

Business Ethics And The Repayment Of Loans In Small Enterprises

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ABSTRACT

The capacity of small business enterprises to pay back loan money to microfinance agencies is a key determinant of long-term profitability in microfinance agencies (Mayer, Caruso & Salovey, 2016). Ethiopian entrepreneurs who conduct business in South Africa rely heavily on start-up capital raised from social capital schemes (Haile, 2015). The purpose of research was to determine factors that affect the repayment of loan money obtained from social capital schemes. The study points out necessary and sufficient conditions for the repayment of loans. The research found that 84% of the migrant entrepreneurs managed to pay back their loans in time, whereas about 16% of them failed to do the same. By the standards of Mayer et al. (2016), about 71% of respondents had adequate emotional intelligence. By the standards of Sahoo and Lenka (2016), about 72% of migrant entrepreneurs possessed adequate entrepreneurial skills. One key finding of study was that the repayment of loan money to social capital schemes was dependent upon awareness about the relative importance of adhering to business ethics principals, emotional intelligence, and the profitability of businesses. The study shows that the prompt repayment of loan money to social capital schemes, the acknowledgement of business ethics principles, and the possession of adequate emotional intelligence are key attributes of profitable businesses.

Keywords: Business Ethics; Loan Repayment; Migrant Entrepreneur; Ordered Logistic Regression Analysis

INTRODUCTION

The survey was carried out in order to determine factors that undermine the ability of entrepreneurs to pay back loan money to social capital schemes. Ethiopian entrepreneurs who conduct business in South Africa rely heavily on start-up capital raised from social capital schemes (Ayele, 2015). Landau (2018) and Landau and Freemantle (2016) have highlighted the plight of migrant entrepreneurs conducting business in South Africa. Cornelissen, Cheru and Shaw (2016) have argued that South Africa should make the effort to meet the basic needs and operational requirements of migrant entrepreneurs who live and work in South African cities and townships in order to transform migrant entrepreneurs into regular taxpayers. By citing examples from migrant communities in the USA, Landau (2018) and Worku (2018) have argued that fulfilling the basic operational needs of migrant entrepreneurs is economically wise and prudent. Yang, Ju and Lee (2016) have pointed out that potential benefits of creating an economically enabling environment for migrant entrepreneurs and have provided specific areas of intervention that should be tackled by national governments and local municipalities. The key areas of need are residence permits, trade license and bank accounts. Lack of access to finance hinders sustained profitability in SMMEs operating in South African cities and townships (Storey, 2016). The authors have shown that the basic needs of migrant entrepreneurs are often not met adequately due to lack of leadership and vision. One key area of need is access to a bank account that could be used for successful business operation. Haile (2015), Ayele (2015) and Worku (2008) have reported that the culture of non-payment of loans obtained from social capital schemes undermines the capacity of social capital schemes to be of service to entrepreneurs of Ethiopian descent operating locally and abroad including those in South Africa. The study aims to determine causes of non-payment of loans borrowed from social capital schemes.

Krys et al. (2016) have reported that there is a significant association between personal integrity and loan repayment. The authors have highlighted the paramount importance of fiscal discipline in SMMEs. Fernandez, Salamonson and Griffiths (2012) have shown that emotional intelligence, perseverance and workplace discipline are attributes of successful entrepreneurs. Dabke (2016), Bylander (2015) and Zulfiqar (2017) have found a significant association between the profitability of business enterprises and the culture of saving money and reinvesting profit. Austin and

Vahle (2016) has shown that business operators working in SMMEs must be disciplined enough to save money for re-investment and expansion. Almatrooshi, Singh and Farouk (2016) have developed a framework that links up organisational performance with long-term viability in businesses.

