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A framework for managing and assessing ethics in Namibia: An internal audit perspective

Authors:

Nolan Angermund[1]
Prof. Kato Plant[2]

Affiliation:

[1] Standard Bank, Namibia

[2] University of Pretoria, South Africa

Correspondence to:

Prof. Kato Plant,
Department of Auditing,
University of Pretoria,
Private Bag X20,
Hatfield 0028,
Pretoria,
South Africa

E-mail:

kato.plant@up.ac.za

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Abstract

The Namibian Governance Code was implemented in 2014 and calls for organisations to manage ethics effectively. Although this Code, as well as legislature, requires ethical behaviour in the workplace, limited research in the Namibian context exists. Firstly, this study proposes an ethics framework that can be used by management to build an ethical culture and also assist internal auditors to assess the effectiveness of an organisation's ethical culture. Secondly, data was collected from managers and senior internal auditors in the financial services industry in Namibia to determine their views of the proposed ethics framework. Management agreed that there is a lack of guidance on ethics management and that such a framework could contribute to building an ethical organisational culture. Internal auditors agreed that the framework could assist the Internal Audit Function (IAF) in assessing ethics. However, it appears that the formal assessment of ethics in Namibia is limited to an assessment of the codes of conduct only. Furthermore, there appears to be a lack of reporting on ethics performance to stakeholders, primarily because participants' organisations have not implemented integrated reporting practices.

1. Introduction

In recent years, instances of fraud, corruption, poor governance and the need for improved direction, control, anti-fraud and anti-corruption strategies have moved organisational ethics to the top of many boards of directors' agendas (EthicsSA, 2014; Rossouw & Van Vuuren, 2010). Organisations are increasingly faced with ethics-related risks that could result in significant reputational damage and financial loss (Talbot, Perrin & Meakin, 2014:109). The application of right and wrong principles in business circumstances (Rogojanu & Badea, 2011:25) is therefore important for sustainable business success as an ethical organisational culture contributes to effective governance and the achievement of organisational objectives (Masunda, 2013:217).

Prior studies on the concept and practice of organisational ethics focus on, amongst others, the systems, structures or programmes that could be implemented by organisations to build an ethical organisational culture (Dando & Bradshaw, 2013; Kaptein, 2009; Llopis & Gasco, 2007). Kaptein (2009:262) describes ethical culture as the informal and formal control mechanisms that prevent unethical behaviour and promote ethical behaviour. He also highlights that ethics programmes are the formal mechanisms used to build an organisation's ethical culture (Kaptein, 2009:261). Llopis and Gasco (2007:98) find that an ethical culture within organisations, specifically ethics programmes, is critical to fighting unethical behaviour. In fact, ethics programmes provide the formal procedures for making ethical business decisions (Dion, 2008:316). Dando and Bradshaw (2013:26) support this view as they find that reminding staff to consider ethical behaviour in their daily decision making minimises ethics risks and builds the organisation's ethical culture.

The link between organisational ethics, ethical culture and ethics programmes does exist. However, it is unclear how an organisation's existing ethical culture impacts an ethics programme's effectiveness (Park & Blenkinsopp, 2013:531). The internal audit function (IAF) within an organisation can assist in determining how effective the ethics programme is. There are, however, no standard criteria and nor is there a standard approach for auditing ethics (Tabuena, 2009:49). This should not deter internal auditors from auditing ethics, especially as more and more countries are forcing organisations to adopt ethical standards or codes of ethics as part of their governance structures (Carlo, 2007:37). Management needs to design and implement ethics programmes but there is no one-size-fits-all programme as the design is dependent on the type of organisation and its industry (Argandona, 2004:48).

In Namibia, a report issued by the Namibian and United Nations Convention Against Poverty in 2013 highlighted that the Namibian Development Plan (NDP) of 2012 emphasised the need for a national code of ethical conduct regarding private and public entities (Namibia and United Nations Convention Against Poverty, 2013:23). In 2000, the current Namibian president, Dr Hage Geingob, expressed the need for legally promoting ethical values in the public and private sectors (Namibia Institute for Democracy & Konrad-Adenauer-Stiftung, 2000:8). Nikodemus (2013:9) found that the lack of honesty and dependability at the Namibian Home Affairs departments negatively impacted the department's reputation and performance. A commissioner of ethics in the public sector, as well as mandatory ethical codes of conduct for Namibian public servants, could solve these problems (Tjirera, Haimbodi & Hopwood, 2012:2; Links & Haimbodi, 2011:2). With this need for ethical guidance in the public and private sectors there has been a drive to promulgate legislation and governance codes in Namibia. Furthermore, Asemota (2003:14) found that the lack of an ethical tone among top management contributed to the decline in Namibian workplace ethics, but that having clear ethics policies and monitoring the effectiveness of ethics programmes could counteract this (Asemota, 2003:2).

Recently, in 2014, the Namibian Governance Code (hereafter referred to as the NamCode) called for organisations to manage ethics and build an ethical culture by implementing ethics programmes in Namibian organisations. Furthermore, in line with best-practice governance frameworks, such as the 3rd King Report on Governance (hereafter referred to as King III) issued by the Institute of Directors for Southern Africa (IOD), the ethics performance of the organisation (including its ethics programme) must be audited, assessed or evaluated by both internal and external assurance providers (IOD, 2009b:21). The Ethics Institute of South Africa (EthicsSA) highlights that a key role-player in performing such an internal assessment is the IAF (EthicsSA, 2014:2).

The aim of this study is to propose an ethics framework based on the guidance of the NamCode and King III that can be used by management within organisations to build an ethical organisational culture and by internal auditors to assess the effectiveness thereof. Firstly, the research methodology applied in this study to achieve the research objective is described. Secondly, the literature review examines the concepts of ethical culture and ethics management as a means of building an ethical culture. In addition, the role of the IAF in assessing ethical culture within organisations is discussed. Finally, the findings, which include the proposed ethics framework, conclusion and recommendations, are presented.

2. Research methodology

2.1 Literature review

The literature review was used as a basis for developing the ethics framework by examining the concepts of ethical culture and ethics management, including the use of ethics programmes, to build an ethical culture within organisations. Furthermore, the role of the IAF in assessing the ethical culture, including the effectiveness of ethics programmes, is discussed.

2.2 Empirical study

The empirical study entailed data collection through semi-structured interviews with ten participants from five organisations in the financial sector in Namibia. These organisations were purposively selected because they adhere to Namibian governance requirements and they all have IAFs. Although only five organisations were included in the study, these organisations are listed on the Namibian stock exchange and represent the banking sector as well as financial and non-financial regulators in Namibia. Participants included chief audit executives (CAEs) or senior members of IAFs and senior management respectively. These participants were interviewed as they could provide insights into the ethics management and ethics assessment practices within their organisations. For each interview, 8 questions (based on the literature review and proposed ethics framework) were used as a point of departure. Questions 1 to 7 focused on gauging participants on their views on ethics management and ethics assessments within their organisations.

Question 8 was based on the elements of the proposed ethics framework and participants were asked to express their views on the acceptability of these proposed elements and to indicate, where applicable, tools to assess these elements.

2.3 Limitations of the study

Although the study makes use of elements of governance codes to build an ethics framework, it cannot be assumed that implementing an ethics framework within organisations alone will make a good corporate citizen. The study is also limited in that it does not examine the relationship between ethical culture and other organisational processes such as performance management and change management. Although the number of participants is not representative of the population of Namibian organisations, for purposes of this qualitative study, these participants provided insights into ethics management and ethics assessment within organisations.

3. Literature review

3.1 Ethical culture of organisations

Organisations are made up of diverse people from various cultures that intertwine to achieve common strategic and operational goals. Sinclair (1993:63) supports this by stating that the manner in which employees behave collectively to achieve these objectives, can be defined as the organisational culture. However, employees' behaviour alone cannot form the organisational culture, as the shared values and beliefs of employees also form part of the culture (Schwartz, 2013:40).

Ethical culture is a subcomponent of the organisation's culture and consists of three elements, namely, ethical leadership, ethical values and ethics programmes (Schwartz, 2013:41). With reference to ethical leadership, several authors highlight the role that leaders can play to enhance ethical behaviour in organisations (Demirtas, 2015:280; IOD, 2009a:20; Mayer, Aquino, Greenbaum & Kuenzi, 2012:151; Miao, Newman, Yu & Xu, 2013:642). Miao *et al.* (2013:642) find that ethical leadership is defined as leadership that explicitly communicates ethical messages, sets and monitors ethical behavioural standards and makes ethical decisions in an observable manner. In fact, there is an inverse relationship between ethical leadership and unethical behaviour in an organisation (Miao *et al.*, 2013:641). Demirtas (2015:280) supports this in agreeing that ethical leadership and ethical values reflected by leaders directly impact the manner in which subordinates perform their work. King III also emphasises senior management's responsibility to build a sound ethical foundation and to manage ethics effectively (IOD, 2009a:20).

In contrast, it appears that a weak ethical culture and, more specifically, weak ethical leadership and values, can be linked to the demise of organisations, which is evident from examples such as Enron, WorldCom and Arthur Andersen (Treviño, Weaver & Brown, 2008:233). Schwartz (2013:41) reiterates that a strong ethical culture not only deters illegal behaviour and unethical corporate scandals but also improves the ethical behaviour of all staff. Vitell and Encarnación (2006:39) further highlight that employees' perceptions of an organisation's ethical values impact the success of the business and that organisations that are seen as having strong ethical values tend to retain talented staff, attract ethical staff and have committed employees.

Several authors recommend the implementation of formal ethics programmes to build ethical organisational cultures (Argandona, 2004; EthicsSA, 2014; IOD, 2009a, 2009b; Kaptein, 2009; Kaptein, 2015; Llopis *et al.*, 2007). EthicsSA (2014) illustrates that an ethics programme forms part of an organisation's entire ethics management framework (EthicsSA, 2014:5), as presented in Figure 1. According to EthicsSA, (2014:6-10), leadership commitment, together with effective governance structures, supports the development of an ethical organisational culture. Furthermore, the establishment and maintenance of a sound ethics management programme is a necessary component of the ethics management framework. Finally, an independent assessment of the effectiveness of the ethics management framework is needed to evaluate the organisation's ethics performance which should be reported to both internal and external stakeholders. These elements of an ethics management framework are further addressed in Section 3.2.

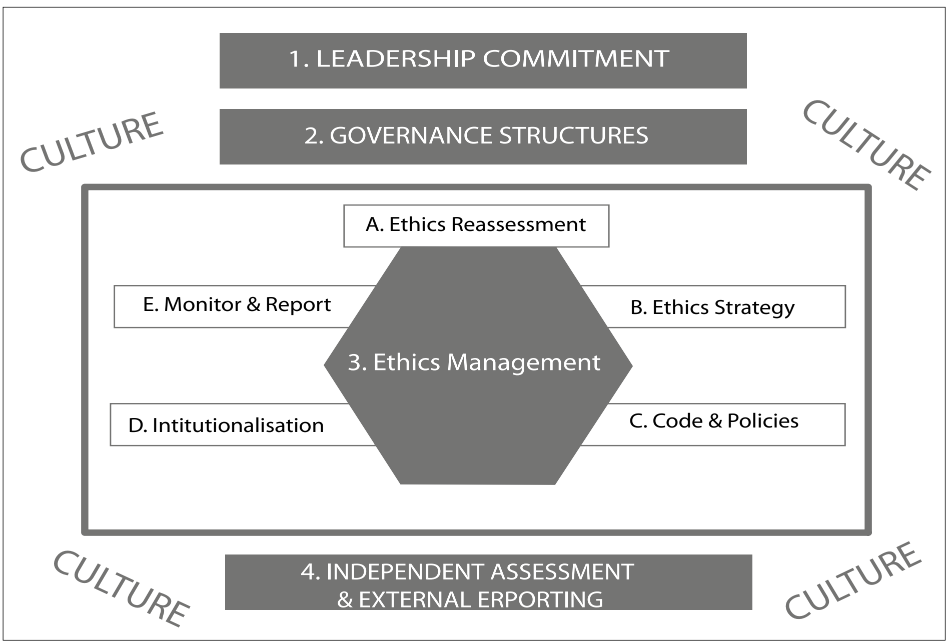

Figure 1: Ethics management framework

Source: EthicsSA, 2014:5

3.2 Ethics management frameworks

The purpose of any ethics management framework is to define the standard of ethical behaviour, to inspire consistent ethical behaviour among staff, to encourage ethical leadership from the board and management, and to promote the monitoring, discussion and enforcement of compliance with the standards of ethical behaviour (Kaptein, 2009:263). Understanding the elements of an ethics management framework allows internal auditors to understand what to audit when assessing ethics programmes (refer to Section 3.4 where this is further addressed). An ethics management framework includes all the strategic and operational initiatives required to enhance the ethical culture of an organisation, while ethics programmes refer to the operational aspects (Brown, Mendenhall & Kramer, 2003:31; EthicsSA, 2014:3; IOD, 2009a:21; Kaptein, 2015; Namibian Stock Exchange [NSX], 2014).

Guidance by the Namcode, King III and EthicsSA can be used by management of Namibian organisations to build effective ethics management frameworks. This guidance is discussed below and used as a point of departure in developing an ethics framework that can provide guidance to IAFs when auditing ethics, thus contributing to strengthening the organisation's ethical culture.

3.2.1 Leadership commitment

The ethics tone should be set by the leadership of an organisation (EthicsSA, 2014:5). King III supports this view, requiring that ethics management be integrated into the organisation's strategy by appointing an ethics expert to the board of directors who takes responsibility for managing the ethical culture of the organisation (IOD, 2009b:5-10). This includes the setting of ethics objectives, the allocation of appropriate resources to the ethics programme, and the inclusion of ethics in business communication, policies and business agendas (IOD, 2009b:5-10). The Namcode supports this by highlighting that the board of directors should have the necessary ethics expertise, either by appointing individuals with such capacity to the board or acquiring it through board training and advice (NSX, 2014:24-26). The CEO, or an appropriate executive board member, should also be tasked with being the visible link between the board's ethics expectations and the management of ethics within an organisation (NSX, 2014:24-26).

3.2.2 Ethics governance structures including the ethics management process

The EthicsSA recommends the establishment of an ethics office and an ethics committee (EthicsSA, 2014:5). King III expands on this by requiring these ethics management structures to have formal assigned duties, the ethics committee to be a board subcommittee and the ethics officer to manage the operational aspects of the ethics programme (IOD, 2009b:5-10). The ethics office should be run by the ethics officer, can be centralised or decentralised (with ethics champions) and should both monitor ethical behavioural standards and report regularly on the organisation's ethics performance in a formal, written internal ethics report to management (IOD, 2009b:5-10; NSX, 2014; IOD, 2014:24-26).

As illustrated in Figure 1, the ethics programme consists of an ethics risk assessment, an ethics strategy, a code of ethics and related policies, the institutionalisation of ethics and the monitoring and reporting of ethics performance. Each one of these elements contributes to establishing an effective ethics management process within organisations (EthicsSA, 2014:5). The purpose of this study is not to provide a detailed discussion of each of these elements, but rather to focus on the independent assessment of ethics programmes as an important element of an organisation's entire ethics management framework.

Firstly, conducting regular ethics risk assessments and compiling an ethics risk and opportunity profile should be a priority within organisations (EthicsSA, 2014:5; NSX, 2014:24-26). An ethics risk assessment is an important element of the ethics programme and should be conducted by the ethics office on a regular basis to identify and measure ethics risks such as reputational risks to the organisation, loss of investor confidence and non-engagement with organisational stakeholders (Rossouw & Van Vuuren, 2010:221). The ethics risk profile which results from the ethics risk assessment allows the board to set the ethical values and standards by identifying the internal and external stakeholders who define ethical and unethical behaviour and also allows the organisation to form a perception of its ethics performance (IOD, 2009b:2). Rossouw and Van Vuuren (2010:225) highlight that an ethics risk assessment is a necessary step prior to developing a code of ethics to address the ethics risks (Rossouw & Van Vuuren, 2010:234).

Secondly, an ethics strategy for managing ethics and an ethics plan that ensures that staff understand and comply with the ethical standards should be developed and implemented (EthicsSA, 2014:5). This strategy and plan could include many activities, such as ethics training, identification of internal and external stakeholders, and the development of a code of conduct and related policies based on an ethics risk assessment (NSX, 2014:24-26). A code of ethics should be part of an ethics programme, should be developed with all employees' involvement, should be understandable with clear examples of expected behaviour and consequences for contraventions, and must include employee signoff (Schwartz, 2013:44). Organisations with codes of ethics are seen as organisations with strong ethical values (Valentine & Barnett, 2002:191). Policies that mitigate the identified ethics risk and exploit ethics opportunities are also necessary (EthicsSA, 2014:5; NSX, 2014:24-26) and should be institutionalised when managing ethics effectively.

The third element of the ethics programme is the institutionalisation of the various ethics interventions identified in the ethics strategy and developed in the form of codes and related policies (EthicsSA, 2014:5). The effective institutionalisation of all the ethics interventions is important to ensure that ethics become real within the organisation (EthicsSA, 2014:13; Rossouw & Van Vuuren, 2010). The ethics office takes responsibility for the institutionalisation of, amongst others, the organisational code of ethics, the rules of conduct and other related policies, such as a gifts and entertainment policy and a conflict of interest policy (EthicsSA, 2014:13). According to Brown *et al.* (2003:31), ensuring that ethics compliance forms part of the performance goals of staff also institutionalises the ethics programme. A further intervention could include an ethics communication strategy that formalises two-way communication on ethics between the organisation and its internal and external stakeholders, with ethics conflict resolution mechanisms that make provision for resolving ethical dilemmas (NSX, 2014:24-26).

Finally, the EthicsSA recommends that the ethics office reports on the progress of the ethics plan to the ethics committee (EthicsSA, 2014:5). King III and the Namcode further recommend reporting by the ethics office to management and the board via a formal ethics report, including aspects such as the ethics risk identification and assessment, instances of ethical misconduct as well as good ethical behaviour, and details on all ethics-related policies and procedures (IOD, 2009b:5-10; NSX, 2014:24-26). Establishing a function that assesses compliance with ethical standards is also recommended by the Namcode (NSX, 2014:24-26). Schwartz (2013:44) supports this, recommending that an ethics compliance officer be appointed, who reports directly to the board and who administers an anonymous ethics reporting process. A whistle-blowing hotline is essential for monitoring and should be an anonymous monitoring mechanism for internal and external stakeholders to report legal or ethical misconduct (IOD, 2009b:5-10; NSX, 2014:24-26).

3.2.3 Independent assessment and reporting to stakeholders

Regular reporting on the company's ethics performance to management and the board and in the annual integrated report to various internal and external stakeholders should also exist (IOD, 2009b:5-10; NSX, 2014:24-26). In recent years, organisations have not only been reporting on their financial performance, but also the social and environmental impact of the organisations' activities in a sustainability report or integrated report (IOD, 2009a:12). The Global Reporting Initiative (GRI) issued a report in 2013 (GRI, 2013) expanding on its original triple-bottom-line reporting (economic, social, environmental) performance indicators recommended in 2003 (GRI, 2003) to include organisational ethics and integrity that can be used by organisations.

Schwartz (2013:44) emphasises that regular assessment of the ethics programme by IAFs is a key element of the ethics programme and the Namcode subscribes that the IAF be responsible for assessing the ethical culture of the organisation as well as the adequacy and effectiveness of the ethics programme (NSX, 2014; IOD, 2014:24-26). External ethics reporting by the board forms part of the integrated report and an external auditor will verify the detail in the report and issue an assurance statement on the materiality, completeness and reliability of the information on ethics performance (Global Reporting Initiative, 2013:85; IOD, 2009b:5-10; IOD, 2014:24-26).

Although the value of implementing a sound ethics programme is highlighted above, Jennings (2005:24) indicates several pitfalls to consider when implementing these programmes. For example, appointing a single ethics compliance officer responsible for the entire organisation could result in isolation, and management thus shifting the total responsibility for this function onto the shoulders of this officer. Furthermore, if the ethics programme is not driven by the board, or management does not deal with inconsistent behaviour, the ethics programme will not be effective (Jennings, 2005:26).

3.3 The role of the IAF with regard to ethics in organisations

The role of the IAF is defined by the Institute of Internal Auditors (IIA) and includes a mandatory requirement to assess an organisation's ethics programmes and activities (IIA, 2013a:11). An assessment of the ethical culture by the IAF provides audit committees with an objective and independent picture of the ethical culture of the organisation (IOD, 2014a:3). The Chartered Institute of Internal Auditors (2014:3) in the United Kingdom supports this by highlighting that boards of organisations need assurance and confidence that acceptable values and ethical practices exist as part of the organisational culture. The importance of an acceptable ethical culture must be driven by the board mandating IAFs to be involved in ethics matters, such as fraud assessments, health and safety audits, conflict of interest matters and other governance-related matters (Brown, 2003:31).

Hubbard (2002:57) emphasises that ethics forms part of the control environment of an organisation and that a weak ethical culture contributes to weaknesses in other business controls. This is supported by Boyle, Hermanson and Wilkins (2011:4) who state that when auditors assess the ethical culture they are actually auditing the control environment of the organisation. Brown, Mendenhall and Kramer (2003:30) find that internal auditors need to be involved in assessing compliance to codes of ethics, educating staff on the code, and facilitating ethics self-assessments and ethics risk assessments to identify key ethics risks. Childers (2005:34) supports this, positing that strengthening ethics programmes in business involves identification of ethics risks and developing strategies to address those risks. Internal auditors provide recommendations and strategies for addressing these risks as part of their advisory roles as prescribed by the International Standards for the Practice of Internal Auditing (hereafter referred to as the *Standards*) (IIA, 2013a).

Therefore, in order to audit ethical culture, the IAF should understand the important elements thereof, namely ethical leadership, governance structures (including legislation) and ethics programmes. In fact, the Chartered Institute of Internal Auditors (2014:13) found that organisations such as Goldman Sachs and Barclays believe in putting more than a hundred thousand employees through ethics awareness training to strengthen their ethical culture. In auditing the ethics management framework (including the ethics programme), the guidance provided by the Namcode, King III and the EthicsSA is used as a point of departure.

3.3.1 Leadership commitment

The Namcode (NSX, 2014) highlights that the IAF can assess the adequacy and effectiveness of the ethics programme by enquiring whether the board and management demonstrate ethical leadership and ethics expertise as part of their performance assessments, and evaluating the adequacy of the assessment criteria. The IIA (2011:15) supports the assessment of the ethical leadership by requiring the IAF to measure the ethical attitude of management as part of auditing the organisation's control environment.

3.3.2 Ethics governance structures

The IAF can assess the functioning of the ethics structures such as the ethics office, the ethics committee and the ethics communication strategy of the organisation (IOD, 2009b:8-9). More specifically, whether ethics is discussed at board level and whether the ethics office is effectively resourced must be determined (EthicsSA, 2014:12). It is also important to assess the reporting line of the ethics office and the functioning of the office itself (IIA, 2011:17). With regard to the elements of the ethics management process, the IAF could assess:

- whether all the ethics risks were identified and make recommendations on how to mitigate these risks;
- the application of the ethics strategy and the adequacy of the ethics structures, ethics plans, ethics communication and ethics training (IOD, 2009b:8). Enquiring whether the ethics strategy is in line with the organisation's strategic objectives and risk profile is also important (EthicsSA, 2014:12);
- ethics policies and activities – whether employees exhibit behaviour in line with these codes and policies and whether management effectively communicates these policies (IIA, 2012a:7; NSX, 2014). Dubinsky (2002:44) supports this view by highlighting that such assessments should determine whether the activities and policies are reasonable, simple to adhere to and capable of reducing unwanted behaviour;
- the effectiveness of the institutionalisation of ethics process, such as verifying the accreditation of the whistle-blowing hotline service provider and verifying the efficiency of the conflict of interest management system (EthicsSA, 2014:12). Assessing whether management continually advertises the hotline should also be considered (IIA, 2011:16); and
- the effectiveness of ethics monitoring mechanisms such as the whistle-blowing programme, the adequacy of the investigation results of hotline cases (IIA, 2011:16) and the adequacy of the ethics information management system linked to the ethics performance management and reporting system (EthicsSA, 2014:12).

