

BUSINESS ETHICS IN UGANDAN SMALL AND MEDIUM-SIZED
ENTERPRISES

By

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DECLARATION

I, Jamiah Mayanja, hereby declare that:

- The content of this thesis entitled “Business ethics in Ugandan Small and Medium-Sized Enterprises” is my own work;
- All sources used or quoted, have been acknowledged and documented by means of references;
and
- This thesis has not been submitted previously for a degree at any other tertiary institution.



JAMIAH MAYANJA

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ABSTRACT

SMEs have been acknowledged by governments globally as a prime source of economic growth and development. In Africa there has been a noticeable increase in the number of SME establishments. In Uganda, SMEs are the most popular business choice and play a major role in the national economy. Although SMEs significant economic contributions are generally acknowledged, being ethical and successful has become a challenge, as many SMEs in Uganda have not fully adopted and integrated ethics into their business strategies. Understanding the reasons for the increased unethical behaviour in SMEs is central to their continued business success.

The primary objective of the study was to investigate the factors that influence ethical business conduct in Ugandan SMEs. From a comprehensive literature review, three main independent variables (staff-, business- and external environment factors) were identified as variables influencing ethical business conduct (dependent variable) of SMEs. A hypothetical model was developed to determine whether the independent variables have an influence on the dependent variable. Twelve hypotheses were formulated to test the relationships between three staff factors, five business factors, four external environment factors and ethical business conduct.

The study sought the perceptions of SME owners or managers in the Kampala District and utilised the quantitative research paradigm. A survey was conducted with the aid of a structured self-administered questionnaire distributed by three fieldworkers. A combination of convenience and snowball sampling was utilised. The final sample comprised 384 respondents. The validity of the measuring instrument was ascertained by using exploratory factor analysis. The Cronbach's alpha values for reliability were calculated for each of the factors identified during the exploratory factor analysis. A total of ten valid and reliable factors were retained.

Pearson product-moment correlation and multiple regression analysis were used to test the correlation and statistical significance of the relationships hypothesised between the various independent and dependent variables. One statistically significant relationship was found between the staff factors (employee attitude) and ethical business conduct. Two statistically

significant relationships were found between the business factors (knowledge acquisition and management practices) and ethical business conduct. Three statistically significant relationships were found between the external environment factors (legal requirements, industry norm and media power) and ethical business conduct. External environmental factors seem to have a greater influence on SME ethical business conduct in Uganda.

Multivariate Analysis of Variance (MANOVA) was used to identify if significant relationships exist between the eight demographic variables and seven reliable and valid independent variables. Furthermore, post-hoc Scheffé tests identified where the significant differences occurred between the different categories. Cohen's d-values were calculated in order to assess the practical significance of the mean scores. A total of twelve practical significant relationships were identified.

SME owners or managers should consider employing staff with the right attitude to uphold sound ethical business values. They should implement ethical management practices to promote ethical business conduct amongst employees and ensure that employees are made aware of what is regarded as acceptable ethical business behaviour. SME owners or managers should adhere to legal requirements and industry norms to be known as businesses exhibiting ethical behaviour and utilise media to instil and guide ethical values in employees. Lastly, they must pay attention to the role that demographical variables such as: gender, level of education, current employment status, number of years in business and number of employees, play in behaving ethically in business.

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CHAPTER 1

OVERVIEW TO THE STUDY

1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

Globally, SMEs are being commended for their key role in promoting grassroots economic growth and equitable sustainable development. SMEs comprise of more than 90% of businesses worldwide and contribute significantly towards the Gross Domestic Product (GDP) and employment generation (Inyang, 2013:125). In developed countries, SMEs are major contributors to GDP and private sector employment, by contributing as much as 60% to the workforce Mahmood (2008:3). In 2011, New Zealand had 97% of SMEs accounting for 31% of the labour force (Ministry of Economic Development, 2015:7). In the United States of America, more than 99% of businesses are SMEs (Pandya, 2012:427). According to Rhodes (2012:3), in the United Kingdom in 2012, there were 4.8 million SMEs, which included more than 99% of all businesses. Aibb Small Business (2014:1) points out that about 95% of businesses in Australia are SMEs.

In developing countries, SMEs employ more than 70% of the labour force (Mahmood, 2008:2). In Africa, SMEs have been recognised for playing a significant role in driving sustainable economic growth (Mpolokeng, 2009:1). In many African countries, the informal sector is estimated to employ about three to six times the number of employees than in the formal sector. In South Africa, it is estimated that 91% of formal businesses are small, micro and medium enterprises (SMMEs) and contribute between 52 to 57 percent toward the GDP and provide about 61% of all employment opportunities (Abor & Quartey, 2010:218). It was further estimated that SMEs in Ghana account for 70% of the Gross Domestic Product (GDP), 85% in the manufacturing sector and 92% across all sectors. In Nigeria, SMEs constitute 95% of formal manufacturing activities (Chodokufa, 2009:22). Theuri (2012:32) indicated that about 8.2 million people are employed by SMEs in Kenya. In Uganda, SMEs constitute 90% of the private sector, contribute about 75% to GDP and employ over 2.5 million people (Ministry of Finance, Planning and Economic Development, 2011:4). These statistics indicate the crucial role SMEs play in their countries' economic growth and contribution towards employment.

SMEs are a prime source of employment and revenue generation, poverty reduction, entrepreneurship development, creating more equitable income distribution, contributing to export growth and functioning as a means through which new technologies can be achieved (Mahmood, 2008:3). SMEs also contribute to the success of larger businesses by acting as suppliers and distributors and prevent monopolisation by larger businesses (Subhan, Mehmood & Sattar, 2013:4). In Africa, where the private sector is generally not well-developed, SMEs play a critical role in alleviating poverty (Abor & Quartey, 2010:219) and are comprised of about 90% of African businesses and contribute over 50% to African employment and Gross Domestic Product (Chodokufa, 2009:22).

SMEs are mainly oriented towards solving daily problems and are managed on gut feeling with few or no formal management systems. Interpersonal and informal relations and communication dominate their operations. The distinction between their ownership and management roles is weak with multi-tasking being quite common. (Srinivasan, 2009:32). Their approaches to business ethics are determined by the ethical character of the business owner, commitment to integrity and sound business practices (Painter-Morland & Dobie, 2009:4). Their ethical principles are usually implied rather than formally expressed through ethical policies, codes and programs (Singh, 2009:11). Lack of formal business management practices affects the ability of SMEs to incorporate responsible and ethical practices in their business operations (Fatoki & Asah (2011:173). The unethical conduct of deception and opportunism exhibited in the daily SME activities are increasing and this may explain the lack of longevity among SMEs.

As all businesses globally face issues relating to transparency, accountability and increasing awareness of customers' rights, there is increased pressure on SMEs to adopt ethical business practices. SMEs need to understand ethical business principles to address global competitive challenges. Global competition and technological advancements have dramatically increased customers' ethical awareness, thereby leading customers to disapprove of unethical and irresponsible business practices. (Ahmad & Seet, 2009:116). In the increasingly conscience-focused marketplaces, imposing acceptable business practices instills ethical business conduct in SMEs, without legal enforcement (Singh, 2009:12). Studies (Ahmad & Seet, 2009:121; DeConinck, 2010:390; Mulki, Jaramillo & Locander, 2007:568) have shown that positive ethical

conduct promotes trusting relationships, business reputation, favourable employee job attitudes and increased customer satisfaction.

In the next section the problem statement is highlighted.

1.2 STATEMENT OF THE PROBLEM

In Uganda, SMEs are the most popular business choice and play a major role in the national economy. While individually each of these SMEs may not have a significant influence unlike large businesses, their cumulative social and environmental impacts could be significant (Srinivasan, 2009:32). However, the high failure rate in Uganda, despite the high start-up rate is regarded as a dilemma, for which an appropriate solution has yet to be found.

Although SMEs' significant economic contributions are generally acknowledged, being ethical and successful has become a challenge, as many SMEs in Uganda have not fully adopted and integrated ethics into their business strategies. Apart from prescribed government norms, few follow and implement ethical practices as they are constrained by limited long-term funding possibilities, lack of human resources, a poor management culture, limited and inadequate entrepreneurial skills, lack of information and appropriate technologies to meet market standards and lack of sound business governance. (Hatega, 2007:4, Ministry of Finance, Planning and Economic Development, 2011:8-15, Private Sector Foundation Uganda, 2012:42). It is, therefore, imperative for Uganda to promote start-up businesses by creating an enabling ethical environment so that SMEs' business culture can improve. It is against this background that this study sought to investigate the factors influencing the ethical conduct of SMEs in Uganda.

According to the Ministry of Finance, Planning and Economic Development (2011:13), many SMEs disapproved of the need for product certification by the Uganda National Bureau of Standards for product quality assurance as they perceive certification procedures as too stringent. Yet, customers are more cautious than ever when making products and services decisions that may have been produced under suspect circumstances. In Uganda today, unethical conduct is an inherent vice within the trading community (Ntayi, 2012:128). Many SMEs' managers display exploitative behaviour such as: deception, opportunism, corruption, lack of confidentiality,

breaching of promises, evading taxes, illicit businesses participation, favouritism, embezzlement, exaggeration, manipulation of communication, misleading customer trends and needs, inappropriate use of business resources, unfair treatment of employees, producing substandard goods; and fraud (Ntayi, Eyaa & Smukono, 2012:46). Such unethical practices could have potentially contributed to their high failure rates.

Additionally, evidence on unethical public procurement conduct and behaviour in Uganda reveals that SMEs have failed in the past to perform in terms of their contractual obligations (Ntayi *et al.*, 2012:46). According to Ntayi *et al.* (2012:46), the high level of unethical behaviour among suppliers is reflected in failure to keep their promises and this has led to loss of trust in suppliers. SMEs depend on informal internal relations and do not always clearly communicate ethical operating procedures to employees. This eventually negatively impacts operational sustainability and their ability to be trusted business partners. The desire to build trusting relationships as well as growing globalisation pressures should prompt SMEs to consider the extent to which ethical conduct should guide their business practices.

Traditionally, most business ethics literature has focused on larger businesses and multinationals in developed countries (Spence & Rutherford, 2001:126). According to Ahamd and Seet (2009:117), the business ethics agenda in developing countries lags behind that of developed countries and the focus is often only on large businesses. Business ethics enacted in larger businesses are different to those of SMEs as business control and decisions are made by the sole owner or one manager, whose personal attitude and behaviour will direct the business behaviour; and signal to employees how seriously ethical behaviour should be taken in the business (Singh, 2009:11).

Based on the above discussion, there seems to be a need to explore the ethical business conduct of SMEs, which leads to the research problem in question:

What are the factors influencing the ethical business conduct of SMEs in Uganda?

The problem statement pertaining to this research has sub-questions which include the following:

- How do employees influence the ethical business conduct of Ugandan SMEs?
- Which business related factors play a role in the ethical business conduct of Ugandan SMEs?
- Which external environmental factors influence the ethical business conduct of Ugandan SMEs?
- Which strategies could assist SMEs in improving their ethical business conduct in Uganda?

Various benefits of ethical conduct in businesses such as: increased employee loyalty, higher staff commitment and morale and decreased staff turnover; high-quality staff attraction; enhanced customer and supplier reputation; a more open and innovative culture; decreased lending and insurance cost; community good-will generation; regulation compliance; long-term profitability; and being socially responsible citizens have been acknowledged (Singh, 2009:12).

To address the problem in question, the research objectives are outlined in the following section.

1.3 RESEARCH OBJECTIVES

The purpose of the study was twofold; firstly, to identify the factors that influence SMEs ethical business conduct in Uganda; and secondly to investigate how ethical behaviour could positively influence SMEs functioning and business sustainability. The primary objective of the study and the secondary objectives supporting the study are indicated in the next sections.

1.3.1 Primary objective

The primary objective of the study is to investigate the factors that influence the employment of business ethics in Ugandan SMEs.

1.3.2 Secondary objectives

To achieve the primary objective of this study, the following secondary objectives have been formulated:

- To undertake a detailed theoretical investigation into the acceptance and usage of business ethics and factors influencing the implementation thereof in SMEs;

- To propose a hypothesised model depicting the factors that influence ethical business conduct of SMEs;
- To test the hypothesised model and to investigate the possible relationships between the dependent variable namely SMEs ethical business conduct and various independent variables (factors influencing SMEs' ethical business conduct);
- To determine whether there is a relationship between the demographic profile of SMEs in Uganda and the factors influencing ethical business conduct, and
- To recommend strategies that can improve SME ethical business conduct in Uganda.

The next section presents conceptual models supporting the study.

1.4 DEFINITION OF CONCEPTS

As the focus of this research is on business ethics in SMEs; clear definitions of these terms are presented.

1.4.1 Ethics

The word ethics comes from the Greek word 'ethikos' which means custom or accepted behaviour (Antonaras, Iacovidou & Memsta, 2011:71). According to Stefanescu and Doval (2010:37), ethics refers to the assembly of the norms that regulate the moral behaviour of individuals in society, norms that should be observed through the power of habits that are in the society. Ethics are codes and practices businesses comply with to react positively to diversity and increase team competencies, and to provide management and leaders with guidelines when miscommunication produces negative performance reviews and outcomes (Hellriegel, 2011:495). Ethical behaviour and practices stem from ethical organisational cultures. Individual preferences can influence moral outcomes and business ethics standards when managers and leaders conform to unethical business codes of conduct to increase sales and profits (Hellriegel, 2011:495). For this study *ethics refers to the norms that regulate the moral behaviour of individuals in society in terms of what is right or wrong.*

1.4.2 Business ethics

Business ethics is generally understood as considering the ethical aspect of economic activity (Rossouw, 2004:2). Business ethics include rules, standards, codes, or principles which provide

guidelines for moral behaviour and truthfulness in specific situations (Sinha & Mishra, 2011:136). Business ethics has to do with the extent to which an individual's behaviour measures up to legal standards, organisational policies, professional and trade codes, fairness and the individual's own internalised moral standards (Sausser, 2005:346). For the purpose of this study, *business ethics will refer to clear standards and norms that help employees to distinguish right from wrong behaviour in the workplace.*

1.4.3 Small and medium-sized enterprises (SMEs)

There is no single, universally acceptable, definition of SMEs. Various definitions of SMEs exist in business, commerce, economics and development literature (Mutula & Van Brakel, 2006:402). It is important to note, that the definition varies from one country to another, and even within one country different definitions do exist. A number of indexes are traditionally utilised to define SMEs namely: number of employees, invested capital, total amount of assets, annual sales turnover and production capability (Harvie, 2004:2). In Uganda, the definition of SMEs is based on the number of full time employees, the capital investment and annual sales turnover of the business (Uganda Investment Authority, 2011:34). Accordingly, a small enterprise is one that employs a maximum of 50 people with an annual sales/revenue/turnover of 360 million Ugandan shillings and total assets of 360 million Ugandan shillings. A medium enterprise is an enterprise employing more than 50 people; annual sales/revenue/turnover of more than 360 million Ugandan Shillings and total assets of more than 360 million Ugandan Shillings. This study adopted the definition used by the Uganda Investment Authority. *SMEs will be defined as businesses which employ more than five, but less than 200 employees.*

The conceptual models supporting the study are indicated.

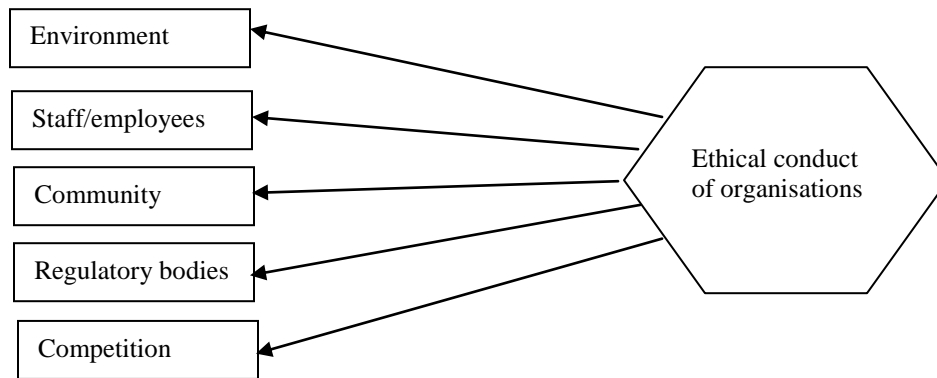
1.5 CONCEPTUAL MODELS SUPPORTING THE STUDY

From literature, various ethical models have been identified to construct a hypothesised model of the factors influencing ethical business conduct of SME's.

1.5.1 Goldman, Bounds, Bula and Fudalinski (2012) model

Figure 1.1 depicts a model on the perception of business management students on the ethical conduct of businesses.

Figure 1.1: Goldman *et al.* (2012) model of business management students' perceptions of ethical businesses conduct



Source: Goldman, Bounds, Bula & Fudalinski (2012:80)

The study explored the opinion of Polish and South African management students regarding the ethical conduct exhibited by organisations specific to their respective countries. Five stakeholder groups were considered namely:

- The environment, including environmental groups;
- Staff encompassing employees and managers;
- The community at large encompassing society and local communities;
- Regulatory bodies, and
- Competition focusing on the whole competitive landscape.

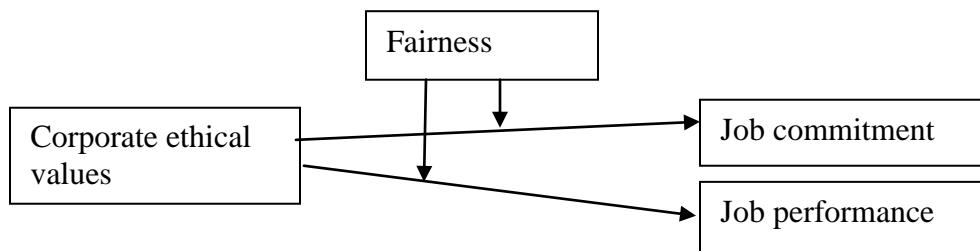
Findings indicate that businesses act in their own best interests. Both South African and Polish students agreed that businesses treat the physical environment in an irresponsible manner. They; however, had a more lenient view of how businesses treat their staff and the community at large. The impact of competition on business ethics could not be measured as this construct was not properly understood by South African and Polish students. The most pertinent difference in

perception between the South Africans and Polish was found in terms of the ethical conduct of businesses towards regulators. In Poland corruption is common, not only in government, but also in businesses. The study by Goldman *et al.* (2012) considered only a few ethical conducts exhibited by businesses and largely focused on external environmental factors.

1.5.2 Sharma, Borna and Stearns (2009) model

Figure 1.2 depicts a model on the effects of corporate ethical values on employee commitment and performance.

Figure 1.2: Sharma *et al.* (2009) model of the effects of corporate ethical values on employee commitment and performance



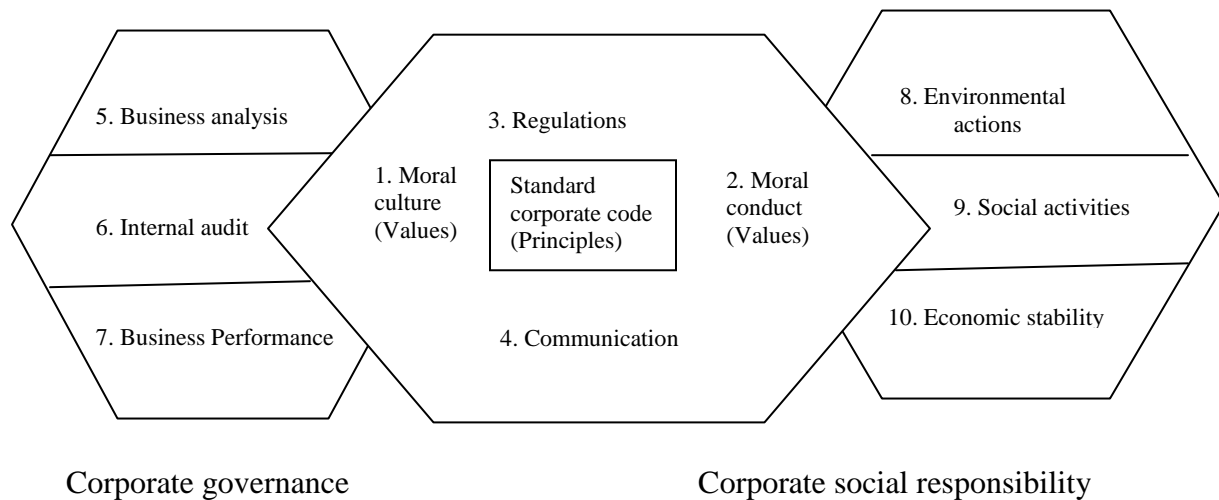
Source: Sharma, Borna & Stearns (2009:253)

According to Sharma *et al.* (2009:255), a relationship exists between corporate ethical values, job performance and commitment, but is moderated by perceived fairness. It is stated that, employees' perception of fairness will create perceptual distortion of corporate ethical values. Depending upon the magnitude and direction of perceptual distortions, employees' commitment and job performance will vary. Findings revealed that, businesses can influence employee commitment and performance by using fairness to reduce unethical practices. Treating employees' fairly may mask ethical breaches. The study by Sharma *et al.* (2009) considers only employee- and business ethical values and ignored external environmental factors.

1.5.3 Antonaras, Iacovidou, Memsta (2011) model

Figure 1.3 illustrates the model by Antonaras *et al.* (2011:73) on how to measure social return on investment using the EBEN GR Business Ethics Excellence Model.

Figure 1.3: Antonaras *et al.* (2011) model on measuring social return on investment



Source: Antonaras *et al.* (2011:73)

The social return on investment model as seen in Figure 1.3 was developed by the Greek Chapter of the European Business Ethics Network (EBEN GR) in 2007, aiming to align the continuous upgrading of quality and excellence in the business environment with ethical governance and corporate social responsibility (Antonaras *et al.*, 2011:73). The model presents 10 criteria that can, according to Antonaras *et al.* (2011), be used to assess ethical business conduct. The 10 criteria are divided into three main areas, namely:

- standard corporate code;
- corporate governance, and
- corporate social responsibility.

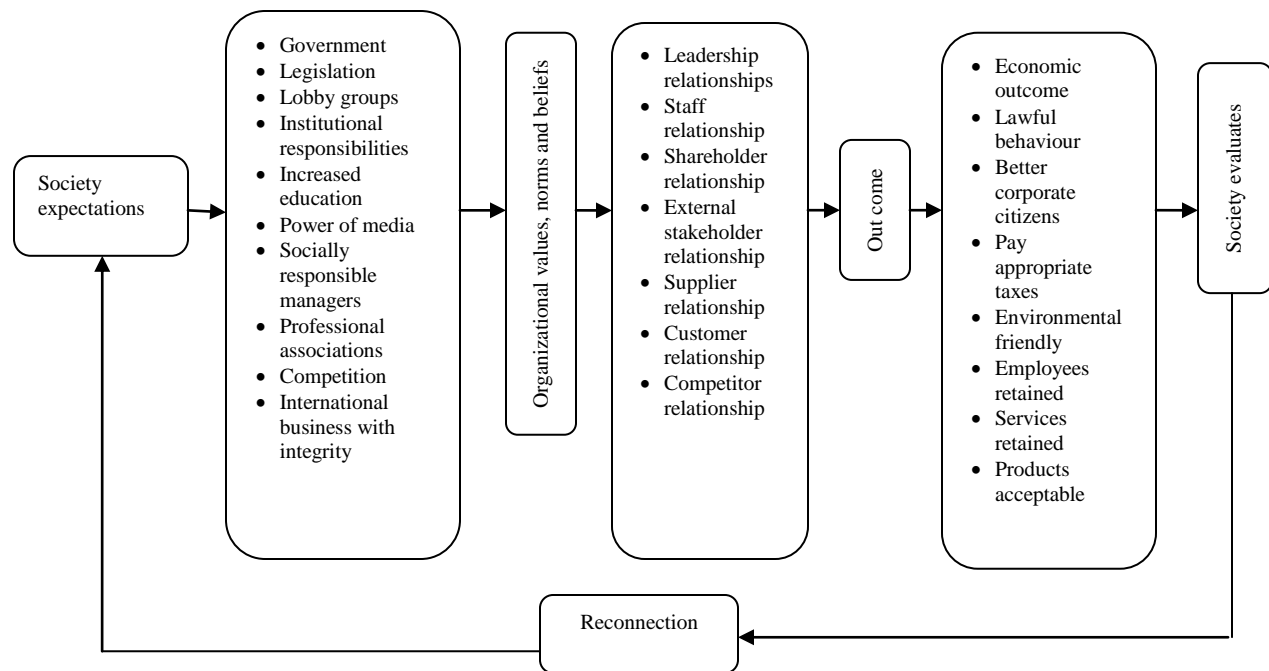
For each of the 10 criteria there are five sub-criteria and there are five corresponding best practices that satisfy each of these five sub-criteria. Each sub-criteria accounts for 20 points; therefore totaling to 100 points for the five sub-criteria and a maximum number of 1000 (100x10)

points for the ten criteria. An organisation’s social return on investment (SROI) is defined as a number on the 0 to 1000 points scale according to the degree of compliance with the criteria. The results show that businesses that implement the EBEN GR framework have a better chance of attracting consumers and investors. The model by Antonaras *et al.* (2011) considers only 10 criteria for assessing business excellence, whilst there are other criteria that can also be used to assess business excellence in terms of ethical corporate governance.

1.5.4 Svensson and Wood (2008) model

Figure 1.4 depicts the Svensson and Wood (2008:304) model of business ethics. According to Svensson and Wood (2008:305), business ethics is a continuous process composed of three stages namely; expectations, perceptions and evaluations which are interconnected by components such as: societal expectations, business values and norms, outcomes and societal evaluations.

Figure 1.4: Svensson and Wood (2008) model of business ethics



Source: Svensson & Wood (2008:304)

As depicted in Figure 1.4, in each stage, the model identifies:

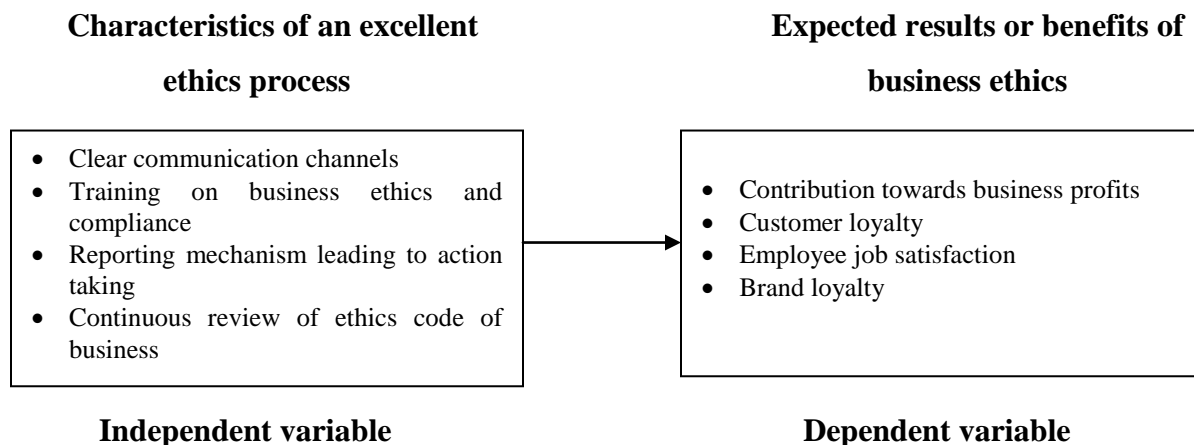
- External factors influencing business ethics such as government regulations, lobby groups, competition; and
- Internal factors influencing business ethics such as institutional responsibilities, staff relations and education.

These internal- and external factors interact at the various stages. However, the model is considering factors like increased education, socially responsible managers and professional associations to be occurring both internally and externally.

1.5.5 Wickramasuriya (2007) model

Figure 1.5 shows the Wickramasuriya (2007:152) model on business ethics and compliance. According to Wickramasuriya (2007:149), this approach to understanding business ethics assumes that business values and compliance systems are necessary to prevent employees from engaging in unethical behaviour.

Figure 1.5: Wickramasuriya (2007) model on business ethics and compliance



Source: Wickramaswiya (2007:152)

Two variables pertaining to this study by Wickramaswiya (2007:152) are the follow-up process on the business code of ethics and the results expected from a satisfactory follow-up. Findings

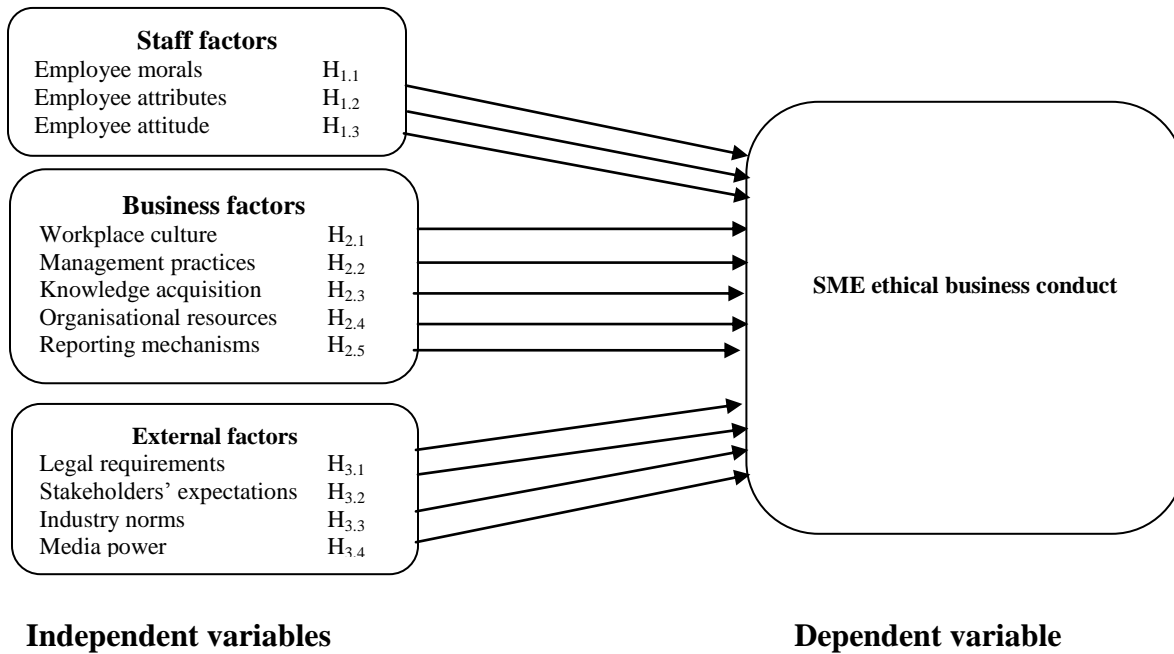
indicated that a business with a satisfactory follow-up process on business ethics is more successful in terms of profitability, customer loyalty, employee job satisfaction and brand loyalty. The study emphasised that ethical misconduct is mostly due to the complexity in the business environment. However, the study only considered business factors and ignored personal and external environmental factors.

Based on the aforementioned models a hypothesised model was compiled. A discussion of the hypothesised model follows.

1.6 HYPOTHESISED MODEL

A clear correlation exists between the models of Goldman *et al.* (2012), Sharma *et al.* (2009), Antonaras *et al.* (2011), Svensson and Wood (2008) and Wickramaswiya (2007). The model by Goldman *et al.* (2012) identified five stakeholder groups namely: the external environment, staff, community regulatory bodies and competition as measures of the ethical conduct of businesses. The Sharma *et al.* (2009) model focuses on corporate ethical values and shows the outcomes of implementing corporate ethical values such as job performance and commitment. The criteria used in the Antonaras *et al.* (2011) model measures social return on investment based on the several ethical practices. The model by Svensson and Wood (2008) identified external factors that impact the process of business ethics and internal factors that influence corporate ethics. The Wickramaswiya (2007) model focuses on business culture and shows the outcomes of implementing business ethics. Based on the aforementioned models and the discussion thereof, a proposed hypothesised model was constructed (see Figure 1.6) to depict the factors that might influence SMEs' ethical conduct in Uganda.

Figure 1.6: Proposed hypothesised model for factors influencing SMEs ethical business conduct



Source: Researcher's own compilation

The model shows how the independent variables namely; employee morals, employee attributes, employee attitude, workplace culture, management practices, knowledge acquisition, organisational resources, reporting mechanisms, political/legal systems, stakeholders' involvement, industry norms and media power influence the dependent variable SMEs ethical conduct. Ethical conduct can be observed in enhanced corporate reputation, having business integrity, selling and manufacturing environmentally friendly products, behaving lawfully, being better corporate citizens by paying taxes and being socially responsible (Svensson & Wood, 2008:304). Based on the proposed hypothesised model, the following hypotheses have been formulated to test the relationships depicted in the hypothesised model.

1.6.1 Research hypotheses

The following are hypotheses that were formulated to test the relationships proposed in the hypothesised model:

- H_{1.1}: *Employee morals influence SME ethical business conduct in Uganda.*
- H_{1.2}: *Employee attributes influence SME ethical business conduct in Uganda.*
- H_{1.3}: *Employee attitude influences SME ethical business conduct in Uganda.*
- H_{2.1}: *Workplace culture influences SME ethical business conduct in Uganda.*
- H_{2.2}: *Management practices influence SME ethical business conduct in Uganda.*
- H_{2.3}: *Knowledge acquisition influences SME ethical business conduct in Uganda.*
- H_{2.4}: *Access to organisational resources influence SME ethical business conduct in Uganda.*
- H_{2.5}: *Reporting mechanisms influence SME ethical business conduct in Uganda.*
- H_{3.1}: *Legal requirements influence SME ethical business conduct in Uganda.*
- H_{3.2}: *Stakeholders' expectations influence SME ethical business conduct in Uganda.*
- H_{3.3}: *Industry norms influence SME ethical business conduct in Uganda.*
- H_{3.4}: *The power of the media influences SME ethical business conduct in Uganda.*

The next section presents the research design and methodology of this study.

1.7 RESEARCH DESIGN AND METHODOLOGY

The study sought to identify the factors that influence ethical business conduct of SME's in Uganda. A brief discussion of the research and methodology follows.

1.7.1 Research design

A survey research design was adopted for this study to investigate and analyse how the independent variables (staff-, business- and external environmental related factors) influence SMEs ethical conduct (dependent variable) in Uganda. According to Harwell (2011:149), a survey is a suitable method if the study is quantitative in nature and a representative sample of a large population is required. Mount (2001:152) indicates that surveys are applicable to determine business behaviour, attitudes and needs.

1.7.2 Research paradigm

A positivistic research paradigm was adopted for this study. The positivistic paradigm is alternatively known as the quantitative, objectivist, scientific, experimentalist or traditionalist research paradigm (Harwell, 2011:150). Quantitative research or a positivistic paradigm is a formal, objective, systematic process of obtaining information and describing variables and their relationships by using scientific methods (Collis & Hussey, 2009:62). In view of the nature of the research objectives in this study, the positivistic approach appears to be the most suitable to measure the opinions of respondents of the factors influencing the *ethical business conduct* of SMEs. Also, related to that, is the ability of the quantitative method to use a large sample (Nwokah, Kiabel & Briggs, 2009:436) and it is also associated with a research instrument that is precise, specific and can be measured quantitatively (Coetzer, 2008:48). A detailed explanation of the motivation for choosing the positivistic research paradigm is presented in Chapter 6.

1.7.3 Data collection

Both primary and secondary data was collected for this study. Primary data was collected from the owners/managers of SMEs in the Kampala District. A total of 450 questionnaires were distributed to SME owners/managers. 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 convenience sampling by surveying all businesses in Kampala that were willing to participate and meet the criteria in terms of being a registered SME with more than five, but less than 200 employees. A total of three fieldworkers were sent to the different areas in Kampala to administer the questionnaires after being briefed on the required criteria for inclusion in the sample. A structured questionnaire was compiled to measure the variables in this study and the statements were rated on a 5-point Likert scale varying from strongly agree to strongly disagree.

Secondary data was gathered through a comprehensive literary search in order to identify the factors that could influence the ethical business conduct of SMEs in Uganda. A detailed internet search on the topic was undertaken in online databases. Data was also sourced from previous SME studies in Uganda and from business associations. A detailed explanation of the sampling

design, the primary data collection method, the structure of the measuring instrument, and the strategies pursued in administering the measuring instrument, is presented in Chapter 6.

1.7.4 Data analysis

Data analysis was conducted in phases using a statistical computer package, named Statistica 10 (2010). Firstly, data normality testing and sampling adequacy were performed followed by Exploratory Factor Analysis (EFA) to evaluate the discriminant validity of the constructs in the hypothesised model. The Cronbach-alpha coefficients were performed to assess the reliability (internal consistency) of the research instrument. Thirdly, Pearson product moment correlation coefficients were used to ascertain the strength of the relationship between the variables. Thereafter, multiple linear regression analysis was used to assess the influence of the independent variables on the dependent variable. Thereafter, Multivariate analysis of variance (MANOVA) was performed to indicate the relationships between the demographic data and the independent variables, a post-hoc Scheffé test was performed to determine the specific mean group differences and Cohen D tests were performed to determine which of the relationships were of practical significance. Finally, the descriptive statistics to indicate the mean scores, standard variations, and the demographic profile of respondents was presented. Activities in terms of these phases are presented in greater detail in Chapter 6.

The next section highlights the scope of the study.

1.8 SCOPE OF THE STUDY

This scope of the study aims to outline the boundaries that exist in addressing the research problem. The study focused on business ethics because of degenerating morals and the high prevalence of corruption in business transactions in Uganda which ranks as the most corrupt country in East Africa. The study considered SMEs in the Kampala district, the Capital City of Uganda, with the highest proportion of SME businesses. Owners or managers of SMEs were interviewed, and in exceptional cases, if the owner was not actively involved in the day-to-day management of the business, the manager was interviewed. The study focused on SMEs in Uganda because of the increasingly important role of this sector in contributing to socio-economic development in the country.

The next section presents the structure of the study.

1.9 STRUCTURE OF THE STUDY

The structure of the chapters to follow:

- Chapter Two presents an overview of the Ugandan business environment.
- Chapter Three discusses the nature and importance of SMEs.
- Chapter Four presents an overview on business ethics in SMEs.
- Chapter Five presents the operationalisation of the factors in the hypothesised model.
- Chapter Six describes the research design and methodology that was used to address the primary objective of this study.
- Chapter Seven presents the data analysis and empirical findings interpretation of the results obtained from the empirical research conducted on SME's.
- Chapter Eight provides the summary, conclusions and recommendations based on the main findings of this research.

The following chapter thus provides an overview of the Ugandan business environment.

CHAPTER 2

OVERVIEW OF UGANDAN ENVIRONMENT

2.1 INTRODUCTION

In Chapter One, a brief overview regarding the current research is provided. The chapter displays an introduction to the study, the problem statement, the research objectives and definitions of major concepts. The chapter presents various ethical models from literature supporting the study as well as the hypothesised model for factors influencing SMEs ethical business conduct. Additionally, the chapter provides an outline of the research methodology, scope of the study, and structure of the chapters.

The SME sector contributes to the Ugandan economy in terms of the development of a skilled and semi-skilled labour force which is expected to be a basis for future industrial growth; creation of opportunities to cultivate and nurture entrepreneurial and managerial skills across the country and reduction of the rural–urban drift, contribute to exports, fosters equitable income distribution, promote reinvestment in other goods and services offered locally and stimulate wider prosperity within the country. (Uganda Investment Authority, 2011:35).

As this study will be conducted in Uganda, this chapter will provide an overview of the Ugandan environment. The chapter will give an insight into the population- size and growth in Uganda, the political- and economic business environment, cost of doing business, technological- and competitive environment and infrastructural development. The chapter will discuss the SME sector in Uganda, highlighting the contributions of SMEs to economic growth, the role and key characteristics of Ugandan SMEs along with the various challenges they face. This chapter will explain government policy initiatives, and reforms undertaken to address the challenges facing the SME sector to improve the business environment. In this chapter, a brief description of the Ugandan ethical business climate will be provided as well as a summary.

The next section presents a background to the Ugandan environment.

2.2 BACKGROUND TO THE UGANDAN ENVIRONMENT

Uganda is a developing English speaking country with several ethnic groups. It is a landlocked country located in the Eastern part of the African Continent; bordered by Sudan to the north, Kenya to the east, Tanzania to the south, Rwanda to the southwest and the Democratic Republic of Congo to the west (Nakabugo, Byamugisha & Bithaghalire, 2008:55). Uganda is a member of the East African Community, World Trade Organization, Common Market for Eastern and Southern Africa, and the Africa-Union. As part of the East African Community, Uganda, Kenya, Rwanda, Burundi and Tanzania have created an East African Customs Union designed to promote free trade among the nations (Doing business in Uganda, 2011:34).

2.2.1 Population size and growth

The current population is estimated at about 34.1 million and is expected to rise to 54 million by 2025; Uganda's population growth rate of 3.2% per year is one of the highest in the world. Underlying the high population growth rate is the high fertility rate of 6 children per woman. (Population Secretariat, 2012:1). The report also puts the female population at 17.4 million higher than that of males at 16.7 million (Population Secretariat, 2012:153). According to the Population Reference Bureau (2012:10), Uganda is one of the leading countries with the youngest population in the world after Niger. A total of 78% of Ugandans are below the age of 30 and 52% are 15 years and below and this age group is projected to grow to 7.7million young people in 2015 (Population Secretariat, 2012:3).

While creating potential markets for products, the country's rapid population growth rate is also increasing the strain on social services, underfunded schools and hospitals, infrastructure, forests, water, and land resources (United States Department of State, 2013:1). The high level of HIV/AIDS infection of 7.3% in the country is also taxing social services (Population Secretariat, 2012:153). Uganda is one of the most densely populated countries in Sub-Saharan Africa with 80% of its population living in rural areas. However, due to the population growth, nearly 7.5 million Ugandans are still living below the poverty line (Population Secretariat, 2012:4). The prevalence of poverty remains higher in rural areas than in urban areas.

Uganda has the youngest and fast growing population and thus faces the associated challenge of providing jobs to its young people. Youth unemployment in Uganda is the highest in Sub-Saharan Africa (Population Secretariat, 2012:34). It is estimated at 4.3% higher than the labour force as a whole at 3.8%'s (African Economic Outlook, 2012:227). According to statistics from the Uganda Bureau of Statistics and Uganda Investment Authority, of the 400,000 young Ugandans who enter the labour market each year, only about 113,000 are absorbed into formal employment, leaving the rest to forage for jobs in the informal sector (Ssenkabirwa, 2012:1; Uganda Bureau of Statistics, 2013:19).

The unemployed youth are likely to become a source of instability, where there is unemployment and poverty, insecurity, crime, drug abuse and lawlessness are always around (Owino, 2014:1). Uganda's Private Sector being the largest employer continues to be the sector to improve the quality of employment in Uganda's labour force. Employment by sector revealed that 63% were in the Primary Sector (Agriculture, Fisheries, Forestry etc), 29% in Services, while 8% were involved in Manufacturing. 76% of Uganda's labour force is self-employed while 24% are employed by others. (Private Sector Foundation Uganda, 2012:27).

Countries such as Malawi, Burkina Faso and Sierra Leone have a smaller share of the labour force in private sectors which most likely may not even reach Uganda's share in ten years (Fox & Sohnesen, 2012:12). However, labour productivity has been identified as one of the major challenges to private sector competitiveness. There is a big mismatch between the trends in skills attainment or development and skills actually required (African Economic Outlook, 2012:227). The low-level productivity is further worsened by the high unemployment levels, a poor work ethic/culture, gender relations, inadequate and poor state of economic infrastructure, insufficient vocation-oriented nature of education plus lack of modern and inappropriate technologies. (Private Sector Foundation Uganda, 2012:35).

Uganda's population growth rate is one of the highest in the world and it is putting an increasing strain on social services, infrastructure and land resources. In addition to high growth rates, Uganda's population is also quite young leading to unemployment among the youth that is likely to cause future problems for the country.

2.2.2 Political environment

Uganda has succeeded in achieving a level of political stability since 1986. The President of Uganda has established relative political stability and economic growth, with policies to liberalise the Ugandan economy and encourage foreign businesses to set up operations in Uganda, particularly in value-added manufacturing and agro-processing (United States Department of State, 2013:3). The country is open to foreign investment and provides investment and tax incentives for medium and long-term foreign investors in four priority sectors: information and communication technology, tourism, value-added agriculture, and value-added investments in mineral extraction. (United States Department of State, 2013:4). This ranked Uganda 120th out of 185 countries for ease of doing business (World Bank Doing Business, 2013:3). According to Miller, Holmes, Feulner, Kim, Riley and Roberts (2013:5), Uganda's economy is ranked 79th freest of 177 countries and 8th freest among the 46 sub-Saharan African countries on the index of economic freedom. However, due to perceptions that widespread corruption even at the highest levels of government makes it difficult for foreign businesses to compete, Uganda ranked low at 28th of 46 sub-Saharan African countries on measures of corruption. (United States Department of State, 2013:3).

It seems that the business sector has particularly benefited from the continued political stability in Uganda. The government's continuous implementation of effective programmes for economic liberalisation has resulted in an increasing vibrant private sector. However, the high level of corruption remains a serious hurdle.

2.2.3 Economic environment

Until the recent discovery of oil and gas, Uganda's economy was largely dominated by agriculture (Abuka, Egesa, Atai & Obwona, 2006). Uganda is a low income country that is agriculture based. Agriculture accounts for about 23% of the GDP, 90% of export earnings, and it is estimated that about 80% of all Ugandans are employed in agriculture in some form (Uganda Bureau of Statistics, 2011:37). The sector is also a major source of raw materials to the local industries and contributed about 40% of the total goods export earnings in 2012 (Uganda Bureau of Statistics, 2013:38). However, in pursuit of a more diversified economy several land reforms

have occurred and land for agriculture has significantly reduced causing a decline in agricultural production.

The sector's contribution to the Gross Domestic Product (GDP) has been consistently declining from 23.8% in 2009/10 to 22.5% in 2010/11 (Uganda Bureau of Statistics, 2011:39). This has led the country to gradually move away from a predominantly agricultural economy, towards one placing emphasis on construction, manufacturing and services; including trade, tourism, transport and mining (East African Community Consolidated Regional Report, 2009:29). The growth of the SME sector is an important tool for transition in economic activity, from the agricultural sector to the industrial sector (Hobohm, n.d:2). Globally, SMEs are being commended for their key role in promoting grassroots economic growth and equitable sustainable development (Turyakira, 2012:24).

Uganda's economy experienced robust 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, 2013:2). Oil and gas is one of the youngest sectors, but with lots of potential to stimulate growth in the whole economy. Uganda's oil reserves are estimated at about 6 billion barrels of oil (Private Sector Foundation Uganda, 2012:37). However, as a result of increasing economic instability in world commodity prices and an economic crisis in the Organisation for Economic Co-operation and Development (OECD) region, the economy experienced serious price instability that has had a huge impact on economic activity, especially in the Business Community (Private Sector Foundation Uganda, 2012:24).

Inflation observations for East African Community countries has generally remained moderate despite on-and-off supply shocks coming from seasonal shortfalls in food production and occasional interruptions in energy supply. Inflation was at 3.7% in Rwanda, 5.6% in Tanzania, 6.7% in Uganda, 7.2% in Kenya and 9.0% in Burundi (National Bank of Rwanda, 2014:5). The exchange rate of the Ugandan shilling against the dollar has also been depreciating all through 2014/2015 (Tumusiime-Mutebile, 2015:2). This made imported material inputs and capital equipment used by manufacturers more expensive. Tumusiime-Mutebile (2015:3) further noted that Uganda's exports fell in the fiscal year 2014/15, as a result of lower global commodity prices,

problems in regional markets, and a drop in tourism arrivals. Imports on the other hand partly increased because higher government spending on imports is related to infrastructure development. As a result of these adverse trends in imports and exports the trade deficit was \$582 million.

As can be seen in the preceding discussion, Uganda has fully liberalised its economy, and though inflation is still high, it has slightly declined. The high inflation rate is due to high increases in commodity prices and transport charges which attributed to the high exchange rate and rising fuel prices. The Bank of Uganda has attempted to control inflation and manage the exchange rate by increasing the lending rate to commercial banks which has resulted in business closures. This also results in a severe trade deficit due to reduced export earnings compared to increasing imports.

2.2.4 Cost of doing business

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. According to Doing Business Report 2015, indicators affecting business start-ups and general operations include:

- lack of access to reliable electricity supply at an affordable price which affects business operations as energy costs often comprise a large part of the business expenses incurred by SMEs;
- the procedures for obtaining construction permits is excessively costly in time and money and many builders opt out;
- the procedure required to access credit, the high cost of processing small loans and long processing time affects businesses' finances;
- the tax regulation process involving tax audits, tax refunds, tax appeals and tax exemptions which impose an administrative burden on business;
- trading across borders, excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs for businesses and delays for exporters and importers are stifling trade potential; and

- the procedures for resolving commercial disputes in courts of law are extremely costly in terms of time and money and affect business operations.

Uganda's high business costs are further worsened by many procedures and time taken to register and start a business (Private Sector Foundation Uganda, 2012:29). On average it takes 15 procedures and 33 days to start a business in Uganda (United States Department of State, 2013:10). These render local businesses less competitive in the region and in the global market.

It appears that despite Uganda's incredible performance in ensuring a stable political and economic environment, it still has the highest cost of doing business within the East African Community region. Businesses suffer from high levels of regulatory and institutional barriers with regard to licensing and registration requirements for startup businesses. These conditions force many SMEs to operate without being registered.

2.2.5 Technological environment

Technology plays a key role in improving efficiency and effectiveness of doing business by the SMEs (Uganda Investment Authority, 2011:17). Technology is very important in today's technological driven environment; technology can be used in production to reduce costs thus adding value, or in research and development to develop new products, or via the use of the internet so that customers have access to online facilities (Wamono, Kikabi & Mugisha, 2012:20). Similarly, the Ugandan government recognises technology development and transfer as significant areas for economic development. According to the National Report (2012:9), Uganda has strengthened research and training institutions to generate technologies and approaches in support of sustainable development. These include the Uganda National Council for Science and Technology (UNCST), the National Agriculture Research Organization (NARO), National Forestry Research Institute (NAFORI), National Fisheries Research Institute (NAFRI), and Makerere University, among others.

However, SMEs access and use of appropriate technology are extremely limited, due to lack of information even about existing technologies and the inadequate availability of suitable technologies including appropriate technologies suitable for local environment as well as the

diverse needs of SMEs (Uganda Investment Authority, 2011:40). Similarly, Kyakulumbye, Olobo and Kisenyi (2013:25) noted the lack of basic ICT skills among SMEs is a hindrance to adopting more sophisticated technologies. A survey by the Uganda Bureau of Statistics (2011:15) revealed that 95 percent of businesses do not own any computers while only 3 percent of the businesses used internet for business operations. Therefore, the desired development of SMEs is hampered by the very high technology and skills needed to do business (Private Sector Foundation Uganda, 2012:32). According to Wamono *et al.* (2012:61), the lack of finance of SMEs in Uganda impacts on their ability to advance their technology and employ skilled manpower.

It appears that although the Ugandan government recognises technology development as a significant area for economic development, difficulties in accessing appropriate technologies is still eminent among SMEs. The use of obsolete technology often results in low quality and quantity products that do not compete favorably in the market.

2.2.6 Infrastructure

Power supply remains one of the largest obstacles to investment (Private Sector Foundation Uganda, 2012:21). Access to electricity countrywide is a meager 12%, and only 5% of the rural population has access to electricity, although government is working to expand its power supply by constructing a number of micro-hydro projects and is promoting the development of sources of renewable energy (United States Department of State, 2013:1). Mauritius and South Africa have invested substantially in infrastructure and ensured well-functioning institutions, which factors have boosted investments in the respective economies. (Schwab, 2013:42). High transportation costs are another constraint on Uganda's economy. Uganda has dilapidated road and bridge infrastructure, its railway system is in disrepair, and air freight charges are among the highest in the region (United States Department of State, 2013:1). Also, the problem of being landlocked has made Uganda rely on Kenya's Mombasa Port, where constant congestion increasingly results in costly delays (United States Department of State, 2013:2).

It seems that Uganda's physical and social infrastructures are still underdeveloped. The lack of reliable electricity supply at an affordable price combined with dilapidated roads has been a major

constraint. These represent a constraint on the scale of operation since production as well as distribution depends vitally on the availability as well as reliability of physical infrastructure.

2.2.7 Competition

According to the Schwab (2013:15), East African Economies are still ranking low and performing poorly globally in terms of competitiveness. Out of the 148 countries assessed in 2013, Uganda ranked 129, Kenya 96, Tanzania 125, Rwanda 66 and Burundi 146. Uganda's overall competitiveness continues to be held back by an inefficient business environment and weak public administration (Miller *et al.*, 2013:442). To compete favorably on the global market, the Ugandan economy must combine its robust macroeconomic environment with economic and institutional efficiency (Private Sector Foundation Uganda, 2012:31). Competitiveness was measured based on indicators such as (Schwab, 2013:9):

- basic requirements (institutional performance, infrastructure, macroeconomic stability, health and primary education);
- efficiency enhancers (higher education and training, goods market efficiency, labour market efficiency, financial market development, technology readiness and market size), and
- innovation and sophistication (business sophistication and innovation).

Uganda's poor rankings are reflected in poor performing institutions, wasteful spending by government and the poor quality of education and health (Private Sector Foundation Uganda, 2012:31). Whereas the economy has fairly maintained a stable macroeconomic performance, very little has been done to ensure that it combines its factor endowments, economic efficiency and comparative advantage to achieve high levels of competitiveness (Private Sector Foundation Uganda, 2012:32).

It is thus clear that to compete favourably in the global market, the government of Uganda must hence give priority to institutional efficiency by investing heavily in infrastructure, education and health and ensure proper functioning of those institutions.

The next section presents the SME sector in Uganda.

2.3 THE SME SECTOR IN UGANDA

In Uganda, SMEs generate the second most employment and contribute to poverty alleviation, after the agricultural sector. Despite their enormous size and contribution to the economy, their performance and growth has been poor, a situation that worsens the overall performance of the Ugandan manufacturing sector and the economy at large (Ishengoma & Kappel, 2008:9).

2.3.1 Entrepreneurial activities in Uganda

According to Xavier, Kelley, Kew, Herrington and Vorderwülbecke (2013:24), more than one in three Ugandan adults are engaged in some form of entrepreneurial activity, resulting in Uganda being the most entrepreneurial country in the world. However, the Global Entrepreneurial Monitor study 2014 also showed that the rate of business failure in Uganda is the second highest in the world; for every business established another is closing (to be more precise, out of 28% SME start-ups, about 21% close down). Table 2.1 depicts SME distribution amongst the various regions in Uganda.

Table 2.1: SME distribution amongst the various regions in Uganda

Region	SME distribution percentage
Central	45
Southern	21
Western	14
Eastern	13
Northern	7

Source: Private Sector Foundation Uganda (2012:26)

Most SMEs are located in the Central Region. On average, 51.2% of SMEs are male owned with women businesses accounting for 7.6%, while 39.2% of SMEs have more than one owner (Uganda Investment Authority, 2011:60). Most SMEs in Uganda are sole proprietorships, with only a few partnerships or private limited companies (Uganda Bureau of Statistics, 2011:35). The key entrepreneurial activities within the industry sectors are discussed next.

2.3.2 Sectorial SME activities in Uganda

The key entrepreneurial activities include; agriculture, trade, construction, manufacturing, services such as hospitality and entertainment industry, finance, health, education, professional services and Information Communication Technology. According to the distribution of SMEs by industry, of most businesses 61% are in the trade sector followed by accommodation and food services 14% and recreation and personal services 9%. SMEs in the agriculture sector (including fishing and forestry) account for only 2%. SMEs in the information and community services, finance and insurance, transport and storage, mining and quarrying, construction and utilities account for just 2% (Uganda Bureau of Statistics, 2011:26). Though the agricultural sector is a primary sector of Uganda, it is not well-represented because the majority of enterprises are found to be operating on a micro scale (Wamono *et al.*, 2012:49). The gender of owners of SMEs indicate that males dominate nearly all the industry sectors except for education, health and social work, accommodation and food services sector where females dominate (Uganda Bureau of Statistics, 2011:27).

According to the East African Community Consolidated Regional Report (2009:1) and Uganda Investment Authority (2011:34), the activities of the SMEs sector are mostly characterised by:

- flexibility, by allowing people to enter and exit economic activities in response to market demand;
- self-employment, with a high proportion of unpaid family employees and apprentices;
- weak distinction between ownership and management roles and multi-tasking is quite common;
- informal employee-employer relationships, with no prescribed duties and responsibilities;
- reliance on indigenous resources;
- small scale operations with little capital and equipment in shared premises,
- simple and sometimes precarious facilities;
- high labour intensity;
- limited adaptation of modern technology;
- low skills, with acquisition of skills mostly outside the formal schooling system;
- ability to improvise products from scrap materials;
- willingness to operate businesses at times and locations convenient to customers, and

- tendency to locate smaller markets, out of the reach of the larger enterprises.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industry requirements. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only co-exist, but also function in a symbiotic relationship. (Uganda Investment Authority, 2011:35).

2.3.3 Contribution of SMEs to economic growth

SMEs comprise of more than 90% of businesses worldwide and contribute significantly towards the Gross Domestic Product and employment generation (Inyang, 2013:125). As in many other developed and developing countries, Uganda has continued to recognise SMEs as a major economic entity, and an opportunity for accelerating the country's sustainable economic growth. SMEs are still the backbone of the economy in Uganda, providing a prime source of employment and playing a crucial role in income generation and poverty eradication. (Uganda Investment Authority, 2011:21). The Ugandan private sector is still in its infancy, covers a broad range of areas, and is largely dominated by SMEs. SMEs in urban and rural areas account for 90% of the private sector. They contribute about 75% to the Gross Domestic Product; over 80% of manufacturers' product outputs, generate over 60% of the country's revenue; and employ approximately 2.5 million people (Ministry of Finance, Planning and Economic Development, 2011:4). The Uganda Bureau of Statistics (2011:159) report on the census of business establishments reveals that 30% of the 458,106 formally registered businesses are SMEs.

According to the Uganda Small Scale Industries Association, the SME sector offers a range of investment possibilities, covering all sectors from resource-based industries to manufacturing and services (Uganda Investment Authority, 2011:21). SMEs encourage the use of local resources that would have otherwise remained idle; this boosts savings and investments. Their participation in socioeconomic development enhances security through providing survival opportunities for people who would otherwise have been idle and a security risk. (Uganda Investment Authority, 2011:35). However, SMEs in Uganda face numerous challenges.

2.3.4 Challenges facing SMEs in Uganda

Although SMEs significant contributions to economic development are generally acknowledged, SMEs have remained informal due to several barriers that hinder their performance and survival rate both in Uganda and in other parts of the world. For example, in South Africa, on average, 50% of SMEs that are started eventually fail, while in Kenya, past statistics indicate that three out of five SMEs fail within the first few months of operation (Bowen, Morara & Mureithi, 2009:16). In Uganda, one-third of the SMEs cannot survive more than a year (Tushabomwe-Kazoora, 2006:2) and this is still the case.

According to Turyakira (2012:30), the problems affecting SMEs in terms of marketing, operations, finance, personnel or distribution, are related to managerial incapability. This is confirmed by Petrus (2009:24) who classified the main causes of SME problems as: marketing, general management and financial. Lack of experience in any of these identified categories can lead to business failure. However, by the sheer limitation of their size, resources and structures, SMEs are normally vulnerable, especially when it comes to accessing credit that would otherwise assist them to support their business growth (Mbabazi, 2012:3).

The Ugandan government through the Ministry of Tourism, Trade and Industry has taken a proactive approach to address the problem of high SME failure. Many initiatives were introduced including the establishment of a private sector-led SME Development Steering Group to oversee proposed SME interventions (Ministry of Finance, Planning and Economic Development, 2011:6, Private Sector Foundation Uganda, 2012:2). SMEs are managed with the belief that what the seller gains the buyer loses, which is typical of their unethical business culture (Ntayi *et al.*, 2012:46). This state of affairs is linked to increasing stakeholder expectations, individualism, economic globalisation, inefficiency of the judicial system, lack of good role models, unethical business motives, inadequate reward systems and the difficulties in translating the business strategy into implementation (Yves, 2005:270).

Therefore, to harness contributions made by these SME's in Uganda, there is a need to build capacities, confidence, transparency and responsiveness to the policy and market system, making it easier, cheaper, faster and more user-friendly for new businesses to register, make profits and

continue operating, support individual businesses become more efficient, through the provision of business development schemes at affordable costs, and provide well researched market information among others. (Private Sector Foundation Uganda, 2012:32).

