theory and interpretative perspectives from across the globe that had emerged in the process. For many reasons, that we hope to outline below, we were especially pleased that the *African Journal of Business Ethics* expressed interest in publishing this collection. It seems to be the right outlet at a very important juncture within the field of study on ethics in SMEs.

The project's origins in Cape Town, South Africa, are significant in some important respects. These first discussions about ethics in SMEs globally took place in a country that could be said to have seen the best and the worst of what capitalism has to offer. On

the one hand, South Africa is one of the best African examples of what sustained private sector activity can produce. The country saw many benefits of economic growth and infrastructure development, and as such, is often held as an example of what can be achieved within the developing world. Unfortunately, this is only one side of the story. South Africa also suffered the ills of colonialism and apartheid, both of which created a business environment fraught with corruption and exploitation. In a study on the impact of big business on corruption under apartheid, entitled *Apartheid grand corruption*, Hennie van Vuuren tracks the 'near monopoly on money, power and influence in the hands of a minority' that characterised business interactions in South Africa for 300 years. Though corruption is often perceived as a public sector problem, van Vuuren's report tracks its roots in the interaction between the private sector and the state apparatus. Transparency International has reported on the specific issues for SMEs in facing corruption (2008). Corruption haunts South Africa to this day, and as van Vuuren points out, it also persists in other countries that have similar histories of long-term graft, like Russia, Peru and Nigeria. Grand corruption undermines the basic conditions of sound economic growth and sustainable business practices. As such, the cost of corruption is almost always borne by the poor and by those without political power. No wonder that the reality that characterises countries where grand corruption has become systemic, is the growing gap between rich and poor, and persisting problems of unemployment.

Integrating the research presented here demonstrates the extensive difficulties faced by researchers in this field. At the most fundamental level, differences in how SMEs are defined causes substantial problems for meaningful cross-study and certainly cross-cultural comparison (Thompson & Smith, 1991). Curran and Blackburn (2001:8–22) detail approaches including number of employees, turnover, sector-specific perspectives, self-definition and combinations of these measures. Here, SMEs are defined in reference to turnover, sometimes it is based on the number of employees, and sometimes on the financial investment made. These differences are important to understand because they signal the central elements that play a role in understanding how SMEs function in various contexts. Accordingly we resist the temptation to define small, medium or large firms here since to do so would suggest a globally accepted definition, which, frankly, is lacking in both scholarship and practice. An additional layer of confusion comes from the conflation of SMEs and entrepreneurship such that a unit of analysis becomes confused with a process embodied in an individual (Shane & Venkataraman, 2000). In this collection of papers, for example, the North American

contribution concentrates on entrepreneurship, which is a particularly strong research approach in that region, whereas all others consider the SME as a unit of analysis, putting less emphasis on the (assumed) entrepreneurial leader.

Another fundamental difference is the discourse in which ethics and CSR is located in the different cultural contexts. In the paper by Collins, Dickie and Weber, on Australia and New Zealand for example, it is especially associated with the environmental issues related to the relatively secluded environmental contexts. In Europe, Perrini and Spence show that the emphasis is largely on social inclusion, growth and job creation in the context of political initiatives. In the US the paper by Baucus and Cochran shows a focus on new venture and wealth creation. In India the context for SMEs themselves is particularly associated with industrial clusters.

It is the troubling coexistence of unemployment, corruption and persistent poverty in much of the developing world represented by Latin America (de Arruda, Bittelbrun, & Mitsuko Yamakami), Africa (Painter-Morland & Dobie) and India (Srinivasan) that creates the context for their studies into ethics in the SME environment and is especially important in this special issue. SMEs are put forward as part of the solution to the problem of poverty through their capacity to create economic activity and employment (King & McGrath, 1999), but unfortunately, some intractable problems undermine the ability of SMEs to develop into sustainable businesses in the formal sector. This is especially problematic in developing countries, where SMEs often find themselves in a corrupting environment within which they have no real power to dissent. Paradoxically, legal measures to curb unethical conduct may raise the cost of operating a business to such an extent that many SMEs opt to function informally, and as such, often illegally as we see in the paper on Latin America. This makes SMEs very difficult to study, and hence, it becomes hard to find solutions to the ethical problems they face. Strict legislation also makes small business owners hesitant to pursue labour-intensive operations. It seems as if being an employer is perceived as a hazardous affair. There also seems to be evidence of an alarming double standard when it comes to CSR and ethics management standards. Large corporations who can afford to take the 'moral high ground' when it comes to codes of ethics and CSR practices, conveniently pass the responsibility to put these codes into practice down the supply chain to SMEs who can hardly afford it (van Tulder et al., 2008). We see this in the case of India, Latin America and Africa.