3.3.3 Independent assessment and reporting to internal and external stakeholders

The IAF plays an important role in assessing the effectiveness of the organisation's ethics programme by performing regular ethics audits or assessments (IIA, 2012). The IOD (2009b:8) is explicit in stating that the IAF should report the results of the ethics audit to management and the board as required by the IIA *Standards*. The IIA published a practice guide in 2012 which provides guidance to internal auditors when evaluating ethics-related programmes and ethical culture (IIA, 2012). This guidance includes, amongst others, the use of employee surveys and ethics maturity models to assess the effectiveness of an organisation's ethics programme.

3.3.3.1 Background: ethics audit process

When conducting an ethics audit engagement, the internal audit process prescribed by the IIA is applied with specific focus on ethics (Plant, 2008:15-28). The IIA *Standards* highlight that the audit engagement must be planned (reviewing codes of conduct/ ethics, ethics and compliance departmental structures); risks and controls related to ethics programmes must be assessed; the effectiveness of the associated controls of the ethics programmes must be tested and, finally, the results of the tests must be reported to senior management and the board (IIA, 2012a:10-12). When performing such an ethics assessment, the IAF can use various audit tools and techniques, such as employee surveys and ethics maturity models, to assess the 'state of ethics' within an organisation and to rate the ethics control environment (IIA, 2012:10-12; EthicsSA, 2014:5).

3.3.3.2 Ethics audit tool: employee surveys

Employee surveys can be used as a gap analysis between what management wants and what employees experience (IIA, 2012a:19) with reference to ethics. Allen (1995:53) insists on using a survey, but states that the survey results should be evaluated by an external firm that specialises in assessing survey results. The disadvantage of a survey is that one cannot always send these out to all employees in a large organisation as this can be time-consuming and thus it cannot be guaranteed that the results are representative of the total population (Allen, 1995:54). It is therefore recommended that the survey be followed up with interviews of key staff and executives (including board members) (Allen, 1995:55).

The IIA (2011:15) requires the IAF to measure the ethics attitude of management as part of auditing the organisation's control environment. This can be done through annual anonymous surveys known as climate surveys (IIA, 2011:15). The IIA (2012a:7-10) clearly states that in order to assess the ethical culture and the application of the ethics programme, the IAF can make use of such an ethical climate survey, one of the few accurate means of assessing ethical climate within an organisation (IIA, 2012a:19). Employees complete the survey by responding to statements on the elements of the ethical culture, such as ethics policies, organisational objectives and culture (IIA, 2012a:18-23). It is important to note that the survey can be done at organisational or departmental levels and could be integrated with a specific internal audit engagement at these levels (IIA, 2012a:25).

3.3.3.3 Ethics audit tool: maturity models

Similar to an audit rating methodology to assess ethics, a model that rates the maturity of the ethical culture within an organisation can be applied by the IAF (IIA, 2012a:13). A model provides the framework for the ideal ethical culture or ethics programme criteria, indicates how improvements can be made and provides opportunities to benchmark an organisation against other organisations (IIA, 2013b:2). Maturity models are applied by internal auditors because they can be used to gauge management's expectations and can also be used in conjunction with the organisation's risk tolerance levels to decide on the level of maturity (IIA, 2013b:1). In fact, a maturity model is an effectiveness assessment tool as a more mature activity means there is a better chance of achieving objectives (IIA, 2013b:1).

In an ethics maturity model, each ethics programme and culture element is rated along a maturity scale ranging from immature to mature based on various attributes. An attribute in this case would be an element of the ethics programme, such as institutionalisation or the ethics structures (IIA, 2012a:13-18). Furthermore, each attribute is rated along a maturity scale based on its level of maturity. These attributes can range from not having ethics policies in place (immature rating), to having formally signed off and discussed ethics policies in place (mature rating) (IIA, 2012a:13). Some of the elements that are rated are: the code of ethics, management commitment to business ethics, the level of ethics awareness and training, and the ethical structures and accountability (IIA, 2012a:13-18). The IIA (2012a:7) highlights that a maturity model provides a basis for the IAF to verify the maturity rating through testing and then report on the strengths and weaknesses of the ethical culture.

Against this background, an ethics framework is proposed that can be used by managers to manage ethics within their organisations and by internal auditors to perform ethics assessments and subsequently contribute to building an improved ethical culture.

4. Findings

As detailed in Section 2, the study firstly presents an ethics framework (based on the literature review) and secondly reports on the views of managers and internal auditors from organisations in the Namibian financial sector. The proposed ethics framework is presented first (see Section 4.1 and Table 1), followed by a discussion of participants' views on: (1) ethics management and ethics assessment standards; (2) ethics assessment practices within their organisations; and (3) the elements of the proposed ethics framework.

4.1 Proposed ethics framework

Table 1: Proposed ethics framework for managing and assessing ethics

Framework (elements)	Assessment tool/method
Ethical leadership	
An ethics expert sits on the board of directors.	• Review the board minutes to assess the contributions made by the expert in ethics-related matter discussions. • Assess whether the person is adequately qualified through performance of an interview and detailed reference checks. • Vet ethical qualifications to determine authenticity thereof.
The board has set ethics objectives.	• Obtain the strategic objectives of the organisation and assess whether ethics and values are incorporated. • Verify that the board approved the code of ethics.

Framework (elements)	Assessment tool/method
Ethical leadership (continued)	
The CEO is responsible to the board for ethics management.	• Assess the quality and content of the reports that the CEO presents to the board quarterly. • Review the minutes of the board meetings and management committee meetings and determine the quality and content of the ethical matters reported on by the CEO. • Assess whether the CEO has attended ethics training. • Assess the CEO's job description for this responsibility.
The board has allocated appropriate resources to the ethics programme.	• Assess the effectiveness of the ethics programmes (have programme goals been met?) and whether any ineffectiveness can be related to a lack of resources. • Review the budget items related to the ethics programme for adequacy. • Review the organogram and reporting lines of the ethics office and its staff. • Obtain a list of ethics incidents and assess how these were resolved.
Ethics forms part of business communication and business agendas.	• Obtain the minutes and agendas of ethics office and social and ethics committee meetings and assess whether and how ethics matters are discussed and communicated.
Ethics governance structures	
Ethics office and ethics officer who manages the operational aspects of the ethics programme exist.	• Assess the job descriptions for specific ethics-related tasks. • Assess whether these tasks are executed and linked to Key Performance Indicators. • Assess the reporting structure of the ethics office.
Ethics officer monitors ethical behavioural standards and reports the organisation's ethics performance in a formal, written internal ethics report.	• Assess the report and verify the reported content and whether it has been signed off by the board and distributed to the relevant personnel. • Perform a quality review on the operations of the ethics office in line with their mandate.
Ethics (board sub) committee with formal assigned duties exists.	• Assess the committee's reports, minutes and agendas for ethics-related matters. • Assess the committee's composition and review their minutes to assess the quality of the discussions.
Risk assessments	
Regular ethics risk assessments are conducted.	• Evaluate the adequacy of the assessment process and assess the effectiveness of the methodology that is used.
Ethics risk and opportunity profile is prepared.	• Assess the quality and implementation of the actions to address the risks and opportunities.

Framework (elements)	Assessment tool/method
Ethics strategy and plan	
An ethics plan which includes strategies on how to establish an ethical culture is established by the ethics committee.	• Assess whether the plan is communicated to staff and assess compliance with the plan. • Review the plan, assessing the timelines and implementation. • Perform a climate survey after the plan is executed to establish whether the ethical culture improved.
Code of ethics and related policies	
Board approved a code of ethics and rules of conduct exist and are signed off by employees on a regular basis.	• Verify list of employees against the sign-off sheets and assess the adequacy of the sign-off intervals.
Policies (in regard to conflict of interest, gifts and entertainment) that mitigate the identified ethics risks and exploit the ethics opportunities are established.	• Assess whether the policies are communicated to all staff. • Interview staff and determine whether they are aware of the requirements. • Test compliance with the policies and whether they are regularly reviewed for relevance.
Ethics communication strategy that formalises two-way communication on ethics between the company and its internal and external stakeholders is implemented.	• Assess the communication policy for ethics elements and whether it provides clear communication channels.
Ethics conflict-resolution mechanisms that make provision for resolving ethical dilemmas.	• Assess the compliance with the policies by selecting a few conflict cases.
Institutionalisation	
Regular management-driven ethics awareness campaigns are held during induction as well as on an ongoing basis.	• Assess the campaign content against the ethics strategy and plan and review the attendance registers. • Assess the qualifications of the facilitators.
Ethics training run by the ethics office based on the code of ethics and rules of conduct is conducted.	• Assess the training material and attendance by staff for adequacy. • Assess the qualifications of the ethics officer.
Identification of internal and external stakeholders who define ethical and unethical behaviour is part of the stakeholder relations process.	• Assess the stakeholder management programme and determine whether all stakeholders have been identified.
Ethics compliance forms part of performance goals of staff.	• Review the job descriptions and performance assessments and assess whether staff goals contain ethical elements such as values. • Assess the criteria used for the ratings given in regard to performance goals.
IAF is involved in ethical matters such as fraud assessments, health and safety audits, and conflict of interest matters.	• Assess the internal audit charter to determine if these items are specifically included. • Perform a quality assurance review on these matters.
Monitoring and reporting	
Ethics office reports on the progress of the ethics plan to the ethics committee.	• Assess the plan against the report content. • Assess the quality of the reports.

Framework (elements)	Assessment tool/method
Monitoring and reporting (continued)	
Ethics office reports to management and the board includes aspects such as: • ethics risk identification and assessment; • ethical misconduct as well as good ethical behaviour; and • details relating to all ethics-related policies and procedures.	• Assess the content of the reports and the minutes of the meetings to determine whether reported items are discussed. • Assess the quality of the actions that address the reported matters.
Board and management performance assessment have ethical leadership as a part thereof.	• Enquire from staff whether management is committed to ethics (survey). • Review the performance goals and the ethical element of the goals of the board and management.
Whistle-blowing hotline, as an anonymous mechanism for internal and external stakeholders to report legal or ethical misconduct, exists.	• Assess what is being reported and whether actions are taken against the perpetrators. • Review the service level agreement of the service provider.
Independent assessment and report to internal & external stakeholders	
• Regular internal assessment of the effectiveness of the ethics programme by the IAF. • Results of assessment reported to the board and audit committee.	• Perform a quality assurance review to determine quality of the internal assessment. • Assess whether ethics audits are part of the audit plan.
Reporting on the company's ethics performance to stakeholders in the annual integrated report or sustainability report.	• Assess the validity of the reported items in the integrated report.
External auditor verifies the detail in the report and issues an assurance statement on the materiality, completeness and reliability of the information related to ethics performance.	• Inspect the assurance statement and assess the information against the ethics findings raised in the management letter. • Perform a quality assurance review to determine external assessment.

4.2 Views of participants

4.2.1 Section 1: Ethics management and ethics assessment standards

From the empirical study conducted, it is evident that there is a lack of legislative guidance regarding the implementation and assessment of ethics programmes within organisations. Apart from listed organisations which are compelled to apply the King III principles, the only other guidance is from a general governance approach where participants' organisations rely on the appointment of people with sound ethical values and the participation of a board of directors which is committed to good governance practices. The majority of participants' organisations have adopted a governance code, whether it be the Namcode or King III, but the requirements for implementing and auditing ethics programmes were not known, apart from the implementation of ethics hotlines. This was in contrast to the literature, whereby the IIA sets mandatory standards that require IAFs to assess ethics (IIA, 2013a:11). One participant (from management) was however aware of the need for implementing ethics-related policies and assessing compliance to these (granted that this participant was an ethics officer).

Regardless of whether the participants from both management and internal audit were aware of the requirements to manage and evaluate ethics, they all agreed that having a mature ethical culture in their organisations, as well as assessing the ethical culture would add value to their organisations' stakeholders. They believed stakeholders would see the organisation as being ethical and managing its risks. Furthermore, they felt that internal audit as an independent assessor of ethics, would indicate the robustness of the organisation's ethics programmes to stakeholders. Some participants even believed that stakeholders would see this as a proactive step in reducing fraud and financial losses. These findings align to the literature whereby EthicsSA (2014:6-10) and Treviño, Weaver and Brown (2008:233) all agree that a strong organisational culture and the assessment thereof could have prevented the demise of certain organisations such as Enron.

4.2.2 Section 2: Views on ethics assessment practices within organisations

The majority of participants agreed that the IIA *Standards* are a good start to assessing ethics but could not be used in isolation as more specific tools were needed for assessing the effectiveness of, amongst others, the ethics programme. These findings align with the literature whereby the IIA provided a practice guide in 2012, in addition to the *Standards*, that provides tools internal auditors can use when evaluating ethics-related programmes. These tools included the use of surveys and ethics maturity models (IIA, 2012). The development of practice guides and practice advisories relating to these ethics assessment tools are also recommended by participants. A participant (from management) warned that internal auditors should not use the generic internal audit approach for an ethics culture assessment. Most participants (from internal audit) believed that providing an audit opinion (assessment rating) on the ethical culture was the biggest challenge experienced with such audits. This view is in contrast to the literature indicating that a climate survey is regarded as one of the few accurate means of assessing ethical climate within an organisation (IIA, 2012a:19). Obtaining audit evidence for ethics audits was also a challenge experienced by some internal audit participants as the criteria against which to assess the evidence is difficult to determine as stated by participants, mainly because of the interpretative nature of ethics. Using the right tool and method to audit ethics programmes might be ways to overcome these challenges as indicated by some of the internal audit participants.

4.2.3 Section 3: Proposed ethics framework

4.2.3.1 Ethical leadership

Interestingly, the majority of participants (from management) and half the participants (from internal audit) did not believe that it was important to have an ethics expert at board level as they felt that all board members should set the tone and be sufficiently skilled in ethics matters. They felt that the board needed access to an ethics expert as and when the need arose because industry-specific knowledge at board level was more important for daily board functioning than expert knowledge on ethics. This finding was in contrast to the literature, specifically King III, which states that for ethics management to be integrated into the organisation's strategy, an ethics expert must be appointed to the board of directors (IOD, 2009b:5-10).

None of the participants had an ethics expert at board level within their organisations. Participants (from management and internal audit) had differing views on whether the CEO should be responsible for ethics management. Some felt that independent reporting on ethics matters to the board was needed and the CEO would not be independent, while others felt that ethics needed to be operationalised and that is why the CEO needed to be responsible.

4.2.3.2 Ethics governance structures

Participants agreed that it was important to have ethics governance structures in place as they help drive their organisation's ethical culture by assigning responsibility for ethics and showing that ethics matters are reported on and management is willing to take action. However, participants agreed unanimously that the responsibilities be shared by having an audit committee that takes responsibility for the ethics oversight and having ethics champions in each department instead of having one ethics officer for the entire organisation. In terms of the literature, King III and EthicsSA support the decentralisation of the ethics officer function and the establishment of a board subcommittee responsible for ethics (IOD, 2009b:5-10; EthicsSA, 2014:5).

4.2.3.3 Ethics risk assessment, strategy and plan

A lack of understanding was noted when it came to the ethics risk assessment and ethics strategy and ethics planning elements of the framework. Although the participants agreed that it was important to have these elements, the ethics risk assessment is not a separate item at the participants' organisations but formed part of the annual risk assessment. Also, the ethics plan and ethics strategy within participants' organisations is part of general operational plans such as culture-building and team-building initiatives. One can regard the lack of specialised ethics skills within organisations as contributing to this selective application of these ethics programme elements.

4.2.3.4 Code of ethics and ethics-related policies

The implementation and importance of ethics-related policies was noted among most participants. All participants believed that the policies provided needed to be explained to staff and that it be demonstrated to them that the organisation prioritised ethics and would hold staff accountable for any breaches. This is supported by the literature (IOD, 2009b:5-10; NSX, 2014:24-26) which states that ethics policies be communicated and signed off by staff to indicate their understanding. Although the literature highlights that non-compliance with ethics policies should be reported to governance committees, participants indicated that there were no specific ethics conflict-resolution policies or ethics communication strategies in their organisations – these policies and strategies form part of the general conflict resolution and stakeholder communication policies.

4.2.3.5 Institutionalisation of ethics

Similarly, participants agreed on the importance of institutionalising ethics through ethics training, ethics awareness, ethics goals on the performance assessments and the IAF's involvement in fraud assessments, health and safety audits, and conflict of interest matters. These findings are supported by the literature as King III and the Namcode support the implementation of ethics training, ethics performance assessments and IAF's involvement in health and safety audits (IOD, 2009b:5-10; NSX, 2014:24-26). Participants believed staff need constant reminding of the ethics programme requirements and need to be held accountable through performance assessments. In addition, participants also noted that the independence of the IAF added value to the organisation's ethics initiatives. Although the majority of participants agreed that these elements should be implemented in their organisations, it appeared that institutionalisation initiatives were limited to an implementation of a code of conduct only. Again, this leads one to assume that the lack of specialised ethics skills contributes to organisations just implementing ethics-related policies, with limited institutionalisation initiatives. This appears to be an area where internal auditors can add value by becoming the ethics experts or advocates within the organisation.

4.2.3.6 Monitoring and reporting ethics performance

Participants agreed that monitoring and reporting ethics performance were important but are not implemented in the majority of their organisations. Participants also agreed that it was important to have a whistle-blowing hotline to report ethics matters and for the board and management to be assessed on their ethical leadership, but these monitoring and reporting practices are not applied in half of the participants' organisations. The question arises as to whether these organisations really prioritise the monitoring of unethical behaviour. It is therefore suggested by the author that internal auditors should step in to assist management in prioritising monitoring as they have the necessary skills and business knowledge to express the impact of unethical behaviour not being monitored.

With regard to the independent assessment and reporting to stakeholders, participants' responses indicated that internal audit is always involved in assessing the ethics programmes of organisations. This is supported by King III and the Namcode that require IAFs to assess ethics programmes (IOD, 2009b:5-10; NSX, 2014:24-26). There however appears to be a gap in reporting this performance to stakeholders, primarily because participants' organisations have not implemented integrated reporting as yet. Hence there is no use for an external audit function to verify the detail in the report and issue an assurance statement on the materiality, completeness and reliability of the information related to ethics performance. Participants had differing views on whether it was important for external audit to perform this assessment; some believed that they are not ethics experts and so could rely on the IAF's work, while others believed that it was important for validation and would increase stakeholders' confidence in the integrated report.

In summary, the findings suggest that formal guidance is needed to prioritise ethics within organisations and at the right level within an organisation. It also suggests that internal auditors require more guidance in terms of which tools or methods to use when assessing ethics.

5. Conclusion

This study aimed to propose a framework for managing and assessing ethics in the context of the Namibian financial sector. The literature review examined the notions of ethical culture and ethics management within organisations. Furthermore, the role of the internal audit function in assessing ethics was also discussed. Based on the literature, a framework for managing and assessing ethics was proposed. For the empirical part of this study, views were obtained from management and senior internal auditors of five Namibian organisations in the financial sector. This study reports on participants' views relating to ethics management and ethics assessment standards and practices within their organisations as well as their views on the proposed ethics framework.

It was found that all participants agreed that having a mature ethical culture in their organisations, as well as assessing the effectiveness of the ethical culture, added value to their organisations' stakeholders. Participants also indicated that the responsibilities for ethics governance structures were integrated and not separated from existing structures within their organisations. Similarly, conducting separate ethics risk assessments and establishing a separate ethics strategy and plan were integrated into the overall risk assessment and strategic planning activities. The majority of organisations agreed to implementing and institutionalising at least codes of ethics. However, limited monitoring and reporting of ethics performance to management and other stakeholders existed within organisations. This could be as a result of limited knowledge of all the elements of a formal ethics management framework.

Finally, it was found that, although internal auditors were involved in auditing ethics programmes, their focus was limited to an assessment of the code of ethics and related policies, with not much attention paid to the other elements of an ethics programme or ethics management framework. With the use of the suggested framework internal auditors can now expand their audit scope and make use of the suggested tools to perform better internal audits and add value to where management needs it. The framework can be used to substantiate IAF's scope on ethics with their organisations' management should there be a dispute regarding the need for an ethics audit on the audit plan.

6. Recommendations

It is recommended that organisations prioritise the appointment or training of designated individuals to become ethics experts and assist management in building an ethical organisational culture. It is also recommended that internal auditors play a role as ethics advocates in assessing the effectiveness of organisations' ethical culture. Furthermore, the monitoring of ethics behaviour should be prioritised and starting an ethics hotline can be a pro-active initiative. The performance of ethics compliance assessments with specific reference to the effectiveness of an organisation's entire ethics management framework, could add value in enhancing the ethical culture of the organisation.

7. Areas for future research

A study of the combined assurance approach to assessing ethics within organisations falls outside the scope of this study but is an area for future research. Furthermore, the study did not go as far as researching the effectiveness of the implemented ethics programme elements and whether the adoption of governance codes can be directly linked to effective implementation of ethics programmes. The latter could also be an area for future research.

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Responsible business practices: Aspects influencing decision-making in small, medium and micro-sized enterprises

Authors:

Mrs Lynette Cronje[1]
Prof. Edmund John Ferreira[1]
Dr Sumei van Antwerpen[1]

Affiliation:

[1] University of South Africa (UNISA), South Africa

Correspondence to:

Prof. Edmund John Ferreira,
Department of Business Management,
PO Box 392,
UNISA 0003,
South Africa

E-mail:

eferreir@unisa.ac.za

ORCID iD:

http://orcid.org/0000-0002-2862-4806

DOI:

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Abstract

Society demands responsible business practices (RBP) from all businesses, including small, medium and micro-sized enterprises (SMMEs). The conscious decision to partake in RBP resides with the main decision-makers of SMMEs. This article identifies which aspects influence the decision-makers of SMMEs to utilise business resources for RBP, and the different demographic variables that impact on these influencing aspects. Responses from 84 SMMEs indicate that the company's current financial condition is the greatest influence for SMMEs, while ethics only influences SMMEs to a moderate extent. The age, education level and gender of the decision-makers all have an impact on these influencing aspects.

1. Introduction

It is becoming an inescapable priority for businesses to act in a responsible manner and give back to their community and the environment through various initiatives. While society demands social responsibility actions from all businesses, including SMMEs, responsible businesses strive to have a positive effect on the communities and environments they operate in.

The term 'responsible business practices' (RBP), as used in this article, indicates the practices SMMEs follow or partake in, in order to act responsibly towards their stakeholders and their operating environments. The Institute for Business Ethics (2010) points out that RBP is important for the success of SMMEs. Successful SMMEs use their social programmes to strengthen their image and to be more competitive (Dincer & Dincer, 2013; Jenkins, 2006). The European Commission (2013) identified other motivating factors for SMMEs to engage in RBP, namely: (1) tangible benefits such as positive economic outcomes and intangible business benefits such as reputation and trust; (2) personal values – which is part of the business' overall culture; (3) institutional factors such as legal requirements; and (4) to fulfil stakeholder expectations.

While the motivation for partaking in RBP originates from various sources, the conscious decision to do so still resides with the main decision-makers of SMMEs. These decision-makers seek and evaluate information and alternatives before coming to a conclusion. Decision-making in SMMEs is different from decision-making in larger firms as the processes begin with and involve owners/managers to a large extent (Hsu & Cheng, 2012; Walsh & Lipinski, 2009). Large businesses tend to have a structured framework with a clear hierarchy in decision-making (Garengo, Biazzo & Bititci, 2005; Walsh & Lipinski, 2009) and decisions will not typically be subject to personal influence. In SMMEs, ownership and control mostly reside with the same person and this lends legitimacy to personal decisions made on how to expend company resources, such as on RBP-related initiatives (Jenkins, 2006). The decision-makers in SMMEs mainly draw on their experience, knowledge and a variety of social ties to form their judgement (Westhead, Ucbasaran & Wright, 2009). The decision to utilise business resources for RBP is influenced by various aspects that differ in small and large enterprises (Dincer & Dincer, 2013; Hsu & Cheng, 2012; Moore & Spence, 2006).