It appears that the SME sector in Uganda is increasingly important in contributing to socio-economic development in the country. Most SMEs are male owned, located in the central region with the trade sector dominating. SMEs are owner-managed which allows flexible decision making. Although Uganda is among the most entrepreneurial countries in the world, the rate of business failure in Uganda is the second highest in the world. SMEs encounter challenges in several business areas; however, the majority of the challenges are related to managerial incapability.

In the following section government support initiatives for SMEs growth are presented.

2.4 GOVERNMENT SUPPORT FOR UGANDAN SMEs

The government of Uganda in collaboration with other stakeholders has introduced various policy initiatives and several reforms to address the challenges facing the SME sector and improve on the business environment in the country. Some of these reforms are legislative, encompassing reviewing and updating existing legislation that affect business startup and operations. Other reforms are regulatory and are aimed at formulating laws and regulations which are dynamic and responsive to SMEs needs. (Uganda Investment Authority, 2011:22). Government has also undertaken various interventions to enhance the general business environment through developing roads and the prioritising of energy infrastructure (Private Sector Foundation Uganda, 2012:8).

The Government continues to provide support to the business community by improving trade facilitation through amongst others; the Private Sector Foundation of Uganda, Uganda Export Promotion Board, Uganda National Bureau of Standards, Uganda Revenue Authority, Uganda Manufacturers Association, Capital Markets Authority, National Agricultural Advisory services, all working towards solving the problem of high SME failure (Private Sector Foundation Uganda, 2012:8). Table 2.2 depicts additional SME support institutions and their roles in creating an enabling environment for SME establishment, growth and business sustainability.

Table 2.2: Role and mandate of SME support institutions

Support institutions	Mandate or roles
Ministry of Tourism, Trade and Industry	<ul style="list-style-type: none"> • Policy development with a major focus on industrialisation and agro-processing sectors • Policy formulation • Capacity building and training • Skill gaps linkages • Technology transfer • Standards development
Uganda Investment Authority	<ul style="list-style-type: none"> • Promotion, facilitation and advocating for investment • Financial support assistance • Trade facilitation • Asset acquisition assistance • Policy recommendation • Registry and advocacy of SMEs needs • Supporting women in business • Linkage programs • Entrepreneurship training
Uganda Development Bank Limited	<ul style="list-style-type: none"> • Provision of financial services to productive organisations within and outside Uganda • Provide product loans, trade finance operations and advisory services on investments and equity
Makerere University: School of Business-Entrepreneurship Center	<ul style="list-style-type: none"> • Facilitate professional development, promote entrepreneurship and management research. • Knowledge and skills training to improve business productivity and competitiveness through offering of business development skills and business information
Makerere University: Faculty of Technology	<ul style="list-style-type: none"> • Enhance SMEs competitiveness regionally and locally through research and innovation • Formation of innovative clusters
Management Training and Advisory Center	<ul style="list-style-type: none"> • Promote enterprise development • Promote sound management practices • Advice, training and entrepreneurship development services
Uganda Industrial Research Institute	<ul style="list-style-type: none"> • SMEs support through -training on skills development, entrepreneurship start up, commercialisation and general business management • Technology advisory • Business incubations • Research • Interinstitutional linkages
Private sector Foundation Uganda	<ul style="list-style-type: none"> • Improving business performance • Support business competitiveness • Facilitate SMEs growth • Capacity building policy advocacy • Member capacity development • Facilitating competitiveness policy and advocacy

Support institutions	Mandate or roles
Enterprise Uganda	<ul style="list-style-type: none"> • Provision of Business Development Services e.g. entrepreneurship skills • Policy Development • Financial assistance
United Nations Industrial Development Organisation (UNIDO) Office in Uganda	<ul style="list-style-type: none"> • Poverty eradication through productivity • Trade capacity development • Support of energy and environment programmes • Policy advocacy and SME financing • Production and efficiency support to SMEs • Intra and international trade development • SMEs standardisation- ISO achievement
Uganda Small Scale Industries (SSIs) Association	<ul style="list-style-type: none"> • Mobilisation of small scale industries(SSIs) in the country • Bridge the gap between government and SSIs • Lobby for training opportunities relevant to the SSIs • Provide business, technical information services and linkages • Influence government policy on the development of SSIs • Promote marketing of SSI products
Ministry of Finance and Investment	<ul style="list-style-type: none"> • Identify sectoral expenditure policies and programmes within national priorities • Formulation of medium to long-term plans for private sector development strategy and medium term competitiveness strategy • Investment promotion • Supervision of Uganda Investment Authority • Responsible for private sector issues
Uganda National Chamber of Commerce and Industry	<ul style="list-style-type: none"> • Advocate for the interest of Ugandan Chamber of Commerce members • Provision of business support services • Encourage partnerships for skills and technology transfer

Adapted from: Uganda Investment Authority (2011:50-58)

As can be seen in Table 2.2, the government of Uganda, through the various institutions, has undertaken several initiatives aimed at improving and promoting the business environment to create incentives for informal SMEs to graduate to higher levels of formality. The institutions include central and local government agencies, private sector agencies and personalities in academia associated with the SME sector. All the above support institutions still exist and have continued to support the development and growth of the SME sector in Uganda. Despite efforts

by government to provide support to SMEs towards sustainability through different government programmes, there has been a marginal improvement in performance. Development is still constrained by corruption and lack of political transparency. (Ntayi *et al.*, 2012:54).

The Ugandan government has formulated and incorporated measures aimed at SME development into the national economic policy. However, many of these reforms and policies are found to be ineffective as they focus on different incentives such as investment- and tax incentives that do not meet businesses expectations.

In the next section, Uganda's ethical business climate is discussed.

2.5 ETHICAL BUSINESS CLIMATE IN UGANDA

Most businesses today are thriving under the confidence and the acceptance of the public and this is achieved through adaption of proper ethics in the business (Wambui, 2010:1). However, according to the United States Department of State (2013:7), corruption is a serious problem in Uganda. Uganda's Inspectorate of Government regards corruption in Uganda as rampant and noted that it greatly distorted the Ugandan economy. Private sector development is hampered by severe corruption, which leads to significant financial losses through mismanaged procurements and outright embezzlement (Business Anti-Corruption Portal, 2013:2). The ambiguous regulatory environment and lack of policies to facilitate trade and investment hinder the emergence of a vibrant private sector. (Miller *et al.*, 2013:442).

Based on the Global Competitive Surveys conducted by the World Economic Forum which ranks participating countries according to their performance in business climate, in overall statistics, Uganda is ranked 129 out of 148 countries in 2013 to 2014 compared to 123 out of 148 countries in 2012 to 2013. The deteriorating position of the Ugandan business climate is related to limited improvement of factors constraining enterprises' performance, with corruption, limited sources of finance, poor utility services and high taxes cited as being critical. According to Transparency International's corruption perceptions index, Uganda ranks 130 out of 174 countries surveyed in 2012, and in the Transparency International's 2012 East African Bribery Index survey Uganda is ranked as the most corrupt country in East Africa. (United States Department of State, 2013:7).

The Ugandan Revenue Authority is ranked as the fifth most corrupt institution in East Africa, and the third most corrupt institution in Uganda (United States Department of State, 2012:7).

Traces of opportunistic tendencies are always reflected in business transactions and this explains the unethical conduct of businesses in Uganda. A high level of unethical conduct is reflected in activities like exaggeration of supplies contrary to the terms of the contract, exaggeration of offers in order to get the firm to make a purchase, lying about products and delivery time, lying in order to protect his/her interests, alteration of facts and failure to do what they promise, cheating on weighing of products, non-payment or very late payment of suppliers, giving traders deals to supply based on the kickbacks they offer (Ntayi, 2012:132). The sale of counterfeit products smuggled into Uganda is also common and public awareness of counterfeits is not strong (Doing Business in Uganda, 2011:6). Often unethical behaviour occurs because of pressure on meager resources, limited competencies of business partners, demands of the supplying organizations, excessive pressure to deliver results and poverty (Ntayi *et al.*, 2012:54). The high level of unethical behaviour has led to a loss of trust and business failures (Lussier, 2011:67).

Schwab (2013:405) states that the ethical behaviour of Ugandan businesses puts them in a significant competitive disadvantage. Corruption is the most problematic issue if wishing to do business in Uganda. The occurrence of irregular payments and bribes is common and there is favouritism by government officials in rewarding contracts to well-connected companies and individuals. The regulations are not always transparent or consistent and are subject to corruption. The tendering processes, in particular for defense items, are not being carried out in a transparent manner, and there is possible collusion between competing companies and government officials. (United States Department of State, 2011:6).

The several business approval stages in the official procedures have resulted in higher costs and time-consuming procedures for businesses, resulting in unethical behaviour at all levels. Wagona (2007:131), reports that, government bureaucracy in providing certain services, like issuance of licenses and permits, involve several approval stages that provide fertile grounds for extraction and tax evasion. The Public Procurement and Disposal of Public Assets Authority (PPDA) have been playing an active role in assuring compliance with procurement guidelines. However,

corruption and lack of transparency still prevails in public procurement processes and companies found guilty of major violations of procurement regulations are not blacklisted and can continue to participate in future procurement bids (Business Anti-Corruption Portal, 2013:2).

Procurement malpractice has been taken to a highly sophisticated level. Public officers have been found to abuse the computerised system of payments to defraud government; therefore, causing loss of large amounts of funds meant for the delivery of services and infrastructure. It is further stated that, 9.4% of total contract values went to corrupt payments in procurements both at the local and central government levels (Inspectorate of Government, 2012:24). Ugandan courts generally uphold the sanctity of contracts, though judicial corruption and procedural delays caused by well-connected defendants are a serious challenge. Many times government agencies are reluctant to honor judicial remedies issued by the courts (United States Department of State, 2013:4) and take advantage of the legal system's inherent delays and incoherence to manipulate the judicial process (United States Department of State, 2013:10). Besides, SMEs lack an effective and efficient dispute solving mechanism since they cannot afford to engage in the court process. (Uganda Investment Authority, 2011:18). Business inspections to ensure public environmental standards are not always carried out in a uniform and even-handed manner, since the officials sometimes extract bribes from companies in exchange for favourable treatment or expedited processing (Business Anti-Corruption Portal, 2013:10).

According to Population Secretariat (2012:144), Uganda has developed the necessary institutional and strategic frameworks for public participation, democratisation, accountability and transparency and has put in place to include the:

- Anti -corruption division of the High Court which takes drastic actions against corruption by strengthening the adjudicatory mechanism for fighting corruption;
- Inspector General of Government who is charged with the responsibility of eliminating corruption and abuse of authority and of public office;
- Auditor General's Office which provides assurance that government activities are carried out and accounted for, consistent with parliament's intentions.
- Public Procurement and Disposal of Public Assets Authority which ensures compliance with procurement guidelines;

- Department of Ethics and Integrity which is mandated with main streaming ethics and integrity in all sectors and all institutions in Uganda;
- National Environmental Management Authority with the purpose to ensure that all business enterprises comply with environmental minimum standards;
- Federation of Ugandan Employers with the aim to safe guard employers' interests, and
- 2006 Copyrights and the 2010 Trademarks Act with the purpose of protecting patent rights.

While these institutional and strategic frameworks are in place and commendable, they hardly serve the cause (Population Secretariat, 2012:144). In spite of these frameworks for ethical behaviour, government still faces the challenge of degenerating morals and the high prevalence of corruption in the country (National Integrity Survey, 2008:2).

Anti-corruption legislation, regulations, and ethics policies are not adhered to, enforced and do not meet international standards as established in The United Nations Convention Against Corruption and the African Union Convention on Preventing and Combating Corruption (Doing Business in Uganda, 2011:57, United States Department of State, 2011:6). According to the Anti-Corruption Act, persons found guilty of corruption-related offences may face up to 10 years in prison and various levels of fines are provided for different offenses in the Act to be levied in addition to or instead of imprisonment (Inspectorate of Government, 2012:28). The Penal Code Act (Chapter 120, Laws of Uganda) criminalise the offering or receipt of bribes and the Uganda Law Commission laws regarding counterfeit goods seek to impose criminal penalties of fines and up to two years in jail for patent infringement and for selling counterfeit trademarked or copyright goods. (United States Department of State, 2011:4).

The National Environmental Management Authority (NEMA) was instituted to ensure that all business enterprises comply with environmental minimum standards (National Report, 2012:10). However, companies have followed the set NEMA guidelines with hesitance and partial resistance. Prior to starting a business venture, companies need to undertake an Environmental Impact Assessment and must have NEMA's consent to do it. However politics, company practices and decisions taken without transparency, stakeholder participation and full accountability have made it challenging for NEMA to enforce its mandate, which in turn has

greatly affected the sustainability of business operations from an environmental perspective. (Katamba, Gisch-Boie & Slowinski, 2008:26).

The Directorate of Ethics and Integrity (DEI) was established in 2003 and mandated with mainstreaming ethics and integrity in all sectors and all institutions in Uganda. However, the absence of a nationally agreed set of ethics and integrity values in the country have complicated the work of promoting ethics and integrity especially in the public service. (National Integrity Survey, 2008:84).

The SME sector in Uganda is in a very unfortunate position regarding unethical business practices. Corruption, fraud, lack of transparency and other unethical practices are still reflected in business transactions. Despite government strategic frameworks to guide ethical behaviour there is still a challenge of degenerating morals and a high prevalence of corruption in the country. This can be attributed to the nonexistence of a nationwide agreed set of ethics and integrity values.

2.6 SUMMARY

This chapter discussed the background of the Ugandan environment, the SME sector and the ethical business climate. Uganda, a low income country, is one of the most densely populated countries in Sub-Saharan Africa. The country has fully liberalised its economy and has maintained a stable political environment. However, in pursuit of a more diversified economy the country is gradually moving away from a predominately agriculture- to an industrial economy. To support this transition in economic activity, government has introduced several policies and reforms to support the private sector which is dominated by SMEs. Despite government's efforts, SMEs' performance is still hampered by corruption and lack of political transparency. The lack of a nationally agreed set of ethics and integrity values in the country has complicated the work of promoting ethics and integrity and has put the Ugandan economy at a significant competitive disadvantage.

In the next chapter, the nature and importance of SMEs will be presented. The characteristics of SMEs, their importance to the economy and the main global challenges they face will be

discussed. The chapter will conclude by discussing the various measures formulated by governments globally to support SME development.

CHAPTER 3

THE NATURE AND IMPORTANCE OF SMEs

3.1 INTRODUCTION

In Chapter Two, an overview of the Ugandan environment is provided. The chapter provided insight into the political, economic, technological, competitive and infrastructural Ugandan environment. The chapter discussed the SME sector in Uganda highlighting its contributions to economic growth, the role and key characteristics of Ugandan SMEs, the challenges they face along with the various policy initiatives and reforms undertaken by government to address these challenges. In this chapter, a brief description of the Ugandan ethical business climate was provided.

SMEs have been acknowledged by governments as growth generators for economies worldwide. SMEs are responsible for driving innovation and competition in many economic sectors; create new services and products, create employment and effect the functioning of transitional societies (Worldwide Scenario, 2012:1). SMEs not only contribute significantly to the economy, but can also serve as an impetus for economic diversification through their development of new and unsaturated sectors of the economy (Gatt, 2012:1). In addition, innovative and technology-based SMEs can encourage the process of both inter and intra-regional decentralisation; and they may well become a countervailing force against the economic power of larger enterprises (Abor & Quartey, 2010:219). The development of the SME sector is very important as to create political and social environmental conditions necessary to allow desirable changes to occur in other sectors (Worldwide Scenario, 2012:1). Despite their importance, SMEs continue to undergo constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale and these challenges are in several business areas (Nyamboga, Nyamweya, Abdi, Njeru & George, 2014:183).

In order to appreciate the significant economic contributions of SMEs to a society and world economies, this chapter will contextualise SMEs. Reference will be made to the unique characteristics of SMEs and their importance to the economy. The chapter will also examine the main challenges faced by SMEs globally.

3.2 CONCEPTUALISING SMEs

The concept of small businesses is diverse and depends on the level of economic development in each country (Mago & Toro, 2013:21). Even as SMEs operate in almost all industries, they differ greatly in their nature and importance, size, sector, management structure, as well as internal histories, dynamics and national contexts (Viver, 2013:68). The issue of what constitutes a small or medium enterprise is a major concern in the literature (Abor & Quartey, 2010:220). The economic, cultural and social disparities among countries are reflected in both the definition and categorisation of SMEs.

SMEs may range from fast-growing businesses to private family business that have not changed much for decades or have stagnated. They may also range from independent businesses to those that are inextricably parts of large companies. (Tambunan, 2009:4). SMEs also differ in their levels of capitalisation, sales or productivity and employment. According to Mahembe (2011:65), it is therefore not surprising that there is no uniformly accepted definition of SMEs. No single definition can capture all the dimensions of a small or medium-sized business, or reflect the differences between businesses, sectors, or countries of different sizes and at different levels of development (Accounting Standards for SMEs, 2006:44). Various definitions of SMEs exist in business, commerce, economics and development literature (Mutula & Van Brakel, 2006:402). The term SME covers a wide range of definitions varying from country to country, depending on one or more of the thresholds put down in respect of investment, capital assets, employment, turnover, legal status and method of production (Sarpong, 2012:24).

In the United Kingdom in 1971, the Bolton committee of inquiry defined SMEs in terms of statistical and economic approaches (Bolton, 1971:1). The statistical definition reflects three main issues:

- quantifying the size of the small business sector and its contribution to GDP, employment and exports;
- comparing the extent to which the small business sector's economic contribution has changed over time, and
- in a cross-country comparison of the small business' economic contribution.

On the other hand, according to the economic definition, a small business meets the following three criteria:

- It has a relatively small share of the market place;
- It is managed by owners, or part owners, in a personalised way and not by means of a formalised management structure, and
- It is independent in that it is not part of a larger business.

The Bolton Committee realised the weakness of its qualitative definition as not being easy to operationalise since there was no comprehensive data on the business population in terms of ownership, management, organisational structure and market share in 1971 (Bolton, 1971:3). The Bolton Committee, therefore, recommended a diversity of measures to reflect sectorial heterogeneity, by adopting a non-comparable quantitative definition for the nine sectors of economic activity as reflected in the Table 3.1.

Table 3.1: The Bolton Committee definitions of SMEs

Sector	Definition
Manufacturing	≤ 200 employees
Construction	≤ 25 employees
Mining & Quarrying	≤ 25 employees
Road Transport	≤ 5 vehicles
Retailing	≤ £ 50,000.00 turnover
Miscellaneous/ services	≤ £ 50,000.00 turnover
Motor Trades	≤ £ 100,000.00 turnover
Whole Sale Traders	≤ £ 200,000.00 turnover
Catering	All excluding multiples and brewery managed houses

Source: Bolton (1971:3)

As can be seen in Table 3.1 there was already in 1971 no universal agreement over what forms an SME, definitions vary across industries; while businesses in manufacturing, construction and mining were defined in terms of number of employees, those in the retail, miscellaneous or

services, wholesale and motor trades were defined in terms of monetary turnover. Businesses in the road transport industry are classified in terms of number of vehicles. Lukacs (2005:4) contends that the Bolton Committee definition remains the best description of SMEs. It recognised that size is relevant to sector i.e. a business of a given size could be small in relation to one sector where the market is large; whereas a business of similar proportions could be considered large in another sector with generally smaller businesses within it. Similarly, it recognised that it may be more appropriate to define size by the number of employees in some sectors, but more appropriate to use turnover in others. However, Afrifa (2013:105) states that, a major criticism of the Bolton definitions relate to the use of inconsistent defining characteristics based on either the number of employees, turnover or managerial approach. According to Greene and Mole in Carter *et al.* (2006:9), measures such as turnover and employment are eroded over time by the influence of inflation and productivity, respectively. An additional shortcoming in the Bolton Committee definition is the treatment of the SME sector as being homogeneous; this makes sector comparisons difficult (Blackburn, 2012:17). As Storey (1994:12) points out, a definition like this makes international comparison difficult if a researcher in different countries do not adopt the same definition. The nonexistence of a uniform definition makes it difficult to draw differences or similarities between countries.

A more uniform definition has been adopted by the European Union to account for the impact of inflation and productivity changes. The European Union considers three types of smaller businesses: micro, small and medium-sized. Each of these has a differing employee, turnover and asset thresholds. (Greene & Mole in Carter *et al.*, 2006:9). As this study is only on SMEs, only the criteria applicable to them will be provided. Evidence from literature shows that in defining small scale business, most references are usually made to some quantifiable measures such as: number of people employed by the enterprises, investment outlay, the annual turnover (sales) and the asset value of the business or a combination of these criteria (Olabisi, Olagbemi & Atere, 2011:5). Based on the aforementioned quantifiable measures, different countries have defined SMEs in different ways. Table 3.2 summarises the main quantitative indicators use to define SMEs in different countries.

Table 3.2: Countries definitions of SMEs

Countries	Definition	Source
European countries	<ul style="list-style-type: none"> • Small business: <50 employees with annual turnover ≤ 10 million Euro's • Medium size business: ≤ employees with annual turnover ≤ 50 million Euro's 	European Commission (2005:5); Mahembe (2011:23)
United States of America	<ul style="list-style-type: none"> • SMEs: < 500 employees with annual turnover ≤ \$ 21 million 	Basefsky & Sweeney (2005:1); United States International Trade Commission (2010:2)
Canada	<ul style="list-style-type: none"> • Small business: < 100 employees • Medium-size business: < 500 employees 	Industry Canada (2010:5); Worldwide Scenario (2012:2-3)
Russia Federation	<ul style="list-style-type: none"> • Small business: 15-100 employees with annual turnover RUB 60-400 million • Medium-size business: 101-205 employees with annual turnover RUB 400 million - 1 Billion 	Mahembe (2011:23)
Latin American and the Caribbean (LAC)	<ul style="list-style-type: none"> • SMEs: < 100 employees • Exception in manufacturing sectors in Brazil (maximum of 500) and Mexico (maximum of 250) employees 	Enterprise Surveys (2013:1); Ibararán, Maffioli & Stucchi (2009:4)
Israel	<ul style="list-style-type: none"> • Small business: 10- 49 employees • Medium-size business: 50-250 employees 	Worldwide Scenario (2012:2-3)
Trinidad and Tobago	<ul style="list-style-type: none"> • Small business: 6-25 employees with \$250,00 - 1.5 million assets and \$5 million sales • Medium-size business: 26-50 employees with \$1.5 - 5 million assets and \$10 million sales 	Ministry of Enterprise Development and Foreign Affairs (2005:35)
Malaysia	<ul style="list-style-type: none"> • Small business: 5-75 employees with RM 300,000 - 15 million annual sales • Medium-size business: 75-200 employees with RM 15- 50 million annual sales 	National SME Development Council (2013:3)
India	<ul style="list-style-type: none"> • Small business: investment in plant and machinery Rs. 25 lakh - 5 crore • Medium-size business: investment in plant and machinery Rs.5 -10 crore 	Micro, Small and Medium Enterprises Development Act (2006:1); Worldwide Scenario (2012:2-3)
Japan	<ul style="list-style-type: none"> • Small business: 50-100 employees with 50-100 million Yen capital • Medium-size business: 100-300 employees with 100- 300 million Yen capital 	Whittaker (1997:12)
Nepal	<ul style="list-style-type: none"> • Small business: 10-35 employees with capital of 30 million and productive assets of 20 million rupees • Medium-size business: 36-99 employees with capital between 30-100 million and productive assets of 20-40 million rupees 	Lal Rajbanshi (2005:7)
China	<ul style="list-style-type: none"> • Small business: < 300 employees, total assets not exceeding <¥ 40million and total revenue not exceeding <¥ 30million • Medium-size business 300-2000 employees, total assets of ¥ 40million- 400million and total revenue ¥ 30million-300million 	Liu (2008:39); Tambunan (2009:4)
Vietnam	<ul style="list-style-type: none"> • Small business: 10-200 employees with VND 20 billion capital • Medium-size business: 200-300 employees with VND 20-100 billion capital 	Tran, Le & Nguyen (2008:327)

Countries	Definition	Source
Saudi Arabia	<ul style="list-style-type: none"> • Small business: < 59 employees with < 5 million Saudi Riyals (1.3 million \$) of capital • Medium-size business: 60-99 employees with between 5-20 million Saudi Riyals (5.3 million \$) of capital 	Ashoor (2013:18)
Egypt	<ul style="list-style-type: none"> • Small business: 5-49 employees with 25,000 – 5,000,000 L.E in capital and 100,000 – 10,000,000 LE in annual sales • Medium-size business: 50-100 employees with 5,000,000 – 10,000,000 L.E in capital and 10,000,000 – 20,000,000 in annual sales 	Ministry of Finance (2005:57)
South Africa	<ul style="list-style-type: none"> • Small business: 50-99 employees with R 2- 4.5 million annual turnover • Medium-size business: 100-200 employees with R 4.5- 50 million annual turnover 	Mahembe (2011:23)
Botswana	<ul style="list-style-type: none"> • Small business: 6-25 employees with annual turnover Pula 60,000 - 1.5 Million • Medium-size business: 26-100 employees with annual turnover Pula 1.5 Million - 8 Million 	Hinton, Mokobi, & Sprokel (2006:3)
Ghana	<ul style="list-style-type: none"> • Small business: 4-29 employees with < \$ 100K million annual turnover • Medium-size business: 30-99 employees with < \$ 1 million annual turnover 	Mahembe (2011:23)
Nigeria	<ul style="list-style-type: none"> • Small business: 11-100 employees with < N50 million total cost • Medium-size business: 101-300 employees < N200 million total cost 	Udechukwu (2003:8)
Rwanda	<ul style="list-style-type: none"> • Small business: 4-30 employees with 0.3-1.5 million RwF in capital and 0.3-12 million RwF annual turnover • Medium-sized business: 31-100 employees with < 75 million RwF in capital and annual < 50 million RwF annual turnover 	Africa Development Bank Group (2013:20)

Source: Researcher's own compilation

As can be seen in Table 3.2, it is clear from the various definitions that there is no universal agreement over what forms an SME; definitions vary across countries. The most commonly used criteria are the number of employees, total net assets, sales, capital and investment level. However, none of these measures apply well across national borders (Accounting Standards for SMEs, 2006:44). The most common definitional basis used is the number of employees because the figures are readily available (Kushnir, Mirmulstein & Ramalho, 2010:1). Considering the number of employees as a point of reference, there is variation in defining the upper and lower size limit of an SME, there is no consensus on how 'big' small is. What constitutes a SME is not clear or uniform, even within individual countries (Mago & Toro, 2013:21). Despite this

variance, a large number of sources define an SME to have a maximum of 250 employees (Ayyagari, Beck, & Demircuc-Kunt, 2007:416) with the exception of China where the maximum is 2000 employees (Liu, 2008:39). Definitions which employ measures of size when applied to one sector could lead to all businesses being classified as small, whereas the same size definition applied to a different sector might result in all businesses being defined as large (Mahembe, 2011:65). As a general guideline, the World Bank defines SMEs as those businesses employing a maximum of 300 employees, having \$15 million in annual revenue, and \$15 million in assets (Pandya, 2012:427).

The question of what constitutes SMEs is a major concern in the literature. Different writers have generally given diverse definitions to this category of business. While number of employees, capital assets and turnover level are major determinants that can be used to determine the size of business and hence define SMEs; when used in one sector could lead to all businesses being classified as small businesses. This has prompted researchers to look at other characteristics of the business such as the degree of informality, the level of technology (Turyakira, 2012:21), their legal status and method of production (Abor & Quartey, 2010:220), and the behavioural characteristics such as the psychological character of the owner manager (Jenkins, 2006:4) to categorise SMEs. However, these characteristics also vary widely depending on individual personalities and differing ownership structures and will be addressed in the following section.

In Uganda, quantitative parameters such as the number of full-time employees, the capital investment and annual sales turnover of the business are used to define SMEs (Uganda Investment Authority, 2011:34). Accordingly, a small enterprise is one that employs a maximum of 50 people with an annual sales/revenue/turnover of 360 million Ugandan shillings and total assets of 360 million Ugandan shillings. A medium enterprise is an enterprise employing more than 50 people; annual sales/revenue/turnover of more than 360 million Ugandan Shillings and total assets of more than 360 million Ugandan Shillings. As indicated in Chapter One, the criterion that will be used to define SMEs in Uganda is based on the number of full-time employees whereby SMEs will be defined as businesses that employ more than five, but less than 200 employees.

As can be seen in the previous discussion, the explanation for the difference in the definition of SMEs across countries results from the discrepancy in economic growth levels that exists among countries in terms of capitalisation, sales and employment requirement of different industries or sectors, etc. The economic situation existing in a country will significantly influence the definition of what constitute an SME. This means that, a business classified as a SME in one country may not be classified as a SME in another country. This difference in SME definition among countries has made comparisons between countries difficult. However, lack of a commonly acknowledged definition does not mean to underestimate their specific characteristics, or role that they play in the economy of a country. Given the lack of a uniform quantitative definition of SMEs, it is important to examine the characteristics of SMEs as presented next.

3.3 CHARACTERISTICS OF SMEs

Different countries adopt different terminologies and standardisation in terms of the key characteristics of SMEs. Some characteristics are from the perspective of the geographical location, business structure and operating nature of businesses while others are based on the business domain for example, manufacturing, trading organizations, etc. Prior research on SMEs has studied specific SME characteristics including; organisational culture, human resources, systems processes and procedures, and organisational structure (Singh, 2009:4, Srinivasan, 2009:33). The most comprehensive set of SME characteristics is described by Supyuenyong, Islam and Kulkarni (2009:67) who classify SMEs into five broad categories: ownership and management structure, customers and markets, systems, processes and procedures, human capital management, culture and behaviour. In the following sections these broad categories are discussed.

3.3.1 Ownership and management structure

The majority of SMEs are owner-managed; the distinction between their ownership and management roles is weak (Srinivasan, 2009:32). Aruda (2010:40) points out that SMEs are characterised by a lack of formal organisational management structures. However, Supyuenyong *et al.* (2009:65) explained SMEs to have a flatter organisational hierarchy which leads to greater flexibility in work, but with less clear division of duties and responsibilities; this structure, however leads to higher levels of coordination and cooperation. The direct involvement of

owner(s) in most SMEs allows the business structure to be simple and flexible and allows making necessary changes quickly when a need arises without obligations such as addressing stakeholders or board members for approval of decisions (Boateng, 2012:18). Due to their informal organisational structure SMEs have the ability to respond quickly to changes in the market conditions (Tarus & Nganga, 2013:52). This is to their advantage as they are able to adapt more easily to market conditions than their large business competitors (Sarpong, 2012:17).

Ackah and Vuvor (2011:9) classify SMEs as mostly family-owned businesses where there is little separation between business finances and that of the owners, even to the point that the owners' personal account is the same as that of the business. Also, SME businesses have fewer employees (Boateng, 2012:18), who are mostly family members and apprentices; who tend to be on an unpaid basis working in the business (Uganda Investment Authority, 2011:34). This has led to SMEs in developing countries maintaining low levels of productivity (Lukacs, 2005:10). Singh (2009:4) is of the viewpoint that family-owned SMEs create challenges for reporting unethical conduct and managing conflicts of interest.

3.3.2 Customers and markets

SMEs generally have restricted product/service lines for their niche markets; provide low value added goods and services which have short life spans and tend to be located in smaller localised markets out of the reach of the larger enterprises (Uganda Investment Authority, 2011:34). Since most SMEs are usually small in business size, they are able to take advantage when it comes to specialisation and fill the market niche with their products and services (Boateng, 2012:18). A typical SME will make the necessary changes quickly to their product or services to suit their customer's needs since they rely more heavily on their few customers than a large business who has a large customer base. Due to their small customer base SMEs have close customer relationships and operate businesses at times and locations convenient to customers. This makes customer satisfaction the main criteria in measuring SME performance (Supyuenyong *et al.*, 2009:65). However, limitations are that SMEs in developing countries are characterised by a low entrance into international markets and prefer to only focus on specific segments of the domestic market (Tarus & Nganga, 2013:52). In view of the fact that SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas (Sarpong, 2012:17).

3.3.3 Systems, processes and procedures

SMEs have simple planning and control systems, informal rules and procedures which allow flexibility, immediate feedback, a shorter decision-making chain, a better understanding and quicker response to customer needs compared to larger businesses (Singh, Garg & Deshmukh, 2008:525). This flexibility can allow them to respond more quickly to changes in economic policies and in market conditions (Tarus & Nganga, 2013:52). Their procedures are less complex with fewer standardisation of work processes and shorter communication lines, which allows for easier and a more direct information flow (Supyuenyong *et al.*, 2009:65). Symptomatic of a lack of formal management structure is the tendency to focus less on medium and long-term planning than on immediate, day-to-day issues (Singh, 2009:4). Owners of SMEs often multi-task (Srinivasan, 2009:32).

3.3.4 Human capital management

SMEs are more labour intensive with little or no technological dynamism and few use large size or modern technologies (Lukacs, 2005:10). Small-scale production which is highly labour intensive means job creation, which is particularly important for developing countries and economies with high unemployment levels (Edinburgh Group, 2012:8). The simple technology used in SMEs does not require highly skilled labour, however where the jobs demand skilled labour they experience a shortage of skilled labour available (Boateng, 2012:19). When compared with larger businesses, SMEs' contribution to output tends to be lower because they tend to be more labour intensive than larger businesses (Edinburgh Group, 2012:8).

The educational level of managers is very important for effective and efficient business operations. This sector is characterised by low levels of education and training of the self-employed (Ackah & Vuvor, 2011:9). Skills are acquired mostly outside the formal schooling system leading to a lower degree of job specialisation and greater employee versatility (Supyuenyong *et al.*, 2009:65). The majority of SME employees acquires experience and skills at little cost since they receive it from the owners or as part of their apprenticeship training (Boateng, 2012:18) and this training does not always meet the needs of the business. The focus of SMEs is on building interpersonal relationships and informal relations with employees (Srinivasan, 2009:32).

3.3.5 Organisational culture

Business ethics play a significant role in explaining the business environment (Velentzas & Broni, 2010:803). Organisational ethics assists all businesses in communication, facilitates organisational decision-making and control, and generates cooperation and commitment. Businesses with stronger organisational cultures tend to implement strategies more successfully, become more competitive and increase their performance in competitive markets. (Phapruke, 2008:72). Thus, SMEs tend to effectively and potentially utilise business ethics in order to influence work attitude, profitability, organisational reputation, which in turn leads to competitive advantage (Ahmad & Seet, 2009:121; Phapruke, 2008:72). Many other studies have also shown that positive ethical conduct promotes trusting relationships, job attitudes and customer-oriented behaviours in employees and eventually increases customer satisfaction (DeConinck, 2010:390, Mulki *et al.*, 2007:568, Singh, 2009:12). Ethical concerns are part of the routine practices of marketing management. They are characterised less frequently by legal issues, but rather by concerns surrounding relationships and responsibilities.

As can be seen in the previous discussion, SMEs demonstrate unique characteristics which distinguish them from large businesses. Because no single definition can capture all the dimensions of SMEs, they can be also defined in terms of their characteristics. One of the unique characteristics of SMEs is that they are owner-managed; thus, SME activities may reflect the values, character, attitudes, educational background and the likes of the owner/manager. In the context of this study, it will have a direct impact on the ethical business conduct. However, the direct involvement of the owner(s) allows a simple management structure that is flexible and allows making necessary changes quickly.

The potential and practice of SMEs has provoked a great deal of interest among industrial policy-makers, as well as with academics and researchers (Tarus & Nganga, 2013:52) with a growing recognition of the important role they play in economic development (Abor & Quartey, 2010:219). The following section elaborates on the importance of SMEs globally.

3.4 GLOBAL IMPORTANCE OF SMEs

According to Mahembe (2011:13), the value of the small business sector is recognised in the global economy, irrespective of the economy's developmental stage. SMEs are an important part of private-sector development in emerging markets; like in China, and contribute significantly to industrial output (Subhan *et al.*, 2013:4). SMEs are considered the backbone of an economy. They represent an essential source of economic growth, dynamic and flexibility in advanced industrialised countries, just like they do in emergent and developmental economies (Robu, 2013:86).

Bassiri (2007:3) reports that 80 percent of private businesses in Sub-Saharan Africa are SMEs and their well-being is crucial to regional development. On the African continent with unemployment rates, people are turning to SMEs to sustain their livelihood (Oscarsson, 2007:9). According to Singer, Amorós and Arreola (2014:35), there has been a noticeable increase in the widespread emergence of SMEs in Africa. The number of small established businesses is high in Uganda, Angola, Botswana Burkina, Faso Cameroon and South Africa. The percentage of businesses established in selected African countries was the highest in Uganda (28%) followed by Cameroon (13.7%) in 2014 (Singer *et al.*, 2014:35). As in many developed economies, SMEs in developing countries continue to make a significant contribution to economic development in terms of employment creation, poverty alleviation, economic growth, innovative capacity, transition into industrialisation, increasing competition as a source of national revenue. Each of these contributions to economic development is discussed in the following sections.

3.4.1 Employment creation

SMEs have the potential to provide for growth in employment in most developing countries (Ayyagari, Demirgüç-Kunt & Maksimovic, 2014:75). Similarly, Abor and Quartey (2010:223) noted that, one of the noticeable contributions of SMEs to economic development is their ability to create employment. This is in agreement with Lukacs (2005:8) that SMEs are the main realistic employment opportunity for millions of poor people throughout the world. Similarly, Singh (2009:6) confirms that SMEs contribute to economic development by creating employment for both the rural and urban population. Kadiri (2012:79) recognises SMEs as a catalyst for

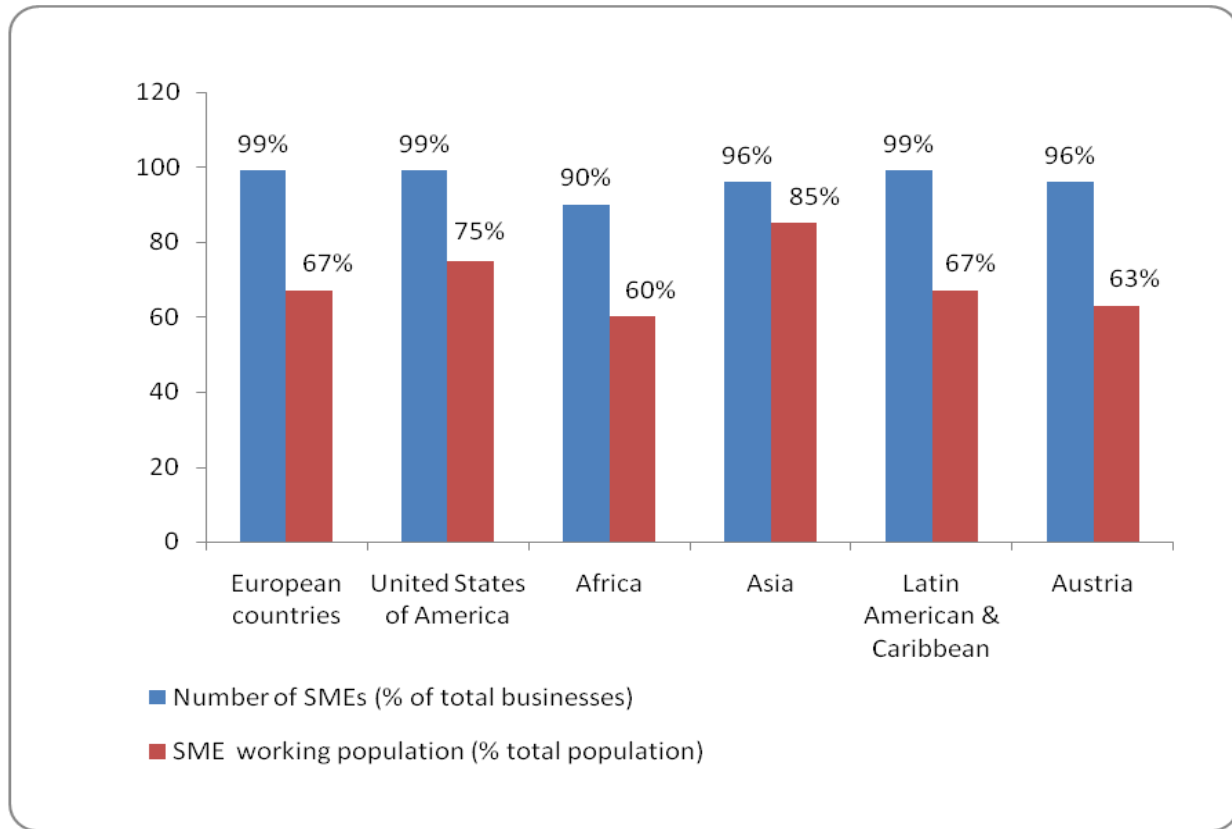
employment generation and poverty reduction. As argued by Caner (2010:2), both registered and unregistered SMEs have become significant sources of employment provision.

The reason for the ability of SMEs to employ a large percentage of employees rather than larger businesses is because they are labour intensive and make better use of scarce resources with a very small amount of capital (Ackah & Vuvor, 2011:10). Similarly, Jasra, Khan, Hunjra, Rehman and Azam (2011:275) state that SMEs have the propensity to employ more labor-intensive production processes than large businesses. SMEs are not able to adopt more state-of-the-art technologies like large businesses because of financial constraints. They are consequently forced to rely more on human resources in their businesses, hence generating employment particularly for low-skilled employees. Thus SMEs are major contributors to private sector employment (Subhan *et al.*, 2013:4).

Empirical studies have shown that SMEs contribute over 65% of total employment in high income countries, account for over 70% of total employment in low income countries, while contribute 95% of total employment in middle income countries (Subhan *et al.*, 2013:4), as reflected in Figure 3.1.

As can be seen in Figure 3.1, SMEs represent an overwhelming majority of business entities in every country irrespective of the level of development. SMEs account for above 90% of the total active businesses on all the continents. SMEs form the backbone of most of the world's largest mature market economies like the United States and the European Union and comprise 99% of total businesses. They further contribute 75% and 67% to domestic employment respectively.

Figure 3.1: SME participation and economic contribution to economies



Adapted from: Adomakoh-Ansah (2012:4); Australasian SME Alliance (2010:1); Chodokufa (2009:22); Edinburgh Group (2012:7); European Commission (2012:9); Latin American Economic Outlook (2013:1); Pandya (2012:3); Shinozaki (2012:10)

In Africa about 90% of African business are SMEs and contribute over 60% to African employment. In the Asian countries, SMEs account for more than 96% of all businesses and contribute to 85% of domestic employment, which is the highest in all continents. In Latin-America and the Caribbean, SMEs are important players in job creation and account for 67% of employment. In Austria about 96% of businesses are SMEs and account for 63% of employment which is the lowest in all continents.

These findings are in agreement with the findings of Robu (2013:88) that, SMEs comprise 99% of the total active businesses worldwide and create between 60-70% of all jobs. Similarly, a World Bank Enterprise survey revealed that SMEs accounted for 67% of the total permanent, full-time

employment in several countries (Ayyagari *et al.*, 2011:33). According to Kay (2011:7), SMEs are seen as a sponge that can absorb the surplus labour that exists in the economy to create employment and income. As Naser (2013:154) noted, no economy can economically prosper unless and until it provides livelihood to its local communities. In addition to employment creation, SMEs have been recognised as the channel through which economic growth can be achieved as presented in the next section.

3.4.2 Poverty alleviation

SMEs have also been found to be a major economic contributing factor to poverty alleviation in many countries, especially in developing countries (Islam, Khan, Obaidullah & Alam, 2011:290). According to Mahmood (2008:3), one of the peculiar characteristics of SMEs in Africa is the ability to alleviate poverty. Similarly, Kuffour (2008:2) acknowledges SMEs as having the potential to contribute towards reducing poverty in most developing countries. SMEs can support poverty alleviation endeavors through employment generation and entrepreneurial processes (Subhan *et al.*, 2013:5). SMEs are easy to establish since they are owner-managed, the capital outlay can be minimal and specialised knowledge might not be required. As argued by Singh (2009:7) SMEs are essential for pro-poor growth because it makes possible the transition from low to middle-income status, thereby contributing to raising the living standards of society (Ciobotariu, 2013:203). Mahembe (2011:15) confirmed SMEs are an essential solution for improving the standards of living in a society, which is a major concern of any development process. Thus many people would be living below the poverty line if it was not for SMEs.

3.4.3 Economic growth

Economic growth contributes to the prosperity of the economy and is desirable because it enables the economy to contribute more to goods and services through an increasing investment and efficient use of inputs to outputs and technological progressiveness (Ackah & Vuvor, 2011:10). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of economic growth in low-income countries (Abor & Quartey, 2010:223). SMEs are considered as an engine of growth for economic development, especially in developing countries (Singh, 2009:6; Subhan *et al.*, 2013:4). The contribution of SMEs to

economic fundamentals nonetheless varies substantially across countries (Edinburgh Group, 2012:7).

In Africa, SMEs are increasingly being recognised as productive drivers of economic growth and development (Mpolokeng, 2009:1). It has been recognised that some of the world's best performing economies in Asia, notably Taiwan, Hong Kong, China and Japan rely heavily on small businesses for economic growth (Goswami & Sarangdevót, 2010:2). Empirical studies have shown that SMEs contribute to over 55% of GDP in high income countries, account for over 60% of GDP in low income countries, while contribute about 70% of GDP in middle income countries (Subhan *et al.*, 2013:4). The importance of SMEs is evident in the fact that they comprise the majority of businesses in every country; contribute significantly to GDP, manufactured output and exports as reflected in the Table 3.3.

Table 3.3: Contribution of SMEs to economic growth

Countries	SMEs percentage to total		
	Gross Domestic Product	Exports	Manufactured output
European countries	58	24	52
United States of America	50	30	30
Africa	50	21	25
Asia	53	31	47
Latin American & Caribbean	40	20	45
Austria	55	42	60

Adapted from: Adomakoh-Ansah (2012:4); Edinburgh Group (2012:8); European Commission (2012:9); Häner (2011:3); Hendrickson (2009:5); Latin American Economic Outlook (2013:1); Pandya (2012:3); Shinozaki (2012:10); Um Jwali Market Research (2012:3); Yoshino (2008:9)

As can be seen in Table 3.3 these statistics indicate the crucial role SMEs play in different countries' economic and social development. SMEs contribute to the economic growth of countries through, building of added value, GDP and export activities. The statistics show that the contribution of SMEs to GDP is highest in European countries at 58% and lowest in Latin American and Caribbean countries at 40%, while manufactured outputs stands at 52% and 45% respectively. SMEs in Austria operate in a wide range of sectors thereby constituting a formidable component of the country's manufactured output at 60%. In terms of a country's exports, it is

noticeable that SMEs contribute a lesser percent to the total exports, the highest being Austria at 42% while Africa has the smallest percentage of 21% to exports. In the Asian member states, SMEs contribute 53% to GDP and 31% to exports. In the United States, the contribution to exports and manufactured output is the same at 30%.

As in many other developed and developing countries, SMEs in Uganda continue to make a significant and growing contribution to economic development (Turyakira 2012:26). In Uganda, SMEs are still the backbone of the economy, providing a prime source of employment and playing a crucial role in income generation and poverty eradication. (Uganda Investment Authority, 2011:21). The Private Sector is mainly dominated by SMEs and together with micro businesses account for 90% of the private sector. They contribute about 75% to the Gross Domestic Product; over 80% of manufacturers' product outputs, generate over 60% of the country's revenue; and employ approximately 2.5 million people (Ministry of Finance, Planning and Economic Development, 2011:4).

3.4.4 Entrepreneurial growth

SMEs are a breeding ground for entrepreneurial talent (Muqbil, 2008:8). SMEs encourage an entrepreneurial spirit and put forward flexibility in the economy (Subhan *et al.*, 2013:5). Kirby and Watson (2008:56) state that a major reason why entrepreneurship has been receiving increased attention from both scholars and the public press is the growing recognition of the substantial economic and social contributions entrepreneurship brings. SMEs assist in fostering a self-help and entrepreneurial culture by bringing together capital and linking various skill enhancement schemes (Qureshi & Herani, 2011:32). Entrepreneurship is a scarce productive resource particularly in developing countries. Thus the incorporation of new entrepreneurs into the productive process can be one of the main roles of SMEs. Being the principal "nurseries" of new entrepreneurs, they therefore represent an important stimulus to aggregate supply in the long run (Tarus & Nganga, 2013:52).

3.4.5 Innovative capacity

According to Masum and Fernandez (2008:5), another economic contribution of SMEs is their innovative capacity. The capacity to innovate is recognised today as one of the main aspects

leading to a competitive advantage amongst businesses (Marques & Ferreira, 2009:54). Ciubotariu (2013:203) referred to SMEs as being the most active and innovative sector. Similarly, Muqbil (2008:5) credits SMEs for performing a vital role in innovation and product diversification. Erixon (2009:6) noted that, innovation and new product developmentstend to emerge from SME businesses. According to Singh (2009:7), the SME sector is well-recognised globally for being a source of technological innovations in industrialised economies. SMEs are easier to adapt to changing economic conditions than larger businesses. As argued by Masum and Fernandez (2008:41), SMEs are more risk orientated as compared to larger businesses and are often referred to as agents of change. It can be argued that those SMEs that have managed to survive, have used innovation as a strategy for success (Kituyi, Nangoli, Basalirwa & Kusemererwa, 2013:63).

3.4.6 Economic transition into industrialisation

SMEs significantly contribute to socio-economic development through diversifying economic activity (Singh, 2009:7). According to Subhan *et al.* (2013:4), they provide the first step for development in economies towards industrialisation. This view is shared by several authors (Jasra *et al.*, 2011:274; Mahmood, 2008:3), who perceive SMEs as the starting point of economic development towards industrialisation. This is in agreement with the view that SMEs provide a channel for ensuring industrialisation. SMEs contribute significantly in the transition of agriculture-led to industrial economies by providing basic opportunities for processing activities, which can generate a sustainable source of revenue and enhance the development process (Jasra *et al.*, 2011:275). SMEs accelerate rural industrialisation by linking with the more organised urban sector (Qureshi & Herani, 2011:32). They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large businesses are interlinked; such linkages are very crucial for the attraction of foreign investment (Subhan *et al.*, 2013:4). They also contribute to the success of larger businesses by acting as suppliers of parts, components and sub-assemblies and sub-contractors to large businesses (Muqbil, 2008:5).

3.4.7 Enhanced competition

The prime economic benefits of SME development include encouraging perfect competition and fair distribution of wealth. According to Wong and Aspinwall (2004:43), the Organisation for Economic Co-operation and Development OECD report stated that, productivity growth is fuelled by competitive processes in industry which, to a large extent, build on the entry and exiting of smaller businesses. This is in agreement with the view of Singh (2009:7) that SMEs provide healthier competition and keep monopolies in control. As argued by Qureshi and Herani (2011:30), if there are only large businesses, then there will be a monopoly in an industry, with a single supplier, or oligopoly with only few suppliers, or monopolistic competition with only some suppliers. The majority of national income and wealth will then move to large business capitalists. Thus the SME sector creates fair competition and reduces inequalities in economic wealth distribution (Mahmood, 2008:3). Sectors dominated by SMEs facilitate learning across the sectors; these sectors tend to generate higher levels of competition which in turn forces higher levels of learning of best business practices among SMEs (Singh, 2009:7).

3.4.8 Source of national revenue

SMEs constitute a major source of the national income through paying taxes. SMEs pay tax to the government and thus become important contributors for income poverty reduction strategies of the government authorities and donor agencies (Kibassa, 2012:1). Service delivery from the government depends on their revenue collection which in large part comes from taxes; hence SMEs can participate fully in local government service delivery through paying taxes (Kibassa, 2012:4). This stream of tax revenue gives governments more power to roll out suitable fiscal policies to enhance growth and to finance key infrastructural and social programmes (Adedokun, 2004:15). According to Ciubotariu (2013:203), the key contribution of SMEs in Romania is being a main source of income for the state budget in terms of economic- and social development.

One of the major management areas is the efficient use of knowledge assets to create better and more cost-effective innovations. It can be argued that continued innovation is a successful survival strategy used by SMEs. Thus government industrial policy towards industrialisation is crucial to enable SMEs to maximise entrepreneurial opportunities through the pursuit of innovation. The vibrancy of a business environment could be stimulated by an innovation-

focused industrial development policy which helps build competitive industries, reduce inequalities in economic wealth distribution and increases national income through paying taxes to government. There is thus a general consensus on the significance of SMEs in the process of economic development. This implies that the performance of the SME sector is strongly linked to the performance of a nation.

From the previous discussion, it can be seen that SMEs play a significant role in the economic development and their competitiveness is indispensable to a country's growth and success. SME economic growth has continued to be an accepted phrase in the world of business. This is because of the relatively big share of the SME sector in many countries. SMEs not only contribute greatly to employment, these enterprises have been acknowledged as the engines through which the growth objectives of economies can be achieved. Employment opportunities are among the significant variables of economic growth of a country particularly for developing countries and economies with high unemployment levels. Economies which discourage SME establishment are therefore likely to discourage economic growth. The SME sector is acknowledged as a key condition in promoting equitable and sustainable economic growth not only in mature markets, but also in some key emerging markets. A balanced economic growth which increases poverty alleviation and the communities' standard of living can be achieved through a vibrant SME entrepreneurial growth sector.

However, despite their many contributions SMEs are still plagued by high failure rates and poor performance levels. These may be contributed to the challenges SMEs are facing which may explain why they behave unethically in business at times. A discussion of these challenges follows.

3.5 CHALLENGES FACING SMALL AND MEDIUM-SIZED BUSINESSES

Although the contributions of small businesses to development are generally acknowledged, SMEs across the globe are still facing a number of difficulties and obstacles that are impeding and complicating their operations and growth (Mahembe, 2011:13, Olabisi *et al.*, 2011:3). While there are a large number of SMEs in African countries, expectations for growth remain low. This trend can be observed globally in developing countries. In South Africa, 75% of new SMEs

created fail within the first two years of operation: their failure rate is one the highest in the world (Fatoki & Odeyemi, 2010:128). In Kenya, past statistics indicate that three out of five SMEs fail within the first few months of operation (Bowen *et al.* 2009:16). In Nigeria, SMEs close down within their first five years of existence; a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent of young businesses survive, thrive and grow towards maturity (Ayanda & Laraba, 2011:201).

According to Singer *et al.* (2014:35), the rate of business failure in Uganda is the second highest in the world; for every business established another is closing (to be more precise, out of 28% SMEs start-ups, about 21% close down). The rate of SME failure in developing countries is higher than in developed countries (Bowen *et al.*, 2009:16). It is also necessary to understand the problems facing SME development in developing countries because they are considerably different to those in developed countries. Previous studies have identified various challenges and impediments that prevent the creation of new SMEs as well as causing the high failure rates of new SMEs in the globalised economy.

Different scholars and entrepreneurs have proposed different reasons as to why SMEs have failed to achieve their growth potential. While an average entrepreneur would always link business failure to lack of access to finance, others argue that inappropriate management skills, huge influx of foreign substitute goods, lack of entrepreneurial skills and know-how, poor infrastructure, etc. are largely responsible for business failure (Sarpong, 2012:16). Owing to their size, a minimal management mistake is likely to lead to the closure of an SME, and hence there is no opportunity to learn from its past mistakes (Bowen *et al.*, 2009:16). Hence the presence of these barriers has affected the SME sector since they serve as constraining environments. To understand this better, a discussion of the various challenges to SME growth is presented in the subsequent sections.

3.5.1 Government barriers

While there is certainly a growing number of SMEs on the continent, the environment that these are born into and nurtured in, varies greatly. According to Boateng (2012:20), in some countries, the government creates numerous barriers to SME development in the form of excessive regulation and red-tape, the high cost of licensing and registration requirements for startup

businesses. These coupled with delays in court proceedings and legal claim settlements impose undue and unnecessary burdens on SMEs, which in turn affects their operations. Countries like Chad, the Republic of Congo, Nigeria and Eritrea suffer from high levels of regulatory and institutional barriers with regards to SME growth and development (Kim, 2011:1).

The report by the World Bank Doing Business (2013:156-158) named Chad the most difficult Sub-Saharan African country to conduct business in, with a high tax rate of 54% and difficult insolvency regulations that demand 62% of the estate value and long processing times. Coupled with long procedures, delays and waiting time for registering and starting business, means it takes 62 days to set up a business in Chad and 161 days in the Republic of Congo. Furthermore, Eritrea ranks 43rd in Africa in terms of difficulty to conduct business due to the absence of building permits issued to the private sector and the difficulty to access credit. In Ethiopia many local SMEs complain that regulations are too tight (Kim, 2011:1). The same problem is experienced in Ghana where it takes 218 days and 16 procedures to obtain a business license (World Bank Doing Business, 2013:166). Furthermore, there is no antitrust legislation which favours larger businesses while the lack of protection for property rights limits SME access to foreign technologies.

In the East African Community region, Uganda is ranked as having the highest investment and business operational costs. This is further worsened by many procedures and time taken to register and start a business (Private Sector Foundation Uganda, 2012:29). On average it takes 15 procedures and 33 days to start a business in Uganda (United States Department of State, 2013:10). This may be why Uganda ranks 28th of 46 Sub-Saharan African countries on measures of corruption (United States Department of State, 2013:3). The occurrence of irregular payments and bribes to bypass regulations is common and are not always transparent or consistently applied, resulting in corruption (United States Department of State, 2011:6).

3.5.2 Access to credit

Lack of access to credit has been recognized as a key problem for SMEs (Wanjohi, 2009:1). A World Bank study revealed that about 90% of small enterprises surveyed, stated access to credit a major constraint to new start-ups (Abor & Quartey, 2010:224). Insufficient finance at affordable terms is a challenge discouraging the performance of SMEs (Singh, 2009:8). This is supported by

Mbabazi (2012:3) who found out that, by the sheer limitation of their size, resources and structures, SMEs are normally vulnerable, especially when it comes to accessing credit that would otherwise assist them to support their business growth. SMEs are regarded as high-risk businesses and as such they do not succeed in attracting enough credit loans (Turyakira, 2012:29). Financial institutions find it difficult to assess the creditworthiness of prospective SME borrowers and according to Mahmood (2008:11), this is attributed to high transactional costs of credit, inability of SMEs to provide the bank with collateral, poorly prepared business proposals and poor or lack of accounting and financial records. Coupled with these problems, it is also difficult to predicting the ability of SMEs to pay the credit transaction cost or their mortality rates.

Mahmood (2008:5) further states that, SMEs also do not access formal financing for the following reasons; the procedure required to access credit is complicated, the high cost of processing small loans, long processing time, not being a registered business and lack of disclosure of taxes. As argued by Abor and Quartey (2010:224), formal finance institutions have tailored their products to best serve the needs of larger businesses. This is because the cost involved in processing a loan facility is fixed and therefore the cost per loan is higher in the case of SMEs than larger businesses, because on average larger businesses borrow larger amounts than SMEs.

In Uganda, SMEs face financial problems arising from their inability to obtain capital or to access financial services from formal sources (Wamono *et al.*, 2012:17). Addition, commercial lending rates are high, leading to rising loan defaults, business closure and slowed investment and growth (United States Department of State, 2013:2). According to Abor and Quartey (2010:225), lack of funds may be the immediate reason for a lack of business start-ups to grow, even when the more fundamental reason is different.

3.5.3 Financial management and record keeping barriers

Most SMEs are unable to employ competent financial management staff because of the salaries they would demand (Turyakira, 2012:31). The owners must manage financial decisions such as trade credits, accounting, payroll, working capital, taxes and regulations as well as economic trends. A study on SMEs in Zimbabwe (Maseko & Manyani, 2011:179) revealed that SMEs do not keep complete accounting records because of lack of accounting knowledge. However, the

main reason why SMEs do not keep records is usually the belief that it is expensive and very complicated. The result is that SMEs owners are unable to make business decisions on the basis of sound financial records. It also deprives third parties of a vital source of information upon which to evaluate potential relationships with the business (Turyakira, 2012:31).

In Uganda, SMEs face financial problems arising from late payments by debtors (Kasekende & Opondo, 2003:2) because of poor accounting. Wamono *et al.* (2012:9) concur that SMEs have internal weaknesses in record keeping, credit utilisation and repayment. Such challenges influence the possibilities of formal financing acquisition. Tusubira and Nkote (2013:135) mentioned that registered SMEs often fail to keep adequate records, file their tax returns, or settle their tax liabilities promptly, which has led to high opportunities for tax evasion.