What our research found is that ethical issues that SMEs face remain either hidden, or they are addressed in an informal, unstructured way, which often goes unreported and under-researched. Add to this the fact

that the 'solutions' or theoretical models that are used to study SMEs were almost always developed with large corporations in mind, and one can understand why the disciplines of business ethics and CSR do not really speak to the realities of SMEs. This volume goes some way towards addressing this problem, but what our authors often encountered is that SMEs find business ethics terminology frustratingly opaque, and that researchers have not yet developed models or instruments that can assess the SME environment in a meaningful way.

The first set of problems is related to how one should describe the ethics of SMEs. In all six of the papers in this volume, it is acknowledged that SMEs play an incredibly important role in creating jobs and in so doing, assist in poverty alleviation, providing social safety-nets and community support. However there are simple semantic issues such that most SME's, especially those in developing countries, don't describe this role that they play in terms of theoretical constructs such as corporate social responsibility (CSR) or business ethics. Instead, these 'ethical actions' are just contingent aspects of how their businesses operate (Murillo & Lozano, 2006). For instance, SMEs sometimes operate in closer proximity to the communities within which they function, and on whose support they depend. As such, they respond to the needs of these communities on an ad hoc basis, rather than having a well-designed CSR strategy (Besser & Miller, 2001). They have to treat their employees well to retain and motivate them, and build relationships of trust within their supply chain in order to survive. Whereas large firms may describe these in codes of conduct, or publish their accomplishments in CSR reports, SMEs tend to perceive this as a much more intrinsic part of their everyday business. We might understand their actions as ethical business practices, it just has not been labelled as such. In fact, since SMEs are not corporations, the term corporate social responsibility can only be a misnomer in the context of SMEs (Moore & Spence, 2006).

We came to the conclusion that many SMEs make important ethical contributions, but it is not described and reported in the terms to which we have become accustomed in the field of business ethics and CSR. This is the good news. Unfortunately, what the papers in this volume, especially those discussing SMEs in developing countries, also make clear is that unethical behaviour is just as much the result of the various business relationships that SMEs are part of, as their ethical behaviour. SMEs often find themselves at the receiving end of relationships that by no means encourage ethical behaviour (Transparency International, 2008). In the papers generated in developing countries, corruption was mentioned as a stark reality that SMEs face. Fraud, conflicts of interest and unacceptable gifts and hospitality have become characteristic of the environment within which SMEs operate. What

was also mentioned is that there is a lack of peer support and organisations, through which SMEs can share insights, discuss joint problems and develop pressure groups that would give them leverage against more powerful government actors or large private firms. Another problem that was identified relates to the fact that Business Ethics' theories and models that aim to address ethical organisational cultures, leadership, and best practice in ethical compliance are all directed at large corporations, and are in most cases not suited to SMEs. There seems to be a real need for the development of ethics management strategies that are flexible and affordable enough to be implemented within small and medium sized organisations.

The influence of interventions helps in some instances. In the case of New Zealand and Europe, it became clear that the support and structure which governments provided SMEs played a very large role in explaining why in these regions more research is available on the unique challenges faced. This also leads to the development of support structures, peer networks and resources to address these challenges. In Europe, the paper by Spence and Perrini shows that the support that SMEs received in Denmark and in the UK display important good practice elements that could be used as models in other countries where conditions are similar. While we do not suggest that there is any panacea to enhancing ethics in SMEs, there are indications that some focused initiatives can have a positive effect. These, for example, include a concentration on the business case for ethical practice and the provision of individual case studies. This approach, while not without its critics because it assumes that small business owner-managers are profit-maximisers (Spence & Rutherford, 2001), has proven to be very popular among policy makers and intermediaries as a way of legitimising social responsibility and ethical activity for SMEs. In Denmark, significant investment by government has been directed towards building public-private partnerships and widespread investment in training in order to mainstream social responsibility in SMEs. It seems clear that there are no quick fixes for facilitating ethics in SMEs, and that to enable a shift in awareness and practice a major investment is required. It is unlikely that any single approach will achieve this and multiple initiatives at all levels will be needed.