While the concept and approach of responsible business practices (RBP) is advancing in application, the academic research on RBP in SMMEs has been lacking and rather limited empirical evidence can be found about RBP of SMMEs in contrast to larger businesses. Most social responsibility actions research focus on the broader literature of corporate social responsibility (CSR) and larger businesses (Campin, Barraket & Luke, 2013; Dincer & Dincer, 2013; Moore & Spence, 2006; Perrini, Russo & Tencati, 2007). Small businesses may be small individually, but their total cumulative impact on the community and on society is significant (Nejati & Amran, 2013). Literature indicates that the findings in CSR research cannot always be generalised to SMMEs, as definitions of "acting responsibly" vary between the settings of large and small businesses (Dincer & Dincer, 2013; Moore & Spence, 2006; Perrini *et al.*, 2007). As a result of these differences in the definition, the term "CSR" can be seen as not entirely appropriate for SMMEs. Dincer and Dincer (2013), Hsu and Cheng (2012), Moore, Slack and Gibbon (2009) and Spence (2007) state that SMMEs might well be engaged in CSR either without knowing it or without calling it CSR, and that this can be linked to the issue of terminology.

Research on acting responsibly has been undertaken in countries such as Italy (Coppa & Sriramesh, 2013; Perrini *et al.*, 2007), India (Gupta, Sukhmani & Kalra, 2012), Singapore (Lee, Mak & Pang, 2012), England (Moore, Slack & Gibbon, 2009), Germany (Hammann, Habisch & Pechlaner, 2009) and Turkey (Dincer & Dincer, 2013). No similar studies have been undertaken in South Africa. There is also a lack of studies that examine decision-making processes in SMMEs (Musso & Francioni, 2012) and this is also the case when considering decision-making with specific regard to RBP activities (Dincer & Dincer, 2013; Fatoki & Chiliya, 2012; Lepoutre & Heene, 2006; Moore & Spence, 2006; Perrini *et* *al.*, 2007). The main issues that have not been adequately addressed are those aspects that influence decision-makers in SMMEs to utilise business resources and funds for RBP that may or may not provide financial returns for the business (Dincer & Dincer, 2013; Hauser, Cushman, Young, Jin & Mikhail, 2007; Parboteeah, Hoegl & Cullen, 2008).

This article aims to fill the gap in literature by discussing the findings from a self-administered questionnaire which was distributed to 84 SMME decision-makers in the Tshwane region of the Gauteng province of South Africa. If different demographic variables are taken into account when making decisions, the understanding of which aspects influence the decision-makers to utilise business resources for RBP will increase. This article will proceed as follows: After a discussion of the literature base concerning CSR and RBP in SMMEs, an explanation of the multi-stage sampling methods will be provided and the structured questionnaire and primary data collection will be discussed, followed by the results and conclusions.

2. Literature review

The knowledge base for this article involves SMMEs, CSR and RBP and these will be discussed in this order.

2.1 Small, medium and micro-sized enterprises

SMMEs have specific characteristics that distinguish them from larger businesses (Dincer & Dincer, 2013). While these characteristics can differ between countries and cultures, SMMEs are generally independent, based on personal relationships, actively managed by the owners, largely local in their areas of operation and largely dependent on internal sources for financial growth. SMMEs play a vital role in the economic and social environment of a country, especially in the case of developing countries with major employment and income distribution challenges – such as South Africa (Cant, Wiid & Hung, 2013).

2.1.1 SMMEs in South Africa

The South African government is currently facing a major challenge in alleviating poverty and creating more sustainable jobs for the population. This is evident when observing the unemployment rate of 26.7% in the first quarter of 2016 (Statistics South Africa, 2016). The main motivation for starting an SMME is unemployment and having no alternative source of income (Statistics South Africa, 2014). This is also reflected in the Global Entrepreneurship Monitor (GEM) report (2015) which indicates that 33.2% of the Total Entrepreneurial Activity (TEA) in South Africa arises from individuals starting businesses out of necessity for survival, when there is no other source of income and the individual concerned cannot get formal employment. These entrepreneurs do very little analysis and/or preparation before starting their businesses. Whatever the reason for starting these businesses, it is important to note that the contributions they make to the economic growth of a country are different from those made by larger businesses.

2.1.2 SMMEs versus larger businesses

Nieman (2006) identified factors that set SMMEs apart from larger businesses. SMMEs create an ease of entry and start-up, foster closer relationships with customers and the community through personalised services and personal attention, form a vital link in the supply chain since they are often located where larger businesses would not consider establishing themselves, are vital in the supply chain of larger businesses since they are closer to the consumer and provide employees with comprehensive learning experiences, develop risk takers, and generate employment opportunities. They are not restricted to formally registered enterprises (such as close corporations, private and co-operative enterprises) but include informal and non-VAT (Value-Added Tax) registered enterprises such as survivalist street trading enterprises, backyard manufacturing and services, and occasional home-based evening jobs (the dti, 2008). For the purposes of this article, only formal SMMEs were investigated since they have a continuous income from trade and are therefore more likely to expend resources on RBP.

2.1.3 Management functions in SMMEs

SMMEs all have owners/managers who are responsible for the managerial activities of the business. Management is necessary to combine and direct the resources of the business so it can achieve goals as efficiently and productively as possible (Van Aardt, 2013). The basic functions of managers are planning, organising, leading and control (Brevis & Vrba, 2014). Although these fundamental functions remain the primary task of the SMME owner/manager and should be undertaken continuously for the business as a whole, the business should also be supported by other roles, such as that of *decision-making*. Decision-making cannot be understood simply by studying final decisions – there is an emotional, perceptual and cognitive process involved that finally leads to the chosen alternative (Svenson, 1979). The decision-maker seeks and evaluates information and alternatives before coming to a conclusion. Strategic decisions lead to the commitment of resources and people to certain courses of action (Jansen, Curşeu, Vermeulen, Geurts & Gibcus, 2011). Regardless of the decision that needs to be made, influencing aspects are always present in the process. The aspects that can influence and have an impact on decision-making in general include peer pressure (Westerman, Beekun, Stedham & Yamamura, 2007; Hanson & Moore, 2013), emotions (Stanley, 2010), ethics (Hanson & Moore, 2013), financial position (Rodgers & Gago, 2004), cognitive style and personality (Filbeck, Hatfield & Horvath, 2005), culture (Dimitratos, Petrou, Plakoyiannaki & Johnson, 2011; Westerman *et al.*, 2007), integrity and honour (Hanson & Moore, 2013), age, gender, moral maturity, religious beliefs (Hanson & Moore, 2013; Hilary & Hui, 2009; Phipps, 2012), and social media (Power & Phillips-Wren, 2011). Decision-making differs, however, in SMMEs and larger firms. In SMMEs, the ownership and control mostly reside with same person and this lends legitimacy to the personal decisions made on how to expend company resources, such as in RBP-related initiatives (Jenkins, 2006). Decision-makers in SMMEs are the central point where all business activities start and they have a considerable influence on the SMMEs' (future) direction (Hammann *et al.*, 2009). Decision-making is one of the critical drivers of organisational performance and non-alignment will likely lead to problems in the medium to long term (O'Regan, Sims & Ghobadian, 2005). Other problems are demonstrated in studies by Gaskill, Van Auken and Manning (1993) and Stokes and Blackburn (2002) who found that failure to make timely business decisions proves harmful to a business and may lead to business failure. This was confirmed in the study done by Ahmad and Seet (2009). Gaskill *et al.* (1993) also found that poor decision-making was due to inadequate skills that lead to financial problems. However, decision-makers who are better equipped to act in a decision situation will rely on their skills to navigate through it. The higher their confidence level and level of risk acceptance, the higher their decision effectiveness will be (Jansen *et al.*, 2011) in the making of decisions that will lead to the commitment of resources to a course of action, such as acting in a socially responsible manner. Influences on RBP decision-making in particular will be discussed after the theory base for the concept has been explained.

2.2 Corporate social responsibility

CSR is a well-known concept that, although difficult to define, can be described as a business's responsibility to sustain itself through balanced relationships with society and the environment in which it operates (Faragher, 2008). The list of the top ten most frequently used definitions of CSR in literature and on the internet was compiled by Dahlsrud (2008). The frequency counts of each definition were categorised to five different dimensions of CSR, namely environmental (the natural environment), social (the relationship between the business and society), economic (socio-economic or financial aspects), stakeholder (stakeholders or stakeholder groups) and voluntariness (actions not prescribed by law). The word cloud, presented in Figure 1, reflects the most prominent dimensions of CSR (Dahlsrud, 2008). The most conspicuous dimensions are presented in a larger font size.

Figure 1: Most prominent dimensions of CSR

'Social' followed by 'economic' and 'stakeholder' are the most prominent dimensions of CSR. This indicates that the relationship between business and society is the most vital when considering how the business operates in terms of responsibility and sustainability. While CSR is mostly implemented by large businesses, the total cumulative impact of small businesses on the community and society is significant (Nejati & Amran, 2013). Some of the main differences between CSR in large businesses and CSR in SMMEs are listed in Table 1.

Table 1: Differences in CSR among large and small businesses

	Large businesses	Small businesses
Formalisation of CSR	Formal, bureaucratised	Informal
Main actors in CSR	Shareholders, external stakeholders	Owner/manager, employees
Aims of CSR	Build corporate brand and manage public legitimacy	Build trust, networks and personal relations

Source: Crane, Matten & Spence, 2014:12

There are a number of reasons that account for these differences. Firstly, SMMEs are informal in nature and do not have a need for formal systems and structures. This indicates that in SMMEs, the organisational hierarchy, charts and processes are not necessarily written down and official (formal), but are more relaxed and unofficial. Secondly, unlike large businesses, SMMEs are less visible in the sense that only the local community will be aware of their RBP activities, and not larger audiences. Their key relationships are on a personal level. Thirdly, there is no separation of ownership and control, unlike in large firms. Owner/managers are not obliged to serve shareholders or seek to maximise return on investment, but enjoy the autonomy of running their own firms. This allows them to invest time and resources according to their stakeholders' interests (Crane *et al.*, 2014).

Given the importance of SMMEs, the CSR literature has, to date, paid disproportionate attention to larger businesses. Findings from CSR research are not necessarily applicable in the SMME context as 'acting responsibly' differs between the settings of large businesses and SMMEs (Dincer & Dincer, 2013; Moore & Spence, 2006; Perrini, Russo & Tencati, 2007). Since this CSR theory is not directly applicable to SMMEs, the term can be seen as not entirely appropriate. Spence (2007), Moore, Slack and Gibbon (2009), Dincer and Dincer (2013), as well as Hsu and Cheng (2012) state that SMMEs might well be engaged in CSR without knowing it, or without calling it CSR, and this can be linked to the issue of terminology. Therefore, it is imperative to understand the terminologies used in different businesses.

2.3 Responsible business practices

The term RBP is used in this article and indicates the practices SMMEs follow or partake in to act responsibly towards their stakeholders and their operating environments. To justify the use of the term, evidence was found in a study by Nejati and Amran (2013) whose research revolved around the terminologies used among 100 SMMEs for acting in a socially responsible manner. The six terms found to be the most common are: (1) responsible business practices; (2) corporate social responsibility; (3) social/societal engagement; (4) environmental involvement; (5) beneficial relationship with society; (6) sustainable development/business practice. RBP was the term used by 43% of the small businesses that were surveyed.

RBP is important for the success of SMMEs (The Institute for Business Ethics, 2010). Successful SMMEs use their social programmes to strengthen their image and to be more competitive (Jenkins, 2006; Dincer & Dincer, 2013; Pastrana & Sriramesh, 2014). The benefits of RBP, for large firms and SMMEs, include benefits to both the business and its internal and external stakeholders. According to Adamu and Yahaya (2014) benefits for the business can include sales and profit growth, community goodwill, access to local talent, customer loyalty, an increased customer base, employee loyalty, increased productivity and a motivated workforce. The benefits to the stakeholders include reduced local unemployment, community contribution, social and economic inclusion, social cohesion in the community, customer satisfaction, job satisfaction, skills development, and employability. Pastrana and Sriramesh (2014) add that RBP activities (for example, being involved in environmental programmes or local schools and/or charities) can lead to an improved organisational culture, attracting and retaining the best employees, having improved incentives for managers and employees, improved management quality and improved customer loyalty.

2.4 RBP decision-making

For the SMME to receive all these benefits, a conscious decision must be made to partake in RBP. Analysis of literature indicates that many aspects can potentially influence the decision of SMMEs to utilise business resources for RBP activities and that the aspects that affect decisions in large businesses are different from the aspects that influence the decision-makers in SMMEs (Lepoutre & Heene, 2006; Moore & Spence, 2006). SMMEs partake in different RBP activities for various reasons. The reasons, or aspects, that influence owners/managers in their decision-making process to decide which activities to participate in will also differ from one SMME to the next, and also between the decision-makers as individuals. Even though acting responsibly as a business takes place at organisational level, it is individual actors who make decisions and execute these initiatives (Aguinis & Glavas, 2012). SMME decision-makers have the opportunity to directly shape their own businesses' practices according to their personal values and to endorse values other than profit (Spence, 1999).

There is a relative scarcity of individual-level studies in CSR (Aguinis & Glavas, 2012; Dincer & Dincer, 2013) and therefore in RBP decision-making theory. Decision-makers are influenced by numerous aspects when facing a certain decision (Fernandez-Huerga, 2008). Aspects that were found to influence RBP decision-making in other studies include personal feelings and emotions (Dincer & Dincer, 2013; McCuen & Shah, 2007), values (Hammann *et al.*, 2009; Mudrack, 2007) business finances (Dincer & Dincer, 2013; Rodgers & Gago, 2004), requests from friends and family (Coppa & Sriramesh, 2013; Dincer & Dincer, 2013; Westerman *et al.*, 2007), religion (Dincer & Dincer, 2013; King, 2006), competitive reasons (Cochius, 2006), morals (Dincer & Dincer, 2013; Rupp, 2011), and ethics (Dincer & Dincer, 2013). Morals are the underlying principles on which individuals base their decisions, while ethics is the application of morals to decisions (Van Wyk, 2016).

This article aims to determine what the aspects are that influence decision-makers of SMMEs in Tshwane, South Africa, and the relationships that exist between these aspects and the demographic profile of the individuals. Based on the literature review, the following research questions (RQ) were identified:

RQ1: What are the aspects that influence SMME decision-makers to spend resources on RBP?

RQ2: What is the relationship between the aspects identified and the (a) age; (b) highest level of education; and (c) gender of the decision-maker of the SMME?

3. Methodology

Following a positivistic paradigm, a quantitative research approach was employed. Causality was established by measuring the aspects influencing RBP decision-making in Tshwane SMMEs using a survey strategy. The research approach followed was inductive and this is appropriate since the study aims to draw a conclusion from the results which are used to suggest an explanation for behaviours that have been observed (Anderson, 2004). A general prediction is made that aspects influencing decision-making in South African SMMEs regarding RBP will correspond with those identified in other studies, as previously discussed.

3.1 Sample

The population of the study was comprised of SMMEs (as defined by the South African National Small Business Act 102 of 1996) based in Tshwane in the Gauteng province of South Africa. This study required the selection of a sample from a population that cannot easily be listed for sampling purposes. There are hardly any databases enabling one to estimate the size of the formal SMME population in South Africa (the dti, 2008). Therefore, it was impossible to determine the population of SMMEs in Tshwane. It was thus decided that the online directory (public domain), Brabys (www.brabys.com), would be used to determine a sample through multi-stage sampling. Formal SMMEs from the three largest formal SMME sectors (the dti, 2008) listed on the online database, Brabys, was the population of the study. Therefore, possible participants were SMMEs in the (1) financial intermediation, insurance, real estate, and business services; (2) wholesale and retail trade, repair of motor vehicles and motorcycles, personal and household goods, hotels and restaurants; and (3) manufacturing sectors. These formal sectors of the economy were selected as the population since they have a continuous income from trade and are therefore more likely to expend resources on RBP.

3.1.1 Sampling Stage 1 – Nonprobability purposive sampling

Since it was not possible to produce a complete list of the population, and since a sampling frame could not be developed, nonprobability sampling was appropriate. Firstly, identification of SMMEs listed on Brabys.com under the three different sectors started with a search of the directory. Businesses were searched by sector component (Sector 1 search terms: financial intermediation, insurance, real estate, business services;

Sector 2 search terms: wholesale trade, retail trade, motor vehicle repair, motor cycle repair, personal goods, household goods, hotels, restaurants; Sector 3 search terms: manufacturing). Secondly, the search results were analysed and narrowed down to include only those businesses located in the Tshwane district. Finally, each listing was analysed to see if it qualified as an SMME. SMMEs were thus identified by visiting their websites (if applicable) and/or getting into contact with the contact person of the business (as listed on Brabys.com) via telephone to determine the number of persons employed. If the number of employees was under 200 people, the business was included in the sampling frame. This process resulted in a complete sampling frame from which a sample was drawn in the next stage.

3.1.2 Sampling Stage 2 – Probability systematic sampling

After the sampling frame was determined (a list of appropriate SMMEs – as discussed in Stage 1), the probability sampling method, systematic sampling, was used. This method is appropriate since a systematic sample can be determined without an accurate list of the entire population (which, in the case of this study, was unavailable) by substituting the number of elements in the sample frame for the population's size (Cooper & Schindler, 2011). The systematic sampling process followed the steps as suggested by Cooper and Schindler (2011). The following formula helped determine the skip interval to use when selecting the final sample:

$$\text{Skip interval (a)} = \frac{\text{Sample frame size (b)}}{\text{Sample size (c)}}$$

The sample size needed for the study was 150 respondents. The researcher determined the sample frame size to be 1 146 SMMEs. As per the above formula, the skip interval was determined by dividing the sample frame size (1 146) by the sample size (150). The skip interval was therefore 7.64 and every 8th SMME was included in the final sample. The random start element was selected as the first (one), and a sample was drawn choosing every 8th SMME. The participating SMMEs varied in size, ownership and industry affiliation. The decision-makers in these businesses were owners/managers (decision-makers) who represent a wide range in personal demographics.

The final sample size of the study was 164 SMMEs. A total of 170 questionnaires were distributed. Although 150 was the requirement, the response from the SMMEs was very positive, and 164 questionnaires were received and used in the analysis. However, in the questionnaire, it was necessary to include two filter (skip) questions quite early to eliminate respondents who did not have the authority to make business decisions, as well as SMMEs who did not engage in RBP. Due to these questions, for the purpose of this article (which reports only on the influencing aspects and the demographic variables of the respondent) the total number of usable questionnaires was 84.

3.2 Measuring instrument

Following a literature review, aspects influencing RBP decision-making in SMMEs were identified. Table 2 provides a summary of the aspects considered. Measurement items associated with the aspects listed in Table 2 were obtained from the listed references.

Table 2: Aspects found to influence RBP decision-making

Aspect	Reference(s)
Personal feelings and emotions	Dincer & Dincer, 2013; McCuen & Shah, 2007
Morals	Dincer & Dincer, 2013; Rupp, 2011
Ethics	Dincer & Dincer, 2013
Business finances	Dincer & Dincer, 2013; Rodgers & Gago, 2004
Requests from friends and family	Coppa & Sriramesh, 2013; Dincer & Dincer, 2013; Westerman *et al.*, 2007
Religion	Dincer & Dincer, 2013; King, 2006
Competitive reasons	Cochius, 2006

To ensure validity, the questionnaire was reviewed from a data perspective by a qualified statistician and from a respondent perspective by three colleagues of the author. One rating question was used to collect opinion data. A five-point Likert rating scale was used to enable respondents to rate the extent to which each aspect influences their decision-making. Multiple-choice and dichotomous questions were used to determine the demographic profile of the respondents.

3.3 Data collection and analysis

Primary data collection took place over a period of one month. The structured questionnaires were distributed by two fieldworkers using three methods. Depending on the preference of the SMME decision-maker these were: (1) waiting while respondents completed the questionnaire and collecting it directly from them; (2) dropping off the questionnaire and picking it up at a later stage; or (3) e-mailing the questionnaire (electronically). Fieldworkers signed a confidentiality form to agree to confidential and anonymous information gathering, as well as a contract to complete the work. Fieldworkers were trained by the researcher on the aims of the study, as well as the structure of the questionnaire.

Following data collection, the coding and capturing of the data onto a Microsoft Excel spread sheet commenced. Thereafter it was exported to SPSS to produce tables and to do a statistical analysis. In order to measure the association between two variables, the analysis considered Cramer's V, Mann-Whitney U and Kruskal-Wallis tests (Cooper & Schindler, 2014; Saunders, Lewis & Thornhill, 2009). A factor analysis was conducted on the Likert scale question that asked respondents to rate the extent that the aspect influenced them in their decision-making. The aspects were found to be one dimensional and it was decided to test each aspect separately, therefore no Cronbach Alpha value was applicable.

The research was conducted ethically and special attention was given to confidentiality and anonymity, fairness, honesty and protection from harm and discomfort. Formal ethical clearance was obtained from Unisa (Ref #: 2014_CEMS_BM_018) for the study on which this article is based.

3.3.1 Limitations

Firstly, it was difficult to obtain a comprehensive list of SMMEs due to the lack of a complete database in South Africa (and Tshwane). The list was compiled from a public directory, however not all SMMEs have listings in this directory. Secondly, the study only focused on SMMEs in the Tshwane district of South Africa. While the results are not intended to be generalised to a larger population given the nature of the sampling plan, it is still possible for other domains with the same characteristics to benefit from the findings of the article.

4. Results

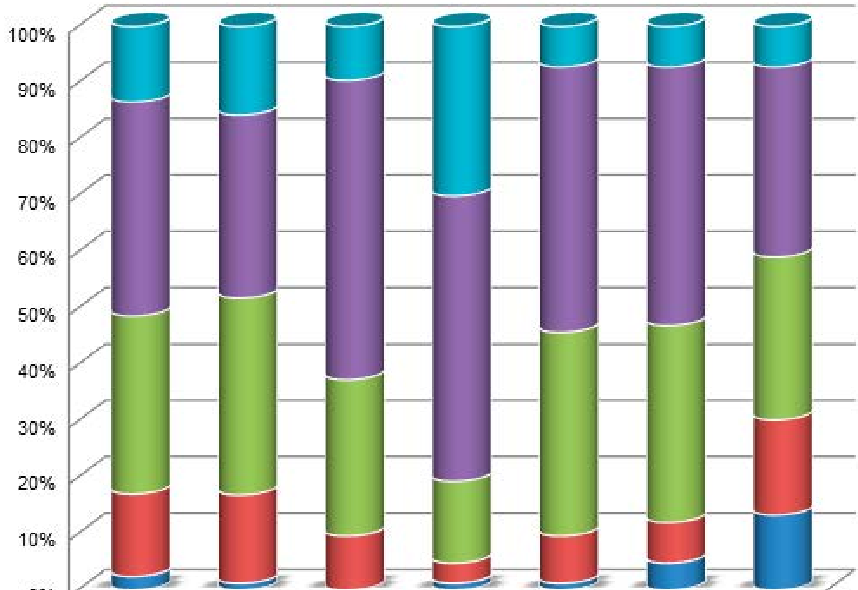
The results report on the respondents' demographic profile, the aspects found to influence Tshwane SMME decision-makers when making RBP decisions and the relationship between these variables.

4.1 Demographic profile

The cumulative majority (80%) of the SMME decision-makers formed part of the categories 30-39 years and 40-49 years of age. The other categories were 50-65 years (16%) and 18-29 years (4%). Almost two thirds (62%) of the respondents were male. The respondents' highest level of education was based on the South African National Qualifications Framework set out by the South African Qualifications Authority (SAQA) and referred to as NQF levels. The qualification level of respondents varied widely with 34 (40.5%) indicating NQF levels one to four (a Junior Certificate – Grade 9 to 11 or Standard 7 to 9; a National Senior Certificate – Matric or Grade 12 or Standard 10 or alternatively a Trade Certificate); 35 (41.7%) indicating NQF levels five to seven (a Higher Certificate, a National Diploma or Advanced Certificate; a Bachelors Degree of 3 years; or an Advanced Diploma); and 15 (17.9%) indicating NQF levels eight and nine (an Honours Degree or a Post Graduate Diploma; or a Master's Degree). A total of 25 (30%) of the respondents indicated that their SMMEs were operating in the manufacturing sector. A total of 33 (40%) of the respondents indicated that their companies were operating in the financial intermediation, insurance, real estate, and business services sector; and 25 (30%) of the respondents indicated that their companies were operating in the wholesale and retail trade, repair of motor vehicles and motor cycles, personal and household goods, hotels and restaurants sector.