3.5.4 Management skills challenges

Most problems affecting SMEs are related to managerial incapability (Pansiri & Temtime, 2008:253). Managerial skills are often lacking and therefore managerial tools and techniques are perceived as being of little benefit to the business (Garengo & Bernardi, 2007:526). As argued by Abor and Quartey (2010:224), the scarcity of management skills, prevalent in most countries, has a magnified influence on SMEs. Most SME owner/managers seem to have a sound knowledge of the products and services they produce, but generally, they lack the required skills for effective business management (Wong & Aspinwall, 2004:46). Though it is difficult to determine what constitutes poor management, all SME problems, be it marketing, operations, finance, personnel or distribution, are all essentially managerial problems (Turyakira, 2012:30).

Many times, business owners lack professionalism in terms of strategic planning procedures, decision-making processes and management in general (Mahmood, 2008:1). The lack of managerial skills affects the short- and long-term planning process in SMEs. Managers do not have the necessary skills to engage in strategic planning and therefore resort to emergent and instinctive approaches. They are therefore more reactive rather than proactive to the problems facing their companies. (Afrifa, 2013:185). The owners are responsible for among others managing financial decisions and marketing activities such as advertising, market research, customer feedback, and changes in consumer trends (Petrus, 2009:24-36). Muhammad, Char,

Rushdan and Zakiah (2010:70) confirmed that the main problems faced by SMEs in Malaysia are their lack of knowledge regarding marketing techniques, branding and customer loyalty.

In Uganda, small business managers lack skills to manage human resources, strategic planning, inventory and all other business operations (Turyakira, 2012:30). Their lack of management skills and competence may prevent them from understanding the requirements for executing business ethics and may also curtail growth efforts, so that they feel comfortable in their ability to manage their business (Wong & Aspinwall, 2004:46). Despite the several institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole. This is because SME owners cannot afford the high cost of training and advisory services while some do not find it necessary to upgrade their skills due to complacency (Abor & Quartey, 2010:224). This leads to the absence of clear policies and long term planning (Mahmood, 2008:6). In the end, this raises operational costs and reduces the flexibility in managing operations (Boateng, 2012:19). Thus, management challenges arise from insufficient training and poor record keeping and result in business decision-making that is not based on a sound analysis of resource availability.

3.5.5 Technology obstacles

Developing countries lack high-tech industries and SMEs use simple technology which do not require highly skilled labour (Boateng, 2012:19; Mahmood, 2008:7). The difficulties in gaining access to appropriate information on available techniques and technologies are eminent among SMEs (Abor & Quartey, 2010:224). Boateng (2012:20) states that the lack of technical know-how and the use of obsolete equipment and machinery often hindered the smooth running or development of SMEs. Even when the appropriate technology is available, SMEs lack financial resources to acquire it or the expertise required to make optimal choices that can benefit their business the most (Ministry of Finance, Planning and Economic Development, 2011:12). Although informal mechanisms such as using simple technology create great flexibility in SME operations, they do not allow SMEs to meet minimum quality standards (Cooper, Rayson, Botchway & McCafferty, 2005:5). As such, these mechanisms do not enable SMEs to pay enough attention to their long-term operation of business processes that effectively promote the

integration of business environmental factors into efficient business positioning to gain a competitive advantage (Cooper *et al.*, 2005:5).

In Uganda, the deployment of inferior technology, low capital and production skills often result in low quality and quantity of products that do not compete favourably in the market (Ministry of Finance, Planning and Economic Development, 2011:13). Kyakulumbye *et al.* (2013:25) noted the lack of basic ICT skills amongst SMEs as a hindrance to adopt more sophisticated technologies, while Uganda Investment Authority (2011:40) attributes this to the inadequate availability of suitable technologies. This requires SMEs to at times behave unethically and present products to customers as high quality products while it is not so.

3.5.6 Lack of organisational structures and systems

Most SMEs are managed according to experience and by observation with little or no formal management systems (Aruda, 2010:40). In their operations, SMEs rely far more on informal processes such as verbal communication than on the formal written policies and procedures that structure large businesses (Singh, 2009:4). The lack of management systems and structure has been recognised as a barrier to compliance to several business regulations. Yapp and Fairman (2006:47) revealed that SMEs do not have effective management systems in place as they only employ a general manager to conduct regular staff meetings. The lack of structure and systems in SMEs affect the attraction, recruitment, development and retention of the workforce (Pansiri & Temtime, 2008:4).

The employee-employer relationship in SMEs is often informal, with no precise definition of duties and responsibilities (Srinivasan, 2009:32). Garengo and Bernardi (2007:526) noted that, very often SME employees occupy different positions at the same time. The SME owner is in charge of both operational and managerial functions and usually neglects the managerial activities which in turn hinder the development of the business. According to Mahmood (2008:6) poor management structures in SMEs lead to low productivity. SMEs attempt to link rewards to productivity; however, the lack of formal performance management is an impediment to the use of reward systems (Garengo & Bernardi, 2007:526).

In Uganda, most of the SMEs are not registered and lack formal management structures (Kituyi *et al.*, 2013:64). By the nature of their operation, SMEs have a relatively simple and unsophisticated management structure with a narrow risk tolerance range (Okello-Obura & Matovu, 2011:2). It is on the basis of these informal structures and systems that SMEs base their informal transactions. This state of affairs increases the transactional costs of SMEs as the enforcement of informal contracts becomes a nightmare (Ntayi *et al.*, 2012:55) which provide loopholes for unethical behaviour.

3.5.7 Human resource problems

SMEs have minimal appreciation for hiring trained staff to manage their businesses and consequently delay to professionalise their business operations (Ministry of Finance, Planning and Economic Development, 2011:12). Even when the jobs demand skilled labour, SMEs have a problem of attracting highly talented and experienced employees; these knowledge based people tend to go to larger businesses because of higher salaries. In addition, SMEs have a challenge of retaining specialised employees because of limited opportunities for career development (Boateng, 2012:19). There is normally a lack of progression in SMEs as there are few layers of management; competent personnel, therefore see their future to be more prosperous in larger businesses, where they hope to progress faster (Afrifa, 2013:186). Research by Beck, Demirgüç-Kunt and Levine (2005:203) indicates that larger businesses offer more stable employment than SMEs and their wages and non-wage benefits are higher. Appointments and promotions are not always on the basis of objective criteria.

According to Islam *et al.* (2011:295) lack of human capital is one of the most significant challenges facing SMEs in Thailand. SMEs have less access to formal channels that provide comprehensive skills training because they are mostly unaware of the existence of such programmes and even when they are aware, many lacks the needed basic educational qualification for such skills training and are therefore cut off from benefiting from such programmes (Sarpong, 2012:45). Owners or managers do not often take the time to develop and mentor their subordinates and assistants, the business suffers when a key employee leaves or dies (Pansiri & Temtime, 2008:4).

In Uganda, using a high proportion of unpaid family members and apprentices is a common practice in SMEs (Kasekende & Opondo, 2003:3). Similarly, Kituyi *et al.* (2013:285) argue that family members constitute the main labour source for SME businesses in Uganda. Furthermore, in family-owned businesses there are no prescribed duties and responsibilities between shareholders, directors and managers (Uganda Investment Authority, 2011:34). Family businesses are run on the basis of son-brother-cousin relationships and this sometimes causes conflict of interest and hinders business survival and growth (Salvato & Melin, 2008:259). These family members might protect each other if one behaves unethically.

3.5.8 Lack of infrastructure

SMEs usually do not have proper physical structures such as premises from which to operate the business. Infrastructure, as it relates to provision of access roads, adequate and reliable power at affordable price, education, public health, transportation, water sewerage and telecommunication (Singh, 2009:8) represents a constraint on both the choice of SME opportunities, scale of business production as well as distribution as it depends essentially on the availability and reliability of the physical infrastructure (Sarpong, 2012:45). Fjose, Grünfeld and Green (2010:24) confirmed this by stating that, more than 50% of businesses in Sub-Saharan Africa identified electricity as their major constraint; lack of electricity supply and electricity reliance combined with growing energy demand has increased prices.

Infrastructure contributes to economic development through the promotion of private sector development by increasing access to the factors of production and goods market (Sarpong, 2012:45). Electricity prices in Sub-Saharan Africa are almost twice as costly as in Latin America and Eastern and Central Asia (Fjose *et al.*, 2010:24). With problems of underdeveloped physical and social infrastructures, Nigeria ranked 133rd in the world for ease of doing business (Gatt, 2012). Nigerian SMEs rely heavily on inefficiently provided state infrastructures such as electricity and water, and cannot afford the cost of developing any alternatives (Ayanda & Labara, 2011:203).

In Uganda, SMEs operational efficiencies and capabilities are affected by poor physical infrastructure such as dilapidated roads and bridges and poor telecommunications networks

(United States Department of State, 2013:1). Research by Wamono *et al.* (2012:17) revealed that, SMEs in Uganda have remained informal due to trade barriers such as; poor transport especially in rural areas and limited energy supply. Banda (2012:150) noted lack of physical infrastructure for computer networks and inadequate network services, as challenges facing ICT utilisation in businesses in Uganda.

3.5.9 Markets access

SMEs find it hard to compete within the local market. They are constrained by a lack of access to proper infrastructure like transportation, telecommunication amenities, modern equipment and the expertise to compete with larger businesses (Singh, 2009:8). The inability of most SMEs to design, package, distribute and market their products which must conform to the required international standards and the needed certification, limits SMEs from having total access to international markets (Boateng, 2012:20). These problems result in ineffective distribution channels which impose limitations to market access for SMEs. In addition, the influx of imported product substitutes on the market makes it even more difficult for the local manufacturing SMEs to gain a niche market (Boateng, 2012:20). Some inferior imported substitute products may be offered to customers at high prices. Many other market failure factors have been specified as the main challenges for the SME sector and include: monopoly, inadequate information, risk and uncertainty, financial support and externalities (Afrifa, 2013:108).

In Uganda, the other major challenge of SMEs is the inadequate innovation and product differentiation to match or better still avoid foreign competition (Wamono *et al.*, 2012:17). This has made the sale of counterfeit products a common practice and they are not easily detected by the public (Doing Business in Uganda, 2011:6). Okello-Obura and Matovu (2011:2) note that SMEs experience difficulties in achieving purchasing economies of scale and are often unable to take advantage of market opportunities that require large production quantities, homogenous standards and regular supply. This may prompt them to ask prices not reflecting the quality of products. According to Shafaeddin (2012:150) competitiveness in the market is no longer based on price alone, but also on reliability which involves getting the right products at the best quality at the required quantity at a competitive price to the right place at the time specified.

As can be seen in the preceding discussion, although the contributions of SMEs to economic development are generally acknowledged, they encounter several challenges that hinder their survival and development both in Uganda and in other parts of the world. These challenges are in several business areas and range from a hostile regulatory environment, limited access to finance, inadequate management and entrepreneurial skills, technology obstacles, human resource problems, and lack of infrastructure to market access. However, it's important to note that, the majority of the challenges seem to be related to managerial incapability. Many governments worldwide have tried to provide support to SMEs in terms of development of infrastructure and through creating an enabling environment for SMEs establishment and growth. The next section presents government's support for SMEs growth.

3.6 GLOBAL GOVERNMENT SUPPORT FOR SMEs

Throughout the world, governments at various levels have formulated and incorporated measures aimed at SME development into their national economic policy. According to Sarpong (2012:18), some of the governments' efforts relate to focusing on assisting SME growth. Governments, non-governmental organisations and other donor countries have made budgetary allocations, policies and pronouncements with the aim of promoting the growth of SMEs. They have also provided soft loans, managerial training, fiscal incentives, grants, bilateral and multilateral agencies support, aids as well as specialised institutions all geared towards making the SMEs sector vibrant due to the crucial role of the SME sector of the economy. Furthermore, the poor performance of SMEs in the face of numerous policies by different groups like governments, non-governmental organisations and other donor countries means that if countries want to achieve an appreciable success towards attaining their goals, they should vigorously pursue the development of its SMEs.

Boateng (2012:20) noted that Ghana's government facilitates access to credit for small scale entrepreneurs; and provides non-financial support to new business creation and small enterprise development through comprehensive institutional linkages. A survey on SMEs in Kenya, Tanzania, Uganda and Zambia (Calice, Chando & Sekioua, 2012:15) revealed that, the Kenyan government drafted a bill for the support of the SME sector while the Tanzanian government approved a regulatory framework to support SMEs in 2002. The government of Zimbabwe, in a

bid to strengthen the SME sector established a policy document to promote SME activities (Zindiye, Chilya & Masocha, 2012:657). In Indonesia, numerous promotional government programmes for SMEs have been created nationwide, including the Small Enterprise Development programme which oversees SME establishment, growth and sustainability (Tambunan, 2008:123). In the United Kingdom, over the past two decades, successful governments have noticed the importance of SMEs, by establishing policies such as start-up loan schemes, business finance partnerships and export insurance policies to help in the development of the SME sector (Afrifa, 2013:107).

Although SME support agencies are present in many countries, their impact on business formation, survival and growth have generally been limited (Nkonoki, 2010:46, Zindiye *et al.*, 2012:666). They have been condemned for their bureaucratic nature, lack of consistency and coordination, inadequate geographical coverage, uneven distribution, the high cost of searching for support services and their major emphasis on business start-ups with too narrow a focus on the other stages of business growth (Mahembe, 2011:43, Quader & Abdullah, 2009:335). In addition, their programs fail to address the fundamental constraints faced by SMEs, mainly in terms of the growth of knowledge-intensive production and the strengthening of competition in the international market (Boateng, 2012:20).

As argued by Boateng (2012:20), governments should provide a level playing field that will permit SMEs to compete with their larger counterparts on an equal basis; through contributing to the creation of an enabling environment for SME establishment, growth, business sustainability and development of a business culture, thereby improving the indigenous entrepreneurial base. Calice *et al.* (2012:15) in their study also demonstrated the need for the government to play an active role in the development of vibrant SMEs. Research on SMEs in Indonesia by Tambunan (2008:123) revealed that, the development of SMEs and changes over time in their GDP shares, output composition, market orientation, and location are usually related to government support. Thus governments need to provide adequate support to SMEs in terms of creating a business friendly environment.

Bannock (2005:79) also argues that no matter the intervention by government, the results are not impressive, because the SME sector is so large. According to Caner (2010:5), government policies in support of SMEs should focus on creating positive externalities for SMEs in the form of level credit markets, security, competition and a low-cost equitable legal system. These policies can be implemented in the long run and their impact would also be in the long run. On the other hand, governments can create an environment which will be effective in the long run such as improving education, training and development of SME clusters. (Caner, 2010:5).

In Uganda, the government through the Ministry of Tourism, Trade and Industry has introduced many initiatives to address the problem of high SME failures and these initiatives include the establishment of a private sector-led SME development steering group with Enterprise Uganda as its secretariat overseeing SME establishment, growth, business sustainability, as well as partnerships between the government and development agencies like the United Nations Industrial Development Organisation (Private Sector Foundation Uganda, 2012:2). These support organisations make sure that SMEs receive the necessary assistance in order to compete successfully with larger businesses.

Despite the various economic reforms and programmes established by the governments to facilitate, promote and assist SMEs to accelerate growth, SMEs still face a variety of limitations which affect their ability to achieve their full potential (Boateng, 2012:20; Sarpong, 2012:18). Many of the structural reforms and policies are found to be ineffective. Some regulations are still more rigid which create severe challenges to SMEs development (Boateng, 2012:20). According to Caner (2010:5), most government policies focus on different sets of incentives like investment and tax incentives; these policies are not effective in the long run and do not meet the expectations of the businesses and such efforts tend to support unprofitable activities and are inefficient. This has led to many criticisms to government intervention to promote the SME sector (Afrifa, 2013:108).

As can be seen in the previous discussion, globally governments recognise the significant contribution that SMEs make to the economy. In this regard, governments have formulated policies aimed at empowering the growth, development and performance of the SMEs. However despite numerous government policies, programmes and support, SME's, have performed below

expectation in several countries. While some challenges that SMEs face are caused by the intrinsic characteristics of SMEs, other challenges are induced by government policies. For that reason government policies have been condemned for their narrow focus on the constraints faced by SMEs which surface in several business areas. For effective results government needs to involve SMEs in policy formulation and implementation.

3.7 SUMMARY

This chapter intended to examine the nature and importance of SMEs. This was done by putting SMEs in context, identifying their characteristics and importance, discussing the main challenges faced by SMEs, as well as government support towards the growth of SMEs. There is no universal definition for SMEs, definitions vary across countries. Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital.

SME contributions to economic development has been highlighted in several areas such as; supporting poverty alleviation endeavors through employment generation and entrepreneurship processes in many developing countries, boosting economic growth through building of added value, GDP and export activities, performing a vital role in innovation and product diversification, hence contributing to the transition of agriculture-led economies to industrial economies and providing healthier competition to check on monopolies and market powers.

Although the contributions of SMEs to development are generally acknowledged, entrepreneurs in this sector face many obstacles that limit their long-term survival and development. It is important to note that the problems facing small-business development in developing countries are considerably diverse from those facing developed countries. These include: government barriers, limited access to credit, financial management and record keeping barriers, management skills challenges, technology obstacles, lack of organisational structures and systems, human resource problems, lack of infrastructure and market access.

Regardless of that, many governments globally have designed policies to support the growth of SMEs though many policies that are found to be ineffective. Many previous studies have identified that the problems affecting SMEs are related to managerial incapability. One of the

managerial problems facing SMEs is the inability to incorporate ethical practices in their business operations. To clearly understand this, business ethics in SMEs will be the focus of Chapter Four.

CHAPTER 4

BUSINESS ETHICS IN SMEs

4.1 INTRODUCTION

In Chapter Three, the nature and importance of SMEs were discussed. The chapter discussed the characteristics of contributions to economic development, the various challenges SMEs face along with government initiatives to support SME growth. SME as a concept can have different meanings depending on the level of economic development in each country. In defining SMEs quantitative measures are mostly used. Despite the lack of a commonly recognised definition, the importance of SMEs is recognised globally, irrespective of the level of economic development. Although the contributions of SMEs to economic development are generally acknowledged, they still experience barriers to growth. The poor performance of SMEs in spite of numerous government policy initiatives and reforms means that economies should vigorously pursue the development of SMEs to achieve their goals.

According to Fatoki and Asah (2011:173), SMEs' lack of business management skills can lead to a lack of business ethics. Management can make a wrong decision that can lead to business failure due to insufficient attention to business ethics (Stefanescu & Doval, 2010:38). In the past, business ethics has mainly been considered for larger businesses and multinationals in developed countries (Ahmad & Seet, 2009:117). Srinivasan (2009:59) finds that the informal nature of SMEs means that stringent governance norms that apply to large businesses may not be applicable to SMEs, thereby providing scope for SME owners to establish their own ethical business practices. Although it is recognised that business ethics is more functional in larger businesses, the concept is of equally great importance to SMEs.

Business ethics has been widely recognised in academic literature as a source of competitive advantage for SMEs. However, many SMEs have not fully adopted and integrated ethics into their business activities (Bains, 2013:99). The challenge for entrepreneurs, educators and policy makers is to recognise the distinctive aspects of ethical practices in SMEs and not regard ethics as applicable to large corporate businesses policies, but as a means for creating a competitive advantage for small businesses (Ahmad & Seet, 2009:121). Mahdavi (2009:2) observes that, with

the expansion of businesses globally as a result of new technologies and developments in cyber marketing and e-commerce activities, the study of business ethics has become even more important due to ethical and social responsibility expectations. Business ethics in SMEs need to be monitored because not only do SMEs lack resources, but they also lack the leadership to adopt ethical business practices (Singh, 2009:4).

In order to appreciate the role of business ethics in SMEs, this chapter will discuss the developmental history of business ethics, the ethical theories and the nature of unethical business behaviours in SMEs. The chapter will conclude by presenting the effects of unethical business behaviours. The following section presents the conceptualisation of ethics.

4.2 CONCEPTUALISATION OF ETHICS

The word “Ethics” is derived from the Greek word “Ethos” which means custom or accepted behaviour (Antonaras *et al.*, 2011:71) and has a similar pronunciation in most languages, such as: “Etik” in Turkish, “éthique” in French, “ética” in Spanish and “etica” in Italian (Atabay, Penbek, Zaptçioğlu, & Ucel, 2013:533). It is in this sense also that many people, in discussing business ethics, immediately think of examples of immoral activities by individuals (Velentzas & Broni, 2010:797). These are the following two main branches of business ethics (DeGeorge, 2005:337):

- *philosophical business ethics* which is normative and critical, and
- *social scientific* which is primarily descriptive and empirical.

Normative ethics examines standards in terms of right and wrong actions and descriptive ethics is an empirical investigation of an individual's moral beliefs. According to Velentzas and Broni (2010:796), normative ethics is divided and can be viewed from the moral theory or applied ethics perspectives; moral theories are concerned with finding moral principles which allow an individual to determine whether an action is right or wrong. Applied ethics is concerned with furthering this understanding; thus the resolution of practical issues of right and wrong (Collste, 2012:18). It deals with complicated moral questions and contentious moral concerns that individuals face in their daily lives.

Social scientific ethics dictate the working of a social system, where morals define our characteristics (Borade, 2012:1). Ethical issues are thus equivocal, meaning that they can be interpreted in more than one way and are uncertain with regard to the future (Wiid, Cant, & Niekerk, 2013:1090). Based on the above classifications of ethics some definitions date back as far as 1967 to more recent definitions, and they are provided in Table 4.1.

Table 4.1: Definition of ethics

Definitions of ethics	Sources
Behaviour that indicates the use of rules, standards, codes, or principles which provide guidelines for moral behaviour and truthfulness in specific situations	Lewis (1985:381)
Code of moral principles and values that governs the behaviours of a person or group with respect to what is right or wrong	Samson & Daft (2012:157)
Branch of philosophy that theoretically, rationally, and reasonably determines right from wrong, good from bad, moral from immoral, and fair from unfair actions and behaviour	Mujtaba (2005:1)
Systematic attempt to make sense of our individual and social moral experience, in such a way as to determine rules that ought to govern human conduct, the values worth pursuing, and the character traits deserving development in life	De George (2006:19)
Assembly of the norms that regulate the moral behaviour of individuals in society, norms that should be observed through the power of habits that are in society	Stefanescu & Doval (2010:37)
Principle of morality; it is both the science of the “good” and the nature of right	Okafor (2011:34)

Source: Researcher’s own compilation

As can be seen in Table 4.1, no universally agreed definition of ethics has been developed over time; however, most researchers agree that high ethical standards require both business and individuals to conform to sound moral principles (Ferrell, Fraedrich & Ferrell, 2014:14). In general, ethics apply to all aspects of human life and create the rules and standards that manage the moral behaviour of individuals and groups. Ethics cannot make the lives of people perfect in the practical world that exists, but ethics can prevent, or reduce a certain amount of harm from emerging. Thus, ethics can be considered to represent a psychological process analytically developed to discover and evaluate the variation between the way it is and the way it could be in order to improve human behaviour in society. Based on the above conceptualisations, *ethics is defined as the norms that regulate the moral behaviour of individuals in society in terms of what*

is right or wrong. Where ethics applies to individuals and their moral values, business ethics refers to ethics in the business setting.

4.2.1 Business ethics

The concept of business ethics as one of the most important business issues is at present (2015) highly neglected. Construed broadly as a moral reflection on commerce, business ethics is as old as business trade (DeGeorge, 2005:338). The idea of ethics in business still continues and generally focuses on applying ethical business norms, just as it has been applied to social- and personal life (Palmer, 2015:129). Business ethics, as opposed to ethics in general, examines the ethical principles and moral or ethical problems that arise within the business environment (Wiid, Cant & Niekerk, 2013:1086). It must be noted that some researchers regard business ethics to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether an action is right or wrong (Gangone, 2011:190). According to Stanwick and Stanwick (2009:7), a discussion about business ethics may eventually lead to legislation if consensus can be reached, but for most business ethics issues, there is currently no legislation that provides guidance.

Generally, business ethics encompasses the principles and values that direct business behaviours. Principles are specified behavioural boundaries that are universal and often become a foundation for rules, speech and the fundamentals of justice. These principles are used to guide business practices and to foster the desired organisational culture (Ermongkonchai, 2010:127). Values are used to develop norms that are socially enforceable such as having integrity, being transparent, objective, reliable, honest and accountable (Ferrell *et al.*, 2014:14, Gurria, 2009:1). It was further indicated that values focus on moral rules, regulations, standards, codes, concepts and principles governing business behaviour. Businesses must adhere to ethical business behaviour in their daily operations, as this shapes the moral reputation of the business (Crystal, 2013:1).

Business ethics can be investigated from various perspectives, such as those of employees, the business itself and society at large. Very often, situations arise in which there is a conflict between one or more parties, whereby the interest of one party is to the disadvantage of the other (Saxena, 2009:263). In this case, the primary function of ethics will be the coordination and

reconciliation of conflicting interests. According to Turan, (2013:304) business ethics is one of the main factors that can show how competitive a business is when providing benefits to stakeholders. However, the concept of business ethics has also come to have different meanings to different people as can be seen in Table 4.2.

Table 4.2: Definition of business ethics

Definitions of business ethics	Sources
What is right or wrong, bad, harmful and beneficial regarding decisions and actions in business transactions	Weiss (2009:8)
What is right and wrong or good and bad human conduct in a business context	Shaw (2010:8)
Rules of moral value that guide decisions; the understanding of the difference between right and wrong	Hatten (2011:419)
Principle values and standards that guide behaviour in the world of business	Ferrell & Fraedrich (2012:7)
Codes and practices businesses comply with to react positively to diversity and increase team competencies, and to provide management and leaders with guidelines when miscommunication produces negative performance reviews and outcomes	Hellriegel (2011:495)
Extent to which an individual's behaviour measures up to legal standards, organisational policies, professional and trade codes, fairness and the individual's own internalised moral standards	Sauser (2005:346)
Prohibitory actions in the workplace	Collier & Esteban (2007:19)
Set of moral principles and values that take control over the behaviour of the business to determine what is regarded as right and wrong	Velentzas & Broni (2010:795)
Recognition and implementation of commonly agreed upon standards of conduct that ensures that the business will not impact its stakeholders negatively	Shakeel, Khan & Khan (2011:59)
Study of business situations, activities, and decisions where issues of right and wrong are addressed	Stanwick & Stanwick (2009:5)

Source: Researcher's own compilation

As can be seen in Table 4.2, different scholars have generally given diverse definitions to what business ethics entails. In simple terms, business ethics consists of principles and standards that direct behaviour in a business setting. It gives a framework on which business could be legally governed by setting out the basic thinking and main concerns of a business in genuine terms. However, what is considered as right or wrong, or good or bad, will be influenced by factors such as their staff, cultural background and the business external environment, and will differ from one business to another. Nevertheless, businesses are required to conduct their operations in an ethical manner and remain profitable. Based on the above discussion, *business ethics will be*

defined in this study as the moral principles and standards that guide business behaviour. To better understand business ethics, the development of business ethics over time is discussed in the following next section.

4.3 DEVELOPMENT HISTORY OF BUSINESS ETHICS

Ethics related issues have existed since ancient times and have been developed from the foundation of different religions and lifestyles (Gangone, 2011:189). Although the concept of business ethics is traceable to ancient times; business ethics only began to develop as a field of study in the 1970's (Ferrell *et al.*, 2014:11).

4.3.1 Business ethics in the 1960s

Until 1960, ethical business issues were often discussed within the domain of theology, where religious traditions provided a foundation for business ethics (Ferrell *et al.*, 2014:12). Many persons in business were strongly influenced by their religious beliefs and the ethical norms that they were taught as part of their religion, and then applied these norms in their business activities (Velentzas & Broni, 2010:797). Business was typically considered to be a moral activity and concepts such as ethics and social responsibility were rarely explicitly mentioned (Keller-Krawczyk, 2010:139).

The field of business ethics emerged as a sub-section of applied ethics, similar to the field of bioethics that emerged in the 1960s in response to ethical slip ups in the practice of medicine, with the explicit intention of using philosophical reasoning and ethical theory to provide normative guidance for business policy and public policy regarding how to conduct ethical business (Arnold, Audi & Zwolinsk, 2010:559). During the 1960s, businesses found themselves increasingly in trouble because of unethical business conduct due to the growth in ecological problems, increased employee-employer tension, civil rights issues, changes in work ethic, drug use escalation and the rise of consumerism (Ferrell *et al.*, 2014:12). As a response to these problems, social issues in business began to emerge including civil rights, environmental protection, workplace safety and consumer protection issues (Abend, 2013:175). Businesses established codes of conduct and value statements, addressing ethics issues through legal- or human resource departments and became confronted by the social responsibility movement. Business schools in universities began

to incorporate ‘social responsibility’ courses into their syllabi and mostly focused on legal and management strategies (Ferrell *et al.*, 2014:13).

4.3.2 Business ethics in the 1970s-1980s

During the 1970’s business ethics began as an academic discipline in the United States of America, with several schools offering courses in Business Ethics by 1980 (Schwartz, 2008:217). Philosophers began to debate on the subject of business ethics, and developed ethical theories relating to ethical business issues. Business ethics then became more institutionalised, organised and an integral part of business education (Fernando, 2011:388). Thereafter, a society for business ethics was established, a journal and textbooks on business ethics were published and annual conferences were launched (Abend, 2013:172). During this time some major ethical issues emerged including bribes and illegal contracting practices, deceptive advertising, financial fraud and product safety which is discussed in more detail in Section 4.6.

Business ethics became more commonly applied as businesses became more concerned with their public image and realised they had to pay attention to ethical issues. They had to offer ethical training programmes, needed to perform internal audits, developed effective internal reporting systems and adopted a philosophy of public accountability (Ferrell *et al.*, 2014:13). According to Treviño and Nelson (2010:177), in addition to appointing ethics officers, businesses created ombudsman positions. Compliance with laws was highlighted and there was a move from being compliance orientated to being values centered. Business ethics became a major concern for business practitioners and academicians because they realised that ethical misdemeanours can cause significant damage to the reputation of a business (Singh, 2009:12). Business ethics was introduced into Europe and Japan in the 1980s, although the term did not translate easily, and the development in each country differed from that in the United States because of socio-political and economic differences (DeGeorge, 2005:337).

4.3.3 Business ethics in the 1990s-2000s

Business ethics then spread to the rest of the world, as a response to what was happening globally, but with a different local emphasis and history (Svensson, Wood & Callaghan, 2004:166). On a global level it became associated with the United Nations Global Compact, initiated by the then

United Nations Secretary in 1999 to encourage businesses to act as socially responsible members of the international community (Bitanga & Bridwell, 2010:1).

Global expansion in the 1990's brought new ethical challenges. The globalisation process progressively eroded the relevance of territorial bases for social-, economic- and political activities and relations (Ferrell *et al.*, 2014:14). As a business entered the global market, they were confronted with diverse and conflicting ethical demands and moral values. These demands were taken for granted in the domestic market, but were questioned in foreign markets (Crane & Matten, 2010:20). There were major concerns about the use of child labour, financial mismanagement, fraud, corrupting officials of the host countries, disrespect to human rights, informational piracy, industrial espionage and environmental issues among others (Gangone, 2011:190).

The emergence of the internet challenged cultural borders and made what was prohibited become commonplace. Business ethics development programmes contained guidelines to prevent, detect and penalise business misconduct and voluntary disclosure was required from all businesses (Swanson & Fisher, 2008:222). Although business ethics appeared to become more institutionalised in the 1990's, new evidence emerged in the early 2000s that quite a few business executives and managers had not fully embraced the public's desire for adhering to high ethical business standards (Ferrell *et al.*, 2014:15).

4.3.4 Business ethics beyond 2000s

During the 21st century, business ethics has been an important part of the economic business environment. Recently, business ethics, as an academic discipline, has become more interdisciplinary than its inception forty years ago (Adamu, Kura, Saidu & Amsami, 2014:268). The interdisciplinary nature of the field of ethics is embodied in academic literature by philosophers' work in the social sciences, social scientists embarking on ethical theories and political philosophers producing research that transcends various disciplines (Arnold *et al.*, 2010:559). This new interest in business ethics has been fueled by the effects of unethical conduct, greed, bad management and business scandals of many businesses (Gift, Gift & Zheng, 2013:633). Within this period, different social groups have manifested with regards to both the

public security against some political manipulations, and consumer awareness in general regarding the necessity of businesses to take the responsibility of finding fair solutions for various ethical issues (Gangone, 2011:189).

At the present time, consumers and pressure groups were increasingly demanding businesses to pursue more ethical and ecologically sound business behaviours and integrating ethics into the modern business environment. The ethical inquiry of managerial decisions is regarded a priority due to the many unethical acts committed by business executives (Sinha & Mishra, 2011:135). The media is also constantly uncovering corporate abuses and malpractices (Visser, Matten, Pohl & Tolhurst, 2010:20). Global newspaper reports name the businesses and their executives who have transgressed and not abided by the law (Svensson & Wood, 2008:303).

Unprecedented economic growth is followed by financial mismanagement; personal data is collected and openly sold, hackers and data thieves plague businesses and government agencies, acts of terror and aggression occur internationally and intellectual property theft is widespread. These abuses increased public- and political demands to improve ethical business standards (Ferrell *et al.*, 2014:13) and has led to anti-corruption efforts, stronger ethical safeguards and emphasis on corporate social responsibility and management integrity. But despite all these developments, most of the academic literature and discussion around ethics focuses on large businesses (Velentzas & Broni, 2010:797).

In recent times, business ethics has moved through several stages of development. Previous research has demonstrated that religious customs provided the basis for business ethics. The ethical norms that were applied in business activities then were taught as part of religion. Business ethics became a major concern for academicians and business practitioners during global expansion when major ethical challenges such as diverse and conflicting ethical demands and moral values emerged; and threatened to damage the reputation of businesses. Most interest in business ethics was stimulated by the business scandals that were widespread at the time. At the present time, stakeholders are increasingly demanding businesses to integrate ethics into their business strategies and the major emphasis is placed on the ethical responsibilities of business.

To understand how decision makers can improve their decision making, the following section presents various theories and approaches to business ethics.

4.4 BUSINESS ETHICS THEORIES

To fully understand the concept of business ethics, it is necessary to explore the various ethical theories that have been developed. Individuals and businesses use at least one of the following ethical theories when making ethical decisions: utilitarianism, moral rights, justice theory, deontology, ethical egoism, the ethics of care and virtue ethics. Each theory provides a different, but somewhat related set of principles or standards for judging whether decisions and behaviours are right or wrong (Perks in Hellriegel *et al.*, 2012:154). The most commonly used ethical business theories are utilitarian-, moral rights- and justice theories (Premeaux, 2009:14). Each of these theories are from a different business context, so they address different behavioural aspects and decision-making styles or decision rules (Cannon & Boswell, 2014:92), such as predicting the outcome of an action and following one's duty to others in order to reach what the individual considers an ethically correct decision (Chonko, 2012:1). Other theories identified in literature include deontology or universalism, the ethics of egoism, the ethics of care and virtue ethics theories which will also be discussed.

4.4.1 Utilitarian theory

The proponents of the utilitarianism (consequentialism) theory are Jeremy Bentham and John Stuart Mill. This theory focuses on the consequences of actions based on the principle of seeking the greatest good for the greatest number of people (Gülcan, 2011:2). The theory requires a person to choose an action that benefits the greatest number of people even if this benefit may come at the expense of a few people (Perks in Hellriegel *et al.*, 2012:154). According to utilitarianism, "what makes an action good or bad, right or wrong, is that it produces the greatest amount of "pleasure" for the majority of people", (Al-Aidaros, Shamsudin, & Idris, 2013:4). It values justice and simultaneously includes beneficence (Sadler, 2011:10).

Utilitarian philosophies propose that individuals should evaluate behaviour in terms of its social consequences (Northrop, Crow & Kraszewski, 2015:118). This theory is based on an individual's ability to predict the consequences of an action; the choice that yields the greatest benefit to most

people as the ethically correct one. The theory judges morality based on the outcome of an action (Spicer, 2013:280), in that it focuses on ends and not means required to achieving those ends. Utilitarianism as a theory requires a business to consider the impact of their proposed solutions to ethical dilemmas from the viewpoints of all those affected, and then make a decision based on what is good for the majority of people (Jennings, 2008:13).

Utilitarian ethics can be used to conduct a stakeholder analysis because it compels decision makers to consider mutual interests, formulate alternatives based on the greatest good for all parties involved and estimate the cost and benefits of alternatives for the affected groups (Weiss, 2009:106). Businesses have moral obligations to their various stakeholders and stakeholders have certain expectations from businesses (Timo, 2006:22), such as customers insisting on reasonably priced, safe and effective products, and employees expecting safe working conditions and fair pay (Yves, 2005:270). According to Perks in Hellriegel *et al.* (2012:155), utilitarianism is consistent with the strong values of individualism and acceptance of uncertainty and these support profit maximisation and rewards based on abilities. Graham (2004:135) mentions that businesses apply the utilitarian principle when:

- resources are not replaceable or scarce;
- priorities are in conflict, and
- there is no clear choice that satisfies the needs of everybody, and for some can result in a loss for others.

Two types of utilitarian theories exist as discussed in the following sections.

4.4.1.1 Types of utilitarian theories

Two types of utilitarian theories exist, namely act and rule utilitarianism. These two theories are elaborated on in the following sections.

(a) Act utilitarianism

Act utilitarianism emphasises that an individual performs the act that benefits the most people, regardless of personal feelings or societal constraints (Alavudeen, Rahman & Jayakumaran, 2008:41). According to Punabantu (2012:35), act utilitarians might also choose an action over a

principle if the greatest benefit can be obtained. Act utilitarians analyse a particular action to establish whether the greatest good can be attained. Since act utilitarianism focuses on the greatest good, justice may be secondary (Al-Aidaros *et al.*, 2013:5). Subsequently, act utilitarianism is not always concerned with justice for the individual if that justice leads to an outcome that does not benefit the majority (Premeaux, 2009:15). As argued by Shaw (2010:69) if act utilitarianism is logically carried out, it could result in more cheating, lying and unfair actions that no good person would be able to tolerate.

(b) Rule utilitarianism

The rule utilitarian approach seeks to benefit the most people through the fairest and most just means available; this approach values justice for the majority (Alavudeen *et al.*, 2008:41). Rule-based decisions are preferred because of the general belief that following the law would prevent problems. According to Shaw (2010:74), rule utilitarianism maintains that the utilitarian standard should be applied not to individual actions, but to all actions embracing moral codes. This means that a decision maker following a rule utilitarian philosophy evaluates the rule, based on the type of action (Punabantu, 2012:35). The principle that constitutes the code would then be the basis of distinguishing right from wrong actions; the rule utilitarian thus believes that the optimal moral code will not consist of just one rule to maximise happiness (Weiss, 2009:75). However, problems can occur when there are conflicting rules. Following a chosen rule may not lead to the greatest benefit in all situations. However, over the long-term, the rule may result in decisions that lead to the greatest societal benefit (Spicer, 2013:280). Previous studies demonstrate that ethical dilemmas that involve coercion and control invoke the utilitarian rule of ethical reasoning; the rule is thus based on the specific act (Premeaux, 2009:18). Although there are merits in the reasoning of the utilitarian theory, applying it is not without problems as highlighted in the following section.

4.4.1.2 Problems associated with the utilitarian theory

The utilitarian approach may pose problems associated with prediction and comparison of various outcomes (Premeaux, 2009:14). Although people can use their life experiences to attempt to predict outcomes, no one can be certain that his/her predictions will be accurate (Gülcan, 2011:4).

Specific problems associated with the utilitarian theory are briefly described in the following sections.

(a) Neglect motives and intentions

The theory does not judge action, but rather their consequences and does not consider societal constraints such as laws (Graham, 2004:136). The focus on consequences and results, which is central to consequentialist theories, neglects motives and intention (Al-Aidaros *et al.*, 2013:5). It dismisses their importance for determining the correctness or unfairness of an action; so that even when some actions are wrong, the decision maker proceeds to take those actions based only on their consequences (Spicer, 2013:286). To the utilitarian, the final result is always the most motivating factor (Munch, 2010:47). In addition, the theory assumes that a utilitarian decision maker must consider his/her ability to compare the various types of consequences on a similar scale by comparing material gains, such as money, against intangible gains, such as happiness, which is very difficult since their qualities differ to a large extent (Shaw, 2010:57).

(b) Quantifying and defining happiness

There are also some arguments regarding ‘the greatest happiness principle’ that is advocated by utilitarianism. It is difficult to measure the extent of happiness or determine an action that will benefit the most people (Mill, 2006:19). Utilitarianism concerns itself with the total happiness produced, not with how that happiness is distributed (Guidi, 2008:41). Besides, no agreement exists about the definition of good for all concerned; for example knowledge, friendship and aesthetic satisfaction can also be regarded as inherently good. The implication is that these outcomes are valuable, even if they do not lead to happiness (Shaw, 2010:54).

(c) Intended beneficiaries

No agreement exists about who decides what is good for whom and whose interests are the most important (Weiss, 2009:106). In addition, the greatest happiness of the greatest number of people leaves minorities in any society at a distinct disadvantage. Utilitarianism in the strictest form would allow slavery and torture of a few people if it increased the happiness of the population as a whole (Shaw, 2010:69).

(d) Rights infringement

A utilitarian decision maker is concerned with achieving the utmost good, thus an individual's rights may be infringed upon in order to benefit a greater number of people (Morrison, 2015:34). In other words, act utilitarianism is not always concerned with justice, beneficence or autonomy if oppressing the individual leads to benefiting the majority of people (Alavudeen *et al.*, 2008:42). Utilitarianism does not consider the individual, but the group for which the greatest good is regarded suitable (Liao, 2014:131). Also, the theory regards the welfare of any one individual as no more or less important as the welfare of another, but it does not assume that all individuals should be treated in the same way (Premeaux, 2009:14).

(e) Changes in conditions

Another challenge with act utilitarianism is that when an individual faces one set of conditions, those conditions might suddenly change (Alavudeen *et al.*, 2008:42). The changes in conditions may lead to a change in the original decision from being nice to someone at that particular moment to disliking the person because the situation has changed, and liking the person is no longer valuable to the most people. Uncertainty can lead to unexpected results which make the utilitarian decision maker appear unethical over time, as the choice made did not benefit the most people as predicted (Chonko, 2012:2).

(f) Collective versus individual benefits

Rule utilitarianism has been criticised because it advocates following general rules which often decreases happiness for the people directly involved, thus failing to meet the basic requirement of utilitarianism (Alavudeen *et al.*, 2008:42). Rule utilitarians argue that exceptions can be made to the rules where breaking the rule would lead to increased happiness (DesJardins & McCall, 2014:50). This would appear to render the rules meaningless and revert to simple act utilitarianism.

To summarise, according to the utilitarian theory, moral reasons are those that seek to generate the greatest good for the greatest number of people. It requires individuals to look at the impact of their actions based on those who are affected. The theory is so concerned with results that it may overlook the moral importance of the ways and means in which the results are achieved. In

other words, an individual performs the acts that benefit the most people through the fairest and most just means available. With this, the theory risks making some people slaves to the maximisation of total happiness. However, the non-utilitarian perceives people as having an obligation to avoid violating people's rights and not to just promote their happiness. The moral rights principle provides power to employee welfare rather than to focus on short-term business goals which is a concern of applying the utilitarian rule. The moral rights theory is presented in the next section.

4.4.2 Moral rights theory

Most rights theorists believe that the individual's moral rights take precedence over the rights of the business. According to Holmes (2007:83), human rights is simply the natural right belonging to all people by virtue of being a human being; and the rights theory maintains that human rights should be autonomous, free from the influence of other considerations. Human beings have certain fundamental rights that should be respected and protected in all decisions (Crane & Matten, 2010:108). According to Perks in Hellriegel *et al.* (2012:155-156) these include:

- Life and safety when customers and the general public have their lives and safety unknowingly and unnecessarily endangered;
- Truthfulness when employees, customers and the general public have the right not to be intentionally deceived on matters about which they should be informed;
- Privacy when citizens have the right to control access to personal information about themselves and its use by government agencies, employers and others. Privacy issues may include; confidentiality of medical and psychological counseling records, managerial monitoring of emails and access to credit records, and
- Freedom of conscience of speech when an individual has the right to refuse to carry out orders that violate their moral or religious beliefs. Employees have the right to criticize the legality of their employers' actions as long as the criticism is truthful and does not violate the rights of others within or outside the business.

Similarly Crane and Matten (2010:109) mentioned basic human rights to include: a right to life, justice, education, fair trial, freedom of belief, association and expression. The morally correct action is the one that is a person moral right, that does not infringe on the moral rights of others,

and that furthers the moral rights of others (Spicer, 2013:283). The rights theory suggests that the best method to deal with ethical issues is to have a foundation for obligations in order to justify every individual's entitlement to human rights (Shaw, 2010:70). Since rights often conflict with one another and there is no widely accepted hierarchy of rights, some moral philosophers have concluded that rights should be accorded *prima facie* validity. This means that rights should be respected unless there is a good moral reason for violation (Jones, Felps & Bigley, 2007:138). According to Weiss (2009:71), the significance of positing moral rights is that they provide grounds for making moral judgments and once moral rights are asserted, the locus of moral judgment becomes the individual, not society.

Literature distinguishes between two types of rights, namely positive and negative rights as described in the following sections.

4.4.2.1 Types of rights

Rights theories have to do with securing or preserving certain liberties (negative rights) or benefits (positive rights) for their holders. However, interpreting a right as positive or negative is sometimes debatable (Bennett-Woods, 2005:30). The possession of a right by one party implies the existence of a corresponding duty or obligation for somebody else (Jones *et al.*, 2007:139).

a) Positive rights

According to Shaw and Barry (2015:75), positive rights reflect the interest that human beings have in receiving certain benefits such as being provided with some goods, services or opportunities offered by other people. Shaw (2010:66) is of the opinion that positive rights are often associated with the right to education, medical care, equal work opportunities, competitive pay and a decent neighbourhood, among others. In addition to these rights are the positive duties for the right parties to assist individuals in their pursuit of these interests (Weiss, 2009:71). As argued by Crane and Matten (2010:108), the rights of an individual can result in a subsequent duty for other individuals to respect, protect or facilitate these rights. Similarly, Jones *et al.* (2007:139) notes that with positive rights, the obligation is to provide the other party with some kind of benefit.

b) Negative rights

Shaw and Barry (2015:75) state that negative rights reflect the interest that human beings have in being free from outside interference. Weiss (2009:71) argues that negative rights are obligations imposed on people to stop them from interfering with other people's freedom of action. According to Jones *et al.* (2007:139) with negative rights, the duty is to allow the party to act freely (not be interfered with) within the domain covered by the right. The rights covered in the Bill of Rights, namely freedom of speech, assembly and religion is included in this category (Bingham, 2011:159). In conjunction with these duties, there should be no interference with the pursuit of other people's interests and activities.

In spite of the good intentions of the moral rights theory, research identified certain limitations of implementing the moral rights theory as presented in the subsequent section.

4.4.2.2 Problems associated with the moral rights theory

As a guide to ethical behaviour in businesses, the moral rights approach indicates more of what businesses should avoid doing than what they should do, such as violating the moral rights of employees, customers and members of society (Perks in Hellriegel *et al.*, 2012:156). However, the following specific problems have been identified with the moral rights theory.

(a) Inconsideration for mutual benefits

The principle of rights is concerned with individual entitlement regardless of the mutual benefit (Weiss, 2009:106). The theory thus neglect mutual interests, yet rights are sometimes not associated with society (Edwards, 2003:2). According to Chonko (2012:3), the main problem of this theory is that an individual must determine the characteristics of a certain right in a given society. The society has to determine which rights it wants to maintain and offer to its citizens. For the rights theory to be useful, it must be used in conjunction with another ethical theory that will consistently explain the goals of the society.

(b) Determining the rights hierarchy

Another problem with this theory is the lack of hierarchy in establishing the most valuable right (Wildfire, Stebbing & Gazzard, 2007:475). For a society to determine which rights it wants to

enact, it must decide the society's goals and ethical priorities (Alavudeen *et al.*, 2008:42). According to MacKinnon and Fiala (2014:140), the basic rights that society ought to protect are not welfare rights like right to food, clothing and shelter, but only liberal rights such as the right to not be interfered with in our daily lives. This means several people's rights must be relinquished to reach a conclusion which invalidates the theory (Wildfire *et al.*, 2007:476).

To summarise, the moral rights principle provides a basis for ethical decision-making that differs completely from utilitarian reasoning. According to the rights principle, all people have the same rights irrespective of differences in demographic characteristics. People's rights must at all times be respected unless there are two or more in conflict. Only then a judgment should be made by choosing the most important right and taking the agreed action, with respect to the overruled right. The rights principle is concerned with individual well-being despite the consequences of the mutual benefit. In doing so, the rights theory differs from utilitarianism, because the rights of the individuals involved outweigh the overall consequences. Decisions based on the rights principle give greater importance to the employee's well-being in the long-run than to short-term business goals. However, the theory must be used in conjunction with other theories, since rights and obligations are interrelated. Ideally if someone has a right, then others have an equivalent obligation to provide what the right requires. The theory also provides a moral framework for law while the justice theory commands fairness in decision making. The justice or social contract theory is presented in greater detail in the next section.

4.4.3 Justice or social contract theory

John Rawls, the proponent of the justice theory indicates that the justice or social contract theory is concerned with fairness and equity in decision making (Spicer, 2013:283). An ethical decision based on the theory of justice has a consistent and logical basis that supports the decision (Alavudeen *et al.*, 2008:40). The theory emphasises that rules should be administered fairly, people should not be accountable for matters over which they have no control and should be compensated for the cost of their injuries by those responsible for their injuries (Premeaux, 2009:15). However, according to Graham (2004:168), justice is served when all people have equal opportunities and benefits from societal opportunities.

According to Seeler (2013:37), the first virtue of social institutions is justice for the individual and not collective welfare. The theory of justice requires a business to ask how fairly benefits and costs are distributed regardless of their power, position and welfare (Weiss, 2009:112). This means the business is more concerned with how the “pie” is divided than with its size. It should be noted that the justice theory does not support selfish behaviours (Crane & Matten, 2010:113), because it is unfair to lower employees’ salaries or to increase consumer prices unless these groups are willing to sacrifice for the cause (Lantos & Cooke, 2003:31). Previous studies demonstrate that a decision not to mislead others is based on the theory of justice (Langer, 2006:2). Thus ethical decisions in situations that involve deception of some kind are evaluated basically in terms of their intrinsic fairness, justice and “goodness”.

Morrison (2015:26) notes that inequalities may be permissible only if they are to the advantage of the least moneyed people. According to Perks in Hellriegel *et al.* (2012:157), the theory of justice requires decision makers to be guided by three main principles:

- The *distributive principle* which requires individuals not to be treated differently on the basis of arbitrarily defined characteristics. The principle holds that individuals who are similar in relevant aspects be treated similarly and those that differ be treated differently in proportion to the differences between them.
- The *fairness principle* which requires employees to support the rules of the business when the business is just or when employees have voluntarily accepted benefits provided by the business or have taken advantage of opportunities offered in order to further their own interest, and
- The *natural duty* which requires that decisions and behaviours be based on universal principles associated with being a responsible member of society.

Although there are merits in the reasoning of this theory, literature identifies problems associated with implementing the theory as described in the following section.

4.4.3.1 Problems associated with the justice theory

Justice and fairness are important for every business operation. The justice principle calls for a fair allocation of burden and benefits among persons to promote greater efficiency.

(a) No guarantee of equal distribution of wealth

The problem with the justice theory is that justice is served when all people have equal opportunities, however, equal opportunities do not guarantee equal distribution of wealth and also opportunities and burdens cannot be fairly distributed to all people when it is not in the interest of those in power to do so (Weiss, 2009:112). This is in agreement with the findings of Stern and Dietz (2008:59) that most people view justice as seeking to achieve fair procedures and outcomes, which is not always possible, since there are differences between people in terms of efficacy. The theory assumes a society that consists of free and equal persons with equal opportunities and the rights and liberties referred to by the principles are those that are determined by public rules (Bhargava & Acharya, 2008:53). Thus, individuals whose reasoning is based on general consideration and not on a personal situation will adopt the justice principle. However, it is not possible to have a society of equal individuals with equal opportunities when there is a difference in peoples' efficacy.

(b) What is justice?

There may also be a problem of determining if the rules of justice that govern society as a whole are actually just (Premeaux, 2009:15). The absolute power that is encouraged by the justice theory can bring about negative consequences such as oppression and exploitation (Crane & Matten, 2010:116). For example, it is justified for a country to export all its food produce to another country in order to obtain higher profits and ignore the starvation experienced by its people.

To summarise, according to the justice theory, an injustice can happen when someone is denied something of which that person has a right to. The theory condemns selfish behaviours and advocates for equity and fairness in decision making, and not making individuals accountable for issues over which they have no control. In business, the theory requires decision makers to base their decisions on universal principles, support business rules which are fair, and avoid discriminating against employees based on arbitrarily defined characteristics. The theory also emphasises that justice is served when all people have equal opportunities, however, this can only be possible if it is supported by those in authority. In principle, Rawls' theory is functional to business situations such as fulfilling duties and attaining fair procedures and outcomes. Rawls

explains that the theory of justice based on fairness can be associated with the deontological theory since this theory places an emphasis on duties and rules.

The deontology or universalism theory is presented in the next section.

4.4.4 Deontology or universalism theory

The proponents of the deontology theory are Immanuel Kant who emphasises that the ends do not justify the means of an action; the right thing must always be done even if doing the wrong thing would do the most good for the most people (Weiss, 2009:107). According to the deontology theory, “what makes an action good or bad, right or wrong, is that it conforms to some sense of duty” (Shaw & Barry, 2015:70). The basic principle is; duties towards self or others (Sadler, 2011:11). This theory assesses the morality of an action based on the action's adherence to rules (Cannon & Boswell, 2014:94). Whether an action is ethical, depends on the intentions behind the decisions rather than the resultant outcomes (Butts & Rich, 2008:21).

As indicated, the deontological theory emphasises duties and rules. Proponent Kant defends rules made on rational grounds such as ‘do not lie’, ‘keep promises’, ‘do not kill’ (Hursthouse, 2013:648). Rules should comply with the categorical imperative (Seeler, 2013:38) and failing to adhere to one or more of these criteria results in an action to be classified as immoral (Weiss, 2009:107). The categorical imperative holds that:

- moral rules should be universal and applied to all rational, moral members of the community rather than just some;
- all individuals should never be treated simply as means, but always as ends in themselves, and
- members of the moral community should assist in making the laws, as well as living by them.

According to Al-Aidaros *et al.* (2013:6), regardless of the consequences, the deontology approach is based on universal principles such as justice, rights, fairness, honesty and respect. Kant recognises that actions such as kindness, loyalty, sympathy, happiness, courage, intelligence and other good motives are excellent, but they do not constitute a moral motivation for acting and thus do not result in morally good actions (Shaw, 2010:61). Deontology does not look primarily at the consequences of actions, but examines a situation for the essential moral worth of the

intention, rightness or wrongness of the act (Butts & Rich, 2008:21). This implies that the Kantianism theory never allows self-interest to exist in moral reasoning (Graham, 2004:103).

The deontological ethical theory states that people should adhere to their obligations and duties when making ethical decisions. In other words, one should choose the action which best conforms to your accepted duties (Sadler, 2011:11). This means that an individual will follow his/her obligations to another individual or society because upholding your duty is what is considered ethically correct (Al-Aidaros *et al.*, 2013:6). An individual who adheres to the deontological theory will make consistent decisions since it will be based on the individual's agreed duties (Northrop *et al.*, 2015:118).

The theory further holds that rules should not be broken, even if breaking them may improve an outcome (Punabantu, 2012:23). Jennings (2008:13) states that an action is considered to be ethical if it can be accepted as a universal law by everybody. This means that, an individual should choose to act if and only if she/he would be willing to have everybody in that same situation act in exactly the same way (Weiss, 2009:107). In other words, an individual's action should be treated as a universal law (Butts & Rich, 2008:22). The theory also emphasises treating each other with respect; an individual should not be used as a means to get to an end (Jones *et al.*, 2007:138).

Individuals in business relationships should not be used, coerced, or deceived, and business practices should be developed to contribute to the development of human rational and moral capacities (Chonko, 2012:2). This requires decision makers to perform their duties in a responsible manner and be respectful towards all individuals involved. The deontology rule requires that an individual should act as if being a member of an ideal "kingdom of ends," in which the individual is both king and sovereign simultaneously. In business, this means that the rules that govern businesses must be such that it can be endorsed by all employees in the business. (Chonko, 2012:2). Previous studies demonstrate that an ethical dilemma that involves deception issues result in individuals using deontological principles to reason what the outcome of the situation should be taken into consideration in specific circumstances (Granitz & Loewy, 2007:299).

The deontology theory contains many positive attributes, but it also contains flaws as presented in the next section.

4.4.4 1 Problems associated with the deontology theory

There have been arguments against the deontology theory, mostly due to the narrow focus and inadequacy of this theory to cope with various moral problems or dilemmas (Shaw & Barry, 2015:70).

(a) Criteria for deciding on what is a good duty

One of the problems is that there is no rationale or logical basis for deciding what an individual's duties are (MacKinnon & Fiala, 2014:119), and there is no moral guidance or solution when an individual's rights and duties conflict (Morrison, 2015:22). As argued by Amissah (2010:118), one of the main problems of Kant's deontology theory is its inability to appeal to the real motivations of human action, especially when there are conflicting duties. To illustrate this, when having two conflicting duties, the right action taken creates a gap which according to Kant's deontology theory leads to consequences (Alavudeen *et al.*, 2008:41). An individual may decide what his/her duty is and it may appear to be a good duty; but why the individual has chosen the duty may be not be clear (Graham, 2004:103). In practice, "good actions" in business would be very unusual, and probably never regarded as moral actions in the Kantian sense. This is because the good acts are always partially justified as profitable (Frederick, 2008:12).

(b) Neglecting consequences

In Kant's view, it is the intention behind the action that matters and not the consequences (Butts & Rich, 2008:21). Kant's view seems problematic since individuals might not always be able to judge whether an action is right or wrong without looking at the possible consequences (Cheney, 2013:43). Besides, it is difficult to isolate the nature of the actions from the consequences thereof. Sometimes an individual may look at the nature of the action based on the motive behind the action while not having the cognitive ability to determine the consequences thereof (Amissah, 2010:98). As remarked by MacKinnon and Fiala (2014:125) individuals cannot conform to some sense of duty and also adhere to rules fearing harmful consequences.

(c) Lack of universal application

The universal application of some ethical guidelines at times seems problematic. There are instances when some universal laws cannot be absolutely applied (MacKinnon & Fiala, 2014:118). For instance, during a war, there is the tendency to not follow ethical guidelines to avert a greater evil (Amissah, 2010:120). Besides, it is difficult to resolve conflict of interest when using a criterion that requires all people to be treated equally. There is a difference between stakeholders' interests and the relative authority to resolve the conflict of interest (Weiss, 2009:61).

(d) Lack of moral thinking

According to Fernando (2010:27), people often act from their sense of duty due to feelings or the inclination to self-interest, and these actions may not be related to moral thinking. People act morally when they purposely decide to act based on reasoning (Shaw, 2010:66). Kant's theory does not provide for ranking of moral laws, so it is difficult when faced with more than one option to know which action to take (Louden, 2011:114).

(e) No self-interest permitted

The idea of duty is seen as one of the pillars of the deontology theory. Kant thinks that morality is a matter of following rules that are logical and applicable to all (Callanan, 2013:40). In other words, Kant's principle directs individuals how to act (Cannon & Boswell, 2014:94). The theory does not take into consideration the ethical dilemma that an individual can benefit from using other individuals (Duquenoy, Jones & Blundell, 2008:9). This means that Kantianism does not at all permit self-interest to be present in moral reasoning; it is the intention behind an action rather than its consequences that make that action good (Frederick, 2008:3). In general, deontological ethics are considered as ethics of reasoning since goodwill emanates from reason.

To summarise, the deontology theory emphasises adhering to established rules to be in a position to do the right thing. This implies that if an action is right for one person it is right for everyone because it conforms to stipulated rules. The theory helps people to choose actions that conform to their duties and keep away from those prohibited by law. This results in consistent decisions because they are based on the individual's agreed duties. In business, this means that employees

should adhere to their duties, and to the rules that govern business to make consistent decisions. Deontological theory judges moral action depending on the intentions behind the decisions rather than the consequences of actions. However, human nature occasionally permits that reasoning, even in the performance of duty, the consequences are normally still considered. Because of this, individuals often choose the action which benefits their own self-interest most, which is the pillar of the ethical egoism theory as presented in the next section.