Osano and Languitone (2016) have shown that start-up businesses in Sub-Saharan African countries such as Mozambique often struggle enormously to secure loans from commercial banks and microfinance agencies. The authors have listed down numerous barriers experienced by entrepreneurs. Edoho (2016) has deliberated on challenges such as difficulties in obtaining trade license, opening up bank accounts and raising collateral in order to be able to secure loans. Mair (2016) has identified extensive bureaucracy and red tape as key barriers that hinder sound planning and sustained growth in start-up businesses. Fan, Kuhn and Lafontaine (2017) have deliberated on the relationship between financial constraints and moral hazard. Terano, Mohamed and Jusri (2015) have reported that improving efficiency in micro lending programmes has enabled start-up businesses operating in Malaysia to survive longer. Social capital schemes provide microcredit services to members of the scheme. Social capital schemes provide loan money to every member of the scheme, and do not demand collateral for extending loan. Landau (2006) and Landau and Freemantle (2016) have shown that it is quite difficult for migrant entrepreneurs to qualify for microloans in South African cities and townships. As a result, migrant entrepreneurs often raise loans from social capital schemes. While it is easy and convenient to raise money from social capital schemes, such schemes lack the capacity to meet the financial needs of all members of the scheme at the same time. They can only meet the needs of one member of the scheme at a time. Members of the schemes are obliged to take turns, thereby losing valuable time and resources. Not all members pay up their loan instalments on time and in full. The schemes operate on the basis of mutual acquaintance and trust. Recipients of lump sums of money are determined at random at each cycle. Recipients at the beginning of the cycle are lucky, whereas recipients at the end of the cycle lose valuable time waiting for money. At times, members of the scheme fail to pay up their contribution due to various socioeconomic or health related problems. Despite these shortcomings, social capital schemes are commonly used for raising loans.

Migrant entrepreneurs conducting business operations often cluster together based on country of origin as a means of fulfilling their immediate survival and socioeconomic needs (Landau, 2018). The need for sustained survival, security, profitability and productivity motivates migrant entrepreneurs to support each other by way of participating in social capital schemes. According to Arora et al. (2010), emotional intelligence, business ethics and overall productivity at the workplace are mutually interdependent. Karimi, Cheng, Bartram, Leggat and Sarkeshik (2015) have pointed out that perseverance, discipline at the workplace and ethics are a key requirement for profitability and overall productivity. People who possess ethical integrity and emotional intelligence best handle conflicts arising from failure to honour loan agreements (Tarozzi, Desai & Johnson, 2015).

OBJECTIVES

The survey was carried out in order to determine factors that undermine the ability of entrepreneurs to pay back loan money to social capital schemes.

LITERATURE REVIEW

The most pressing needs of migrant entrepreneurs conducting business in South African cities, townships and locations have been highlighted in studies conducted by Cornelissen et al. (2016), Storey (2016), Landau and Freemantle (2016), Landau (2018) and Worku (2018). The authors have pointed out that the top priorities of migrant entrepreneurs in South Africa are related to residence permits, trade licenses and access to bank accounts. Studies conducted by Landau (2018) and Landau and Freemantle (2016) have also reported similar findings. Dana (2007, 2008), Kim and Hurh (1985), Knight (1921), Rath (2006), Salaff (2002), Santarelli and Tran (2013), Schumpeter (1934), Simmel (1950), Sombart (1914), Landau (2018) and Worku (2018) have provided a robust historical perspective and valuable lessons from countries such as the USA, Canada, the United Kingdom, Germany, South Korea and Vietnam in which migrant entrepreneurs have made significant contributions to overall economic growth, development and job creation in their host nations. The authors have highlighted the merits and potential benefits of fulfilling the socioeconomic needs of migrant entrepreneurs by citing empirical evidence from the developed nations of the world. McKeever (2016) has pointed out the numerous long-term benefits of integrating migrant entrepreneurs into the formal economy. Rose-Ackerman and Palifka (2016) have pointed out that migrant entrepreneurs could be used as a vehicle for growing the

local economy, the promotion of entrepreneurial skills and the creation of formal and informal employment opportunities. Atkinson and Storey (2016) have pointed out that migrant entrepreneurs play a significant role in growing SMMEs in all economic sectors, and that they deserve to be supported by way of fulfilling their immediate survival and operational needs. Landau (2006, 2018) and Lindley (2010) have presented a compelling argument in favour of policy-based interventions that could enable migrant entrepreneurs to be fully integrated into the South African mainstream economy with a view to allow them to make a meaningful contribution to GDP by citing historical examples from migrant communities that were successfully integrated into the economies of the developed world. However, recommendations made by the authors have not been heeded fully due to socioeconomic problems such as massive unemployment, poverty and low level of specialised skills among black indigenous South Africans in all sectors of the economy.