As co-editors of this volume, we represent very different contexts. What we have learnt, from the group of researchers contributing to this volume, is that there unfortunately still seems to be a kind of north versus south divide when it comes to the realities of SMEs across the globe. In developing countries or what can be termed the global south, SMEs are not receiving the government support and recognition that their peers in Europe, Australia and New Zealand and the

US are receiving. The analyses of SMEs in Africa, India and Latin-America highlight the following common problems: (i) a regulatory environment that often hurts more than it helps, both because tax structures and compliance mechanisms place undue financial burdens on SMEs, and because other, real problems, like corruption, are not adequately addressed; (ii) SMEs carrying a lot of the burden of job creation and providing social safety-nets, without being granted the government support they need to play this role sustainably; and (iii) an absence of bodies that represent the interests of SMEs and allow them to draw on peer support and broader resources. Despite this, all is not lost. The socially responsive relational dynamics that we encountered within SMEs in various contexts speak to the potential for an alternative view of ethical business practices. This is the area where big corporations can truly learn something from their smaller compatriots. Within SMEs, ethical responsibilities are part and parcel of business as usual, not something that operates as an 'after-the-fact' check on business. Social responsibility is not something that entails just donating some of the profits that were generated when some reputational value can be had. Instead, for many SMEs social responsibility happens in the *process* of generating value for all involved. This seems to be a much more sustainable way to think about social responsibility. But it will only flourish if the systemic support for it can be created, and it is in this area, that much more needs to be accomplished.

The more integrated perspective on ethics and business practice that SMEs display, may merit a reconsideration of our approach to future research in business ethics. In the first place, bigger organisations can learn something from their smaller counterparts regarding the interrelationships between various ethical dimensions of organisational life. For instance, within larger corporations, corporate social responsibility and ethics management often operate as completely separate functions. This leaves very little room for a conversation about how the organisation's commitment to values should consistently be displayed internally and externally. As such, the way in which CSR, ethics management, good governance and corruption prevention all contribute to organisational integrity and sustainability often goes unexplored. It may be worthwhile to study how organisational integrity is manifested through SMEs' diverse range of activities and to revisit the arbitrary distinctions between CSR and ethics management that could cause business ethicists to lose sight of the central set of organisational values that inform all these initiatives.

In the second place, researchers focusing on ethics in SMEs may need to find their own focus and depth. In most cases, the models we have come up with to study ethics management practices and CSR in big



corporations cannot be used to grasp the unique challenges that SMEs face. In terms of future research, this may have significant implications. We may have to acknowledge that basing our new research on SMEs on what has been done in business ethics based on big corporations may, at worst, be leading us astray. At best it limits our ability to gain in-depth insight into the unique nature of ethics in SMEs. We mention only a few of these challenges: (i) The distinction between values-driven and rule-driven ethics that is used to study ethics management in large corporations can't always address the more fluid organisational realities of SMEs; (ii) The formal CSR processes that have become best practice in large corporations can't be used as a benchmark for SMEs, because they can't adequately acknowledge their more informal social contributions; and (iii) Studies of ethical leadership in SMEs have taken the absence of hierarchy in these organisations seriously. What may be required is an awareness of the more complex relational influences through which influence and control operates in smaller organisations. Add to this the fact that SMEs allow us to study women's leadership in a context that is less fraught with 'glass ceiling' issues. This context may present interesting new research opportunities.

In making these suggestions, we realise that we are barely scratching the surface of what we still have to learn from, and about ethics in SMEs. We can only hope that this collection of essays stimulates further thoughts and enthusiasm for the very large research task that lies ahead.

## Notes:

<sup>1</sup> For more information on ISBEE please refer to [www.isbee.org](http://www.isbee.org).

<sup>2</sup> For more information see [www.benafrica.org](http://www.benafrica.org).

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