4.4.5 Ethical egoism theory

Ayn Rand and Adam Smith are the proponents of ethical egoism. This theory states that an action is morally right if the consequences of that action are more favourable to the individual performing the action (Moseley, 2005:1). Thus the action that can attain or contribute the most to the individual's self-interest should be chosen. The basic principle is the self-interest of an individual acting, considering an action, or affected by the action (Chonko, 2012:3). According to Shaw (2010:50), egoism advocates letting other people benefit only when it will be reciprocated, the act will bring pleasure or in some way the individual will benefit. Thus, the moral principle of ethical egoism suggests that an act is ethical when it promotes the individual's long-term interests (Jennings, 2008:12). This means egoists cannot act truthfully, be gracious and assist or promote other people's interest. It is possible for people to assist others, follow the rules of society, and even grant gifts, if they believe that those actions are in their own best interest (Shaw & Barry, 2015:57). Jones *et al.* (2007:138) mention two dominant forms of egoism as follows:

- *Psychological egoism* which is a descriptive theory of human behaviour that people are naturally programmed to behave only in their own self-interest, and
- *Ethical egoism* which is a normative theory whereby people ought to act exclusively in their self-interest.

According to Shaw and Barry (2015:58), psychological egoism asserts that all actions are selfishly motivated and that totally unselfish actions are impossible. Graham (2004:23) concurs that psychological egoism asserts that people always act in their own interests, even though they may disguise their motivation to help others as doing their duty. This is also confirmed by MacKinnon and Fiala (2014:71) that people usually or always act for their own short-sighted

personal self-interest in terms of good health, work or career satisfaction, having prestige and self-respect. As argued by Shaw (2010:51), blowing the whistle on your employer's misdemeanours at great personal expense is done to satisfy the employee's self-interest desires. On the other hand, as argued by Moseley (2005:3), ethical egoism requires that the promotion of an individual's own good should be based on morality. It is moral to promote your own good, and it is immoral not to promote it. However, there may be conditions where the avoidance of personal interest may be a moral action. According to Al-Aidaros *et al.* (2013:4), ethical egoism maintains that people ought to look out for or seek only their own best interest. In other words people ought to help others only when and to the extent of their own best interest to do so.

According to previous research, there are some criticisms against the egoism theory as presented in the following section.

4.4.5.1 Problems associated with the egoism theory

Shaw (2010:53) recommends that egoism must respond to the widely observed human desire to be fair or just; a desire that at least sometimes seems stronger than selfish desires. However, the following problems are associated with the egoism theory.

(a) No consideration for immoral acts

According to Shaw and Barry (2015:60), the most common objection to egoism is that by reducing all to the standard of what constitutes a best long-term self-interest, egoism does not take a stand against seemingly immoral acts such as theft, false advertising, sexual harassment and pollution among others. All these actions are morally fair until the test of self-interest is applied. As argued by MacKinnon and Fiala (2014:75) some elements of the egoism theory seem in contrast to common sense morality like torturing human beings would be permitted as long as it served an individual's interest. Surely, personal gain cannot be in an individual's best interest if it involves hurting another (Holmes, 2007:41). The welfare of others is relevant to an egoist only if it affects his/her welfare (Jones *et al.*, 2007:138).

(b) No means for settling conflicting interests

Moseley (2005:4) concurs that there are situations when two individuals' greatest good will be in conflict of their own self-interests and the theory seemingly does not possess a conflict resolution system. This is confirmed by Shaw (2010:53), that the theory does not provide a means for settling conflicting interests, it simply tells each party to do whatever is necessary to promote his or her interest effectively.

(c) Adherence for a specific reason

In a society of egoism, people might publicly agree to follow certain rules so their lives would run more smoothly (Gensler, 2013:127). According to MacKinnon and Fiala (2014:75), an individual who cares for nobody but him/herself is not necessarily a moral person. An individual may have been taught not to lie as people will not trust him/her, but this individual is actually prudent and not acting from morality. As argued by Moseley (2005:2) all human action is not necessarily motivated, whenever a choice is made by an individual to act, the action is what the individual wants to do at that point in time. This means individuals would not hesitate to break rules if they thought they would get away with it (MacKinnon & Fiala, 2014:77).

To summarise, the egoism theory states that self-interest should be the motivation of an individual's actions. This means, an egoist cannot act honestly, be gracious and helpful, or promote other people's interests. In other words, personal gain cannot be in an individual's best interest if it involves hurting another individual. All human action is essentially motivated; it is possible for individuals to help each other if they believe those actions are in their own best interest. Ideally a good action is one that supports or nurtures other people. This is the basis of the ethics of care theory presented in the next section.

4.4.6 Ethics of care theory

Carol Gilligan, Virginia Held and Michael Slote are the proponents of the ethics of care theory. The theory emphasises that an individual should choose an action which supports or nurtures other people, particularly those who are most vulnerable such as children or employees (Fieser, 2008:11). According to the ethics of care theory what constitutes good or bad, right or wrong, involves caring for another individual and supports a relationship with other individuals (Sadler,

2011:11). The theory emphasises virtues that are important to personal relationships, such as compassion, sympathy, empathy, fairness, respect, justice, honesty and loyalty (Athanasoulis, 2010:4). It emphasises the importance of solidarity, community and relationships rather than universal standards and impartiality (Mastin, 2008:2). The ethics of care theory argues that an individual's moral obligation is not to follow impartial principles, but rather to care for the good of the particular individuals with whom the person has a special relationship (Jones *et al.*, 2007:138).

Human beings in particular settings should generate “caring” solutions appropriate to unique situations (Edwards, 2009:233). The theory suggests that special relationships with individuals such as employees and customers should take precedence over more distant relationships, such as individuals living in other communities or third world nations (Lantos & Cooke, 2003:31). With the absence of the notion of universality and impartiality; the ethics of care theory regards actual relationships and the social contexts in which they are embedded, as valid and important elements of ethical decision-making (Edwards, 2009:233). There is a growing interest in the application of the ethics of care theory in business because of the increased interest in the relational aspect of business life.

However, previous research identified the limitations of implementing the ethics of care theory as highlighted in the following section.

4.4.6.1 Problems in the application of the ethics of care theory

The following criticisms were noted against the egoism theory as indicated in the following sections.

(a) Favouritism

In business there may be a time in which an individual's desires to express care for another individual conflicts with the care he/she wishes to convey. Schumann (2001:107) states that a manager may wish to favour a friend over strangers for the job, but this desire is in conflict with the desire to select the best qualified candidate, which follows from his “care” for his relationships with other employees, customers, and shareholders of the business. According to

Sander-Staudt (2011:4), if managers focus on caring relationships without a broader sense of justice, care ethics may allow for favouritism towards family and friends. Such critics of the ethics of care theory see care as necessary for moral sympathy and moral answers, but they believe it cannot work in isolation (Lachman, 2012:113).

As noted in the preceding sections, care is crucial for human development and is a physiological need. The uniqueness of the ethics of care theory is seen in the focus on social power and relationship. Ethic of care theorists call for a change in how morality and virtues are analysed, by shifting its stance towards virtues like taking care of others, being patient, the ability to nurture and self-sacrifice. The theory requires individuals to attend to their needs and those of the people with whom they have close relationships, as well as the people in the society in which they live. A moral person is someone who provides assistance to others. Focusing on caring relationships results in social arrangements, though it may conflict with the care individual's wish to care for others. Ethics of care stems from ethics of responsibility and it is used in business pertaining to the management of stakeholders. The virtue theory is presented in the next section.

4.2.7 Virtue theory

Aristotle and Confucius are the proponents of the virtue theory. The theory is grounded in the character traits of people not on specific actions that should be taken (Al-Aidaros *et al.*, 2013:6). According to the virtue theory, "what makes an action good or bad, right or wrong, is that it actually embodies or promotes traits that are culturally acknowledged as good or bad; these in turn lead to a fuller or reduced living potential" (Sadler, 2011:14). The virtue theory holds that generosity, bravery, kindness and the like are character traits that count as virtues, not because people happen to approve of it, but because of human vulnerability and dependence on others. (Graham, 2004:62). The basic principle rests upon the fact that actions reflect or produce a good or bad character, are embodied in developed and lasting traits or habits (Sadler, 2011:14). The virtue ethical theory judges an individual's character rather than action which may deviate from the normal behaviour displayed (Alavudeen *et al.*, 2008:43). It takes into consideration the individual's morals, reputation and motivation when rating unusual behaviour considered to be unethical (Chonko, 2012:3). The theory argues that an individual of good character is and acts

moral, feels good, is happy and flourishes (Weiss, 2009:113). According to Dobson (2007:1), the virtue approach to ethics exhibits four basic characteristics namely:

- A strong emphasis is placed on the importance of some generally accepted character virtues and through perfecting these virtues, an individual becomes truly ethical;
- A strong emphasis on the existence of an active community that nurtures these virtues, since for these virtues to flourish a conducive infrastructure is required;
- It clarifies that in moral life one cannot merely rely on rules or guidelines, but also on exercising sound moral judgment, and
- The successful identification and emulation of moral exemplars or role models is essential for the dissemination of morality within the community to be nurtured, thus ethics is learnt through the observation of the behaviour of other people.

Virtue ethics is about conditioning oneself to act morally, so it becomes a habit (Jones *et al.*, 2007:140). One critical feature is that its achievement entails adherence to certain 'virtues' of character such as honesty, fairness, prudence, temperance, wisdom, justice and courage (Chonko, 2012:3). Seasoltz (2012:113) recognises that the virtue theory emphasises moral character in contrast to moral rules or consequences of action. The excellence pursued by the true professional, therefore, is not something that can be measured in strictly material terms; it is a "moral as well as an economic excellence". Even though hard to quantify, individuals or "exemplars" who have achieved this excellence are generally identifiable by their predisposition to place personal integrity over and above any material considerations (Dobson, 2007:4).

Previous research may have identified many positive attributes for the virtue theory, but there are also problems in the application of it as highlighted in the following section.

4.4.7.1 Problems in the application of the virtue theory

There are some criticisms against the virtue theory as presented in the following sections.

(a) Changes in moral character

In virtue ethics the principal goal is to be a good person, however according to MacKinnon and Fiala (2014:156), being good is only a function of being inclined to do good; ethics require not

only a habitual inclination towards good deeds, but also on actually doing good. Alavudeen *et al.* (2008:43) agree with this notion that the virtue ethical theory determines what a good person would do in a specific real-life situation, but it does not take into account a change in the moral character of the individual. As argued by Athanassoulis (2010:2), the ability to cultivate the right virtues will be influenced by certain factors beyond the control of an individual due to education, society, friends and family. This is in agreement with Bennett-Woods (2005:13) that human character is shaped over time by a combination of natural inclinations and the influence of factors such as culture, education and self-reflection. Thus character traits change and unless people practice it, they risk losing their proficiency in some areas.

(b) No specific guidelines on specific actions

The virtue theory provides a self-centered conception of ethics because human “flourishing” is seen as an end in itself and does not sufficiently consider the extent to which our actions affect other people (Athanassoulis, 2010:1). The theory cannot correctly assess the occasional dreadful actions of virtuous people since it focuses on the general notion of a good person (Weiss, 2009:113). Virtue ethics does not provide guidance on how an individual should act, as there are no clear principles for guiding an action other than “to act as a virtuous person in a given situation” (Hursthouse, 2013:645). This virtue theory does not consider individuals who do not meet the characteristics of the “ideal good” person. The question that arises is that if an individual is not displaying virtuous characteristics, is this individual then bad or vicious (MacKinnon & Fiala, 2014:156). Besides some acts cannot be tolerated such as murder, but this theory does not provide a special list of prohibited offences (Mastin, 2008:2).

To summarise, the virtue ethics theory developed from a discontent with the notion of duty and obligation when considering morality. The theory was introduced to oppose the deployment of rigid moral rules and principles to accepting different moral situations. The theory of virtue ethics does not seek primarily to recognise universal principles that can be applied in any moral situation; but focuses on the role of character and virtue in moral reasoning. It requires individuals to act the way a virtuous individual would act in any situation. However, virtue ethics provides a self-centered notion of ethics because it does not consider the extent to which an individual’s actions affect other people.

It is thus clear from the preceding discussion that ethical theories can provide considerable direction during the decision making process. All ethical theories set forth certain guiding principles that may be applicable to ethical dilemmas, but all theories have limitations. Essentially, there is no ultimate ethical theory as there are no perfect decisions, but good decisions may be taken when ethical theories are consulted. It is important to note that there is not a single theory that can be applied or is adequate to prevail over a large amount of immoral activities presented in real life situations. For appropriate decision making, businesses should adopt interdisciplinary theories to make more ethically correct decisions. The following section presents the universal principles applied in business ethics theories.

4.5 PRINCIPLES APPLIED IN BUSINESS ETHICS THEORIES

As can be seen, there are some theories and approaches that support the concept of business ethics. When it comes to determining a set of rules, guidelines or principles to follow in business, it is difficult for everybody to agree due to divergent expectations on the evaluation and acceptance of business ethics. When individuals find themselves in an ethical decision making situation, there are a variety of ethical theories or decision rules which can provide guidance to make ethically correct decisions (Chonko, 2012:4). These ethical theories provide an important framework that can guide managers towards making more ethically appropriate decisions (Jennings, 2008:1; Premeaux, 2009:16).

Ethical theories are commonly used to analyse and explain the nature and purpose of business ethics, as well as how it evolved as a concept. Likewise, these theories help to justify the need for businesses to apply ethics to enable managers to make more morally acceptable decisions. Each ethical theory attempts to adhere to ethical principles that can lead to the best possible decision (Alavudeen *et al.*, 2008:43). These principles must be adhered to even at the expense of forgoing profits (Cialdini, Petrova, Goldstein & Team, 2004:67). Ethical principles are the general goals that each theory advocates in order to be successful in business. According to Urden, Stacy and Lough (2013:20), ethical principles are guidelines that govern conduct, provide a basis for reasoning and direct actions. Beauchamp and Childress's principles approach is one of the most commonly used frameworks and offers a wide consideration of ethical issues in general.

These principles include, beneficence, least harm, respect for autonomy, justice, fidelity, veracity and paternalism, and is discussed in the following sections briefly.

4.5.1 Beneficence principle

The principle of beneficence is stated as an obligation to act in ways that promote goodness (Bennett-Woods, 2005:9). Arnold *et al.* (2010:567) agree with this notion and define beneficence as the obligation to perform good deeds, in particular to contribute to virtue, knowledge, or bring pleasure to other people. According to Beauchamp (2010:2), the term beneficence signifies acts of mercy, kindness and charity, and is associated with altruism, love, humanity and promoting the “good” of others. The principle of beneficence presupposes compassion, taking positive actions to help other people and the desire to do good (Beauchamp & Childress, 2009:38). The priority to perform good deeds makes it an ethical perspective and possible acceptable solution to an ethical dilemma (Chonko, 2012:1). This principle also relates to the principle of utility, which states that in this world one should try and generate the greatest good over evil (Alavudeen *et al.*, 2008:39). The beneficence principle stipulates that ethical theories should strive to achieve the greatest amount of good because people benefit from utmost good (Cannon & Boswell, 2014:94). Beneficence involves both the protection of individual welfare and the promotion of common welfare (Coughlin, 2008:11). This principle is generally associated with the principles of the utilitarian ethical theory as it guides decision makers to do what is regarded as right and good.

4.5.2 Non-maleficence principle

The principle of non-maleficence states that individuals should act in ways that do not inflict evil or cause harm to others (Alavudeen *et al.*, 2008:39). In particular, individuals should not cause avoidable or intentional harm (Dumphily, 2014:127). Most actions involve some harm, even if minimal, but the harm should not be proportionate to the benefits of the action (Beauchamp & Childress, 2009:152). In such events decision makers seek to choose actions that cause the least harm possible and that harm only a few people (Cannon & Boswell, 2014:93). According to Coughlin (2008:12), the principle of non-maleficence does not prevent balancing potential harms against potential benefits. As argued by Northrop *et al.* (2015:119), one could also reasonably argue that people have a greater responsibility to do no harm than to act to benefit others. For

example, an individual has a greater responsibility to simply walk past another individual, than without a justified reason punch the individual as they walk past (Alavudeen *et al.*, 2008:39).

4.5.3 Respect for autonomy

Autonomy refers to an agreement to respect another individual's right to self determine a course of action or support to independent decision making (Beauchamp & Childress, 2009:152). Autonomy is a freedom of choice that is a basic human right and can be experienced in all human life events (Urden *et al.*, 2013:20). According to Bennett-Woods (2005:7), people can only act autonomously when their actions are the result of their own deliberation and choices. The principle requires decision makers to focus on allowing people to be autonomous in making decisions that apply to their lives by choosing actions based on their own goals and reasoning (Cannon & Boswell, 2014:93). People should have control over their own lives because they understand their chosen lifestyle (Northrop *et al.*, 2015:119). To violate their ability to be self-determining is to regard them as less humane and this deprives them of their essential dignity (Bennett-Woods, 2005:7). In business, this principle implies permitting and sometimes encouraging independence and innovation (Arnold *et al.*, 2010:567). The principle of respect for autonomy focuses on the right of self-determination (Coughlin, 2008:12). In essence, this ethical principle is an extension of the beneficence ethical principle because an independent individual usually prefers to have control over his life own experiences and enjoys the chosen lifestyle.

4.5.4 Justice principle

The justice principle states that decision makers should focus on actions that are fair to those involved (Northrop *et al.*, 2015:120). It refers to an equal and fair distribution of resources, based on an analysis of benefits and losses of the decision (Dumphily, 2014:127). According to Arnold *et al.* (2010:567), the obligations of justice bear on virtually all human relations, but especially to the distribution of benefits and losses. The justice principle holds that society has an obligation to rectify inequalities in the distribution of resources, and that those who are least fortunate should benefit the most from available resources (Coughlin, 2008:13). According to Slowther, Johnston, Goodall and Hope (2004:78) respect for justice can refer to:

- distribution of a fair share of benefits;
- doing what the law says, and

- the rhetoric of claimed human rights, and hence goes beyond, though it includes legal rights.

Justice implies that all citizens have an equal right to the goods distributed, regardless of what they have contributed or who they are (Butts & Rich, 2008:48).

4.5.5 Fidelity principle

The fidelity principle requires loyalty, fairness, truthfulness, advocacy and dedication (Dumphily, 2014:127). Shaw (2010:68) defines fidelity as the act of respecting explicit and implicit promises. According to Arnold *et al.* (2010:567), fidelity involves keeping promises and avoids telling lies. Bennett-Woods (2005:12) also notes that the fidelity principle broadly requires people to act by being loyal by keeping promises, doing what is expected, performing allocated duties and being trustworthy. Fouka and Mantzorou (2011:6) regard confidentiality and privacy as elements of fidelity. Consequently, fidelity refers to the concept of keeping a commitment that is based on the virtue of caring. Fidelity ensures that a bond is formed between individuals and this is the basis of all professional- and personal relationships. A trusting relationship that establishes and maintains an open atmosphere is a positive relationship for all involved (Urden *et al.*, 2013:21).

4.5.6 Veracity principle

Veracity or truth telling is an important ethical principle that underlies business relationships. Cannon and Boswell (2014:93) define veracity as the principle of truth telling which is grounded in respect for people and based on the concept of autonomy. The condition or value of transparency, which asserts that businesses should be open and transparent in their interactions with the public, is closely related to the moral concepts of veracity (Coughlin, 2008:15). Trust is built on truth-telling, beneficence and non-maleficence, and has additional implications for relationships. In order for an individual to make an absolute rational choice, all relevant information to the decision is needed (Bennett-Woods, 2005:11). The principle is important when soliciting informed consent which is the foremost ethical issue in conducting research; individuals can make informed decisions in order to participate in research voluntarily only if they have information on the possible risks and benefits of the research (Fouka & Mantzorou, 2011:5). Informed consent is one way by which for example a patient's right to autonomy is protected;

patients need to be aware of all the potential risks and benefits to be derived from specific treatments or their alternatives (Urden *et al.*, 2013:21). Trust allows a patient to place his/her welfare in the hands of a doctor, but can also convince the patient that their doctor is not directly responsible for medical outcomes.

4.5.7 Paternalism principle

Paternalism is based on the belief that one should act in the best interest of the parties involved even if choosing to reveal or withhold confidential information (Butts & Rich, 2008:263). Beauchamp (2010:9) defines paternalism as the intentional overriding of an individual's known preferences or actions by another individual, whereby the over rider justifies the action based on the benefits or avoiding of harm to the individual whose preferences or actions are overridden. Paternalism in the context of healthcare is constituted by any action, decision, rule or policy made by a healthcare provider, that dictates what is best for the patient(s) without considering the patient's own beliefs and value system (Sandman & Munthe, 2010:61). As argued by Bennett-Woods (2005:7) paternalism kills autonomy as this principle can allow a healthcare provider to act contrary to a patient's wishes if there is evidence that the patient is not acting in his/her best interests and the presence of a higher level of expertise. This is in agreement with the reasoning by Beauchamp (2010:9) that an act of paternalism overrides the value of autonomous choices on the grounds of beneficence. According to Buchanan (2008:4), although preventing harm to others for purposes of disease control is ethically defensible, the justification for thwarting an individual's choice for their own good in disease prevention rests on morally weak grounds. Overriding other people's judgment constitutes treating them as less than moral equals.

To summarise, the above-mentioned principles are *prima facie*, that is, each has to be followed unless it conflicts with one or more. It is non-hierarchical, meaning that one principle is not ranked higher than another. The principles are intended as a means of assistance to provide a balanced judgment, not as a substitute thereof (Slowther *et al.*, 2004:78). According to Davidrajuh (2010:269), ethical business decision making is a process whereby business managers use their moral standards to evaluate their ethical decisions as good or bad depending on the extent to which the outcomes of their decisions violate the basic laws of society, denies others

their rights; endangers the health and lives of other people and attempts to deceive and exploit others for personal benefit. The next section presents how businesses can behave unethically.

4.6 UNETHICAL BUSINESS BEHAVIOUR

Globally, businesses are faced with a wide range of complex ethical problems (Weiss, 2009:19). However, with citizens nowadays demanding responsible business behaviour, managers should be aware of the crucial role that business ethics plays in seeking performance excellence. The growing concern of customers on ethical issues can be attributed to the vast amount of information available on ethical matters in mass media, wide range of product substitutes available and customers becoming increasingly more responsible regarding their consumption of products and services (Singh, 2009:10). Ethical behaviour leads to a superior performance since customers tend to disapprove of businesses that are ethically irresponsible (Ahmad & Seet, 2009:116). Of concern, people do not even realise their behaviour is inappropriate, as some managers even believe that certain “dirty tricks” are good management practices (Yves, 2005:269). Businesses governed by ethical values are grounded in a system of norms which promote a balance between ethics and profits (Stefanescu & Doval, 2010:40).

However, SMEs are in a very unfortunate position nowadays regarding engaging in corruption, fraud and other unethical practices. On the one hand, they need to survive and as they tend to be small in size, they experience more problems than larger businesses (Nyanga, Zirima, Mupani, Chifamba & Mashavira, 2012:143). On the other hand, they are aware of a large scale of unethical practices taking place in large businesses, as well as in government, and regard this as standard or acceptable practices. This may influence their behaviour and perceptions, and even make them more open to dishonest behaviour. In many instances, these unethical actions will be viewed by SMEs as necessary for survival and so be morally justified and those same actions from larger businesses will be viewed as being greedy (Wiid *et al.*, 2013:1090).

According to Weiss (2009:98), ethical issues and dilemmas occur at all levels in business and many types exist. These problems associated with ethical business behaviour usually occur when ethical considerations can be interpreted in more than one way or issues and ethical issues are equivocal (Wiid *et al.*, 2013:1089). There are a number of ethical concerns that have been

identified as the most commonly found forms of misconduct in business of which employees and owners should be well aware of. These forms of misconduct are highlighted in the following sections.

4.6.1 Fraudulent practices

Fraud is an intentional act of misrepresenting and manipulating facts with a view to gain unjustified advantages. It can be inferred that the advantage gained by the fraudster is the direct loss of other individuals, businesses or non-businesses, the government or society at large. (Ogundele & Opeifa, 2004:85). According to Ferrell *et al.* (2014:76), fraud is any purposeful communication that deceives, manipulates or conceals facts in order to harm others. When individuals engage in intentional deceptive practices to advance their own interest over those of the business or some other group, they are committing fraud. Yves (2005:267) notes that fraudulent practices can take several forms. Ogundele, Hassan, Idris, and Aliu (2013:9) identify the techniques of fraud to include:

- manipulation, falsification or alteration of records or documents;
- misappropriation of assets;
- suppression or omission of transactions from records or documents;
- recording of transactions without documents or substance;
- deliberate manipulation of accounting principles, and
- electronic related frauds.

Kennedy (2012:10) notes that despite the accounting standard and codes provided to accountants, many sources of fraud have existed in recent years. A study on SMEs in Nigeria (Cant, Wiid & Kallier, 2013:5779) revealed that fraudulent disbursements are the most common form of misconduct in SMEs and encompass employees using the business systems illegally to gain profit for themselves.

4.6.2 Bribery

Bribery is the act of offering, giving, receiving or soliciting something of value with the intention of influencing the recipient in a way that is favourable to the individual that provided the bribe (Cant *et al.*, 2013:5777). Ferrell *et al.* (2014:70) define bribery as a practice of offering

something in order to gain an illicit advantage from someone else in authority. Bribery changes the conditions under which a decision is made and results in the business allocating more recourse to options that are less favourable to the business (Wenzhong & Limin, 2012:9). According to Gangone (2011:191), international managers face bribery daily as an unethical business practice which has led to the opinion that bribes in some countries are part and parcel of having a successful business.

The size of SMEs ultimately limits their resources and capabilities to avoid business bribes. Many SMEs accept corruption and bribes as normal, acceptable business practices and utilise it to get something done quicker, despite knowing it is illegal and unethical (Rune, 2011:1). In other words bribery occurs because of pressure on the meager resources of SMEs. In a survey conducted by Collins (2012:7) on small business professionals, it was identified that kickbacks paid to employees are major ethical behavioural concerns. This was also confirmed in a study by Sinha and Mishra (2011:140) who stated that bribery or kickbacks are some of the unethical actions practiced by SMEs. According to Cavico and Mujtaba (2010:97), bribery is an acceptable way of doing business in some countries which creates challenging situations if having a global business. In most African countries, bribery is widespread and institutionalised as the only effective way of doing business; bribery is regarded as common practice and transcends being referred to as unethical (Abiodun & Oyeniya, 2011:41). The World Bank estimates that more than \$1 trillion is annually paid in bribes (Rider, 2015:672).

4.6.3 Coercion or bullying

The most common form of misconduct in business is coercion or bullying (Cant *et al.*, 2013:5777). Workplace coercion involves using power or strength to force employees to behave in a certain way. It can occur in several forms like authoritative status, deception, physical power, showing favoritism, discrimination and denial of rewards (Lecca, Quervalu, Nunes & Gonzales, 2014:206). Coercion in the workplace can result in a change in the value and belief system of the business, which can result in an unhealthy working environment, high employee absenteeism and turnover (Davoren, 2013:1). Bullying on the other hand, is a long-term process whereby “minor negative acts” accumulate to a pattern of systematic maltreatment (Salin, 2008:221). Kakumba, Wamala and Wanyama (2014:65) point out the dangers of bullying in the workplace to include

reduced staff productivity, motivation and losing experienced and skilled staff through resignations. According to Collins (2012:9), SMEs due to their smaller size are prone to being bullied by customers or suppliers.

A study by Giacalone and Promislo (2010:277) identifies workplace bullying by supervisors as one of the many unethical activities which can affect an employee's well-being. Furthermore, Salin (2008:221) clarifies that bullying is not restricted to tyrannical leadership styles; it can also occur among colleagues on the same hierarchical level. This is because perceived power imbalances may not arise only from the organisational hierarchy, it can arise from other individual-, situational- or societal characteristics. Research by Baillien, Neyens and De Witte (2011:614) note high levels of bullying in small family-owned businesses which could be associated their informal organisational structure. SMEs lack support systems to deal with bullying; they only act when a difficulty emerges. According to Cowie and Jennifer (2008:9), bullies can use a combination of verbal, non-verbal and manipulative threatening expressions and businesses which are bullied find it acceptable to bully others. Winterdyk (2014:191) note that, bullying majorly occurs between businesses that are in intense competition. Keeping competitors out of the market through excessive marketing channel control is considered unethical (Abiodun & Oyeniya, 2011:43).

4.6.4 Deceptive business practices

Deception is the act of intentionally misleading people or making false statements regarding certain facts (Stanford Encyclopedia of philosophy, 2015). The point at which a lie in business becomes unethical is based on the context of the statement and its intent to distort the truth (Ferrell *et al.*, 2014:68). According to Pandey, Tiwari and Srivastava (2012:245), customer relations is almost always a source of ethical dilemma; from excessive pricing, inadequate packaging, promoting and selling products of inferior quality to immoral usage. Businesses also do not inform buyers in totality about product features and limitations, even though the legislation requires so (Gangone, 2011:192). Furthermore, the reason that SMEs lie about their product quality and delivery time is to protect their interests. Providing customers with high quality products are the key to the success of a business (Rhee & Valdez, 2009:157).

Cant *et al.* (2013:5777) add that other deceptive business behaviour can occur such as falsifying information and omitting details from shared information. Ferrell *et al.* (2014:78) point out that businesses can use deceptive advertising in marketing communication and abusing advertising of which the extent can vary from exaggerated claims and concealed facts to outright lying. This is in agreement with Arora (2014:2) that false and misleading advertisements about products and their quality are some of the foremost unethical business practices.

Communications that are false or misleading can destroy stakeholders' trust in the business and may at times even be considered fraudulent (Ferrell *et al.*, 2014:127). Banks have also been abused by unethical entrepreneurs who provide them with misleading or false information (Yves, 2005:268). Often banks ask for more documentation proof than necessary to evaluate the credit worthiness of SMEs. For this reason entrepreneurs are left with no other choice, but to lie about some issues.

Deception between colleagues can range from absolute lying to deliberately omitting or changing shared information. A study by Bryant and Sias (2011:1) reveal that employees use deception as a defense mechanism, as they do and say things to cover up their lack of performance. Bryant and Sias (2011:1) attribute employees' deceptive behaviour to business flaws which prompt employees to lie to survive. Deception between employees can increase stress levels and results in a breakdown in business communication (DeConinck, 2010:390).

4.6.5 Discrimination

Discrimination is the unfair treatment of individuals based on their race, age, gender, nationality or religion (Cant *et al.*, 2013:5778). According to Ferrell *et al.* (2014:85), discrimination is illegal and can also occur on the basis of disability and on political affiliation. Discrimination occurs when one group is not treated to the same degree as another, either directly or indirectly, through unfair laws and policies (Sheppard, 2011:26). Discrimination in the workplace is reflected by applying differing staff policies regarding employment, promotion and remuneration of employees (Gangone, 2011:192). As argued by Nayab (2010:1), discrimination in the workplace results in a negative working environment where mistrust, suspicion, hostility and resentment is

rife. It can harm workplace relationships, especially when communicating and working in teams, thereby hampering the smooth functioning of SMEs.

4.6.6 Violating contractual obligations

Contract rights can assist in predicting the behaviour of a contract agent (Shirokova & Sokolova, 2013:11). The use of relational contracts dominates the business environment; these contracts contain implicit agreements of expected behaviour based on a relationship of trust, developed over a long period of time. These relational contracts frequently violate contractual obligations which render them poorly enforced, at times contradictory and unstable (Shirokova & Sokolova, 2013:12). According to Ntayi *et al.* (2012:45), there is a high level of unethical supplier behaviour which is reflected in activities like their failure to keep promises, inflated supply figures contrary to the contract terms, overstated offers in order to get the business to purchase; and changes in contract information. Additionally, evidence on public procurement and behaviour in Uganda reveals that SMEs have in the past failed to perform in terms of their contractual obligations, in terms of supplying in the agreed time and quantities and paying suppliers on time. SMEs tend to pay suppliers only when they realise they need more supplies. Shirking contractual obligations and violating an informal agreement with a supplier are common business practices (Ntayi *et al.*, 2012:45). This is in agreement with findings by Yves (2005:267) that SMEs do not stick to agreements like paying suppliers on time, to be using those funds to protect themselves from financial crisis.

4.6.7 Abuse of power

According to Crane and Matten (2010:310), the abuse of power has increased with globalisation. Abuse of power is often related to business size: and this practice occurs frequently in the price negotiations where large businesses use their bargaining power to lower prices, and to stiffen competitive conditions. Large general contractors, generally multinationals, generate additional profit by requesting price reduction from their subcontractors, with little regard to product quality and even sometimes product safety (Yves, 2005:267). Furthermore, in financial institutions, cases of power abuse are often happening. Banks have money at their disposal which SMEs desperately need; however, they abuse this power to obtain warranties, more than what is really needed, or in some cases to force entrepreneurs to make decisions which may leave them no

choice, but to sell their businesses. On the other hand, banks have also been abused by unethical SMEs who provide the bank with misleading or false information (Yves, 2005:268).

4.6.8 Conflicts of interest

In all interactions, there is a duality between common- and personal interest. According to Ferrell *et al.* (2014:70), conflict of interest exists when an individual must choose whether to advance his/her own interest or those of the business or other groups. Some businesses try to use this dilemma to their business advantage by giving gifts, invitations to an event or a trip as incentives to promote a better understanding with external parties and even friendship (Yves, 2005:268). Conflicts of interest can also relate to employing friends and relatives (Kizirian, Leese & Nissan, 2011:26). Often seeking personal advantage is to the detriment of the best interests of the other party (Velentzas & Broni, 2010:801). To avoid conflict of interest, individuals must be able to separate their personal interest from those of their business interests (Ferrell *et al.*, 2014:70).

4.6.9 Employee theft

Employee theft is one of the biggest challenges for SMEs. Theft is defined as the unlawful act of taking something that does not belong to you or the use or misuse of an employer's assets without permission (Cant *et al.*, 2013:5778). According to Hollinger and Davis (2006:8), employee theft causes revenue loss which undermines business goals such as profit accumulation. According to Cant *et al.* (2013:5778) employee theft includes:

- theft of office supplies;
- stealing trade secrets, and
- stealing of money.

According to Hatten (2011:419) statistics from the United States Chamber of Commerce show that employee theft accounts for between one and three percent of gross sales annually. These statistics also show that 30 % of business failures are due to employee theft and that up to \$40 billion is lost annually due to employee theft. Hess and Cottrell (2015:14) assert that small businesses are more prone to employee theft, as they have less security measures in place to prevent it.

4.6.10 Environmental degradation

Businesses that are involved in environmental degradation are also displaying unethical business behaviour. Environmental and ecological issues have been an important topic of discussion for the past thirty years in the business world (Turyakira, 2012:71). According to Arora (2014:2), environment degradation, depletion of natural resources and pollution are some of the foremost activities for unethical business practices. SMEs always break environmental protection rules, as the costs to obey them often significantly decrease business profits and their competitiveness (Pandey *et al.*, 2012:244). Often famous people in international business are involved in pollution scandals (Gangone, 2011:193). In Uganda, businesses are hesitant to follow the National Environmental Management Authority guidelines (Katamba *et al.*, 2008:26). Business inspections, to ensure public environmental standards, are also not transparent. Officials sometimes obtain bribes from SMEs in exchange for favourable treatment or expedited processing (Business Anti-corruption Portal, 2013:10). This greatly affects the sustainability of business operations from an environmental perspective.

4.6.11 Violating employee rights

The most common ethical misconduct of SME businesses is the abuse of human resource rights (Collins, 2012:6). According to Gangone (2011:195), businesses do not stop at only violating business ethics principles, but also stakeholders' fundamental rights. In most developing countries, employing prisoners and preventing employees from leaving a job, are common ethical problems (Abiodun & Oyeniya, 2011:43). Research by Beck *et al.* (2005:203) also indicated that SMEs pay lower wages and that other staff benefits are lower than those of large businesses. SMEs also appear to have more difficulty in maintaining a safe workplace; the incidence of on-the-job injuries and fatalities are higher in SMEs than in larger businesses and SME employees tend to have inferior healthcare coverage (Basefsky & Sweeney, 2005:5). This is in agreement with findings by Arora (2014:2) that ill-treatment of employees, denial of social and economic security and lack of workplace safety measures are some of the chief unethical business practices. According to Pandey *et al.* (2012:245), managers have to respect the rights of subordinates; employees will work towards business success only if they have a certain workplace status, autonomy, care and a fair salary.

To summarise, unethical behaviour has existed for many years, but businesses are generally less ethical today. The business environment has become rather complex, with many different ethical challenges as well as opportunities for greed. However, SMEs' perspectives of business ethics and its adoption in the business differ from that of large businesses. This is so due to the special characteristics of SMEs namely, small management structure, limited competencies of business partners, markets, systems and culture which distinguish them from large businesses. These characteristics ultimately limit their capability to avoid unethical business behaviour and have resulted in devastating effects for SMEs. The effects of unethical business activities are presented in the next section.

4.7 EFFECTS OF UNETHICAL BUSINESS ACTIVITIES

Many business owners think the business has only two choices: to behave unethically or to fail. They argue that the survival of the business should not be jeopardised to be ethical when their competitors are not behaving ethically (Gangone, 2011:190). According to Cialdini *et al.* (2004:67), businesses that engage in unethical practices face consequences far more harmful than anticipated. The resulting damage can easily outweigh the short-term gains. In other words, businesses that deploy dishonest tactics normally do so to increase their short-term profits (Yves, 2005:267) and by doing so they might experience short-term business success. Although misconduct may result in earnings in the short-term, in the long-term it will negatively affect SMEs to a greater extent than all the initial advantages obtained. A discussion on how unethical business practices affect business follows.

4.7.1 Increased cost

According to Gangone (2011:195), unethical behaviour will be a continuous business expense as it generates costly delays and even losing some customers. Den Butter and Linse (2008:76) maintain that, unethical business behaviour, diminished confidence in a brand, can result in significant transaction costs and have major financial implications. According to Bennett-Alexander and Harrison (2011:152), unethical behaviour increases transaction costs and reduces profitability. Neese, Ferrell and Ferrell (2005:912) assert that unethical business behaviour increases business liability, financial risks and costs. Cialdini *et al.* (2004:72) identified the costs of unethical behaviour as diminishing repeat business, low job satisfaction and performance,

higher employee turnover and a business atmosphere of distrust. According to Hatten (2011:419), businesses lose up to two percent of their revenue annually due to employee theft. Similarly, Cant *et al.* (2013:5780) note that employee theft reduces the businesses assets which include inventory, money and capital assets such as equipment and can lead to insolvency, hence business failure. Employee theft results in management having to implement stricter security measures which affects the working environment and can result in tension between managers and employees (Langner, 2010:6).

4.7.2 Poor reputation

The most obvious consequence of dishonesty is that the business will develop a poor reputation among current and prospective customers and business partners (Levine, Thompson & Messick, 2013:302). According to Gangone (2011:195), exposing unethical behaviour will have a negative effect on the business reputation, especially when legislation stipulates tough sanctions. When the public observe dishonest business policies and practices as becoming common practice, the public will not take kindly to it (Cialdini *et al.*, 2004:68). Often customers choose specific SMEs over competitors because of their reputation (Kuryrn, 2014:2). Business reputation has become a key element of the intangible assets of SMEs and a source of competitive advantage (Turyakira, 2012:78).

4.7.4 Reduced productivity

According to Bennett-Alexander and Harrison (2011:152), unethical behaviour reduces production efficiency and effectiveness. Similarly, an unethical business climate has a wide-spread effect on employees as they will experience a high level of workplace stress which in turn will lead to low performance and eventually turnover (Ahmad & Seet, 2009:121; DeConinck, 2010:390; Mulki *et al.*, 2007:568). Cialdini *et al.* (2004:68) are of the opinion that when individuals' moral standards are continually in conflict with workplace expectations, it leads to unceasing stress. The resulting business costs can be considerable resulting in higher absenteeism and lower job satisfaction. As Arora (2014:3) puts it, when employees do not trust each other and their supervisors, their morale becomes low, stress high and output decreases.

4.7.5 Decrease in sales

Losing the reputation of the business or when rumours are spread about its dishonesty, sales may decrease and customers may choose different business providers (Gangone, 2011:195). Arora (2014:3) confirms that unethical behaviour is harmful to sales. According to Lewis (2003:2), a survey by Wirthlin Worldwide, revealed that 80 percent of people buy from a business that is perceived to be ethical. Similarly, Ahmad and Seet (2009:116) observe that customers tend to shy away from buying products and services from businesses with an unethical reputation.

To summarise, businesses have obligations to society in terms of producing products and services people want, providing employment, paying taxes and acting as an engine for economic development. However, how this responsibility is made to happen, induces major ethical issues. The various ethical issues presented above clearly show that they are plentiful and often difficult to handle. In both developed and underdeveloped countries, the situation is problematic due to the fact that there are no measures in place to oversee the abeyance of ethical business rules. This has led to many businesses ignoring or even relentlessly violating ethical business principles. Although unethical behaviour may be profitable in the short-term, business owners should know that regardless of the nature and timing of an unethical activity, such behaviour frequently leads to substantial long-term losses. It is absolutely necessary for SMEs to stick to moral business behaviour and to apply it with personal integrity and moral business conscience.

4.8 SUMMARY

The purpose of this chapter was to examine business ethics and what it entails in SMEs. This was accomplished by the conceptualisation of ethics and business ethics and reviewing the developmental history of business ethics. It was indicated that business ethics has moved through several developmental stages and it has come to have different meanings for different people. However, most scholars consent that high ethical standards require conforming to sound moral principles. Since business is part of the economic and social system, it is required to behave ethically and not set aside their social and economic values.

Ethical judgment occurs when there are two conflicting beliefs and the individual has to make a decision to follow one of these beliefs. Since it is difficult for everybody to agree on universal

business guidelines or principles to follow due to divergent expectations of the evaluation and acceptance of business ethics in different businesses, business managers can use ethical theories as a framework to guide their decision making. The main ethical theories that can be used to guide business decision making are utilitarianism, moral rights-, justice-, deontology-, ethical egoism-, ethics of care- and the virtue theories. Each theory attempts to adhere to certain principles and decision makers may resolve ethical problems by utilising more than one of these theories. In essence, decision makers may improve their decision making process by consulting several ethical philosophies when analysing an ethical dilemma.

From the preceding discussion, it is clear that businesses are faced with various ethical problems which can take place at all business levels. Given the unique characteristics of SMEs, research has demonstrated that they are in a very unfortunate position regarding unethical practices. The common forms of misconduct in SME business include: fraudulent practices, bribery, coercion/bullying, deception, discrimination, violating contractual obligations, abuse of power, conflicts of interest, employee theft, environmental degradation and violating employee rights. Such unethical behaviour has led to increased costs, lost reputation, reduced productivity and a decrease in sales. Since concerns about business ethics are increasing, it is important to understand the factors that might influence ethical behaviour.

In the next chapter, the operationalisation of the factors in the hypothesised model shown in Chapter One will be presented. The factors presented are categorised as staff-, business- and external environmental related factors influencing SME ethical business conduct.

CHAPTER 5

HYPOTHESISED MODEL OF THE FACTORS INFLUENCING ETHICAL BUSINESS CONDUCT

5.1 INTRODUCTION

In Chapter Four, business ethics in SMEs were discussed. The chapter presented the developmental history of business ethics, the different ethical theories and the nature of unethical business behaviours in SMEs. In this chapter, the effects of unethical business behaviours were also provided. From this chapter it was clear that business ethics constitutes an important feature for all business types. Although it is recognised that business ethics are very important in larger businesses, the chapter shows that it is also of great importance to SMEs since it's a source of competitive advantage.

Unethical business behaviours or acts of indiscipline are common and perhaps inbuilt in human society existing in basically all countries worldwide and in sub-Saharan African countries, unethical business behaviours have attained disturbing levels (Ogundele *et al.*, 2013:1). Traditional business standards have begun to fade, right over wrong and our sense of value and fair play are more frequently superseded by the urge to take short cuts to monetary success whenever possible (Singh, 2009:15). Research conducted by DiLorenzo (2007:278) demonstrated that unethical business conduct takes place in various types of business transactions. The absence of the understanding of the factors that might influence ethical behaviour denies businesses a chance of understanding the underlying causes of unethical decisions. The ethical implications of decisions can rarely be understood by considering only one factor, it can only be evaluated from a systems point of view (Perks in Hellriegel *et al.*, 2012:145)

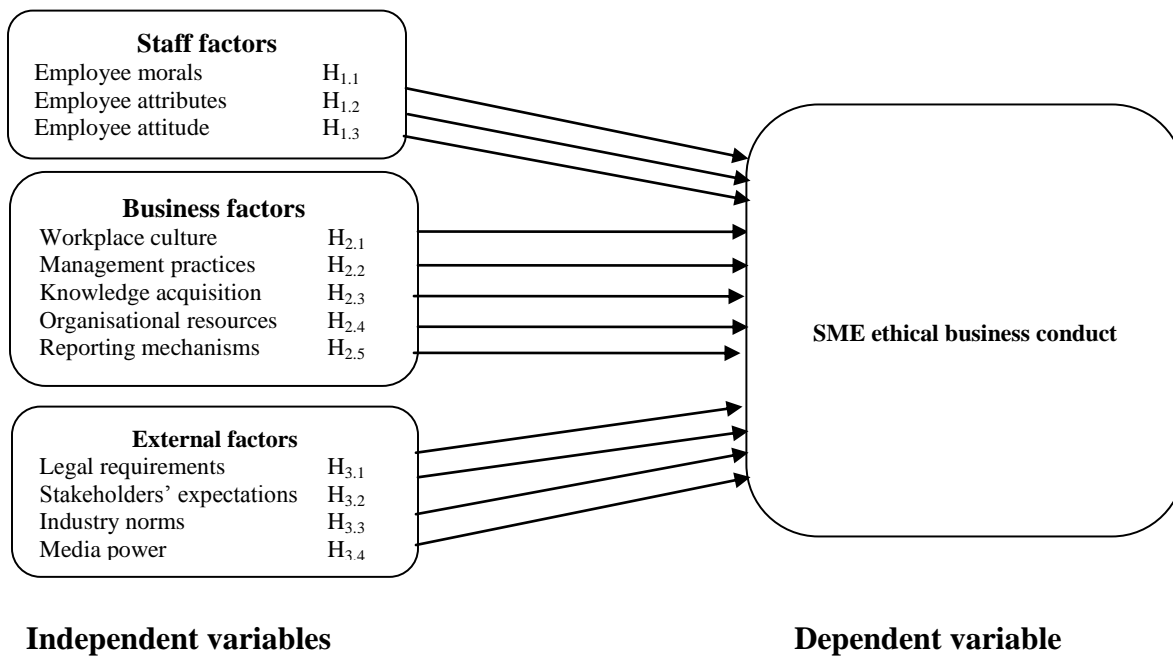
In this regard, Chapter Five will attempt to review a range of existing theoretical underpinnings that attempt to link business ethics factors to SMEs ethical business conduct. A theoretical framework is important, as it helps in determining the factors to be measured and the statistical relationships to be tested. The factors identified in Chapter One, staff-, business- and external environmental related factors can be linked to SME ethical business conduct and are regarded as the independent variables in the hypothesised model. In this chapter the operationalisation of the

research variables in the hypothesised model and hypotheses based on extant literature will be presented. The chapter will conclude by presenting the measures of ethical business practices.

5.2 HYPOTHESISED MODEL OF THE BUSINESS ETHICS FACTORS INFLUENCING SME ETHICAL BUSINESS CONDUCT

A hypothetical framework is important, as it will attempt to present a review of the existing theoretical literature that attempts to relate business ethics factors to SMEs ethical business conduct. The proposed hypothesised model depicted in Figure 5.1 integrates business ethics factors (employee morals, attributes and attitude, workplace culture, management practices, knowledge acquisition, organisational resources, reporting mechanisms, legal requirements, stakeholders’ expectations, industry norms and media power) as independent variables and SMEs ethical business conduct as a dependent variable. Subsequently, the research variables are operationalised and hypotheses formulated. The hypothesised model was presented in Chapter One based on four conceptual models on business ethics factors. The proposed hypothesised model for factors influencing SMEs ethical business conduct is presented in Figure 5.1.

Figure 5.1: Hypothesised model for factors influencing SME ethical business conduct



Source: Researcher’s own compilation

Figure 5.1 illustrates how the various independent variables related to staff, business and external environment influence the dependent variable, SMEs ethical business conduct, which is measured by: corporate reputation, business integrity, environmentally friendly products, lawful behaviour, being better corporate citizens, paying taxes and being socially responsible.

Business ethics can be examined from various perspectives, including the perspective of the employee, the commercial enterprise, and society as a whole (Lluka, 2010:11). Researchers from many disciplines have shown that not only one factor could be solely responsible for unethical business behaviour. There are different reasons for the increase in unethical business behaviour; some of which are related to the consequences of the general evolution of society whilst others are due to the evolution of the business environment (Yves, 2005:269). Previous studies identified a number of factors affecting ethical decision making and behaviour, which generally fall into four categories: personal-, business-, issue-related- and external factors (Kavali, Tzokas & Saren, 1999:575). McDevit, Giapponi and Tomley (2007:219) concur with Weiss (2009:98) that ethical issues and dilemmas result from the pressure experienced at an individual, organisational and environmental level.

Mehalu (2011:5) regards stages of moral development, structural factors, individual characteristics, organisational culture and issue intensity as possible factors affecting ethical business decision making and behaviour. Vitell and Hidalgo (2006:39) point out that in a survey conducted in the United States and Spain, personal- and organisational factors influenced management's perceptions regarding the importance of business ethics. In this study, the independent variables in the hypothesised model comprised of staff-, business- and external environment related factors that influenced ethical business conduct. The subsequent sections present a detailed discussion of each of these factors, resultant hypotheses and literature support for the hypotheses in the hypothesised model as depicted in Figure 5.1.

5.3 OPERATIONALISATION OF STAFF FACTORS INFLUENCING SME ETHICAL BUSINESS CONDUCT

Variations in an individual's characteristics were found as significant in influencing ethical business decision making in SMEs. Staff factors include personal standards and values that determine how people should act towards others when their own self-interests are at stake (Jones, 2007:155). Previous studies have attempted to explore and explain the role of personal standards and values in making ethical business decisions (Sinha & Mishra, 2011:148). Arjoon (2007:407) maintains that personal standards and values assist business managers to determine whether moral issues are right or wrong; good or bad. This is in agreement with the views expressed by Lovinsky, Treviño and Jacobs (2007:264) that the complexities of managers' personalities affect their ethical reasoning and decision making.

Mehalu (2011:5) mentions individual attributes such as ego strength, the power of convictions and locus of control as influencing ethical business behaviour. McDevit *et al.* (2007:220) regard individual attributes such as confidence and personal beliefs as influencing ethical business decision making. Liu (2013:1087) considers individual attributes such as job satisfaction, turnover intention and work effort to influence SME ethical conduct in China. Weiss (2009:98) states that ethical dilemmas in the workplace can occur as a result of the personal circumstances of employees, or their lack of motivation to work. The complexity of personal attributes play a crucial role in ethical reasoning as it involves choosing between ethical alternatives (Arjoon, 2007:403). Most often small business managers let their personal behavioural codes influence their decision making (Khademfar & Amiri, 2013:117). It was noted by Jones (2007:141) that individuals may dispute which actions are ethical or unethical depending on their own personal self-interest, specific attitudes, beliefs and values. Based on this information, this study will explore how employee- morals, attributes and attitude can influence the ethical business conduct of SMEs. These staff related factors influencing ethical business conduct are defined in Table 5.1.

Table 5.1: Definitions of staff factors that influence ethical business conduct

Staff related factors	Definitions	Sources
Employee morals	The rules employees develop as a result of organisational cultural norms and values and those learnt from their childhood, culture, education or religion applied in the workplace	Borade (2012:1); Lombardo (2015:1)
Employee attributes	The qualities, characteristics and skills individuals possess and utilise in the workplace	McDevit <i>et al.</i> (2007:229); Mehalu (2011:5)
Employee attitudes	Refer to how individuals relate to and act within their workplace	Petty & Brinol (2010) in Baumeister & Finkel (2010:217)

Source: Researcher's own compilation

In the following sections the staff related factors, as depicted in the hypothesised model to be influential in ethical business conduct in SMEs, are operationalised.

5.3.1 Employee morals

Morality has become the foundation of all individuals' lives and their consciences and; in a way, is synonymous with ethics (Wiid *et al.*, 2013:1089). Research conducted by Bryant (2009:505) highlighted scarce resources, high uncertainty and risk, vague roles and continuous competitive strain as major determinants of employee morals. It can therefore be inferred that moral consciousness is the backbone of an individual's sense of moral behaviour and ethical decision-making, and an individual who makes an ethical business choice is regarded a moral agent (Haque, Rahman & Khatibi, 2010:32).

Moral character is an aspect of personality, which can structure an individual's ethical business conduct (Mujtaba, 2011:17). Morality is associated with loyalty, integrity, honesty, fairness, respect for others and trust and are valued and used by businesses to attain and preserve a disciplined business culture (Shahinpoor & Matt, 2007:37). Moral responsibility is influential as it is compelled by a sense of concern for others as opposed to selfishness (Lawrence, Pavlovich & Arunachalam, 2006:252). According to Cicek (2012:248), stages of moral development, personal values and morals are among the factors affecting an individual's ethical business behaviour. Perks in Hellriegel *et al.* (2012:151) agrees that an individual's stage of moral development may influence how ethically they behave in business. Haque *et al.* (2010:32) state that individuals

confronted with ethical problems usually attempt to resolve them by appealing to moral standards and moral reasoning. Hoffman, Bynum, Piccolo and Sutton (2011:782) confirmed that, aligning employees' personal values with business values enhances team competence.

Schaefer, Williams and Blundel (2011:4) note that personal morals play an important role in how SME managers respond to ethical issues. Hann (2012:14) regards the moral character of SME owners as exploitative since they do not value individual rights and responsibilities. The moral character of SME managers play an important role in tax compliance, as evasion is seen to be more acceptable to SMEs when driven by the desire to protect a struggling business from failure (Information Resources Management Association, 2013:457; Revenue and Customs Research Report, 2012:19).

Based on the above discussion, *employee morals in this study* can be defined as *the moral rules employees apply in the workplace by being loyal to the business, acting with integrity and honesty, treating customers with respect and trusting their co-workers.*

Subsequently the following hypothesis is formulated:

H_{1.1}: *Employee morals influence SME ethical business conduct in Uganda.*

5.3.2 Employee attributes

Individual attributes is considered to be one of the most important factors affecting employee behaviours (Sinha & Mishra, 2011:146). Khalid, Omar, Agil, Omar and Khalid (2013:32) are of the opinion that the complexity of an individual's attributes influences ethical decision making greatly. Employees that value cooperation willingly share the workload with each other as a team and are able to produce products as quickly or provide services of the highest quality (Townsend, 2007:3). Several authors (Collins, 2009:102; Holtbrügge, Baron & Friedmann, 2015:264) indicate that personal attributes such as openness, social dominance, organisational citizenship behaviour, locus of control, extraversion, agreeableness, conscientiousness, neuroticism and machiavellianism influence ethical business conduct. Elias (2013:4) related machiavellianists to unethical business behaviours', as these employees only look after themselves and tend to be manipulative, ruthless, uncooperative, and exploitative in relationships.

Lin, Tang, Chui and Hsiao (2005:146) indicate that ego strength plays a role in explaining unethical business behaviour. Employees who embrace egoism focus on self-interest and have the potential to engage in unethical misconduct to benefit themselves (Ferrell & Ferrell, 2009:263). Research by several authors (Boshoff & Van Zyl, 2011:283; Hume, Smith & Stephen, 2006:265) confirm that there is a significant relationship between locus of control and ethical business behaviour. Employees with an external locus of control experience higher absenteeism, feel frustrated, are less involved in business tasks and blame others for their mishaps (Edwards, 2005:578).

Sometimes an individual's view of what is ethical converges with the views of the business and the larger society. Ethical conflict in the minds of the employees often occurs when there is a conflict between business values and individuals' personal attributes (Sinha & Mishra, 2011:147). The most common moral issue that business entrepreneurs encounter is deciding between upholding normative business ethics (i.e. examining standards for what is right or wrong) and following their own egotism for their own self-interest (Bryant, 2009:505). According to Stefanescu and Doval (2010:39), if employees understand what are desired business values and moral practices, they are motivated towards increasing their performance and creating a better business image.

With SMEs, being owner-managed, the attributes of the owner-manager often constitute the fundamental determinant of business ethics (Klein & Vorbohle in Spence *et al.*, 2010:216). Ermongkonchai (2010:133) identified personal gain as the root cause of individual misconduct involving financial transactions. Manjunatha and Maqsd (2013:19) further mention that self-interest, personal gain and greed of individuals are sources for immoral conduct. Employees obsessed with self-interest are willing to sacrifice morality for other desired things (Degen, 2014:6). Such employees engage in unethical business behaviours like: lying, deceit, distorting information and failing to fulfill promises (Elias, 2013:5). The desire for personal gain leads employees to engage in cutting corners on quality control, covering up incidents, lying to customers and exchange gifts to receive preferential treatment (Omolewu, 2008:7). A study on Pakistan's SME manufacturing businesses indicated a relationship between employee attributes

and ethical business (Saif, 2015:123). Jackson, Holland, Albrecht and Woolstenhulme (2010:161) note that, SME owner/managers obsessed with the need for achievement, and motivation to succeed engage in unethical business practices.

Based on the above discussion, *employee attributes in this study* can be defined as *the qualities, characteristics and skills employees apply to behave ethically in the business by not being absent from work, having business interests at heart above self-interest, aligning their personal values to that of the business values, taking ownership for their own mistakes and cooperating with co-workers as if working in a team.*

Subsequently the following hypothesis is formulated:

H_{1.2}: *Employee attributes influence SME ethical business conduct in Uganda.*

5.3.3 Employee attitude

A person's attitude is the individual's evaluation of what is regarded as good or bad (Hess, 2007:1786). Previous research has demonstrated that individuals differ based on their attitude whether an action is ethical or unethical (Miller & Cross, 2012:141). Treviño and Nelson (2011: 172) recommended that ethical training be part of any orientation process so as to enforce ethical business conduct. Many businesses require employees to attend seminars regarding business conduct, which often include discussion of the business's policies, specific case studies and legal requirements (Lluka, 2010:13). Cambra-Fierro *et al.* (2008:647) noted that SMEs ethical training does not always meet real business needs as the training is mostly insufficient to identify the implications if not meeting regulations. According to Stefanescu and Doval (2010:39), training for employees to understand and comprehend the values and moral practices of the business they are employed in encourages them to behave ethically, improve the business image and increase business performance.

Manjunatha and Maqsud (2013:19) warned that ambition is a source for immoral conduct. According to Perks in Hellriegel *et al.* (2012:159) employees are responsible for coordinating business resources and ensuring that business goals are met; this requires employees to have good supervisors to guide them in their ethical business behaviour. According to Treviño and Brown

(2005:72), employees can learn to be ethical by receiving guidance from leaders who stand up for doing what is right. Kalshoven, Den Hartog and De Hoogh (2011:55) observed that perceived leader effectiveness and trust in management are related to ethical business behaviour. Employees can only respect decisions of managers they trust. Telling the truth and being candid tells employees that they can trust your decisions (Lane, Malkin, Shanken & Cavendish, 2007:41).

According to Cant (2012:1355) employee attitudes influence SME ethical business conduct. Liu (2013:1093) concurs and adds that in China, SME managers do not value employee attitude; employees devote lots of effort to their daily jobs in the context of authority and obedience, but with less pay. Omolewu (2008:7) found that employees with less job satisfaction develop unethical behaviours to counteract their unsatisfactory feeling (Songbo & Wei, 2011:609). Yukl (2005:410) is of the opinion that unethical behaviour is more likely to occur in businesses with a strong focus on productivity. Gino, Schweitzer, Mead and Ariely (2011:199) found that individuals with depleted self-control are more likely to lie about their performance. Businesses therefore need to provide performance appraisals that employees believe are fair and are not regarded as discriminatory (Jones, 2007:147).

Based on the above discussion, *employee attitude in this study can be defined as developing employees' ethical business virtues and values through in-house training to respect management's decisions, rendering them willing to receive guidance from senior staff to be ambitious, realising their ambitions and aspiring to higher performance.*

Subsequently the following hypothesis is formulated:

H_{1.3}: *Employee attitude influences SME ethical business conduct.*

In the following section the operationalisation of the business factors influencing SME ethical business conduct is presented.