Migrant entrepreneurs of Ethiopian origin routinely utilise social capital schemes for raising capital needed for starting up new ventures and businesses. They also utilise money from social capital schemes for expanding existing business operations. The practice of raising money from social capital schemes is common among entrepreneurs of Ethiopian and Somali origin (Akanle, Alemu & Adesina, 2016; Antoni & Umejese, 2014). Migrant entrepreneurs often rely on social capital schemes for raising money and networking with fellow entrepreneurs (Atkinson & Storey, 2016). Social capital schemes provide a lifeline to entrepreneurs who do not qualify to borrow money from local South African commercial banks and microfinance institutions (Bekele & Worku, 2008). Although social capital schemes lack financial capacity for meeting the financial needs of all members at the same time, they provide financial support to businesses that are owned and operated by migrant entrepreneurs setting up shop in South African cities, townships and rural locations. Members of social capital schemes know and trust each other. Each member is totally committed to be of assistance to fellow members of the scheme by all possible means and at all times. The degree of mutual trust and sense of solidarity among members of social capital schemes is exemplary (Fatoki & Patswawairi, 2012; Lindley, 2010; Landau, 2006). Studies conducted by Lindley (2010) and Banerjee, Duflo, Glennerster and Kinnan (2015) have shown that mutual trust among fellow members, solidarity and emotional intelligence play a vital role in establishing communal support groups in the various South African townships, cities and locations where migrant entrepreneurs operate.

Akanle et al. (2016) have reported that the sense of solidarity and loyalty to fellow members of social capital schemes is significantly associated with deeply entrenched religious beliefs, cultural norms and traditional values. According to the Coptic Orthodox tradition, the repayment of loan monies to social capital schemes is a religious duty of paramount importance. Members who neglect their duties and responsibilities towards their fellow members are excommunicated, isolated and ostracised (Cornelissen et al., 2016; Antoni & Umejese, 2014; Rezvani et al., 2016). Weng et al. (2011) have shown the numerous benefits of emotional intelligence for coping in highly competitive business environments.

Leong, Tan, Xiao, Tan and Sun (2017) have reported that microfinance agencies in China rarely experience defaulting problems due to strict monitoring and evaluation programmes set out by government departments. In Sub-Saharan African countries, the prevalence of defaulting on loans borrowed from social capital schemes is below 5% (Ayele, 2015). Comparative estimates for East African nations are 4% (Haile, 2015; Banerjee et al., 2015; Akanle et al., 2016). A prevalence of 5% or less has been reported by Antoni and Umejese (2014). The study conducted by Worku (2018) has found a prevalence of 5.78%. Migrant entrepreneurs use social capital schemes as a primary source of money needed for setting up business ventures. The most common methods used by migrant entrepreneurs from Ethiopia for networking are social capital schemes and faith-based institutions such as churches and mosques (Atkinson & Storey, 2016).

Membership of social capital schemes carries immense responsibility in terms of commitment, personal discipline, perseverance, the culture of saving money and loyalty to fellow members of the schemes. Fellow members of social capital schemes are required to come to the rescue of their comrades at times of crisis. At times when a fellow member of a social capital scheme experiences problems such as personal attack, robbery, sickness or death, it is the duty and responsibility of all other members of the social capital scheme to provide prompt assistance morally and financially. The consequences of failing to demonstrate total commitment and loyalty towards fellow members of social capital schemes are quite severe. Members who fail to honour their obligations towards others are isolated and ostracised as a form of punishment. The degree of commitment and loyalty towards fellow members of social capital schemes could

be explained in terms of necessity and sufficiency. Necessity entails fulfilling bare minimum requirements and obligations such as sharing the same country of birth, speaking the same home language, and the repayment of loans borrowed from fellow members. Sufficiency entails going the extra mile by providing emotional, logistical and financial support to needy members of the social capital scheme. The study conducted by Hakkak, Nazarpouri, Mousavi and Ghodsi (2015) has shown that the majority of migrant entrepreneurs fulfil necessity, but not sufficiency. Similar assessments have been made by Atkinson and Storey (2016).