4.2 Aspects influencing RBP decision-making

To determine which aspects influence decision-making regarding RBP, respondents were asked to rate seven different aspects on a five-point Likert-type scale. The influencing aspects were: (1) personal feelings and emotions; (2) ethics; (3) morals; (4) current financial condition of the company; (5) requests from friends and family; (6) religion; and (7) competitive reasons. The respondents had to rate each aspect on the extent to which it influences them when making decisions to spend on any RBP activity. The scale points ranged from 1 (not at all) to 5 (always). The percentages of responses for each point on the scale are summarised in Figure 2.



	Personal feelings or emotions	Ethics	Morals	Current financial condition of your company	Requests from friends and family	Religion	Competiti ve reasons
Always	13,4	15,7	9,6	30,1	7,2	7,2	7,2
To a large extent	37,8	32,5	53	50,6	47	45,8	33,7
To a moderate extent	31,47	34,9	27,7	14,5	36,1	34,9	28,9
To a small extent	14,6	15,7	9,6	3,6	8,4	7,2	16,9
Not at all	2,4	1,2	0	1,2	1,2	4,8	13,3

Figure 2: Extent to which aspects influence RBP decision-making

It is evident from Figure 2 that most of the aspects influence respondents to a large extent, except for ethics where 'to a moderate extent' is higher than 'to a large extent'. It can also be seen that the current financial condition of the company has the highest percentage of all the aspects, both under 'to a large extent' and 'always'. This result indicates that all of the influencing aspects mentioned in the literature review indeed influence RBP decision-making of SMMEs in Tshwane.

4.3 Relationship between the influencing aspects and the demographic variables

Firstly, the Kruskal-Wallis test was used to determine statistically significant differences between: (1) The age groups of respondents with regard to the aspects influencing RBP decision-making; and (2) The respondent's highest level of education with regard to the aspects influencing RBP decision-making. Finally, the Mann-Whitney test was used to determine if a statistically significant difference between the male and female respondents with regard to the aspects influencing RBP decision-making exists. The following hypotheses were formulated:

H_1: There is a difference between the age group of respondents with regard to each of the aspects influencing RBP decision-making.

H_2: There is a difference between the respondent's highest level of education with regard to the aspects influencing RBP decision-making.

H_3: There is a difference between male and female respondents with regard to the aspects influencing RBP decision-making.

4.3.1 Key differences between age groups (H_1)

Firstly, a statistically significant difference between the age group of respondents with regard to one influencing aspect (current financial condition of the business) was observed and H_1 was accepted. The results of the Kruskal-Wallis test are shown in Table 3.

Table 3: Kruskal-Wallis test results for the difference between the age group of respondents with regard to the aspects influencing RBP decision-making

	Current financial condition of the business
Chi-Square	8.189
df	2
Asymp. Sig.	.017

This result indicates that there is a statistically significant difference, at the 5% level of significance, between the age group of respondents with regard to one aspect (current financial condition of the business) influencing RBP decision-making.

Mean ranks indicate that the age group of 50 to 59 years tends to be less influenced by their business' current financial condition (mean: 24.65) than the other age groups. The 40 to 49 years group tend to be most influenced by this aspect (mean: 43.36) with the 30 to 39 years group only slightly less (mean rank: 41.61). The 18 to 29 years group was not included due to the small number of respondents in this group.

4.3.2 Key differences between respondents' highest level of education (H_2)

Next, it was determined that there is a statistically significant difference between the respondent's highest level of education with regard to one influencing aspect (ethics). Therefore, H_2 was accepted. The results of the Kruskal-Wallis test are shown in Table 4.

Table 4: Kruskal-Wallis test results for the difference between the highest level of education with regard to the aspects influencing RBP decision-making

	Ethics
Chi-Square	6.588
df	2
Asymp. Sig.	.037

This result indicates that there is a statistically significant difference, at the 5% level of significance, between the respondents' highest level of education with regard to this aspect (ethics) influencing RBP decision-making.

Mean ranks indicate that respondents' whose highest qualification is on NQF level five, six or seven, are the most influenced by ethics when making RBP decisions (mean rank: 49.51). Respondents' whose highest qualification is on NQF level eight or nine are the least influenced by ethics (mean rank = 34.43).

4.3.3 Key differences between genders (H_3)

Thirdly, it was determined that there is a statistically significant difference between male and female respondents with regard to four of the seven influencing aspects namely personal feelings, ethics, morals and religion. Therefore, H_3 was accepted. The results of the Mann-Whitney test are shown in Table 5.

Table 5: Mann-Whitney test results for difference between genders with regard to the aspects influencing RBP decision-making

	Personal feelings or emotions	Ethics	Morals	Religion
Mann-Whitney U	577.500	551.000	603.000	586.000
Wilcoxon W	1955.500	1929.000	1981.000	1964.000
Z	-2.045	-2.509	-2.100	-2.232
Asymp. Sig. (2-tailed)	.041	.012	.036	.026

This result indicates that there is a statistically significant difference, at the 5% level of significance, between male and female respondents with regard to these four aspects influencing their decision-making on RBP.

The mean ranks indicate that females' decision-making is more influenced by all four of these aspects than males (mean ranks of personal feelings: 48.25 vs. 37.61; mean ranks of ethics: 50.23 vs. 37.10; mean ranks of morals: 48.55 vs. 38.10; and mean ranks of religion: 49.10 vs. 37.77). This result indicates that, when making a decision regarding RBP, females are more likely to consider their personal feelings, ethics, morals and religion than males.

5. Discussion and conclusions

5.1 RQ1: The aspects influencing SMME decision-makers to spend resources on RBP

All the aspects identified in the literature review, namely personal feelings and emotions, ethics, morals, current financial condition of the company, requests from friends and family, religion and competitive reasons are applicable to SMMEs in Tshwane, South Africa. Personal feelings or emotions, morals, the current financial condition of the company, requests from friends or family, religion and competitive reasons all influence respondents to a large extent. Ethics only influences SMMEs to a moderate extent while the current financial condition of the company is the greatest influence for SMMEs.

The results correspond with the literature review (references listed in Table 2). Having knowledge about the different influencing aspects, it can be concluded that while all of the aspects influence individuals when making a decision, this will be to varying degrees that differ from one individual to the next and from one business to the other. SMMEs should take into account that the influencing aspects identified are both personal and business related and that the extent to which each individual aspect influences the decision-maker's choices will differ. The fact that ethics influences the SMMEs' decision-making process only to a moderate extent is problematic. This result reveals that SMMEs are more focused on the profits of the business than on acting in an ethical manner. It is also possible that respondents do not understand the difference between morals and ethics. Considering this result, it can be concluded that the behaviours and patterns of decision-making in SMMEs could be improved.

Considering that the current financial condition of the company is the greatest influence when deciding to spend resources on RBP activities, it can be concluded that if an SMME is in a bad financial state, they will most likely not partake in RBP. This corresponds with the finding by Dincer and Dincer (2013) who stated that the financial position was a factor when the finances of the business were down. Therefore, the extent of RBP engagement depends on the available funds of the SMME.

5.1. RQ2: The relationship between the aspects identified and the (a) age; (b) highest level of education; and (c) gender of the decision-maker of the SMME

RQ2(a): The results of this study indicate that SMMEs with older decision-makers (50-59 years of age) are more likely to spend company resources on RBP regardless of their businesses' financial position. Tuzco (2014), after reviewing a number of studies, came to the conclusion that it is not possible to observe a strong association between age and CSR implementations in a large business. However, this study proposes that in an SMME, the decision-makers' age is indeed an influencing aspect. It is likely that older decision-makers realise that a poor financial condition is a temporary state and that, in the long term, acting responsibly could provide the business with invaluable benefits. It is possible that younger decision-makers lack the experience that their older counterparts possess. It is also possible that older decision-makers have more stable enterprises that have more money to spare for such activities.

RQ2(b): An interesting finding is that if the SMME decision-maker has an NQF level five, six and seven level of education, ethics is more important when deciding to be involved in RBP. This corresponds with Hsu and Cheng's (2012) finding that education levels have a positive influence on the SMME's willingness to engage in responsible business, and that the degree of influence of a graduate school education is stronger than that of other education levels. A possible cause for this finding could be that higher education institutions sometimes include ethics in their curriculum, and therefore the decision-maker might have greater knowledge on the topic. It is possible that the decision-makers that are more knowledgeable have better management skills, and for this reason there are more resources available for RBP. The reason for NQF levels eight or nine being the least influenced by ethics is unclear, and no evidence was found in the literature to support this finding. Therefore, it is suggested that the difference between the decision-makers' highest level of education and ethics as an influencing aspect should be researched in more detail, together with the reason for ethics influencing RBP decision-making to only a moderate extent (see RQ1).

RQ2(c): It is interesting to note that RBP decision-making on the part of females is more influenced by personal feelings, ethics, morals and religion than is the case for males. From this result it can be concluded that these four aspects are more important to females and they are more likely to involve their emotions and personal values when making RBP decisions. No evidence was found in the literature to support these differences between males and females when making RBP decisions, and this is thus a suggestion for future research. The gender difference should be addressed by SMMEs through open communication and interaction. Males should be aware that females are influenced by personal emotions and values to a greater degree.

6. Conclusion

This article aimed to investigate the aspects influencing SMME decision-making for spending resources on RBP and the relationship of these aspects with the demographic variables of the decision-makers. Two research questions were set to achieve the purpose of the article, and it can be concluded that the study succeeded in its aim. From the discussion on the two research questions, it can be concluded that if different demographic variables are taken into account, the understanding of the aspects that influence the decision-makers to utilise business resources for RBP will increase.

This article contributes to the body of knowledge on decision-making in SMMEs. It also makes a contribution to South African SMME literature on doing responsible business and confirms the many aspects that are known to influence SMMEs to spend their resources on RBP. The aspects that were found to influence RBP decision-making could well be applicable to other conscious decision-making processes in SMMEs. The results and conclusions could also be of interest to SMMEs in other developing countries.

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Business practices influencing ethical conduct of small and medium-sized enterprises in Uganda

Authors:

Dr Jamiah Mayanja[1]
Prof. Sandra Perks[2]

Affiliation:

[1] Makarere University, Kampala, Uganda

[2] Nelson Mandela University, South Africa

Correspondence to:

Prof. Sandra Perks, Department of Business Management, Nelson Mandela University, PO Box 77000, Port Elizabeth 6031, South Africa

E-mail:

sandra.perks@mandela.ac.za

DOI:

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Abstract

Although the significant economic contributions of small and medium-sized enterprises (SMEs) are globally acknowledged, many Ugandan SMEs have not fully integrated ethics into their business strategies. We explored the business practices that influence ethical conduct in SMEs in Uganda. A newly developed self-administered questionnaire was used to collect data from a non-probability convenience sample of 384 SME owners or managers. Management practices of Ugandan SMEs and their employees' knowledge significantly influence their ethical business conduct. SME owners and managers should brief their employees on acceptable ethical business behaviour and develop management practices to reflect their intended ethical business reputation.

1. Introduction

Uganda is a landlocked country located in the Eastern part of the African Continent (Nakabugo, Byamugisha & Bithaghalire, 2008) and has a young and fast-growing population, with the highest youth unemployment rate in Sub-Saharan Africa (International Labour Organisation, 2016). Fifty three percent of Uganda's labour force is self-employed (Uganda Bureau of Statistics, 2016). The transition from an agricultural economy to an industrial economy resulted in robust economic growth in the past decade, especially in the financial services, construction, manufacturing, transportation, telecommunications, energy, infrastructure, and oil and gas sectors (United States Department of State, 2013). Despite Uganda's incredible performance in ensuring political stability and a stable economic environment, Uganda is still ranked as having the highest investment and business operational costs within the East African Community region (Doing Business, 2017). It was further noted that the many and costly procedures and time taken to register and start a business discourage business registration.

In Uganda, business start-ups and general business operations are affected by: the lack of access to reliable and affordable electricity supply, costly and time-consuming procedures for obtaining construction permits, high cost of access to credit, costly procedures for resolving commercial disputes in courts of law, poor road- and rail infrastructure, and administrative burdens related to the tax regulation process and trading across borders (Doing Business, 2017). In spite of the airspace liberation between the five East African Community (EAC) member countries, airfreight charges are still very high, thereby contributing to the high cost of doing business (Karuhanga, 2017). SMEs' access to and the use of appropriate technology are limited in Uganda (Uganda Micro, Small and Medium Enterprise Policy, 2015). Furthermore, there are no compliance programmes to detect and prevent bribery or to guide Ugandan businesses' conduct (United States Department of State, 2016).

Although Uganda is regarded as highly entrepreneurial with 10% of Ugandans starting a business, about one fifth of these businesses fail (Patton, 2016). In Africa, where the private sector is generally not well-developed, SMEs play a critical role in alleviating poverty (Abor & Quartey, 2010) and comprise of about 90% of African businesses which contribute to over 50% to Africa's employment and GDP (Chodokufa, 2009). SMEs are mainly oriented towards solving daily problems, managed on gut feeling with few or no formal management systems, with informal employee relations and communication dominating their operations (Srinivasan, 2009). There is also a weak distinction between their ownership and management roles, with multitasking being quite common. It then follows that their ethical principles are usually implied rather than formally expressed through ethical policies, codes and programmes (Singh, 2009). Unfortunately, SMEs' lack of formal business management practices affects their ability to incorporate responsible and ethical practices in their business operations (Fatoki & Asah, 2011). Chouaib and Zaddem (2013) observed that SMEs are increasingly exhibiting unethical conduct of deception and opportunism and this may explain the lack of longevity among SMEs.

2. Problem statement

The literature on ethical business practices largely focused on large businesses, with limited discussions on SMEs (Banerjee, Dutta & Mukherjee, 2007). Srinivasan (2009) confirmed that due to the informal nature of SMEs, stringent governance norms that apply to large businesses might not necessarily be applicable to SMEs, thereby providing scope for SME owners to establish their own ethical business practices. Business ethics enacted in larger businesses is different from those of SMEs as only the sole owner or one manager makes business decisions and exerts control over operations; their personal attitude and behaviour will guide business behaviour and signal to employees how serious the business is about behaving in an ethical manner (Singh, 2009).

In Uganda today, unethical conduct is an inherent vice within the trading community. Many SME managers display exploitative behaviour such as dishonest, corrupt business practices with tax evasion, inappropriate use of business resources, illicit business participation coupled with opportunism, lack of confidentiality, favouritism and funding embezzlement (Ntayi, Eyaa & Semukono, 2012). These authors further indicated that SMEs treat employees unfairly, produce substandard goods and mislead customers about product needs and trends. Many SMEs are avoiding product quality assurance certification by the Uganda National Bureau of Standards as the procedure is too stringent (Ministry of Finance, Planning and Economic Development, 2011). There is also evidence of unethical public procurement conduct and behaviour in Uganda with many SMEs failing to adhere to contractual obligations (Ntayi, *et al.*, 2012). Such unethical practices will affect the reputation of their businesses, as well as their ability to attract new customers and retain existing customers.

This research was undertaken in recognition of the importance of having sound business practices in place that promote ethical business conduct in SMEs. Although it is acknowledged that many factors other than business practices can influence ethical business behaviour, this article will focus only on business practices as a key determinant in influencing ethical workplace behaviour. According to Kushnir, Mirmulstein and Ramalho (2010), the most common definitional basis to classify business size is in terms of the number of employees. In this article, small and medium-sized enterprises are considered those businesses that employ more than five but less than 200 employees (Uganda Investment Authority, 2011). Ethical business conduct relates to a business demonstrating high ethical standards in all business practices to maintain its ethical reputation (McMurrian & Matulich, 2011).

3. Research objectives

The primary objective of this study is to determine the business practices that influence the ethical business conduct in Ugandan SMEs. The following secondary objectives address the primary objective:

- To provide a literature review of five selected business practices namely workplace culture, employee knowledge acquisition, management practices, organisational resource management and sound reporting mechanisms, as well as what is regarded as acceptable ethical business behaviour;
- To empirically determine which of the selected business practices influence the ethical business conduct of SMEs in Uganda; and
- To provide recommendations regarding the managerial implications for implementing specific ethical business practices to improve the ethical business conduct of SMEs in Uganda and other developing countries.

4. Review of literature

As all businesses globally face issues such as the increasing awareness of customers' rights and the emphasis on business operation transparency and accountability, there is increased pressure on SMEs to adopt ethical business practices. The important business dimensions that have an effect on SMEs' business ethics practices are related to the special characteristics of SMEs (Lahdesmak, 2005). Khademfar and Amiri (2013) confirmed that besides SMEs being owner-managed, other typical features such as their lack of a formal management structure, not having formal systems and procedures, lack of a workplace culture, limited resource availability and absence of staff training, influence their ethical business conduct.

4.1 Business practices

This study has explored the following selected business practices that may influence the ethical business conduct of SMEs: workplace culture, employee knowledge acquisition, management practices, organisational resource management and sound reporting mechanisms.

4.1.1 Workplace culture

Workplace culture consists of codes, statements, policies and regulations that affect employees' ethical behaviour (Mehalu, 2011). It encompasses everything from how employees dress, the way they relate to customers, and their interactions with management (Ethics Resource Center, 2013). Workplace culture influences the personalisation of the workplace, as well as the shared views on environmental ethics and behaviours (Cole, Oliver & Blaviesciunaite, 2014). Ethical dilemmas may occur in situations where there are no clear guidelines on how to act or respond to certain situations (Cant, Wiid & Kallier, 2013). For example, employees are much more likely to act unethically where a code of ethics does not exist, or top managers disregard it (Miller & Cross, 2012). The importance of providing employees with clear expectations regarding ethical behaviour in the workplace should not be underestimated (Huhtala, Feldt, Hyvönen & Mauno, 2013). If businesses provide a clear set of ethical codes and policies, it may positively influence the moral thinking of their employees and result in effective enforcing of these policies (Hellriegel, *et al.*, 2012). SMEs react to ethical dilemmas based on professional business codes rather than on formal business ethics codes (Bajmócy & Lengyel, 2009). Behavioural policies and procedures communicated in a business lead to a shared perception or belief of what is fair or just (McCain, Tsai & Bellino, 2010). However, it is important to acknowledge that even good employees can make unethical choices if their workplace culture does not emphasise ethical values. Research conducted by Carroll and Buchholtz (2014) found that when ethical business codes are implemented forcefully and are strongly embedded in the workplace culture, unethical employee behaviours tend to decrease.

4.1.1.1 *Employee knowledge acquisition*

Business knowledge can be acquired through training, mentoring, cooperation with partners, suppliers and advisors, or by "stealing" information from other people (Bencsik, 2011). Ethical knowledge can be acquired by employees familiarising themselves with the ethical business codes to know what is regarded as right and wrong in their everyday business conduct (Lee & Cheng, 2012). It must be noted that knowledge acquisition is a critical element in the effective prevention, investigation, prosecution, and reduction of wrongdoing (Kleinig, 2009). To increase ethical awareness, knowledge acquisition is essential (Shakeel, Khan & Khan, 2011). The starting point of knowledge acquisition is to train employees to understand and comprehend the business values and moral practices to make sound decisions (Stefanescu & Doval, 2010). Treviňo and Nelson (2011) suggest that ethical training should already be included in the employee's orientation process. Follow-up training on ethical business behaviour is useful to remind employees about how to behave ethically at all times (Tan, Flack, Bear & Allen, 2015). Further suggestions include that businesses should send employees from time to time to attend seminars on ethical business conduct to expose them to a wider discussion of business policies, specific case studies and legal requirements specific to ethics (Lluka, 2010). Knowledge acquisition in SMEs is, however, more informal in nature and tends to be obtained from networks such as local business clubs, as well as relationships with customers and suppliers (Schaefer, Williams & Blundel, 2011). As SMEs are not always aware of all the implications of ethical regulations, their ethical business training is not always effective (Cambra-Fierro, Hart & Polo-Redondo, 2008). However, any training is beneficial as employees with knowledge can modify their behaviours to reflect the new knowledge (Finn & Torgeir, 2008) and share it with other employees (Ma'an & Kalaldeh, 2010).

4.1.1.2 *Management practices*

Management practices relate to systems and processes designed to support decision-making to guide workplace behaviour (Bloom, Genakos, Sadun & Van Reenen, 2012). It plays an essential role in instilling an ethical business culture because employees pay attention to what is measured, rewarded and disciplined (Treviňo & Nelson, 2011). As management systems influence the ethical orientation of employees, it is important to provide guidelines on the rewards of ethical behaviour and punishment of improper behaviour (Alder, Schminke, Noel & Kuenzi, 2008). For this reason, businesses must treat employees fairly to encourage ethical behaviour (McCain *et al.*, 2010) as employees' perceptions of unfairness in reward systems increase the likelihood of unethical behaviour (Rhode & Packel, 2009). Businesses should reward employees who resolve a business dilemma while remaining ethical in their business dealings (Younkins, 2011) and punish employees who violate rules in order to show them the consequences of unethical business conduct (Ferrell & Ferrell, 2009).

Many SMEs focus on short-term goals and not long-term goals for survival and this prompts their managers to engage in myopic, short-term behaviour that harms the business in the long term (Ordóñez, Schweitzer, Galinsky & Bazerman, 2009). Many

SMEs focus mainly on having a positive cash flow and healthy bank balance instead of on business liquidity (Nyabwanga, Ojera, Simeyo & Nyanyuki, 2013). Without good management practices, the reputation of the business can suffer (Cant, *et al.*, 2013) as it provides opportunities for unethical business behaviour (Ogundele, Hassan, Idris & Aliu, 2013).

4.1.1.3 Organisational resource management

Yves (2005) is of the opinion that not only financial resources are the root of the unethical business behaviour, but that human resources could also pose problems. The cause of bad business behaviour often lies in mismanaged employee bonus systems and compensation structures, as was evident in the Enron Corporation case that led to a financial crisis and the collapse of the business (Rhode & Packel, 2009). This is an example of how scarce financial resources can undermine the morality of a business (Lahdesmak, 2005). Monetary compensation can thus harm the reputation of the business if a manager does not act ethically and acts in his/her own interest (Kuryn, 2014). The mere size of the SME limits its financial resources and capabilities and increases the chances of unethical business behaviour (Rune, 2011). SMEs do not access formal funding easily (Mbabazi, 2012), and can often not employ or retain specialised skilled employees (Boateng, 2012). This has resulted in some Kenyan SMEs engaging in unethical business schemes to accept contracts at lower prices to beat their competitors' prices (Tarus & Nganga, 2013). In a very competitive business environment, a business will do anything to increase its profits because playing by the rules does not necessarily lead to the desired business performance (Kuryn, 2014). For this reason, corruption must be addressed timeously, or else it creates an unfavourable business environment conducive to bribery risks (Bishara, 2011).

4.1.1.4 Sound reporting mechanisms

There is a direct link between a good ethics reporting system and the organisation's code of conduct (Garthson, 2007). It is necessary to communicate in writing to employees about ethical business conduct to close the gap between the spoken word and the execution thereof (Belak & Milfelner, 2011). Ethics and compliance concerns are normally reported through an array of reporting systems such as telling supervisors and colleagues, phoning toll-free helplines, employing a neutral ombudsman, whistle-blowers reporting incidents, as well as conversations in chat rooms, instant messaging and e-mails (Ethics and Compliance Risk Management, 2007). Employee hotlines ensure confidentiality and anonymity when reporting sensitive work-related matters (Ethics Resource Center, 2013). Allowing anonymous reporting of unethical business conduct by fellow employees or about how they are treated is good for the reputation of the businesses (Ashridge Centre for Business and Society, 2005). It will further prevent unscrupulous employees from behaving unethically due to fear of being exposed and punished (Cicek, 2012). If employee complaints are not resolved amicably, an ombudsman as an outsider can facilitate a fair and equitable resolution of the ethical employee concerns that arise within the business (Treviño & Nelson, 2011).