5.4 OPERATIONALISATION OF BUSINESS FACTORS INFLUENCING SME ETHICAL BUSINESS CONDUCT

The important business dimensions that have an effect on the practice of business ethics in SMEs are related to the special characteristics of a SME (Lahdesmak, 2005:56). Besides being owner-

managed, other typical features like the management structure, systems and procedures, organisational culture, limited resources and limited training influence the ethical business conduct of any business (Lahdesmak, 2005:56, Khademfar & Amiri (2013:117). However, several studies (Lahdesmak, 2005:57, Singh, 2009:11, Srinivasan, 2009:32) have found that business ethics applied in large businesses cannot simply be applied to SMEs. This study will explore business factors influencing ethical business conduct of SMEs in terms of workplace culture, management practices, knowledge acquisition, organisational resources and reporting mechanisms as defined in Table 5.2.

Table 5.2: Definition of business factors that influence ethical business conduct

Business related factors	Definitions	Sources
Workplace culture	Encompasses 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	Involves mechanisms for disclosure and communication of ethical business standards	Garthson (2007:1)

Source: Researcher's own compilation

In the following sections the business related factors, as depicted in the hypothesised model to be influential in ethical business conduct in SMEs, is operationalised.

5.4.1 Workplace culture

The notions of workplace culture, organisational culture and corporate culture are often used interchangeably to characterise businesses prevailing values, attitudes, beliefs, artifacts and behaviours that contribute to its sense of order, continuity and commitment (Cole, Oliver & Blaviesciunaite, 2014:789). Workplace culture consists of codes, statements, policies and regulations which affect employee's ethical behaviour (Mehalu, 2011:5). According to Ethics Resource Center (2013:19), workplace culture encompasses everything from how employees

dress, to the way they relate with customers, and their interactions with management. Cole *et al.* (2014:789) noted that workplace culture influences practices such as the personalisation of the workplace and shared environmental ethics and behaviours.

According to Stefanescu and Doval (2010:40), a strong workplace culture based on solid business values can assist a business to be adaptable and to cope with major external business environmental changes. Unlike large businesses, most SME owner-managers operate their businesses primarily through informal practices and relations, rather than implementing a set of formal policies and codes (Spence & Perrini in Spence & Painter-Morland, 2010:43). SMEs react on ethical dilemmas based on professional business codes rather than on codes of business ethics (Málovics, 2009:224).

Businesses may be able to positively influence the moral thinking of their employees by providing a clear set of ethical codes and policies, and also enforcing these policies (Perks in Hellriegel *et al.*, 2012:150; Vitell & Hidalgo, 2006:40). A code of ethics outlines what the business aspires to do, it then indicates the values of the business which in turn are translated into expected behaviour from employees and managers in business (Perks in Hellriegel *et al.*, 2012:165). Huhtala, Feldt, Hyvönen and Mauno (2013:268) reiterate the importance of providing clear expectations regarding ethical behaviour in the workplace. Ethical dilemmas may occur in situations where there are no clear guidelines on how to act or respond to certain situations (Cant *et al.*, 2013:5776). For example, employees are much more likely to act unethically where a code of ethics does not exist or is disregarded by top managers (Miller & Cross, 2012:156).

Behavioural policies and procedures communicated in a business lead to a shared perception or belief of what is fair or just (McCain, Tsai & Bellino, 2010:995). It is important to acknowledge that even good employees can make unethical choices if their workplace culture does not emphasise ethical values. However, a study by Vitell and Hidalgo (2006:33) reported a positive link between corporate values and ethical decision making. Research conducted by Carroll and Buchholtz (2014:255) found that when ethical business codes are implemented forcefully and embedded strongly in the workplace culture, reports of unethical employee behaviours tend to reduce. Nel (2008:11) confirms this finding and indicates there is a relationship between ethical business behaviour and workplace culture in businesses.

Based on the above discussion, *workplace culture in this study* can be defined as *a written code of business ethics that promotes sound corporate values and shared beliefs and governs acceptable business behaviour relating to customer service and signaling an unified image of the business through the uniform employees wear.*

Subsequently the following hypothesis is formulated:

H_{2.1}: Workplace culture influences SME ethical business conduct.

5.4.2 Management practices

Treviño and Nelson (2011:172) noted that management practices play an essential role in the alignment of ethical business culture, because employees pay attention to what is measured, rewarded, and disciplined. Management practices relate to systems and processes designed to support decision making to guide workplace behaviour. (Bloom, Genakos, Sadun & Van Reenen, 2012:15). According to Assad (2013:1), the approach with which businesses handle ethical situations affects all aspects of the business. Alder, Schminke, Noel and Kuenzi (2008:487) are of the opinion that management systems influence the ethical orientation of employees. It is therefore important to provide guidelines on how ethical behaviour will be rewarded and improper behaviour be punished. According to McCain *et al.* (2010:1002), businesses must treat employees fairly so that they can behave ethically. According to Younkens (2011:19), employees who resolve a dilemma by implementing ethical behaviour should be rewarded. Employees' perceptions of unfairness in reward systems increase the likelihood of unethical behaviour (Rhode & Packel, 2009:31). On the same note, a business that does not provide for punishment of employees who violate rules, allows individuals to break the rules without fear of consequences (Ferrell & Ferrell, 2009:261).

Many SMEs do not care about their financial health, their main focus is on cash flow and maintaining a healthy bank balance, hence they mostly lack liquidity (Nyabwanga, Ojera, Simeyo & Nyanyuki, 2013:2). For many businesses the effort to meet short-term goals occurs at the expense of long-term goals; goals that emphasize immediate performance prompt managers to engage in myopic, short-term behaviour that harms the business in the long-term (Ordóñez,

Schweitzer, Galinsky & Bazerman, 2009:17). Businesses that apply good management practices maintain their ethical reputation (Cant *et al.*, 2013:5777), while poor management practices implemented by management are the root of unethical behaviour (Ogundele *et al.*, 2013:7). Cambra-Fierro *et al.* (2008:654) confirm that management practices directly or indirectly influence ethical business behaviour.

Based on the above discussion, *management practices in this study refer to simple systems that govern acceptable business behaviour such as paying market related salaries, disciplinary procedures to punish wrongdoing and setting long-term financial goals together with supporting short-term goals to support ethical behaviour in the workplace.*

Subsequently the following hypothesis is formulated:

H_{2.2}: Management practices influence SME ethical business conduct.

5.4.3 Knowledge acquisition

According to Bencsik (2011:96), knowledge can be acquired through training, mentoring, cooperation with partners, suppliers and advisors, or by stealing knowledge from other people. Knowledge acquisition in SMEs is more informal and tends to be obtained from networks, such as local business clubs, relationships with customers and suppliers (Schaefer *et al.*, 2011:9). Knowledge acquisition is a critical element in the efficient prevention, investigation, prosecution, and reduction of wrongdoing (Kleinig, 2009:201). Lee and Cheng (2012:83) concur with Shakeel *et al.* (2011:69) that the foundation of ethical business conduct is to acquire ethical knowledge on the provisions in business ethics codes and intuitive assessments of right and wrong. According to Stefanecus and Doval (2010:39), training employees to understand and comprehend the values and moral practices of a business could lead to sound decision making. Treviño and Nelson (2011:172) recommended that ethical training be part of any orientation process to guide ethical business operations. Many businesses compel employees to attend seminars on ethical business conduct, which often include a discussion of the business policies, specific case studies and legal requirements to adhere to (Lluka, 2010:13).

Cambra-Fierro *et al.* (2008:654) noted that ethical training conducted by SMEs does not always meet real business needs, as it does not point out the implications of some regulations. Finn and Torgeir (2008:1060) noted that, employees that acquire knowledge modify their behaviours to reflect the new knowledge; and lack of knowledge may prevent employees from knowing the requirements for behaving ethically in the business. Thus, knowledge acquisition can positively influence ethical business conduct. Knowledge sharing also enables both employees and business to respond quickly to a changing business environment (Ma'an & Kalalkeh, 2010:330). Shakeel *et al.* (2011:69) confirm that knowledge acquisition is key to increasing ethical awareness. Follow-up training on ethical business behaviour is useful to assess whether the training had an actual impact on the employees' business conduct (Tan, Flack, Bear & Allen, 2015:15). Research on Nigerian SMEs also revealed a relationship between knowledge acquisition and ethical business conduct (Ogundele *et al.*, 2013:7).

Based on the above discussion, *knowledge acquisition in this study is defined as providing employees with periodic ethical business training on moral business practices to educate them on what ethical business behaviour entails, guiding them to develop an intuition in making sound business decisions and to serve as a platform to encourage knowledge sharing in the business.*

Subsequently the following hypothesis is formulated:

H_{2.3}: Knowledge acquisition influences SME ethical business conduct.

5.4.4 Organisational resources

According to Rhode and Packer (2009:31), mismanaged bonus systems and compensation structures partly explain the morally irresponsible behaviour reflected in the Enron Corporation as a recent business financial crisis. Management may inflate earnings if they receive bonuses, pay increases, or promotions for increasing profits. These monetary compensations can prove beneficial for businesses in that management will be more driven to make sales and increase wealth in the business. Adversely, these monetary compensations can be dangerous if a manager works in his or her own interest and does not act ethically (Kuryl, 2014:2). Such behaviours can place the business in a financial situation that is hard to correct. Lahdesmak (2005:64) identified scarce factors of production as a condition that undermines the morality of a business.

SMEs lack the resources to build an ethical culture in the business (Singh, 2009:4). According to Bishara (2011:246) banks and other sources of capital insist on an appropriate level of transparency that allow them to adequately evaluate the value of collateral, this is another potential source of pressure for SMEs to maintain ethics. However, Yves (2005:270) is of the opinion that many times unethical behaviour occurs due to limited financial and human resources. Rune (2011:1) noted that the size of SMEs ultimately limits their resources and capabilities to avoid unethical business behaviours. By the sheer limitation of their size, resources and structures (Mbabazi, 2012:3), SMEs do not access formal financing (Mahmood, 2008:5) and cannot employ and retain specialised employees (Boateng, 2012:19). A survey of Ugandan SMEs revealed a relationship between SME resource access and ethical business conduct (Ntayi *et al.*, 2012:43).

A survey of Kenyan SMEs by Tarus and Nganga (2013:53) indicate that, SMEs seek unethical schemes to accept contracts at lower prices than they should so that they have an upper hand over the fellow competitors. In a competitive business environment, businesses will do anything to increase profits because playing by the rules doesn't achieve the results businesses are after (Kuryn, 2014:2). On the other hand, according to Bishara (2011:252) if corruption is not fought timeously, it creates a favourable business environment for bribery. It can be inferred that lack of resources leads SMEs to embrace unethical practices. Omolewu (2008:7) also noted a relationship between scarce business resources and unethical business conduct. Similarly Málóvics (2009:223) found a relationship between organisational resources and ethical behaviour.

Based on the above discussion, *organisational resource access in this study is defined as the ability of the business to obtain and retain skilled staff, have easy access to formal funding, obtain contracts at low prices without compromising quality and using bribery as an acceptable business practice.*

Subsequently the following hypothesis is formulated:

H_{2.4}: Access to organisational resources influences SME ethical business conduct.

5.4.5 Reporting mechanisms

A good ethics reporting system should be directly linked to the code of conduct (Garthson, 2007:1). As noted by Adams (2004:732), unless reporting mechanisms are sound, reporting is unlikely to reflect stakeholder information needs. According to Belak and Milfelner (2011:109), the ability to manage communication about ethics to employees is necessary to close the gap between what is said and what it is actually done in the business. Reporting mechanisms in form of employee hotlines that ensure confidentiality and anonymity are necessary to convince employees to report sensitive work-related matters (Ethics Resource Center, 2013:32; Garthson, 2007:2).

According to Ashridge Centre for Business and Society (2005:16), allowing employees to anonymously report on ethical concerns about breaches in business policy or about how colleagues are being treated is healthy for businesses. On the same note, unscrupulous employees will be scared to using unethical means since they will be exposed and punished (Cicek, 2012:251). A suggestion box is the most patronized channel of lodging complaints (Addai-Minkah, 2011:61). The suggestion box is believed to guarantee confidentiality or anonymity (Farnum, Baird & Ball, 2011:2). Making use of an ombudsman is a preferred way to resolve complaints, as it facilitates a fair and equitable resolution of ethical concerns that arise within business (Treviño & Nelson, 2010:177:200).

According to Ethics and Compliance Risk Management (2007:10), businesses report ethics and compliance concerns through supervisors and colleagues, toll-free phone helplines, neutral ombudsmen, whistle-blowers, chat rooms, instant messaging and e-mails. Belak and Milfelner, (2011:110), noted that many businesses use compliance manuals as a communication mechanism. However, this reporting mechanism developed by businesses focuses on the needs of the business rather than on the needs of its employees and such procedures do not inspire trust because they cannot guarantee confidentiality or anonymity (Garthson, 2007:1). Baumann-Pauly, Wickert, Spence and Scherer (2013:680) note that SMEs tend to have informal reporting mechanisms based on face-to-face interaction with stakeholders rather than having formal written guidelines. A survey in India revealed that SMEs resolve employee disputes in an informal manner based on their employee's reputation, how much they trust the employee and the relationship they have

with the employee, rather than using a formal mechanism (Allen, Chakrabarti, De, Qian & Qian, 2012:410).

Based on the above discussion, *reporting mechanisms in this study are defined as tools to report wrongdoing or misconduct such as a suggestion box for customers, supervisors providing employees with clear reporting guidelines on how to use an anonymous ethics hotline or ombudsman for a fair and equitable resolution.*

Subsequently the following hypothesis is formulated:

H_{2.5}: Having reporting mechanisms influences SME ethical business conduct.

In the following section the operationalisation of the external environment factors influencing SME ethical business conduct is presented.

5.5 OPERATIONALISATION OF EXTERNAL ENVIRONMENT FACTORS INFLUENCING SME ETHICAL BUSINESS CONDUCT

Many businesses are assessing the external environmental factors that can influence employees to engage in unethical business conduct (Lluka, 2010:13). Imposed and externally dictated standards and procedures are contrary to the needs of SMEs and can lead to engaging in unethical business practices (Lahdesmak, 2005:57). According to Yves (2005:270), businesses worldwide experience social, competitive and stakeholders' pressure and have to make do with scarce resources. Boshoff and Van Zyl (2011:291) noted that other external environmental factors such as, economic-, political and social conditions influence the ethical business conduct of any business. This study will explore external environmental factors influencing the ethical business conduct of SMEs in terms of legal requirements, stakeholders' expectations, industry norms and media power as defined in Table 5.3.

Table 5.3: Definitions of external environment factors that influence ethical business conduct

External environment factors	Definitions	Sources
Legal requirements	Guidelines on legal and judicial business rules and regulations	Ogundele <i>et al.</i> (2013:6)
Stakeholders' expectations	Individuals or groups with an interest in, right to or ownership of an organisation and its activities	Lluka (2010:11)
Industry norms	Generally accepted standards or criteria that members of an industry follow in their business operations	Kölle, Markarian & Tartar (2011:134)
Media power	Symbolic power of media institutions to report on business behaviour	Couldry (2001:155)

Source: Researcher's own compilation

In the following sections the external environmental factors as depicted in the hypothesised model to be influential in ethical business conduct in SMEs, is operationalised.

5.5.1 Legal requirements

Governments enact regulations to provide guidelines for business behaviour that are acceptable within society and also set up a supervisory body to monitor and ensure that businesses are operating within the spirit and the intent of the legislation (Svensson & Wood, 2008:307). According to Abor and Quartey (2010:224), regulatory issues like; the cost of start-up, licensing and registration requirements, obtaining credit, trading across borders, enforcing contracts and closing a business can impose excessive and an unnecessary financial burden on SMEs. A survey by the Institute of Business Ethics (2007:1) found that tax avoidance is the second most important business ethics issue to be addressed. If doing so, it makes a business vulnerable to accusations of greed and selfishness, damaging its reputation and destroying the public's trust (Foster, 2013:1). Ethical issues especially arise when businesses must comply with multiple and conflicting legal- or cultural standards, as in the case of multinational companies that operate in countries with differing business practices (Lluka, 2010:12). Similar problems can be experienced with regard to the use of child labour, employee safety standards requirements, total work hours allowed, minimum wages, employee discrimination and environmental protection laws (Velentzas & Broni, 2010:802). Perks in Hellriegel *et al.* (2012:147) indicates that what society interprets as ethical or unethical business conduct normally ends up being expressed in

laws and government regulations; in other words laws are society's values and standards that are enforceable in the courts. Jones (2007:158) points out four main types of business laws namely: antitrust-, consumer protection-, environmental-, and public protection laws.

According to Hill (2013:1) businesses are often tempted to cut corners in pursuit of profit, such as not fully complying with environmental regulations or labour laws, ignoring worker safety hazards or using substandard materials in their products. The penalties for being caught can be severe, including negative publicity that can damage the businesses' reputation. However, the inefficiency of the law and the slow response to adherence is another reason for the recent increase in unethical practices (Yves, 2005:270). SME owner-managers give less priority to regulatory issues than larger businesses; they have a poor understanding of regulatory issues and believe their activities have little impact on the environment (Frost, 2011:2). SMEs regard cost, complexity and ambiguity of the regulations as barriers to regulation compliance (Ayatakshi, 2012:41).

Based on the above discussion, *legal requirements in this study can be defined as start-up business requirements for registration and licensing, labour laws to not use child labour and ensuring employee safety in the workplace, environmental laws on pollution restrictions and international business trading laws.*

Subsequently the following hypothesis is formulated:

H_{3.1}: Prevailing legal requirements influence SME ethical business conduct.

5.5.2 Stakeholders' expectations

Business activity affects all aspects of people's lives, so the way a business behaves toward stakeholders affects how stakeholders will behave toward a business (Jones, 2007:157). Even if stakeholders are far removed from daily business operations, they can nonetheless influence business activities (Svensson & Wood, 2008:314). According to Appelbaum *et al.* (2009:529) beyond formal legal obligations, businesses are subject to the scrutiny of stakeholders regarding their commitment to ethical- and legal business conduct. This implies stakeholders' views and sentiments influence ethical business conduct (Yves, 2005:270). According to Perks in Hellriegel

et al. (2012:159), there are various stakeholder groups to satisfy, namely customers, government, shareholders, employees and society. According to Yves (2005:270), each stakeholder has somewhat different concerns.

Customers are the most critical and largest stakeholder group and are concerned about decisions on the quality, safety and availability of goods and services (Perks in Hellriegel *et al.*, 2012:159). On the other, employees are responsible for coordinating business resources and ensuring that business goals are met, are interested in higher wages and better working conditions and job security (Yves, 2005:270). Singh and Twalo (2015:516) concur that lack of job security can incite employees to engage in unethical behaviour because they do not feel connected or even committed to the business. Suppliers expect to be paid fairly and promptly for their inputs; distributors expect to receive quality products at agreed upon prices (Jones *et al.*, 2007:147). Society has an interest in the business's performance because employment and the economic well-being of a community are strongly affected by businesses activities (Perks in Hellriegel *et al.*, 2012:159). Such demands may change the entrepreneurs' perception on business ethics.

The well-being of society should be of paramount importance to SME managers (Mandl & Dorr, 2007:44), since society comprises of people and they are the target market for SME products. According to Khan (2009:189), SMEs are not much concerned about the interests of stakeholders such as suppliers and government, but regard customers as important as they are their source of income. Their strength lies in this as they are able to develop personal customer relationships unlike larger businesses (Dietsche, 2009:36). It is also equally important that businesses take into consideration the host country's ethical standards (Carroll & Buchholtz, 2014:313). Furthermore, following the home country's ethical standards globally can decrease market opportunities with countries that have an unfavorable ethical business climate.

Ferrell and Ferrell (2009:258) noted that, elevating one group of stakeholder's interests over another can have a significant influence on employee behaviour. Businesses should know how to manage their stakeholders. For instance, high prices to customers might lead to high returns for shareholders and high salaries for managers in the short-term, but in the long-term, customers

return to buy from businesses that offer lower-cost products; the result could be declining sales turnover, fewer profits and laid-off employees (Jones *et al.*, 2007:149).

Based on the above discussion, *stakeholders' expectations in this study are defined as expectations by those with an interest in the business such as the provision of safe, quality products to customers by only buying from carefully selected suppliers, ensuring employee job security, looking after society's welfare and applying ethical behaviour standards across nations.*

Subsequently the following hypothesis is formulated:

H_{3.2}: Stakeholders' expectations influence SME ethical business conduct.

5.5.3 Industry norms

The nature of the industry affects business behaviour (Cambra-Fierro *et al.*, 2008:653). Málovics (2009:224) established a link between industry norms and ethical business behaviour. Businesses deviate from ethical principles because of industry standards, for example, unethical accounting practices where accounts are manipulated to show high business performance could be attributed to strict industry norms and values (Sinha & Mishra, 2011:139). Some business managers do not adequately understand the industry ethical code which may unintentionally lead to not acting morally in the business (Graham, 2013:319). Businesses need to follow industry ethics policies and standards that reinforce their business values and philosophies and communicate these to both internal- and external stakeholders. As argued by Wiid *et al.* (2013:1088), this helps to protect the business from a possible hostile takeover and may assist in attracting investors and keeping the share price high.

According to Singh (2009:11), industry norms and values with regard to ethical issues also include industrial espionage, pollution reduction and ethical leadership. Gangone (2011:192) regards industrial espionage as an unorthodox and absolutely illegal method, but acknowledges that transnational corporations often use it in order to be abreast of their competitors. According to Cambra-Fierro *et al.* (2008:654), it is necessary to articulate a set of norms that consider the peculiarities of each industry and compel businesses to minimise the environmental impact of their activities. This is crucial because the environmental influence of one industry is different from another; some businesses are environmentally hostile due to the harmful substances used

and the waste generated while others have organic waste which is biodegradable (Cambra-Fierro *et al.*, 2008:651). Businesses should charge market-related prices for scarce products to those customers who can pay to achieve a maximum return on their investment (Krishna & Kapila, 2009:511).

Research on SMEs in the Czech Republic revealed a relationship between industry norms and ethical business conduct (Šípková & Tae-Hee, 2015:120). Málóvics (2009:235) notes that industry norms play a central role in the self-perception of SMEs regarding ethical behaviour. Ghanavati (2014:414) concurs and adds that, although SMEs marketing activities are unplanned and informal, they are built upon and match industry norms.

Based on the above discussion, *industry norms in this study are defined as industry standards with regard to minimising the environmental impact of business activities, charging market-related prices for scarce products, to not engage in industrial espionage and to communicate business values to all external stakeholders.*

Subsequently the following hypothesis is formulated:

H_{3.3}: Industry norms influence SME ethical business conduct.

5.5.4 Media power

Media has always occupied a vital position in modern society, and as a disseminator of information, it can make or break businesses through its coverage (Svensson & Wood, 2008:306). Using media to advertise business values is a strategy that can help business to connect with their customers (Broughton, Higgins, Hicks & Cox, 2009:27). On the other hand, media has fuelled the interests towards ethical reasoning by its regular coverage of unethical behaviour taking place in the business community (Khalid, 2012:9). This is in agreement with Perks in Hellriegel *et al.* (2012:146) who states that media expose and report a manager's ethical decisions and behaviours and then the public can judge whether it is regarded as acceptable business behaviour. This was confirmed by Cant *et al.* (2013:5775) that the media exposes business corruption and raises awareness of unsavory business practices to society (Svensson & Wood, 2008:306). The media thus fulfills a self-appointed social conscience role within society by creating ethical business

expectations (Svensson & Wood, 2008:310). In doing so, media has played a big role in businesses being more transparent in the way they operate.

The public is exposed to more information than ever before and can thus monitor business activities (Aileron, 2013:1). Media can be used to engage customers to connect with the business and understand business products and services more efficiently (Meinema, 2013:18). According to Jagongo and Kinyua (2013:225), SMEs in Kenya develop products and services that suit customers' needs based on feedback from the media and also communicate these developments to customers. Thus media represents a new way for SMEs to communicate with consumers and develop a reputation for business (Nobre & Silva, 2014:140). Media coverage increases consumer awareness of ethical business behaviour. This, in turn, increases the expectations for socially responsible employee behaviour (Servaes & Tamayo, 2013:1047). Sharing information about employees in the media shapes their workplace behaviour (Broughton *et al.*, 2009:1).

According to Kenix (2011:2), the media not only sends ideological messages out to the public, but media systems are also interlinked with the ideological framework of society. As argued by Paek and Pan (2004:495), the media plays a significant role in shaping people's values and value orientation in contemporary society, media content may articulate a value, demonstrate its applications, and foster a cultural environment for its adoption as a preferred standard for social comparison. These social comparisons lead to ideological changes within individuals, communities and nations over time (Kenix 2011:2). With the media attention given to unethical business practices and the responses reported in the media to those allegations, it is expected that business ethics should be improving (Mehta, 2003:117). However, unethical practices still take place. Managers who take full advantage of media information can keep abreast of their competitors (Paek & Pan, 2004:495). Unethical practices should thus be widely publicised and openly condemned so that businesses and people are discouraged to resort to such behaviour (Cicek, 2012:252).

Based on the above discussion, the *power of the media in this study is defined as how the media can be used to advertise business values to the public, exposing unethical employee or*

competitor behaviour, informing customers about what may affect them negatively and guiding ethical behaviour of employees.

Subsequently the following hypothesis is formulated:

H_{3.4}: The power of the media influences SME ethical business conduct.

According to the above literature discussion, numerous factors contribute to unethical business conduct namely; staff-, business- and external environmental factors. Managers can address ethical issues by understanding how these factors influence ethical business conduct. In other words, the factors provide a framework within which ethical business decision making could be analysed to get a fair idea of what is acceptable ethical business behaviour. However, the influence of these factors vary and in all cases it can be concluded that the prevailing factor at the time of decision making would be the leading force in deciding the course of action or the ethical decision of the individual in the business setting. What is needed in today's business environment is for businesses to operate within a strong, positive workplace ethical culture. This gives employees the confidence to lookout for unwanted unethical business behaviour. However, it is also important to note that some ethical standards are embedded in a specific industry and that these may even change over time as individuals become more aware of their rights. Also, many SMEs lack the understanding of the significance of business ethics and how it can influence the future and sustainability of the business. The following section points out potential measures of ethical business practices.

5.6 MEASURES OF ETHICAL BUSINESS PRACTICES

The business environment has changed in recent years and the issue of business ethics has become even more important for businesses (Cant *et al.*, 2013:5778). Globalisation has brought about a greater need to conduct business in an ethical manner and most importantly using it to achieve a competitive advantage (Azmi, 2006:4). However, SMEs in the developing countries lack awareness and understanding of the importance of business ethics and the benefits of applying it since some benefits are not necessarily visible in the short-term. According to Mahmood (2008:16), this can be attributed to the lack of a long-term vision for SMEs and their

short-term focus on survival (Mahmood, 2008:16). Businesses around the world are gradually becoming aware of the significance of business ethics.

A business that demonstrates high ethical standards in all business practices maintains an ethical reputation (McMurrian & Matulich, 2011:11). This reputation results in a high level of customer satisfaction and loyalty which translates into higher profit, since customers are more inclined to buy from a business that is ethical in its dealings (Wiid *et al.*, 2013:1088). Being ethical reduces the transaction costs of generating new customers (Zhang, 2009:33). More so, ethical businesses tend to attract more skilled employees that put more of an effort into their work, thereby increasing productivity (Larkin & Pierce, 2015:6). According to Lockwood (2007:3), a business environment that is open and honest results in employees that are loyal and committed to the business. This, in turn, leads to a low incidence of staff turnover as employees will be more inclined to stay in employment with an ethical business (Strandberg, 2009:7).

Abor and Quartey (2010:224) find that SMEs that operate in an ethical manner adhere to business laws and regulations and pay their taxes. Stakeholders interacting with an ethical business also know they adhere to business standards and pay suppliers promptly (Jones *et al.*, 2007:147). Customers buying from ethical businesses will be confident of receiving quality products at agreed upon prices (Cambra-Fierro *et al.*, 2008:652).

Perks and Smith in Muffatto *et al.* (2012:592) note that ethical businesses behave as good corporate citizens in terms of being transparent, responsible, fair and accountable in all their operations. Ethical businesses are keen to implement initiatives to improve the well-being of society (Ismail, 2009:199). Consumer interest in environmental issues has led to a greater need for environmental awareness and has prompted businesses to take a pro-active approach to the adherence of environmental legislation, by amongst others, engaging in recycling activities (Miranda & Blanco, 2010:432).

Based on the above discussion, *ethical business conduct in this study is defined as businesses that comply with business laws and regulations such as paying all business-related taxes, being a good corporate citizen by striving to improve the lives of their local community and focusing on*

the outcome of their actions and not on short-term gain, taking responsibility for the impact of their environmental activities by using re-used or recycled materials, supporting environmental awareness programmes, selling quality products and/or services and relying on their existing customers to refer new customers as their employees act with integrity.

5.7 SUMMARY OF THE OPERATIONALISATION OF THE VARIABLES

Table 5.4 provides a summary of the operationalisation of the variables in the hypothesised model as discussed in the preceding sections.

Table 5.4: Summary of the operationalisation of the factors in the hypothesised model

Definition of factors	Sources
<i>Employee morals</i> are the moral rules employees apply in the workplace by being loyal to the business, acting with integrity and honesty, treating customers with respect and trusting their co-workers	Bryant (2009:505); Cicek (2012:248); Hann (2012:14); Haque <i>et al.</i> (2010:32); Information Resources Management Association (2013:457); Lawrence <i>et al.</i> (2006:252); Mujtaba, (2011:17); Perks in Hellriegel <i>et al.</i> (2012:151); Revenue and Customs Report (2012:19); Schaefer <i>et al.</i> (2011:4); Wiid <i>et al.</i> (2013:1089)
<i>Employee attributes</i> are the qualities, characteristics and skills employees apply to behave ethically in the business by not being absent from work, having business interests at heart above self-interest, aligning their personal values to that of the business values, taking ownership for their own mistakes and cooperating with co-workers as if working in a team	Boshoff & Van Zyl (2011:283); Bryant (2009:505); Collins (2009:102); Degen (2014:6); Edwards (2005:578); Elias (2013:4); Ermongkonchai (2010:133); Ferrell & Ferrell (2009:263); Jackson <i>et al.</i> (2010:161) Holtbrügge <i>et al.</i> (2015:264), Hume <i>et al.</i> (2006:65); Khalid <i>et al.</i> (2013:32); Klein & Vorbohle in Spence <i>et al.</i> (2010:216); Lin <i>et al.</i> (2005:146), Manjunatha & Maqsd (2013:19); Omolewu (2008:7); Saif (2015:123); Sinha & Mishra (2011:146), Stefanescu & Doval (2010:39); Townsend (2007:3)
<i>Employee attitude</i> refers to developing employees' ethical business virtues and values through in-house training to respect management's decisions, rendering them willing to receive guidance from senior staff to be ambitious, realising their ambitions and aspiring to higher performance	Cambra-Fierro <i>et al.</i> (2008:647); Cant (2012:1355); Gino <i>et al.</i> (2011:199); Hess (2007:1786); Jones (2007:147); Kalshoven, Den Hartog & De Hoogh (2011:55); Lane <i>et al.</i> (2007:41); Liu (2013:1093); Lluka (2010:13); Manjunatha & Maqsd (2013:19); Miller & Cross (2012:141); Omolewu (2008:7); Perks in Hellriegel <i>et al.</i> (2012:159); Songbo & Wei (2011:609); Stefanescu & Doval (2010:39); Treviño & Brown (2005:72); Treviño & Nelson (2011:172); Yukl (2005:410)
<i>Workplace culture</i> refers to a written code of business ethics that promotes sound corporate values and shared beliefs and governs acceptable business behaviour relating to customer service and signaling a unified image of the business through the uniforms employees wear	Cant <i>et al.</i> (2013:5776); Carroll & Buchholtz (2014:255); Cole <i>et al.</i> (2014:789); Huhtala <i>et al.</i> (2013:268); Málóvics, 2009:224); McCain <i>et al.</i> (2010:995); Mehalu (2011:5); Miller & Cross (2012:156); Nel (2008:11); Perks in Hellriegel <i>et al.</i> (2012:150); Spence & Perrini in Spence & Painter-Morland (2010:43); Stefanescu & Doval (2010:40); Vitell & Hidalgo (2006:33)
<i>Management practices</i> refer to simple systems that govern acceptable business behaviour such as paying market-related salaries, disciplinary procedures to punish wrongdoing and setting long-term	Alder, Schminke, Noel & Kuenzi (2008:487); Assad (2013:1); Bloom <i>et al.</i> (2012:15); Cambra-Fierro <i>et al.</i> (2008:654); Cant <i>et al.</i> (2013:5777); Ferrell & Ferrell (2009:261); McCain <i>et al.</i> (2010:1002); Nyabwanga <i>et al.</i> (2013:2); Ogundele <i>et al.</i> (2013:7); Ordóñez <i>et al.</i> (2009:17); Rhode & Packel (2009:31); Treviño and Nelson (2011:172); Younkis

Definition of factors	Sources
financial goals together with supporting short-term goals to support ethical behaviour in the workplace	(2011:19)
<i>Knowledge acquisition</i> is regarded as providing employees with periodic ethical business training on moral business practices to educate them on what ethical business behaviour entails, guiding them to develop an intuition in making sound business decisions and to serve as a platform to encourage knowledge sharing in the business	Bencsik (2011:96); Cambra-Fierro <i>et al.</i> (2008:654); Finn & Torgeir (2008:1060); Kleinig (2009:201); Lee & Cheng (2012:83); Lluka (2010:13); Ma'an & Kalalkeh (2010:330); Ogundele <i>et al.</i> (2013:7); Schaefer <i>et al.</i> (2011:9); Shakeel <i>et al.</i> (2011:69); Stefanescu & Doval (2010:39); Tan <i>et al.</i> (2015:15); Treviño & Nelson (2011:172)
<i>Organisational resource access</i> is the ability of the business to obtain and retain skilled staff, have easy access to formal funding, obtain contracts at low prices without compromising quality and to use bribery as an acceptable business practice	Bishara (2011:246); Boateng (2012:19); Kuryin (2014:2); Lahdesmak (2005:64); Mahmood (2008:5); Mbabazi (2012:3); Málovics (2009:223); (Ntayi <i>et al.</i> , 2012:43); Omolewu (2008:7); Rhode & Packel (2009:31); Rune (2011:1); Singh (2009:4); Tarus & Nganga (2013:53); Yves (2005:270)
<i>Reporting mechanisms</i> are tools to report wrongdoing or misconduct such as a suggestion box for customers, supervisors providing employees with clear reporting guidelines on using an anonymous ethics hotline or ombudsman for a fair and equitable resolution	Adams (2004:732); Addai-Minkah (2011:61); Allen, Chakrabarti, De & Qian (2012:410); Ashridge Centre for Business and Society (2005:16); Baumann-Pauly <i>et al.</i> (2013:680); Belak & Milfelner (2011:109); Cicek (2012:251); Ethics and Compliance Risk Management (2007:10); Ethics Resource Center (2013:32); Farnum <i>et al.</i> (2011:2); Garthson (2007:2); Treviño & Nelson, (2010:177:200)
<i>Legal requirements</i> are start-up business requirements for registration and licensing, labour laws to not use child labour and ensuring employee safety in the workplace, environmental laws on pollution restrictions and international business trading laws	Abor & Quartey (2010:224); Ayatakshi (2012:41); Foster (2013:1); Frost (2011:2); Hill (2013:1); Institute of Business Ethics (2007:1); Jones <i>et al.</i> (2007:158); Lluka (2010:12); Perks in Hellriegel <i>et al.</i> (2012:147); Svensson & Wood (2008:307); Velentzas & Broni (2010:802); Yves (2005: 270)
<i>Stakeholders' expectations</i> are expectations by those that have an interest in the business such as the provision of safe, quality products to customers by only buying from carefully selected suppliers, ensuring employee job security, looking after society's welfare and applying ethical behaviour standards across nations	Appelbaum <i>et al.</i> (2009:529); Carroll & Buchholtz (2014:313); Dietsche (2009:36); Ferrell & Ferrell (2009:258); Jones (2007: 157); Jones (2007:147); Khan (2009:189); Mandl & Dorr, 2007:44); Perks in Hellriegel <i>et al.</i> (2012:159); Svensson & Wood (2008:314); Yves (2005:270)
<i>Industry norms</i> refer to industry standards with regard to minimising the environmental impact of business activities, charging market-related prices for scarce products, not engaging in industrial espionage and to communicate business values to all external stakeholders	Cambra-Fierro <i>et al.</i> (2008:651); Gangone (2011:192); Ghanavati (2014:414); Graham, (2013:319); Krishna & Kapila (2009:511); Málovics (2009:224, 235); Singh (2009:11); Sinha & Mishra (2011:139); Šipková & Tae-Hee (2015:120); Wiid <i>et al.</i> (2013:1088)
<i>Power of the media</i> refers to how the media can be used to advertise business values to the public, exposing unethical employee or competitor behaviour,	Aileron (2013:1); Broughton <i>et al.</i> (2009:27); Cant <i>et al.</i> (2013:5775); Cicek (2012:252); Jagongo & Kinyua (2013:225); Kenix (2011:2); Khalid (2012:9); Mehta (2003:117); Meinema (2013:18); Nobre & Silva (2014:140); Paek & Pan (2004:495); Perks in Hellriegel <i>et al.</i>

Definition of factors	Sources
informing customers about what may affect them negatively and guiding ethical behaviour of employees	(2012:146); Servaes & Tamayo (2013:1047); Svensson & Wood (2008:306)
<i>Ethical business conduct</i> is when businesses comply with business laws and regulations such as paying all business-related taxes, being a good corporate citizen by striving to improve the lives of their local community and focus on the outcome of their actions and not on short-term gain, taking responsibility for the impact of their environmental activities by using re-used or recycled materials, supporting environmental awareness programmes, selling quality products and/or services and relying on their existing customers to refer new customers as their employees act with integrity	Abor & Quartey (2010:224); Cambra-Fierro <i>et al.</i> (2008:652); Institute of business ethics (2007:1); Ismail (2009:199); Jones <i>et al.</i> (2007:147); Larkin & Pierce (2015:6); Lockwood (2007:3); Mahmood (2008:16); McMurrian & Matulich (2011:11); Miranda & Blanco (2010:432); Perks & Smith in Muffatto <i>et al.</i> (2012:592); Strandberg (2009:7); Wiid <i>at al.</i> (2013:1088); Zhang (2009:33)

Source: Researcher's own compilation

In the following section the content of this chapter is summarised.

5.8 SUMMARY

The purpose of this chapter was to review extant literature that attempts to determine factors that influence SMEs ethical business conduct. This was accomplished by presenting factors such as staff-, business- and external environment. Within these main sets of factors various specific factors were identified and then operationalized in the context of this study. These factors were presented in the hypothesised model. From the extant literature the hypotheses were formulated. The chapter further highlighted measures of ethical business practices.

A multiplicity of factors is contributing towards the actual assessment of whether an ethical decision is made. These factors generally fall into three categories: staff-, business- and external environmentally related factors. Staff related factors include individual employee characteristics such as employee morals, employee attributes and employee attitudes. Employee morals are the foundation to an individual's sense of ethical behaviour, however ethical conflict may occur when there is a conflict between business values and an individuals' personal attributes. Individuals also differ based on their attitude on whether an action is ethical or unethical

Business factors explore the nature of business activities. The important business factors that have an effect on the practice of business ethics in SMEs include: workplace culture, management practices, knowledge acquisition, organisational resources, and reporting mechanisms. A strong workplace culture based on solid business values can influence the moral thinking of employees. It is important to note that the approach with which businesses manage ethical situations affects all aspects of the business. Acquiring ethical knowledge on the provisions in business ethics codes enables employees to know the requirements for behaving ethically in the business; and reporting mechanisms linked directly to the code of conduct can prevent unethical behaviour. However, lack of resources hinders building an ethical culture in the business.

External environmental factors focus on those issues and conditions that can influence employees in SMEs to be unethical in their business conduct. External environmental factors influencing ethical business conduct includes legal requirements, stakeholders' expectations, industry norms and media power. Ethical issues arise when businesses must comply with several legal requirements; however, defining accepted standards that members of an industry follow in their business operations prevent unethical behaviour. A business has various stakeholder groups to satisfy, and each stakeholder's views and sentiments influence ethical business conduct. Media coverage increases SMEs and their employees' awareness of ethical business behaviour.

Regardless of the factors that influence the business environment, businesses should operate ethically. It's important for businesses to meet the challenge of ethical behaviour if they are truly concerned about survival, integrity and being competitive. Businesses must ensure that their employees understand how to deal with ethical issues as this gives them the confidence to be on the lookout for unwanted unethical business behaviour, especially when they know that what they are doing is acceptable and they have management support. Incorporating ethical business practices allows businesses to gain: reputation for the business, business integrity, environmentally friendly products, lawful behaviour, corporate citizens and becoming socially responsible. The subsequent chapter will focus on the research design and methodology that will be used to test the stated hypotheses in order to achieve the purpose and objectives of this study.

In Chapter 6, the research design and methodology that will be used to address the primary objective of this study is presented and discussed.

CHAPTER 6

RESEARCH DESIGN AND METHODOLOGY

6.1 INTRODUCTION

In Chapter Five, the hypothesised model of the business ethics factors influencing ethical business conduct was discussed. The chapter attempted to review existing theoretical underpinnings that link business ethics factors to SMEs ethical business conduct. The factors presented are categorised as staff-, business- and external environmental related factors that are linked to SME ethical business conduct. In this chapter the operationalisation of the research variables in the hypothesised model were presented; hypotheses were formulated and empirical studies supporting these hypotheses were discussed. From this chapter it was clear that various factors can influence ethical business conduct.

Researchers are often overwhelmed by the plethora of research methodologies, making the selection of an appropriate research design for a particular study difficult (Turyakira, 2012:104). Furthermore, research requires a formal and rigid adherence to some defined systems of inquiry to determine new facts or to collate old ones in way. To achieve this, a suitable research design and methodology is needed.

The purpose of this chapter is to explain the research design and methodology to be used to address the primary objective of this study, which is to investigate the factors that influence the deployment of business ethics in Ugandan SMEs. In this chapter, a description of the research design and research paradigm is provided. This is followed by a presentation of the study population, as well as a description of the sampling unit and sampling techniques that will be used. A brief explanation of the way the measuring instrument will be developed and administered is provided. Finally, the statistical data analysis techniques to be performed will be discussed.

The next section discusses the research design.

6.2 RESEARCH DESIGN

A research design is a structure of research and it is the constructed plan and strategies developed to seek, to explore, and to discover answers to the research problem (Zikmund, Babin, Carr and Griffin, 2012: 64). According to Cooper and Schindler (2008:711), a research design is the blueprint for fulfilling study objectives and answering research questions. Similarly, Maree (2007:70) noted that a research design is a plan which moves from the underlying philosophical assumptions to specifying the selection of the respondents, data gathering techniques and data analysis to be done. A design is used to structure the research and show all the major parts of the research project, the samples or groups, the measures, the treatment or programmes and the methods of assignment which work together to address the central research question (Farrugia, Petrisor, Farrokhyar & Bhandari, 2010:278). The function of a research design is to ensure that the evidence obtained enables researchers to answer the initial question as unambiguously as possible (David & Sutton, 2011:205).

A number of research designs exist and researchers often encounter challenges selecting the appropriate research design for a particular study. According to Farrugia *et al.* (2010:279) the choice of research design should be driven by the research questions or objectives. A survey research design was adopted for this study to investigate how the independent variables (staff-, business- and external environmental related factors) influence the dependent variable (SMEs ethical business conduct) in Uganda. According to Harwell (2011:149), a survey is a suitable method if the study is quantitative in nature and a representative sample of a large population is required. Harwell (2011:150) further indicates that surveys are applicable to determine business behaviour and attitudes.

The next section presents research paradigms.

6.2.1 Research paradigm

A research paradigm refers to a set of beliefs, values and techniques used in critical investigations or experimentation to discover new facts and to correctly interpret them (Amin, 2005:2). According to Amin 2005:2) there are two research paradigms namely; qualitative research and quantitative research. The qualitative research paradigm is used to explore and understand a central phenomenon

while the quantitative research paradigm is used to test theories about reality, and looks for cause-and-effect relationships. These paradigms are presented in the following sections in more detail..

6.2.1.1 The qualitative research paradigm

The qualitative research or phenomenological paradigm is used to explore and understand the meanings individuals or groups ascribe to social or human problems; in other words, the qualitative researcher seeks to understand why people behave the way they do: their knowledge, value systems, attitudes, beliefs, motivations, fears, culture or lifestyles (Creswell, 2009:4). Qualitative research or social constructivism views knowledge as socially constructed and may change depending on the circumstances (Tuli, 2011:102). Qualitative research paradigms are individual-centered and involve an in-depth inquiry and probing mechanism (Maree, 2007:51). Case studies are prime examples of qualitative research (Clough & Nutbrown, 2012:20). Common data collection methods used in qualitative research are: focus groups, documents, in-depth interviews, observation, bulletin boards and audio-visual material (Creswell, 2009:170).

6.2.1.2 The quantitative research paradigm

Quantitative research or a positivistic paradigm is a systematic process of a means for testing objective theories by examining the relationship among variables (Creswell, 2009:4). Researchers who use the logical positivism research paradigm employ experimental methods and quantitative measures to test hypothesised generalisations and to emphasise the measurement and analysis of causal relationships between variables (Koh & Owen, 2012:4). Similarly, Prowse (2007:2) noted that positivists discover empirical generalisations through setting up and testing hypotheses in a deductive manner. Quantitative research techniques are more data-centered and use statistical methods and data is collected through the use of surveys and experiments (Creswell, 2009:12).

6.2.1.3 Features of the two paradigms

Table 6.1 outlines the difference between the two research paradigms.

Table 6.1: Features of the two paradigms

Positivist paradigm	Features	Phenomological paradigm
Quantitative	Type of data produced	Qualitative
Large	Sample size	Small
Hypothesis testing	Purpose	Generating theories
Highly specific and precise	Data collected	Rich and subjective
Artificial	Location	Natural
High	Reliability	Low
Low	Validity	High
From sample to population	Generalisation	From one setting to another

Adapted from: Collis & Hussey (2009:54)

As can be seen in Table 6.1, there are many differences between the two research paradigms. A positivist paradigm uses predominantly quantitative data while a phenomenological paradigm uses qualitative data (Bhattacharjee, 2012:103). Gray (2013:17) notes that the positivist paradigm primarily follows the confirmatory scientific method, because it focuses on hypothesis testing and presenting statistical results. The phenomenological paradigm on the other hand follows the exploratory method of understanding people's experiences and data is presented as a descriptive narration with words and an attempt to understand a phenomena in the natural setting (Williams, 2011:66). According to Antwi and Hamza (2015:220) the quantitative approach uses validity, reliability, and generalisability to describe, predict, and verify empirical relationships, while qualitative research aims to explore, discover and understand, and thus cannot use the same criteria to judge research quality and outcome; they have high validity, but are less concerned with generalisability

6.2.1.4 Chosen research paradigm

Based on the nature of the research objectives a positivistic paradigm is appropriate for this study. The motivation for choosing the positivistic research paradigm relates to the ability of the quantitative method to use a large sample to make inferences about the population as indicated by Nwokah *et al.* (2009:436). As advised by Coetzer (2008:48), the positivistic paradigm is also associated with a research instrument that is precise, specific and can be measured quantitatively.

The next section presents types of quantitative approaches.

6.2.2 Quantitative research approaches

Research can be classified in terms of its purpose. Accordingly, it is most often classified as exploratory, descriptive or explanatory (Collis & Hussey, 2009:62). The following section presents the major types of research approaches.

6.2.2.1 Exploratory studies

Exploratory studies are conducted about a research problem when there are few or no earlier studies to refer to or rely upon to predict an outcome; the focus is on gathering insights about the problem (Wohlin & Aurum, 2014:8). According to Bhattacharjee (2012:94), exploratory studies are used to discover relevant constructs in studies where the experiences of participants and context of actions are critical, and for studies aimed at understanding a complex, temporal process. Van Wyk (2012:9) refers to exploratory studies as the most appropriate research design for those studies that are addressing a subject about which there are high levels of uncertainty and ignorance about the subject, and when the problem is not very well understood. The aim of exploratory research is to explore the problem and provide background information that can be used for descriptive or explanatory research (Zainal, 2007:2). Zikmund *et al.* (2012:58) note that exploratory studies are the most productive since they yields a large number of ideas about the problem and help to find the most important ones. Blanche, Durrheim and Painter (2006:44) confirm that exploratory research aims at interviewing key informants. It is applicable to both qualitative and quantitative research and the data collection methods used are observation, interviews and focus group interviews (Wohlin & Aurum, 2014:9).

For this study, an exploratory design was adopted whereby the factors that influence ethical business conduct of SMEs in Uganda, were identified.

6.2.2.2 Descriptive studies

According to Amin (2005:212), descriptive studies are those studies which are concerned with describing the characteristics of an event, community or region; providing data about the population or item studied by only describing the who, what, how, when and where of a situation

at a given time. A descriptive study establishes only associations between variables (Maree, 2007:55) and allows statistical analysis (Okero-Obura, 2007:96). According to Koh and Owen (2012:4), surveys and field research are the most commonly used techniques of descriptive research.

For this study, a descriptive design was adopted whereby the factors that influence ethical business conduct of SMEs in Uganda, were described.

The next section presents the various research methodologies available and followed in this study.

6.3 RESEARCH METHODOLOGY

According to Blessing and Forister (2013:11), the methodology choice should be driven by the research questions or objectives rather than any preference for a given methodology. In the following sections the different research methodologies are discussed and an indication, of which methodology was followed, is provided.

6.3.1 Population and sample

The term population refers to an entire group of people, events or things of interest that possess at least one common characteristic that the researcher wishes to investigate (Sekaran, 2006:266). A population is also viewed as the total collection of elements on which the researcher wishes to make some inferences (Cooper & Schindler, 2008:374). The unit of analysis may be a person, a group, an organisation, a country, an object, or any other entity that one wishes to draw scientific inferences about (Bhattacharjee, 2012:66). This study regards all SMEs in Uganda as the population for this study.

Sampling refers to the process of selecting some elements from a population to represent that population (Cooper & Schindler, 2008:711). Palit (2014:3511) defines sampling as the part of statistical practice concerned with the selection of individual observations intended to yield some knowledge about a population of concern, especially for purposes of statistical inference. Selecting a sampling technique involves making a series of decisions not only about how many individuals to include in a study and how to select them, but also about the conditions under

which this selection will take place (Onwuegbuzie & Collins, 2007:308). The sampling frame for the study is SMEs in Kampala District that are registered and employ more than five, but less than 200 employees.

By studying the sample, results may be fairly generalised back to the population from which they were chosen (David & Sutton, 2011:226). According to Sutherland and Canwell (2008:52), sampling methods are classified as either probability- or non-probability sampling. These two sampling methods are discussed in the following sections.

6.3.1.1 Probability sampling

Probability sampling involves selecting a relatively large number of units from a population, or from specific subgroups (strata) of a population in a random manner where the probability of inclusion for every member of the population is determinable (Teddlie & Yu, 2007:77). In probability samples, each member of the population has a known non-zero probability of being selected. Probability sampling techniques include random-, systematic- and stratified sampling (Van Aartsengel & Kurtoglu, 2013:90). These sampling techniques are discussed below.

(a) Random sampling method

Random sampling occurs when each sampling unit in a clearly defined population has an equal chance of being included in the sample (Teddlie & Yu, 2007:79). Random probability sampling is based on the principle of randomness and can accurately generalise findings regarding the population (Maree, 2007:172). Simple random sampling consists of selecting n units from a population of N elements, each possible subset having the same probability of selection (Hade & Lemeshow, 2008:622).

(b) Systematic sampling

Systematic sampling involves choosing individuals from a list by selecting every k^{th} sampling frame member, where k typifies the population divided by the preferred sample size (Onwuegbuzie & Collins, 2007:285). According to Hade and Lemeshow (2008:622), systematic sampling is very popular due to its ease of implementation. Sekaran (2006:275) notes that systematic sampling is efficient because for the same sample size each important segment of the

population is better represented, and more valuable and differentiated information is obtained with respect to each group. This process ensures that there is no over representation, in other words, the sample is representative of the population (Bhattacharjee, 2012:67).

(c) Stratified sampling method

Stratified sampling occurs when the researcher divides the population into subgroups that are relatively homogeneous with respect to one or more characteristics and then selects units from those strata randomly (Teddlie & Yu, 2007:79). Sekaran (2006:273) notes that stratification ensures homogeneity within each stratum, but heterogeneity between strata. According to Hade and Lemeshow (2008:622), stratification by a characteristic reduces variability in the resulting population estimates, especially when the characteristic is related to the measurement of interest; it also allows reliable estimates to be made about each stratum.

In the following section the different non-probability sampling methods are elaborated on.

6.3.1.2 Non-probability sampling

Non-probability sampling involves selecting units based on specific purposes associated with answering a research study's questions rather than on a random basis (Teddlie & Yu, 2007:77). Non-probability sampling techniques include convenience-, judgment-, quota- and snowball sampling (Bhattacharjee, 2012:69).

(a) Convenience sampling

Convenience sampling occurs when the researcher selects respondents on the basis of proximity, ease of access and willingness to participate (Bhattacharjee, 2012:69). According to Hesse-Biber and Leavy (2010:99), in a convenience sample a respondent is selected who happens to be available and willing to participate in the research project and whose general characteristics fit the research study's general goals. Battaglia (2008:7) notes the ease of obtaining the sample relates to the cost of locating the population, the geographic distribution of the sample, and obtaining the interview data from the selected respondents. Convenience sampling can sometimes incorporate elements of randomness to increase the potential of being more representative of the study population (Smith, 2010:98). According to Jugenheimer, Kelley, Hudson and Bradley (2014:38)

convenience sampling is used in exploratory research. For this study, convenience sampling was used to select SMEs that meet the criteria in terms of being a registered SME with more than five, but less than 200 employees to participate in this study.

(b) Judgment sampling

Judgment sampling is a common non-probability method. It occurs when the researcher selects a sample deliberately or purposely based on his or her own judgment (Van Aartsengel & Kurtoglu, 2013:91). According to Hesse-Biber and Leavy (2010:55), respondents are chosen to participate in a study based on their particular characteristics as determined by the specific goals of the research project. Battaglia (2008:5) notes the main objective of purposive sampling is to produce a sample that can be considered “representative” of the population with regard to their characteristics under study. Reddy and Acharyulu (2009:202) note that, this type of sampling technique is most appropriate if the population of the study is difficult to locate or if some members are thought to be more knowledgeable than others to interview.

(c) Quota sampling

Quota sampling occurs when the population is segmented into mutually exclusive subgroups, and then a non-random set of observations is chosen from each subgroup to meet a predefined quota (Smith, 2010:98). According to Zikmund *et al.* (2012:394), quota sampling ensures that the various subgroups in the population are represented to pertinent samples characteristics that the investigator desires. Jugenheimer *et al.* (2014:38) suggest that researchers review and evaluate each of the quotas for its homogeneity to the population. In proportional quota sampling, the proportion of respondents in each subgroup should match that of the population, whereas for non-proportional sampling, the proportion of respondents is even less representative of the population, but may be useful in that it allows the opinions of small and underrepresented groups to be obtained (Bhattacharjee, 2012:69).

(d) Snowball sampling

Snowball sampling requires the researcher to start by identifying a few respondents that match the criteria for inclusion in the study, and then ask them to recommend others they know who also meet the selection criteria (Sutherland & Canwell, 2008:53). According to Jugenheimer *et al.*

(2014:39) snowball sampling is used when the characteristics of the population are rare and the information from the members of the population is quite valuable. Although this method hardly leads to representative samples, it may sometimes be the only way to reach hard-to reach populations or when no sampling frame is available (Bhattacharjee, 2012:70). As the attempt to obtain a sample from a sampling frame was unsuccessful as it was outdated, in addition to convenience sampling, snowball sampling was used. Respondents were asked if they knew about other SMEs that could also be interviewed and meet the criteria for inclusion in the sample.

In the following section a comparison of the probability and non-probability sampling methods is provided.

6.3.2 Comparison of the sampling techniques

Table 6.2 outlines the difference between the two sampling techniques. Reddy and Acharyulu (2009:196) note that probability sampling is suitable for large samples, provides a sampling frame for the entire population and focuses on breadth of information, while non-probability sampling focuses on depth of information, is suitable for small samples and there is not an exhaustive population list available.

As can be seen in Table 6.2, there are many differences between the two sampling techniques. Whereas in probability samples, each member of the population has an equal chance of being selected for the sample, and this chance can be accurately determined by applying mathematical formulas, in non-probability sampling, members have zero chance of selection and the probability of selection cannot be accurately determined since it is based on expert judgment (Van Aartsengel & Kurtoglu, 2013:90). Because the selection is non-random, information from a non-probability sample has limited transferability while probability sampling allows generalisation of results from a random sample (Jugenheimer *et al.*, 2014:145).

Table 6.2: Differences between probability and non-probability sampling

Dimension of contrast	Probability sampling	Non-probability sampling
Synonyms	<ul style="list-style-type: none"> • Scientific sampling • Quantitative sampling 	<ul style="list-style-type: none"> • Purposeful sampling • Qualitative sampling
Extent of generalisability	Internal generalisable	External generalisable (transferability)
Rationale for selection	Cases are selected that are collectively representative of the population	Cases are selected so that one can learn from being the most representative
Sample size	Large enough to establish representation (usually at least 50)	Typically small (usually 30 or less)
Depth/breadth of information	Focus on breadth of information	Focus on depth of information
Sample is selected	Before the study begins	Before the study begins, during the study, or both
Selection is based on	Application of mathematical formulas	Expert judgment
Sampling frame	Formal sampling frame	Informal sampling frame
Data generated	Focus on numeric data	Focus on narrative data

Adapted from: Teddlie & Yu (2007:84)

According to Bhattacharjee (2012:65), it is very important to choose a sample that is truly representative of the population so that the inferences derived from the sample can be generalised back to the population of interest. Based on the above discussion and the Ugandan business environment, the non-probability sampling technique is more appropriate for this study as the sample could not be selected from a specific database. Initially business associations supplied their SME databases to assist in identifying the sample respondents. However, the data bases were outdated, and 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. Many could not be physically located in the business areas provided. This resulted in using convenience- and snowball sampling which allows selecting respondents who are available and willing to participate and whose characteristics meet the criteria of the researcher. While being in a specific area, fieldworkers surveyed businesses that meet the criteria of the study or which they were referred to by the respondent. The three fieldworkers explained

the purpose of the study and firstly establish whether it was a small or medium size business with more than five, but less than 200 employees and they had to provide proof of registration.

Choosing the right sample size is important. In the next section the motivation for the sample size chosen is indicated.

6.3.3 Sample size

The choice of sample size is important because it determines the extent to which the researcher can make statistical and or analytical generalisation of the findings (Jugenheimer *et al.*, 2014:129). Onwuegbuzie and Collins (2007:287) noted that, the size of the sample should be informed primarily by the research objective, research questions(s) and the research design. Large samples are being associated with quantitative studies (Nwokah *et al.*, 2009:436). According to Sekaran (2006:296), a sample size between 30 and 500 at a 5% confidence are appropriate for most research studies. This study adopted Krejcie and Morgan’s simplified heuristics to determine the sample size (see Table 6.4). A final sample size of 384 SME owners or managers, whose workforce ranged between five and 200 employees were surveyed with the assistance of three fieldworkers. A few questionnaires were discarded due to too many questions not being answered.

Table 6.3 outlines the Krejcie and Morgan’s estimation of sample size from a given population.

Table 6.3: Krejcie and Morgan’s estimation of sample size from a given population

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341

N	S	N	S	N	S
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Key: N = population size; S = sample size

Source: Krejcie & Morgan (1970:607)

As can be seen in Table 6.3, the relationship between sample size and total population is well illustrated. Krejcie and Morgan (1970: 608) indicate that as the population increases the sample size increases at a diminishing rate and remains relatively constant at more than 380 cases. Keeping in view of this, a sample size of 384 SMEs was considered acceptable for this study. Krejcie and Morgan (1970: 607) recommend a sample size (*S*) of 384 for a population (*N*) of 1,000, 000. The population of SMEs in Uganda is estimated at 1,100,000 (Ministry of Finance, Planning and Economic Development, 2011:3). A sample size of 384 was considered desirable based on the population.

In the following section data collection will be elaborated on.

6.4 DATA COLLECTION

The purpose of any research process is to obtain credible and comprehensive responses. Both primary and secondary data were collected for this study.

6.4.1 Secondary data

Secondary data involves analysing data that has been previously collected and tabulated by other sources (Bhattacharjee, 2012:39). According Chaston (2009:31) documented information sources are often rich sources of research data. A comprehensive literature search was conducted in order to identify factors that influence SMEs ethical business conduct. A detailed internet search on the topic was undertaken in online databases such as EBSCO, Emerald searches, Google searches, Yahoo searches, dissertation abstracts, online reports, leading ethics and SME journals. Data was also sourced from business authorities like the Uganda Small Scale Industries Association, Uganda Manufacturers Association and Ministry of Trade, Commerce and Industry. Secondary data also included information found in newspapers, textbooks, reports and theses.