Social capital schemes provide a lifeline to entrepreneurs who do not qualify to borrow money from local South African commercial banks and microfinance institutions (Bekele & Worku, 2008). Mayer et al. (2016) and Caruso and Salovey (2016) have shown that emotional intelligence urges individual members of social capital schemes to be adequately considerate for the legitimate needs of fellow members. Hopkins and Yonker (2015) have shown that emotional intelligence is vital for resolving conflicts amicably among migrant entrepreneurs living and working in foreign countries. According to the authors, emotional intelligence complements what an individual has acquired in a form of formal academic training and work experience. The study conducted by Thory (2016) has shown that the degree of commitment shown by individuals towards appreciating the legitimate needs and aspirations of other members of society. As such, emotional intelligence is a key predictor of personal responsibility in social capital schemes where membership is based on mutual acquaintance and trust. Successful entrepreneurs demonstrate adequate empathy towards fellow members of social capital schemes in terms of sharing the burden of repayment of loan money (Prentice, 2016; Wong, 2016; Mikolajczak & Van Belleghem, 2017). Entrepreneurs with enough workplace discipline, entrepreneurial skills and emotional intelligence are associated with profitable businesses in Pakistan (Zulfiqar, 2017). Keskin, Akgun, Ayar and Kayman (2016) have identified emotional intelligence as a key predictor of successful entrepreneurship among migrant entrepreneurs working under socioeconomic conditions that are not economically enabling. The degree of commitment shown towards fellow members of social capital groups is based on empathy, emotional intelligence, entrepreneurial mind-set, personal integrity, business ethics and workplace discipline (Ceschi, Sartori, Dickert & Constantini, 2016).

METHODS OF RESEARCH

The research is based on data collected from 2, 497 entrepreneurs who are members of social capital schemes. Loan money raised from social capital schemes was used for starting up businesses in South African cities, townships and locations. Univariate and bivariate methods of data analyses (Montgomery, 2017) and ordered logit analysis (Bain, 2017) were utilised for analyses. Entrepreneurial skills of business operators were measured by using a scale constructed by Sahoo and Lenka (2016). Values of emotional intelligence were computed based on a scale constructed by Rezvani et al. (2016).

RESULTS OF STUDY

Seventy six percent of businesses in the survey were profitable. Ninety four percent of respondents paid back their loans in time, whereas the remaining 6% did not do the same. About 84% of respondents were aware of the relative importance of business ethics in respect of paying back loan monies borrowed from social capital schemes. About 71% of respondents had adequate emotional intelligence by the standards of Rezvani et al. (2016). The entrepreneurial skills of 72% of migrant entrepreneurs were satisfactory based on criteria set out by Sahoo and Lenka (2016).

Table 1. Assessment of Profitability of Businesses (n=2497)

Attributes affecting profitability	Frequency counts and percentages
Profitability of business	Profitable: 1888 (75.61%) Not profitable: 609 (24.39%)
Payment of loan money on time	Yes: 2348 (94.03%) No: 149 (5.97%)
Awareness about business ethics principles	Yes: 2106 (84.34%) No: 391 (15.66%)
Emotional intelligence	Adequate: 1779 (71.25%) Inadequate: 718 (28.75%)
Entrepreneurial skills	Adequate: 1809 (72.45%) Inadequate: 688 (27.55%)

Table 2 shows that 10% of respondents left their home country for South Africa in pursuit of a free society. Just under 31% of respondents were attracted by better infrastructure. About 15% of them were attracted by safety and security concerns. About 25% of them were attracted by better socioeconomic conditions. About 19% of them were attracted by better socioeconomic values in South Africa. About 82% of respondents were formal migrants, whereas about 18% of them were informal migrants. About 89% of respondents owned their businesses, whereas about 11% of them were employees. Less than 1% of respondents owned their business premises. Only 7% of respondents had operated their businesses for three to four years at the time of study. About 47% of respondents had Grade 12 level education or less. About 79% of respondents had operated their businesses for five years or more when the survey was conducted. About 91% of respondents were male, whereas about 9% of them were female. Just under 8% of respondents had ages of 51 years or more.