An internal suggestion box for lodging complaints can be desirable and guarantee confidentiality, as both customers and employees can use it (Addai-Minkah, 2011). However, an internal reporting mechanism focuses on the business needs rather than on the needs of its employees and does not inspire trust, because it cannot guarantee confidentiality or anonymity (Garthson, 2007). Many businesses also use ethical compliance manuals to communicate their stance on ethical business behaviour (Belak & Milfelner, 2011). SMEs tend to have informal reporting mechanisms based on face-to-face interaction with stakeholders, rather than having formal written guidelines (Baumann-Pauly, Wickert, Spence & Scherer, 2013). In India, rather than using a formal mechanism, SMEs resolve employee disputes in an informal manner based on the employee's reputation, how much they trust the employee and the relationship they have with the employee (Allen, Chakrabarti, De, Qian & Qian, 2012). The effectiveness of this practice is however debatable, as favouritism can influence human judgment.

4.1.2 Ethical business conduct

The business environment has changed in recent years and the issue of business ethics has become even more important for businesses (Cant *et al.*, 2013). Managers expect employees to be ethical and employees expect managers to be ethical (Phatshwane, 2013). Globalisation has brought about a greater need to conduct business in an ethical manner and, most importantly, using it to achieve a competitive advantage (Dutta & Banerjee, 2011). Many benefits stem from behaving ethically in business. McMurrian and Matulich (2011) note that a business that demonstrates high ethical standards in all business practices, maintains an ethical reputation. Their good reputation results in a high level of customer satisfaction and loyalty that translates into a higher profit, since customers are more inclined to buy from an ethical business (Wiid, Cant & Niekerk, 2013). Being ethical reduces the transaction costs of generating new customers (Zhang, 2009) and enables businesses to attract more skilled employees (Larkin & Pierce, 2015). These skilled employees put more effort into their work and thereby increase productivity. According to Lockwood (2007), a business environment that is open and honest results in employees who are loyal and committed to the business. This, in turn, leads to a low staff turnover, as employees will be more likely to remain employed in a business that embraces ethical behaviour (Strandberg, 2009). Abor and Quartey (2010) find that SMEs that operate in an ethical manner adhere to business laws and regulations, and pay their taxes. Ethical businesses pay suppliers promptly (Jones, Felps & Bigley, 2007). Customers are confident of receiving quality products at agreed-upon prices if buying from ethical businesses (Cambra-Fierro *et al.*, 2008). Muffatto and Giacon (2012) note that ethical businesses display good corporate citizenship behaviour in all their operations, as they are transparent, responsible, fair and accountable.

5. Research hypotheses and operational definitions

Based on the preceding literature review, the following five hypotheses were formulated to be tested in this study:

H_1: Workplace culture influences SMEs' ethical business conduct.

H_2: Employees ethical knowledge levels influence SMEs' ethical business conduct.

H_3: Management practices influence SMEs' ethical business conduct.

H_4: Organisational resource management influences SMEs' ethical business conduct.

H_5: Reporting mechanisms influence SMEs ethical business conduct.

Table 1 depicts the operational definitions of the dependent and independent variables of the study.

Table 1: Operationalisation of variables

Business-related factors	Definitions	Sources
Workplace culture	The business's prevailing values, attitudes, beliefs and behaviours that tie employees together	Ethics Resource Center (2013:19); Mehalu (2011:5); Sinha & Mishra (2011:143);
Management practices	A set of tools or guidelines used to shape the values in and promote ethical behaviour throughout the business	Edwards (2009:142)
Knowledge acquisition	How knowledge is acquired, processed, understood and recalled	Wisegeek (2015:1)
Organisational resources	The capabilities of the business in terms of human-, financial-, physical and material-, information- and intellectual resources	BusinessDictionary.com (2016:1)
Reporting mechanisms	Business mechanisms for disclosure and communication of ethical business standards	Garthson (2007:1)
Ethical business conduct	Businesses complying with business laws and regulations, striving to improve the lives of their local community and taking responsibility for the impact of their activities on the environment	Ferrel & Ferrel (2009); Michael (2006); Smart, Barman & Gunasekera (2010)

Cohen, Manion and Morrison (2007) indicate that to conduct good research requires the operationalisation of variables. The operational definitions of the dependent and independent variables guided the development of the items tested in the questionnaire.

6. Research design and methodology

In this study, the positivistic research paradigm was adopted. The positivistic paradigm is associated with large sample sizes to enable making inferences about the population (Nwokah, Kiabel & Briggs, 2009). Four hundred and fifty questionnaires were distributed to SME owners/managers in Kampala based on accessibility and availability, as no complete database of registered SMEs exists in Uganda. Kampala is the capital city of Uganda, with the highest proportion of SME businesses (National Small Business Survey of Uganda, 2015). SMEs' owners and/or managers were selected to participate in the survey as they run or manage the businesses and are thus considered the most informed of the ethical business practices employed in the businesses.

Initially business associations supplied their SME databases to assist in identifying the sample respondents. However, when attempting to telephone the businesses on the databases to request participation in the study, it was found that many businesses did not exist or their contact details were incorrect. This resulted in utilising non-probability convenience sampling. Three fieldworkers were supplied with a specific list of business names from the business associations' lists within a specific area in Kampala. However, when fieldworkers went to survey the businesses, many SMEs could not be found and they had not provided their forwarding addresses. It was then decided that while being in that specific area, other businesses in that area be surveyed that meet the criteria for inclusion in the sample. The criteria for inclusion in the sample were that the SMEs must be registered and employ a workforce of between five and 200 employees. Respondents were also asked to refer the fieldworkers to other SMEs that meet the sample criteria.

The fieldworkers verified whether the businesses met the sample criteria before providing the owners/managers with a hard copy of the structured questionnaire. They waited for the completion of the questionnaire or arranged for a time to fetch the completed questionnaire. Some businesses did not complete the questionnaire fully or did not complete it at all within the required data-collection timeframe, resulting in a total sample of 384 completed questionnaires with a response rate of 85%.

A survey questionnaire was developed based on literature and comprised of two sections. In the first section, the biographical data of the businesses were canvassed. In the second section, data pertaining to the perceptions of SMEs on business practice issues influencing their ethical business conduct were tested in 25 items (five items per variable) on a five-point Likert-type scale ranging from strongly disagree (1) to strongly agree (5). Ethical business conduct was tested in 10 items on the same five-point Likert scale. According to Zikmund, Babin, Carr and Griffin (2012), a Likert scale provides respondents with a wide range of choices and is suitable to measure the attitude towards an issue.

Three academic experts lecturing in the field of ethics scrutinised the questionnaire for initial face and content validity. This resulted in minor word changes for a few items. Thereafter, based on the first 50 questionnaires received back, it was validated for initial construct reliability by calculating Cronbach's alpha coefficients for the six variables. The Cronbach's alpha coefficients of the five independent variables and ethical business conduct (dependent variable) for the initial pilot sample of 50 questionnaires varied between 0.6 and 0.7 and was regarded as an acceptable reliability level for the research instrument to proceed with surveying the entire sample. These 50 questionnaires were included in the data analysis of the final sample of 384 questionnaires. Although a reliability level of 0.85 is desirable, Suhr and Shay (2009:3) indicate that an acceptable reliability level for research instruments can be as low as 0.50. This process concluded the initial validation of the newly developed questionnaire.

Data were analysed using a statistical computer package, STATISTICA version 10. The sample met the assumptions for Exploratory Factor Analysis (EFA): a sample size of more than 200 respondents, the sample being homogeneous, and only correlations between variables of higher than 0.4 were considered, as well as all outliers removed. Data normality was established by conducting the Kolmogorov-Smirnov test. With all the assumptions met, a principal component EFA (varimax rotation) was carried out to extract the constructs, and assess the validity of the constructs in the measuring instrument. Variables with an Eigenvalue of more than 1.0 were retained as advised by Costello and Osborne (2005). Only item factor loadings above 0.4 were regarded as significant as advised by Hair, Black, Babin, Anderson and Tatham (2006). Cronbach's alpha coefficients were calculated for the full sample to verify the consistency of the inter-item reliability of the research instrument with 0.6 being regarded as an acceptable level of reliability for constructs as recommended by Suhr and Shay (2009). Constructs with less than three items were regarded as weak and unstable (Costello & Osborne, 2005), and were disregarded. Descriptive and inferential statistics were calculated, with statistical significance measured at the 5% confidence levels.

6.1 Sample description

Table 2 depicts the biographical data of the SMEs surveyed.

Table 2: Biographic data of the surveyed SMEs

Demographics	Categories	N	%
Number of years in business	Less than 3 years	59	15
	3-5 years	99	26
	6-10 years	129	34
	More than 10 years	97	25
Form of enterprise	Sole trader	110	29
	Partnership	77	20
	Private company	182	47
	Trust	13	3
	Others	2	1
Industrial sector	Manufacturing and Processing	48	13
	Business Services	97	25
	Trade (retailing/wholesaling)	65	17
	Hotels and Restaurants	52	14
	Agriculture and Forestry	20	5
	Education	69	18
	Insurance	9	2
	Health and Social Works	24	6
Number of employees in your business	5-10	198	52
	11-20	112	29
	21-49	48	12
	50-200	26	7

From Table 2, most of the SMEs (34%) had been in existence between six and 10 years, 26% had been in existence between three and five years, 25% had been in existence for more than 10 years, while only 15% had been in existence for less than three years. The SMEs surveyed were private limited companies (47%), sole proprietors (29%), partnerships (20%) or trusts (3%). Most SMEs were service businesses (25%), in education (18%), the trade (17%), hotel and restaurants (14%), as well as manufacturing and processing (13%) sectors. A few SMEs were in the health and social works (6%), agriculture and forestry (5%) and insurance (2%) business sectors. More than half (52%) of the SMEs employ between five and 10 employees, with 29% employing between 11 and 20 employees and 13% employing between 21 and 49 employees. Few businesses (7%) had more than 50 full-time employees (medium-sized businesses).

6.1.1 Results of the validity and reliability of the measuring instrument

As a result of the exploratory factor analysis, six variables (five business practices and ethical business conduct) were extracted, but one of the business practices was disregarded from further analysis as only two items loaded onto the variable. Of the retained variables, some items were regrouped, but the variables did not require renaming as the items fit into the variable description. Table 3 provides a summary of the retained valid items and variables, and an indication of the inter-item consistency scores (Cronbach's alpha) of each variable.

Table 3: Summary of the validity and reliability analysis

Variables	Number of items retained	Minimum factor loadings	Maximum factor loadings	Cronbach's alphas
Workplace culture (WC)	4	0.496	0.585	0.503
Employee knowledge acquisition (EKA)	7	0.410	0.670	0.727
Organisational resource management (ORM)	5	0.419	0.729	0.607
Management practices (MAP)	5	0.413	0.709	0.706
Ethical business conduct (EBC)	6	0.576	0.723	0.749

As can be seen from Table 3, the factor loadings for the five retained constructs vary between 0.410 and 0.729. Item retention varies between four to seven items per variable. With the exception of workplace culture (WC), all the variables returned Cronbach's alpha coefficient scores of above 0.6 the cut-off point, as advised by Suhr and Shay (2009) to be an acceptable coefficient value. Workplace culture was disregarded from further analysis as there was not sufficient evidence of the reliability of the scales. All the other variables provided sufficient evidence of the reliability of the scales as the Cronbach's alpha coefficients exceeded the cut-off point of 0.60 considered in this study.

6.1.2 Results of the descriptive statistics

Employee knowledge acquisition, management practices and ethical business conduct had means that tended towards the agreement of the scale (rating 4). The results of the means imply that SME owners/managers in Uganda agree that employees in SMEs in Uganda should be provided with knowledge of ethical business conduct and that there should be management practices in place to encourage ethical business conduct. Respondents further agree (rating 4) that their SMEs are known for their ethical business conduct. Respondents were on average neutral (rating 3) regarding having the ability to manage their organisational resources. All the standard deviations were relatively low (varying from 0.565 to 0.808) which indicates low response variances.

6.1.3 Results of the correlation analysis

Table 4 depicts the Pearson moment correlation matrix for the dependent variable, ethical business conduct and the independent variables.

Table 4: Pearson product moment correlation matrix of the factors

Factors	EBC	EKA	ORM	MAP
Ethical business conduct (EBC)	1.000			
Employee knowledge acquisition (EKA)	0.437	1.000		
Organisational resource management (ORM)	0.106	0.233	1.000	
Management practices (MAP)	0.384	0.568	0.284	1.000
$p<0.05$				

Table 4 shows that the independent variables employee knowledge acquisition (r=0.437) and management practices (r=0.384) have significant positive moderate correlations with ethical business conduct. Organisational resource management has weak positive correlations with ethical business conduct (r=0.106) and management practices (0.284). It seems that respondents in this study do not consider organisational resource management to be much associated with ethical business conduct and management practices. Employee knowledge acquisition has a strong association with management practices (r=0.568). Knowledge acquisition could be regarded as a management practice.

6.1.4 Results of the multiple regression analysis

It is necessary to establish whether the data are free from multi-collinearity prior to multiple regression analysis testing. Multi-collinearity diagnostics analysis facilitates the identification of measuring items or variables that have a high correlation among themselves (Kraha, Turner, Nimon, Zientek & Henson, 2012). Nimon, Henson and Gates (2010) regard proper multi-collinearity diagnostics important since extremely correlated predictor variables usually measure the same theoretical concepts, thereby complicating results. It was further advised that a tolerance value of less than 0.1 indicates a serious collinearity problem during multi-collinearity diagnostics analysis. In addition, when the Variance Inflated Factor (VIF) values are greater than 10, there is cause for concern. The tolerance values for the three retained variables ranged from 0.808 to 0.988 with VIF values between 1.011 to 1.236, demonstrating that there are not high correlations between the business variables, and therefore the data set is free from multi-collinearity problems, enabling multiple regression analysis.

Table 5 shows the results of the regression analysis and testing of significant relationships between the three valid and reliable independent variables (business practice variables) and the dependent variable (ethical business conduct).

Table 5: Multiple regression analysis results

Dependent variable: Ethical business conduct R2 = 0.218					
Independent variables	**Beta**	**T-value**	**Sig. (p)**	**Hypotheses**	**Hypotheses outcome**
Knowledge acquisition	0.054	5.899	0.000*	H_2	Accepted
Organisational resources	0.033	-0.617	0.537	H_4	Rejected
Management practices	0.039	3.684	0.000*	H_3	Accepted
*p<0.001					

The results of the multiple regression analyses show that the independent variables (employee knowledge acquisition, management practices and organisational resource management) explain 21.8% of the variance in the ethical business conduct of SMEs. Based on the results in Table 5, there are statistically significant relationships ($p<0.001$) between the independent variables (employee knowledge acquisition and management practices) and the dependent variable, the ethical business conduct of SMEs. The findings signify that SMEs regard knowledgeable employees as important for ethical business behaviour. This finding thus specifically implies that providing employees with periodic ethical business training on moral business practices to educate them on what ethical business behaviour such as corporate values and shared beliefs entail, will guide them to develop an intuition in making sound business decisions and will serve as a platform to encourage knowledge sharing on ethical business practices. The finding is thus consistent with Finn and Torgeir's (2008) observation that employers that acquire knowledge modify their employees' behaviour to reflect the new knowledge, while lack of this knowledge may prevent employees from knowing the requirements for behaving ethically in the business. The findings also imply that SMEs regard having sound management practices in place as important for ethical business behaviour. Treviño and Nelson's (2011) assert that management practices play an essential role in creating an ethical workplace culture because employees pay attention to what is measured, rewarded and disciplined. It is notable that employee knowledge acquisition (ß=0.054 at $p<0.001$) seems more influential in SME ethical business conduct than management practices (ß=0.039 at $p<0.001$).

No evidence of a statistically significant relationship was found between organisational resource management and ethical business conduct. The results suggest that SMEs in Uganda do not believe that sound human- and financial-resource management would have a meaningful influence on their ethical business conduct.

7. Conclusions and recommendations

In spite of the perception that SMEs experience resource management problems that lead to unethical business conduct, this study found no evidence to that effect. The importance of business practice factors (employee knowledge acquisition and management practices) and SME ethical business behaviour in Uganda has been confirmed. It has also been indicated that employee knowledge acquisition can be associated with management practices. For this reason, SMEs in Uganda, or probably in any developing country, should provide employees with ethical business training on moral business practices to educate them on what is regarded as acceptable ethical business behaviour. The first ethical business training session should take place when employment commences as part of the employee orientation programme. The training programme should brief employees on the corporate values of the SME and their expectations regarding shared ethical beliefs. This briefing can provide guidance when employees are confronted with difficult ethical dilemmas to make sound business decisions. Lee and Cheng (2012) confirmed that corporate values help employees make better ethical decisions.

The employee briefing can also serve as a platform to encourage knowledge sharing among employees on solving ethical dilemmas in business dealings and what is regarded as moral business behaviour. Employees must be encouraged to ask one another for professional advice related to ethical business conduct, if uncertain. Tyler and Gnyawali (2009) noted the need to have a strong emphasis on shared beliefs in the business to ensure that all employees focus on the same goals. Ma'an and Kalaldeh (2010) confirmed that knowledge sharing facilitates problem-solving, whether it is an ethical problem or not. Ethics business training should not be a once-off occurrence. Employees need to be reminded of the ethical business values from time to time. It is proposed that SMEs provide employees with ethics business training on an annual basis. SME managers or owners can organise this follow-up training during the revision of their strategic planning session and at the same time establish where employees experience problems in their commitment to ethical business behaviour, and revise their ethical code of conduct if necessary. Treviño and Nelson (2011) point out that follow-up training helps to determine the degree to which trainees actually apply what they have learned.

In addition to employees being knowledgeable, SMEs should show their commitment to ethics in business dealings by having sound management practices in place. From the empirical results, it was clear that Ugandan SMEs regard management practices as mainly reporting procedures and mechanisms that address unethical business behaviour. It seems that SMEs in Uganda have clear guidelines for reporting unethical business behaviour but have no disciplinary procedures in place for punishing wrongdoing. It was not clear whether they have simple systems in place to govern ethical business behaviour such as a written code of business ethics displayed in the business. Hence, SME owners or managers in developing countries such as Uganda should, like large businesses, use their business values to guide the development of a written code of ethics. This code can govern acceptable business behaviour, provides guidelines to resolve complaints in a fair and equitable manner, and outlines the disciplinary procedure for punishing wrongdoing. SMEs should consider having an ethics hotline as a reporting mechanism so that employees and the public can lodge complaints about unethical business behaviour anonymously. Garthson (2007) stresses the importance of providing employees with a hotline to report sensitive work-related misconduct anonymously. All complaints received must be attended to immediately by SME managers or owners and, as far as possible, be internally resolved. However, if unable to resolve a complaint internally, it should be referred to an ombudsman to ensure it is resolved in a fair and equitable manner. Treviño and Nelson (2011) confirm using an ombudsman as a preferred way to resolve complaints in a fair and equitable manner, if not being able to resolve it internally.

Paying employees in SMEs market-related salaries may discourage the need for unethical business behaviour and assist in driving their long-term goals. Fernando (2009) regards paying employees market-related salaries as one way of reducing the temptation of employees to cheat. However, it seems that SMEs in Uganda do not regard unethical behaviour as influencing their financial health. They may not realise that customers that encounter their unethical business conduct may not support them again and tell potential customers (family and friends), to not buy from the business. Wiid *at al.* (2013) confirmed that customers are more inclined to buy from a business that is ethical in its dealings. Non-adherence to business laws and regulations such as paying tax seems not to be regarded as unethical business behaviour. They also disregard the fact that unethical behaviour may impede the attraction of future employees with integrity. Strandberg (2009) noted that employees are more inclined to remain employed in an ethical business.

In conclusion, SMEs, like any business, regardless of size, should first ensure their employees are and remain knowledgeable on what is regarded as ethical business conduct. In addition, appropriate management practices need to be in place to ensure that ethical business conduct is employed consistently throughout the business and the actions of employees are continually monitored to prevent wrongdoing from escalating.

8. Limitations of the study and future research opportunities

it is acknowledged, like with all research studies, that the respondents (SME owners/managers) might not have answered the questions in complete honesty and their perceptions might differ from those of ordinary employees or customers. The development of the research instrument may have included variables not just specific to SMEs, but to businesses in general, as little information is available on SME ethical business conduct. Despite the few limitations identified, this article has added to the limited body of knowledge by identifying two specific business practices (knowledge acquisition by employees and management practices) as influential factors for driving ethical SMEs business conduct within Uganda, a developing country. It is suggested that surveys be conducted amongst ordinary employees and customers to canvass their perceptions of the business practices influencing ethical business behaviour in SMEs. The study results can also be tested in other developing countries to show similarities and contrasts between countries on their views of business practices influencing ethical business conduct. This would provide a less biased view and more honest opinion of which business practices actually influence ethical SME business conduct in Uganda or any other developing country.

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

Author:

Dr Bryan Michael Robinson[1]
Prof. Jacobus Albertus Jonker[1]

Affiliation:

[1] Nelson Mandela University Business School, South Africa

Correspondence to:

Dr Bryan Michael Robinson,
Post-doctoral fellow,
Nelson Mandela University Business School,
PO Box 77000,
Port Elizabeth 6031,
South Africa

E-mail:

bryan.robinson2@mandela.ac.za

ORCID iD:

http://orcid.org/0000-0002-4936-4708

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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.

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An evaluation of the reporting on ethics and integrity of selected listed motor vehicle companies

Author:

Prof. Anet Magdalena Smit[1]
Ms Elizabeth J. Bierman[1]

Affiliation:

[1] North-West University, South Africa

Correspondence to:

Prof. Anet Magdalena Smit,
School of Business and Governance,
North-West University,
Potchefstroom Campus,
Private Bag X6001,
Potchefstroom 2520,
South Africa

E-mail:

anet.smit@nwu.ac.za

ORCID iD:

http://orcid.org/0000-0002-4358-8583

DOI:

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Abstract

Transparency in reporting has become very important and various stakeholders expect companies to disclose sensitive information, such as ethical aspects, integrity and anti-corruption information. Any indication of corruption can be detrimental when trying to attract foreign investors to invest in a country. These disclosure practices could place remarkable pressure on a company that needs to portray a positive image to their stakeholders. The main objective of this research was to evaluate the reporting on ethics, integrity and anti-corruption of companies in the motor vehicle manufacturing sector. Content analysis was used as the research method. A checklist was compiled based on the different frameworks and country requirements. The results of the evaluation indicate that companies understand the importance of the governance aspects such as ethics and integrity, and some also provide training on the relevant codes and policies. However, disclosure on corruption-related incidents within the companies is substandard and insufficient information is provided in the reports.

1. Introduction

Several factors have served as motivation for companies to change their reporting format, such as new guidelines and regulations, investor or customer expectations, internal commitment to sustainability, better risk management and the desire to increase consumer and employee loyalty. Goodwill received from being transparent and the desire to remain competitive are also factors that drive changes in reporting behaviour (Lynch, Lynch & Casten, 2014). Companies are now expected to increase their reporting on sustainability issues and are experiencing pressure through regulations enforced by institutions or government, as well as pressure from shareholders (English & Schooley, 2014). One aspect that is crucial to the long-term sustainability of a business is to operate with integrity and without corruption.

The concept of accounting for sustainability (A4S) was introduced by his Royal Highness, the Prince of Wales, in 2004 (Hughen, Lulseged & Upton, 2014). One of the problems preceding the A4S project was that financial systems focused on short-term financial performance rather than on the long-term health of communities and the environment. Consequently, some companies and stakeholders have started to move towards an improved understanding that the goal should be to work towards long-term sustainability of economic, social and environmental factors (His Royal Highness the Prince of Wales, 2015; Hughen, Lulseged & Upton, 2014). Subsequently, triple bottom line (TBL) or sustainability reporting emerged and has since become a growing trend (Mintz, 2011).