6.4.2 Primary data

A primary source included individuals, focus groups and a panel of respondents specifically set up by the researcher whose opinions may be sought on specific issues from time to time (Sekaran, 2006:221). The ultimate goal in conducting primary research is to learn about something new that can be confirmed by others and to eliminate biases in the process (Driscoll, 2011:3). The methods of generating primary data include: surveys, experiments and observations, however the objective of the study, available data sources, urgency of the decision and the cost of obtaining the data will determine which methods to choose (Zikmund *et al.*, 2012:65). According to Curtis (2008:2), surveys are the most common method of generating primary data in business research.

6.4.2.1 Survey method

The survey method was used in this study to collect data. A survey is a systematic method for gathering information from entities for the purpose of constructing quantitative descriptors of the attributes of the larger population of which the entities are members (Groves, Fowler, Couper, Lepkowski, Singer & Tourangeau, 2011:2). A survey can also be defined as a research technique where information is collected from a sample of people by means of a questionnaire (Eybers, 2010:130). According to Harwell (2011:149), a survey is a suitable method if the study is quantitative in nature and a representative sample of a large population is required. A survey can be applied to determine business behaviours, attitudes and needs; people may be asked about their beliefs, opinions, characteristics, past or present behaviour, expectations and knowledge, as well

as relationships among these aspects (Harwell, 2011:150). According to Ross (2005:17), if a survey design is to be used, a decision must also be taken on whether to use a longitudinal design, in which data is collected on a sample at different points in time, or a cross-sectional design, in which data is collected at a single point in time. This study is primarily cross-sectional in nature since it will be carried out once (Bhattacharjee, 2012:39). A survey is a research technique where information is collected from a sample of respondents by means of a questionnaire (Sekaran, 2006:221). For this study, primary data was collected from the owners or managers of the registered SMEs in the Kampala District, by means of a self-administered questionnaire.

The researcher acknowledges the existence of other data collection techniques as discussed in the following two sections.

6.4.2.2 Experimental method

In experiments various variables can be manipulated to ascertain how they influence some other variables (Mangal & Mangal, 2013:48). In an experimental study the researcher can manipulate variables to cause ‘things’ to happen (Koh & Owen, 2012:4). According to Sousa, Driessnack and Mendes (2007:504), experimental research can be conducted in an artificial or laboratory or field setting. Laboratory experiments, tend to be high in internal validity, but low in external validity (generalisability), because the artificial (laboratory) setting in which the study is conducted may not reflect the real world. Field experiments have high internal and external validity (Bhattacharjee, 2012:39).

According to Sousa *et al.* (2007:505), if experimental designs are considered to be used, a decision must also be taken on whether to use a true experimental design which examines the cause and effect relationships between the independent and dependent variables under highly controlled conditions or quasi-experimental designs which test the effectiveness of an intervention in a more natural setting. These research designs are exposed to a greater risk of proving internal and external validity, which may decrease confidence and generalisation of study’s findings. However, for this study, an experimental design was not regarded as suitable.

6.4.2.3 Observations method

Observations are used when the problem is simply watched by the researcher (Spillan, 2010:100). Observation is a research technique used to collect data on individual behaviour (Woods & West, 2010:38). According to Baker and Hart (2008:180) observation is used where there is a likelihood that the respondents will not remember the behaviour or may be too embarrassed to answer questions. Observational techniques include direct observation, where the researcher is a neutral and a passive external observer and not involved in the phenomenon of interest or participant observation when the researcher is an active participant in the phenomenon and his/her inputs or mere presence influence the phenomenon being studied (Bhattacharjee, 2012:106). However, this technique is not suitable for this study to meet the intended objectives.

In the following section the questionnaire design is discussed.

6.4.3 Questionnaire design

A questionnaire is a pre-formulated written set of questions which requires respondents to record their answers, usually within a closely defined alternative (Sekaran, 2006:233). Questions may be unstructured or structured. Unstructured questions ask respondents to provide a response in their own words, while structured questions ask respondents to select an answer from a given set of choices (Bhattacharjee, 2012:74). Most questionnaire surveys tend to be self-administered surveys. The distinctive feature of self-administered questionnaires is that due to its design, data can be obtained more efficiently in terms of research time, energy and costs; and can be answered without assistance (Sekaran, 2006:222). Self-administration of questionnaires can increase respondents' willingness to disclose sensitive information, compared to face-to-face or telephone interviews (Koponen, Mäki-Opas & Tolonen, 2011:5). According to Coetzer (2008:48), a self-administered questionnaire is common to the positivistic research paradigm. This study utilises a self-administered questionnaire to collect data to identify the factors that influence the ethical business conduct of SMEs.

The self-developed measuring instrument for this study consisted of a cover letter and two sections. The cover letter provides details regarding the purpose of the study, the type of information being sought and how to indicate the degree of agreement to the statements in the

questionnaire. Section A contained seventy (70) statements relating to the factors influencing SME ethical business conduct and what is regarded as ethical business conduct, as depicted in the hypothesised model. According to Kimberlin and Winterstein (2008:2277), having multiple items to measure a construct aids in the determination of the reliability of measurement and, in general, improves the reliability or precision of the measurement. Section B of the questionnaire canvassed the background information of the respondents and their businesses, regarding their gender, level of education, current employment status, number of years in business, form of enterprise, industrial sector, number of employees in the business and trading area.

Table 6.4 shows the outlay of a section contained in the questionnaire as well as a related number of items generated. As can be seen in Table 6.4, at least five items were identified to measure each factor. For measurement purposes, a semantic differential scale was utilised requesting respondents to indicate their extent of agreement with each statement. The statements were rated on a 5-point Likert scale ranging from 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree to 5 = strongly agree. According to Zikmund *et al.* (2012:315), Likert scales are relatively easy to use and provide respondents with a wide range of choices and enable the researcher to discover the strength of feeling or attitude towards an issue. The Likert scale assumes equal weights for all items, and hence, respondents' responses to each item can be summed up to create a composite score for that respondent (Bhattacharjee, 2012:51). The choice of an interval scale for the measuring instrument enables the required inferential statistical data analysis to be undertaken (Leedy & Ormord, 2005:26-27). Interval scales possess properties of magnitude and equal intervals between adjacent units. The equal differences between the numbers on the scale represent equal differences in the magnitude of the variable (Pagano, 2006:33).

Table 6.4: Questionnaire design according to sections and factors

Section	Factors	Number of items
A	Staff related factors	15
	Business related factors	25
	External related factors	20
	Business ethics outcomes	10
B	Gender	1
	Number of years in business	1
	Position held	1
	Level of education	1
	Form of business	1
	Business sector	1
	Number of employees	1

Source: Researcher's own compilation

For this study, data was collected using a self-administered structured questionnaire as it is cost effective, since this study has a relatively large sample size of 384 respondents. Fieldworkers were deployed to distribute questionnaires to the SME owners or managers in designated areas in Kampala. The fieldworkers were supplied with a specific list of business names to survey. To increase the chances of completing the questionnaires, the cover letter clarified the purpose of the study and the type of information being sought, and it also guaranteed the confidentiality of responses.

6.4.3.1 Pilot study

Before the main study, a pilot study was conducted and the questionnaires were pre-tested under actual survey conditions. According to Bhattacharjee (2012:78), the pilot study allows uncovering ambiguity, lack of clarity, or biases in question wording, which should be eliminated before administering the questionnaires to the intended sample. Edwards and Talbot (2014:37) argue that a pilot study should not include people or settings from the main study and the actual size depends on the factors, purpose of the study and access to subjects. However, an indicative

figure is that it should consist of approximately 10% of the sample. A pilot study was conducted to pre-test the questionnaires in districts other than Kampala. A sample of 38 SMEs was considered and a total of 36 questionnaires were returned giving a response rate of 95%. The data collected was analysed using a statistical computer package Statistica 10 (2010). Reliability of the research instrument was performed and Cronbach's alpha coefficients greater than 0.60 were regarded as acceptable for this study. A summary of Cronbach-alphas for each factor is given in Table 6.5.

Table 6.5 shows the shows the results of the Cronbach's alpha coefficients for study variables.

Table 6.5: Results of the Cronbach's alpha values

Factors	Cronbach's alphas
Employee morals	0.661
Employee attributes	0.568
Employee attitude	0.631
Work place culture	0.588
Management practices	0.517
Knowledge acquisition	0.740
Organisational resources	0.685
Reporting mechanisms	0.700
Legal requirements	0.678
Stakeholders' expectations	0.580
Industry norms	0.710
Media power	0.555
Ethical business conduct	0.672

As can be seen in Table 6, All Cronbach's alpha values are above or can be rounded to 0.6, except *management practices*. Although reliability levels of 0.85 are desirable, Hair, Black, Babin, Anderson & Tatham (2006:121) and Suhr and Shay (2009:3) indicate that acceptable reliability levels for research instruments can be as low as 0.50. It was decided to retain management practices as its value may change if surveying a larger sample.

6.4.3.2 Administration of questionnaires

Three fieldworkers were deployed to distribute questionnaires to SME owners/managers that meet the sample criteria of SMEs being registered and that employ more than five, but less than 200

employees. Initially, the researcher identified respondents (small or medium size businesses with a staff compliment of five, but less than fifty employees) from the data bases provide by business associations. 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 study. Respondents were also asked to refer the fieldworkers to other SMEs that meet the study criteria. To increase the chances of completing the questionnaires, information about the study was provided to potential respondents to help them decide whether or not they wish to participate in the study. The cover letter clarified the purpose of the study and the type of information being sought, and it also guaranteed the confidentiality of responses. To encourage increased participation in the study, clear instructions on how to respond to the statements on the questionnaire were given. The researcher met with the fieldworkers on a weekly basis to formulate strategies to monitor progress and problems experienced. A total of 450 questionnaires were administered and a total of 384 usable questionnaires were received from respondents, resulting in a response rate of 85.3 %.

How the data collected was analysed, is elaborated on in the following section.

6.5 DATA ANALYSIS

The completed questionnaires were scrutinised for omissions and errors during the data cleansing and verification process. The process included searching for missing responses and screening the data for influential outliers. According to Hair *et al.* (2006:115), data cleansing, screening and verification is a critical step in preparing data for accurate analysis of data. Hovenga and Grain (2013:102) also noted that irrespective of the research design and methods utilised, a stage of coding and classification of information must be undertaken. According to Lei and Lomax (2005:13), significant missing data leads to convergence failure, biased parameter estimates and inflated fit indices. Both sections of the questionnaires had to be fully completed for all the questionnaires to be included in the data analysis.

A statistical computer package, named Statistica 10 (2010), was used to analyse data. The data analysis process comprised the following phases:

- Kolmogorov-Smirnov test for normality to examine the data for normality;
- Kaiser-Meyer-Olkin (KMO test) to measure sampling adequacy and Barlett's sphericity test to ensure that the data set does not conform to an identity matrix;
- EFA to extract the factors and to assess the validity of the measuring instrument;
- Cronbach's alpha reliability coefficients to verify the consistency of the inter-item reliability of the research instrument;
- Pearson moment correlation analysis to determine correlation between the factors;
- Multi-collinearity diagnostics test results to confirm whether collinearity problems existed between variables of the study;
- Multiple regression analysis to determine the statistically significant relationships between the independent variables (factors influencing ethical business conduct) and the dependent variable (ethical business conduct);
- MANOVA to determine the statistical significant relationships exist between the demographic variables and the independent variables;
- Sheffé tests to determine the differences in means of the statistically significant MANOVA relationships;
- Cohen D tests to indicate which of the significant MANOVA relationships is of practical significance;
- Descriptive statistics to indicate the mean scores and standard variation of the factors, and
- Demographic profile of respondents.

In the next chapter more information regarding these data analysis methods is provided.

6.5.1 Validity of the measuring instrument

Validity is the degree to which the measuring instrument or scale measures the intended concept (Sekaran, 2006:207). Kimberlin and Winterstein (2008:2278) regard validity as the level to which the measurements are correct such as whether the designed instrument measures what it is intended to measure and does it correctly. There are four common procedures for establishing the validity of a measuring instrument: face-, content-, criterion- and construct validity.

6.5.1.1 Face validity

Face validity is used to inspect the questions and determine that on the surface the questionnaire is measuring what it is supposed to measure (Adler & Clark, 2014:139). Face validity is simply whether the questionnaire appears at face value to measure what it claims to (Zikmund *et al.*, 2012:303). According to Jugenheimer *et al.* (2014:149) a direct measurement of face validity is obtained by asking people to rate the validity of a test as it appears to them.

6.5.1.2 Content validity

Content validity assesses how well the measure covers the breadth of the domain of interest (Zikmund *et al.*, 2012:648). According to Kimberlin and Winterstein (2008:2279), content validity addresses how well the items developed to operationalise a construct provide an adequate and representative sample of all the items that might measure the construct of interest. Because there is no statistical test to determine whether a measure adequately covers a content area or adequately represents a construct, content validity usually depends on the judgment of experts in the field. (Adler & Clark, 2014:140). Content validity is secured via a panel of experts who judge the survey's appearance, relevance and the representativeness of its elements (Burton & Mazerolle, 2011:29).

6.5.1.3 Criterion validity

Criterion validity assesses whether the test has demonstrated its effectiveness in predicting the indicators of a construct (Sekaran, 2006:207). This type of validity provides evidence on how well scores on the new measure correlate with other measures of the same construct or very similar underlying constructs, that theoretically should be related (Kimberlin & Winterstein, 2008:2279). Criterion-related validity examines whether a given measure behaves the way it should, given the theory of that construct. This assessment is based on the quantitative analysis of observed data using statistical techniques such as correlational- and factor analysis (Bhattacharjee, 2012:58).

6.5.1.4 Construct validity

Construct validity assesses if the instrument measures the concepts as theorised. Construct validity is, therefore, the degree to which an operational measure correlates with the theoretical

concept investigated. (Sekaran, 2006:207). According to Cottrell and McKenzie (2010:150), construct validity of a measure is established by establishing if it is correlating with a number of other measures. Construct validity provides the researcher with confidence that a survey actually measures what it is intended to measure (Burton & Mazerolle, 2011:29; Cooper & Schindler, 2008:296).

Internal validity was ensured using face- and content validity. Face validity was ensured via a panel of academicians who judge the survey questions' relevance and the representativeness of factors and items. Content validity addresses how well the items were developed based on existing literature and operationalised as a construct to provide an adequate and representative sample of all the items that might measure the construct of interest (Kimberlin & Winterstein, 2008:2279). In the study the items for the constructs in the hypothetical model were developed from the information in the literature review. Internal validity was ensured by taking into consideration the feedback from the academicians and minor changes were made to the wording of the items in the questionnaire statements.

External validity was ensured by means of construct validity which was tested using EFA. EFA is a data reduction technique that is used to statistically aggregate a large number of observed measures into a smaller set of unobserved variables called factors based on their underlying bivariate correlation patterns (Bhattacharjee, 2012:135). EFA is used to determine the structure of factors to be analysed (Abdul-Halim & Che-Ha, 2009:15). A cut-off point of 0.4 and above was considered for significant factor loadings. According to Hair *et al.* (2006:113), the minimum factor loading coefficient is 0.30, but loading coefficients of 0.40 are deemed to be more significant. Hair *et al.* (2006:128) further notes that factor loadings of 0.30 and 0.40 are considered significant for sample sizes of 200 and 350 respectively.

According to Zikmund *et al.* (2012:305), a measuring instrument displays construct validity if the scale has both convergent and discriminant validity. Convergent validity is the degree to which scores on one scale correlates with scores on other scales designed to assess the same construct, whereas discriminant is the degree to which scores on a scale do not correlate with scores from scales designed to measure different constructs (Cooper & Schindler, 2008:292).

6.5.2 Reliability of the measuring instrument

The reliability of a measure indicates the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure (Sekaran, 2006:204). Kimberlin and Winterstein (2008:2277) refer to reliability as the level to which the measurements that are made are consistent i.e. in the event that if the same experiment or action is performed elsewhere under the same conditions, the same or similar results would be obtained. Kimberlin and Winterstein (2008:2277) further note that the coefficient of internal consistency provides an estimate of the reliability of measurement and is based on the assumption that items measuring the same construct should correlate. One of the internal consistency measures most frequently used, is calculating Cronbach-alpha coefficients (Javali, Gudaganavar & Raj, 2011:3).

Acceptable levels of reliability depend on the purpose of the instrument. According to Suhr and Shay (2009:3) acceptable reliability of instruments developed for research purposes can be as low as 0.60. The Cronbach's alpha values for all the valid factors were computed and only those constructs whose Cronbach's alpha values are above or can be rounded to 0.6 were considered reliable. The retained factors of the full sample are presented in the revised hypothesised model (see Figure 7.1) in the next chapter.

6.5.3 Inferential statistics

Inferential statistics are the statistical procedures that are used to reach conclusions about associations between variables and they are explicitly designed to test hypotheses (Bhattacharjee, 2012:129). Correlation analysis is a measure of co-variance between two variables (Zikmund *et al.*, 2012:563). It is executed to establish the strength of the association between the factors. The correlation matrix of factors influencing ethical business conduct was presented to ascertain the association between the variables.

According to Han (2006:125), multiple regression analysis enables the effects of two or more independent variables on a single dependent variable, to be investigated at the same time. Multiple regression analysis is used to forecast the dependent variable, founded on several independent and explanatory variables (Cooper & Schindler, 2008:215). Multiple regression

analysis was performed to test the relationships between the independent variables (factors influencing ethical business conduct) and dependent variable (ethical business conduct).

6.5.4 Other data analysis techniques

Descriptive statistics was also performed to indicate the mean scores, standard variation and variance of the factors. To further enhance the data analysis findings, MANOVAs which determines the effect of multiple independent variables or a multi-level independent variable on multiple dependent variables simultaneously (Warne, 2014:4), were computed to determine the statistical significant relationships between the demographic variables (gender of respondent, level of education, current employment status, number of years in business, form of enterprise, industrial sector, number of employees in business and trading area) and the independent variables (factors influencing ethical business conduct). These MANOVA tests indicate whether there were differences in means amongst the groups. If statistical significant relationships were found, post-hoc Scheffé tests were completed to identify where the specific group differences occurred (Berg & Latin, 2008:155). For those relationships with group differences, Cohen's d value which describes the standardised mean difference of an effect (Lakens, 2013:863) were calculated to indicate practical significant MANOVA relationships.

The next section presents ethical considerations.

6.6 ETHICAL CONSIDERATIONS

Neuman (2003:302) argues that the major ethical issue in survey research is the invasion of privacy; researchers should never humiliate or release harmful information about specific individuals that was collected during the research. The ethical concerns noted by Beninger, Fry, Jago, Lepps, Nass and Silvester (2014:25-28) are to avoid causing people harm; having due regard to their privacy; respecting them as individuals; and not subjecting them to unnecessary research. The researcher followed these principles

This study ensured that ethical concerns are observed. Ethical clearance was obtained from the Nelson Mandela Metropolitan University. An application was completed detailing the methodology of the study, the measuring instrument and whether several ethics criteria were met.

To enhance the perceived credibility of the study, the questionnaire contained an official letter head of the Nelson Mandela Metropolitan University.

The field assistants provided information about the study to potential respondents before data collection to indicate whether they wish to participate in the study. Respondents were informed in advance that their participation in the study is voluntary, and that they can withdraw at any point in time. To protect respondents' interests and their identity, the information from respondents was treated with the utmost confidentiality and assurance thereof was provided in the cover letter. The respondents were assured that data was analysed based on the sample results and not on individual responses. Respondents were also thanked for their participation in the study.

6.7 SUMMARY

This chapter has described the activities involved in the research design and methodology chosen for this study. The appropriateness of the research design and methodology is important to the success of the planned study. There are two research paradigms namely; qualitative research and quantitative research. Based on the nature of the research objectives a positivistic/quantitative paradigm with a focus on survey research design was appropriate for this study. The motivation for choosing the positivistic research paradigm relate to the ability of the method to use a large sample to make inferences about the population. This study is both exploratory and descriptive in nature. An exploratory design was adopted to identify the factors that influence ethical business conduct of SMEs in Uganda, while a descriptive design was adopted to describe the factors that influence ethical business conduct of SMEs in Uganda.

The population studied, the sampling unit, the sampling techniques were described, and an explanation is also provided of how the measuring instrument was developed and administered. This study considered all SMEs in Uganda as the study population. The sampling frame covered SMEs in Kampala District that are registered and employee more than five, but less than 200 employees. A sample of 384 SME owners/managers was surveyed with the assistance of three fieldworkers. The non-probability sampling technique was more appropriate for this study as the sample could not be selected from a specific database. Specifically, convenience sampling which

allows selecting respondents who are available and willing to participate, was used to select SMEs that meet the criteria to participate in this study. Judgmental sampling was also used to select SME owners/managers, who are judged to have required information about their businesses. Primary data was collected from SME owners/managers by means of a self-administered questionnaire with statements rated on a 5-point Likert scale. Secondary data was collected through a comprehensive internet literature search and from data sources from business associations.

A statistical computer package, named Statistica 10 (2010), was used to analyse data in different phases. Data was tested for normality using the Kolmogorov-Smirnov test, the Kaiser-Meyer-Olkin (KMO test) and Barlett's test was performed thereafter to assess the factor-analysability of the data. An EFA was conducted to assess the discriminant validity of the measuring instrument with a threshold 0.4. Cronbach's alpha reliability coefficients to verify the consistency of the inter-item reliability of the research instrument were performed and only factors with Cronbach's alpha of below 0.6 were considered for further analysis. Multi-collinearity diagnostics were also performed and the VIF and tolerance statistics were found to be highly significant. In addition, the study used multiple linear regression analysis to show the key variables that influence ethical business conduct. The Pearson moment correlation analysis was performed to ascertain the strength of the relationship between the variables, while MANOVA was performed to determine the influence exerted on the dependent variables by the demographic variables. Descriptive statistics were also done to measure the degree of central tendency and the deviations from the means. Lastly, the analysis of the biographic data was also performed. The ethical requirements the researcher paid attention to were also briefly described.

In Chapter 7, the results of the various statistical analyses to be performed in this study will be presented and discussed.

CHAPTER 7

EMPIRICAL FINDINGS AND DATA ANALYSIS

7.1 INTRODUCTION

In the previous chapter, an overview of the research design and methodology adopted in the study were discussed. Reference was made to the research approach, population, sampling methods, data collection methods, questionnaire design and data analysis. This overview highlighted several important statistical techniques that were used to test the validity and reliability of the measuring instrument. The results of the pilot study were presented.

This chapter will present the data analysis, empirical findings and interpretation of the results obtained from the empirical research conducted on 384 SMEs. The empirical findings will be presented in tables and figures, analysed, interpreted and discussed. Furthermore, the chapter gives effect to the primary objective of the research which was the empirical testing of the hypothesised model (Figure 1.6 of Chapter One) and the associated hypotheses (as stated in Section 7 of Chapter One) using various statistical techniques.

This chapter commences with reporting on the response rate of the final sample. The results of the data normality testing and sampling adequacy are presented followed by the EFA to evaluate the discriminant validity of the constructs in the hypothetical model. The results of the factor analysis for regrouping and/or renaming of items and reformulation of the operationalisation of the factors are discussed. The Cronbach's alpha coefficients are presented to verify the reliability of the constructs. A review of the hypothesised model proposed in Chapter Six follows, highlighting the constructs that confirmed sufficient evidence of validity and reliability. Thereafter the results of the Pearson product moment correlation coefficients analysis are presented to indicate the strength of the association between the variables. The findings of multicollinearity diagnostics testing are indicated, followed by the results of the multiple regression to determine the statistically significant relationships between the independent- and dependent variables. The findings of the MANOVA indicate whether the demographic data can predict the independent variables of this study. Finally, the descriptive statistics are highlighted to indicate the mean scores and standard variations, and the demographic profile of respondents is presented.

The next section indicates the response rate of the study.

7.2 ASSESSMENT OF THE RESPONSE RATE

Table 7.1 summarises the response rate of the sample. Kothari (2004:88) is of the opinion that a sample should be in a range of 10%-30% of the target population.

Table 7.1: Response rate of sample

Responses	Values	Percentage
Administered questionnaires	450	100.0
Unusable, unreturned	66	14.7
Completed usable questionnaires	384	85.3

Source: Researcher's own compilation

As can be seen in Table 7.1, a total of 450 questionnaires were administered to the respondents, resulting in an 85.3% final response rate. Out of these, 66 questionnaires representing 14.7% were disqualified due to being incomplete or not being returned. The analysis of the results is thus based on 384 questionnaires. According to Wahid, Rahbar and Shyan (2011:42), a sample size between 30 and 500 at a 5% confidence level is generally sufficient.

During the data cleansing and verification process, all questionnaires were scrutinised for omissions and errors as can be seen in Table 7.1. The data cleansing and verification procedure ensured that all quality standards were met (Rahm & Do, 2000:3). According to Hair *et al.* (2006:115), data cleansing, screening and verification is a critical step in preparing data for accurate analysis of data. This process includes searching for missing responses and screening the data for influential outliers. The process also encompasses the tasks of data editing. This is done because significant missing data leads to convergence failure, biased parameter estimates and inflated fit indices (Lei & Lomax, 2005:13).

In the following section the data analysis procedure is indicated.

7.3 DATA ANALYSIS PROCEDURE

The study identified three sets of variables that influence the deployment of business ethics in Ugandan SMEs namely staff-, business- and external environmental factors. A statistical computer package, named STATISTICA 10 (2010), was used to process the results. The statistical process was indicated in section 6.5 in detail commencing with the Kolmogorov-Smirnov test to examine the data for normality.

7.4 KOLMOGOROV-SMIRNOV TEST FOR NORMALITY

The data for this study was examined for normality by performing the Kolmogorov-Smirnov test for normality. According to Norusis (2007:54), for a data set to be normally distributed, the Kolmogorov-Smirnov significance level should be greater than 0.05 ($p > 0.05$). The results of the Kolmogorov-Smirnov test for normality are shown in Table 7.2.

Table 7.2: Kolmogorov-Smirnov test for normality

Nature of the test	Ethical business conduct	Variable sets		
		Staff	Business	External
Sample (N)	384	384	384	384
Kolmogorov-Smirnov (Z-Statistic)	1.233	1.398	0.960	1.396
Sig. (p-value)	0.096	0.040	0.315	0.041

As can be seen in Table 7.2, the Kolmogorov-Smirnov (Z-Statistic) for variables *ethical business conduct* and *business variables* were significant as their p-values exceed 0.05. Two of the four variable sets (staff and external factors) violate the normality assumption, but should not cause major problems in the interpretation of results. According to Pallant (2007:179), if the sample of a study is large (more than 30), one can ignore the distribution of the data and use parametric procedures. The sample of this study is large ($n= 384$), so the distribution of the data can be ignored and normal parametric procedures can be applied.

In the following section the sample data was subjected to sampling adequacy and sphericity testing.

7.5 RESULTS OF THE ANALYSABILITY OF THE SAMPLE

To ensure that the data collected was adequate and appropriate for inferential statistical testing, Kaiser-Meyer-Olkin (KMO test) and Barlett's tests were performed. According to Field (2009:76), for a data set to be regarded as adequate and appropriate for statistical analysis, the value of the KMO statistic should be greater than 0.5 while for the Barlett's test, the Chi-square statistic should be significant (that is, $p < 0.05$). The findings for KMO and Barlett's tests are shown in Tables 7.3 to Table 7.6 for the *staff-, business- and external environment factors and ethical business conduct*.

Table 7.3: KMO and Bartlett's tests for staff factors

Nature of the test		Statistics	Deductions
KMO measure of sampling adequacy	KMO statistic	0.874	Significant
Bartlett's test of sphericity	Chi-Square statistic	1194.008	Significant
	df	105	
	Sig.(p-Value)	0.000	

Findings in Table 7.3 show that the KMO statistic was 0.874 which was significantly high – that is, greater than the critical level of significance of the test which was set at 0.5 (Field, 2009:77). In addition, the Barlett's test of sphericity was also highly significant (Chi-square of 1194.008 with 105 degree of freedom, at $p < 0.05$). These results provide justification for further statistical analysis of these variables.

Table 7.4: KMO and Bartlett's tests for business factors

Nature of the test		Statistics	Deductions
KMO measure of sampling adequacy	KMO statistic	0.815	Significant
Bartlett's test of sphericity	Chi-Square statistic	1975.789	Significant
	df	300	
	Sig.(p-Value)	0.000	

Findings in Table 7.4 show that the KMO statistic was significantly high at 0.815 and greater than the critical level of significance of the test which was set at 0.5 (Field, 2009:77). The Barlett's test of sphericity was also significant (Chi-square of 1975.789 with 300 degree of freedom, at $p < 0.05$). These results provide justification for further statistical analysis of these variables.

Table 7.5: KMO and Bartlett's tests for external environment factors

Nature of the test		Statistics	Deductions
KMO measure of sampling adequacy	KMO statistic	0.843	Significant
Bartlett's test of sphericity	Chi-Square statistic	1913.819	Significant
	df	190	
	Sig.(p-Value)	0.000	

Findings in Table 7.5 show that the KMO statistic was significantly high at 0.843 and greater than the critical level of significance of the test at 0.5 (Field, 2009:77). The Bartlett's test of sphericity was also significant (Chi-square of 1913.819 with 190 degree of freedom, at $p < 0.05$). These results provide justification for further statistical analysis of these variables.

Table 7.6: KMO and Bartlett's tests for ethical business conduct

Nature of the test		Statistics	Deductions
KMO measure of sampling adequacy	KMO statistic	0.764	Significant
Bartlett's Test of sphericity	Chi-Square statistic	741.433	Significant
	df	45	
	Sig.(p-Value)	0.000	

Findings in Table 7.6 show that the KMO statistic was significantly high at 0.764 and greater than the critical level of significance of the test of 0.5 (Field, 2009:77). The Bartlett's test of sphericity was also significant (Chi-square of 741.433 with 45 degree of freedom, at $p < 0.05$). These results provide justification for further statistical analysis of these variables.

In the section to follow, the validity of the measuring instruments is discussed.

7.6 VALIDITY OF MEASURING INSTRUMENT

According to Sekaran (2006:207), validity refers to the level to which the measurements are correct in that the designed instrument measures what it is intended to measure and does so correctly. This study made use of EFA to determine the construct validity of the measuring instrument. Principal Component Factor analysis was specified as the method of factor extraction. According to Hair *et al.* (2006:113), the minimum loading coefficient is 0.30, but loading coefficients of 0.40 are deemed to be more significant, with loading coefficients of 0.50 and above regarded as more significant. This study adopted a minimum loading of 0.4 and

factors below the threshold of 0.4, were eliminated. Any item that loaded onto more than one factor (cross-loadings) was also deleted. Factors with less than three items were generally regarded as weak and unstable (Costello & Osborne, 2005:5) and were disregarded.

Tables 7.7 to 7.10 show the factor coefficients loading matrices of the three sets of independent variables and the dependent variable.

7.6.1 Factor loadings for staff factors

Table 7.7 shows the factor coefficient loading matrix for the staff factors.

Table 7.7: Principal component factor matrix for staff factors

Items	F1 (EM)	F2(EAS)	F3 (EA)
EM1	0.582	0.037	0.392
EM2	0.538	0.018	0.438
EM3	0.757	-0.180	0.105
EM4	0.602	0.151	0.099
EM5	0.242	0.579	0.141
EAS6	-0.029	0.780	-0.025
EAS7	0.463	0.317	0.138
EAS8	0.667	0.248	0.019
EAS9	0.340	0.385	0.436
EAS10	0.628	0.329	0.156
EA11	0.193	0.028	0.554
EA12	0.146	0.094	0.581
EA13	0.301	-0.157	0.621
EA14	-0.007	0.091	0.741
EA15	0.166	0.153	0.494

Key: F1 = Employee morals (EM); F2 = Employee attributes (EAS); F3 = Employee attitude (EA)

An interpretation of the results of the EFA component matrix follows for each of the staff factors extracted in Table 7.7.

7.6.1.1 Factor 1: Employee morals (EM)

Items EM1 to EM5 were intended to measure the construct *employee morals*. Items EM1, EM3 and EM4 loaded as intended onto this factor. Item EM2 was deleted from further analysis due to

a cross loading onto Factor 3. Item EM5 loaded onto Factor 2. Items EAS7, EAS8 and EAS10 that were intended to measure the construct *employee attributes* also loaded onto Factor 1. *Employee morals* are defined as the rules employees develop as a result of organisational cultural norms and values and those they have learnt from their childhood, culture, education or religion and applied in the workplace (Borade, 2012:1; Lombardo, 2015:1). Personal values aligned with business values (EAS7), owning your mistakes (EAS8) and having business interests at heart (EAS10) can be associated with *employee morals*. A total of seven items were retained for this factor.

As a result of the EFA, *employee morals in this study* can be redefined as *the moral rules employees apply in the workplace by acting with integrity and honesty, aligning personal values to that of business values, having business interests at heart above their self-interest and by owning up to mistakes made.*

7.6.1.2 Factor 2: Employee attributes (EAS)

Items EAS6 to EAS10 were intended to measure the construct *employee attributes*. Item EAS6 loaded as intended onto this factor. As already indicated, items EAS7, EAS8 and EAS10 loaded onto Factor 1 and item EASS9 loaded onto Factor 3. Item EM5 that was intended to measure the construct *employee morals* also loaded onto this factor. As only two items loaded for this factor, it is disregarded from further analysis, since the construct does not meet the minimum requirement of three retained items per factor.

7.6.1.3 Factor 3: Employee attitude (EA)

Items EA11 to EA15 were intended to measure the construct *employee attitude*. All five items loaded onto this factor as intended with factor loadings above 0.4. Item EAS9 that was intended to measure *employee attributes* also loaded onto this factor. Employee cooperation to work in a team fashion (EAS9) can be associated with *employee attitude*. *Employee attitude* refers to how an individual relates to and acts ethically within their workplace (Petty & Brinol, 2010 in Baumeister & Finkel, 2010.:217). Employees that value cooperation (EAS9) tend to have a positive attitude toward their job. A total of six items were thus retained in this factor.

As a result of the EFA, *employee attitude* is redefined as *developing employees' ethical business virtues and values through in-house training to respect management's decisions, rendering them willing to receive guidance from senior staff to be ambitious, realising their ambitions, inspired to higher performance and cooperation with co-workers in a team fashion.*

7.6.2 Factor loadings for business factors

Table 7.8 depicts the factor coefficients loading matrix of the business factors.

Table 7.8: Principal component factor matrix for business factors

Items	F1 (WC)	F2*	F3 (KA)	F4 (OR)	F5 (MAP)
WC16	0.544	-0.147	0.236	0.120	0.255
WC17	0.543	-0.108	0.027	0.190	-0.018
WC18	0.375	0.066	0.507	0.187	0.144
WC19	0.382	0.227	0.272	-0.050	-0.014
WC20	0.067	0.209	0.525	0.109	-0.148
MAP21	-0.053	0.698	-0.010	0.108	0.306
MAP22	0.155	0.574	0.109	-0.245	-0.033
MAP23	0.496	0.282	-0.009	-0.019	0.204
MAP24	0.585	0.026	0.223	0.083	0.147
MAP25	-0.028	0.256	0.340	0.132	0.413
KA26	0.259	0.008	0.602	0.000	0.045
KA27	0.134	-0.093	0.625	0.031	0.197
KA28	0.068	-0.120	0.670	0.057	0.343
KA29	-0.048	0.190	0.556	0.057	0.276
KA30	0.017	0.109	0.410	0.221	0.319
OR31	0.047	-0.175	0.164	0.673	-0.233
OR32	0.101	0.030	0.111	0.729	0.246
OR33	0.094	0.069	-0.014	0.697	0.274
OR34	-0.038	0.355	-0.055	0.512	0.075
OR35	-0.192	-0.080	0.002	0.419	0.055
RM36	-0.052	0.036	0.188	0.108	0.549
RM37	0.042	-0.125	0.346	0.057	0.492
RM38	0.148	0.108	0.239	0.147	0.709
RM39	0.202	0.138	0.076	0.106	0.705
RM40	0.413	-0.442	0.116	-0.035	0.363

Key: F1 = Workplace culture (WC); F3 = Knowledge acquisition (KA); F4 = Organisational resources (OR); F5= Management practices (MAP)

*See 7.6.2.2 for explanation why F2 did not have a title

Table 7.8 shows the factor coefficients loading matrix of the business factors. An interpretation of the results of the EFA component matrix follows for each of the business factors as can be seen in Table 7.8.

7.6.2.1 Factor 1: Workplace culture (WC)

Items WC16 to WC20 were intended to measure the construct *workplace culture*. Only items WC16 and WC17 loaded as intended onto this factor. Item WC19 loaded below 0.4 the cut-off point for validity. Item WC18 and WC20 loaded onto Factor 3. Items MAP23 and MAP24 that were intended to measure the construct, *management practices*, loaded onto this factor. Systems governing business behaviour (MAP23) and disciplinary procedures to punish wrongdoing (MAP24) can be associated with *workplace culture*. According to the Ethics Resource Center (2013:19), workplace culture encompasses the business's prevailing values, attitudes, beliefs and behaviour that binds employees together. Item RM40 loaded onto this factor, but had a cross-loading with Factor 2, so was disregarded from further analysis. A total of four items were thus retained in this factor.

As a result of the EFA, workplace culture is redefined as *a written code of business ethics delineating simple systems and disciplinary procedures to govern business behaviour and signaling an unified image of the business through the uniform employees wear*.

7.6.2.2 Factor 2

Items MAP21 to MAP25 were intended to measure the construct *management practices*. Only items MAP21 and MAP22 loaded onto Factor 2. Items MAP23 and MAP24 loaded onto Factor 1 and item MAP25 loaded onto Factor 5. As only two items (MAP21 and MAP22) have significant loadings for this factor, it is disregarded, since the factor did not have the minimum three items required to retain a factor for further analysis.

It must be noted that Factor 5, originally intended to be reporting mechanisms, had to be renamed and management practices seem to be the most suitable name for Factor 5. As Factor 2 did not have enough retained items, it will not cause confusion.

7.6.2.3 Factor 3: Knowledge acquisition (KA)

Items KA26 to KA30 were intended to measure the construct *knowledge acquisition*. All five items loaded onto this factor as intended with factor loadings above 0.4. Items WC18 and WC20 that were intended to measure the construct *work place culture* also loaded onto this factor. Having sound corporate values (WC18) and shared beliefs (WC20) can be associated with *knowledge acquisition* as an individual acquires values and beliefs based on childhood experiences. Knowledge acquisition refers to the process of acquiring, processing, understanding, and recalling information (Wisegeek, 2015:1). Many businesses compel employees to attend seminars on ethical business conduct, which may include a discussion of the business policies, specific to corporate values and shared beliefs (Lluka, 2010:13). A total of seven items were thus retained in this factor.

Based on the EFA, *knowledge acquisition* is redefined as *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 entails, guiding them to develop an intuition in making sound business decisions and to serve as a platform to encourage knowledge sharing in the business.*

7.6.2.4 Factor 4: Organisational resources (OR)

Items OR31 to OR35 were intended to measure the construct *organisational resources*. All five items loaded onto this factor as intended with factor loadings above 0.4 and were thus retained.

Organisational resource access in this study are thus defined as the ability of the business to obtain and retain skilled staff, have easy access to formal funding, obtain contracts at low prices without compromising quality and to use bribery as an acceptable business practice.

7.6.2.5 Factor 5: Management practices (MP)

Items RM36 to RM40 were intended to measure the construct, *reporting mechanisms*. Items RM36, RM37, RM38 and RM39 loaded onto this factor as intended with factor loadings above 0.4. As previously mentioned, item RM40 cross-loaded onto both factors 1 and 2 and was disregarded from further statistical analysis. Item MAP25 that was intended to measure the

construct, *management practices*, also loaded onto this factor. As a result of the EFA, this factor was thus renamed to *management practices* as items RM36 to RM39 and MAP25 can all be regarded as *management practices*. Management practices can be defined as a set of tools or guidelines used to shape the values in and promote ethical behaviour throughout the business (Edwards, 2009:142). Reporting mechanisms can also be regarded as a set of tools that shape the values and promote ethical behaviour in the business. Thus a total of five items loaded onto this factor and were retained for further analysis.

The renaming of this factor required the reformulation of the operationalisation of the factor. For the purpose of this study, *management practices refer to tools and guidelines that govern acceptable business behaviour such as paying market related salaries, reporting guidelines by supervisors for ethical misconduct such as an ethics hotline to lodge complaints anonymously and/or referral to an ombudsman if necessary to resolve complaints in a fair and equitable manner.*

7.6.3 Factor loadings for external environment factors

Table 7.9 depicts the factor coefficients loading matrix of the external environment factors.

Table 7.9: Principal component factor matrix for external environment factors

Items	F1 (LR)	F2 (SE)	F3 (IN)	F4(MP)
LR41	0.583	0.032	-0.042	-0.160
LR42	0.693	0.116	0.000	-0.037
LR43	0.678	0.196	0.149	0.099
LR44	0.214	0.537	0.346	0.152
LR45	0.550	0.412	0.083	0.034
SE46	0.295	0.406	0.275	0.123
SE47	0.283	0.513	0.244	0.038
SE48	0.448	0.117	0.276	0.129
SE49	0.616	0.035	0.124	0.294
SE50	0.582	-0.139	0.209	0.123
IN51	-0.007	0.752	-0.110	0.050
IN52	0.049	-0.125	0.693	0.099
IN53	0.168	0.098	0.730	0.042
IN54	-0.004	0.128	0.690	0.173
IN55	0.333	0.341	0.367	0.228
MP56	0.239	0.036	0.319	0.471
MP57	-0.140	0.097	-0.013	0.765
MP58	-0.044	0.045	0.014	0.798

Items	F1 (LR)	F2 (SE)	F3 (IN)	F4(MP)
MP59	0.226	0.042	0.157	0.742
MP60	0.184	0.003	0.185	0.713

Key: F1 =Legal requirements (PL); F2 = Stakeholders' expectations (SE); F3 = Industry norms (IN); F4 = Media power (MP)

An interpretation of the results of the EFA component matrix follows for each of the external environment factors as in Table 7.9.

7.6.3.1 Factor 1: Legal requirements (LR)

Items LR41 to LR45 were intended to measure the construct *legal requirements*. Items LR41, LR42 and LR43 loaded onto this factor as intended with factor loadings above 0.4. Item LR45 was deleted from further analysis due to a cross loading onto Factor 2, while item LR44 loaded onto Factor 2. Items SE48, SE49 and SE50 that were intended to measure the construct *stakeholders' expectations* also loaded onto this factor. Providing quality products to customers (SE48), providing job security to employees (SE49) and carefully selecting suppliers to provide safe products (SE50) are associated with *legal requirements*. Legal requirements are defined as guidelines on legal and judicial business rules and regulations (Ogundele *et al.*, 2013:6). Velentzas and Broni (2010:802) consider legal requirements to include business rules and regulations to do with providing job security, environmental protection and customer protection from low quality products. A total of six items were thus retained for subsequent analysis.

Based on the EFA, *legal requirements are redefined as start-up business requirements for registration and licensing, labour laws to not use child labour, ensuring employee job security and safety in the workplace, meeting requirements for safe and quality products to customers by only buying from carefully selected suppliers.*

7.6.3.2 Factor 2: Stakeholders' expectations (SE)

Items SE46 to SE50 were intended to measure the construct *stakeholders' expectations*. Items SE46 and SE47 loaded onto this factor as intended with factor loadings above 0.4. As previously mentioned items SE48, SE49 and SE50 loaded onto Factor 1. As mentioned previously, item LR 45 cross-loaded with Factor 1, and was deleted from further analysis. Item LR44 intended to

measure the construct *legal requirements* and item IN51 intended to measure the construct *industry norms* also loaded onto this factor. Adhering to the host country's legal standards if trading across borders (LR44), and charging market-related prices for scarce products (IN51) can be associated with stakeholders' expectations. Stakeholders' expectations are expectations of individuals or groups such as shareholders, employees or customers with an interest in, right to or ownership of an organisation and its activities (Lluka, 2010:11). Shareholders can expect that a business adhere to the host country's legal standards when trading across borders. Customers can expect that a business charge market-related prices for their scarce products. A total of four items were thus retained in this factor.

Based on the EFA, *stakeholders' expectations are redefined as expectations by customers to pay market-related prices for scarce products, looking after society's welfare and applying the home country's ethical behavioural standards and the host country's legal standards when trading across nations.*

7.6.3.3 Factor 3: Industry norms (IN)

Items IN51 to IN55 were intended to measure the construct *industry norms*. Items IN52, IN53 and IN54 loaded onto this factor as intended with factor loadings above 0.4. Item NI55 had a factor loading below the cut-off point of 0.4 and was disregarded from further analysis. Item IN51 loaded onto Factor 2. A total of three items were retained in this factor which is a minimum requirement for further analysis.

Based on the EFA, *industry norms are redefined as strict adherence to industry standards, communicating business values to external stakeholders and to only engage in industrial espionage to be competitive.*

7.6.3.4 Factor 4: Media power (MP)

Items MP56 to MP60 were intended to measure the construct *media power*. All five items loaded onto this factor, as intended, with factor loadings above 0.4. In this factor, a total of five items were thus retained for further analysis.

Based on the EFA, the *power of the media is defined as how the media can be used to advertise business values to the public, guiding employee ethical behaviour, exposing unethical employee or competitor behaviour and informing customers about what may affect them negatively.*

7.6.4 Factor loadings for ethical business conduct

Table 7.10 depicts the factor coefficients loading matrix of *ethical business conduct*.

Table 7.10: Principal component factor matrix for ethical business conduct

Items	Ethical business conduct
EBC61	0.598
EBC62	0.206
EBC63	0.203
EBC64	0.209
EBC65	0.624
EBC66	0.576
EBC67	0.674
EBC68	0.723
EBC69	0.689
EBC70	0.381

Items EBC60 to EBC70 were intended to measure the construct *ethical business conduct*. Items EBC61, EBC65, EBC66, EBC67, EBC68 and EBC69 loaded onto this factor with factor loadings above the cut-off point of 0.4. Items EBC62, EBC63, EBC64 and EBC70 loaded below 0.4, the cut-off point for validity, and were deleted from further analysis. A total of six items were retained in this factor for subsequent analysis.

Based on the EFA, *ethical business conduct in this study is defined as businesses being known for selling quality products and services, that comply with business laws and regulations, being a good corporate citizen by striving to improve the lives of their local community, taking responsibility for the impact of their activities on the environment and focusing on the outcome of their actions and not on short-term gain.*

Based on the validity findings in the preceding sections, a summary of the retained factors is provided in the following section.

7.6.5 Summary of retained items and factors

Table 7.11 provides a summary of the items and factors retained in the EFA validity analysis.

Table 7.11: Summary of the retained items and factors

Set of variables	Retained factors	Retained items
Staff	Employee morals	EM 1, 3, 4, EAS 7, 8, 10
	Employee attitude	EAS 9, EA 11, 12, 13, 14, 15
Business	Work place culture	WC 16,17, MAP 23, 24
	Knowledge acquisition	WC 18, 20, KA 26, 27, 28, 29, 30
	Organisational resources	OR 31, 32, 33, 34, 35
	Management practices	MAP 25, RM 36, 37, 38, 39
External environment	Legal requirements	LR 41, 42, 43, SE 48, 49, 50
	Stakeholders' expectations	LR 44, SE 46, 47, IN51
	Industry norms	IN 52, 53, 54
	Media power	MP 56, 57, 58, 59, 60
Ethical business conduct	Ethical business conduct	EBC 61, 65, 66, 67, 68, 69

Table 7.11 depicts the results of the retained, renamed and regrouped items within factors. In the hypothesised model three factors comprised staff factors affecting *ethical business conduct*. One factor, employee attributes, was deleted because only two items loaded onto the factor which was not adequate for further analysis. A total of two factors, namely *employee morals* and *attitude*, were retained.

In the hypothesised model, five business factors were identified to influence ethical business conduct. One factor (*management practices*) was initially eliminated because only two items had factor loadings above the cut-off point of 0.4. However, four items in *reporting mechanisms* and one item in *management practices* loaded onto the same factor and were subsequently renamed as *management practices*. A total of four business factors were retained.

In the hypothetical model, four factors were identified as external environment factors influencing *ethical business conduct*. All four factors were retained. The retained factors indicated in Table 7.11 were subjected to further analysis. In the next section the reliability of the research instrument is indicated.

7.7 RELIABILITY OF MEASURING INSTRUMENT

Cronbach's alpha coefficients were used to test the reliability and internal consistency of the measuring instrument for this study. George and Mallery (2003:231) provide the following rule of thumb for the Cronbach's alpha value, namely $\alpha > 0.9$ = excellent, $\alpha > 0.8$ = good, $\alpha > 0.7$ = acceptable, $\alpha > 0.6$ = satisfactory, $\alpha > 0.5$ = poor, and $\alpha < 0.5$ = unacceptable. Cronbach's alpha coefficients above 0.6 were regarded as satisfactory for this study. In the following section the reliability results of the staff factors influencing *ethical business conduct* are presented.

7.7.1 Results of the reliability analysis of the staff related factors

The reliability results of the two valid staff related factors influencing *ethical business conduct* are presented below.

7.7.1.1 Employee morals

Table 7.12 shows the results of the reliability analysis, Cronbach's alpha values for each item as well as the Eigenvalue and variance explained by the factor, *employee morals*.

Table 7.12: Results of the reliability analysis of employee morals

Eigenvalue: 4.40		% of variance: 29.38		Cronbach's alpha = 0.748	
Items	In my business employees	Factor loading	Item correlation	Cronbach's alpha after deletion	
EM 1	Trust each other	0.581	0.497	0.708	
EM 3	Act with integrity in all business dealings	0.757	0.486	0.711	
EM 4	Know that honesty is valued	0.602	0.453	0.722	
EAS 7	Have personal values which are aligned with business values	0.462	0.399	0.734	
EAS 8	Take ownership of their own mistakes	0.667	0.518	0.703	
EAS 10	Have business interest at heart above self-interest	0.627	0.573	0.685	

Table 7.12 shows that *employee morals* have an Eigenvalue of 4.40 which is greater than 1. All factor loadings are greater than 0.4 which are above the cut-off point for validity in this study. The construct *employee morals*, explains 29.38% of the variance in the data. The Cronbach's alpha coefficient for the construct, *employee morals*, is 0.748, suggesting that the items used to measure this construct are reliable.

According to Ogunyomi and Ojikutu (2014:21) SME managers consider employees' moral character such as honesty, integrity, trust, respect for others and interest in the job to be more important than their ability. Duggar (2009:2) observes that employees that have integrity build trusting relationships with each other. Quigley (2007:9) adds that without trust, businesses cannot function. Younkings (2011:21) affirms that individuals with integrity are able to discuss their shared values and live according to these values. Paarlberg and Perry (2007:391) note that when individuals' values are aligned with the values of the business, it strengthens their identification with the business and ultimately provide the employees' with a sense of what is making the business different. Bivins (2006:23) in Fitzpatrick and Bronstein (2006) notes that good employees take accountability for their mistakes. According to Shook (2010:44), this creates a workplace culture that treats mistakes as learning experiences rather than as opportunities to blame or punish. Ogunyomi and Ojikutu (2014:20) note that many SME managers allow their self-interest to influence their decision-making.

7.7.1.2 Employee attitude

Table 7.13 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item as well as the Eigenvalue and variance explained by the factor, *employee attitude*.

Table 7.13: Results of the reliability analysis of employee attitude

Eigenvalue: 1.36		% of variance: 38.48%		Cronbach's alpha = 0.683	
Items	In my business employees ...	Factor loading	Item correlation	Cronbach's alpha after deletion	
EAS 9	Cooperate with each other in a team fashion	0.436	0.404	0.635	
EA 11	Are inspired to higher performance	0.553	0.411	0.633	
EA 12	Receive in-house training on virtues and values	0.580	0.419	0.633	
EA 13	Respect my decisions	0.621	0.433	0.624	
EA 14	Receive guidance from senior staff	0.740	0.442	0.629	
EA 15	Are encouraged to be ambitious and realise their ambitions	0.493	0.355	0.651	

The construct *employee attitude*, explains 38.48% of the variance in the data. Table 7.13 depicts that *employee attitude* has an Eigenvalue of more than 1 (1.36) and all factor loadings are above the cut-off point of 0.4. The Cronbach's-alpha coefficient for *employee attitude* is 0.683, suggesting that the items used to measure this construct are fairly reliable.

According to Viviers and Venter (2008:62) employees' attitudes and behaviour in SMEs are more strongly influenced by management's actions than by policies and procedures. Managers who motivate and inspire employees help them attain high performance levels which may reduce unethical behaviour (Gibson, 2004:149). Townsend (2007:2) notes that employees' cooperation is essential for working in teams. Forster-Heinzer (2015:104) affirms that providing in-house training on virtues and values allow the training to be more focused on the specific areas and skills that are relevant to business. Phillips and Gully (2011:227) observed that treating employees with respect and giving adequate explanation for why decisions are made, lead employees to respect managers' decisions. Schooley (2012:2) notes that employees receive guidance from experienced senior staff that have expertise in a business area.

7.7.2 Results of the reliability analysis of the business related factors

The reliability results of the four business related factors influencing *ethical business conduct* are presented next.

7.7.2.1 Work place culture

Table 7.14 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item and the Eigenvalue and variance explained by the factor, *workplace culture*.

Table 7.14: Results of the reliability analysis of workplace culture

Eigenvalue: 1.21		% of variance: 44.46		Cronbach's alpha = 0.503	
Items	In my business	Factor loading	Item correlation	Cronbach's alpha after deletion	
WC16	There is a written code of ethics that governs acceptable business behaviour	0.544	0.355	0.320	
WC17	Employees wear a uniform	0.542	0.192	0.525	
MAP23	There are simple systems governing business behaviour	0.496	0.234	0.443	
MAP24	Disciplinary procedures are in place to punish wrongdoing	0.585	0.365	0.322	

The construct *workplace culture* explains 44.46% of the variance in the data. Table 7.14 depicts that *workplace culture* has an Eigenvalue of more than 1 (1.21) and all loadings are above the cut-off point of 0.4. The Cronbach's alpha coefficient for *workplace culture* is 0.503, suggesting that

the items used to measure this construct are not reliable and will therefore be eliminated from further analysis.

7.7.2.2 Knowledge acquisition

Table 7.15 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *knowledge acquisition*.

Table 7.15: Results of the reliability analysis of knowledge acquisition

Eigenvalue: 5.12		% of variance: 20.48		Cronbach's alpha = 0.727	
Items	In my business	Factor loading	Item correlation	Cronbach's alpha after deletion	
WC 18	Employees have sound corporate values	0.507	0.462	0.687	
WC 20	There is a strong emphasis on shared beliefs	0.525	0.264	0.737	
KA 26	Knowledge sharing is encouraged	0.602	0.437	0.697	
KA 27	Employees are educated on what ethical business behaviour entails	0.625	0.514	0.674	
KA28	Employees receive follow-up training on ethical conduct	0.669	0.584	0.652	
KA 29	The aim of staff development is to ensure sound decision making	0.555	0.413	0.699	
KA 30	Ethical training focuses on moral business practices	0.409	0.411	0.699	

Table 7.15 shows that the construct, *knowledge acquisition* has an Eigenvalue of 5.12 which is greater than 1, and all factor loadings are greater than 0.4 and are thus above the cut-off point. The factor *knowledge acquisition* explains 20.48% of the variance in the data. The Cronbach's alpha coefficient for *knowledge acquisition* is 0.727, suggesting that the items used to measure this construct are reliable.

According to Bencsik (2011:96), methods of knowledge acquisition include; training, mentoring, personal experience, cooperation with partners, cooperation with suppliers and advisors, among others. In the case of SMEs, knowledge acquisition allows the firm to preserve creativity and flexibility while mitigating the inherent liabilities being small; lack of resources for exploring and exploiting new opportunities (Ketchen, Ireland & Snow, 2007:381). Foss, Minbaeva, Pedersen and Reinholt, (2009:873) affirm that knowledge sharing involves mutual exchanges among individuals, including sending and receiving knowledge. Giacalone, Jurkiewicz and Dunn

(2005:11) note that employees are educated on what ethical business behaviour entails to improve their ethical behaviour. Carrigan, Marinova and Szmigin (2005:491) recommend that ethical training should focus on moral business practices and use ethical *decisions employees daily face as examples to show them how to make better ethical decisions*. Lee and Cheng (2012:83) emphasise that employees that are aware of corporate values, make better intuitive assessments of what is right or wrong. Van den Steen (2010:621) confirms that successful businesses have a strong emphasis on shared beliefs.

7.7.2.3 Organisational resources

Table 7.16 shows the results of the reliability analysis in terms of factor loadings and Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *organisational resources*.

Table 7.16: Results of the reliability analysis of organisational resources

Eigenvalue: 1.90		% of variance: 28.11		Cronbach's alpha = 0.607	
Items	In my business	Factor loading	Item correlation	Cronbach's alpha after deletion	
OR31	It is easy to retain skilled staff	0.672	0.350	0.560	
OR32	It is easy to access formal funding	0.728	0.524	0.464	
OR33	It is easy to find skilled staff	0.696	0.465	0.496	
OR34	Contracts at lower prices without compromising quality are accepted for survival	0.511	0.293	0.587	
OR35	Bribery is regarded as an acceptable business practice	0.419	0.202	0.636	

The construct, *access to organisational resources* explains 28.11% of the variance in the data. Table 7.16 depicts that *access to organisational resources* has an Eigenvalue of more than 1 (1.90) and all factor loadings are above the cut-off point of 0.4. The Cronbach's alpha coefficient for *access to organisational resources* is 0.607, suggesting that the items used to measure this construct are fairly reliable.

A study by Gialuisi and Coetzer (2013:58) revealed that the attraction and retention of skilled and professional staff is a key area of concern for SME owners. Mohammed (2015:184) concurs with this view and indicates that it will be very difficult for SMEs to survive if they are unable to retain their talented employees. Patterson, Kerrin and Gatto-Roissard (2009:5) note that collective displays of supportive behaviour among employees leads to attracting and retaining these talented

individuals. Kraemer-Eis and Lang (2012:5) note that the ability of SMEs to access finance is important for future business endeavours. Various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing tools used by SMEs (Roman & Rusu, 2012:533). Limited resources force SMEs to simply accept bribes as if it is a normal, acceptable practice, and utilise it as a means of getting work done quicker, despite knowing that it is illegal and raises the cost of doing business (Rune, 2011:1).

7.7.2.4 Management practices

Table 7.17 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *management practices*.

Table 7.17: Results of the reliability analysis of management practices

Eigenvalue: 1.22		% of variance: 39.62		Cronbach's alpha = 0.706	
Items	In my business	Factor loading	Item correlation	Cronbach's alpha after deletion	
MAP25	All employees are paid market related salaries	0.413	0.401	0.683	
RM36	Employees can report misconduct anonymously	0.549	0.391	0.685	
RM37	Supervisors provide clear reporting guidelines for misconduct	0.492	0.426	0.672	
RM38	There is an ethics hotline to lodge complaints	0.708	0.590	0.597	
RM 39	Ethical complaints are referred to an ombudsman	0.705	0.515	0.635	

Table 7.17 shows that the construct *management practices* have an Eigenvalue of 1.22 which is greater than 1, all factor loadings are greater than 0.4 and are above the cut-off point. The *management practices* construct explains 39.62% of the variance in the data. The Cronbach's alpha coefficient for *management practices* is 0.706, suggesting that the items used to measure the factor, are reliable.

Assad (2013:1) asserts that how businesses handle ethical situations affect all aspects of the business. Treviño and Nelson (2010:177) suggest that guidelines used to report misconduct plays an important role in compliance as it determines whether to close the gap between what is said and what it is actually done in the business. Lloyd and Mey (2010:3) are of the opinion that employees should be able to report ethical concerns anonymously. Reporting mechanisms such as hotlines, that ensure anonymity, are necessary to encourage employees to report sensitive

work-related matters (Ethics Resource Center, 2013:32). In addition, Treviño and Nelson (2010:177:200) note that an ombudsman can be used to resolve complaints that are problematic to solve. Fernando (2009:123) observes that if employees are paid market-related salaries it will reduce the temptation to cheat.

7.7.3 Results of the reliability analysis of the external environment factors

The reliability results of the four external environment factors influencing ethical conduct are presented next.

7.7.3.1 Legal requirements

Table 7.18 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *legal requirements*.