Table 2. Profile of Migrant Entrepreneurs (n=2497)

Profile	Number of respondents and percentage
Motivation for migration to South Africa	In pursuit of a free society: 255 (10.21%) Attracted by better infrastructure: 761 (30.48%) In pursuit of safety and security: 383 (15.34%) Looking for better socioeconomic conditions: 621 (24.87%) Attracted by better socioeconomic values: 477 (19.10%)
Immigration status	Formal migrant: 2042 (81.78%) Informal migrant: 455 (18.22%)
Status of ownership of business	Owner: 2225 (89.15%) Employee: 271 (10.85%)
Status of ownership of business premises	Own: 8 (0.32%) Rented: 2489 (99.68%)
Number of years of conducting business	Two years or less: 351 (14.06%) Three to four years: 185 (7.41%) Five years or more: 1961 (78.53%)
Level of education	Matric level or less: 1176 (47.09%) Diploma level: 635 (25.45%) Bachelor’s degree: 439 (17.59%) Master’s degree: 229 (9.17%) Doctoral level or more: 18 (0.72%)
Gender of business operator	Male: 2269 (90.87%) Female: 228 (9.13%)
Age category of business operator	18 to 35 years: 1651 (66.11%) 36 to 50 years: 650 (26.04%) 51 years or more: 196 (7.85%)

Table 3 shows a frequency distribution for the provinces of operation of the 2497 migrant entrepreneurs who were selected for the study. Just under 22% of migrant entrepreneurs were based in Gauteng Province. About 12% of them were based in the Western Cape. The percentage of respondents from KwaZulu-Natal was about 9%.

Table 3. Province of Business Operation (n=2497)

Characteristic	Number of respondents and percentage
Province of business operation	Eastern Cape: 237 (9.47%)
	Free State: 239 (9.56%)
	Gauteng: 543 (21.77%)
	KwaZulu-Natal: 227 (9.11%)
	Limpopo: 241 (9.66%)
	Mpumalanga: 244 (9.77%)
	Northern Cape: 215 (8.59%)
	North-West: 261 (10.44%)
Western Cape: 290 (11.61%)	

Table 4 presents estimates for challenges experienced by entrepreneurs. About 19% of all difficulties experienced by migrant entrepreneurs were related to immigration permits. Tax-related problems accounted for about 7% of difficulties. Theft of goods accounted for about 5%. Problems related to driver’s license accounted for 4.34% of all problems. Difficulty in obtaining bank accounts accounted for about 8.65%. Problems related to the education of children accounted for 2.63% of all problems. Labour-related problems accounted for 3.52% of all problems.

Table 4. Challenges Faced by Respondents in the Course of Duty (n=2497)

Challenges Faced by Respondents	Number (Percentage)
Immigration permit related problems	486 (19.46%)
Problems related to bank accounts	216 (8.65%)
Problems related to tax	166 (6.65%)
Loss of merchandise to robbers	129 (5.17%)
Difficulty in purchasing property	118 (4.74%)
Difficulty in renting premises	113 (4.53%)
Problems related to driver’s license	108 (4.34%)
Debt recollection	105 (4.19%)
Other problems	1056 (42.29%)
Total	2497 (100.00%)

The perception held by migrant entrepreneurs about support provided to them by the South African Government is presented in Table 5. The perceived degree of support is quite high at 81%. Just above 32% of respondents paid tax on a regular basis. Inability to communicate in local languages were provided as a barrier by some of the respondents.

Table 5. Perception held by migrant entrepreneurs (n=2497)

Perception Held by Migrant Entrepreneurs	Number and Percentage
Perception on degree of support from the South African Government	Adequate: 2027 (81.18%) Inadequate: 470 (18.82%)
The regular practice of paying tax money to SARS	Yes: 804 (32.20%) No: 1693 (67.80%)
Perception on potential benefits of entrepreneurial activities to local South African communities	Yes: 1687 (67.56%) No: 810 (32.44%)
Perceived quality of working relationship with members of local communities	Very good: 272 (10.91%) Above average: 1302 (52.14%) Average: 579 (23.19%) Below average: 327 (13.08%) Poor: 17 (0.68%)

Table 6 shows results obtained from two-by-two crosstab tests in which factors that undermine the repayment of loans obtained from social capital schemes by migrant entrepreneurs.