Stakeholders and investors were shocked by financial scandals such as the Enron scandal, as well as the Volkswagen (VW) scandal, which urged stakeholders to demand more detail on financial as well as non-financial information (Hughen *et al.*, 2014). In the context of this study the focus will be on information that should be reported on in terms of integrity and corruption. Although sustainability reporting is still in its early stages, it is not likely to disappear soon (Tschopp & Huefner, 2015). Given its importance, and the increasing needs and demands of stakeholders, organisations should address matters of sustainability in a proper manner, and attend to the reporting criteria that include transparency, completeness, truth and clarity, substance, continuity and comparability. Quality reporting should reflect relevant information, corporate governance, honesty, risk management and reputation issues (Sukitsch, Engert & Baumgartner, 2015). Previous studies by Junior, Best and Cotter (2014) indicated that an independent validation of the sustainability report increases credibility. The credibility could even be further improved if validation is done externally by a well-known accounting firm. Validation of sustainability reports is a fairly new concept and is not regulated in most countries (Junior *et al.*, 2014). There is a lack of criteria for auditing firms to perform this kind of validation (Romero, Jeffers & DeGaetano, 2014).

2. Background

Considering financial scandals such as Cendent (1998), Xerox (2000), Enron (2001), AIG (2004), Lehman Brothers (2010) and, more recently, the Volkswagen (VW) scandal in 2015, it is evident that an era of fraud has begun and has become a matter of concern in modern-day society (Mironiuc, Chersan & Robu, 2013). This has created a greater need for transparency in reporting on financial as well as non-financial information (Mironiuc *et al.*, 2013).

Also in the motor vehicle manufacturing sector, there are growing concerns regarding noise pollution, waste disposal problems, impact on air quality and other environmental impacts (Kehbila, Ertel & Brent, 2010). These problem areas focus on sustainability, and in this sense also on the quality of disclosure in sustainability reporting (Kehbila *et al.*, 2010). Ethics and integrity is an integral part of business today and adds value to the transparency of reporting on Corporate Social Responsibility (CSR) issues. The connection between CSR activities, ethics and integrity is that both are issues of moral responsibility and should be reported on. The study of Mpinganjira, Roberts-Lombard, Wood & Svensson (2015) highlighted the importance of a unified approach to business ethics across all sectors of society.

3. Reporting on ethics, integrity and anti-corruption

3.1 Ethics and integrity

Business ethics is an issue that concerns all entities. When companies behave ethically, it is regarded as good business practice. Companies, in their movement towards more than just compliance, introduced different actions such as codes of conduct, codes of ethics, ethics committees and even providing training to employees with regard to ethics and integrity (Tinjala, Pantea & Alexandru, 2015). Integrity is more of a personal trait and is closely linked to a personal code of conduct. It is an internal system of principles, with the reward mostly being intrinsic to the employee. Integrity is founded on a set of core principles, ensuring behaviour of a consistently high standard. These principles include qualities such as compassion, dependability, honesty, loyalty, respect, trust and wisdom (Czimbal & Brooks, 2006). In this study, the GRI guidelines on ethics and integrity as required qualities in an organisation, and not on a personal level, are reviewed.

Ethics is often referred to when there is an array of people representing the company and it is the appropriate tool to manage their behaviour (Navratil, 2007). The expectation from the greater society is that companies should not just respect laws, but also share the ethical standards of the community. The reward is often not just a good reputation, but also adds to the competitive advantage and the bottom line of a company (Tinjala *et al.*, 2015). When ethics and integrity are combined in an organisation, a positive orientation is normally the result whereas, without ethics and integrity, corruption is often the result (Czimbal & Brooks, 2006).

The governance code or code of conduct of a company should also include mechanisms whereby employees can expose any unethical behaviour or business practices (Tinjala *et al.*, 2015). The most common form of these mechanisms is a whistle-blowing programme. Any person, be it an employee, a manager, supplier or customer, who becomes aware of illegal activities taking place within a company can report this to the ethics committee or to the governing body.

Numerous studies have indicated that leaders in an organisation play a pivotal role in shaping sustainable ethical behaviour. These leaders introduce the ethical standards and show ethical values in all their decision-making. Ethical leaders' lead ethical organisations and an effective ethical organisation has effective leaders that "walk the talk". An ethical culture is characterised by ethical leaders that are non-retaliatory, but expect mutuality of ethical behaviour from all stakeholders (Jondle, Ardichvili & Mitchell, 2014). An ethical culture includes components such as rules, codes of ethics, policies and disciplinary procedures, and is based on shared accountability and a clear code of conduct that is well communicated and understood (Appel & Plant, 2015). Information with regard to ethical behaviour is provided to the investors or stakeholders through media or corporate reports such as CSR reports, where companies can decide on how transparently they disclose information (Tinjala *et al.*, 2015). The importance of ethics and integrity have been emphasised in the latest King IV Report. In Part 5, that deals specifically with the Code on Corporate Governance, the first principle is that the governing body should lead ethically and effectively (IOD, 2016). The second principle also deals with ethics and states that the governing body should govern the ethics in an organisation and that it should establish an ethical culture in the organisation (IOD, 2016).

3.2 Corruption

Corruption starts with non-ethical actions being ignored by the company. Some even go so far as to discover the corruption and then conceal the non-ethical actions (Walcher, Stempkowski & Apflater, 2013). In the case of Volkswagen's emission scandal, the company even went to the extent of deceiving external monitoring bodies to conceal fraudulent and corrupt activities. Corruption can be viewed as a result of an ineffective governance framework. The framework should promote transparency, integrity and accountability. For instance, whistle-blowing systems should be implemented at all levels of the organisation and should include means for reporting suspicious activity (Walcher *et al.*, 2013).

The effects of corruption are evident in reputational, social, financial and economic results. Reputational damage is difficult to measure but when information becomes publicly available, it often results in substantial, lasting damage to the company. In the case of Volkswagen, other countries were annoyed and wanted to prosecute the company for violating the sustainability concept. There were also concerns that the scandal could negatively affect the economic growth of Germany. The worst consequence resided in the financial implications the company had to bear. Although the Economy Minister, Sigmar Gabriel, was of the opinion that it would not cause permanent damage, Germany has experienced the negative consequences (Eyewitness News, 2016).

There are various frameworks of reporting, such as the Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP) and the Sustainability Accounting Standards Board (SASB). Although none of these is mandatory, there seems to be a large movement towards companies adopting these reporting initiatives and producing sustainability reports according to these guidelines in order to avoid fraudulent acts and reputational damage (Pandit & Rubenfield, 2016). The GRI states that the assurance of a report can provide greater confidence in the disclosed information, although having a report validated is also not mandatory. In a study done by Pandit and Rubenfield (2016) on a hundred smaller S&P 500 companies, they point out that only 35% of companies disclosed information on ethical practices, compliance and governance. Volkswagen provided information in its sustainability report during 2014 and had it validated by PricewaterhouseCoopers and was still caught on 18 September 2015 when they admitted introducing software aimed at fraudulent tests on gas emissions by their diesel vehicles.

If all companies ensure transparency of their business practices and communicate ethics, integrity and anti-corruption, areas of irregularities could become more transparent. Some misconduct could be eliminated, depending on the validity and integrity of the data supplied by an organisation. According to Russo-Spena, Tregua and De Chiara (2016) Corporate Social Responsibility (CSR) reporting remains a dynamic and controversial domain, where authors focus on different aspects. They also urge caution towards companies who manipulate their disclosure and only report positive actions or provide a so-called "greenwashed" report.

4. Sustainability frameworks

Various frameworks have been developed to enhance reporting as variability of reports made it difficult to compare information from different companies (Mintz, 2011). Global standards tend to ensure that investors can perform more comprehensive comparisons between companies. But despite the various organisations involved, frameworks and guidelines that have been developed for companies to report and disclose information, comparability remains an issue.

The GRI's main objective was to create a global sustainability reporting framework that could be applied to all companies worldwide (Godha & Jain, 2015). According to Godha and Jain, the GRI can be viewed as the most widely used standard for sustainability reporting and this is confirmed by Junior *et al.* (2014), who view it as the most commonly utilised guideline on sustainable reporting. The GRI guidelines can be used by all types of companies, across various sectors, independent of size or nature and can be applied at different application levels (Tschopp & Huefner, 2015; Junior *et al.*, 2014). The most recently released guidelines are the G4 guidelines, which include aspects on anti-corruption. The G4 guidelines also place an emphasis on materiality, stating the necessity to report on areas material to the organisation, instead of reporting on everything (English & Schooley, 2014).

One of the frameworks that is used in the United States of America (USA), is the Sustainability Accounting Standards Board (SASB). Publicly listed companies use the SASB accounting standards to disclose sustainability information that is already highly in demand (Schooley & English, 2015). Another framework is the Carbon Disclosure Project (CDP) which is also a non-profit organisation. The CDP utilises information that is disclosed by companies and tries to make the information more measurable and to manage future risks (Bartels, Fogelberg & Hoballah, 2016; Van der Lugt, 2016). The CDP's scores assess a company's reports based on the quality and completeness of all the disclosures made in the report (Siew, 2015). The influence from the CDP has led to a global movement for companies to measure and disclose their greenhouse gas emissions, climate-change risk and water strategies (Bartels *et al.*, 2016). The Greenhouse Gas Protocol (GHG) is another accounting tool that enables governments and companies to understand, measure and manage their greenhouse gas emissions. (Greenhouse Gas Protocol, 2016). ISO 26000 is an additional standard that provides voluntary guidelines with regard to social responsibility. The content of the ISO 26000 guidelines is very similar to the aspects included in the GRI reporting guidelines. The ISO 26000 can be used as a structure to align activities, which will then be reported at a later stage (GRI and ISO 26000, 2010).

Steering away from individual reports has created the trend for combining financial and non-financial information in one report, referred to as an integrated report (Anderson & Varney, 2015). The rationale behind integrated reporting is to enable stakeholders to view and assess the organisation's capability to create and sustain value over the short, medium, and long term, without depleting the resources of the business (Owen, 2013; Bouten & Hoozée, 2015; Hughen *et al.*, 2014).

5. Reporting requirements in different countries

The twenty motor vehicle manufacturing companies that were identified for the purpose of this study are based in different countries, which include Germany, France, Italy, UK, USA, India, Japan, South Korea and Sweden. France and Denmark were some of the countries that had already adopted national laws on CSR reporting. Previously, research was done by a group of partners, including UNEP, GRI, KPMG, and the Centre of Corporate Governance in Africa, on sustainability reporting policies worldwide. (Fogelberg, Bartels, Lemmet, Malan & Van der Lugt, 2013). The research revealed the following mandatory and voluntary guidelines per country, from their study:

5.1 Germany

Germany has still not instructed CSR reporting as mandatory, although many of the larger companies in Germany are well-known for their CSR efforts. In 2012, the German motor vehicle manufacturer BMW was identified as the "greenest" vehicle manufacturer in seven years (Beier, 2012). Germany introduced the German Sustainability Code (GSC) as voluntary guidelines, encouraging companies to report sustainability under 20 principles, which is in line with GRI, UN Global Compact, OECD guidelines for Multinational Companies, as well as the ISO 26000 guidelines (Fogelberg *et al.*, 2013). Other mandatory frameworks include the Bilanzrechtsreformgesetz (BilReG), the German Accounting Standard No. 20 (GAS 20).

5.2 France

Large companies in France are mandated to produce annual CSR reports. Main international guidelines accepted include ISO 26000, Global Compact principles, the guiding principles of human rights and business, OECD Guidelines for Multinational Enterprises, and GRI (Fogelberg *et al.*, 2013). Other mandatory guidelines include mandatory CSR reports for all listed companies, the New Economic Regulations Act (NRE), with 40 indicators inspired by the GRI and the General Law Article 18 for listed companies with more than 250 employees.

5.3 Italy

Companies in Italy were recommended to use the GRI guidelines when compiling sustainability reports (Fogelberg *et al.*, 2013). Mandatory requirements include the Ministerial Decree of 24 January 2008 and the Legislative Decree no. 150/2009. Voluntary disclosure in Italy includes the social reporting standards and social reporting in the public sector as issued by the study group for social reporting (Gruppo Bilancio Sociale – GBS).

5.4 United Kingdom (UK)

An array of guidelines can be used by UK companies to report CSR activities. Companies listed on the London Stock Exchange are required to report on GHG emissions. Other mandatory reports include the Quoted Companies GHG Reporting, British Companies Act, UK Corporate Governance Code, Climate Change Act and the Carbon Reduction Commitment (CRC) (Fogelberg *et al.*, 2013:77). Voluntary reports required in the UK include the Environmental Reporting Guidelines based on key performance indicators (KPIs).

5.5 United States of America (USA)

The USA is in the process of adapting sustainability reporting and there has been a significant increase over the period 2012 to 2013 (Fogelberg *et al.*, 2013:35). Frameworks used in the USA include the GHG, CDP, GRI, principles of the UN Global Compact and new SASB. Other mandatory requirements include the Dodd-Frank Act, Presidential Executive Order 13514, Sarbanes-Oxley Act (SOX), Clean Air Act (CAA), Clean Water Act (CWA), Toxic Release Inventory (TRI), California Transparency in Supply Chains Act, and the US Environmental Protection Agency Proposed Mandatory Greenhouse Gas Reporting Rule. Other initiatives include the Commission Guidance regarding disclosure related to Climate Change and the Sustainability Accounting Standards Board.

5.6 India

Companies in India use the GRI guidelines to prepare reports on sustainability although the interpretation of the parameters of guidelines may vary (Fogelberg *et al.*, 2013). Other reporting guidelines include the Companies Bill, Business Responsibility Reports, DPE Guidelines on CSR, Annual Environmental Audit, Indian Factory's Act, Corporate Responsibility for Environmental Protection (CREP), and the Quarterly Compliance Report. Voluntary requirements include the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, Guidance Note on Non-

Financial Disclosure and the Consultative Paper on Corporate Governance Norms (Fogelberg *et al.*, 2013).

5.7 Japan

Japan has placed emphasis on energy usage and GHG emissions. Reporting guidelines taken into consideration include CDP, GRI, and ISO 26000. Mandatory requirements include the Law Concerning the Promotion of Business Activities with Environmental Consideration, Pollutant Release and Transfer Register Law (PRTR), Law Concerning the Rational Use of Energy, Act on Promotion of Global Warming Countermeasures, Railway Enterprise Act and the End-of-Life Vehicles (ELV) Recycling Law. Voluntary guidelines include the Environmental Reporting Guidelines (Fogelberg *et al.*, 2013).

5.8 South Korea

South Korea has also placed emphasis on GHG emissions and more than 500 firms were required to report on the emissions (Fogelberg *et al.*, 2013). The GRI reporting guidelines were suggested by the Minister. Mandatory reporting in South Korea includes the Green Posting System, and the Social Contribution Performance Posting System. Voluntary requirements include the Environmental Reporting Guidelines and Best Management Sustainable Guidelines, all based on the GRI guidelines.

5.9 Sweden

CSR reporting is mandatory for state-owned companies in Sweden and it is recommended that the GRI guidelines be used. Mandatory standards in Sweden include the Annual Accounts Act, Guidelines for External Reporting by State-owned Companies, and Sustainability Goals for State Owned Companies. Voluntary guidelines include the Guidelines on Environmental Information in the Director's Report Section of the Annual Report (Fogelberg *et al.*, 2013).

6. Reporting according to GRI G4 guidelines on ethics and integrity

In this study, the focus was on specific areas of reporting, such as ethics and integrity. Companies were reviewed to identify reporting on the core or comprehensive options. The guidelines are set out in Table 1.

Table 1: GRI G4 selected general standard disclosure items

Part	Purpose	Core	Comprehensive
Ethics and Integrity	A broad overview of values, standards and norms. Also mechanisms available to seek for advice on ethical behaviour as well as for reporting concerns about unethical behaviour.	(1) G4-G56	(3) G4-G56 G4-G57 G4-G58

Source: English & Schooley (2014)

The G3 and G3.1 guidelines do not require that companies report on ethics and integrity. This became mandatory with the launch of the fourth generation (G4) guidelines. The GRI will allow for a company to transfer to the new guidelines, and in fact required all companies to report on the G4 guidelines from 1 January 2016. The G4 guidelines offer two options to report in accordance with the guidelines. The core option contains the essential elements of sustainability reporting and the comprehensive option supports the core option by requiring disclosure of the company's strategy, analysis, governance, ethics and integrity (GRI, 2015b). The G4 guidelines contain two different types of standard disclosure, namely general standard disclosure and specific standard disclosure. General standard disclosures are applicable to all companies producing sustainability reports. There are seven sub-sections under general standard disclosure, of which governance, ethics and integrity are three. In this study, the focus was specifically on reporting ethics and integrity. Reporting ethics under the core option requires companies to report on guideline G4-56. Companies reporting under the comprehensive option are required to report on G4-56 as well as G4-57 and G4-58. In order to comply with the G4-56 guidelines of the core option, the company needs to indicate the following: how the company's values, principles, standards and norms of behaviour developed over time; how it was approved and how it was implemented; how training was done or is being done with all stakeholders; whether it is required that training be read and signed off; whether an executive-level position was made available for someone to take the responsibility for the code; and whether the codes are available in different languages.

In order to comply with the G4-57 guidelines in accordance with the comprehensive option, the company needs to indicate the following: whether internal or external mechanisms for seeking advice on ethical and lawful behaviour is available to stakeholders; whether an executive-level position was made available for someone to take responsibility for advice-seeking mechanisms; whether all stakeholders were informed about the advice-seeking mechanisms; whether the mechanisms are available in different languages; whether requests for information are treated confidentially; whether the mechanisms allow for anonymous requests for information; the number of requests received; the number or percentage of successfully resolved requests; and the level of satisfaction of stakeholders that used the mechanisms.

In order to comply with the G4-58 guidelines in accordance with the comprehensive option, the company needs to indicate the following: whether internal or external mechanisms exist to report unethical behaviour and other matters that relate to the integrity of the organisation; whether an executive-level position was made available for someone to take responsibility for the mechanisms for reporting concerns; whether the mechanisms are independent of the company or not; whether the mechanisms are available in different languages; whether training was provided to stakeholders; whether reporting concerns are treated confidentially and can be done anonymously; whether the organisation has a non-retaliation policy; the process that is used when investigating concerns; the number of reports received; the number or percentage of successfully resolved reports; and the level of satisfaction of stakeholders that used the mechanisms.

7. Reporting according to GRI G4 guidelines on anti-corruption

Not all companies are required to report on aspects of the specific standard disclosure, only companies that have assessed their business practices and found these items material to the operation thereof. In this study, it was also investigated whether the companies identified during the study found corruption to be a material aspect and whether reporting on corruption was included in the CSR reports. Guidelines are set out in Table 2.

Table 2: GRI G4 specific standard disclosure items

Category	Sub-category	Aspect	Indicator
Social	Society	Anti-corruption G4-SO3 G4-SO4 G4-SO5	Assessment of operations for risk of corruption

Source: English & Schooley (2014:30)

The reporting guidelines on anti-corruption are found under the heading of specific standard disclosures regarding social aspects, under the sub-category society guidelines, in G4-SO3, G4-SO4 and G4-SO5. Only material aspects are reported in the Disclosure on Management Approach (DMA) (GRI, 2015b). The DMA provides the opportunity to the company to explain how economic, environmental and social impacts related to material aspects are managed.

In order to comply with the G4-SO3 guideline under specific standard disclosure, the company needs to provide information regarding the total number or percentage of operational areas assessed for corruption-related risks; and any significant risks identified. In order to manage risks on incidents of corruption, the company needs to implement a system with supporting procedures. This indicator measures the implementation across the company. Risk assessments also aim to detect the potential for incidents of corruption and help the organisation to implement policies and procedures to fight against corruption. When compiling the report the company needs to identify all the areas that were assessed for risk of corruption. The assessment can be a formally focused on corruption or it can include corruption as a risk factor in the overall assessment. Information required for the compilation of the report includes monitoring reports, risk registers and risk management systems (GRI, 2015a).

In order to comply with the G4-SO4 guideline under specific standard disclosure, the company needs to provide the following: information with regard to the communication on anti-corruption policies and procedures to stakeholders; and information with regard to the training of anti-corruption policies and procedures with stakeholders.

Through communication and training, the company can raise internal and external awareness on corruption, which creates the capacity to actively combat corruption. This indicator reveals the proportion of governance body members, employees and other stakeholders that are aware of the anti-corruption policies and procedures. Training records can be accessed during compilation of the report (GRI, 2015a).

In order to comply with the G4-SO5 guideline under specific standard disclosure, the company needs to provide the following: information on the number of confirmed incidents of corruption; a report on action taken against guilty individuals or parties; and a report on any legal cases brought against the organisation. When compiling the report, the company should identify the total number of confirmed incidents individually, as well as the nature of these incidents. Information required includes legal department records of cases brought against the organisation or employees or business partners, the minutes of any disciplinary actions taken, and contracts with business partners (GRI, 2015a).

8. Research objective and research design

The main objective of this research was to evaluate the level of reporting on aspects such as ethics, integrity and anti-corruption of companies in the motor vehicle manufacturing sector. Content analysis was used as a research method, the analysis focused on documents and records of the selected companies, and boundaries were clearly demarcated. A cross-sectional research approach was followed, where the cohorts were examined at a specific time. Twenty motor vehicle manufacturers that are listed companies and produce integrated reports or financial and corporate social reports were identified through random selection and represent nine different countries.

A checklist of pre-determined criteria based on the literature study and the GRI G4 guidelines was drawn up. The checklist consisted of different sections. Biographical information focused on company-specific information such as where the parent company was based, type of reporting, reporting guidelines used and whether the company information was externally validated. After the biographical information, the rest of the checklist was divided into five sections. The checklist presented questions to which a "present" or "not present" answer was required. This was indicated by a 1 when an item was present in the report, while a 0 indicated that the information was not present in the information obtained.

9. Results

9.1 Biographical information

Biographical information obtained from the sample indicates that the 20 companies are based in different countries. The data in Figure 1 provides a visual indication of the locality of the parent or holding company. Of the 20 companies, six motor vehicle manufacturing companies are based in Japan, four in Germany, and two companies in Sweden, USA and South Korea respectively. The UK, France, India and Italy all have one motor vehicle manufacturing company represented in the sample.

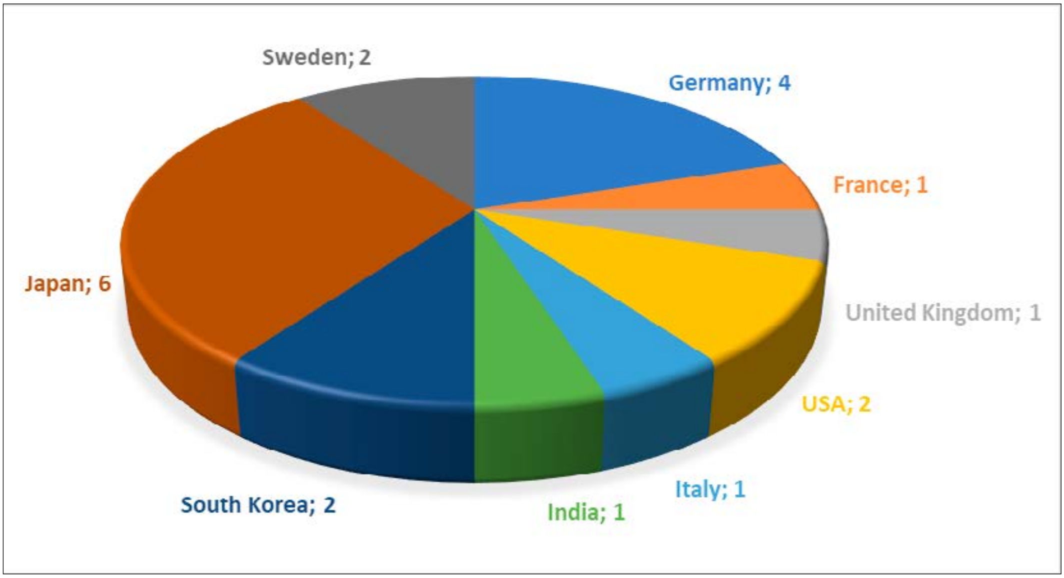

Figure 1: Locality of companies

In some of the companies, such as Volkswagen, different brands belong to the parent company, such as Audi, Porsche and Bentley. Due to the parent/holding company being evaluated in this study, brands with exactly the same CSR report were excluded. Jaguar Land Rover is a UK-based company but was bought over by the Indian company, Tata. The CSR report published for Jaguar Land Rover was exactly the same as for Tata, and therefore Tata was eliminated from the initial sample. Of the 20 companies represented in the sample, 10 companies have more than one brand, namely: Audi, BMW, Daimler, Fiat, GM, Jaguar, Nissan, PSA, Toyota and VW.