Table 7.18: Results of the reliability analysis of legal requirements

Eigenvalue: 4.96		% of variance: 24.82		Cronbach's alpha = 0.711	
Items	My business	Factor loading	Item correlation	Cronbach's alpha after deletion	
LR41	Is registered and has a business license	0.582	0.327	0.692	
LR42	Adheres to labour laws by not using child labour	0.693	0.452	0.649	
LR43	Ensures employee safety in the workplace	0.678	0.545	0.625	
SE48	Provides quality products to customers	0.448	0.396	0.666	
SE49	Provides job security to employees	0.616	0.488	0.648	
SE50	Carefully selects suppliers to provide safe products	0.581	0.450	0.650	

Table 7.18 shows that *legal requirements* have an Eigenvalue of 4.96 which is greater than 1, and all factor loadings are greater than 0.4 which are above the cut-off point. The factor *legal requirements*, explains 24.82% of the variance in the data. The Cronbach's alpha coefficient for *legal requirements* is 0.711, suggesting that the items used to measure this factor are reliable.

According to Svensson and Wood (2008:307), laws regulate business activities and businesses must take legal requirements into consideration when developing their policies and procedures. Chun, Shin, Choi and Kim (2013:858) advise businesses to adhere to legal requirements so that employees can perceive internal practices and policies to be fair and transparent. Steer (2006:12)

observes that businesses should be registered before they can obtain a license. Jordan, Thomas, Kitching and Blackburn (2013:2) note that labour legislation ensures that employee rights are protected. Hill (2013:1) is of the opinion that businesses are tempted to cut corners in pursuit of profit, such as not fully complying with environmental regulations or labour laws, ignoring employee safety hazards or using substandard materials in their products. Maas and Graf (2008:111) consider providing high quality products and services that customers find consistently useful, as it creates value for customers. Prastacos, Wang and Soderquis (2013:445) affirm that for this reason many businesses carefully select suppliers to provide quality products.

7.7.3.2 Stakeholders' expectations

Table 7.19 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *stakeholders' expectations*.

Table 7.19: Results of the reliability analysis of stakeholders' expectations

Eigen value: 1.20		% of variance: 48.70		Cronbach's alpha = 0.559	
Items	My business	Factor loading	Item correlation	Cronbach's alpha after deletion	
LR44	Adheres to the host country's legal standards if trading across borders	0.847	0.427	0.407	
SE46	Regards societal welfare as of utmost importance	0.823	0.296	0.516	
SE47	Applies our country's ethical behavioural standards across nations	0.755	0.413	0.418	
IN51	Charges market-related prices for scarce products	0.727	0.237	0.575	

The construct *stakeholders' expectations* explains 48.7% of the variance in the data. Table 7.19 depicts that *stakeholders' expectations* has an Eigenvalue of more than 1 (1.20) and all loadings are above the cut-off point of 0.4. The Cronbach's-alpha coefficient for *stakeholders' expectations* is 0.559, which is below 0.6 suggesting that the items used to measure this construct are not reliable and will therefore be eliminated from further analysis.

7.7.3.3 Industry norms

Table 7.20 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *industry norms*.

Table 7.20: Results of the reliability analysis of industry norms

Eigenvalue: 1.33		% of variance: 42.70		Cronbach's alpha = 0.618	
Items	My business	Factor loading	Item correlation	Cronbach's alpha after deletion	
IN52	Communicates business values to external stakeholders	0.692	0.405	0.527	
IN53	Strictly adheres to industry standards	0.730	0.469	0.457	
IN54	Engages in industrial espionage to be competitive	0.689	0.394	0.548	

Table 7.20 shows that *industry norms* have an Eigenvalue of 1.33 which is greater than 1, and all factor loadings are greater than 0.4 which are above the cut-off point. The factor *industry norms* explains 42.7% of the variance in the data. The Cronbach's alpha coefficient for *industry norms* is 0.618, suggesting that the items used to measure this factor are reliable.

Industry norms provide rules for standard ethical practices and guidance for business conduct (Mohd Ghazali & Ismail, 2013:296). Cambra-Fierro *et al.* (2008:654) note that it is necessary to articulate a set of norms that consider the peculiarities of each industry. Wiid *et al.* (2013:1088) suggest that businesses need to follow industry ethical policies that reinforce business values and these must be communicated to internal- and external stakeholders. Singh (2009:11) is of the opinion that industry norms concerning ethical issues such as industrial espionage influences ethical business conduct as it plays a role in relations between businesses. Gangone (2011:192) adds that industrial espionage is in particular used by transnational business in order to get ahead of their competitors.

7.7.3.4 Media power

Table 7.21 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *media power*.

Table 7.21: Results of the reliability analysis of media power

Eigenvalue: 2.24		% of variance: 36.03%		Cronbach's alpha = 0.776	
Items	My business	Factor loading	Item correlation	Cronbach's alpha after deletion	
MP56	Advertises our business values publicly	0.470	0.401	0.783	
MP57	Uses media to expose unethical employee behaviour	0.764	0.519	0.747	
MP58	Exposes competitors' unethical behaviour in media	0.798	0.586	0.726	
MP59	Uses media to report on ethics to guide employees' behaviour	0.741	0.640	0.704	
MP60	Uses media to inform customers about what may affect them negatively	0.712	0.617	0.714	

The construct *media power* explains 36% of the variance in the data. Table 7.21 depicts that media power has an Eigenvalue of more than 1 (2.24) and all loadings are above the cut-off point of 0.4. The Cronbach's-alpha coefficient for *media power* is 0.776, suggesting that the items used to measure this construct are reliable.

Svensson and Wood (2008:306) note that media occupies a vital position as a disseminator of information for businesses. According to Aileron (2013:1), media has increased the community's concern about certain business actions. O'Neil and Geddes (2015:2) point out that magazines, newspapers, internet and television channels have played a huge role in businesses becoming more transparent in the way they operate. According to Cant *et al.* (2013:5775) media has uncovered corruption in many businesses. Cohen and Warwick (2006:103) observe that businesses' values are advertised to attract customers and to let employees agree with those values. Broughton *et al.* (2009:25) are of the opinion that businesses avoid telling employees how to behave ethically and then resort to using the media to guide employees' behaviour. Fulgoni and Morn (2009:136) regard media as an important advertising channel, with in particular online advertisements, influencing consumers' behaviour more. Media channels offer businesses various ways to reach consumers and communicate with them (Hennig-Thurau, Malthouse, Friege, Gensler, Lobschat, Rangaswamy & Skiera, 2010:321). Paek and Pan (2004:495) observe that managers who take full advantage of media keep abreast of the views of all their competitors and consumers.

7.7.4 Results of the reliability analysis of the ethical business conduct factor

Table 7.22 shows the results of the reliability analysis in terms of factor loadings, Cronbach's alpha values for each item, as well as the Eigenvalue and variance explained by the factor, *ethical business conduct*.

Table 7.22: Results of the reliability analysis of ethical business conduct

Eigenvalue: 2.70		% of variance: 27.84		Cronbach's alpha = 0.749	
Items	My business	Factor loading	Item correlation	Cronbach's alpha after deletion	
EBC61	Is well-known for quality products and/or services	0.597	0.424	0.726	
EBC65	Supports environmental awareness programmes	0.624	0.499	0.706	
EBC66	Avoids penalties by complying with business laws and regulations	0.576	0.351	0.745	
EBC67	Strives towards improving the lives of our local community	0.674	0.540	0.698	
EBC68	Takes responsibility for the impact of our activities on the environment	0.723	0.596	0.675	
EBC69	Focuses on the outcomes of our actions and not on short-term gains	0.688	0.524	0.697	

Table 7.22 shows that *ethical business conduct* has an Eigenvalue of 2.7 which is greater than 1, and all factor loadings are greater than 0.4 which are above the cut-off point. *Ethical business conduct* explains 27.84% of the variance in the data. The Cronbach's alpha coefficient for *ethical business conduct* is 0.749, suggesting that the items used to measure this factor are reliable.

Ethical conduct can be described as fair and honest actions that enable the company to obtain customer satisfaction and develop long-term relationships with its customers (Roman & Munuera, 2005:474). Nyamwanza, Mavhiki, Mapetere and Nyamwanza (2014:5) are of the opinion that SMEs have high levels of council regulations compliance as they obtain trading licenses to avoid business closure and penalties if not paying. Rhee and Valdez (2009:157) assert that the ability to offer and maintain high quality products or services leads to a good business image and reputation. Mandl and Dorr (2007: 44) note that the well-being of society is of paramount importance to European SME managers. Murillo and Lozano (2006:228) advise SMEs to increase their knowledge about the potential benefits of socially responsible practices. To look after the well-being of society has driven businesses to gain the approval of more environmentally-conscious customers (Ghazilla, Sakundarini, Abdul-Rashid, Ayub, Olugu, &

Musa, 2015:661). Spence, Agyemang and Rinaldi (2012:5) acknowledge some SMEs are aware of and have good environmental practices. Ionescu-Somers (2012:86) also emphasises the need for businesses to focus on the long-term consequences of their actions.

The revised hypothetical model based on the results of the validity and reliability of the constructs will now be presented.

7.8 REVISED HYPOTHETISED MODEL AND HYPOTHESES

According to Costello and Osborne (2005:3), constructs with more than three item loadings have the best fit. Thus, in order for a construct to be considered valid, three or more items are required to be loaded onto the given construct. Based on the findings of the EFA there was a lack of evidence that some factors that were originally intended to be included in the hypothesised model, are valid and reliable. Only items with a value of 0.4 and above were considered valid and only factors with a Cronbach's alpha coefficient of above 0.6 were regarded reliable. As a result of the EFA and reliability test of the measuring instrument for this study, *employee attributes, reporting mechanisms, workplace culture and stakeholders' expectations* were found to be either not valid or reliable.

The regrouping and retaining of items have resulted in the renaming of some factors and deletion of other factors. This has required the reformulation of the operationalisation of the various constructs, as well as the revision of the hypothesised model. Table 7.23 summarises the reformulated operational definitions, while Figure 7.1 presents the revised hypothesised model, and subsequent hypotheses, that were subjected to further testing.

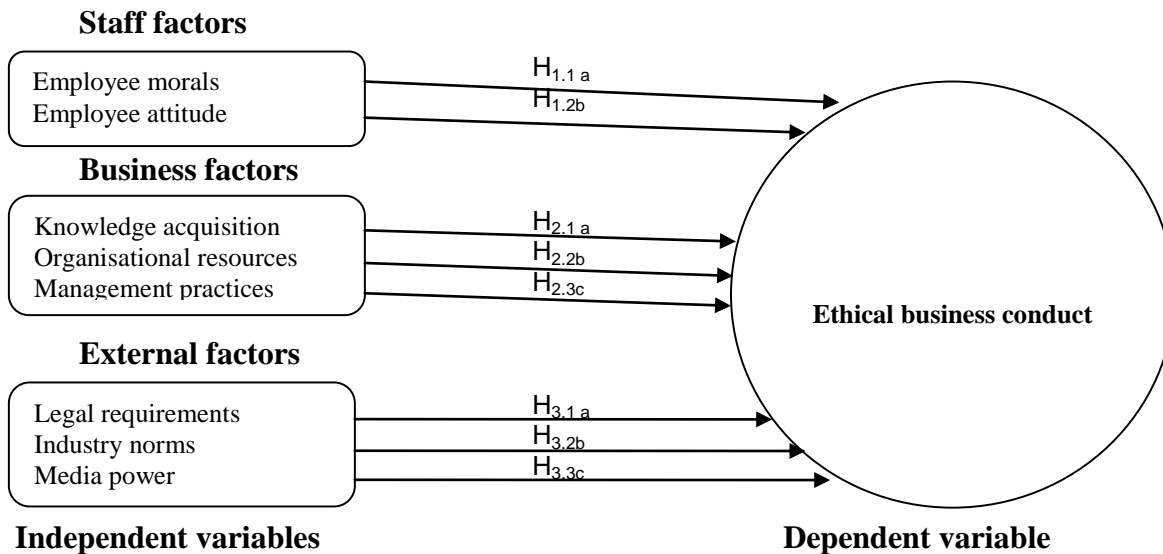
Table 7.23: Reformulated operational definitions of the hypothesised model

Variable sets	Factors	Operationalisation
Staff	Employee morals	Moral rules employees apply in the workplace by acting with integrity and honesty, aligning personal values to that of business values, having business interests at heart above their self-interest and by owning up to mistakes made
	Employee attitude	Developing employees' ethical business virtues and values through in-house training to respect management's decisions, rendering them willing to receive guidance from senior staff to be ambitious, realising their ambitions, inspired to higher performance and cooperation with co-workers in a team fashion
Business	Knowledge acquisition	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 entails, guiding them to develop an intuition in making sound business decisions and to serve as a platform to encourage knowledge sharing in the business
	Organisational resources	The ability of the business to obtain and retain skilled staff, have easy access to formal funding, obtain contracts at low prices without compromising quality and to use bribery as an acceptable business practice
External environment	Legal requirements	Tools and guidelines that govern acceptable business behaviour such as paying market related salaries, reporting guidelines by supervisors for ethical misconduct such as an ethics hotline to lodge complaints anonymously and/or referral to an ombudsman if necessary to resolve complaints in a fair and equitable manner
	Industry norms	Requires strict adherence to industry standards, communicating business values to external stakeholders and to only engage in industrial espionage to be competitive
	Media power	How the media can be used to advertise business values to the public, guiding employee ethical behaviour, exposing unethical employee or competitor behaviour and informing customers about what may affect them negatively
Ethical business conduct		Businesses being known for selling quality products and services, that comply with business laws and regulations, being a good corporate citizen by striving to improve the lives of their local community, takes responsibility for the impact of their activities on the environment and focusing on the outcome of their actions and not on short-term gain

Source: Researcher's own compilation

In accordance with the results of the previous analysis, the original hypothesised model and the hypotheses were revised. Figure 7.1 shows the revised hypothesised model of factors influencing SMEs' ethical business conduct in Uganda.

Figure 7.1: Revised hypothesised model of factors influencing ethical business conduct of Ugandan SMEs



Source: Researcher’s own compilation

From Figure 7.1, *employee morals* and *employee attitude* are according to the hypothesised model the *staff* factors that influence *ethical business conduct*. *Business* factors that influence *ethical business conduct* are *knowledge acquisition*, *organisational resources* and *management practices* while *external environmental* factors include *legal requirements*, *industry norms* and *media power*.

Based on the revised hypothesised model, the reformulated hypotheses are thus as follows:

The relationships between the staff related factors and SMEs’ ethical business conduct are as follows:

H_{1.1a}: *Employee morals* influence SME *ethical business conduct*.

H_{1.2b}: *Employee attitude* influences SME *ethical business conduct*.

The relationships between the business related factors and SMEs' ethical business conduct are as follows:

H_{2.1a}: *Knowledge acquisition* influences SME *ethical business conduct*.

H_{2.2b}: *Access to organisational resources* influence SME *ethical business conduct*.

H_{2.3c}: *Management practices* influence SME *ethical business conduct*.

The relationships between the external environmental factors and SMEs' ethical business conduct are as follows:

H_{3.1a}: *Legal requirements* influence SME *ethical business conduct*.

H_{3.2b}: *Industry norms* influence SME *ethical business conduct*.

H_{3.3c}: *Media power* influences SME *ethical business conduct*.

In the following section, the results of the inferential statistics conducted on the valid and reliable factors that emerged from the EFA are presented.

7.9 INFERENCE STATISTICS

Inferential statistics were conducted by calculating the Pearson product-moment correlation coefficients. Pearson product-moment correlation coefficients are a statistical measure of covariance between two variables (Zikmund *et al.*, 2012:563). According to Stevens (2009:74) multicollinearity poses a real problem for the researcher using a multiple regression model which can produce a misleading result. This has required that a multicollinearity analysis be conducted after the Pearson product moment correlation analysis, to confirm that the multiple regression analysis would have produced real significant results. In the following sections, the results of the Pearson product-moment correlation coefficients, multicollinearity analysis and multiple regression are presented.

7.9.1 Pearson product-moment correlation coefficients

Pearson product-moment correlation coefficients denote values between +1 and -1 inclusive, where 1 is total positive correlation, 0 is no correlation, and -1 is total negative correlation (Hanneman, Kposowa & Riddle, 2012:439). According to Cohen (1988:77), a correlation coefficient of 0.10 represents a weak or small association; a correlation coefficient of 0.30 is

considered a moderate correlation; and a correlation coefficient of 0.50 or larger represents a strong or large correlation. Table 7.24 presents the results of the Pearson product-moment correlation coefficients of the independent variables (*staff factors - employee morals and attitude; business factors - knowledge acquisition, access to organisational resources and management practices; external environment factors - legal requirements, industry norms and media power*) and the dependent variable, *ethical business conduct*.

Table 7.24: Correlation matrix of the factors influencing ethical business conduct

Factors	EBC	EM	EA	KA	OR	MAP	LR	IN	MP
Ethical business conduct (EBC)	1.000								
Employee morals (EM)	0.309	1.000							
Employee attitude (EA)	0.435	0.537	1.000						
Knowledge acquisition (KA)	0.437	0.386	0.512	1.000					
Organisational resources (OR)	0.106	0.290	0.176	0.233	1.000				
Management practices (MAP)	0.384	0.369	0.383	0.568	0.284	1.000			
Legal requirements (LR)	0.504	0.443	0.433	0.459	0.164	0.408	1.000		
Industry norms (IN)	0.364	0.137	0.184	0.334	0.156	0.319	0.311	1.000	
Media power (MP)	0.383	0.212	0.260	0.412	0.228	0.490	0.292	0.324	1.000

Table 7.24 depicts that all the variables reported positive Pearson product-moment correlation coefficients. *Employee morals* ($r = 0.309$), *employee attitude* ($r = 0.435$), *knowledge acquisition* ($r = 0.437$), *management practices* ($r = 0.384$), *industry norms* ($r = 0.364$) and *media power* ($r = 0.383$) reported moderate associations with *ethical business conduct*. *Access to Organisational resources* ($r = 0.106$) reported a weak association with *ethical business conduct* while *legal requirements* ($r = 0.504$) reported a strong association with *ethical business conduct*. It seems that respondents in this study consider *legal requirements* to be associated with *ethical business conduct*. This finding is supported by a survey of Zimbabwean SMEs which indicate that ethical issues can arise when businesses must comply with multiple *legal requirements* (Nyamwanza, Mavhiki, Mapetere & Nyamwanza, 2014:3).

As can be seen from Table 7.24, *Employee morals* reported moderate associations with *knowledge acquisition* ($r = 0.386$), *management practices* ($r = 0.369$) and *legal requirements* ($r = 0.443$) and weak associations with *access to organisational resources* ($r = 0.290$), *industry norms* ($r = 0.137$)

and *media power* ($r = 0.212$). *Employee morals* reported a strong association with *employee attitude* ($r = 0.537$). This strong association between *employee morals* and *employee attitude* could argue that people with a greater moral reasoning ability display a more ethical business attitude as found by Malinowski (2012:122).

As can be seen from Table 7.24, *employee attitude* reported moderate associations with *management practices* ($r = 0.383$) and *legal requirements* ($r = 0.433$) and weak associations with *access to organisational resources* ($r = 0.176$), *industry norms* ($r = 0.184$) and *media power* ($r = 0.260$). *Employee attitude* reported a strong association with *knowledge acquisition* ($r = 0.512$). This finding is supported by Finn and Torgeir (2008:1060) who found that employees that acquire knowledge modify their behaviour to reflect the new knowledge. This implies that SME owners/managers in Uganda that have acquired ethical knowledge may change their attitudes and be more ethical in their business conduct.

It can be seen from Table 7.24 that *knowledge acquisition* has moderate associations with *legal requirements* ($r = 0.459$), *media power* ($r = 0.412$) and *industry norms* ($r = 0.334$) and a weak association with *access to organisational resources* ($r = 0.233$). *Knowledge acquisition* has a strong association with *management practices* ($r = 0.568$). This finding is supported by Allameh and Abbas (2011:90) that knowledge acquisition brings profound changes in business management practices. Akpotu and Lebari (2014:121) assert that the ability to be creative and making good quality decisions is largely predicted by the extent to which managers have acquired knowledge.

It can be seen from Table 7.24 that *organisational resources* have weak associations with *legal requirements* ($r = 0.164$), *management practices* ($r = 0.284$), *industry norms* ($r = 0.156$) and *media power* ($r = 0.228$).

It can be seen from Table 7.24 that *management practices* has moderate associations with *legal requirements* ($r = 0.408$), *industry norms* ($r = 0.319$) and *media power* ($r = 0.490$). As noted by Cambra-Fierro *et al.* (2008:654) *management practices* influence business behaviour. These average associations can be explained that *management practices* may play a role in enforcing

compliance with regulatory requirements to avoid generating unfavourable media coverage and to adhere to *industry norms* to be regarded as an ethical business.

Legal requirements reported a moderate association with *industry norms* ($r = 0.311$) and a weak association with *media power* ($r = 0.292$). *Industry norms* also reported an average association with *media power* ($r=0.324$). These average associations can be explained that respondents in this study may at times regard *legal requirements* as influencing *industry norms* or that *media power* may have an influence on *industry norms* in conducting ethical business.

As can be seen in Table 7.24, most of the correlation results indicate moderate to weak relationships. There is little evidence of strong relationships. Overall ethical business conduct has the strongest association with the other variables. This supports the hypothesised model to be tested in this study that there are various factors that influence *ethical business conduct*, being it *staff*-, *business* or *external environment* orientated.

Based on the correlation results it was deemed necessary to further test for multi-collinearity. The following section presents the results of the multi-collinearity diagnostics testing to determine whether all the variables measure different theoretical concepts.

7.10 RESULTS OF THE MULTI-COLLINEARITY DIAGNOSTICS TESTING

Multi-collinearity exists when two or more variables are highly correlated with each other (Trochim, 2006:85). Nimon, Henson and Gates (2010:707) regard proper multi-collinearity diagnostics important since extremely correlated predictor variables usually measure the same theoretical concepts, thereby complicating results. Multi-collinearity diagnostics analysis facilitates the identification of measuring items or variables that have a high correlation among themselves (Kraha, Turner, Nimon, Zientek, & Henson, 2012:44). Field (2009:66) advises 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.

7.10.1 Multi-collinearity diagnostics for staff related variables

Table 7.25 indicates the results of the multi-collinearity diagnostics analysis tests performed for staff variables.

Table 7.25: Results of the multi-collinearity diagnostics for staff variables

Dependent variable: Ethical business conduct Staff variables	Multi-collinearity statistics	
	Tolerance value	VIF
Employee morals	0.904	1.105
Employee attitude	0.810	1.233

The findings in Table 7.25 show tolerance values varying from 0.810 to 0.904 for the staff factors, which are all higher than the acceptable limit of 0.1. In addition, VIF values for all the variables are less than 10. This means that there are not high correlations between staff variables; hence the data set is free from multi-collinearity problems.

7.10.2 Multi-collinearity diagnostics for business related variables

Table 7.26 indicates the results of the multi-collinearity diagnostics analysis tests performed for business variables.

Table 7.26: Results of the multi-collinearity diagnostics for business variables

Dependent variable: Ethical business conduct Business variables	Multi-collinearity statistics	
	Tolerance value	VIF
Knowledge acquisition	0.808	1.236
Organisational resources	0.988	1.011
Management practices	0.852	1.172

As can be seen in Table 7.26, the tolerance values for the business factors vary from 0.808 to 0.988, which are all higher than the acceptable limit of 0.1, while the VIF values for all the variables are less than 10, demonstrating that there are not high correlations between the business variables, and therefore the data set is free from multi-collinearity problems.

7.10.3 Multi-collinearity diagnostics for external environment variables

Table 7.27 indicates the results of the multi-collinearity diagnostics analysis test performed for external environment variables.

Table 7.27: Results of the multi-collinearity diagnostics test for external environment variables

Dependent variable: Ethical business conduct External environment variables	Multi-collinearity statistics	
	Tolerance value	VIF
Legal requirements	0.745	1.340
Industry norms	0.867	1.152
Media power	0.853	1.171

The tolerance values depicted in Table 7.27 for the external factors vary from 0.745 to 0.867 which are all higher than the acceptable limit of 0.1. The VIF values for all the variables are less than 10, indicating that there are not high correlations between external environment variables; hence the data set is free from multi-collinearity problems.

To determine if the hypotheses of the retained factors are either supported or rejected, a multiple regression analysis was conducted. The results of the multiple regression analysis and testing of significant relationships will be discussed next.

7.11 MULTIPLE REGRESSION ANALYSIS AND TESTING OF SIGNIFICANT RELATIONSHIPS

According to Leedy and Ormrod (2005:54), multiple regression analysis is a descriptive statistical tool used in three situations, namely:

- to predict values for a criterion variable from the values of several predictor variables;
- in order to control variables to evaluate the contribution of other variables better, and
- to test and explain causal relationships.

According to Mugenda and Mugenda (2003:142), when a t- value of a variable is less than 1.96 at a significance level of 0.05 or less than 3.09 at a significance level of 0.001, the hypothesis is rejected. Therefore, critical values higher than 3.09 are significant at a 0.01 alpha value and

higher than 1.96 are significant at a 0.05 alpha value. According to Albright and Park (2009:59), beta values provide more intuitive information about the strength of factor loadings. Low or weak beta values will suggest that variables are unreliable indicators of ethical business conduct. Beta values closer to one will be strong indicators of ethical business conduct. According to Acock (2008:225), $\beta < 0.20$ is considered a weak effect, β between 0.2 and 0.5 is considered a moderate while effects of $\beta > 0.50$ are considered a strong effect.

The testing of relationships as hypothesised is next discussed.

7.11.1 Interpretation of the relationships of staff factors influencing ethical business conduct

This section discusses the results and interpretation of the statistical significance testing between the valid and reliable *staff variables* and *ethical business conduct*. Staff characteristics have been found to influence the ethical decision making process in SMEs (Jones *et al.*, 2007:155). According to Sinha and Mishra (2011:148) staff factors are fundamental in ethical reasoning. Table 8.28 shows the results of the statistically significance testing of the *staff factors* and *ethical business conduct in Uganda*.

Table 7.28: Multiple regression results of staff factors influencing ethical business conduct

Dependent variable: Ethical business conduct			$R^2 = 0.197$	Hypotheses number	Hypotheses
Independent variables	Beta	T-value	Sig. (p)		
Employee morals	0.045	1.936	0.053	H _{1.1a}	Not supported
Employee attitude	0.056	6.955	0.000*	H _{1.2b}	Supported

* $p < 0.001$

As can be seen in Table 7.28, about 20% of the variance in *ethical business conduct* can be explained by the variances in the *staff factors*. Evidence was found of a statistically significant relationship (at $p=0.001$) between the independent variable *employee attitude* and the dependent variable *ethical business conduct*. This independent variable therefore affects *ethical business conduct*. This is also evident from the t-value which exceeds the critical value of 3.09 at $p < 0.001$ significance level. Therefore H_{1.2b} is supported. The path coefficient (Beta value) for this significant relationship is a weak positive.

No evidence was found of a statistically significant relationship between *employee morals* and *ethical business conduct*. The results suggest that SME owner/managers in Uganda do not believe that *employee morals* influence *ethical business conduct*.

7.11.2 Interpretation of the relationships of the business factors influencing ethical business conduct

This section discusses the results and interpretation of the statistical significance testing between the valid and reliable *business variables* and *ethical business conduct*. According to Lahdesmak, (2005:56) business factors that affect the practice of ethics in SMEs are related to the characteristics that define the SME profile. For this study they include *knowledge acquisition*, *organisational resources* and *management practices*. Table 8.29 shows the results of the statistically significance testing of the *business factors* and *ethical business conduct*.

Table 7.29: Multiple regression results of business factors influencing ethical business conduct

Dependent variable: Ethical business conduct				R ² = 0.218	Hypotheses Number	Hypotheses
Independent variables	Beta	T-value	Sig. (p)			
Knowledge acquisition	0.054	5.899	0.000*	H _{2.1a}	Supported	
Organisational resources	0.033	-0.617	0.537	H _{2.2b}	Not Supported	
Management practices	0.039	3.684	0.000*	H _{2.3c}	Supported	

* p < 0.001

Evidence was found of statistical significant relationships (p<0.001) between the independent variables *knowledge acquisition*, *management practices* and the dependent variable *ethical business conduct*. These independent variables therefore affect *ethical business conduct*. As can be seen in Table 7.29, about 22 % of the variance in *ethical business conduct* can be explained by the variances in the *business factors*. There is also evidence from the t-values which exceed critical value of 3.09 at p <0.001 significance level. Consequently H_{2.1a} and H_{2.3c} are supported. The magnitude of the path coefficients (Beta values) for *knowledge acquisition* and *management practices* is a weak positive.

The independent variable, *organisational resources*, had a p value of 0.537 which is above 0.05, so the hypothesis H_{2.2b} is not supported. The results suggest that SME owner/managers in Uganda do not believe that SMEs do not have access to financial resources or have family members as staff.

7.11.3 Interpretation of the statistically significant relationships of the external environment factors

This section discusses the results and interpretation of the statistical significance testing between the *external environment variables* and *ethical business conduct*. External environment variables cannot be controlled by management in the short-term. Boshoff and Van (2011:291) note that ethical considerations are continuously subjected to various external environmental influences. Table 7.30 shows the results of the statistically significance testing of the *external environment factors* and *ethical business conduct*.

Table 7.30: Multiple regression results of external environment factors influencing ethical business conduct

Dependent variable: Ethical business conduct $R^2 = 0.340$				Hypotheses Number	Hypotheses
Independent variables	Beta	T-value	Sig. (p)		
Legal requirements	0.046	8.643	0.000*	H _{3.1a}	Supported
Industry norms	0.032	3.848	0.000*	H _{3.2b}	Supported
Media power	0.028	4.733	0.000*	H _{3.3c}	Supported

* p < 0.001

As can be seen in Table 7.30, about 34% of the variance in *ethical business conduct* can be explained by the variances in the external environment factors. Evidence was found of statistically significant relationships (p<0.001) between the independent variables *legal requirements*, *industry norms*, *media power* and the dependent variable *ethical business conduct*. These independent variables therefore influence *ethical business conduct*. This is also evident from the t-values which exceed the critical value of 3.09 at p<0.001 significance level. Consequently H_{3.1a}, H_{3.2b}, and H_{3.3c} are supported. The magnitude of the path coefficients (Beta values) for all the variables indicates weak positive relationships.

7.11.4 Multiple regression results for the three sets of variables

In this section, the multiple regression results to evaluate how well the three variable sets predicted *ethical business conduct*, are presented. Table 8.31 depicts the multiple regression analysis of the adjusted model summary based on the statistically significant relationships.

Table 7.31: Multiple linear regression model summary

Model	R	R ²	Adjusted R ²	Std. Error of estimate
Dependent variable: Ethical business conduct	0.621	0.386	0.376	0.4463

Predictors³ (Constant):

Staff factors: Employee attitude (EA)

Business factors: Knowledge acquisition (KA); Management practices (MAP)

External environment factors: Legal requirements (LR); Industry norms (IN); Media power (MP)

In Table 7.31 it can be seen that about 39 percent of the variance in *ethical business conduct* can be explained by the three sets of variables. As independent variables, these three sets of variables significantly predicted the dependent variable *ethical business conduct*. The resultant output had an adjusted R² of 0.376 (p=0.05) and yielded six critical variables contributing significantly to explaining the variance in overall *ethical business conduct* in Ugandan SMEs.

Table 7.32 presents a summary of the significant multiple regression results depicted in Tables 7.28 to 7.30.

Table 7.32: Summary of the significant multiple regression results

Dependent variable: Ethical business conduct				Hypotheses number	Hypotheses
Independent variables	Beta	T-value	Sig. (p)		
Employee morals	0.045	1.936	0.0535	H _{1.1a}	Not supported
Employee attitude	0.056	6.955	0.000*	H _{1.2b}	Supported
Knowledge acquisition	0.054	5.899	0.000*	H _{2.1a}	Supported
Organisational resources	0.033	-0.617	0.537	H _{2.2b}	Not Supported
Management practices	0.039	3.684	0.000*	H _{2.3c}	Supported
Legal requirements	0.046	8.643	0.000*	H _{3.1a}	Supported
Industry norms	0.032	3.848	0.000*	H _{3.2b}	Supported
Media power	0.028	4.733	0.000*	H _{3.3c}	Supported

*p < 0 .001

As can be seen in Table 7.32, a total of six statistically significant relationships were found. A discussion of the statistically significant relationships follows.

7.11.5 Discussion of significant relationships

The next section discusses the multiple regression results for the three main sets of factors.

7.11.5.1 Employee attitude

An individual's attitude measures the individual's evaluation of what is regarded as good or bad behaviour (Hess, 2007:1786). Attitudes which have empirically been shown to relate to ethical business conduct in previous studies included perceived leader effectiveness; trust in management, satisfaction, commitment and loyalty (Kalshoven *et al.*, 2011:55). Employees can learn to be ethical through guidance from managers who stand up for what is right (Treviño & Brown, 2005:72). Cant (2012:1355) asserts that SME managers need to set an example and act ethically in such a way that it becomes a way of life in the business; this can influence the employee to adopt an attitude of business ethics. Similarly, Haron, Ismail and Oda (2015:73) observe that a study conducted in Japan found that SMEs managers earn respect from employees by demonstrating ethical behaviour that staff wants to emulate.

Weiss (2009:442) is of the opinion that the relationship between an employer and employee should be based on cooperation. Lim and Klein (2006:406) note that when SME employees and management cooperate with each, they work as a team and it is unlikely that workplace conflict will occur. Michna (2009:365) has found that Polish SME managers make every effort to inspire their employees as it creates an atmosphere of honesty and open information and ideas exchange. Sheehan (2013:98) notes that SME owners who encourage employees to be ambitious by giving them feedback on their performance areas to improve, promote a culture where openness and honesty is valued. Stone (2010:8) observes that in-house training on values is preferred by SMEs primarily because it provides the ability to more closely align with the business values and convey the importance of business ethics to employees. According to Miller and Cross (2012:141) there is a relationship between employee attitude and ethical business conduct. Therefore, H_{1.2b} is supported as follows:

H_{1.1a}: *Employee attitude influences SME ethical business conduct in Uganda.*

7.11.5.2 Knowledge acquisition

Knowledge acquisition is a critical element in the prevention, investigation and reduction of unethical business behaviour (Kleinig, 2009:201). Employees that acquire knowledge modify their behaviours to reflect the new knowledge and lack of knowledge may prevent employees from knowing the requirements for executing business ethics (Finn & Torgeir, 2008:1060). SME managers at all levels must place a strong emphasis on shared beliefs to ensure that all employees work towards the same goal (Tyler & Gnyawali, 2009:94). Madden, Scaife and Crissman (2006:6) observe that SME employees who share beliefs learn to trust each other. Dutta and Banerjee (2011:207) note that if SMEs offer staff development programmes it promotes ethical business conduct. Michna's (2009:365) research on Polish SMEs reveals that if employees are educated on ethical business behaviour, they avoid workplace misconduct. Wiid *et al.* (2013:1099) concur with this finding and note that Nigerian SME owners provide ethical training on moral business practices to enable employees to be aware of the dangers of engaging in unethical business practices. Michna (2009:366) further adds that it is important that employees receive follow-up training to assess their skills and knowledge obtained during the initial training. Mohsam and Van Brakel (2011:5) observe that SMEs encourage informal sharing of knowledge to promote trust among management and staff. Thus knowledge acquisition makes a positive influence in ethical business conduct (Shakeel *et al.*, 2011:69). Therefore, H_{2.2a} is supported as follows:

H_{2.1a}: *Knowledge acquisition influences SME ethical business conduct in Uganda.*

7.11.5.3 Management practices

According to Cambra-Fierro *et al.* (2008:654), management practices directly influence business behaviour. Treviño and Nelson (2011:172) emphasise that management practices play an essential role in creating an ethical workplace culture, because employees pay attention to what is measured, rewarded and disciplined. If having disciplinary measures in place for unethical behaviour, unscrupulous employees will be too scared to be unethical since there is a real danger of being exposed and punished (Cicek, 2012:251). Dutta and Banerjee (2011:208) report that SMEs in West Bengal in India implement approaches towards handling employee grievances to create an ethical work climate. Wiid *et al.* (2013:1099) observes that Nigerian SME owners

provide policies and guidelines for dealing with ethical misconduct only once it occurred in the workplace.

Jordan *et al.* (2013:2) encourage SME managers to consistently follow formal procedures, particularly when dealing with poor performance, as it helps the business to avoid disputes when dismissing employees. Dutta and Banerjee (2011:207) emphasise that if SME managers pay fair employee wages, it may avoid employee theft. Yeboah-Boateng (2013:21) recommends creating a favourable environment for employees employed in SMEs to report misconduct anonymously. Management tools such as an ethics hotline that ensures confidentiality and anonymity are necessary to convince employees to report unethical business conduct (Ethics Resource Center, 2013:32, Garthson, 2007:2). According to Carmody (2014:1), an ombudsman is another preferred way to resolve complaints in SMEs. An ombudsman can facilitate a fair and equitable resolution of ethical concerns that arise within business (LeBaron, 2009:6). Therefore, businesses that follow good management practices in conducting business maintain an ethical reputation (Cant *et al.*, 2013:5777). Therefore H_{2.3c} is supported as follows:

H_{2.2b}: *Management practices influence SME ethical business conduct in Uganda.*

7.11.5.4 Legal requirements

According to Abor and Quartey (2010:224) regulatory issues can include licensing and registration requirements, obtaining credit, trading across borders and enforcing contracts which influence ethical business conduct. Lluca (2010:12) indicates that ethical issues can arise when businesses must comply with multiple and sometimes conflicting legal standards. Venkatesh and Kumari (2012:34) indicate that SME registration needs to be cheaper, simpler, speedier, and more transparent. Khawaja (2006:10) cites labour laws and regulations as one of the most complicated areas in which SMEs deal. Whyman and Petrescu (2011:6) advise SMEs to provide job security by offering employees part-time work to reduce their labour costs and thus avoid laying off trained and/or experienced staff. A study by Kheni, Dainty and Gibb (2008:1181) reveals that the implementation of health and safety practices by SMEs is dependent on business characteristics such as number of employees in and turnover of the business. Supplier selection is considered to be an important function of purchasing management in SME (Zazulina, 2010:42). Ashrafi and Murtaza (2008:132) is of the view that using good suppliers enable SMEs to provide high quality

products and services which in turn makes it possible to establish long-term relationships with customers. According to Mohd Ghazali and Ismail (2013:285), strict adherence to business rules is essential in promoting an ethical business climate. Therefore H_{3.1a} is supported as follows:

H_{3.1a}: *Legal requirements influence SME ethical business conduct in Uganda.*

7.11.5.5 Industry norms

According to Ryu and Hung (2011:67) industry norms act as mechanisms to preserve an industry's social structure and to protect the interests of its members. Industry norms influence ethical business conduct by serving as guidelines as it prescribes accepted behaviour and limits unethical behaviour (Málóvics, 2009:224; Ryu & Hung, 2011:72). Mohd, Ghazali and Ismail (2013:285) reported that understanding a professional code of conduct leads to high ethical business conduct. Miller and Cross (2012:155) confirm that ethical conduct is enhanced by following industry ethics policies that reinforce business standards. However, Graham (2013:319) points out that some business managers do not adequately understand industry norms which may unintentionally lead to unethical conduct.

Zhi and Tang (2012:448) assert that SMEs strictly follow industry standards to remain ethical. Timbäck, Faber and Olsson (2010:30) observe that SMEs publicly communicate their business values to external stakeholders to be regarded as transparent and open about their business operations. Yeboah-Boateng (2013:17) notes that SMEs rely on industrial espionage to stay competitive. Zairi (2010:72) concurs and adds that industrial espionage is considered an acceptable practice to benchmark competitors' behaviour. Thus the ethical climate of the industry plays an important role in the ethical decision making of SMEs (Choi & Sipkova, 2009:13). Therefore H_{3.2b} is supported as follows:

H_{3.2b}: *Industry norms influence SME ethical business conduct in Uganda.*

7.11.5.6 Media power

Khalid (2012:9) finds that media power is a key requirement for ethical business conduct. Media provides the public with more information than before and can thus be used to monitor the actions of businesses (Aileron, 2013:1). According to Perks in Hellriegel *et al.* (2012:146) businesses can use the media to expose and report a manager's unethical behaviour as a way to guide their

employees' behaviour. Ahmad and Seet (2009:121) concur and add that honest advertising practices as well as open relationships with customers are good business practices. According to Timbäck *et al.* (2010:35), most Swedish SMEs publish their business values in media, so that their stakeholders are informed of their business values and can make a decision whether they wish to be associated with the business. Choi and Sipkova (2009:14) observe that the negative publicity of unethical behaviour in the media promotes an ethical business atmosphere for both SMEs and large businesses. Zhi and Tang (2012:438) note that if SMEs expose irresponsible behaviours of competitors they increase the possibility of changing existing unethical behaviour. Thus media power can force businesses to make ethical business decisions (Kessel, 2014:986). Therefore H_{3.2c} is supported as follows:

H_{3.3c}: *Media power influences SME ethical business conduct in Uganda.*

The multiple linear regression analysis results have shown that *staff-, business- and external environment variables* influence *ethical business conduct* in SMEs in Uganda. This implies that paying attention to these significant factors will result in positive results for Ugandan SMEs as they can become known as law-abiding citizens by complying with business laws and regulations, offering quality products and/or services, practicing corporate citizenship by taking responsibility for their impact on the environment and not focusing on short-term gains, but on the outcome of their actions and improving the lives of their local communities.

In the next section the results of the MANOVAs will be presented.

7.12 RESULTS OF MULTIVARIATE ANALYSIS OF VARIANCES

The following section attempts to determine if significant relationships exist between the demographic variables and the independent variables. MANOVAs determine the effect of multiple independent variables or a multi-level independent variable on multiple dependent variables simultaneously (Warne, 2014:4). According to Swanson and Holton (2005:127) MANOVAs are sensitive not only to mean differences, but also to the direction and size of correlations among the dependents. MANOVAs can be used to analyse overall differences between groups across multiple independent variables (Swanson & Holton, 2005:127). Testing the multiple dependent variables is accomplished by creating new dependent variables that

maximise group differences (French, Macedo, Poulsen, Waterson, & Yu, 2002:1). MANOVAs were utilised in this study to identify which demographic factors predict the independent variables. Furthermore, post-hoc Scheffé tests were completed to identify where the significant differences occurred between the different categories (Berg & Latin, 2008:155). Cohen's *d*-values were also calculated in order to assess the practical significance of the mean scores. If $0.2 < d < 0.5$, it can be considered a 'small' effect size; $0.5 < d < 0.8$ represents an average effect size and $d > 0.8$ represents a large effect size (Cohen, 1988:25-26).

Eight separate sets of MANOVAs were performed on the eight valid and reliable independent variables (see Figure 7.1). The following hypotheses were formulated:

- $H_{0_{1.1-1.8}}$: There is no relationship between *gender* and the independent variables.
- $H_{0_{2.1-2.8}}$: There is no relationship between *level of education* and the independent variables.
- $H_{0_{3.1-3.8}}$: There is no relationship between *current employment status* and the independent variables.
- $H_{0_{4.1-4.8}}$: There is no relationship between *number of years in business* and the independent variables.
- $H_{0_{5.1-5.8}}$: There is no relationship between *form of enterprise* and the independent variables.
- $H_{0_{6.1-6.8}}$: There is no relationship between *industry sector* and the independent variables.
- $H_{0_{7.1-7.8}}$: There is no relationship between *number of employees in your business* and the independent variables.
- $H_{0_{8.1-8.8}}$: There is no relationship between *trading area* and the independent variables.

Tables 7.33 to Tables 7.40 present the findings of the MANOVAs conducted on the data.

7.12.1 MANOVA tests for gender and selected independent variables

Table 7.33 presents the findings of the MANOVAs calculated for relationships between the demographic variable *gender* and the selected independent variables.

Table 7.33: Relationship between gender and the independent variables

Dependent variable: Gender		
Independent variables	F-value	P-value
Employee morals	3.86	0.050
Employee attitude	7.44	0.007*
Knowledge acquisition	0.56	0.455
Organisational resources	1.16	0.282
Management practices	1.60	0.206
Legal requirements	3.55	0.060
Media power	0.66	0.415
Industry norms	2.22	0.137

*p<0.05

From Table 7.33 it is evident that a significant positive relationship exists between the demographic variable *gender* of SME owners or managers and the independent variable, *employee attitude* (0.007; $p < 0.05$) regarding ethical business behaviour. The post-hoc Scheffé test for the significant positive relationship between *gender* and *employee attitude* (0.007; $p < 0.01$) revealed that males ($\bar{x} = 4.137$) scored a higher mean score than females ($\bar{x} = 3.976$). The Cohen's d-value was 1.39 which presents a large practical significance. This indicates that males may regard employee attitude as a more important staff quality for ethical business conduct than their females counterparts do. ElZein (2013:99) indicated a significant difference between male and female in terms of attitude towards ethical business conduct. This finding is also supported by D'Arcy and Ulstad (2007:78) that risk attitude vary with gender, males are more prone to risk-taking and find dishonest behaviour more acceptable than females.

7.12.2 MANOVA tests for educational level and selected independent variables

Table 7.34 presents the findings of the MANOVAs calculated for the relationships between the demographic variable *education level* of SME owners or managers and the selected independent variables.

Table 7.34: Relationship between education level and the independent variables

Dependent variable: Education level		
Independent variables	F-value	P-value
Employee morals	5.87	0.000*
Employee attitude	6.50	0.000*
Knowledge acquisition	9.60	0.000*
Organisational resources	0.71	0.586
Management practices	9.29	0.000*
Legal requirements	1.55	0.187
Media power	2.61	0.035**
Industry norms	4.58	0.001**

* p<0.001 ** p< 0.05

From Table 7.34 it is evident that a significant positive relationship exists between the demographic variable *education level* of SME owners/managers and the independent variables – *employee morals* (0.000; p < 0.001), *employee attitude* (0.000; p < 0.001), *knowledge acquisition* (0.000; p < 0.001), *management practices* (0.000; p < 0.001) *media power* (0.035; p < 0.05) and *industry norms* (0.001; p < 0.05) influencing *ethical business conduct*.

The post-hoc Scheffé test for this relationship between the *education level* of SME owners/managers and *employee morals* in conducting ethical business (0.000; p < 0.001) revealed three significant group differences. The post-hoc Scheffé tests revealed that SME owners/managers with an advanced level certificate (\bar{x} = 3.824), national certificate or diploma (\bar{x} = 3.930) and bachelors degree (\bar{x} = 3.817) had higher mean scores than those with a post graduate degree (\bar{x} = 3.299). The Cohen's d-values were 0.59, 0.84 and 1.04 respectively which presents an average to large practical significance. This indicates that the more SME owners/managers are educated the less moral they are in their ethical business conduct. This finding is in agreement with Standley's (2004:13) assertion that highly educated people are more likely to cheat and use their education to provide specific reasoning to justify their immoral choices. Kum-Lung and Teck-Chai (2010:229) indicated that there is a significant difference among different education levels in terms of approach towards ethical business conduct. Mohd Ghazali and Ismail (2013:284) note that attaining higher level of qualifications may improve one's ability to make ethical decisions.

The post-hoc Scheffé test for the relationship between *education level* of SME owners or managers and *employee attitude* (0.000; $p < 0.001$) regarding *ethical business conduct* revealed two significant group differences. The post-hoc Scheffé tests for the significant differences revealed that SME owners or managers with a national certificate or diploma ($\bar{x} = 4.086$) and bachelors degree ($\bar{x} = 4.175$) scored a higher mean than those with a post graduate degree ($\bar{x} = 3.724$). The Cohen's d-values were 274.5 and 87.40 respectively which presents a large practical significance. This indicates that the less educated SME owners/managers have a more favourable attitude about ethical business conduct. These findings have been confirmed by Reddy (2009:247) that highly educated people adopt immoral means to achieve their ends.

The post-hoc Scheffé test for the relationship between *education level* of SME owners/managers and *knowledge acquisition* (0.000; $p < 0.001$) on *ethical business conduct* revealed three significant group differences. The post-hoc Scheffé test for two significant differences revealed that SME owners/managers with a national certificate or diploma ($\bar{x} = 3.935$) or bachelors degree ($\bar{x} = 4.060$) had a higher mean score than those with an ordinary level certificate ($\bar{x} = 3.361$). The Cohen's d-value was 0.94 and 0.99 respectively which presents large practical significance. Scheffé tests for the third significant difference revealed that SME owners or managers with a bachelors degree ($\bar{x} = 4.060$) scored a higher mean than those with a post graduate degree ($\bar{x} = 3.606$). The Cohen's d-value was 5.54 which presents a large practical significance. Based on these findings it seems that first university degree/diploma/certificate SME owners/managers regard themselves as having acquired adequate knowledge on ethical business conduct as compared to those with a school level education. However, it seems those with post graduate degrees seem to regard themselves as having adequately educated to have acquired sufficient knowledge on ethical business conduct in their first degree/diploma/certificate. Findings by Yang and Grabe (2011:1220) indicate that less educated individuals have acquired less knowledge on ethical business conduct, whereas Standle (2004:13) asserts that highly educated people regard themselves as adequately educated and not in need to justify their ethical choices, be it immoral or not.

The post-hoc Scheffé test for the relationship between *education level* of SME owners or managers and *management practices* (0.000; $p < 0.001$) reflecting ethical business conduct

revealed three significant group differences. The post-hoc Scheffé test for the first significant difference revealed that SME owners/managers with a national certificate or diploma ($\bar{x} = 3.561$) or bachelors degree ($\bar{x} = 3.694$) had higher mean scores than those with an ordinary level certificate ($\bar{x} = 2.660$). The Cohen's d-value was 1.29 and 0.99 respectively which presents a large practical significance. The post-hoc Scheffé test for the third significant difference revealed that SME owners or managers with a bachelors degree ($\bar{x} = 3.694$) scored a higher mean score than those with a post graduate degree ($\bar{x} = 3.159$). The Cohen's d-value was 0.53 which presents an average practical significance. Based on these findings it seems that the more educated SME owners/managers are, the more familiar they are with ethical *management practices*. This indicates that SME owners/managers with ordinary level certificate do not regard *management practices* as important for ethical business conduct than those SME owners or managers with national certificates or degrees. This finding is supported by Bloom *et al.* (2012:17) that managers with a college degree (being more educated) are more likely to be aware of good management practices.

The post-hoc Scheffé test for the relationship between *education level* of SME owners/managers and *media power* (0.035; $p < 0.05$) influencing ethical business conduct was not powerful enough to detect group differences for the relationship between education level of SME owners/managers and media power influencing ethical business conduct. However, this relationship could possibly exist. SME owners or managers with different educational levels may have different perceptions of how powerful media can be to influence ethical business conduct.

The post-hoc Scheffé test for the relationship between *education level* of SME owners or managers and *industry norms* (0.001; $p < 0.05$) revealed three significant group differences. The post-hoc Scheffé test for the first significant difference revealed that SME owners or managers with an advanced level certificate ($\bar{x} = 3.843$) had a higher mean score than those with an ordinary level certificate ($\bar{x} = 2.956$). The Cohen's d-values were 27.59 which presents a large practical significance. The post-hoc Scheffé test for the second significant difference revealed that SME owners/managers with national certificates or diplomas ($\bar{x} = 3.625$) had a higher mean score than those with an ordinary level certificate ($\bar{x} = 2.956$). The Cohen's d-value was 16.67 which presents a large practical significance. The post-hoc Scheffé test for the third significant

difference revealed that SME owners or managers with a bachelors degree ($\bar{x} = 3.775$) had a higher mean score than those with an ordinary level certificate ($\bar{x} = 2.956$). The Cohen's d-value was 48.32 which presents a large practical significance. This indicates that the more educated SME owners/managers are, the more they are familiar with ethical *industry norms*. This notion is supported by the results of Purcell (2008:29) that education level has a strong link to the understanding of accepted industry standards such as to provide safe products.

7.12.3 MANOVA tests for employment status and selected independent variables

Table 7.35 presents the findings of the MANOVAs calculated for relationships between the demographic variable *current employment status* and the selected independent variables.

Table 7.35: Relationship between current employment status and the independent variables

Dependent variable: Employment status		
Independent variables	F-value	P-value
Employee morals	0.99	0.396
Employee attitude	3.94	0.009*
Knowledge acquisition	0.57	0.633
Organisational resources	1.89	0.130
Management practices	2.01	0.112
Legal requirements	2.10	0.100
Media power	2.34	0.073
Industry norms	2.11	0.099

*p<0.05

From Table 7.35 it is evident that a significant positive relationship exists between *current employment status* and the independent variable, *employee attitude* (0.009; $p < 0.05$). The post-hoc Scheffé test for this relationship between current employment status and *employee attitude* (0.009; $p < 0.05$) revealed three significant group differences. The post-hoc Scheffé test for the three significant differences revealed that SME owners ($\bar{x} = 4.079$), middle level managers ($\bar{x} = 4.126$) and supervisors ($\bar{x} = 4.108$) had higher mean scores than CEOs ($\bar{x} = 3.587$). The Cohen's d-values were 0.53, 0.54 and 0.58 respectively which presents an average practical significance. This indicates that CEOs are less concerned about employees' attitudes regarding ethical business conduct than SME owners, middle level managers or supervisors. Talukder (2014:141) found

that employment status influences an individual's attitude about moral behaviour. This finding is also consistent with the results of Barsh, Capozzi and Davidson (2008:2) that most senior executives do not actively encourage and model innovative behaviour.

7.12.4 MANOVA tests for number of years in business and selected independent variables

Table 7.36 presents the findings of the MANOVAs calculated for relationships between the demographic variable *number of years in business* and the selected independent variables.

Table 7.36: Relationship between number of years in business and the independent variables

Dependent variable: Number of years in business		
Independent variables	F-value	P-value
Employee morals	5.03	0.002**
Employee attitude	0.69	0.561
Knowledge acquisition	2.13	0.096
Organisational resources	1.21	0.304
Management practices	1.50	0.213
Legal requirements	0.17	0.918
Media power	7.38	0.000*
Industry norms	1.74	0.159

* p<0.001 **p<0.05

From Table 7.36 it is evident that a significant positive relationship exists between the *number of years in business* and the independent variables, *employee morals* (0.002; $p < 0.05$) and *media power* (0.000; $p < 0.001$). The post-hoc Scheffé test for the relationship *between number of years in business* and *employee morals* (0.002; $p < 0.05$) revealed one significant group difference. The post-hoc Scheffé test for the significant difference revealed that SME owners or managers who had worked for six to 10 years ($\bar{x} = 3.912$) had a higher mean score than those who had worked for 3-5 years ($\bar{x} = 3.583$). The Cohen's d-value was 3.74 which presents a large practical significance. This indicates that SME owners or managers who worked for between six to 10 years regard *employee morals* as more important for ethical business conduct than those employed between three and five years. Nikoomaram, Roodposhti, Ashlaghi, Lotfi and Taghipourian (2013:1561) confirmed that the more experienced employees are, the more ethically they behave in business matters. This finding is in agreement with Treviño and Brown's

(2005:71) finding that longer serving employees are important sources of moral guidance for other employees, and it is expected that employees will emulate behaviours of seniors.

The post-hoc Scheffé test for the relationship between *number of years in business* and *media power* (0.000; $p < 0.001$) revealed three significant group differences. The post-hoc Scheffé test for the first significant difference revealed that SME owners or managers who had worked for six to 10 years ($\bar{x} = 3.178$) and for more than 10 years ($\bar{x} = 3.389$) had higher mean scores than those who had worked for less than three years ($\bar{x} = 2.749$). The Cohen’s d-values were 0.81 and 1.74 respectively which presents a medium and large practical significance. The post-hoc Scheffé test for the third significant difference revealed that SME owners or managers employed for more than 10 years ($\bar{x} = 3.389$) had a higher mean score than those who had worked between three to five years ($\bar{x} = 2.996$). The Cohen’s d-value was 2.42 which presents a large practical significance. This indicates that employees with more working experience are more aware of the influence of *media power* on ethical business conduct. This notion is supported by Solutions for Corporations (2015:4) that senior executives with more working experience believe media coverage guide them on strategic issues by providing insight into industry intelligence and the market’s response to their decisions.

7.12.5 MANOVA tests for form of enterprise and selected independent variables

Table 7.37 presents the findings of the MANOVAs calculated for relationships between the demographic variable *form of enterprise* and the selected independent variables.

Table 7.37: Relationship between form of enterprise and the independent variables

Dependent variable: Form of enterprise		
Independent variables	F-value	P-value
Employee morals	0.52	0.720
Employee attitude	0.91	0.461
Knowledge acquisition	1.58	0.178
Organisational resources	0.81	0.518
Management practices	2.17	0.071
Legal requirements	1.57	0.182
Media power	2.72	0.029*
Industry norms	2.01	0.093

* $p < 0.05$

From Table 7.37 it is evident that a significant positive relationship exists between *form of enterprise* and the independent variable, *media power* (0.029; $p < 0.05$). The post-hoc Scheffé test for this relationship between *form of enterprise* and *media power* (0.029; $p < 0.05$) influencing ethical business conduct was not powerful enough to detect group differences for the relationship between form of enterprise and *media power* influencing ethical business conduct. However, this relationship could possibly exist as SME owners or managers of different forms of enterprise may have different perceptions of how powerful media can be to influence ethical business conduct.

7.12.6 MANOVA tests for industry sector and selected independent variables

Table 7.38 presents the findings of the MANOVAs calculated for relationships between the demographic variable *industry sector* and the selected independent variables.

Table 7.38: Relationship between industry sector and the independent variables

Dependent variable: Industry sector		
Independent variables	F-value	P-value
Employee morals	1.01	0.427
Employee attitude	2.54	0.015*
Knowledge acquisition	1.31	0.242
Organisational resources	0.96	0.460
Management practices	1.50	0.165
Legal requirements	1.56	0.145
Media power	0.82	0.575
Industry norms	1.48	0.174

* $p < 0.05$

From Table 7.38 it is evident that a significant positive relationship exists between *industry sector* and the independent variable, *employee attitude* (0.015; $p < 0.05$). The post-hoc Scheffé test for this relationship between *industry sector* and *employee attitude* (0.015; $p < 0.05$) influencing ethical business conduct was not powerful enough to detect group differences for the relationship between industry sector and *employee attitude* influencing ethical business conduct. However, this relationship could possibly exist as SME owners or managers operating in different industries may have different industry norms guiding *employee attitude* regarding ethical business conduct.

7.12.7 MANOVA tests for number of employees in business and selected independent variables

Table 7.39 presents the findings of the MANOVAs calculated for relationships between the demographic variable *number of employees in business* and the selected independent variables.

Table 7.39: Relationship between number of employees in business and the independent variables

Dependent variable: Number of employees		
Independent variables	F-value	P-value
Employee morals	1.59	0.190
Employee attitude	2.90	0.035*
Knowledge acquisition	3.72	0.012*
Organisational resources	0.56	0.643
Management practices	4.12	0.007*
Legal requirements	5.02	0.002*
Media power	0.04	0.990
Industry norms	0.15	0.932

*p < 0.05

From Table 7.39 it is evident that a significant positive relationship exists between *number of employees in business* and the independent variables *employee attitude* (0.035; $p < 0.05$), *knowledge acquisition* (0.012; $p < 0.05$), *management practices* (0.007; $p < 0.05$) and *legal requirements* (0.002; $p < 0.05$).

The post-hoc Scheffé test for this relationship between *number of employees in business* and *employee attitude* (0.035; $p < 0.05$) influencing ethical business conduct was not powerful enough to detect group differences for the relationship between number of employees in business and *employee attitude* influencing ethical business conduct. However, this relationship could possibly exist as SME owners or managers with different business sizes have a difference in numbers of employees which may have different perceptions of how powerful *employee attitude* can be in influencing ethical business conduct.

The post-hoc Scheffé test for the relationship between *number of employees in business* and *knowledge acquisition* (0.012; $p < 0.05$) revealed one significant group difference. The post-hoc

Scheffé test for the significant difference revealed that very small business owners or managers employing between 11 to 20 employees ($\bar{x} = 4.000$) had a higher mean score than medium size business owners/managers employing between 50-200 employees ($\bar{x} = 3.780$). The Cohen's d-value was 5.99 which presents a large practical significance. This indicates that very small businesses owners/managers regard *knowledge acquisition* as more important for ethical business conduct than medium size business owners or managers. This finding is consistent with Jordan *et al.*'s (2013:41) finding that large employers always consider themselves as having adequate information on ethical business conduct whereas smaller employers always want to acquire more knowledge especially about regulations to avoid litigation.