Table 6. Factors that Undermine the Repayment of Loan Money (n=2497)

Predictors of repayment of loan money	Observed chi-square value	P-value
Awareness about business ethics	56.0908	0.000
Emotional intelligence	43.1229	0.000
Profitability of business	31.0076	0.000
Payment of tax on a regular basis	17.4132	0.000
Quality of working relationship with local communities	10.9238	0.000

Results shown in Table 6 indicate that the repayment of loans by migrant entrepreneurs to social capital schemes are significantly associated with awareness about the relative importance of business ethics principles, emotional intelligence, the profitability of business, the payment of tax on a regular basis, and the perceived quality of working relationship with local communities, in a decreasing order of importance. The results shown in Table 6 are theoretically less reliable in comparison with results obtained from multivariate analysis such as ordered logistic regression analysis (Bain, 2017). Accordingly, subsequent analysis was performed by using ordered logistic regression analysis (Bain, 2017).

Table 7 shows adjusted odds ratios estimated from ordered logistic regression analysis (Bain, 2017). The results show that the repayment of loan money to social capital schemes was significantly influenced by the degree of awareness about the relative importance of adhering to business ethics principals, emotional intelligence, and the profitability of businesses, in a decreasing order of strength.

Table 7. Adjusted Odds Ratios Estimated from Ordered Logistic Regression Analysis (n=2497)

Predictors of Repayment of Loan Money	Adjusted Odds Ratio*	P-Value	95% C. I.
Awareness about business ethics	3.09	0.000	(1.77, 5.58)
Emotional intelligence	2.88	0.000	(1.46, 4.94)
Profitability of business	2.29	0.000	(1.21, 4.49)

*Adjustment made for level of education and gender of migrant entrepreneurs

DISCUSSION OF RESULTS

The study found that about 84% of the migrant entrepreneurs who had borrowed money from social capital schemes managed to pay back their loans in time, whereas about 16% of them failed to do the same. The study found that about 76% of businesses were profitable. About 94% of respondents paid back their loans in time, whereas the remaining 6% did not do the same. About 84% of respondents were aware of the relative importance of business ethics in respect of paying back loan monies borrowed from social capital schemes. By the standards of Rezvani et al. (2016), about

71% of respondents had adequate emotional intelligence. By the standards of Sahoo and Lenka (2016), about 72% of migrant entrepreneurs possessed adequate entrepreneurial skills.

The repayment of loan money to social capital schemes was significantly influenced by awareness about the relative importance of adhering to business ethics principles. The adjusted odds ratio of the variable “awareness about business ethics” is equal to 3.09. This indicates that a migrant entrepreneur who acknowledges the relative importance of business ethics is 3.09 times more likely to pay back loan money promptly in comparison with another migrant entrepreneur who fails to acknowledge the relative importance of business ethics. The odds ratio of the variable emotional intelligence is equal to 2.88. This indicates that a migrant entrepreneur who possesses adequate emotional intelligence is 2.88 times more likely to pay back loan money promptly in comparison with another migrant entrepreneur who lacks emotional intelligence. The odds ratio of the variable profitability of business is equal to 2.29. This indicates that a migrant entrepreneur whose business is profitable is 2.29 times more likely to pay back loan money promptly in comparison with another migrant entrepreneur whose business is not profitable.

CONCLUSIONS

The study has shown that the prompt repayment of loan money to social capital schemes, the acknowledgement of business ethics principles, and the possession of adequate emotional intelligence are key attributes of profitable businesses among migrant entrepreneurs of Ethiopian origin conducting business in South African cities, towns, townships and locations. The prompt repayment of loan money to social capital schemes is a measure of the degree of loyalty, solidarity and commitment migrant entrepreneurs possess and cherish among themselves. The study explains the degree of commitment and loyalty individual members of social capital schemes have towards their fellow members in terms of necessity and sufficiency. Necessity entails fulfilling minimum requirements of membership and acceptance, whereas sufficiency entails a clear demonstration of absolute, unconditional commitment towards fellow members of social capital schemes. In the course of loan repayment, loyalty to social capital schemes takes precedence over all other socioeconomic factors and conditions. As long as the immediate needs and operational requirements of migrant entrepreneurs are not met adequately, reliance on social capital schemes is likely to continue. The study has found that the majority of migrant entrepreneurs in the study fulfil necessity, but not sufficiency. These findings are in agreement with findings reported by Hakkak et al. (2015) and Atkinson and Storey (2016).

AUTHOR BIOGRAPHY

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