The reports published by the companies were reviewed, and 19 of the 20 companies are still issuing separate annual and CSR reports. Only one company, Mitsubishi, has published an integrated report. Information was obtained from CSR reports, with Audi and Daimler also referring to their annual report, and BMW and Ford referring to their annual report as well as their website for governance information.

9.2 Reporting guidelines

The reports were evaluated, based on the developed checklist. The data in Figure 2 indicates the reporting guidelines used by the different companies. Fifteen of the 20 companies utilise the GRI guidelines. Seven companies used the GRI G4 as well as the UN Global Compact principles when producing their CSR reports. The companies that used the combination include BMW, Daimler, Ford, GM, Hyundai, SAAB and Volvo. Six companies only used the GRI G4 guidelines, namely: Audi, Fiat, Honda, Jaguar Land Rover, Nissan and Volkswagen. Two companies used only the GRI G3 guidelines, and one company only used the ISO 26000 guidelines. The other companies used combinations of the available guidelines.

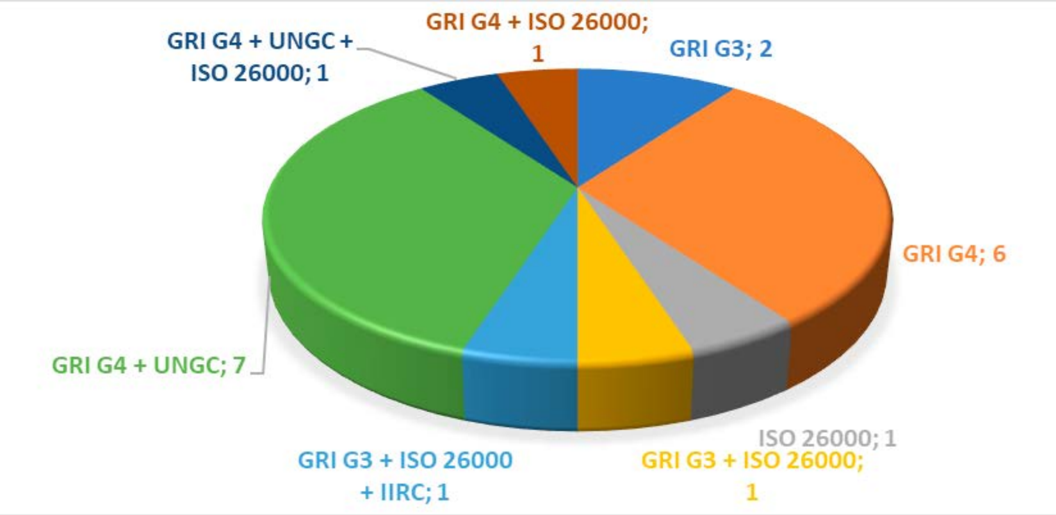

Figure 2: Reporting guidelines use by company

In view of the 18 September 2015 VW emission scandal, it was fascinating to note that Audi withdrew from the UN Global Compact. VW also did not publish a CSR report for 2015. The latest report available for VW was the 2014 report. Sixteen companies submitted reports for 2015, and three companies have already released reports for 2016, being Honda, Kia and Nissan, by the time of this study.

9.3 Validation

External validation adds to the credibility of the information disclosed in the CSR reports. From the sample of 20 companies, only 14 had their CSR reports externally validated. The data in Figure 3 indicates which companies obtain external assurance of information represented in the CSR reports.

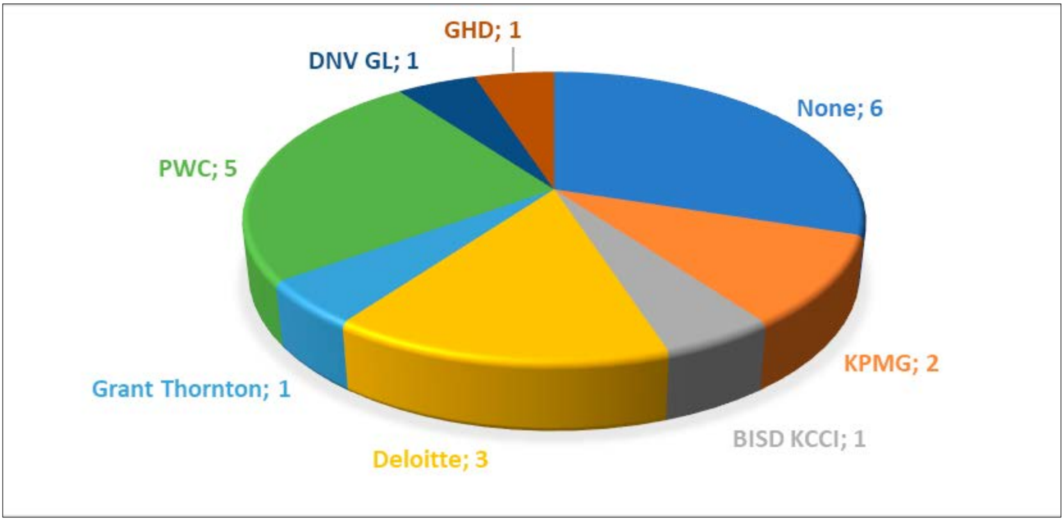

Figure 3: External assurance companies

The external validation was done by PricewaterhouseCoopers (5 companies), KPMG (2 companies), Deloitte (3), Grant Thornton (1), DNV GL Business Assurance Korea Ltd (1), The Business Institute for Sustainable Development (BISD) managed by the Korea Chamber of Commerce & Industry (KCCI), and GHD Service Inc. (one company). The six companies that published reports that were not validated from an external source are Ford, Isuzu, Jaguar Land Rover, Mitsubishi, SAAB and Volvo.

9.4 Organisational values, principles, standards and norms

This section of the checklist aimed at evaluating the disclosure of information on codes of conduct or codes of ethics as well as to which extent employees, governance board members and business partners were informed about the code and trained in using the code. The section consisted of six questions.

All 20 companies indicated that there was a code of conduct or code of ethics at the company, of which only nine (45%) had made the code available in different languages. Eighty percent of the companies indicated that training was provided regularly, whereas only 40% required employees to read the document and sign that they had read and understood the content. It was noted that there was a trend among these companies that training was done electronically, either via e-learning, video clips or e-mail. The companies utilising technology to do training did not indicate whether records were kept of successful completion of the training.

Only 60% of the companies indicated that a top executive-level position had been created and an employee had been appointed to take full responsibility of the code and the required training. The other companies indicated that there were compliance offices or governance boards, but did not indicate a designated employee.

9.5 Mechanisms for seeking advice on ethical and lawful behaviour

This section of the checklist was designed to measure whether the company report, included *mechanisms available* to employees, governance board members and business partners, *to seek advice* on ethical and lawful behaviour, as well as all aspects related to company integrity. It also reviewed whether companies made use of *mechanisms independent of the company*, or whether they only used in-house systems. This section consisted of nine questions aimed at evaluating whether information on these types of *mechanisms for seeking advice* was disclosed in the annual or CSR report. The first question identified the companies that did a report on the mechanism. The questions that followed indicated percentages of the companies that complied and excluded companies that did not indicate that the mechanisms were present.

Nineteen of the twenty companies indicated that such *a mechanism* was indeed made available to the stakeholders, and only 37% had the mechanisms available in different languages. These mechanisms encouraged the use of the facility and included phone lines, e-mail or fax facilities, direct contact with management as well as manuals on ethical and lawful behaviour.

Fifty-three percent of the companies that had made *an advice-seeking mechanism* available to the stakeholders had it located at an *external source or organisation independent of the company*. In the majority of cases, the external companies were law firms who administered and managed the requests submitted via the device.

The sensitivity related to the mechanism indicated that although all companies preferred that individuals disclosed information in person, only 47% indicated that it allowed anonymous requests for information. Fifty-three percent of the companies indicated that the seeking of advice was treated confidentially.

Fifty-three percent of companies indicated that an *executive-level position had been created* and that the appointed incumbent was responsible for the advice-seeking mechanism. Where a designated employee had not been assigned, the companies referred to compliance groups or governance board members.

Companies were also required to *provide feedback on the usage of the mechanisms*, and 37% of companies indicated figures on the number of stakeholders who had used the mechanism during the year. Only 16% of companies indicated the *number of requests* that had been responded to successfully. None of the companies disclosed information on the level of satisfaction of the employees who had used the mechanism to seek advice.

9.6 Mechanisms to report concerns about unethical or unlawful behaviour

This section of the checklist reviewed whether companies disclosed information on *mechanisms* available to employees, governance board members and business partners *to report concerns on unethical or unlawful behaviour related to company integrity*. This section also evaluated whether the mechanisms were in-house or external and independent of the company. The first question identified companies that had made mechanisms available, while the remainder of the questions were aimed at companies with mechanisms and excluded companies that did not indicate the mechanism in the annual or CSR report. This section consisted of 12 questions.

Nineteen of the twenty companies indicated that there were *mechanisms available to stakeholders to report* any concerns related to company integrity. Only 32% indicated that the mechanism was available in different languages. Fifty-eight percent of the companies indicated that the *mechanism was independent* of the company. As with the mechanism for seeking advice, the majority of the companies indicated that the external body administering and handling the mechanism was a law firm. The majority of the companies referred to hot lines for whistleblowers or just hot lines, but an e-mail and phone call option were also indicated. Some of the companies also expressed their wish that employees would discuss the concern with their immediate management.

Fifty-three percent of the companies indicated that a *designated employee was assigned* the responsibility of the mechanism, and 74% indicated that all stakeholders had received *training* on how and when to use the mechanism.

The *sensitivity* with regard to reporting concerns was handled in the same manner as with advice-seeking mechanisms; although companies preferred stakeholders reporting in person, with 58% indicating that they *allowed anonymous reporting of concerns*. Fifty-three percent of companies indicated that the reporting of concerns was handled confidentially. Employees who were not allowed to report concerns about ethical or lawful behaviour anonymously might be frightened by the treatment they could receive from the company when reporting incidents or concerns. Companies had to protect such employees and ensure that there would be no punishment or retaliation when stakeholders reported concerns. The company could implement non-retaliation policies to solve the problem. Only 47% of the companies with mechanisms indicated that they had a *non-retaliation policy*. Fifty-eight percent of the companies indicated the process that should be followed when a concern or unethical behaviour was reported.

When reviewing the reports for information on the *usage of the mechanism,* 37% of companies indicated the *number of concerns or reports received* via the reporting mechanism. Thirty-two percent indicated the *number* of reports that were *resolved successfully*, while none of the companies indicated the *level of satisfaction* of stakeholders who had made use of the mechanism.

9.7 Risk assessment related to corruption

This section focused on the level of disclosure on *risk assessments* done in the company to determine any significant risks related to corruption. It contained two questions. Only five of the 20 companies (25%) indicated the number or percentage of *units assessed for possible areas where corruption* could take place. Of these five companies, only three revealed the *risks that were identified*. These risks included the VW emission connection with Audi. Ford identified a contact with government officials as one of the highest risks due to bribery. The PSA Group identified fraud as one of the biggest risks.

9.8 Anti-corruption policies and procedures

This section focused on whether companies created awareness among all stakeholders on policies and procedures related *to anti-corruption*. It consisted of two questions. When reviewing the reports it was found that all the companies had indicated that they *communicated information on anti-corruption policies and procedures* to all stakeholders. Eighteen of the twenty companies also actively *trained* stakeholders in the policies and procedures of anti-corruption.

9.9 Confirmed incidents of corruption

This section evaluated whether companies reported on *confirmed cases of corruption*, what action was taken against guilty employees or business partners, as well as what legal action was taken against the company. The section consisted of three questions. Only seven or 35% of all companies indicated that *confirmed incidents of corruption had* *occurred* during the period of the report. Only seven or 35% of all companies indicated what actions were taken against the guilty parties, and only 35% of all companies indicated pending legal actions against them.

10. Conclusions

Insight was gained into the growing need for information about integrity, ethics and anti-corruption within companies, as well as to communicate this to the greater society. Not only will more transparent communication be required by investors looking at investment opportunities, but also by society which has shifted its focus from short-term profits to long-term sustainability, thereby ensuring that resources are used in such a way that future generations can also benefit. Motor vehicle manufacturing companies feel the pressure, especially with increasing gas emissions and particularly after the VW scandal.

Although sustainability and CSR reporting is still in its infancy, prompt adoption of the notion has been evident, and companies are actively participating in providing the required information. As evident from the results of this study, the majority of companies are aware of the need for more transparent information. Although there are clear guidelines on what to include in their reports, some companies are still not providing the information as recommended by the guidelines and required by greater society.

Company values, principles, standards and norms are of utmost importance. Although this is often only viewed as a code of conduct or a code of ethics, literature defines it as a tool that can assist companies in setting goals, measuring performance and managing the process towards sustainability. All companies indicated that they do have a *code of conduct or code of ethics* and that the majority trained their stakeholders on a regular basis. The training could be conducted via different mediums, including e-training, video clips, classroom training sessions, and e-mails and training manuals. One of the companies also indicated that current training was done in the form of a game, in order to make it more interesting for the stakeholders. A below-average number of companies indicated that it was required that training guidelines for company values, principles, standards and norms should be read and signed. It was interesting to note the shift from traditional training in classroom style to training done via technology. Online training may be a way of covering larger numbers of employees in order to satisfy compliance requirements. It could also indicate that companies take the information transfer of values seriously and that they are adapting to different formats of transferring such information. However, some areas were not covered by the training and companies should, therefore, ensure that resources are available for employees to seek advice, specifically about ethical and lawful behaviour.

The majority of companies had *made mechanisms available to stakeholders to seek advice on such behaviour.* Only seven companies indicated that the mechanisms had been made available in different languages. This could imply that the requirement of making the mechanisms available to all stakeholders would not be met. Only half of the sample indicated that the mechanisms were independent of the company and were often referred to a law firm.

Sensitivity remained an important aspect, as, without protection, employees would feel uncomfortable about stepping forward and enquiring from or informing authorities of any actions that could jeopardise the reputation of the company. Of the companies that had made mechanisms available to employees, just above average allowed *anonymous advice* seeking and indicated that reports were treated confidentially. Half of the companies indicated that a designated employee was assigned the responsibility of the advice-seeking mechanism. The importance of this mechanism should not be underestimated as well as whether the employee assigned the duty of overseeing the mechanism could provide valuable management information on risk or concern areas, as indicated in the enquiries. Companies have to *provide feedback on the usage of this advice-seeking mechanism*, and only 37% of companies indicated figures on the number of people who had used the mechanism during the year. Of these only, 16% indicated the *number of requests* that had been responded to successfully. None of the companies disclosed information on the level of satisfaction of the employees who had used the mechanism to seek advice.

The majority of companies, 19 out of the 20, indicated that *mechanisms* were available *to report on concerns and unethical or unlawful behaviour*. However, only a few companies indicated that such mechanisms were available in different languages. More than half of the companies indicated that the reporting mechanisms were independent of the company, and in most cases, these were administered by law firms. Some of the companies indicated that the same mechanisms were used for both seeking advice and reporting concerns. The conclusion is that the advice-seeking mechanism as well as how to close the loop on feedback systems in the companies need more attention in order to be effective.

Having an in-house system could create a perception that reports on unethical behaviour or concerns about company integrity would not be addressed in a proper manner due to companies being sensitive to reputational risk. It can be viewed as a step towards transparency when companies involve independent organisations to manage and administer mechanisms for seeking advice and reporting concerns.

Employees fear retaliation when reporting unlawful actions, hence it will be important that a company protects an employee who draws attention to misconduct. Less than half of the companies indicated that they had a *non-retaliation policy* in place. Investors might view this as a disadvantage, as there is no protection for employees. This could result in employees not actively assisting in the fight against corruption.

As highlighted in the literature, businesses are guided by law, but society expects more than just legal compliance. Regular and *continued risk assessments* in the company are of utmost importance if the company aims to meet society's requirements. When reviewing the results from the checklist, very few companies (25%) indicated what areas were assessed for risks, and only 15% indicated significant risks identified. Omitting this type of information can indicate that the assessments were not done. The incidents that were reported included the connection of other brands with Volkswagen due to the emission scandal. Government officials' bribery and fraud cases were also identified as important indicators of corruption. These incidents were only mentioned and no in-depth detail was provided.

When reviewing the reports, all the companies indicated that they had policies and procedure on *anti-corruption* in place. The companies reported that their policies and procedures were communicated to all stakeholders, with 90% of the companies indicating that training was provided in both policies and procedures. It can be expected that companies will fight against all forms of corruption collectively – an important aspect that investors and greater society would like to be reflected in reports.

When evaluating the company reports according to the checklist, companies disclosed very little information on *confirmed incidents of corruption*. On average, only 35% indicated the number or nature of confirmed incidents of corruption, actions taken against the guilty parties, as well as legal action taken against the company. Corruption undermines trust, breaks up relationships and often results in detrimental actions. This is exactly what happened with the VW scandal, where there was an abuse of power for monetary gain. The incident created antagonism among various countries, with some countries only initiating legal action after a year. This deceit from a reputable company would not have been as risky if it were only for monetary gain, but in actual fact, it was impacting on the environment and its sustainability. The cost of this action is still to be determined, but VW has agreed to pay 15.3 billion dollars to settle US federal lawsuits.

The checklist was not designed to evaluate information per country. It was however noticed that Germany and the USA received higher scores than the other countries. It was also observed that none of the companies in Japan, South Korea or Sweden indicated that they did any risk assessments related to corruption. All the countries indicated that there are policies and procedures on anti-corruption and that training was actively done. Companies in Germany disclosed more information on corruption incidents than any of the other countries.

11. Recommendations

In some countries, sustainability reporting is not compulsory as yet. However, there is a global movement towards such reporting and a definite increase in support for the Global Reporting Initiative reporting guidelines. Not only is non-financial information important to greater society, but the reviewing of internal processes can also guide companies in many aspects, such as highlighting possible risk areas. There is a growing need from society for more transparent and accurate sustainability reporting. Society is also expecting companies to show commitment and intent to build long-term sustainability by being more accountable, taking responsibility for their actions, and communicating their commitment. Companies should accept responsibility for misconduct that has occurred, disclose such information and respond with appropriate action. Greater society will accept acknowledgement of misconduct more easily when disclosed by the company itself rather than hearing about it in the media. It is recommended that companies disclose information on all aspects, as proposed by the reporting guidelines. Although businesses are guided by law, companies should emphasise awareness programmes and training in good business practices. Re-enforcing rules and regulations on a regular basis will lead to such rules becoming a culture. Companies should also assist employees in their fight against corruption by making mechanisms available for information seeking or reporting of distrustful activities. Sharing this information in annual reports will confirm the strong stance of the company on governance aspects. Ultimately, companies should aim to create business integrity, where employees, managers and business partners will do the right thing without anyone looking over their shoulder. The development of a Code of Ethics and reporting about ethics and integrity are recognised ways that companies use to illustrate to their stakeholders their commitment to ethical behaviour, but themselves do not provide any guarantees for ethical behaviour.

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Faculty reluctance to report student plagiarism: A case study

Authors:

Prof. Adèle Thomas[1]

Affiliation:

[1] University of Johannesburg, South Africa

Correspondence to:

Prof. Adèle Thomas, Department of Industrial Psychology and People Management, University of Johannesburg, PO Box 524, Auckland Park 2006, South Africa

E-mail:

adelet@uj.ac.za

DOI:

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Abstract

Internationally, student plagiarism is on the rise despite measures introduced by universities to detect its occurrence and to institute actions to prevent and address this practice. One of the reasons that may contribute to this problem is the reluctance of faculty to report student plagiarism. Through the medium of a disguised South African case study, this paper advances reasons to explain this oversight. Such reasons include psychological discomfort, opportunity costs, lack of procedural clarity, administrative bureaucracy and a prevailing culture of managerialism. Recommendations are furnished to faculty alerting them to practices of which they must be aware when intending to report student plagiarism. Recommendations are also proposed to university leaders and administrators with regard to leadership support for those who report student plagiarism, the development of clear policies and procedures, the reduction of bureaucratic red tape, support to students whose first language is not English and reflection on the institutional moral context within which students study.

1. Introduction

The incidence of student plagiarism continues to rise (Hsiao, 2015) and, while universities have adopted measures to identify and address plagiarism, faculty remain reluctant to report such cases once they are detected (Thomas & De Bruin, 2012). Luke and Kearins (2012:881) note the "silence and complicity" inherent in the way academic institutions treat plagiarism, leading Samier (2008) to suggest that moral passivity perpetuates the problem. Plagiarism transgresses the fundamental value of integrity of the academy (Lewis *et al.*, 2011). Students who intentionally plagiarise have lost their respect for the institution and have violated a core psychological contract between themselves and the university based on the critical underpinning of authentic learning (England, 2008). The literature is replete with statements that prevail upon faculty to address student plagiarism, but relatively little has been published about the need for faculty and universities to be held accountable for not addressing this practice (Parameswaran, 2007).

While faculty may be complicit in perpetuating the problem of plagiarism by failing to detect or report instances of such practice, the reasons for not doing so are more complex when issues around institutional culture and the growing corporatisation of universities are considered. As such, universities become environments in which competitiveness and power imbalances between faculty and administrators lay the breeding ground for practices that unintentionally promote individual and departmental blame in the eyes of the 'corporate' hierarchy.

The objectives of this paper are twofold: First, to give insight into to the question: Why do faculty avoid reporting student plagiarism? Second, to highlight issues for both individual and institutional reflection when faculty consider reporting plagiarism and when leaders and administrators deliberate, within the context of the broader organisational culture, the support that should be afforded for this action. An understanding of why faculty may be reluctant to report student plagiarism is enriched through the qualitative voice, in the form of a case study, of the personal experience of a professor who did so.

2. Literature review

2.1 Student plagiarism

One form of academic dishonesty is plagiarism or the intentional or unintentional act of gaining personal benefit from appropriating someone else's work or ideas as one's own (Carroll, 2002). For work to be regarded as plagiarised it must be available to others, it must be derived from the prior work of someone else, the manner in which the work is presented must explicitly or implicitly imply originality, and the original author and location of the original material must be obfuscated (Clarke, 2006). The term 'plagiarism' is an all-encompassing one that includes a variety of transgressions such as poor referencing and paraphrasing, copying paragraphs or entire works, and may include recycling past work, colluding with others or purchasing material over the Internet (Evans, 2006).

Minor plagiarism, perhaps unintentional, includes the citing of a source yet omitting quotation marks for direct quotation of words as well as the citation of page numbers (Colquitt, 2012). Major plagiarism includes the unintentional or intentional lack of acknowledgment of sources (Price & Price, 2005) or the buying or copying of entire documents without acknowledgment (Park, 2003). Under the ambit of either minor or major plagiarism, attempts at "patchwriting" (Howard, 1995:788) or "close copying" (Wager, 2014:41) where grammatical changes and synonyms are inserted into copied text or where the paraphrasing too closesly resembles the original text, are also considered to be plagiarism.

Internationally, plagiarism, specifically perpetrated by business students, is increasing (Simha *et al.*, 2012), with business students being regarded as the most dishonest group amongst student groups (McCabe *et al.*, 2006; Sutton *et al.*, 2014; Marques, 2016). In this regard, Pfeffer (2007) notes how business schools have focused on teaching students how to make money, with a resultant devaluing of values relating to honesty, integrity and idealism. Similarly, Stewart (2010:244) proposes that business education has become "big business".

Cultural misunderstandings and language challenges, manifesting in students attempting to emulate the 'good' writing of scholars (Guo, 2011), are contributing factors to student plagiarism, with the suggestion that education, religion and culture may play a role in perceptions regarding its seriousness (Lewis *et al.*, 2011). When students are required to formulate arguments and express thoughts in a language other than the mother tongue, plagiarism may increase (Fazel & Kowkabi, 2013) and Duff (2010) notes that such students suffer from a lack of writer-identity and doubts about their communication skills. In developing countries such as South Africa, historical schooling systems, generally, do not equip students for academic writing at university level (Ellery, 2008). In this regard, Jabulani (2014), studying the essays of postgraduate South African students, identified problems of attribution by the students who tried to emulate the original authors.