The post-hoc Scheffé test for the relationship between *number of employees in business* and *management practices* (0.007; $p < 0.05$) revealed one significant group difference. The post-hoc Scheffé test for the significant difference revealed medium size business owners or managers employing between 50 to 200 employees ($\bar{x} = 3.515$) had a higher mean score than very small business owners/managers employing between 11 to 20 employees ($\bar{x} = 3.486$). The Cohen's d-value was 7.29 which presents a large practical significance. This indicates that medium size business owners/managers employing more than 50 employees believe management practices guide their ethical behaviour more so than small business owners/managers. This notion is supported by Jordan *et al.* (2013:24) that larger employers believe management practices can guide them to meet regulatory requirements and ensure transparency and consistency when managing employees.

The post-hoc Scheffé test for the relationship between *number of employees in business* and *legal requirements* (0.002; $p < 0.05$) revealed one significant group difference. The post-hoc Scheffé test for the significant difference revealed that very small business owners/managers employing between five and 10 employees ($\bar{x} = 4.466$) had a higher mean score than medium size business owners/managers employing between 50-200 employees ($\bar{x} = 4.096$). The Cohen's d-value was 3.31 which presents a large practical significance. This indicates that very small businesses (five to 10 employees) adhere more to *legal requirements* to guide their ethical business conduct than medium size businesses (50-200 employees). This finding is consistent with Jordan *et al.*'s (2013:23) observation that employers of above 50 employees avoided agency workers regulations

to be able to terminate staff at short notice should they no longer require their services, and to avoid offering agency workers paid annual leave or equal pay.

7.12.8 MANOVA tests for trading area and selected independent variables

Table 7.40 presents the findings of the MANOVAs calculated for relationships between the demographic variable *trading area* and the selected independent variables.

Table 7.40: Relationship between trading area and the independent variables

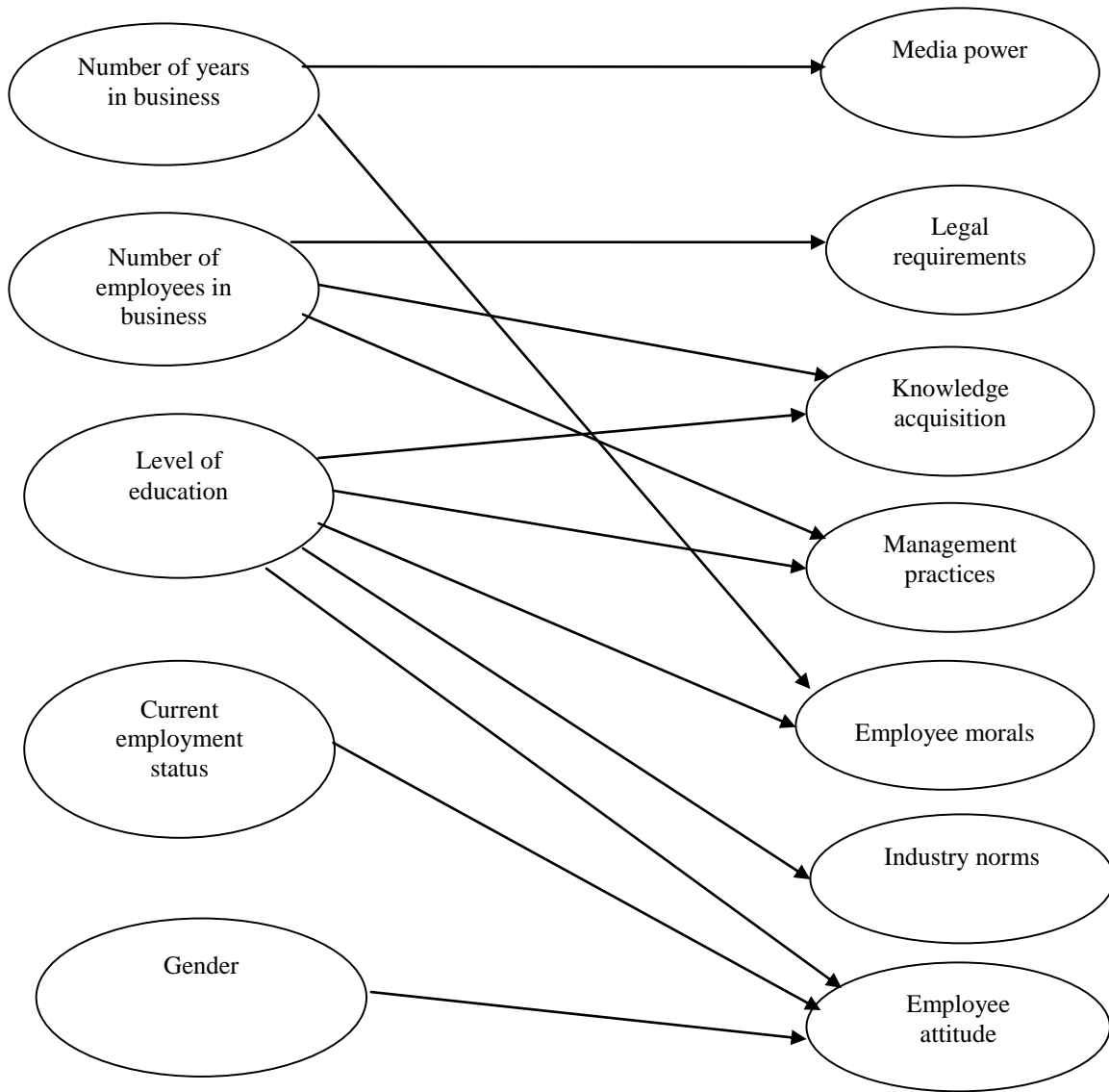
Dependent variable: Trading area		
Independent variables	F-value	P-value
Employee morals	1.35	0.249
Employee attitude	1.28	0.277
Knowledge acquisition	1.53	0.194
Organisational resources	1.04	0.384
Management practices	0.98	0.416
Legal requirements	2.50	0.042*
Media power	1.80	0.128
Industry norms	0.42	0.793

*p < 0.05

From Table 7.40 it is evident that a significant positive relationship exists between *trading area* and the independent variables *legal requirements* (0.042; $p < 0.05$). The post-hoc Scheffé test for this relationship between *trading area* and *legal requirements* (0.042; $p < 0.05$) influencing ethical business conduct was not powerful enough to detect group differences for the relationship between trading area and *legal requirements* influencing ethical business conduct. However, this relationship could possibly exist since businesses trading in different areas may have different *legal requirements* to be regarded as ethical.

MANOVAs were calculated in this study to identify which demographic factors predict the dependent and independent variables. The results indicated that sixteen statistically significant relationships and twelve practically significant relationships exist. As this study aims to provide practical recommendations to SMEs, only practically significant relationships will be depicted in Figure 7.2.

Figure 7.2: Practical significant relationships between the demographic variables and the independent variables



Demographic variables

Independent variables

Figure 7.2 depicts the practically significant relationships between the demographic variables and the selected independent variables. As can be seen from Figure 7.2, *number of years in business* had two practically significant relationships with *media power* and *employee morals*. This could indicate that the longer a business exists, the more media may have played a role in shaping its ethical business conduct and time the business had to develop employee morals aligned with their

ethical business values. *Number of employees in business* had three practically significant relationships with *legal requirements*, *knowledge acquisition* and *management practices*, which may mean that *legal requirements* may differ according to business size based on number of employees. The size of the business may justify providing training on ethics to make employees knowledgeable and informed about ethical *management practices*. *Level of education* had five practically significant relationships with *employee morals*, *employee attitude*, *knowledge acquisition*, *management practices* and *industry norms*. It seems that the more highly qualified SME owners/managers are, the more they can influence employee morals and attitudes as they have more knowledge on management practices and industry norms. Demographic variables *current employment status* and *gender* had a practically significant relationship with *employee attitude*. Owners or managers of businesses, irrespective of gender are expected to be moral agents, capable of making ethical decisions and accountable for their actions.

In the next section the results of the descriptive statistics are discussed.

7.13 DESCRIPTIVE STATISTICS

This study assessed the various factors affecting ethical conduct of SMEs in Uganda, and the descriptive statistic results are shown in Table 8.47. A five-point Likert scale consisting of strongly agree, agree, do not know, disagree and strongly disagree, was used to measure the findings from which the means and the standard deviations were computed. Table 7.41 shows the results of the descriptive statistics of the factors impacting ethical business conduct in Uganda.

Table 7.41: Descriptive statistics of the factors impacting ethical business conduct

Variables	Mean	Standard deviation
Employee morals	3.796	0.671
Employee attitude	4.084	0.547
Knowledge acquisition	3.945	0.579
Organisational resources	2.884	0.808
Management practices	3.547	0.808
Legal requirements	4.377	0.548
Media power	3.119	0.901
Industry norms	3.701	0.782
Ethical business conduct	4.207	0.565

As can be seen from 7.41, *employee morals, employee attitude, knowledge acquisition, management practices, legal requirements, industry norms and ethical business conduct* had means that tended towards agreement on the scale (rating 4) indicating that some respondents seemed to agree that these factors impact *ethical business conduct*. Respondents were on average neutral (rating 3) regarding *media power* and *organisational resources*. All the standard deviations were relatively low (varying from 0.5 to 0.9) which indicates low response variances.

In the next section the results of the biographic data are presented.

7.14 RESULTS OF BIOGRAPHIC DATA

Table 7.42 depicts the results of the biographic data of the 384 respondents and their respective SMEs.

Table 7.42: Biographic data of the respondents and their respective SMEs

Demographics	Categories	Frequency	Percentage
Gender	Male	258	67
	Female	126	33
Level of education	Ordinary level certificate	15	4
	Advanced level certificate	34	9
	National certificate/Diploma	97	25
	Bachelors degree	209	54
	Post graduate	29	8
Current employment status	Owner	161	42
	CEO	13	3
	Middle management	127	33
	Supervisor	83	22
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

Demographics	Categories	Frequency	Percentage
	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
Trading area	Home based business	41	11
	Shopping mall	56	15
	Stand-alone business in residential area	78	20
	Stand-alone business in business area	187	48
	Craft village	22	6

From Table 7.42, it is evident that more than half (67%) of the respondents were male, with 33% being female respondents. This shows males are more likely to engage in entrepreneurial activity than females, and in previous studies it was confirmed that in Uganda males dominate nearly all the industry sectors.

With regard to level of education, more than half (54%) of the respondents had bachelor's degrees while 25% of the respondents had a national certificate or diploma while 8% had a post graduate degree. The ordinary level certificate and advanced level certificate accounted for 4% and 9%, respectively. This shows that most of the owners or managers in Ugandan SMEs have bachelor's degrees. This further shows that these SME owners or managers are well qualified to manage the businesses.

According to the current employment status, most (42%) of the respondents were business owners, 33% of the respondents were employed as middle-level management, while supervisors and CEO's accounted for 22% and 3% respectively. The possible explanation for 33% of the respondents being employed as managers at middle level management is that these managers were employed at medium size businesses and small businesses with a larger staff compliment. Very small businesses normally do not have management levels.

With regard to number of years in business, 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% have been in existence for less than three years. These businesses have thus been in existence beyond the start-up phase and have obtained adequate business experience to know the importance of ethical business behaviour.

With regards to the form of enterprise, most (47%) were private limited companies, sole proprietors (29%), partnerships (20%) or trusts (3%). The fact that nearly half were limited companies shows they have intentions of not just remaining small businesses.

According to the industrial sector, business services (25%) is the most popular business sector as a business opportunity, followed by education (18%), trade (17%), hotel and restaurants (14%), manufacturing and processing (13%), health and social works (6%) and agriculture and forestry (5%). A smaller number were employed in insurance (2%). This shows that SMEs in Uganda are gradually moving away from a predominately agriculture to an industrial economy.

Regarding the number of full-time employees, more than half (52%) of the respondents employ between five and 10 employees, followed by those employing between 11 and 20 (29%), and between 21 and 49 (13%) employees. As expected, very few businesses (7%) had more than 50 full-time employees. This further showed that most SMEs prefer to employ fewer employees because their businesses are still relatively small.

Finally, with regard to the trading area, most respondents were trading in formal business areas as a stand-alone business premise (48%) or in shopping malls (15%), with 20% trading in a residential area, or from home (11%). A smaller number (6%) were trading from craft villages.

7.15 SUMMARY

In this chapter, the empirical results of this study were presented. Firstly, a total of 384 usable questionnaires were received from respondents, resulting in a response rate of 85.3% which was a very high success rate. After testing for the normality of the data using Kolmogorov-Smirnov test, several statistical processes were performed. In order to assess the factor-analysability of the data, the Kaiser-Meyer-Olkin (KMO test) and Barlett's tests were performed. The findings

showed both tests were highly significant, which provided a good justification for further statistical analysis to be conducted.

The validity and reliability of the measuring instrument which involves ascertaining whether the instrument is capturing the variables they were supposed to measure, were assessed and reported on. EFA particularly, Principal Component Factor Analysis, was conducted to assess the discriminant validity of the measuring instrument. All items loadings below 0.4, as well as items that cross-loaded, were disregarded. Cronbach's alpha reliability coefficients to verify the consistency of the inter-item reliability of the research instrument were performed. All items that had a Cronbach's alpha of below 0.6 were disregarded for further statistical analysis. In the same sections, the percentage of the variance and eigenvalues were computed and explained. The retained factors were presented in the revised hypothesised model (Figure 7.1).

The correlation matrix of factors impacting ethical business conduct was performed to ascertain the association between the variables. Most of the correlation results indicated moderate to weak correlation relationships. Multi-collinearity diagnostics were also performed and the VIF and tolerance statistics were found to be highly significant. In addition, the study showed through the use of multiple linear regression analysis that key staff variables that positively influenced ethical business conduct included employee attitude while for business factors it was knowledge acquisition and management practices. The significant factors for external variables included; legal requirements, media power and industry norms. Therefore, these factors seem to be the most important for ethical business conduct among SMEs in Uganda.

To determine the influence exerted on the dependent variables by the demographic variables, MANOVA was performed. Results indicated twelve practically significant relationships depicted in Figure 7.2. Descriptive statistics to indicate the mean scores, standard variation and variance of the factors were also done to measure the degree of central tendency and the deviations from the means.

A discussion on the analysis of the biographic data was also presented in this chapter. The biographical data provided information about the respondents on gender, level of education,

current employment status, number of years in business, form of enterprise, industrial sector, number of employees in business and trading area. The study gathered representation from more males than females. More than half of the respondents had bachelor's degrees and had been operating for six or more years.

In the next chapter, a summary of the study, conclusions and recommendations will be provided.

CHAPTER 8

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

In the previous chapter, data analysis, empirical findings and interpretation of the results obtained from the empirical research conducted on SME's were presented. The empirical findings were presented in tables and figures, analysed, interpreted and discussed. Furthermore, the chapter gives effect to the primary objective of the research which was the empirical testing of the hypothesised model and the associated hypotheses using various statistical techniques.

This chapter provides an overview of all the chapters completed thus far. This chapter will highlight the conclusions made and recommendations based on the empirical and literature findings. The contributions and limitations to this study will be indicated. Lastly, suggestions concerning the avenues for future research will be identified and concluding remarks will be given.

8.2 OVERVIEW OF CHAPTERS

Chapter One provided a comprehensive overview regarding the current research. The chapter provided an introduction and background to the study indicating the importance of investigating ethics in SMEs. The purpose of the study was twofold, namely to identify factors that influence SME ethical conduct in Uganda and to investigate how ethical behaviour could positively influence SME functioning and increase their business sustainability. Five conceptual models informed the hypothesised model to be tested. A brief framework of the quantitative methodology used in the study, sample selected, how data was collected and analysed was presented.

Chapter Two provided an overview of the Ugandan business environment. It was indicated that Uganda's high population growth rate puts a strain on social services, infrastructure and land resources and results in high youth unemployment. The chapter gives further insight into the political-, economic-, technological-, competitive- and infrastructural environment in Uganda. Uganda experiences political stability because of effective economic liberation programmes

focusing on growing the private sector, financial services, construction, manufacturing, transportation, telecommunications, energy, infrastructure, and oil and gas sectors. Unfortunately, there are high levels of business corruption. The increasing economic instability in world commodity prices affected the Ugandan economic activities negatively and left them with a high inflation rate. It was mentioned that Uganda still has the highest cost of doing business within the East African Community region with high levels of regulatory and institutional barriers with regard to licensing and registration requirements for startup businesses which impede their competitiveness.

In Chapter Two, it was further indicated that SMEs in Uganda experience difficulties in accessing appropriate technologies which is due to lack of reliable electricity supply and relies on the use of often outdated technology which results in low quality and quantity products that do not compete favorably in the market. The undeveloped road infrastructure is also influencing the scale of business operations negatively. The positive contributions of SMEs to the Ugandan economy were acknowledged, but the high business failure rate was of concern. Various government policy initiatives and reforms were undertaken, especially related to SME legislation and regulations to overcome sector challenges to growth. It was noted that the ethical behaviour of Ugandan businesses put them at a significant competitive disadvantage as corruption is rife.

Chapter Three explained the nature and importance of SMEs globally. It was found that there is no clearly universally accepted definition of SMEs. The definition varies and depends on the level of economic development in each country and in defining SMEs; reference is made to some quantifiable measures such as: investment, capital assets, employment and turnover. Given the lack of a commonly acknowledged definition of SMEs, it was important to examine the peculiar characteristics of SMEs as to assist in defining SMEs. These include: the geographical location, business structure, operating nature of business and business domain. However, despite their many contributions, several business challenges that hinder SMEs development were noted, managerial incapability being the biggest challenge. It was noted that despite government policies designed to support the establishment and growth of SMEs globally, most proved to be not effective enough to ensure business sustainability.

Chapter Four presented an overview on business ethics in SMEs. The chapter presented the developmental history of business ethics. The concept of business ethics is traceable to ancient times; but as a field of study it began in the 1970's in the United States and became widespread, as a response to what was happening in the world. It was noted there are various definitions to business ethics. However, most scholars consent that business ethics encompass the principles that direct business behaviours. Since there are various definitions of business ethics, it is difficult for everybody to agree on the same ethical guidelines to follow in business. Therefore, business managers use ethical theories as a framework to guide decision making. Business ethics could be viewed as either philosophical or social scientific business ethics.

In this chapter, differences in ethical theories were noted and led to a comprehensive discussion of the ethical principles that each theory advocates in terms of its uniqueness and problems associated with applying it in businesses. These theories provide some clarification of the ways in which an individual's workplace behaviour can be justified. The most common forms of misconduct in the business environment were identified in terms of fraudulent business practices such as bribery and not meeting contractual obligations as well as behaviour towards employees such as bullying, discrimination, violating their rights and abusing power. Other ethical concerns noted were owners/managers having conflicts of interest and employees stealing from the business. These unethical business practices could lead to increased costs, reduced productivity, a decrease in sales and poor business reputation which influence the competitiveness and sustainability of the business.

Chapter Five presented the operationalisation of the factors in the hypothesised model introduced in Chapter One. A framework was presented of the three sets of hypotheses formulated and substantiated by secondary sources on the factors that influence SMEs' ethical business conduct. The first set of hypotheses investigated the effects of staff factors on ethical business conduct with reference to employee morals, attributes and attitude. The second set of hypotheses explored the effects of business factors that influence SMES' ethical business conduct regarding workplace culture, management practices, knowledge acquisition, access to organisational resources and reporting mechanisms. The third set investigated the effects of the external environment factors

on SMEs' ethical business conduct with reference to legal requirements, stakeholders' expectations, industry norms and media power.

Chapter Six is a reflection on the overall research design and methodology followed. It describes the research process that was used to address the primary objective of this study and motivations were given on the selection of the chosen methods. Given the nature of the problem statement and the research objectives presented in this study, a quantitative or positivistic research paradigm was adopted. The chapter also described the data collection process by using convenience and snowball sampling. It indicated how data was collected from both primary and secondary sources. The structured questionnaire contained two sections of which the first section canvass information pertained to business ethics factors influencing SME business ethics conduct and the second section regarding their biographical profile. The data analysis processes were elaborated on by using descriptive and inferential statistics. How validity and reliability can be ensured of a measuring instrument was highlighted.

Chapter Seven presents data analysis and interpretation of empirical findings. The chapter gives effect to the primary objective of the research which was the empirical testing of the hypothesised model and the associated hypotheses using various statistical techniques. In this chapter, a description of the statistical techniques used in this research is presented. The statistical process started with examining the data for normality and sampling adequacy. Thereafter an EFA was performed which extracted 12 constructs from the three sets of independent variables. Cronbach's alpha was performed to verify if each factor was reliable. Four of these constructs were deemed not valid or reliable which required a revision of the hypothesised model and hypotheses. Inferential statistics were performed. Pearson product moment correlations analysis revealed mostly weak and moderate relationships between the variables. The multiple regression analysis revealed six statistically significant relationships between the independent variables and dependent variables. Lastly, the results of the MANOVAs were presented where seventeen statistically significant relationships were found between the demographic variables and the independent variables. Post-hoc Scheffé tests revealed where the group differences occurred. The Cohen D tests found twelve practically significant results.

This chapter will first highlight how the objectives of this study were met. Conclusions and recommendations will be given based on the main findings of this research. The contribution and limitations of this study will also be discussed. Potential avenues for future research will be indicated and concluding remarks will be given.

The next section will indicate how the objectives of this study were met.

8.3 HOW OBJECTIVES OF THIS STUDY WERE MET

Table 8.1 depicts how the objectives of this study were met.

Table 8.1: How objectives of this study were met

Objectives of the study	How and where these were achieved
<p>To undertake a detailed theoretical investigation into the acceptance and usage of business ethics and factors hindering the implementation thereof in SMEs</p>	<p>This has been achieved with a comprehensive review of literature in Chapters 2, 3 and 4.</p> <p>Chapter 2 discussed the Ugandan environment and indicated the role the external environment plays in promoting unethical business conduct and the challenges SMEs experience which may contribute towards unethical business behaviour.</p> <p>Chapter 3 discussed the nature and importance of SMEs. It was established that contributing factors to hindering the implementation of ethical business conduct may be related to the characteristics of SMEs. Some factors identified relate to staff, whilst others are how their business practices or the role the external environment plays may encourage unethical business conduct. One of the unique characteristics of SMEs is that they are owner-managed and often family businesses; thus, SME activities may reflect the morals, attributes and attitude of the owner/manager and family employees which will have a direct impact on the ethical business conduct and workplace culture. The challenges SMEs face inside and outside the business also contribute towards unethical SME business behaviour.</p> <p>Chapter 4 discussed business ethics with special reference to the SME setting where possible. In the history of business ethics the role media play in reporting unethical behaviour was indicated. The discussion of the problems associated with the application of each of the different ethical business theories have shown some reasons why unethical business behaviour occurs. Examples of different types of unethical business SME behaviour were provided and the effects this can have on a business were indicated.</p>
<p>To propose a conceptual model depicting the factors that impact ethical conduct of SMEs</p>	<p>Based on secondary literature sources related to this study, a hypothesised model portraying business ethics factors was presented in Chapter 1 and discussed in Chapter 5. The conceptual models utilised to develop the hypothesised model were presented in Chapter 1. All the variables in the study were clearly defined and operationalised in</p>

Objectives of the study	How and where these were achieved
	<p>Chapter 5.</p> <p>The employee morals, attributes and attitude were identified as staff factors that influence ethical business conduct. Business factors that influence ethical business conduct include workplace culture, management practices, knowledge acquisition, access to organisational resources and reporting mechanisms. External environmental factors influencing ethical business conduct include prevailing legal requirements, stakeholders' expectations, industry norms and media power.</p>
<p>To test the hypothesised model and to investigate the possible relationships between the dependent variable namely SMEs ethical business conduct and various independent variables (factors influencing SMEs' ethical conduct)</p>	<p>This was presented in Chapter 7. EFA to assess the validity of the measuring instrument was conducted with a cut-off point of 0.4 and above for significant factor loadings. Among the three staff factors two were retained, for business factors four remained out of five factors, while for external environment factors all four factors were retained. Pearson product moment correlation analysis conducted on the valid and reliable factors revealed mostly moderate to weak correlations between variables.</p> <p>The relationship between the dependent variable; namely, SMEs ethical business conduct and various independent variables (factors influencing SMEs' ethical conduct), was empirically proven in Chapter 7, by means of conducting multiple regression analysis. The findings indicated that one staff, two business and three external environmental factors significantly influenced ethical business conduct in Ugandan SMEs. The resultant output had an adjusted R² of 0.376 (p=0.05) and yielded six critical variables contributing significantly to explaining the variance in overall ethical business conduct in SMEs.</p>
<p>To determine whether there is a relationship between the demographic profile of SMEs in Uganda and the factors influencing ethical business conduct</p>	<p>These statistically significant relationships were identified by calculating the MANOVAs and presented in Tables 7.33 to 7.40. Scheffé's tests reveal the differences in the means and Cohen d-tests indicate whether the mean differences were of practical significance. Figure 7.2 depicts a summary of the practically significant relationships found.</p>
<p>To recommend strategies that can improve SME ethical business conduct in Uganda</p>	<p>This was achieved in section 8.4 of this chapter where recommendations were provided based on the main empirical and literature findings of this study.</p>

Source: Researcher's own compilation

Table 8.1 provided an overview of the objectives of this study and a brief explanation of how these objectives were achieved. Conclusions and recommendations will be elaborated on in the following section.

8.4 CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations will be based on the main empirical and literature research findings. The findings of sections B and A of the questionnaire will be discussed, thereafter recommendations will be provided.

8.4.1 Conclusions and recommendations of the demographic data

Section B of the questionnaire (Appendix A) investigated the demographical information of the respondents. The study gathered information from more males than females, and most respondents had post school education. Just less than half of the respondents surveyed were owners of the businesses. Males dominate nearly all the industry sectors in Uganda except for education, health and social work, accommodation and food services sector where females dominate (Uganda Bureau of Statistics, 2011:27). Most businesses had been operating for six to ten years and the majority was private companies, which indicated they are equipped to stay in the market and grow. Most of the businesses were service orientated or from the education sector. Regarding the number of full-time employees, more than half of the respondents employed between five and ten employees, pointing to very small businesses surveyed. Based on the empirical findings, it is therefore recommended that:

- SME support institutions should encourage female owned businesses by providing business support in the form of mentoring and coaching programs, and funding sources specifically targeting women entrepreneurs;
- To enable SME growth, SME support institutions should tailor their support towards very small businesses for survival and provide detailed business guidelines to SME owners/managers in obtaining knowledge on ethics, practicing business ethics and how it can contribute towards their sustainability and becoming competitive, and
- Although part-time employees save SMEs costs, they should consider employing some full-time non-family employees which may increase their commitment to more ethical business behaviour and so increase the survival rates of small businesses.

8.4.2 Conclusions and recommendations of statistically significant relationships

From the multiple regression analysis, six statistically significant relationships were found between the independent factors influencing ethical business conduct (*employee attitude*,

knowledge acquisition, management practices, legal requirements, industry norms and media power) and SME *ethical business behaviour* in Uganda.

In the next section, the conclusions and recommendations of the six significant relationships will be indicated.

8.4.2.1 Employee attitude

Employee attitude ($H_{1.2b}$) presented a weak statistically significant relationship with *ethical business conduct*. This shows that SME owners or managers in Uganda appear to agree that employee attitude affects ethical business conduct. SME Ugandan owners/managers seem to confirm that employees receive in-house training on virtues and values, as well as guidance on ethical business conduct from them. These findings were confirmed by Treviño and Brown (2005:72) who asserts that employees can learn to be ethical through training on virtues and values and from observing leaders who stand up for doing what is right. SME owners or managers also appear to inspire employees to higher performance and encourage them to be ambitious and realise their ambitions. Ordóñez *et al.* (2009:9) concur that employees who are inspired and encouraged to be ambitious are less likely to be unethical and can contribute to the success of the business. SME owners or managers seem to think their employees cooperate with each other in a team fashion and respect their decisions. It has been confirmed by Townsend (2007:3) that employees that value cooperation tend to promote high ethical values in business relationships.

It is therefore recommended that SME owners or managers in Uganda:

- Due to their flatter organisational structure, encourage employees to work as a team and not just focus on specific duties as it leads to greater flexibility in their work and better task coordination;
- Inspire employees to higher performance by setting performance targets but link it to incentives which reward ethical business behaviour;
- Build a shared vision of the business in terms of ethical business conduct to all stakeholders by treating all employees, suppliers and customers in a fair manner;

- Provide in-house induction training on virtues and values to create a more personal approach to enable employees to understand the business values better, and the expectations regarding the application thereof in business dealings;
- Earn respect from employees by being a role model and demonstrate ethical behaviour and approaches that staff want to emulate;
- Provide guidance to employees on workplace culture regarding ethical behaviour and align business strategies with the ethical business conduct intended; and
- Encourage employees to be ambitious and realise their ambitions, but by still abiding by ethical standards and not compromising their own reputation or those of the business.

8.4.2.2 Knowledge acquisition

Knowledge acquisition (H_{2.1a}) presented a weak statistically significant relationship with *ethical business conduct*. The owners or managers of SMEs in Uganda seem to understand the importance of knowledge acquisition on ethical business conduct. They encourage knowledge sharing, promote sound corporate values and put a strong emphasis on shared beliefs. Lee and Cheng (2012:83) confirmed that corporate values help employees make better ethical decisions. Tyler and Gnyawali (2009:94) on the other hand noted the need to have a strong emphasis on shared beliefs which focuses everyone towards the same goals. Ma'an and Kalalkeh (2010:327) confirmed that knowledge sharing facilitates problem solving, whether it be an ethical problem or not.

SME owners or managers in Uganda are of the opinion that the aim of their staff development is to ensure sound decision making while ethical training focuses on moral business practices where employees are educated on what is regarded as ethical business behaviour. Employees receive follow-up training on ethical conduct. Stefanescu and Doval (2010:39) concur that training on moral business practices provides employees with skills for dealing with ethical dilemmas, whereas follow-up training helps to determine the degree to which trainees actually applied what they learned (Treviño & Nelson, 2010:171).

It is therefore recommended that SME owners or managers in Uganda:

- Have a strong emphasis on shared beliefs that all staff support as outlined in their ethical code of conduct;
- Specify in the written code of conduct which ethical approach the business is following to guide decision making, ethical business behaviour expected from employees, how to treat fellow employees, how to serve employees in an ethical manner for return business and to uphold the business reputation;
- Promote sound corporate values to guide employees in making better intuitive assessments of right and wrong;
- Encourage knowledge sharing where employees ask one another for professional advice related to ethical business conduct if uncertain;
- Provide ethical training on moral business practices to provide employees with the necessary knowledge, skills and competencies for making sound ethical decisions and to help them understand the dangers of unethical business practices;
- Reinforce employee ethical behaviour by integrating ethics into every aspect of the business including; new employee induction and orientation programmes, sales training, business meetings, business plans and other aspects of day-to-day activities; and
- Provide follow-up training on ethical conduct to remind employees about the ethical values of the business and determine where employees experience problems in making ethical decisions.

8.4.2.3 Management practices

Management practices (H_{2.3c}) presented a weak statistically significant relationship with *ethical business conduct*. It seems SME owners or managers in Uganda provide clear reporting guidelines for ethical misconduct. Cant *et al.* (2013:5776) warn against the dangers that may arise in situations where there are no clear guidelines on reporting misconduct. Employees of Ugandan SMEs agree that they can report misconduct anonymously through an ethics hotline and/or to an ombudsman. Garthson (2007:2) agree that a business should provide employees with reporting mechanism to report misconduct anonymously through a hotline to convince employees to report sensitive work-related matters. Ugandan SME owners or managers also ensure

employees are paid market related salaries. Fernando (2009:123) stresses the importance of paying employees market related salaries to reduce the temptation to cheat.

It is therefore recommended that SME owners or managers in Uganda:

- Use their business values as guidelines to develop norms based on integrity, transparency, objectivity, reliability, honesty and accountability;
- Develop a written code of ethics with clear guidelines on moral business rules, business regulations to be met, standards, codes and principles governing ethical behaviour;
- Develop and display a procedure for reporting misconduct to show the serious intent of the business in maintaining high ethical business standards. This procedure should include an acknowledgement of a receipt of the complaint and channels of reporting of the resolution of the misconduct;
- Implement an ethics hotline that ensures anonymity to protect employees reporting misconduct and to encourage ethical behaviour;
- Use an ombudsman to give a fair and equitable resolution of ethical misconduct if not being able to solve disputes amicably; and
- Take note of employee rights, pay skilled employees competitive market related salaries, and provide them with additional financial support e.g. interest-free loans to avoid unethical business behaviour by putting self-interest above business interests.

8.4.2.4 Legal requirements

Legal requirements (H_{3.1a}) presented a strong statistically significant relationship with *ethical business conduct*. This implies owner/managers of SMEs in Uganda understand that adhering to prevailing legal requirements is important to ensure ethical business conduct. It must be mentioned that only registered licensed formal SMEs could participate in the survey which may be the reason why respondents agree on this. Abor and Quartey (2010:224) mentioned that regulatory issues such as licensing and registration requirements place an excessive financial burden on SMEs which may influence them into behaving unethically. SME owners/managers in Uganda indicate that they adhere to labour laws by not using child labour and ensure employee safety in the workplace. Velentzas and Broni (2010:802) point out that businesses may disobey labour laws as it may be too costly to adhere to employee safety measures in the workplace. The

owners or managers of Ugandan SMEs seem to not engage in unethical behaviour that could compromise the job security of employees. Singh and Twalo (2015:516) concur that lack of job security can incite employees to engage in unethical behaviour because they do not feel connected or even committed to the business. SME owners or managers in Uganda appear to carefully select suppliers to provide safe and quality products to customers. Ashrafi and Murtaza (2008:132) assert that SMEs that are good corporate citizens carefully select suppliers to provide quality and environmentally friendly products to customers. These businesses are then viewed as conducting ethical business.

It is therefore recommended that SME owners or managers in Uganda:

- Ensure they meet all business registration requirements to conduct lawful business and show their commitment by paying their taxes and adhere to accounting principles;
- Adhere to labour laws regarding the minimum working age set by the national legislation and not use child labour as well as protecting human rights by following legit employee dismissal and retrenchment procedures;
- Do not discriminate against or cause mistrust, suspicion, hostility or resentment among employees as it can harm work relationships, result in ineffective communication and teamwork;
- Ensure there is a safe working environment for employees and stress the importance of following safety rules by providing employees with the necessary protective work gear and adhere to health regulations by preventing exposure to physical hazards and harmful substances;
- Offer employees safety training and have in place emergency procedures in event of problems experienced;
- Ensure job security by offering employees full-time employment where possible to make them feel more committed to behaving ethically in meeting their performance targets;
- Avoid at all cost putting the lives of customers in danger by engaging in unethical behaviour and provide them constantly with safe quality products, free of defects, even if it costs more;
- Carefully select suppliers to provide safe products that do not contain hazardous substances and low environmental impact products which limit natural resource depletion and adhere to

minimum pollution standards to ensure business sustainability in spite of initial higher costs, and

- Promote ethical business conduct by selling products that are easy to recycle and reuse to attract more environmentally conscious customers, contribute towards environmental preservation and be seen by customers as an ethical business.

8.4.2.5 Industry norms

Industry norms (H_{3.2b}) presented a weak statistically significant relationship with *ethical business conduct*. This shows that the SME owners or managers in Uganda agree that industry norms affect ethical business conduct. SME owners or managers seem to strictly adhere to industry standards, and they communicate business values to external stakeholders. Wiid *et al.* (2013:1088) reiterate the importance that businesses need to follow industry policies that reinforce ethical business values and communicate these to all internal and external stakeholders. SME owners or managers in Uganda are of the opinion that they can engage in industrial espionage to be competitive. Gangone (2011:192) regarded it as an acceptable practice for a transnational business to use industrial espionage to remain ahead of their competitors.

It is therefore recommended that SME owners or managers in Uganda:

- Ensure their businesses strictly adhere to industry standards as established by the national legislation, with regard to raw materials usage, performance and weight of products, health and safety procedures followed, to instill confidence that the business offers safe and reliable products;
- Communicate their business values to external stakeholders by displaying their ethical values in their businesses so that employees, suppliers and customers all know they follow moral and ethical conduct principles; and
- If owning a transnational business, familiarise themselves with their competitors' plans and strategies by engaging in industrial espionage through ghost shopping to ensure they continue to be competitive. Ghost shopping is when a person is hired to pose as a buyer and get information about the business's strengths and weaknesses (Ilieska, 2010:92);
- Engage in dialogue with the government through the Ministry of Tourism, Trade and Industry about possible initiatives to ensure the growth of the SME sector, prevent business failures,

increase business competition by preventing monopolies of larger businesses and equal economic wealth distribution;

- Request that government draw up a comprehensive framework by taking into consideration the ethical business theories to guide the ethical business behaviour of industry members so that all can make more informed ethical business decisions, and
- Establish symbiotic relationships with other larger private sector businesses to complement large industry requirements and so promote a strong and productive industrial structure in the country.

8.4.2.6 Media power

Media power (H_{3.3c}) presented a weak statistically significant relationship with *ethical business conduct*. It appears SME owners or managers in Uganda advertise their business values publicly. It is acknowledged by Fulgoni and Morn (2009:136) that the media is an important channel to bring forth information on what is acceptable ethical behaviour. Ugandan SME owners or managers appear to utilise media reports to guide their employees' behaviour, whereby unethical behaviour by both employees and competitors is exposed. Hennig-Thurau *et al.* (2010:321) confirm that media channels can act as a communication tool to expose unethical business behaviour. SME owners or managers acknowledge that the media is used in Uganda to inform customers about issues that may affect them negatively. Cant *et al.* (2013:5775) concurred with the findings in this study that media has uncovered corruption in many businesses.

It is therefore recommended that Ugandan SME owners or managers:

- Communicate their ethical business values to customers through advertisements in newspapers and business magazines to increase their business reputation and customer base;
- Engage with customers by informing them about products that could be harmful or issues that may affect them negatively in media releases to show customers they can be trusted in their business dealings;
- Showcase media reports on employees found guilty of unethical behaviour to their staff to set an example and guide their ethical business behaviour;

- Expose unethical employee behaviour in media releases to encourage employees to adhere to anti-corruption legislation, regulations, and ethics policies to meet international standards and for the business to be more competitive, and
- Show employees press releases about the consequences of unethical business behaviour of competitors to avoid possible business closure and legal action regarding not meeting safety and environmental protection product standards.

8.4.3 Conclusions and recommendations of statistically insignificant relationships

Two statistically insignificant relationships were found between the independent factors influencing ethical business conduct (employee morals and organisational resources) and SME ethical business behaviour in Uganda.

8.4.3.1 Employee morals

Employee morals ($H_{1.1a}$) presented a statistically insignificant relationship with *ethical business conduct*. It appears that SME moral behaviour in Uganda does not revolve around maintaining honesty, acting with integrity in all business dealings, employees trusting each other, being accountable for one's own mistakes, having business interest at heart above self-interest and aligning personal values with business values. This is in line with the findings of the United States Department of State (2013:7) that business corruption in Uganda is rampant and hinders being competitive. Ahmad and Seet (2009:121) suggest that ethical business practices by SMEs should include honesty and integrity, willingness to admit mistakes and telling the truth. Furthermore, Hoffman *et al.* (2011:782) confirmed that, aligning employees' personal values with business values enhances team competence while Manjunatha and Maqsud (2013:19) noted that the self-interest of employees is a source of individuals' immoral conduct.

In spite of the statistically insignificant relationship it is therefore recommended that SME owners or managers in Uganda:

- Encourage employees trust through providing for an open dialogue on ethics and the exchange of views and keeping sensitive information confidential;

- Strive to employ individuals who can act with integrity in all business dealings; these will transfer their principles to their work ethics and will reflect in the ethical standards of the business;
- Inform employees that honesty is valued, and expected from them in their business dealings and be a role model to this effect;
- Strive to align personal ethical values with business values so that employees can identify themselves with the business reputation and image;
- Praise employees who take ownership of their mistakes to create a culture that treats mistakes as learning experiences rather than as opportunities for blame and punishment. However, clearly indicate the types of mistakes that cannot be tolerated, and
- Express appreciation for hard work to promote business interest above employee self-interest.

8.4.3.2 Organisation resources

With regard to access to organisation resources (H_{2.2b}) it seems that SME owners or managers in Uganda do not believe that access to organisation resources could influence their ethical business conduct. SME owners/managers in Uganda did not seem to relate access to formal funding or finding skilled staff or retaining them as ethical issues that influence their business. Contrary to this finding, Yves (2005:270) stresses that unethical behaviour occurs due to limited financial and human resources. Dutta and Banerjee (2011:205) concur that the prevalence of better skilled employees in SMEs cause these businesses to be more conscious of ethical business practices. Mohammed (2015:184) emphasises that it is very difficult for SMEs survival if they are unable to attract and retain talented employees. Contracting at lower prices without compromising quality and bribery are acceptable business practices. Rune (2011:1) confirms that limited resources force SMEs to accept bribes as an acceptable business practice.

In spite of the statistically insignificant relationship, it is therefore recommended that SME owners or managers in Uganda:

- Strive to employ skilled labour and pay them market related salaries to not engage in putting their interests above that of the business;
- Endeavour to retain skilled staff by providing a positive working environment whereby employees are recognised for their performance and ethical business behaviour;

- Re-invest business earnings to obtain addition capital that can be used for growth purposes and to convince formal funders they can manage their finances if applying for a loan;
- Focus on cost efficiencies without compromising product or service quality and deliver exceptional products to win customers' trust and show them they conduct ethical business, and
- Specify in their ethical code of conduct that contracts that offer or accept bribes will not be considered.

8.4.4 Conclusions and recommendations of the practical significant relationships

MANOVAs were calculated in this study to identify which demographic factors predict the independent variables. Differences between the means of the statistically significant relationships were determined by doing a post hoc Sheffé test. Cohen's d-tests established which of these mean differences were of practical significance. Twelve practically significant relationships existed.

A significant difference existed between males and females regarding employee attitude. These results are in line with the findings of ElZein (2013:99) which indicated a significant difference between male and female in terms of attitude towards ethical business conduct. Different education levels influences employee morals, employee attitude, knowledge acquisition, management practices, and industry norms. These findings concur with the findings by Kum-Lung and Teck-Chai (2010:229) that indicate that there is a significant difference among different education levels in terms of approach towards ethical business conduct.

The employment status of an individual can influence employee attitude towards ethical business conduct. Employees's evaluation of what is regarded as good or bad behaviour will differ according to the employment status. This is in agreement with findings by Talukder (2014:141) that employment status influences an individual's attitude about moral behaviour. The number of years in business influences employee morals as well as media power. Nikoomaram *et al.* (2013:1561) confirmed that the more experienced employees are, the more ethically they behave in business matters. Number of employees in business influences legal requirements, knowledge acquisition and management practices. This notion is supported by Jordan *et al.* (2013:12) that

there is a difference between larger and smaller employers with regard to legal requirements, knowledge acquisition and management practices and its influence on ethical business conduct.

It is therefore recommended that Ugandan SME owners or managers:

- Be reminded about dishonest business behaviour in media, so that both male and female business owners are aware of the consequences of unethical business behaviour and avoid making immoral business decisions;
- Provide well educated workers clear ethical business guidelines in spite of them being more likely to be aware of good management practices and industry norms to reduce the likelihood of engaging in immoral business behaviours;
- Encourage senior executives to act as role models and display ethical business behaviour, by practicing their virtues and values to promote employee trust and respect;
- Strive to retain senior executives with more working experience, as they can be an important source of moral guidance for employees, and
- Ensure transparency in all business dealings, especially when managing a large staff compliment as employees can acquire knowledge about good management practices by observing that the business meets among others legislation and regulatory requirements and have reporting mechanisms in place to report unethical business behaviour.

In the following section, general guidelines for SME ethical business conduct are provided.

8.5 GENERAL STRATEGIC GUIDELINES FOR SME ETHICAL BUSINESS CONDUCT

Guidelines to SME owners or managers in Uganda on how to successfully set strategies to ensure ethical business conduct are presented in Table 8.2.

Table 8.2: Ethical business strategy guidelines for SME owners or managers in Uganda

SME ethical business strategy guidelines
<p>Employee related</p> <ul style="list-style-type: none"> • Stress the importance of honesty to employees at orientation and beyond • Be a role model and demonstrate ethical behaviour that employees would like to emulate • Encourage employees to be ambitious and realise their ambitions by acting ethically • Inspire employees to higher performance, but not at a cost of self-interest • Praise employees who are transparent in their business dealings and can be held accountable for their actions • Encourage employee knowledge sharing to make difficult ethical business decisions
<p>Business operations related</p> <ul style="list-style-type: none"> • Screen employees carefully to select staff that appear honest and can act with integrity • Pay all employees competitive market related salaries to avoid the temptation to engage in unethical behaviour • Provide job security to employees by employing them as soon as possible on a full-time basis and with benefits in addition to their salaries • Provide employees induction training on what ethical and moral business behaviour entails to develop the ethical competencies of employees to make sound decisions • Provide follow-up training to remind employees about what is regarded as ethical business behaviour • Communicate business values to employees, suppliers and customers by placing advertisements in newspapers or business magazines • Promote sound business values by having a business culture based on shared beliefs • Have a written code of ethics which provides clear reporting guidelines for business misconduct • Implement reporting mechanisms such as an ethics hotline to ensure anonymous reporting of unethical business behaviour • Refer ethical complaints that cannot be resolved to an ombudsman to ensure a fair and equitable resolution for misconduct
<p>External environment related</p> <ul style="list-style-type: none"> • Abide by business registration legislation and display the business license • Adhere to labour laws by not using child labour, ensuring workplace safety and following proper dismissal and retrenchment procedures • Carefully select suppliers to provide safe and quality products • Adhere to industry standards as guided by national legislation • Establish business relationships with partners, even competitors and larger private sector businesses to promote a strong and productive industrial structure • Suggest possible initiatives to government to ensure the growth of the SME sector, prevent business failures, and monopolies of larger businesses • Disseminate information contained in media reports to employees to guide acceptable ethical business behaviour • Communicate the consequences of unethical behaviour of employees and competitors to employees via media reports

Source: Researcher's own compilation

In the following section the contribution of the study will be discussed.

8.5 CONTRIBUTIONS OF THE STUDY

This research is important because it provided evidence on the ethical business conduct of SMEs in Uganda as little research has been conducted in this area. This research study has made several contributions which includes the following:

- This study has built a body of knowledge by identifying specific factors that influence ethical business conduct within the Ugandan context;
- This study identified the importance of having employees with the right attitude towards ethical business conduct in SMEs. It necessitates SME owners or managers to consider employee attitude if wishing to become known for ethical business behaviour to increase the good reputation of the business. The findings avail guidelines to SME owners or managers in Uganda on how to screen and select employees with the right attitude which will uphold sound ethical business values;
- This study identified that two business related factors are deemed important in instilling ethical business behaviour in SMEs, namely knowledge acquisition and management practices. It points out that the duty of SME owners/managers is to ensure that their employees are made aware of what is regarded as acceptable ethical business behaviour and that their management practices are aligned with their ethical values. The findings provide specific business operation strategies such as having reporting mechanisms in place to report unethical behaviour and conducting training and follow-up training to ensure that employees are obtaining knowledge on what is regarded as sound ethical business behaviour in SMEs;
- This study identified pertinent external environmental factors that play a role in SME ethical business conduct namely legal requirements, industry norms and media power influencing ethical business conduct. It demands SME owners/managers to comply with business legislation and regulations and adhere to industry norms to show they are serious about ethical business behaviour. The study also points out how media can be successfully utilised to guide SME ethical business conduct and to inform employees of the implications of unethical behaviour. The findings avail SME owners or managers in Uganda with strategies to manage the external environment factors and so become sustainable and more competitive;
- The study has developed a hypothesised model that depicts the relationships between staff-, business-, external environment factors and ethical business conduct of SMEs. The model can be widely used by SMEs in Uganda and in Africa to enhance their ethical business conduct.

The hypothesised model can also be used by other researchers as a framework for further testing of ethical business conduct in non-African countries;

- This study has made available a measuring instrument suitable for determining the factors influencing ethical business conduct of SMEs in Uganda. With some contextual adjustments or rewording, this research instrument can be used to determine the factors influencing ethical business conduct of SMEs in other developing countries;
- The application of advanced statistical techniques using a relatively large empirical sample size in this study has also contributed to studies on SMEs and ethical business conduct as it could be generalised within the African context;
- This study also identified various demographic factors that can predict the factors influencing ethical business conduct of SMEs in Uganda. It clearly indicates where the group differences exist and which of the statistically significant relationships are of practical significance in the SME context, and
- SME owners or managers are provided with specific strategies to guide ethical business behaviour and hopefully decrease business corruption in Uganda and improve the survival rate of SMEs in Uganda.

In the following section the researcher reflects on lessons learnt while conducting the research.

8.6 SELF-REFLECTION

This study has caused an in-depth perspective into the factors that influence ethical business conduct of SMEs which can form the basis for future studies. Although it is recognised that business ethics is more functional in larger businesses, the notion is also of great importance to SMEs. This enabled the researcher to develop a deeper understanding of the SME sector and the factors influencing its ethical business conduct. It further provided the researcher with the opportunity to become an expert in the field of business ethics. The research also greatly increased the researcher's knowledge and ability in several research areas, most notably in reviewing literature, citing references and executing quantitative research effectively. This research has greatly enhanced the researcher's researching, writing and analytical skills which will help the researcher in both her academic career and professional life.

8.7 LIMITATIONS OF THE STUDY AND FUTURE RESEARCH OPPORTUNITIES

In this study, all the objectives outlined in Chapter One were met. However, the present study is not without its limitations, as:

- This study is purely quantitative in nature, yet the integration of quantitative and qualitative research has become increasingly common in recent years and may have provided more insight, and
- The target respondents (SME owners/managers) of this study are a limitation in itself. The fact that these respondents work with these issues every day, might have made their considered answers not completely honest. Besides, the perceptions of these owners/managers on actual ethical practices and the motivation behind them might be quite different from those of ordinary employees. The development of the research instrument may have included variables not specific to SMEs, but to businesses in general as little information is available on SME ethical business conduct.

Despite the above limitations, this study has added to the empirical body of SME research, and provides insight into which factors influence the ethical business conduct of SMEs in Uganda. Hence, many opportunities for future investigation into the area of SMEs ethical conduct exist as follows:

- To include other major SME stakeholders such as customers, non-management employees and suppliers and canvass their opinions on the factors influencing ethical business behaviour in SMEs;
- To conduct a qualitative study and integrate the quantitative and qualitative findings to further enhance the credibility and validity of research findings, and
- To explore other factors influencing ethical business conduct in addition to those explored in this study.

The concluding remarks of this study will be provided next.

8.8 CONCLUDING REMARKS

Dutta and Banerjee (2011:206) noted that ethical business conduct is increasingly becoming a source of competitive advantage for SMEs in the global economy. In light of this there is a need

for SMEs to include ethics in their business strategies and implement it in such a way that the business attains a competitive advantage and be sustainable. From the results it seems that external environmental factors have a greater effect on SME ethical business conduct in Uganda. Three statistically significant relationships were found between legal requirements, industry norms and media power and SME ethical business conduct in Uganda. SMEs should thus adhere to legal requirements and industry norms to be viewed as ethical businesses and can utilise media to instil ethical values and thinking in employees. Only employee attitude seems to play a role in the ethical business conduct of SMEs in Uganda. However, the extent to which SMEs in Uganda ensure that employees obtain knowledge on ethical business practices play a role in promoting the right ethical business conduct amongst employees as well as the implementation of ethical management practices.

Although the study has advanced numerous recommendations that can enhance the ethical business conduct of SMEs in the developing country context, SMEs in all countries should acknowledge that the attitude of staff can be changed to become more ethical. The role that the demographical profile of SME owners or managers play in behaving ethically in businesses, has been indicated, as well as the factors that can influence their ethical business behaviour. Due to the different moral values of individuals, there may be different variations of ethical reasoning in the business about what is regarded ethical or not. SMEs can only expect employees to behave ethical if implementing sound management practices and ensure employees are knowledgeable on the business ethics. It is the duty of SMEs to abide by business-, labour- and environmental legislation and regulations to show they are serious about ethical business behaviour. They should not be afraid of utilising the media to develop and maintain an ethical business image and reputation. By doing so, these SMEs will be regarded as transparent businesses acting with integrity and accountability. This in turn can yield SMEs becoming more competitive and sustainable and even prevent business failure.

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ANNEXURE A: QUESTIONNAIRE

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24 January 2015

**RESEARCH PROJECT: FACTORS INFLUENCING BUSINESS ETHICS IN UGANDAN
SMEs**

Dear respondent,

Ms. Jamiah Mayanja is a registered PhD student in the Department of Business Management, School of Management Sciences at the Nelson Mandela Metropolitan University (NMMU), Port Elizabeth, South Africa. She is conducting research on the factors influencing business ethics in Ugandan Small and Medium-sized Enterprises (SMEs). This research project aims at gaining insight into the perceptions of business owners and managers on what is regarded as acceptable ethical business behaviour and the factors that influence it in Ugandan SMEs. This study will provide useful insight to SME owners and managers on the benefits of deploying ethical business behaviour in Ugandan SMEs. For the purpose of this research, business ethics refer to established rules, standards and principles governing business behavioural conduct.

All data sources will be treated as confidential and would be used for research purposes only. The majority of the data will be reported in statistical form and no individual respondents will be identified. You can complete the questionnaire anonymously. Participation is voluntary and respondents can withdraw at any time. The questionnaire comprises of two sections:

- **Section A** explores factors influencing business ethics
- **Section B** canvasses biographic information of the respondents and their businesses.

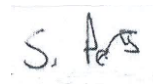
Your cooperation is greatly appreciated.

Sincerely



Ms. J Mayanja

STUDENT



Prof S Perks

PROMOTOR

SECTION A: FACTORS INFLUENCING BUSINESS ETHICS

Please indicate the extent to which you agree with the following statements by means of an X.

FACTORS INFLUENCING BUSINESS ETHICS		Strongly disagree	Disagree	Do not know	Agree	Strongly disagree
	In my business employees ...					
EM1	Trust each other	1	2	3	4	5
EM2	Are loyal to the business	1	2	3	4	5
EM3	Act with integrity in all business dealings	1	2	3	4	5
EM4	Know that honesty is valued	1	2	3	4	5
EM5	Treat customers with respect	1	2	3	4	5
EAS6	Are hardly absent from work	1	2	3	4	5
EAS7	Have personal values which are aligned with business values	1	2	3	4	5
EAS8	Take ownership of their own mistakes	1	2	3	4	5
EAS9	Cooperate with each other in a team fashion	1	2	3	4	5
EAS10	Have business interest at heart above self-interest	1	2	3	4	5
EA11	Are inspired to higher performance	1	2	3	4	5
EA12	Receive in-house training on virtues and values	1	2	3	4	5
EA13	Respect my decisions	1	2	3	4	5
EA14	Receive guidance from senior staff	1	2	3	4	5
EA15	Are encouraged to be ambitious and realise their ambitions	1	2	3	4	5
	In my business					
WC16	There is a written code of ethics that govern acceptable business behaviour	1	2	3	4	5
WC17	Employees wear a uniform	1	2	3	4	5
WC18	Employees have sound corporate values	1	2	3	4	5
WC19	Customer service is regarded as of utmost importance	1	2	3	4	5
WC20	There is a strong emphasis on shared beliefs	1	2	3	4	5
MAP21	The main focus is on financial health	1	2	3	4	5
MAP22	Short-term goals drive long-term goals	1	2	3	4	5
MAP23	There are simple systems governing business behaviour	1	2	3	4	5
MAP24	Disciplinary procedures are in place to punish wrongdoing	1	2	3	4	5
MAP25	All employees are paid market related salaries	1	2	3	4	5
KA26	Knowledge sharing is encouraged	1	2	3	4	5
KA27	Employees are educated on what ethical business behaviour entails	1	2	3	4	5
KA28	Employees receive follow-up training on ethical conduct	1	2	3	4	5
KA29	The aim of staff development is to ensure sound decision-making	1	2	3	4	5
KA30	Ethical training focus on moral business practices	1	2	3	4	5
OR31	It is easy to retain skilled staff	1	2	3	4	5

	FACTORS INFLUENCING BUSINESS ETHICS	Strongly disagree	Disagree	Do not know	Agree	Strongly disagree
OR32	It is easy to access formal funding	1	2	3	4	5
OR33	It is easy to find skilled staff	1	2	3	4	5
OR34	Contracts at lower prices without compromising quality is accepted for survival	1	2	3	4	5
OR35	Bribery is regarded as an acceptable business practice	1	2	3	4	5
RM36	Employees can report misconduct anonymously	1	2	3	4	5
RM37	Supervisors provide clear reporting guidelines for misconduct	1	2	3	4	5
RM38	There is an ethics hotline to lodge complaints	1	2	3	4	5
RM39	Ethical complaints are referred to an ombudsman	1	2	3	4	5
RM40	There is a suggestion box for customers to report ethical misconduct	1	2	3	4	5
	My business ...					
LR41	Is registered and has a business license	1	2	3	4	5
LR42	Adheres to labour laws by not using child labour	1	2	3	4	5
LR43	Ensures employee safety in the workplace	1	2	3	4	5
LR44	Adheres to the host country's legal standards if trading across borders	1	2	3	4	5
LR45	Makes sure that there are no environmental pollution caused by our business	1	2	3	4	5
SE46	Regards societal welfare as of utmost importance	1	2	3	4	5
SE47	Applies our country's ethical behaviour standards across nations	1	2	3	4	5
SE48	Provides quality products to customers	1	2	3	4	5
SE49	Provides job security to employees	1	2	3	4	5
SE50	Carefully selects suppliers to provide safe products	1	2	3	4	5
IN51	Charges market-related prices for scarce products	1	2	3	4	5
IN52	Communicates business values to external stakeholders	1	2	3	4	5
IN53	Strictly adheres to industry standards	1	2	3	4	5
IN54	Engages in industrial espionage to be competitive	1	2	3	4	5
IN55	Places emphasis on minimising the environmental impact of our activities	1	2	3	4	5
MP56	Advertises our business values publicly	1	2	3	4	5
MP57	Uses media to expose unethical employee behaviour	1	2	3	4	5
MP58	Exposes competitors' unethical behaviour in media	1	2	3	4	5
MP59	Uses media reports on ethics to guide employees' behaviour	1	2	3	4	5
MP60	Uses media to inform customers about what may affect them negatively	1	2	3	4	5

		Strongly disagree	Disagree	Do not know	Agree	Strongly disagree
	FACTORS INFLUENCING BUSINESS ETHICS					
	My business ...					
EBC61	Is well-known for quality products and/or services	1	2	3	4	5
EBC62	Receives referrals from existing customers	1	2	3	4	5
EBC63	Attracts employees with integrity	1	2	3	4	5
EBC64	Uses materials that can be re-used and/or recycled	1	2	3	4	5
EBC65	Supports environmental awareness programs	1	2	3	4	5
EBC66	Avoids penalties by complying with business laws and regulations	1	2	3	4	5
EBC67	Strives towards improving the lives of our local community	1	2	3	4	5
EBC68	Takes responsibility for the impact of our activities on the environment	1	2	3	4	5
EBC69	Focuses on the outcomes of our actions and not on short-term gains	1	2	3	4	5
EBC70	Pays all business-related taxes	1	2	3	4	5

SECTION B: DEMOGRAPHIC INFORMATION

The following questions provide demographic information about yourself and your business. Please answer all questions and indicate your response by means of an X in the appropriate box.

B 1 Gender

Male	1
Female	2

B2 Level of education

Ordinary level certificate	1
Advanced level certificate	2
National certificate or Diploma	3
Bachelors degree	4
Post graduate degree	5
Other - please specify:	6

B3 Current employment status

Owner	1
CEO	2
Middle management	3
Supervisor	4

B4 Number of years in business

Less than 3 years	1
3 - 5 years	2
6 - 10 years	3
More than 10 years	4

B5 Form of enterprise

Sole trader	1
Partnership	2
Private company	3
Trust	4
Other, please specify:	5

B6 Industrial sector

Manufacturing and processing	1
Business services	2
Trade (retailing/wholesaling)	3
Hotels and Restaurants	4
Agriculture and forestry	5
Education	6
Insurance	7
Health and Social works	8
Other, please specify:	9

B7 Number of employees in your business

5 – 10	1
11 – 20	2
21 – 49	3
50 – 200	4

B8 Trading area

Home based business	1
Shopping mall	2
Stand-alone business in residential area	3
Stand-alone business in business area	4
Craft village	5

THANK YOU FOR YOUR TIME AND CO-OPERATION