The increase in student plagiarism can be attributed, largely, to the ease of Internet access to information (Szabo & Underwood, 2012) with over 300 websites selling student papers or providing them free of charge (Happel & Jennings, 2008). Eret and Ok (2014) established that reasons for student Internet plagiarism include time constraints, high workloads and difficulty of assignments.

However, as students progress through the stages of academic achievement, it is expected that they understand the nature of plagiarism, and assimilate and accept the rules relating to the attribution of authorship and ideas (Cabral-Cardosa, 2004).

Increasing awareness of the potential for plagiarism through electronic access, along with greater mindfulness of the laws that govern copyright and intellectual ownership of material, has resulted in a focus on text similarity detection mechanisms and interventions (Drinan & Bertram-Gallant, 2008) and ways of dealing with it (Kisamore *et al.*, 2007). Some of these processes include the institution of plagiarism policies (Gullifer & Tyson, 2014), the signing of honour codes (Hall, 2011), class instruction about referencing and citation including information on a range of penalties for transgressions (Voelker *et al.*, 2012), practice assignments and writing skills programmes (Löfström 2011), formative feedback through tutorial interventions (Volkov *et al.*, 2011), assistance with study planning (Löfström & Kupila, 2013) and active classroom discussion of academic integrity and misconduct (Baetz *et al.*, 2011).

2.2 Faculty reluctance to report student academic dishonesty

Universities should educate the whole person to shape the next generation of leaders (Osiemo, 2012), with faculty playing an integral role in developing student moral literacy (Zdenek & Schochor, 2007). Palmer and Zajonc (2010) warn about the danger of equipping students with knowledge that gives them power in the world if they have not been equipped in acquiring self-knowledge that is internalised to direct their own behaviour.

Hard *et al.* (2006) note the prevalence of inaction among faculty in preventing student academic misconduct or in doing anything about it once they detect it. Kelley and Bonner (2005) report, too, that faculty rarely address student academic dishonesty in a formal manner and Schmelkin *et al.* (2008) note the apparent lack of enthusiasm by faculty to act on this assault on academic values.

In a South African study, Thomas and de Bruin (2012) explored the barriers to faculty addressing student academic dishonesty such as plagiarism. While the majority of the sample of 450 academics acknowledged the seriousness of student academic dishonesty, a non-negligible proportion appeared not to be concerned about this problem or was ambivalent about its seriousness. Significant reasons for inaction related to the personal emotional discomfort that action precipitated, the opportunity costs associated with reporting and taking disciplinary action against perpetrators, and the lack of efficient procedures to progress action after its detection.

In another South African study, De Jager and Brown (2010) found that faculty regarded plagiarism as being serious but that there was a lack of agreement about its definition and that faculty favoured dealing with the issue themselves rather than progressing it through the university structures due to the work involved in dealing with disciplinary cases. In addition, there appeared to be inconsistency, university-wide, in the disciplinary action effected.

Similarly, studies elsewhere have found that faculty report student academic dishonesty in various and inconsistent ways (Burrus *et al.*, 2011) and are reluctant to report plagiarism due to the difficulty in compiling evidence of proof of cheating and the amount of time required to do so (Coalter *et al.*, 2007). Elliott *et al.* (2013) highlight the existence of faculty cheating in the forms of self-plagiarism, data fabrication and data manipulation, and the addition of their names or those of colleagues to publications in spite of minimal intellectual contribution. In a study of 371 articles published in 19 South African management journals in 2011, Thomas and de Bruin (2015) report that 48.5% of the articles contained similarity of 15% or more to other published works. These authors note the negative impact of such practices on the academic culture and environment within which students study.

Parameswaran (2007:263) advances that student dishonesty "is a privileged crime because blame and punishment often seek out only one criminal. Faculty who are indifferent to or aid student dishonesty are rarely indicted". Indeed, she proposes that those who permit dishonesty to occur in their classrooms are morally responsible for the cheating actions of students and that such unwillingness to act on the problem resides in the belief that "doing undesirable actions are worse than allowing them [to happen]" (Parameswaran, 2007:265).

While faculty should be accountable for detecting and addressing student plagiarism, there is an indication of a broader underlying institutional problem surrounding this issue. For example, in a survey of deans of 50 prominent international business schools, 95% denied that student academic dishonesty is a serious problem in their schools (Brown *et al.*, 2010).

2.3 Managerialism in universities

Lazzeretti and Tavoletti (2006) provide an insight into the denial of student dishonesty when they describe how, increasingly, universities now approximate corporate institutions, adopting ideals typical of business. In this process, values are sacrificed to a culture of results, a phenomenon commonly described as managerialism. Serrano-Velarde (2010) notes how the power has shifted in universities from that of professorial authority to one of managerial authority, with pressure placed on the generation of research and teaching outputs according to a market understanding of the measurements of efficiency and performance. In this process, dealing with issues relating to academic values, such as student plagiarism, may not be given priority as it detracts from the quest to achieve outputs as defined within a market-orientated context.

As a background to contextualising the later presentation and discussion of a case study relating to student plagiarism, background is provided on the South African educational landscape and the environment it sets for issues such as plagiarism to go unreported.

The National Plan for Higher Education was introduced to achieve both equity and efficiency in South African higher education to address the legacy of apartheid (Kotecha, 2007). This plan resulted in government pressure on universities to grant access to students, previously disadvantaged by the apartheid system (Kotecha, 2007), within the context of a generally poor economic environment (Hall & Symes, 2005). Simultaneously, managerialism emerged and the skilling of faculty in financial acumen and human resources protocols with the "unthinking assimilation" into universities of practices from the corporate world (Habib, 2011:6).

As in the UK, the US and Australia, South Africa has witnessed a rapid rise in student numbers, but also government retreat from funding and the related pressure on universities to fund their activities themselves (Stewart, 2007). To meet this challenge, Wood (2010:227) suggests that South African universities have transformed themselves into "corporatised institutions … and wealth-generating enterprises". Weinberg (2007) notes that, in the quest to generate income, they encourage and advance commercialisation of education, embark upon applied contract research and develop stronger links with external stakeholders who have power to influence the academic project. Market-driven ideas of competition, cost reduction and profit maximisation result in universities corporatising their organisational cultures and the work they do (Vally, 2007).

Internationally, Ryan and Guthrie (2009) note the pressure placed on faculty and academic departments to perform in terms of measurable outcomes, along with related rewards and punishments. They alert the academic community to the growing concept in universities of the student being a "valued customer or client" (Ryan & Guthrie, 2009:324), a view that may contribute to the erosion of academic values when tough decisions need to be taken with regard to the behaviour of such a student as in the case of plagiarism. In addition, fear of student litigation and the impact of such on institutional reputation, may also contribute to inaction when dealing with student plagiarists (Thompson, 2006). Samier (2008:3) suggests that faculty inaction in dealing with student academic dishonesty is a result of accountability being defined with reference to internal political and bureaucratic university authority "instead of higher order moral principle". The move to managerialism is far removed from the concept of what a university should be: "communities of scholars researching and teaching in collegial ways; [where] those running universities [are] academic leaders rather than managers or chief executives" (Deem, 1998:47).

In line with the above thoughts, Zabrosdska and Kveton (2013) note how an institutional culture characterised by intensified workloads, funding pressures, excessive competitiveness, and power imbalances between managers and faculty tends to create the environment in which bullying flourishes.

Bullying in academic institutions is reported to be high (Giorgi *et al.*, 2011). It is a form of indirect workplace aggression that involves isolating the target and frustrating the target's attainment of key objectives as well as undermining his or her professional standing, authority and competence (Keashly & Neuman, 2010). Slander or personal rumours, aimed at devaluing work, constitute workplace bullying (Hershcovis, 2011) and can include verbal abuse, systematic degradation and humiliation, professional obstruction and harassment, all directed at hurting, frustrating and ultimately defeating the target (Vickers, 2002). Bullying can include indirect acts of withholding resources needed to work effectively, thus subtly masking the true underlying bullying that accompanies these acts (Cox & Goodman, 2005). Workplace bullies encourage others to see the target as a troublemaker and a problem (Vickers, 2002). For workplace behaviour to be regarded as bullying, the target must perceive such behaviour to be "unfair, humiliating, undermining, threatening, [and] difficult to defend against ..." (Djurkovic *et al.*, 2008:405) and the behaviour must recur over an extended period of time (Vartia, 2001).

The literature review provided a context for understanding the dynamics operating in the case that follows.

3. Process

Case studies are used to advance an understanding of plagiarism and academic dishonesty in disguised form (Luke & Kearins, 2012) or undisguised form (Lewis *et al.*, 2011). Lewis *et al.* (2011) advocate case studies to be one of the most influential methodologies to explore plagiarism as an avenue of academic enquiry. Central to the case study is a message contained in the narrative account that is more expressive than accounts from quantitative research (Jones, 2011). Pollock and Bono (2013:629) note that scholars have two jobs – exploring answers to interesting questions and "telling the story" by, amongst other things, giving it a human face without sacrificing the important theoretical foundation upon which it is built. In this way, a deeply personal issue is explored within an unambiguous social context (Jones, 2011). Personal connection is the focus of such communication (Frank, 2000) thereby conveying a wider social story that is lodged in public concerns (Sparkes, 2002). In addition, an attempt is made to "give a voice to the world of meaning that might have been unheard" (Muncey, 2005:3) upon which readers may draw to better understand their own experiences (Babbie & Mouton, 2009). In this regard, the narrative provided in this paper should resonate with faculty who have been or who may be required to take an ethical stance on student plagiarism. However, it is acknowledged that the experiences detailed in a case study cannot be generalised, in this instance, to other universities. The case study simply serves to highlight issues that universities may consider in similar circumstances.

Lincoln and Guba (1985) note that authenticity of qualitative study endeavours to promote fairness in representation, greater understanding of social situations and the perspectives of others, and action to change. While attempts have been made to honour these ideals, a limitation inherent in any work of this nature is that of unwitting subjectivity which, perhaps, can never entirely be avoided.

While this case is based on an experience of a professor at a South African university, identifying details of the person, others involved, and the institution itself have been disguised for ethical reasons. The case protagonist was an experienced teacher, having worked in different academic environments for some 16 years, six of which occurred at the institution on which the case is based. He consented to the experience being used for this case study. In its camouflaged form, the case encapsulates events that could occur, as a whole or in part, at many universities internationally.

The case protagonist kept records of student assignments and of all communication about this matter involving faculty, administration, students and colleagues. In addition, shortly after the onset of the process, he kept records of the issues as they arose as well as his response to and reflection on them.

3.1. Case study

3.1.1 Background to the case

Professor X continues the journey of making sense of experiences that gathered momentum after the morning he encountered the work of the first of six student plagiarists in the class he taught at that time. That day he stood at the intersection of two paths, the routes of each unknown. The one would demand an effort to stay on a course where the outcome was uncertain; the other was to follow a gentle exodus with a known and safe destination. There would be no external shame in choosing to follow the latter path. He had detected plagiarism and reported it, arguably fulfilling his academic duty; the rest was up to the discretion of the University. Professor X chose the former journey not fully appreciating the terrain that lay ahead. He was later to realise that this choice would involve encountering, first-hand, the consequences of taking a stand on student plagiarism within an environment in which he automatically expected support for addressing this offence.

The final assessment for Master's students undertaking a business degree in the course taught by Professor X comprised the submission of an examination-equivalent assignment. Students were aware that their work would be processed through the software similarity-detection programme, Turnitin™, and received extensive instruction on how to avoid plagiarism. In addition, it was expected that postgraduate students would, at this stage, have become acquainted with the writing norms of academia and to have an understanding of how knowledge is produced (Cabral-Cardosa, 2004). The students who plagiarised were all postgraduate students and were senior staff members in their own organisations. The plagiarism included the appropriation of the assignments of other students, the incorporation of material from published articles, the buying of parts of the assignment from an Internet site that sells customised essays, all practices that cannot be construed as constituting simple mistakes or referencing errors and could be deemed to be acts of major plagiarism (Park, 2003). Professor X was not dealing here with immature students in terms of their ages, their company positions or their level of study.

Over the year preceding the plagiarism transgressions, the Faculty Ethics Committee, of which Professor X was the Chair, developed a process to delineate the route to be followed should academic dishonesty be detected in the work of postgraduate students. Accordingly, when Professor X identified plagiarism in student work, he followed this process. In addition, the University plagiarism policy specifically noted that plagiarism at a postgraduate level was a Level Three offence demanding investigation at departmental, faculty and university levels. The final unanimous decision by members of the Ethics Committee (from which Professor X recused himself) was to recommend to the Dean of the Faculty that these cases be lodged with the Academic Integrity Unit (AIU) for disciplinary processing. So far, all had proceeded according to university policy. What subsequently ensued, however, gave meaning to the concept of the "dark side" of academia that Blase and Blase (2004:254) note to include harassment and aggression.

While the students were unhappy with the decision to take action, it soon became apparent that the course administrators and some faculty, too, were unhappy with this action, despite being involved in the deliberations along the way. Attempts were made by a senior faculty member to quiz students about the instruction received from Professor X; faculty were called upon to provide character references for the students, one actually appearing at the subsequent disciplinary hearings; an administrator refused to provide Professor X with essential documents relating to the cases. However, it is difficult, overtly, to defend or condone student plagiarism as such. Accordingly, subtle nuances in the argument were introduced: Professor X had not been compassionate enough in the way in which he had dealt with this issue; students should have been informed of the intended reporting of their suspected plagiarism prior to the actual reporting of such and afforded an opportunity to rectify their errors (both acts that run counter to the University examinations policy). Ultimately, he received an e-mail message from the course co-ordinator stating that he had brought the department and the programme into disrepute through the manner in which he had dealt with these offences and that this would have a serious impact on the desire of future students to enrol in the programme.

3.1.2 The hearings and beyond

Some four months after the reporting of the cases, the AIU convened disciplinary hearings. The Dean of the Faculty demonstrated visible support for the process by attending all the hearings. All students were expelled for a period of five years. However, after the emotional turmoil of the hearings, all went silent. These students continued to attend classes and to write examinations, having received only verbal communication about the verdicts from the AIU. Over the period commencing at the time of the first reporting of the cases to the AIU to the finalisation of this matter, Professor X sent or forwarded some 161 e-mail messages in connection with these cases. The content of the messages related to clarification regarding the receipt of documentary evidence, the querying of missing documents, requests for information about the time of the hearings and confirmation of venues, clarification relating to the appeal process, corrections of inaccurate information, and complaints of general tardiness in settling this matter. In total, overall administrative time involving members of the faculty administration, the Dean, and Professor X in dealing with these cases approximated 200 hours of which some 140 hours related to the time of Professor X alone.

Tackling these cases and simultaneously dealing with administrative officials who appeared to be tardy in finalising these matters added to personal costs in both emotion and time. Professor X was working amongst many faculty who were hostile and opposed to the disciplinary action taken, with the majority blending into the background as bystanders, anxious to avoid any negative fallout by association. The collegial encouragement that he received came from outside the department from other University colleagues who, themselves, were conscious of the problem of student plagiarism.

The involvement of Professor X in various senior ethics structures of the University resulted in the cases achieving a high and undeniable profile within the top structures. The plagiarism policy was subsequently refined and the disciplinary process restructured, ensuring that senior academics provide input into the determination of student punishment and that young academics are supported when they report student plagiarism. In addition, discussion was triggered at an institutional level, about strategies to educate staff and students on the issue of plagiarism so that this problem could be addressed holistically. Professor X relocated to another department in the University.

4. Insights

While the personal consequences to Professor X of reporting and dealing with student plagiarism are important, of greater importance, for the purpose of this paper, is that of understanding the reaction by departmental faculty and administrators to this event which, in similar circumstances, could serve to deter faculty from reporting student plagiarism. Three distinct processes had operated simultaneously, each of which may afford insights into why faculty do not report student plagiarism.

In the first instance, there was an unconcealed attack from the students who plagiarised. Second, there was an unexpected lack of departmental support for an action that Professor X assumed would be of deep concern to those who teach the future leaders of the country. Third, linked to a lack of support, a considerable amount of administrative tardiness occurred resulting in those involved in this matter expending substantial effort on unnecessary work at the expense of engaging in legitimate academic pursuits.

The aggression and attacks from the plagiarists were overt. That they are leaders in their own organisations makes their behaviour even more alarming, particularly considering the link between student dishonesty and later dishonesty in the workplace (Laduke, 2013). Thompson (2006) notes that her student plagiarists showed no remorse but looked her in the eye, protesting their innocence; they were simply angry that their plagiarism had been detected. She further suggests that this anger often sways administrators.

However, the second and third processes noted above were unexpected and subtle, and insidiously had the potential to undermine the actions of Professor X to both the students and the broader University community. They warrant greater exploration.

During the months from when the plagiarism was reported and disciplinary action was effected, it is suggested that the prevailing view in the department, although not clearly expressed, was that of denial of the problem; that to acknowledge student plagiarism was to admit some weakness in the programme to the leadership of the University. However, academic protocol does not permit such views to be overtly expressed (Samier, 2008), so the emphasis, imperceptibly, shifted from the students to the manner in which they had been treated ("it's not the issue of plagiarism that we have a problem with; it's how Professor X is dealing with it"; "we're beginning to look bad compared to other departments in the University"; "this event is singling us out"; "it looks as if we are the only department in which this happens"). Thus, the prevailing view was one of how this event and the disciplinary action that followed would appear to the University leadership, with a corporate environment model being the reference point. In this respect, faculty and departments are expected to perform in terms of results (Lazzeretti & Tavoletti, 2006) with a drive to retain students, as customers, superseding the support afforded to a faculty member in taking action against students and their practices that erode academic values (Ryan & Guthrie, 2009).

The first insight offered relates to the hostility experienced by Professor X for pursuing and reporting student plagiarism, evidenced by certain senior faculty and administrators openly siding with the perpetrators, a move that was apparent to both staff and students. The attempts to deter Professor X from his action meet the criteria of workplace bullying tactics and, as such, constitute a form of workplace abuse (Giorgi *et al.*, 2011). Vickers (2002) notes the damaging consequences of workplace bullying towards individuals, including the psychological and emotional damage that can spill over into job dissatisfaction, poor productivity and a decrease in psychological commitment. Djurkovic *et al.* (2008) suggest that experiencing such reactions from others increases the likelihood that the person will leave the organisation.

Similar to the present case, Luke and Kearins (2012) report the lack of support afforded to a professor from her own university when she reported the plagiarism of her work in a doctoral thesis, a journal article and a conference paper. She discovered that the only assistance that the University provided, in the form of legal representation and counselling in matters of plagiarism, was to students who had been accused of plagiarism.

Accordingly, the first insight relates to an appreciation of the importance of leadership support when tackling an issue of this nature as evident, in this case, through the involvement of the Dean of the Faculty and through the course of action against plagiarism that the University subsequently adopted, signalling such top leadership support. These actions served to strengthen the resolve of Professor X in pursuing the cases of plagiarism to their conclusion and went some way in mitigating the psychological effects of the workplace bullying that he experienced. In his seminal work, *Leading change: Why transformation efforts fail*, John Kotter (1995) advocates the need to garner the backing of a powerful group when attempting any change effort, a suggestion that may well apply when tackling ethical problems at universities.

In addition to leadership support, clear, well documented and approved institutional policies and processes for dealing with student plagiarism could have circumvented much of the antagonistic behaviour of those faculty members who opposed the route taken by the Ethics Committee and Professor X. That the case resulted in a revision of the plagiarism policy and processes at the University in question indicates that existing policies and processes at the time were unclear and open to individual interpretation.

The second insight is that dealing directly with this issue demanded steadfastness and conviction in the face of denial of the primary problem by faculty and administrators and a lack of overt and covert support for dealing with it. Parameswaran (2007) suggests that faculty may intentionally deny or minimise wrongdoing by students to protect the status quo. Psychological discomfort is inevitable and is to be expected when dealing with issues of this nature. However, the events perpetuated by the denial of a serious ethical transgression compound, in great measure, this psychological discomfort.

The third insight relates to the tardy University administrative processes that hampered the timeous finalisation of the enquiries. While such processes were not directed at Professor X as such, they served to compound an already fraught situation and serve as a reminder that the reporting of student transgressions should be backed up by strong administrative systems and procedures that expedite the unpleasant process.

Upon reflection of this case, it becomes easier to understand why many faculty may avoid reporting student academic dishonesty (De Jager & Brown, 2010; Thomas & de Bruin, 2012): the psychological cost is high to the individual and the opportunity costs at the expense of research generation, important for academic promotion, are also considerable, especially when coupled with the obfuscation in procedural clarity.

5. Recommendations and conclusion

This case study endeavoured to give a voice to answering the question of why faculty resist dealing with student plagiarism, drawing out individual and institutional issues to reflect upon when faculty do decide to report student plagiarism.

The first recommendation is directed at individual faculty members who may wish to take action when they detect student plagiarism. It is essential not to assume that automatic support will be forthcoming. Accordingly, it is important to establish, at the outset, whether clear and objective processes exist to deal with student plagiarism as well as to ensure that there is senior leadership backing for the actions to be taken.

The second recommendation is directed at university administrators and leaders. It is essential that clear, consistent and comprehensive policies and procedures to address student plagiarism are institutionalised and known. Action dealing with plagiarism should not be open to individual interpretation. In addition, those who expose and report student plagiarism need to be supported. Senior leadership backing mollifies, to some extent, the psychological discomfort and personal costs inevitably associated with reporting plagiarism (Djurkovic *et al.*, 2008). In addition, bureaucratic 'red tape' must be minimised during the course of the disciplinary process. If such support and action is present, the barriers that contribute to the avoidance of reporting student academic dishonesty, as noted by Thomas and de Bruin (2012), viz. psychological discomfort, opportunity costs at the expense of other academic work, and lack of procedural clarity, may be minimised.

The third recommendation is furnished with consideration to the fact that the South African student body comprises primarily of students whose mother tongue is not English. While at postgraduate levels it is expected that students should understand issues of plagiarism, it nevertheless is pro-active to ensure that students are able to obtain needed support if they struggle with academic literacy. This may include programmes targeted at writing skills (Löfström, 2011) as well as those focused on instilling broader academic ethics in students (Dzuranin *et al.*, 2013; Marques, 2016).

The final recommendation is directed to the top leadership of universities. Student moral development does not exist in isolation; it is part of a chain of events within which the university, as a role model, is one important component (Williams & Dewett, 2005). O'Connell (1998:168) notes that "our task in universities is not only to teach ethics and values for the marketplace but to model these values ourselves as we fulfil our own moral responsibility as educators in the universities where our students begin the [business] ethics journey in the first place".

If not embedded in the firm foundation of the ethos and academic culture of a university, many of the practices, often unthinkingly transferred from the corporate environment, can result in expediency when dealing with dilemmas, such as a response to detected plagiarism. Faculty and administrators may fear casting a department or programme in a poor light with the institutional hierarchy (Ryan & Guthrie, 2009). Such behaviour may proliferate within academic environments where, increasingly, financial rewards are allocated for the throughput of student numbers within the required periods of time, where departments are regarded as 'stable' when no overt problems have been highlighted to 'top management' and where the attraction of student numbers to the programme is paramount (Stewart, 2007). Taking action on student plagiarism has the potential to impact these processes.

It is critical for universities to reflect on practices that may subtly erode the essence of university culture characterised by Deem's (1998:47) "communities of scholars". In this regard, further research should include reflection by universities on their institutional moral responsibility (Rossouw, 2004) and should embrace interrogating internal practices such as the ones described in this account. The development of a strong academic community promotes faculty commitment to the values that universities often espouse as being sacred – honesty, trust, fairness, respect and responsibility (Keohane, 1999) and, arguably, ones that support ethical practices within both the student body and the staff of the institution. Within this reflection, the insidious practices that have unthinkingly been incorporated from business into universities need to be identified and surfaced for discussion in the light of the obligations of universities to shape the development of future leaders (Osiemo, 2012).

This paper contributes to an understanding of why faculty may avoid dealing with the growing international problem of student plagiarism. When interrogating why faculty may avoid addressing this problem, the case illustrates that such action could incur heavy personal costs. The awareness of the personal and institutional issues raised in this paper may alert those in leadership, teaching and administrative positions at universities to factors that may be considered if student plagiarism is to be addressed.

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